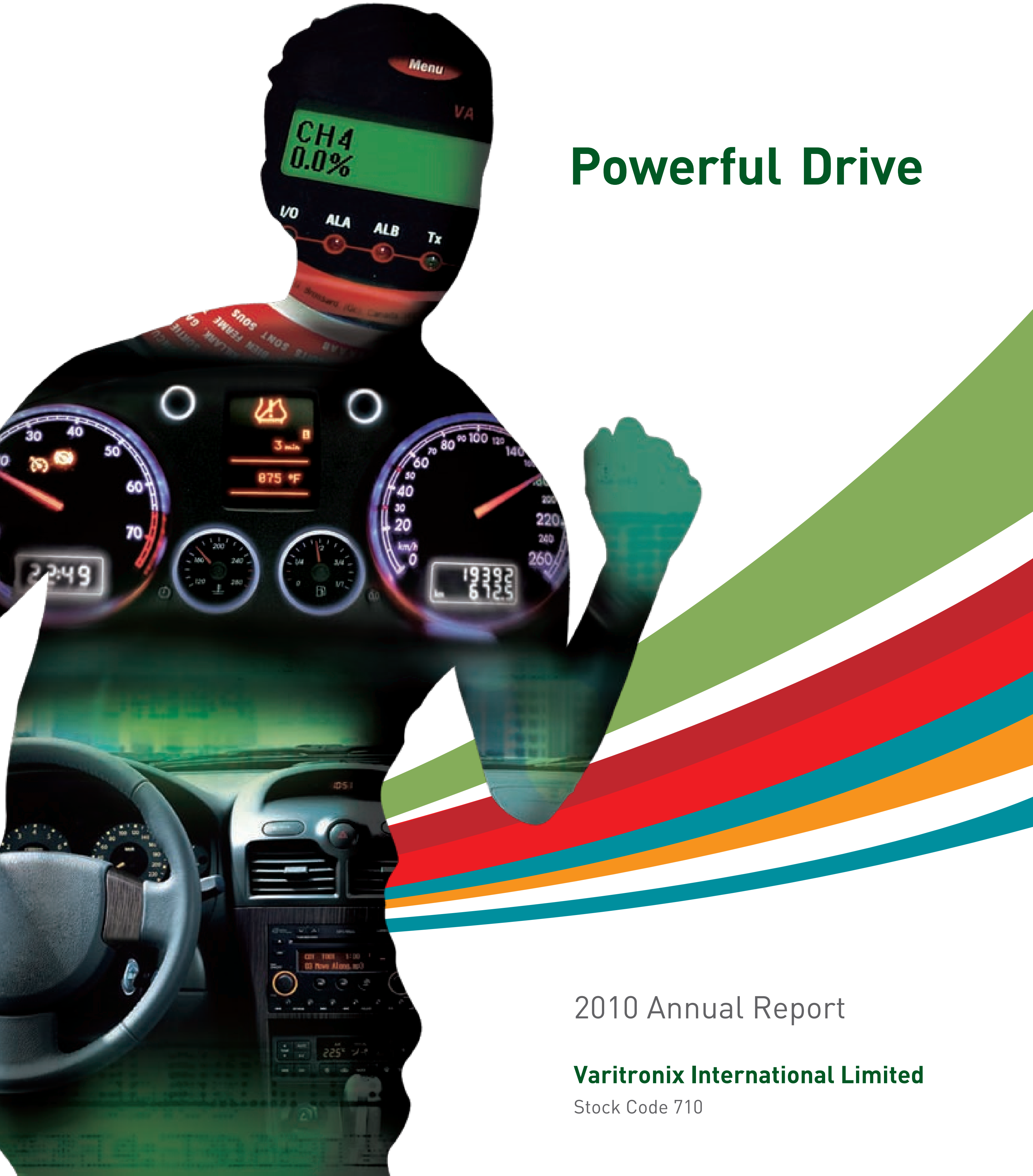
VARITRONIX

Powerful Drive



2010 Annual Report

Varitronix International Limited

Stock Code 710

Contents

CHAIRMAN'S STATEMENT

Financial Highlights

HK$ million	**2010**	2009
Turnover	**2,256**	1,817
Profit / (loss) attributable to shareholders	**210**	(268)
Basic earnings / (loss) per share	**65.1 HK cents**	(83.0) HK cents
Total dividend per share	**26.5 HK cents**	2.0 HK cents

On behalf of Varitronix International Limited (the "Company") and its subsidiaries ("Varitronix" or the "Group"), I present the Group's results for the year ended 31 December 2010.

During the year under review, the Group achieved turnover of HK$2,256 million, representing a 24% increase over the HK$1,817 million reported in 2009. Profit from continuing operations was HK$268 million, a 406% rise as compared to the HK$53 million in the previous year. Profit attributable to shareholders was HK$210 million, versus a loss of HK$268 million in 2009.

In 2010, the economic environment continued to recover from the impact of the global financial crisis. Amidst this backdrop, the Group's key businesses around the world recorded positive turnover growth. During the period, the Group has restructured its business mix. In particular, we have reallocated resources to the development of our automotive and industrial display businesses, which have a higher profit margin. The expanded production capacity has magnified the effect of the higher margin business mix. As a result, gross profit margins for the full year increased from 16% to 20%. We are pleased to report that we have recovered from the global financial crisis, and the Group is well positioned for stable growth.

Dividends

The Board of Directors (the "Board") has recommended a final dividend of 21.0 HK cents per share (2009: 1.0 HK cent). Together with the interim dividend of 5.5 HK cents (2009: 1.0 HK cent), the total dividends for 2010 amounted to 26.5 HK cents per share (2009: 2.0 HK cents).

Review

Automotive Display Business

During the year under review, revenue from the Group's automotive display business was HK$1,196 million, amounting to a rise of 51% over 2009. The automotive display business generated 53% of the Group's total turnover and was the main driving force of growth. Automotive display customers have stringent requirements in regards to the performance and reliability of automotive parts. Accordingly, high quality products enjoy a higher profit margin. Given the high barriers to entry of the automotive display industry, We have reallocated resources to the development of our automotive and industrial display businesses, which have a higher profit margin. The expanded production capacity has magnified the effect of the higher margin business mix. As a result, gross profit margins for the full year increased from 16% to 20%. We are pleased to report that we have recovered from the global financial crisis, and the Group is well positioned for stable growth.

the industry dynamics are more stable, and the main concerns of the customers are quality and consistency. The Group has been in the automotive display business for a number of years and we have established operating systems to accommodate the needs of this special group of customers. Over the past five years, turnover generated by our automotive display business has increased three-fold. Our firm commitment to the development of this business has reaped positive results.

Taking South Korea as an example, sales of Korean branded cars has continued to rise, fuelled by government-sponsored incentive schemes in 2009. Korean branded cars continued to excel during the global financial crisis. During the period under review, the sales of automotive displays to South Korea experienced tremendous growth and South Korea has become a key growth market of the Group.

The automotive industry in Europe has experienced a speedy recovery in 2010. Under government-sponsored schemes, small and family cars of the European brands recorded satisfactory sales. The Group has established a strong foothold in Europe and has benefited from the recovery of the automotive industry in the region.

Industrial Display Business

During the period under review, the turnover from this business was HK$774 million, representing 26% growth as compared to the previous year. The key markets for the Group's industrial display business are primarily Europe and the US. In 2010, there was a marked increase in demand for display products from European industrial customers as they sought to replenish inventories and accumulate components for new product launches.

Under the strong efforts of our US sales team, the industrial display business grew strongly in this market. At present, the US sales force spans the eastern, middle and western parts of North America, reaching out to different categories of customers. Revenue was mainly generated from machinery, electricity meter and medical product manufacturers. All these categories recorded sales growth in 2010 bolstering significant improvement in the overall performance of the US market.

In addition, the Group began mass production of 3D eyeglasses for the 3D TV market in the second half of 2010. This new business contributed to the Group's profitability and stems from the Group's previous R&D efforts on 3D display technology. We are very pleased that the Group's investment in display technology can now be translated into concrete financial returns.

Prospects

With regards to the Group's automotive display business, the sales of automotive displays to Europe has climbed steadily since mid-2010 and the growth momentum for this market is expected to be sustained. At the same time, we expect to see a slight weakening of sales in Asia, as we face a surge of competition in the Korean market. In North America, the business outlook remains positive.

The PRC has become the world's largest automobile market, and we are focused on capturing the tremendous market potential. Our automotive display business in the PRC has experienced significant growth during the period under review. Given rapid advances in the research and development of automotive technology, it is expected that Chinese automotive customers will continue to mature and seek more high-end display products. Accordingly, we are confident that turnover for this market will grow as a result of increasing sophistication.

Under improved market sentiment, the demand for industrial displays such as those for medical products, home appliances and electricity meters is expected to grow steadily in 2011. Despite the fact that some European countries may face the threat of debt crisis, the business environment and industrial output levels in Western Europe and North America remain positive.

As the leader of the monochrome display market, the Group believes that there is still ample room for development and will strive to bolster our leadership position through strengthening our competitive advantages in product functions, design, material selection and production processes. The Group will direct more human resources towards technology development to ensure the timely introduction of new products to satisfy changing customer needs.

While a focus will be placed on monochrome displays, the Group will continue to actively develop automotive and industrial TFT ("Thin Film Transistor Liquid Crystal") products, which have demonstrated market potential. The Group is currently integrating internal resources and strengthening the sourcing of raw materials so as to increase our competitiveness and develop new business opportunities for high-end TFT products.

At present, the Group has a clear business direction to capitalise on our strengths and focus on the design and production of high-end display products to serve sophisticated customers with more stringent requirements. Turnover contribution of the Group's automotive display business is expected to remain at over 50%, with the rest comprising contributions from industrial displays and other emerging products such as electronic books and a wider variety of 3D display applications.

Operation Strategies

In 2009, we consolidated our production facilities in Heyuan in Guangdong province, streamlined the structure of our overseas offices and discontinued our non-branded mobile phone display business. These initiatives successfully reduced the Group's operating costs and improved profit margins. Unfortunately, at the same time, rising labour costs arising from increases in the minimum wage and social security contributions, higher raw material prices, rising inflation and appreciation of Renminbi partially offset the effects of these improvements, and resulted in upward pressure on operating costs. Amidst the environment of rising costs, the Group's strategy is to focus on increasing profit margins rather than expanding production volume.

To increase profit margins, we will target three main areas:

1. Increasing productivity: The Group will adopt a disciplined approach, with a focus on improving production processes and production efficiency in order to reduce operating costs and maintain our long-term competitive position.

2. Adjusting product price upwards: The Group is confident that price increase will not adversely affect our long-term relationships with customers as we will continue to add value through innovative technologies, professional service and comprehensive quality assurance systems.

3. Adjusting the Group's business portfolio: The Group will remain cautious and flexible, adjusting our business portfolio from time to time according to market conditions so as to increase the overall profitability.

Japan Natural Disasters

The natural disasters which struck Japan in March 2011 have disrupted the supply chain of the global electronics industry in a significant way. While we are not in a position to quantify the extent of disruption to our operations at this moment, it is apparent that our normal business operations with our Japanese suppliers have been adversely affected. We will monitor the situation closely and are prepared to implement remedial action on a timely basis.

We at Varitronix would like to offer our deepest sympathy to the people of Japan and will do our part in contributing to the rebuilding of Japan.

Acknowledgements

On behalf of the Board, I would like to thank our shareholders, customers, suppliers and colleagues without whose support we could not have achieved the favourable results in 2010 despite difficult conditions. We will continue to tread forward carefully, adopting a cautious yet positive path into the future.

Ko Chun Shun, Johnson
Chairman
Hong Kong, 24 March 2011

MANAGEMENT DISCUSSION AND ANALYSIS

Turnover

The Group's turnover for the year ended 31 December 2010 increased by 24% to HK$2,256 million as compared to the previous financial year.

Profit from Operations

The profit from operations for the year ended 31 December 2010 was HK$268 million, an increase of HK$215 million or 406% as compared to the previous financial year.

During the financial year 2010, the Group spent HK$101 million on research and development ("R&D") activities, which represented approximately 4% of the Group's turnover.

Net Profit and Dividends

The profit attributable to shareholders for the year ended 31 December 2010 was HK$210 million, versus a loss of HK$268 million in 2009.

Basic earnings per share for the year ended 31 December 2010 were 65.1 HK cents as compared to basic loss per share of 83.0 HK cents in the previous financial year. During the year, the Group declared and paid the interim dividend of 5.5 HK cents per share, which aggregated to HK$18 million. The Directors have recommended a final dividend of 21.0 HK cents per share, which will aggregate to HK$68 million. The total dividend for the year amounts to 26.5 HK cents per share.

Structure of Assets

As at 31 December 2010, the total assets of the Group amounted to HK$2,102 million (2009: HK$2,105 million). At the year end, inventories increased by 3% to HK$286 million (2009: HK$277 million) while available-for-sale securities increased by 2% to HK$186 million (2009: HK$183 million).

Liquidity and Financial Resources

As at 31 December 2010, the total equity of the Group was HK$1,357 million (2009: HK$1,164 million). The Group's current ratio, being the proportion of total current assets against total current liabilities, was 1.92 as at 31 December 2010 (2009: 1.49).

At the year end, the Group held a liquid portfolio of HK$694 million (2009: HK$553 million) of which HK$431 million (2009: HK$381 million) was in cash and cash equivalents and HK$263 million (2009: HK$172 million) in securities. The unsecured interest-bearing bank loans amounted to HK$178 million (2009: HK$256 million). The gearing ratio (bank loans over net assets) was 13% (2009: 22%).

The Group's inventory turnover ratio for the year was 8.0 times (2009: 7.3 times). Debtor turnover days for the year was 65.5 days (2009: 87.4 days).

Cash Flows

In the year under review, the Group's cash generated from operations amounted to HK$124 million (2009: cash used in operations amounted to HK$22 million). The increase in inventories reduced cash flow by HK$31 million, while the decrease in trade and other receivables raised cash flow by HK$14 million.

Net cash generated from investing activities amounted to HK$45 million (2009: HK$24 million). There was a decrease in payments for the purchase of fixed assets to HK$47 million (2009: HK$94 million).

Capital Structure

The Group's long-term capital comprises shareholders' equity and debt, which includes the bank borrowings. There was no change as to the capital structure of the Group during the year. The Group had repaid the bank borrowings amounted to HK$235 million during the year and the bank borrowings reduced to HK$178 million as at 31 December 2010.

Foreign Currency Exposure

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

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

Contingent Liabilities

As at 31 December 2010, the Company had contingent liabilities for guarantees given to banks in respect of banking facilities granted to certain subsidiaries, which were utilised to the extent of HK$178 million (2009: HK$320 million).

Commitments

As at 31 December 2010, the Group had capital commitments of HK$8 million (2009: HK$3 million), representing the purchase of property, plant and equipment not provided for in the financial statements. The total future minimum lease payments under non-cancellable operating leases for properties payable within one year amounted to HK$3 million (2009: HK$3 million).

Staff

As at 31 December 2010, the Group employed 4,602 staff around the world, of whom 167 were in Hong Kong, 4,397 in the People's Republic of China ("PRC") and 38 were in overseas. The Group remunerates its employees based on their performance, experience and prevailing industry practice. The Group operates an employee share option scheme and provides rent-free quarters to certain of its employees in Hong Kong and the PRC.

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

Staff Retirement Schemes

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

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

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

During the year, the total retirement scheme cost charged to the Consolidated Income Statement for the year ended 31 December 2010 was HK$10 million (2009: HK$9 million). Charges to administer the scheme are deducted from the employer's contributions. Forfeited contributions are used by the employer to offset against future contributions. The amount so utilised during the year ended 31 December 2010 was HK$24,000 (2009: HK$200,000) and at 31 December 2010, the balance available to reduce the level of contributions in future amounted to HK$165,000 (2009: HK$291,000).

REVIEW OF OPERATIONS

Europe

Review

In 2010, the Group's business in Europe recorded revenue of HK$751 million, representing a 32% increase over the previous year. This amounted to 33% of Varitronix's total turnover for the year under review. The primary sources of revenue for the region were attributed to automotive and industrial display orders.

For the automotive display business in Europe, a significant drop in orders was seen in 2009 due to the global financial crisis. It was not until the second quarter of 2010 that the business began to turnaround and thrive, reporting quarter-on-quarter increases for the rest of 2010. Under various government-sponsored incentive schemes, automobile sales in the European markets recorded growth, fuelling the demand for automotive parts.

For the industrial display business, performance in 2010 was far better than expectations. Strong demand for displays applied on white goods was recorded, resulting in sales revenue for white goods' application returning to 2008 levels.

Point-of-sale machines also reported an outstanding performance for the industrial display business, with repeated orders recorded throughout 2010.

Prospects

The recovery of the economies of Western Europe is on track, and business sentiment is increasingly positive. In the foreseeable future, the automotive display business is poised to benefit from the general optimistic market conditions in Western Europe.

In addition to monochrome displays for automobiles, the Group has committed to exploring and developing the

electronica 2010 held in Germany – the world's leading components trade fair automotive TFT display business. With the integrated efforts of both marketing and technical support, the Group will seize more opportunities in this sector.

Following an outstanding performance in 2010, the industrial display business is expected to grow at a stable pace in the coming year. New models of electricity meters have much development potential in Europe. New orders have already commenced mass production this year and a few more new projects are under discussion. It is expected that meter and point-of-sale machines applications will generate stable revenue for the region in the years to come.

Building on its solid business foundation, the Group will dedicate more efforts in developing high-end displays in Europe, with the aim of maintaining its position as a leading LCD supplier in the region.

Korea

Review

During the year under review, the Group's business in South Korea recorded revenue of HK$478 million, a 43% increase over that of 2009. The business in this region is mainly generated from automotive customers and contributed 21% to the Group's total turnover.

The Group's display products applied in Korean automobiles are mainly for the purpose of car audio systems, which require LCD modules with a higher selling price as compared with simple LCD panels. The high order volume of LCD modules contributed to this region's significant turnover contribution.

The automotive segment performed exceptionally well and was a key driver of sales growth in the region. The strong performance of the Korean automobile industry can be attributed to certain factors. Firstly, the depreciation of Korean Won following the global financial crisis has made the price of Korean cars more competitive. Secondly, government-sponsored incentive schemes in various countries have encouraged the trade-in of old polluting cars. This has resulted in abundant new orders for vehicles from South Korea that are characteristically smaller, more efficient, cheaper and with lower CO_2 emissions. In line with this automotive industry growth, orders for automotive displays also significantly increased in this region during the period under review.

Prospects

Korea has become a significant market for the Group. However, the termination of the government-sponsored incentive schemes may affect the sales of a few particular Korean car types. It is expected that the demand for the automotive display business in Korea may slow down, as there is greater competition in 2011.

For the year under review, the Group concentrated on rushing production to meet demand for orders. In the coming period, the Group will be consolidating its efforts and devising strategies to improve the profit margin of this sector. A series of initiatives, such as strengthening quality control, integrating material purchasing efforts, speeding up production lead time and delivery process, and building up finished good buffer stock to meet contingent demand, will be undertaken to improve the Group's service level to Korean customers.

North America

Review

The US business recorded HK$168 million in revenue during the year under review, representing a 42% increase as compared to 2009. This market accounted for 7% of the Group's overall turnover in 2010. Despite the fact that the US economy has not totally recovered and the unemployment rate has yet to improve, the performance of this region was remarkably satisfactory.

A deliberate adjustment has been made to the US business portfolio mix over the past few years. Under the strategic planning of the Group's sales team, the revenue from the US market was generated from a diversified and balanced business mix comprising the industrial, medical product, electricity meter and automotive sectors.

Medical Design & Manufacturing Show in the US

For the year under review, customers from all segments in the US were all active. In order to maintain a healthy inventory level and to prepare for new product launches, several customers placed recurring orders for the Group's displays.

Prospects

The Group foresees another year of growth for the market in North America, with the significant contributors being from industrial and medical sectors. For the industrial segment, new projects are under discussion and will hopefully generate revenue in the second half of 2011. At the same time, the electricity meter and automotive sectors are expected to present stable growth. As the Group possesses a diversified customer base in the US, the different segments complement each other to offset seasonal factors.

Hong Kong and the PRC

Review

As stated in the Annual Report 2009, the Group decided to voluntarily wind up its subsidiary operating in the non-branded mobile phone display industry in the PRC. As a result of the discontinuation of the non-branded mobile phone display operations, the revenue generated from Hong Kong and the PRC region dropped 2% to HK$668 million as compared to 2009. For the year under review, the revenue of Hong Kong and the PRC accounted for 30% of the Group's overall turnover.

The automotive display business in the PRC recorded satisfactory growth in 2010. The scale of business is at start-up stage, there is ample room for development.

Prospects

As an experienced player in the automotive field, the Group will utilise its advantageous market position to further develop the automotive display business in the PRC in the future. It is expected that automobile sales in the PRC will slow down after a surge in 2010. Nevertheless, the Group believes that the PRC automobile manufacturers will focus more on technology improvement so as to raise general industry standards. Accordingly, the Group's strategy is to focus on the high-end display market in the PRC automotive sector. Like other industries in the PRC, the development cycle of the Chinese automotive players is expected to be rapid. The Group believes that its efforts in laying down a solid business foundation in the high-end market will pay off in the long run.

Others

Review

In other regions, the Group recorded revenue of HK$191 million during the year under review, representing a 65% increase as compared to 2009. This market accounted for 8% of the Group's overall turnover. A significant milestone in 2010 was the Group's successful entry into the Japanese automotive market through the provision of displays applied in a major Japanese brand's vehicles.

In addition, the Group received ample orders for displays applied in 3D TV's eyeglasses in the second half of 2010. As the demand for 3D eyeglasses was high and urgent during the initial launch of 3D TV, the Group rushed production to fulfill order demand last year. This new business has brought a stable flow of revenue to the Group during the year under review.

Prospects

With the addition of the Japanese automotive market for the Group, the Group needs to exercise extra caution to maintain quality control of products in order to satisfy the stringent requirements of Japanese customers. The Group is committed to keeping up to quality standards in daily operations, so as to prepare for more orders from Japan.

As for the 3D display business, demand is expected to slow down given the inventory reached a certain level after a continuous accumulation of supply. However, the demand will be still there in 2011. 3D TV is the latest trend and manufacturers still need to refill stock levels from time to time, albeit in not as rushed a fashion as in 2010.

Based on the foundation of 3D display technology, the Group will explore other 3D applications in collaboration with different players in the market. Hopefully, the initial investment of manpower and effort will be translated to concrete business opportunities in the near future.

Employee Affairs

Overview

As at 31 December 2010, the Group had a total of 4,602 employees. For the year under review, staff costs amounted to approximately HK$307 million, 18% more than the HK$260 million recorded in the previous year.

In 2010, the minimum wage in Heyuan, Guangdong increased by more than 24%. The tremendous increase in labour cost is a burden to the Group's operation. Given the economic development of the Mainland and the inflation phenomenon, it is expected that there will be a continuing rise of wages. Facing this challenge, the ability of the Group to find ways to control our labour demand is a critical element to maintaining our smooth operations.

Outward-bound training for the engineers in the PRC.

Mr. Wong Wai Kay, Ricky, Chairman of City Telecom (right), was invited as a speaker of the Varitronix Leadership Forum.

OHSAS 18000 Certification

In early 2010, the Group attained OHSAS 18000 certification. This is an occupational health and safety management system to reduce and eliminate the risk of work injury amongst employees that also requires companies to make continuous efforts to achieve "zero accidents" during operations.

Rights of Employees

Employees are the Group's greatest assets. Good employee relations can improve staff morale and thus, in turn, enhance efficiency. The Group is willing to listen to the opinions of employees and organises workers' forums from time to time. Our employees are protected by a policy of non-discrimination. All of them enjoy equal treatment disregarding race, age, etc. Moreover, they enjoy the freedom to form a Labour Union. In the

Heyuan production plant, the Labour Union is a channel for management to communicate with employees and collect opinions before the implementation of some important company policies.

Training and Development

Training classes were held throughout the year for both workers and staff. Training topics covered technical display knowledge, component knowledge, quality systems, languages, communication skills, teamwork and cooperation.

The Group initiated a Leadership Forum Series in 2008 to commemorate its 30th Anniversary. Celebrity speakers and visionary leaders were invited to give talks to colleagues. In 2010, the Group re-launched the Leadership Forum Program, which was well supported by colleagues who deemed the chance to interact with leaders to be very valuable.

Environmental Protection

Environmental Committee

Environmental Committee's duties include ensuring compliance with legislative requirements, conducting internal audits, organising environmental activities and promoting the concept of environmental protection to all staff.

A group of HK graduates became Varitronix Freshmen.

During the year under review, the Environmental Committee organised several activities to promote environmental awareness and concern amongst staff members. The theme in 2010 was "Water Conservation". A company-wide promotional board decoration competition was held. The competition was well-received by colleagues and the water conservation messages were conveyed through vivid graphic design, successfully attracting attention and building awareness in the workplace.

In October, 2010, two rounds of environmental seminars were conducted for staff and workers in the production plant on the theme of Water Conservation. Mrs Mei Ng, Board member of Friends of the Earth of Hong Kong, was invited to be the guest speaker to deliver talks. The content of the seminars included information on worldwide water scarcity, water conservation initiatives in different countries and practices to save water consumption in daily life. The seminars were conducted in an interactive way, thus attracting an enthusiastic response.

The Social Service Team took the children from Login Club to visit Hong Kong Science Museum.

Mrs. Mei Ng, Board member of Friends of the Earth (HK), gave talks on "water conservation" in the Production Plant.

Social Service

Vision Comes True Program with Hong Kong Blind Union

In the year under review, the Group continued to work with Hong Kong Blind Union (HKBU) on a "Vision Comes True" program. Selected winners of the program were sponsored by Varitronix to realise their plans and dreams. Throughout 2010, all of the winners accomplished their vision. A recognition ceremony was held during the HKBU Christmas Party in December 2010. The winners were presented with certificates to recognise their contribution.

Collaboration with Evangelical Login Club for New Arrivals

During the year under review, the Group's Social Service Team cooperated with the Login Club for New Arrivals of the Evangelical Lutheran Church Social Service – Hong Kong (Login Club) to organise activities for children from underprivileged or new immigrant families. Activities such as a Lunar New Year Party, a game day with new immigrant children and a visit to the Science Museum were organised.

The Group has strengthened its support to the organisation by sponsoring HK$100,000 towards organising a series of activities for underprivileged children throughout the year of 2011. Based on the seed fund provided by the Group, the Login Club at the same time has applied for the "Partnership Fund for the Disadvantaged" provided by the HKSAR Government. The program has been launched in the first quarter of 2011.

Sporting Events

Sporting Activities

The Group encourages colleagues to have a healthy balance between work and leisure. In the production

One of the exciting games of the basketball competition.

plant, the Group organises sports activities every year. In 2010, an inter-departmental sports competition named the "Heyuan Varitronix Cup" was held. Sporting competitions including basketball, table tennis and tug-of-war were organised. During the third quarter, an Autumn Basketball Competition was held to encourage ongoing exercise and team building.

Running training was provided to the Varitronix Marathon runners.

In addition, a badminton gathering was held every week in the production plant. Both the Hong Kong and PRC badminton players enjoyed the games. This provided a valuable interaction and relationship building opportunity for our colleagues.

Oxfam Trailwalker

Just as in 2009, two Varitronix teams joined the annual Oxfam Trailwalker event in 2010. Both teams completed the 100km trail at their own best record pace and were honoured as "Super Trailwalkers". One team led by Mr Tony Tsoi, Chief Executive Officer, won an award by becoming the fastest team in the manufacturing category. The Group will encourage more colleagues to take part in this meaningful and challenging charity event in 2011.

Standard Chartered Hong Kong Marathon 2011

In 2010, the Group joined the Standard Chartered Hong Kong Marathon for the first time. For 2011, the enthusiasm for this event is even more encouraging.

Varitronix Trailwalker Team B finished the trail at 17 hours 49 minutes.

More than 30 colleagues have registered for the race in 2011 and eight of them are full marathon runners.

It is the Group's mission to provide wholesome growth and development opportunities for colleagues in terms of career and personal development. We believe sporting activities can contribute much to achieve this goal.

A cheer went up from the Varitronix Marathon Runners.

Summary

The Group takes its role as a socially responsible corporate citizen seriously and applies this sense of accountability throughout the many facets of its operations. Each year we try to improve upon and add to the different ways this may be incorporated into policies and procedures, whilst at the same time encouraging our staff to support and share in our commitment to the community.

BOARD OF DIRECTORS AND SENIOR MANAGEMENT

Director's Biographical Information

Ko Chun Shun, Johnson

aged 59, was appointed as the Chairman and Executive Director of the Company in June 2005. Mr. Ko is a director of various subsidiaries of the Group. Mr. Ko is also an Executive Director of DVN (Holdings) Limited and China WindPower Group Limited, both of which are listed on the Hong Kong Stock Exchange.

Tsoi Tong Hoo, Tony

aged 46, was appointed as the Chief Executive Officer and an Executive Director of the Company in March 2005. Mr. Tsoi is a director of various subsidiaries of the Group. Mr. Tsoi graduated from the University of Western Ontario, Canada with an Honours degree in Business Administration in 1986. Mr. Tsoi is a Non-executive Director of China WindPower Group Limited and an Independent Non-executive Director of Fairwood Holdings Limited, both of which are listed on the Hong Kong Stock Exchange. Mr. Tsoi was selected as one of the "Hong Kong Young Industrialists 2010" by The Federation of Hong Kong Industries.

Yuen Kin

aged 56, was appointed as an Independent Non-executive Director of the Company in March 2005 and re-designated as an Executive Director of the Company and appointed as the Chief Financial Officer of the Group in July 2009. Mr. Yuen was also a member of the Audit Committee of the Company until he became an Executive Director of the Company. Mr. Yuen holds a Master of Business Administration degree from the University of Toronto, Canada. He is a Chartered Accountant in Canada and a Fellow of the Hong Kong Institute of Certified Public Accountants, and of the Association of Chartered Certified Accountants. Mr. Yuen is an Independent Non-executive Director of Media China Corporation Limited, which is listed on the Hong Kong Stock Exchange.

Ho Te Hwai, Cecil

aged 50, was appointed as an Executive Director and the Company Secretary of the Company in March 2005. He is a director of various subsidiaries of the Group and is also the Qualified Accountant for the Group. Mr. Ho holds a Bachelor of Commerce degree from the University of British Columbia, Canada. He is a member of the Institute of Chartered Accountants of Canada and the Hong Kong Institute of Certified Public Accountants.

Lo Wing Yan, William

aged 50, was appointed as an Independent Non-executive Director of the Company in July 2004. He is the Chairman of the Remuneration Committee and the Audit Committee of the Company. Dr. Lo holds a Master's degree in Molecular Pharmacology and a Doctorate in Genetic Engineering, both of which are obtained from the University of Cambridge in England. He is an Independent Non-executive Director of South China Land Limited, which is listed on the Hong Kong Stock Exchange. He is also an Independent Non-executive Director of Nam Tai Electronics, Inc., which is listed on the New York Stock Exchange. Dr. Lo is an Adjunct Professor of The School of Business of Hong Kong Baptist University and the Faculty of Business of Hong Kong Polytechnic University. In 1999, he was appointed as a Justice of the Peace (J.P.) by the Hong Kong Special Administrative Region Government. In 2003, he was appointed as a Committee Member of Shantou People's Political Consultative Conference.

Chau Shing Yim, David

aged 47, was appointed as an Independent Non-executive Director of the Company in July 2009. He is a member of the Audit Committee of the Company. Mr. Chau has over 20 years of experience in corporate finance, working on projects ranging from initial public offering transactions and restructuring of PRC enterprises to cross-border and domestic takeover transactions. Mr. Chau was formerly a partner of one of the big four accounting firms in Hong Kong, holding the position as their head of Merger and Acquisition and Corporate Advisory. He is a member of the Hong Kong Securities Institute, the Institute of Chartered Accountants of England and Wales ("ICAEW"), and was granted the Corporate Finance Qualification of ICAEW, and the Hong Kong Institute of Certified Public Accountants ("HKICPA"), and was an ex-committee member of the Disciplinary Panel of HKICPA. He is an executive director of Tidetime Sun Holdings Limited and is also a non-executive director of Lee & Man Paper Manufacturing Limited, Shandong Molong Petroleum Machinery Company Limited, Man Wah Holdings Limited and Evergrande Real Estate Group Limited, all of which are listed on the Stock Exchange.

Hou Ziqiang

aged 73, was appointed as an Independent Non-executive Director of the Company in March 2005. He is a member of the Remuneration Committee and the Audit Committee of the Company. Mr. Hou graduated from Peking University in 1958 with a Bachelor's degree in Physics. From 1993 to 1997, Mr. Hou was a Director of the Institute of Acoustics of the Chinese Academy of Sciences. From 1988 to 1993, Mr. Hou was a Secretary General of the Chinese Academy of Sciences.

Senior Management's Biographical Information

Lam Cheuk Yin, Kenneth

aged 36, is the Financial Controller of the Group. He has a Bachelor of Business Administration (Accountancy) from City University of Hong Kong, and is an Associate Member of the HKICPA. He joined the Group in July 2005.

Park Soo Bin, James

aged 40, is the General Manager – Technical Group. He holds a Bachelor of Physics degree from Sogang University in South Korea. He joined the Group in October 2006.

Fung Yeuk Keung

aged 56, is the Assistant General Manager – Process Development of the Group. He conducted his PhD research study in the Liquid Crystal Institute of Kent State University and obtained a Master and a Doctorate degree in Physics from the same university. Dr. Fung joined the Group in 1995 and resigned in 2006. He rejoined the Group in November 2009.

Suen Mo Ha, Rossetti

aged 39, is the Senior Manager – Strategic Planning & Logistics of the Group. She holds a Master's degree in Statistics from The University of Hong Kong, and a Bachelor's degree in Quantitative Analysis for Business from City Polytechnic University. She joined the Group in December 2000.

Ng Siu Keung, Ricardo

aged 48, is the Senior Manager – Information Service & External Affairs (PRC) of the Group. He holds a Master's degree in Business Administration from International University of America. He joined the Group in September 2006.

Chan Siu Wah, Susana

aged 41, is the Senior Manager – Human Resources & Public Relations of the Group. She holds a Bachelor's degree of Arts from The Chinese University of Hong Kong. She joined the Group in November 2005.

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

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

In the opinion of the Directors, the Company has complied with the code provisions of the Code throughout the year ended 31 December 2010.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

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

BOARD OF DIRECTORS

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

As at 31 December 2010, the Board comprised four Executive Directors and three Independent Non-executive Directors. The Independent Non-executive Directors have been appointed for a fixed term expiring on 31 December 2011 or such other date as agreed by the Independent Non-executive Directors. All Directors are subject to retirement by rotation at least once every three years under the Company's Bye-laws. All the Independent Non-executive Directors meet the guidelines for assessment of independence as set out in Rule 3.13 of the Listing Rules.

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

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

The Board held four meetings in 2010. The attendance records of individual Directors are set out below:

Name of Director	Number of meetings held during the Director's term of office in 2010	Number of meetings attended
Executive Directors		
Mr. Ko Chun Shun, Johnson *(Chairman)*	4	4
Mr. Tsoi Tong Hoo, Tony *(Chief Executive Officer)*	4	4
Mr. Yuen Kin *(Chief Financial Officer)*	4	4
Mr. Ho Te Hwai, Cecil	4	4
Independent Non-executive Directors		
Dr. Lo Wing Yan, William	4	3
Mr. Chau Shing Yim, David	4	4
Mr. Hou Ziqiang	4	4

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

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

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

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

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

NOMINATION OF DIRECTORS

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

REMUNERATION COMMITTEE

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

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

The Remuneration Committee held two meetings in 2010, in which the Committee reviewed the Company's remuneration policy and fixed the remuneration packages for the Executive Directors and senior management.

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

Name of Remuneration Committee member	Number of meetings held during the Remuneration Committee member's term of office in 2010	Number of meetings attended
Dr. Lo Wing Yan, William *(Chairman)*	2	2
Mr. Hou Ziqiang	2	2
Mr. Ko Chun Shun, Johnson	2	2

AUDIT COMMITTEE

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

The Audit Committee held three meetings in 2010, in which the Committee reviewed with management the accounting principles and practices adopted by the Group and discussed internal controls and financial reporting matters so as to ensure that an effective control environment is maintained.

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

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

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

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

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

Name of Audit Committee member	Number of meetings held during the Audit Committee member's term of office in 2010	Number of meetings attended
Dr. Lo Wing Yan, William *(Chairman)*	3	2
Mr. Chau Shing Yim, David	3	3
Mr. Hou Ziqiang	3	3

AUDITORS' REMUNERATION

Total auditors' remuneration in relation to statutory audit work of the Group amounted to HK$3 million (2009: HK$4 million), of which a sum of HK$3 million (2009: HK$3 million) was paid to the Group's principal auditors, KPMG.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

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

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

INTERNAL CONTROL

To maintain sound and effective internal controls to safeguard shareholders' investment and the Company's assets, the Directors conducted a review of the effectiveness of the Company's system of internal control in 2010. The review covered financial, operational and compliance controls and risk management functions. To further strengthen its control system, the Company has established an Internal Audit Department to perform independent evaluations and reporting of the adequacy and effectiveness of the Company's controls, information system and operations.

BUSINESS IMPROVEMENT TEAM MEETING

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

COMMUNICATION WITH SHAREHOLDERS

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

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

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

The Directors have pleasure in submitting herewith their report together with the audited financial statements of the Company and its subsidiaries (the "Group") for the year ended 31 December 2010.

PRINCIPAL ACTIVITIES

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

The analysis of the principal activities and geographical locations of the operations of the Group during the financial year are set out in Notes 3, 4 and 13 to the financial statements.

SUBSIDIARIES

Particulars of the Company's subsidiaries as at 31 December 2010 are set out in Note 15 to the financial statements.

FINANCIAL STATEMENTS

The results of the Group for the year ended 31 December 2010 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 27 to 77 of this Annual Report.

DIVIDEND

The Board has recommended declaring a final dividend of 21.0 HK cents (2009: 1.0 HK cent) per share as compared to interim dividend of 5.5 HK cents (2009: 1.0 HK cent) per share representing a total of 26.5 HK cents (2009: 2.0 HK cents) per share for year ended 2010.

The final dividend will be payable on or around Friday, 8 July 2011 to shareholders whose names appear on the register of members of the Company at the close of business on Friday, 27 May 2011.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Friday, 27 May 2011 to Thursday, 2 June 2011 (both days inclusive), during which period no transfer of shares will be registered. In order to qualify for the aforementioned final dividend, all transfers of shares accompanied by the relevant share certificates must be lodged with the Company's Hong Kong branch share registrar and transfer office, Computershare Hong Kong Investor Services Limited, of Shops 1712-16, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on Thursday, 26 May 2011.

SHARE CAPITAL

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

CHARITABLE DONATIONS

Charitable donations made by the Group during the year amounted to HK$444,000 (2009: HK$174,000).

FIXED ASSETS

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

RESERVES

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

DIRECTORS

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

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

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

In accordance with Bye-laws of the Company, Mr. Yuen Kin, Dr. Lo Wing Yan, William and Mr. Hou Ziqiang shall retire and being eligible, offer themselves for re-election at the forthcoming annual general meeting.

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

As at 31 December 2010, the interests of the Directors and chief executive of the Company and their associates in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO), as recorded in the register required to be maintained by the Company under Section 352 of the SFO or as required, pursuant to the Model Code to be notified to the Company and the Stock Exchange were as follows:

Name of Director	Capacity	Number of shares in the Company held	Approximate percentage of the total issued share capital of the Company
Ko Chun Shun, Johnson	Interest of controlled corporations	48,579,000 *(Notes)*	15.02

Notes:

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

(2) The above interests represented long positions.

Other than the aforesaid and as disclosed under the section headed "Share Option Schemes and Directors' and Chief Executives' Rights to Acquire Shares or Debentures" below, as at 31 December 2010, none of the Directors, chief executives or any of their associates had any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations as recorded in the register required to be kept under Section 352 of Part XV of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

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

On 6 June 1991, the Company adopted a share option scheme. This is to provide the Group with a flexible means of giving incentive to rewarding, remunerating, compensating and / or providing benefits to the Group's employees and business associates (the "Participants"). It was subsequently amended on 8 June 1999 and expired on 5 June 2001. A second share option scheme of the Company was adopted on 22 June 2001 and terminated on 12 May 2003.

A third share option scheme of the Company was adopted on 12 May 2003 as an incentive to the Participants. This scheme shall be valid and effective for a period of ten years ending on 11 May 2013, after which no further share options will be granted. The Company can grant share options to the Participants for a consideration of HK$1.00 for each grant payable by the Participants. The maximum number of shares in respect of which share options may be granted under the third share option scheme and any other schemes of the Company may not exceed 10% of the issued share capital of the Company at the date of approval of the third share option scheme. The maximum entitlement of each Participant in the total number of shares issued and to be issued upon exercise of share options granted under the third share option scheme and any other share option schemes of the Company in any 12-month period shall not exceed 1% of the total number of shares in issue. The third share option scheme limit was subsequently refreshed by a resolution passed at the annual general meeting held on 2 June 2010. The maximum number of share options that can be granted by the Company was refreshed to 32,342,220 share options.

Subscription price of the shares in relation to a share option shall not be less than the higher of (i) the closing price of the shares as stated in the Stock Exchange's daily quotation sheets on the date on which the share option is offered to the Participants, which must be a business day; (ii) the average of the closing prices of the shares as stated in the Stock Exchange's daily quotation sheets for the 5 trading days immediately preceding the date of offer; and (iii) the nominal value of the shares. There shall be no minimum period for which the share options must be held before they are exercised but the Board may determine.

As at the date of this Annual Report, the total number of share options that can be granted was 20,642,220, representing 6.38% of the issued share capital of the Company. The total number of shares available for issue under the share option schemes as at 31 December 2010 represents 8.35% (2009: 4.80%) of the issued share capital of the Company at that date. Further details of the share option schemes are set out in Note 28 to the financial statements.

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

Category	Date of grant	Number of share options at 1 January 2010	Number of share options granted during the year	Number of share options cancelled / lapsed during the year	Number of share options exercised during the year	Number of share options at 31 December 2010	Exercisable period	Price per share to be paid on exercise of share options	Market value per share at date of grant of share options	Closing price of share immediately before date of grant of share options
Directors										
Ko Chun Shun, Johnson	19 December 2005	3,000,000	–	–	–	3,000,000	19 December 2005 to 18 December 2015	HK$5.73	HK$5.65	N/A
	24 June 2010	–	1,900,000	–	–	1,900,000	*(Note 1)*	HK$2.50	HK$2.50	HK$2.37
Tsoi Tong Hoo, Tony	22 July 2005	3,000,000	–	–	–	3,000,000	22 July 2005 to 21 July 2015	HK$6.60	HK$6.55	N/A
	24 June 2010	–	1,900,000	–	–	1,900,000	*(Note 1)*	HK$2.50	HK$2.50	HK$2.37
Yuen Kin	24 June 2010	–	800,000	–	–	800,000	*(Note 1)*	HK$2.50	HK$2.50	HK$2.37
Ho Te Hwai, Cecil	19 December 2005	3,000,000	–	–	–	3,000,000	19 December 2005 to 18 December 2015	HK$5.73	HK$5.65	N/A
	24 June 2010	–	1,200,000	–	–	1,200,000	*(Note 1)*	HK$2.50	HK$2.50	HK$2.37
Lo Wing Yan, William	24 June 2010	–	400,000	–	–	400,000	*(Note 1)*	HK$2.50	HK$2.50	HK$2.37
Chau Shing Yim, David	24 June 2010	–	400,000	–	–	400,000	*(Note 1)*	HK$2.50	HK$2.50	HK$2.37
Hou Ziqiang	24 June 2010	–	400,000	–	–	400,000	*(Note 1)*	HK$2.50	HK$2.50	HK$2.37
Others										
Chang Chu Cheng *(Note 2)*	30 October 2002	1,000,000	–	–	–	1,000,000	31 October 2002 to 30 October 2012	HK$4.605	HK$4.35	N/A
	21 December 2004	300,000	–	–	–	300,000	21 December 2004 to 20 December 2014	HK$7.45	HK$7.45	N/A
	19 December 2005	3,000,000	–	–	–	3,000,000	19 December 2005 to 18 December 2015	HK$5.73	HK$5.65	N/A
Employees	1 June 2000	214,000	–	(214,000)	–	–	1 July 2000 to 30 June 2010	HK$11.30	HK$13.40	N/A
	30 August 2001	96,500	–	–	–	96,500	30 August 2001 to 29 August 2011	HK$3.06	HK$3.575	N/A
	13 September 2002	99,000	–	–	–	99,000	13 September 2002 to 12 September 2012	HK$3.905	HK$3.85	N/A
	6 October 2003	126,000	–	–	–	126,000	6 October 2003 to 5 October 2013	HK$7.35	HK$7.35	N/A
	20 December 2004	1,697,000	–	–	–	1,697,000	20 December 2004 to 19 December 2014	HK$7.50	HK$7.50	N/A
	24 June 2010	–	4,700,000	–	–	4,700,000	*(Note 1)*	HK$2.50	HK$2.50	HK$2.37
		15,532,500	11,700,000	(214,000)	–	27,018,500				

Notes:

(1) Exercisable period:

(i) the first 20% of the share options shall be exercisable from 1 July 2011 to 30 June 2016;

(ii) the second 20% of the share options shall be exercisable from 1 July 2012 to 30 June 2016;

(iii) the third 20% of the share options shall be exercisable from 1 July 2013 to 30 June 2016;

(iv) the fourth 20% of the share options shall be exercisable from 1 July 2014 to 30 June 2016; and

(v) the remaining 20% of the share options shall be exercisable from 1 July 2015 to 30 June 2016.

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

(3) All the interests disclosed above represent long positions.

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

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

As at 31 December 2010, other than the interests disclosed under the section headed "Directors' and Chief Executives' Interests and Short Positions in Shares, Underlying Shares and Debentures" in respect of Mr. Ko Chun Shun, Johnson and Rockstead Technology Limited, so far as is known to the Directors and chief executives of the Company, the following company had interests and short positions in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO:

Name	Capacity	Number of shares in the Company held	Approximate percentage of the total issued share capital of the Company
FMR LLC	Interest in controlled corporation	29,000,000 *(Note)*	8.97

Note: All the above interests represented long positions.

DIRECTORS' SERVICE CONTRACTS

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

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

Non-executive Directors are appointed for a period up to 31 December 2011 or such other date as agreed by the Non-executive Directors and the Company.

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

DIRECTORS' INTERESTS IN CONTRACTS

No contract of significance to which the Company, or any of its subsidiaries was a party, in which a Director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

MANAGEMENT CONTRACTS

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

PRE-EMPTIVE RIGHTS

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

BANK LOANS

Particulars of bank loans of the Group at 31 December 2010 are set out in Note 24 to the financial statements.

CAPITALISATION OF INTEREST

No interest was capitalised by the Group during the year.

PROPERTIES

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

FIVE YEAR SUMMARY

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

SUFFICIENCY OF PUBLIC FLOAT

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

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2010, the five largest customers of the Group accounted for 30% of the Group's total turnover while the largest customer of the Group accounted for 16% of the Group's total turnover. In addition, for the year ended 31 December 2010, the five largest suppliers of the Group accounted for 26% of the Group's total purchases while the largest supplier of the Group accounted for 8% of the Group's total purchases.

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

UPDATE ON DIRECTOR'S INFORMATION UNDER RULE 13.51B(1) OF THE LISTING RULES

Mr. Chau Shing Yim, David, the Independent Non-executive Director of the Company, was appointed as a Non-executive Director of Man Wah Holdings Limited in April 2010.

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

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2010.

CONFIRMATION OF INDEPENDENCE

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

AUDITORS

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

By order of the Board

Ko Chun Shun, Johnson
Chairman
Hong Kong, 24 March 2011

REPORT OF THE INDEPENDENT AUDITOR

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

We have audited the consolidated financial statements of Varitronix International Limited ("the Company") and its subsidiaries (together "the Group") set out on pages 27 to 77, which comprise the consolidated and company statements of financial position as at 31 December 2010, 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. This report is made solely to you, as a body, in accordance with Section 90 of the Bermuda Companies Act 1981, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance 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 judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

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

OPINION

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

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

24 March 2011

CONSOLIDATED INCOME STATEMENT

for the year ended 31 December 2010
(Expressed in Hong Kong dollars)

	Note	2010 $'000	2009 $'000
Continuing operations			
Turnover	3	**2,255,851**	1,817,172
Other operating income	4	**93,592**	66,512
Change in inventories of finished goods and work in progress		**27,170**	8,749
Raw materials and consumables used		**(1,481,128)**	(1,270,314)
Staff costs		**(307,408)**	(259,757)
Depreciation		**(95,354)**	(87,311)
Other operating expenses		**(224,793)**	(221,796)
Profit from operations		**267,930**	53,255
Finance costs	5(a)	**(3,358)**	(3,514)
Share of profits / (losses) of associates		**2,210**	(21,809)
Profit before taxation	5	**266,782**	27,932
Income tax	8(a)	**(46,935)**	(11,212)
Profit for the year from continuing operations		**219,847**	16,720
Discontinued operation			
Loss for the year from discontinued operation	9	**(9,652)**	(285,441)
Profit / (loss) for the year		**210,195**	(268,721)
Attributable to:			
Equity shareholders of the Company	10	**210,496**	(268,325)
Non-controlling interests		**(301)**	(396)
Profit / (loss) for the year		**210,195**	(268,721)

	Note	2010 $'000	2009 $'000
Earnings / (loss) per share			
Basic and diluted	12		
– from continuing and discontinued operations		**65.1 cents**	(83.0) cents
– from continuing operations		**68.1 cents**	5.3 cents
– from discontinued operation		**(3.0) cents**	(88.3) cents

The notes on pages 33 to 77 form part of these financial statements. Details of dividends payable to equity shareholders of the Company attributable to the profit / (loss) for the year are set out in Note 29(b).

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 December 2010
(Expressed in Hong Kong dollars)

	Note	2010 $'000	2009 $'000
Profit / (loss) for the year		**210,195**	(268,721)
Other comprehensive income for the year (after tax and reclassification adjustments):	11		
Foreign currency translation adjustments:			
– exchange differences on translation of financial statements of overseas operations		**3,110**	7,315
– transfer to profit or loss on disposal of overseas operations		**1,504**	19,846
		4,614	27,161
Available-for-sale securities: net movement in the fair value reserve		**2,068**	11,581
Total comprehensive income for the year from continuing operations		**216,877**	(229,979)
Discontinued operation			
Foreign currency translation adjustment:			
– exchange differences on translation of financial statements of an overseas operation		**–**	(139)
– release of exchange reserve on deconsolidation		**(6,026)**	–
Total comprehensive income for the year		**210,851**	(230,118)
Attributable to:			
Equity shareholders of the Company		**211,152**	(229,831)
Non-controlling interests		**(301)**	(287)
Total comprehensive income for the year		**210,851**	(230,118)

The notes on pages 33 to 77 form part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

at 31 December 2010
(Expressed in Hong Kong dollars)

	Note	2010 $'000	2009 $'000
Non-current assets			
Fixed assets	14		
– Other property, plant and equipment		**315,441**	353,591
– Interest in leasehold land held for own use		**5,588**	5,648
		321,029	359,239
Interest in associates	16	**101,905**	99,384
Loans receivable	17	**70,201**	123,055
Other financial assets	18	**186,083**	182,798
Deferred tax assets	27(b)	**213**	2,198
		679,431	766,674
Current assets			
Trading securities	19	**232,856**	144,613
Inventories	20	**285,774**	276,561
Trade and other receivables	21	**471,745**	512,501
Current taxation recoverable	27(a)	**1,224**	1,285
Cash and cash equivalents	22	**431,331**	380,713
		1,422,930	1,315,673
Assets of a discontinued operation	23	**–**	22,895
		1,422,930	1,338,568
Current liabilities			
Bank loans	24	**177,842**	218,955
Trade and other payables	25	**529,552**	519,068
Current taxation payable	27(a)	**32,081**	1,857
		739,475	739,880
Liabilities relating to a discontinued operation	23	**–**	157,771
		739,475	897,651
Net current assets		**683,455**	440,917
Total assets less current liabilities		**1,362,886**	1,207,591
Non-current liabilities			
Bank loans	24	**–**	37,000
Other payables		**3,186**	4,104
Deferred tax liabilities	27(b)	**3,123**	2,282
NET ASSETS		**1,356,577**	1,164,205
CAPITAL AND RESERVES			
Share capital	29(c)	**80,856**	80,856
Reserves		**1,267,223**	1,068,524
Amounts recognised in other comprehensive income and accumulated in equity relating to a discontinued operation		**–**	6,026
Total equity attributable to equity shareholders of the Company		**1,348,079**	1,155,406
Non-controlling interests		**8,498**	8,799
TOTAL EQUITY		**1,356,577**	1,164,205

Approved and authorised for issue by the board of directors on 24 March 2011

Tsoi Tong Hoo, Tony
Director

Ko Chun Shun, Johnson
Director

The notes on pages 33 to 77 form part of these financial statements.

STATEMENT OF FINANCIAL POSITION

at 31 December 2010
(Expressed in Hong Kong dollars)

	Note	2010 $'000	2009 $'000
Non-current assets			
Interest in subsidiaries	15	**646,715**	641,295
Loans receivable	17	**70,201**	64,371
Other financial assets	18	**154,979**	154,979
		871,895	860,645
Current assets			
Trade and other receivables	21	**755**	1,098
Cash and cash equivalents	22	**1,600**	1,227
		2,355	2,325
Current liabilities			
Trade and other payables	25	**9,296**	2,329
Net current liabilities		**(6,941)**	(4)
NET ASSETS		**864,954**	860,641
CAPITAL AND RESERVES			
Share capital	29(c)	**80,856**	80,856
Reserves	29(a)	**784,098**	779,785
TOTAL EQUITY		**864,954**	860,641

Approved and authorised for issue by the board of directors on 24 March 2011

Tsoi Tong Hoo, Tony
Director

Ko Chun Shun, Johnson
Director

The notes on pages 33 to 77 form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
for the year ended 31 December 2010
(Expressed in Hong Kong dollars)

		Attributable to shareholders of the Company										
	Note	Share capital (note 29(c)) $'000	Share premium (note 29(d)(i)) $'000	Exchange reserve (note 29(d)(iii)) $'000	Fair value reserve (note 29(d)(iv)) $'000	Capital reserve (note 29(d)(v)) $'000	Other reserves (note 29(d)(vi)) $'000	Retained profits $'000	Amounts recognised in other comprehensive income and accumulated in equity relating to a discontinued operation $'000	Total $'000	Non-controlling interests $'000	Total equity $'000
Balance at 1 January 2009		80,856	695,336	18,430	1,016	11,373	(30,273)	611,194	6,165	1,394,097	14,632	1,408,729
Changes in equity for 2009												
Loss for the year		-	-	-	-	-	-	(268,325)	-	(268,325)	(396)	(268,721)
Other comprehensive income	11	-	-	27,052	11,581	-	-	-	(139)	38,494	109	38,603
Total comprehensive income		-	-	27,052	11,581	-	-	(268,325)	(139)	(229,831)	(287)	(230,118)
Acquisition of non-controlling interests		-	-	-	-	-	(2,392)	-	-	(2,392)	(5,546)	(7,938)
Dividends approved in respect of the previous year	29(b)(ii)	-	-	-	-	-	-	(3,234)	-	(3,234)	-	(3,234)
Dividends declared in respect of the current year	29(b)(i)	-	-	-	-	-	-	(3,234)	-	(3,234)	-	(3,234)
Balance at 31 December 2009 and 1 January 2010		**80,856**	**695,336**	**45,482**	**12,597**	**11,373**	**(32,665)**	**336,401**	**6,026**	**1,155,406**	**8,799**	**1,164,205**
Changes in equity for 2010												
Profit for the year		**-**	**-**	**-**	**-**	**-**	**-**	**210,496**	**-**	**210,496**	**(301)**	**210,195**
Other comprehensive income	11	**-**	**-**	**4,614**	**2,068**	**-**	**-**	**-**	**(6,026)**	**656**	**-**	**656**
Total comprehensive income		**-**	**-**	**4,614**	**2,068**	**-**	**-**	**210,496**	**(6,026)**	**211,152**	**(301)**	**210,851**
Dividends approved in respect of the previous year	29(b)(ii)	**-**	**-**	**-**	**-**	**-**	**-**	**(3,234)**	**-**	**(3,234)**	**-**	**(3,234)**
Equity settled share-based transactions		**-**	**-**	**-**	**-**	**2,543**	**-**	**-**	**-**	**2,543**	**-**	**2,543**
Dividends declared in respect of the current year	29(b)(i)	**-**	**-**	**-**	**-**	**-**	**-**	**(17,788)**	**-**	**(17,788)**	**-**	**(17,788)**
Balance at 31 December 2010		**80,856**	**695,336**	**50,096**	**14,665**	**13,916**	**(32,665)**	**525,875**	**-**	**1,348,079**	**8,498**	**1,356,577**

The notes on pages 33 to 77 form part of these financial statements.

CONSOLIDATED CASH FLOW STATEMENT

for the year ended 31 December 2010
(Expressed in Hong Kong dollars)

	Note	2010 $'000	2009 $'000
Operating activities			
Cash generated from / (used in) operations	22(b)	**124,339**	(22,397)
Tax paid			
– Hong Kong Profits Tax paid		**(22)**	(669)
– Overseas tax paid		**(13,802)**	(2,691)
Net cash generated from / (used in) operating activities		**110,515**	(25,757)
Investing activities			
Proceeds from disposal of fixed assets		**12,095**	60,635
Payment for purchase of fixed assets		**(47,466)**	(94,418)
Proceeds from disposal of available-for-sale securities		**2,766**	5,812
Payment for purchase of available-for-sale securities		**(1,365)**	–
Proceeds from sale of trading securities		**21,743**	91,209
Payment for purchase of trading securities		**(25,425)**	(83,477)
Proceeds from repayment of loans receivable		**75,891**	4,042
Proceeds on disposal of subsidiaries		**–**	24,021
Payment for acquisition of non-controlling interests		**–**	(7,938)
Dividends received from investments in trading and available-for-sale securities		**626**	9,178
Dividends received from associates		**–**	2,305
Interest received		**6,428**	12,222
Net cash generated from investing activities		**45,293**	23,591
Financing activities			
New bank loans		**155,135**	72,989
Repayment of bank loans		**(234,676)**	(165,131)
Interest paid		**(3,358)**	(4,230)
Dividends paid		**(21,022)**	(6,468)
Net cash used in financing activities		**(103,921)**	(102,840)
Net increase / (decrease) in cash and cash equivalents		**51,887**	(105,006)
Cash and cash equivalents at 1 January		**380,713**	483,880
Effect of foreign exchange rates changes		**(1,269)**	1,839
Cash and cash equivalents at 31 December	22(a)	**431,331**	380,713

The notes on pages 33 to 77 form part of these financial statements.

1. SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

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

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

(b) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31 December 2010 comprise the Company and its subsidiaries (together referred to as the "Group") and the Group's interest in associates.

The measurement basis used in the preparation of the financial statements is the historical cost basis except as set out in the accounting policies hereunder.

Assets of a discontinued operation are stated at the lower of carrying amount and fair value less costs to sell (see note 1(x)).

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

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

Judgements made by management in the application of HKFRSs that have a significant effect on the financial statements and major sources of estimation uncertainty are discussed in note 34.

(c) Subsidiaries and non-controlling interests

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

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

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

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

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

When the Group losses control of a subsidiary, it is accounted for as a disposal of the entire interest in that subsidiary, with a resulting gain or loss being recognised in profit of loss. Any interest retained in that former subsidiary at the date when control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset (see note 1(f)) or, when appropriate, the cost on initial recognition of an investment in an associate (see note 1(d)).

In the Company's statement of financial position, an investment in a subsidiary is stated at cost less impairment losses (see note 1(j)).

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(d) Associates

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

An investment in an associate is accounted for in the consolidated financial statements under the equity method. Under the equity method, the investment is initially recorded at cost, adjusted for any excess of the Group's share of the acquisition-date fair values of the investee's identified net assets over the cost of the investment (if any). Thereafter, the investment is adjusted for the post-acquisition change in the Group's share of the associates' net assets and any impairment loss relating to the investment (see notes 1(e) and (j)). Any acquisition-date excess over cost, the Group's share of the post-acquisition, post-tax results of associates and any impairment losses for the year are recognised in the consolidated income statement, whereas the Group's share of the post-acquisition post-tax items of associates' other comprehensive income is recognised in the consolidated statement of comprehensive income.

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

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

When the Group ceases to have significant influence over an associate, it is accounted for as a disposal of the entire interest in that investee, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former investee at the date when significant influence is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset (see note 1(f)) or, when appropriate, the cost on initial recognition of an investment in an associate.

(e) Goodwill

Goodwill represents the excess of

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

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

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

Goodwill is stated at cost less accumulated impairment losses. Goodwill arising on a business combination is allocated to each cash-generating unit, or groups of cash generating units, that is expected to benefit from the synergies of the combination and is tested annually for impairment (see note 1(j)).

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

(f) Other investments in debt and equity securities

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

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

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

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

Investments in equity securities that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are recognised in the statement of financial position at cost less impairment losses (see note 1(j)).

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

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(g) Derivative financial instruments

Derivative financial instruments are recognised initially at fair value. At the end of each reporting period the fair value is remeasured. The gain or loss on remeasurement to fair value is recognised immediately in profit or loss.

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

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

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

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

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

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

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

Where parts of an item of investment properties and other property, plant and equipment have different useful lives, the cost or valuation of the item is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the useful life of an asset and its residual value, if any, are reviewed annually.

(i) Leased assets

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

(i) Classification of assets leased to the Group

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

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

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

(ii) Operating lease charges

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

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

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(j) Impairment of assets

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

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

- significant financial difficulty of the debtor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- it becoming probable that the debtor will enter bankruptcy or other financial reorganisation;
- significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; and
- a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

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

- For interest in associates recognised using the equity method (see note 1(d)), the impairment loss is measured by comparing the recoverable amount of the investment as a whole with its carrying amount in accordance with note 1(j)(ii). The impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount in accordance with note 1(j)(ii).
- For unquoted equity securities, trade and other receivables and other financial assets carried at cost, the impairment loss is measured as the difference between the carrying amount of the financial asset and the estimated future cash flows, discounted at the current market rate of return for a similar financial asset, where the effect of discounting is material. Such impairment losses for unquoted equity securities are not reversed.
- For trade and other receivables and other financial assets carried at amortised cost, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of the asset), where the effect of discounting is material. This assessment is made collectively where financial assets carried at cost or amortised cost share similar risk characteristics, such as similar past due status, and have not been individually assessed as impaired. Future cash flows for financial assets which are assessed for impairment collectively are based on historical loss experience for assets with credit risk characteristics similar to the collective group.

  If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.
- For available-for-sale securities, the cumulative loss that had been recognised in the fair value reserve is reclassified to profit or loss. The amount of the cumulative loss that is recognised in profit or loss is the difference between the acquisition cost (net of any principal repayment and amortisation) and current fair value, less any impairment loss on that asset previously recognised in profit or loss.

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

Impairment losses in respect of available-for-sale debt securities are reversed if the subsequent increase in fair value can be objectively related to an event occurring after the impairment loss was recognised. Reversal of impairment losses in such circumstances are recognised in profit or loss.

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

(ii) Impairment of other assets

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

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

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

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(j) Impairment of assets (continued)

(ii) Impairment of other assets (continued)

– *Calculation of recoverable amount*

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

– *Recognition of impairment losses*

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

– *Reversals of impairment losses*

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

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

(iii) Interim financial reporting and impairment

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

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

(k) Trade and other receivables

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

(l) Loans receivable

Loans receivable are initially recognised at fair value and thereafter stated at amortised cost using the effective interest method less any identified impairment losses. Appropriate allowances for estimated irrecoverable amounts are recognised in profit or loss when there is objective evidence that the asset is impaired (see note 1(j)(i)).

(m) Inventories

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

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

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

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

(n) Trade and other payables

Trade and other payables are initially recognised at fair value. Except for financial guarantee liabilities measured in accordance with note 1(s)(i), trade and other payables are stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

(o) Cash and cash equivalents

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

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(p) Interest-bearing borrowings

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

(q) Revenue recognition

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

(i) Sale of goods

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

(ii) Dividends

Dividend income from listed investments is recognised when the share price of the security goes ex-dividend. Dividend income from unlisted investments is recognised when the shareholder's right to receive payment is established.

(iii) Interest income

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

(r) Employee benefits

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

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

(ii) Share-based payments

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

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

(iii) Termination benefits

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

(s) Financial guarantees issued, provisions and contingent liabilities

(i) Financial guarantees issued

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

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

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

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(s) Financial guarantees issued, provisions and contingent liabilities (continued)

(ii) Other provisions and contingent liabilities

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

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

(t) Income tax

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

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

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

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

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

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

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

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

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

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

(u) Research and development

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

(v) Borrowing costs

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

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(v) Borrowing costs (continued)

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

(w) Translation of foreign currencies

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

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

The results of foreign operations are translated into Hong Kong dollars at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Statement of financial position items are translated into Hong Kong dollars at the closing foreign exchange rates ruling at the end of the reporting period. The resulting exchange differences are recognised in other comprehensive income and accumulated separately in equity in the exchange reserve.

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

(x) Discontinued operations

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

Classification as a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held for sale, if earlier. It also occurs if the operation is abandoned.

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

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

Assets of a discontinued operation are measured at their fair value less costs to sell. Liabilities relating to a discontinued operation are measured at their fair values. Subsequent remeasurements of the assets and liabilities of a discontinued operation are recognised in the profit or loss.

(y) Related parties

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

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

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

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

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

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

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

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

(z) Segment reporting

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

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

2. CHANGES IN ACCOUNTING POLICIES

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

- HKFRS 3 (revised 2008), *Business combinations*
- Amendments to HKAS 27, *Consolidated and separate financial statements*
- Amendments to HKFRS 5, *Non-current assets held for sale and discontinued operations – plan to sell the controlling interest in a subsidiary*
- Amendments to HKAS 39, *Financial instruments: Recognition and measurement – Eligible hedged items*
- Improvements to HKFRSs (2009)
- HK(IFRIC) 17, *Distributions of non-cash assets to owners*
- HK(Int) 5, *Presentation of financial statements – classification by the borrower of a term loan that contains a repayment on demand clause*

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

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

- The impact of the majority of the revisions to HKFRS 3, HKAS 27, HKFRS 5 and HK(IFRIC) 17 has not yet had a material effect on the Group's financial statements as these changes will first be effective as and when the Group enters into a relevant transaction (for example, a business combination, a disposal of a controlling interest in a subsidiary to third party or a non-cash distribution) and there is no requirement to restate the amounts recorded in respect of previous such transactions.
- The amendment introduced by the *Improvement to HKFRSs (2009)* omnibus standard in respect of HKAS 17, *Leases* has had no material impact on the Group's financial statements as the Group has concluded that the classification of the interest in leasehold land as operating lease remains appropriate and the lease premiums in respect of all such leases are fully paid and are being amortised over the remaining length of the lease term.

3. TURNOVER

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

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

The Group's customer base is diversified and includes only one customer with whom transactions have exceeded 10% of the Group's revenues. In 2010 revenues from sales to this customer, including sales to entities which are known to the Group to be under common control with this customer, amounted to approximately $356,223,000 (2009: $403,572,000). Details of concentrations of credit risk arising from this customer are set out in note 30(a).

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

4. OTHER OPERATING INCOME

	2010 $'000	2009 $'000
Continuing operations		
Dividend income from listed equity securities	**626**	9,178
Interest income from listed debt securities	**299**	570
Interest income from unlisted debt securities	**6,185**	5,765
Other interest income	**3,378**	9,112
Rental income under operating leases	**–**	14,494
Net gain / (loss) on sale of fixed assets:		
– properties	**1,828**	6,076
– other fixed assets	**324**	(18,174)
Net loss on disposal of subsidiaries*	**(1,215)**	(18,504)
Available-for-sale securities: reclassified from equity on disposal (note 11)	**2,618**	78
Net realised and unrealised gains on trading securities	**84,561**	38,387
Unrealised gains on derivative financial assets	**86**	15,249
Exchange (loss) / gain	**(9,146)**	2,011
Other income	**4,048**	2,270
	93,592	66,512
Discontinued operation		
Interest income	**37**	133
Exchange loss	**(2,764)**	(413)
	(2,727)	(280)
	90,865	66,232

4. OTHER OPERATING INCOME (CONTINUED)

* During the year ended 31 December 2010, the Group disposed of its 100% equity interest in certain subsidiaries which were dormant with insignificant assets and liabilities. The disposals were made with a resultant loss on disposal amounting to $1,215,000, which mainly comprised the foreign exchange loss recognised in equity in previous years and recognised in the profit or loss in the current year.

During the year ended 31 December 2009, the Group and an independent third party entered into a share transfer agreement under which the Group disposed of its entire 100% equity interest in a subsidiary, Varitronix (Malaysia) Sdn. Bhd. ("VM") and a wholly owned subsidiary held by VM, Cadac Electronic (M) Sdn. Bhd. ("Cadac"). This transaction arose on the disposal by the Group of a property located in Malaysia, which was held by VM. The transaction was completed on 14 December 2009 and VM and Cadac ceased to be subsidiaries of the Group. The transaction resulted in a loss on disposal of $18,504,000, which mainly comprised the foreign exchange loss related to these subsidiaries previously held in the Group's exchange reserve.

5. PROFIT BEFORE TAXATION

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

	2010 $'000	2009 $'000
(a) Finance costs		
Continuing operations		
Interest on bank advances and other borrowings wholly repayable within five years	**3,358**	3,514
Discontinued operation		
Interest on bank advances and other borrowings wholly repayable within five years	**–**	716
(b) Impairment losses (written-back) / recognised		
Continuing operations		
Trade and other receivables		
– in respect of doubtful debts	**(99)**	(163)
– in respect of sales returns provision	**(707)**	(1,348)
Inventories	**20,581**	(668)
Discontinued operation		
Fixed assets	**–**	1,059
Trade and other receivables	**–**	103,104
Inventories	**–**	150,867
(c) Other items		
Continuing operations		
Cost of inventories	**1,797,867**	1,519,891
Auditors' remuneration	**3,472**	3,637
Research and development costs	**101,149**	78,799
Operating lease charges: minimum lease payments – hire of assets (including property rentals)	**3,047**	15,209
Contributions to defined contribution retirement plans	**10,378**	8,679
Equity-settled share-based payment expenses (note 28)	**2,543**	–
Discontinued operation		
Cost of inventories	**–**	223,278
Operating lease charges: minimum lease payments – hire of assets (including property rentals)	**–**	1,678

6. DIRECTORS' REMUNERATION

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

Year ended 31 December 2009

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

Year ended 31 December 2010

	Directors' fees $'000	**Salaries, allowances and benefits in kind $'000**	**Discretionary bonuses $'000**	**Retirement scheme contributions $'000**	**Share-based payments $'000**	**Total $'000**
Executive Directors						
Ko Chun Shun, Johnson	**–**	**2,779**	**1,300**	**120**	**413**	**4,612**
Tsoi Tong Hoo, Tony	**–**	**5,000**	**5,000**	**240**	**413**	**10,653**
Ho Te Hwai, Cecil	**–**	**1,440**	**600**	**12**	**261**	**2,313**
Yuen Kin*	**–**	**1,960**	**600**	**12**	**174**	**2,746**
Non-executive Directors						
Dr. Lo Wing Yan, William	**200**	**–**	**–**	**–**	**87**	**287**
Hou Ziqiang	**200**	**–**	**–**	**–**	**87**	**287**
Chau Shing Yim, David*	**200**	**–**	**–**	**–**	**87**	**287**
Total	**600**	**11,179**	**7,500**	**384**	**1,522**	**21,185**

* On 1 July 2009, Mr. Yuen Kin was appointed as an Executive Director, having served as a Non-executive Director prior to that date. Included in the remuneration of Mr. Yuen Kin for the year ended 31 December 2009 disclosed above are fees of $100,000 received in his position as a Non-executive Director. Mr. Chau Shing Yim, David was appointed as a Non-executive Director on the same day.

7. INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, four (2009: two), are Directors, whose emoluments are disclosed in note 6. The aggregate of the emoluments in respect of the other one (2009: three) individual is as follows:

	2010 $'000	2009 $'000
Salaries and allowances	**13,128**	19,370
Retirement scheme contributions	**6**	4
	13,134	19,374

The emoluments of the one (2009: three) individual with the highest emoluments are within the following bands:

	2010 Number of individuals	2009 Number of individuals
$3,500,001 – $4,000,000	**–**	1
$4,000,001 – $4,500,000	**–**	1
$11,000,001 – $11,500,000	**–**	1
$13,000,001 – $13,500,000	**1**	–

8. INCOME TAX IN THE CONSOLIDATED INCOME STATEMENT

(a) Continuing operations

(i) Taxation in the consolidated income statement represents:

	2010 $'000	2009 $'000
Current tax – Hong Kong Profits Tax		
Provision for Hong Kong Profits Tax for the year	**16,882**	3,089
Under / (over)-provision in respect of prior years	**11,340**	(1,418)
	28,222	1,671
Current tax – Overseas		
Provision for the year	**15,887**	4,639
	15,887	4,639
Deferred tax		
Origination and reversal of temporary differences (note 27(b))	**2,826**	4,902
	46,935	11,212

The provision for Hong Kong Profits Tax is calculated at 16.5% (2009: 16.5%) of the estimated assessable profits for the year. Taxation for overseas subsidiaries is charged at the appropriate current rates of taxation ruling in the relevant countries.

As disclosed in the Group's financial statements for the year ended 31 December 2009, a subsidiary had received from the Hong Kong Inland Revenue Department ("IRD") additional assessments relating to the years of assessment 1994 / 95 to 2004 / 05 relating to a dispute over the deductibility of certain sub-contracting charges for tax assessment purposes. In 2006, the subsidiary reached an agreement with the IRD for settlement for the years of assessment 1994 / 95 to 2003 / 04. However, formal agreement in respect of subsequent years, i.e. the years of assessment 2004 / 05 to date is still outstanding. Tax returns for these years have been based on the settlement agreed with the IRD in 2006. The IRD has raised additional queries on the deductibility of certain trade debt provisions claimed by the subsidiary in the year of assessment 2005 / 06. Additional tax provision has been made thereon in respect of the tax dispute. The directors consider that provisions and tax payments made for the years of assessment 2004 / 05 to 2009 / 10, which are still subject to agreement by the IRD, are sufficient.

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

	2010 $'000	2009 $'000
Profit before taxation	**266,782**	27,932
Notional tax expense on profit before taxation, calculated at the rates applicable to profits in the countries concerned	**43,133**	6,479
Tax effect of non-deductible expenses	**14,209**	13,832
Tax effect of non-taxable revenue	**(26,049)**	(4,458)
Tax effect of prior year's tax losses utilised this year	**–**	(3,251)
Tax effect of unused tax losses not recognised	**1,257**	28
Deferred tax liabilities recognised in respect of unremitted earnings in relation to prior years	**3,045**	–
Under / (over)-provision in prior years	**11,340**	(1,418)
Actual tax expense	**46,935**	11,212

8. INCOME TAX IN THE CONSOLIDATED INCOME STATEMENT (CONTINUED)

(b) Discontinued operation

(i) Taxation in the consolidated income statement represents:

	2010 $'000	2009 $'000
Current tax – Overseas		
Provision for the year	**–**	–

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

	2010 $'000	2009 $'000
Loss before taxation	**(9,652)**	(285,441)
Notional tax credit on loss before taxation calculated at the rate applicable to profits in the country concerned	**(1,447)**	(42,816)
Tax effect of non-deductible expenses	**1,447**	777
Tax effect of unused tax losses not recognised	**–**	42,039
Actual tax expense	**–**	–

9. DISCONTINUED OPERATION

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

During the year ended 31 December 2010, Varitronix Pengyuan was also placed into liquidation and at this time the directors have recognised a disposal of these companies. At the time of deconsolidating Varitronix Marketing and Varitronix Pengyuan from the Group, the Group has recognised a related liability of $82,953,000 and no profit or loss on disposal. Going forward, the directors will follow up on the liquidation progress and adjust this liability as required. However, they consider that the current liability recognised is sufficient to cover any future obligation which is likely to crystallise.

(a) The results of the discontinued operation for the years ended 31 December 2010 and 2009 are as follows:

	2010 $'000	2009 $'000
Turnover (note 13(b)(i))	**–**	223,500
Other operating loss (note 4)	**(2,727)**	(280)
Changes in inventories of finished goods	**–**	(15,330)
Raw materials and consumables used	**–**	(207,948)
Staff costs	**(5,984)**	(6,819)
Depreciation	**–**	(388)
Other operating expenses	**(941)**	(277,460)
Loss from operation	**(9,652)**	(284,725)
Finance costs (note 5(a))	**–**	(716)
Loss before taxation	**(9,652)**	(285,441)
Income tax	**–**	–
Loss for the year from discontinued operation attributable to equity shareholders of the Company	**(9,652)**	(285,441)

(b) The net cash flows of the discontinued operation for the years ended 31 December 2010 and 2009 are as follows:

	2010 $'000	2009 $'000
Net cash outflow from operating activities	**(2,936)**	(61,149)
Net cash inflow / (outflow) from investing activities	**32**	(151)
Net cash (outflow) / inflow from financing activities	**(75,199)**	50,230
Net cash outflow of the discontinued operation	**(78,103)**	(11,070)

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

The consolidated profit / (loss) attributable to equity shareholders of the Company includes a profit of $1,792,000 (2009: $9,420,000) which has been dealt with in the financial statements of the Company.

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

	2010 $'000	2009 $'000
Amount of consolidated profit attributable to equity shareholders dealt with in the Company's financial statements	**1,792**	9,420
Dividends from subsidiaries attributable to the profits of subsidiaries, approved and paid during the year	**21,000**	–
Company's profit for the year (note 29(a))	**22,792**	9,420

11. OTHER COMPREHENSIVE INCOME

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

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

	2010 $'000	2009 $'000
Available-for-sale securities:		
Changes in fair value recognised during the year	**4,686**	11,659
Reclassification adjustments for amounts transferred to profit or loss: – gain on disposal	**(2,618)**	(78)
Net movement in the fair value reserve during the year recognised in other comprehensive income	**2,068**	11,581

12. EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share is based on the consolidated profit attributable to equity shareholders of the Company of $210,496,000 (2009: loss of $268,325,000) and the weighted average number of shares of 323,422,204 shares (2009: 323,422,204 shares) in issue during the year, calculated as follows:

	2010		2009	
	Profit / (loss) attributable to equity shareholders $'000	Weighted average no. of ordinary shares	Profit / (loss) attributable to equity shareholders $'000	Weighted average no. of ordinary shares
Continuing operations	**220,148**	**323,422,204**	17,116	323,422,204
Discontinued operation	**(9,652)**	**323,422,204**	(285,441)	323,422,204
	210,496	**323,422,204**	(268,325)	323,422,204

There was no movement in the weighted average number of shares in issue during the years ended 31 December 2010 and 2009.

(b) Diluted earnings per share

There was no effect of deemed issue of shares arising from the Company's share option schemes for nil consideration for the years ended 31 December 2010 and 2009. Accordingly, diluted earnings per share is the same as basic earnings per share for both years presented.

13. SEGMENT REPORTING

(a) Operating segment results

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

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

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

(b) Geographic information

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

(i) Group's revenues from external customers

	2010 $'000	2009 $'000
Continuing operations		
Hong Kong and the PRC (place of domicile)	**667,900**	681,299
Europe	**750,638**	566,834
Korea	**478,196**	334,929
North America	**168,159**	117,711
Others	**190,958**	116,399
	2,255,851	1,817,172
Discontinued operation		
The PRC	**–**	223,500
Consolidated turnover	**2,255,851**	2,040,672

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

	2010 $'000	2009 $'000
France	**172,896**	119,340
Germany	**186,197**	122,581
United Kingdom	**47,547**	47,403
Other European countries	**343,998**	277,510
	750,638	566,834

(ii) Group's specified non-current assets

	2010 $'000	2009 $'000
Continuing operations		
Hong Kong and the PRC (place of domicile)	**317,199**	354,845
Germany	**97,533**	95,782
Korea	**4,372**	3,602
Others	**3,830**	4,394
	422,934	458,623

There were no specified non-current assets held as of 31 December 2010 and 2009 in respect of the discontinued operation.

14. FIXED ASSETS

The Group

	Land and buildings held for own use $'000	Plant, machinery, tools and equipment $'000	Others $'000	Sub-total $'000	Investment properties $'000	Interest in leasehold land held for own use under operating leases $'000	Total $'000
Cost:							
At 1 January 2010	91,559	872,372	170,771	1,134,702	–	11,003	1,145,705
Exchange adjustments	1,923	14,380	2,642	18,945	–	255	19,200
Additions	–	40,461	7,005	47,466	–	–	47,466
Disposals	(1,038)	(71,960)	(13,338)	(86,336)	–	–	(86,336)
At 31 December 2010	92,444	855,253	167,080	1,114,777	–	11,258	1,126,035
Accumulated amortisation and depreciation:							
At 1 January 2010	25,535	620,046	135,530	781,111	–	5,355	786,466
Exchange adjustments	361	6,007	1,814	8,182	–	56	8,238
Charge for the year	2,865	80,212	12,018	95,095	–	259	95,354
Written back on disposals	(491)	(71,316)	(13,245)	(85,052)	–	–	(85,052)
At 31 December 2010	28,270	634,949	136,117	799,336	–	5,670	805,006
Net book value:							
At 31 December 2010	64,174	220,304	30,963	315,441	–	5,588	321,029

14. FIXED ASSETS (CONTINUED)

The Group (continued)

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

14. FIXED ASSETS (CONTINUED)

The Group (continued)

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

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

	2010 $'000	2009 $'000
In Hong Kong		
– medium-term leases	**7,760**	8,076
Outside Hong Kong		
– freehold	**8,242**	8,542
– medium-term leases	**53,760**	55,054
	62,002	63,596
	69,762	71,672
Representing:		
Land and buildings held for own use	**64,174**	66,024
Interest in leasehold land held for own use under operating leases	**5,588**	5,648
	69,762	71,672

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

(d) Fixed assets leased out under operating leases

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

15. INTEREST IN SUBSIDIARIES

	The Company	
	2010 $'000	2009 $'000
Unlisted shares, at cost	**101,453**	101,453
Amounts due from subsidiaries	**545,262**	539,842
	646,715	641,295

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

The amounts due from subsidiaries are unsecured, interest free and have no fixed repayment terms but the Company will not demand repayment within 12 months of the reporting date.

15. INTEREST IN SUBSIDIARIES (CONTINUED)

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

			Proportion of ownership interest			
Name of company	Place of incorporation / operation	Particulars of issued / registered capital	Group's effective interest	Held by the Company	Held by a subsidiary	Principal activities
In Achieve Investments Limited	British Virgin Islands / Hong Kong	1,000 ordinary shares of US$1 each	100%	–	100%	Holding of investment securities
Link Score Investment Limited	Hong Kong	100 ordinary shares of $1 each	100%	–	100%	Property investment and investment holding
Polysources Properties Limited	Hong Kong	2 ordinary shares of $100 each 154 non-voting deferred ordinary shares of $100 each	100%	–	100%	Property investment
Starel Trading Limited	Republic of Cyprus / United Kingdom	1,000 shares of Cyprus £1 each	100%	–	100%	Property investment
Steding Limited	British Virgin Islands / Hong Kong	1,000 ordinary shares of US$1 each	100%	–	100%	Holding of investment securities
Varitronix Limited	Hong Kong	2 ordinary shares of $1,000 each 1,848 non-voting deferred ordinary shares of $1,000 each	100%	–	100%	Design, manufacture and sale of liquid crystal displays and related products
Varitronix (B.V.I.) Limited	British Virgin Islands / Hong Kong	18,480 ordinary shares of US$1 each	100%	100%	–	Investment holding
Varitronix Finance Limited	British Virgin Islands / Hong Kong	100 ordinary shares of US$1 each	100%	–	100%	Provision of financial co-ordination services for group companies and holding of investment securities
Varitronix France SAS	France	2,500 ordinary shares of €15.25 each	100%	–	100%	Marketing and sales consultants
Varitronix GmbH	Germany	100,000 shares of €0.51 each	100%	–	100%	Marketing and sales consultants

(expressed in Hong Kong dollars unless otherwise indicated)

15. INTEREST IN SUBSIDIARIES (CONTINUED)

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

Name of company	Place of incorporation / operation	Particulars of issued / registered capital	Proportion of ownership interest: Group's effective interest	Held by the Company	Held by a subsidiary	Principal activities
# Varitronix (Heyuan) Co. Ltd.	The People's Republic of China	RMB78,910,000	90.1%	–	90.1%	Manufacture of liquid crystal displays and related products
# Varitronix (Heyuan) Display Technology Limited	The People's Republic of China	RMB389,645,743	100%	–	100%	Manufacture of liquid crystal displays and related products
Varitronix Investment Limited	British Virgin Islands / Hong Kong	5,000 ordinary shares of US$1 each	100%	–	100%	Holding of investment securities
Varitronix Italy s.r.l.	Italy	12,000 ordinary shares of €1 each	100%	–	100%	Marketing and sales consultants
Varitronix (Macao Commercial Offshore) Limited	Macau	MOP100,000	100%	–	100%	Trading of electronic components
Varitronix Manufacturing (BVI) Limited	British Virgin Islands / The People's Republic of China	100 ordinary shares of US$1 each	100%	–	100%	Subcontracting and operating production plant
Varitronix Marketing Limited	British Virgin Islands / United Kingdom	1,000 ordinary shares of US$1 each	100%	–	100%	Investment holding
Varitronix Shenzhen Linkscore Limited	The People's Republic of China	RMB500,000	100%	–	100%	Trading of electronic components
Varitronix (Switzerland) GmbH	Switzerland	CHF30,000	100%	–	100%	Marketing and sales consultants
Varitronix (U.K.) Limited	United Kingdom	100 ordinary shares of GBP10 each	100%	–	100%	Marketing and sales consultants
VL Electronics, Inc.	United States	5,000 common stock of US$10 each	100%	–	100%	Marketing and sales consultants

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

16. INTEREST IN ASSOCIATES

The Group

	2010 $'000	2009 $'000
Share of net assets	**100,684**	98,205
Amount due from an associate	**1,221**	1,179
	101,905	99,384

The amount due from an associate is unsecured, interest free and has no fixed repayment terms but the Group will not seek repayment within 12 months of the reporting date.

(a) Particulars of the associates

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

Name of associate	Place of incorporation and operation	Particulars of issued / registered capital	Attributable indirect equity interest % held	Principal activity
New On Technology Company Limited	Korea	40,000 ordinary shares of KRW5,000 each	50%	Trading of electronic components
Data Modul AG* ("Data Modul")	Germany	3,526,182 ordinary shares of Euro 1 each	20%	Manufacturing of complete flat display monitors in liquid crystal displays and plasma technology for the industrial and professional areas

* Data Modul's shares are listed on the Frankfurt Stock Exchange. The market price of Data Modul's shares as at 31 December 2010 was Euro 13.25 (2009: Euro 8.65) per share. The market value of the Group's effective interest in Data Modul as at 31 December 2010 is Euro 9,344,000 (2009: Euro 5,546,000) (equivalent to $97,088,000 (2009: $61,779,000)).

(b) Summary financial information on associates

	Assets $'000	Liabilities $'000	Equity $'000	Revenues $'000	Profits / (losses) $'000
2010					
100 percent	**825,862**	**(331,895)**	**493,967**	**1,263,844**	**9,127**
Group's effective interest	**167,751**	**(67,067)**	**100,684**	**261,437**	**2,210**
2009					
100 percent	800,347	(316,591)	483,756	1,098,580	(112,885)
Group's effective interest	162,668	(64,463)	98,205	228,502	(21,809)

17. LOANS RECEIVABLE

Loans receivable represent loans which are unsecured, bear interest at rates ranging from 4% to 12% per annum and are fully repayable within two years after 2010. Management considers that these loans are recoverable in full.

The loans receivable are repayable as follows:

	The Group		The Company	
	2010 $'000	2009 $'000	2010 $'000	2009 $'000
Within 1 year *	**21,689**	39,098	**–**	–
After 1 year but within 5 years	**70,201**	123,055	**70,201**	64,371
	91,890	162,153	**70,201**	64,371

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

18. OTHER NON-CURRENT FINANCIAL ASSETS

	The Group		The Company	
	2010 $'000	2009 $'000	2010 $'000	2009 $'000
Available-for-sale debt securities				
Listed outside Hong Kong	**9,068**	8,727	**–**	–
Unlisted, carried at fair value	**7,152**	6,085	**–**	–
	16,220	14,812	**–**	–
Available-for-sale equity securities				
Listed				
– in Hong Kong	**13,517**	7,880	**–**	–
– outside Hong Kong	**–**	5,127	**–**	–
Unlisted, carried at cost	**156,346**	154,979	**154,979**	154,979
	169,863	167,986	**154,979**	154,979
Total available-for-sale securities	**186,083**	182,798	**154,979**	154,979

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

	The Group		The Company	
	2010 $'000	2009 $'000	2010 $'000	2009 $'000
At 1 January	**182,798**	176,358	**154,979**	154,979
Additions	**1,365**	593	**–**	–
Disposals	**(2,766)**	(5,812)	**–**	–
Revaluation surplus	**4,686**	11,659	**–**	–
Total	**186,083**	182,798	**154,979**	154,979

19. TRADING SECURITIES (AT FAIR VALUE)

	The Group 2010 $'000	2009 $'000
Listed debt securities at fair value		
– outside Hong Kong	**3,424**	2,732
Listed equity securities at fair value		
– in Hong Kong	**143,129**	141,881
– outside Hong Kong	**86,303**	–
	229,432	141,881
Total	**232,856**	144,613

20. INVENTORIES

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

	The Group 2010 $'000	2009 $'000
Raw materials	**117,118**	135,075
Work in progress	**73,988**	71,322
Finished goods	**94,668**	70,164
Continuing operations	**285,774**	276,561
Assets of a discontinued operation (note 23)	**–**	3,690
	285,774	280,251

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

	The Group 2010 $'000	2009 $'000
Continuing operations		
Carrying amount of inventories sold	**1,777,286**	1,520,559
Write down of inventories	**24,851**	6,494
Reversal of write down of inventories	**(4,270)**	(7,162)
	1,797,867	1,519,891
Discontinued operation		
Carrying amount of inventories sold	**–**	223,278
Write down of inventories	**–**	150,867
	–	374,145
	1,797,867	1,894,036

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

21. TRADE AND OTHER RECEIVABLES

	The Group		The Company	
	2010	2009	**2010**	2009
	$'000	$'000	**$'000**	$'000
Trade debtors and bills receivable	**408,033**	439,186	**–**	–
Less: Allowance for doubtful debts	**(681)**	(780)	**–**	–
Allowance for sales returns	**(2,527)**	(3,234)	**–**	–
	404,825	435,172	**–**	–
Other receivables	**37,945**	34,057	**419**	760
	442,770	469,229	**419**	760
Loans receivable (note 17)	**21,689**	39,098	**–**	–
	464,459	508,327	**419**	760
Derivative financial instruments (note 26)	**–**	133	**–**	–
Deposits and prepayments	**7,286**	4,041	**336**	338
Continuing operations	**471,745**	512,501	**755**	1,098

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

(a) Ageing analysis

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

	The Group	
	2010	2009
	$'000	$'000
Within 60 days of the invoice issue date	**335,062**	320,340
61 to 90 days after the invoice issue date	**40,903**	88,541
91 to 120 days after the invoice issue date	**19,024**	21,752
More than 120 days but less than 12 months after the invoice issue date	**9,836**	4,478
More than 12 months after the invoice issue date	**–**	61
	404,825	435,172

Trade debtors and bills receivable are due within 60 days from the date of billing. Further details on the Group's credit policy are set out in note 30(a).

21. TRADE AND OTHER RECEIVABLES (CONTINUED)

(b) Impairment of trade debtors and bills receivable

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

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

	The Group 2010 $'000	2009 $'000
At 1 January	**780**	943
Impairment loss reversed	**(99)**	(163)
At 31 December	**681**	780

The movement in the allowance for sales returns during the year, including both specific and collective estimation of sales returns, is as follows:

	The Group 2010 $'000	2009 $'000
At 1 January	**3,234**	4,582
Sales returns provision reversed	**(707)**	(1,348)
At 31 December	**2,527**	3,234

At 31 December 2010, the Group's and the Company's trade debtors and bills receivable of $700,000 (2009: $5,724,000) and $Nil (2009: $Nil) respectively were individually determined to be impaired. The individually impaired receivables related to customers that were in financial difficulties and management assessed that only a portion of the receivables is expected to be recovered. Consequently, specific and general allowances for doubtful debts of $681,000 (2009: $780,000) and $Nil (2009: $Nil) respectively were recognised. The Group does not hold any collateral over these balances.

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

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

	The Group 2010 $'000	2009 $'000
Neither past due nor impaired	**336,104**	320,340
Less than 1 month	**41,001**	88,296
1 to 2 months	**19,250**	20,947
More than 2 months but less than 12 months	**10,978**	3,818
More than 12 months	**–**	61
	71,229	113,122
	407,333	433,462

Receivables that were neither past due nor impaired relate to a wide range of 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, management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral over these balances.

22. CASH AND CASH EQUIVALENTS

(a) Cash and cash equivalents comprise:

	The Group 2010 $'000	2009 $'000	The Company 2010 $'000	2009 $'000
Deposits with banks and other financial institutions	**130,150**	129,223	**–**	–
Cash at bank and in hand	**301,181**	251,490	**1,600**	1,227
Cash and cash equivalents in the statement of financial position and consolidated cash flow statement	**431,331**	380,713	**1,600**	1,227
Assets of a discontinued operation (note 23)	**–**	15,511		
	431,331	396,224		

22. CASH AND CASH EQUIVALENTS (CONTINUED)

(b) Reconciliation of profit / (loss) before taxation to cash generated from / (used in) operations:

	Note	2010 $'000	2009 $'000
Operating activities			
Profit / (loss) before taxation from			
– continuing operations		**266,782**	27,932
– discontinued operation	9(a)	**(9,652)**	(285,441)
		257,130	(257,509)
Adjustments for:			
Depreciation		**95,354**	87,699
Impairment loss / (written-back) in respect of inventories	5(b)	**20,581**	(668)
Impairment of a discontinued operation		**–**	255,030
Finance costs	5(a)	**3,358**	4,230
Dividend income from investments	4	**(626)**	(9,178)
Interest income		**(9,899)**	(15,580)
Reclassification from equity on disposal of available-for-sale securities	4	**(2,618)**	(78)
Realised and unrealised gains on trading securities	4	**(84,561)**	(38,387)
Unrealised gains on derivative financial instruments	4	**(86)**	(15,249)
Share of (profit) / losses of associates		**(2,210)**	21,809
(Gain) / loss on disposal of fixed assets	4	**(2,152)**	12,098
Net loss on disposal of subsidiaries	4	**1,215**	18,504
Equity-settled share-based payment expenses	5(c)	**2,543**	–
Foreign exchange loss / (gain)		**3,122**	(1,680)
Operating profit before changes in working capital		**281,151**	61,041
Increase in inventories		**(30,525)**	(53,717)
Decrease / (increase) in trade and other receivables		**13,529**	(112,779)
(Decrease) / increase in trade and other payables		**(132)**	79,379
Decrease / (increase) in assets of a discontinued operation		**23,623**	(31,704)
(Decrease) / increase in liabilities relating to a discontinued operation		**(163,307)**	35,383
		124,339	(22,397)

23. ASSETS AND LIABILITIES OF A DISCONTINUED OPERATION

The carrying amount of major classes of assets and liabilities classified as assets of a discontinued operation are analysed as follows:

	Note	The Group 2010 $'000	2009 $'000
Assets of a discontinued operation			
Inventories	20	–	3,690
Restricted cash at bank		–	3,694
Cash and cash equivalents	22	–	15,511
		–	22,895
Liabilities relating to a discontinued operation			
Trade and other payables	25	–	95,830
Bank loans	24	–	61,941
		–	157,771

On 30 December 2009, the Group passed a written resolution to proceed with a voluntary winding-up of a wholly-owned subsidiary, Varitronix Marketing (China) Limited, which in turn held a 99% equity interest in Varitronix Pengyuan Electronics Limited. Varitronix Pengyuan Electronics Limited was engaged in the design, manufacture and sale of TFT-LCDs for the mobile phone market in the PRC (see note 9). The assets and liabilities attributable to these subsidiaries were classified as a discontinued operation and were presented separately in the consolidated statement of financial position as at 31 December 2009.

24. BANK LOANS

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

	The Group 2010 $'000	2009 $'000
Within 1 year or on demand	**177,842**	218,955
After 1 year but within 2 years	–	37,000
	–	37,000
Continuing operations	**177,842**	255,955
Liabilities relating to a discontinued operation (note 23)	–	61,941
	177,842	317,896

All of the Group's banking facilities are subject to the fulfilment of covenants relating to the Groups statement of financial position ratios which are commonly found in lending arrangements with financial institutions. In the event that the Group breaches the covenants, the drawn down facilities would become payable on demand. The Group regularly monitors its compliance with these covenants. Further details of the Group's management of liquidity risk are set out in note 30(b). As at 31 December 2010, none of the covenants relating to drawn down facilities had been breached.

As at 31 December 2009, the Group had breached covenants relating to one of the drawn down facilities. Such facility, which amounted to $201,180,000, was utilised to the extent of $120,355,000. Included in the amount utilised was $51,229,000 which, in accordance with the terms of the banking facilities, was scheduled to be repaid after twelve months from the end of the reporting period but was classified within current liabilities in the consolidated statement of financial position as the Group did not have an unconditional right, at the end of the reporting period, to defer settlement for at least the next twelve months as a result of the breach of the covenants. Subsequent to 31 December 2009, the Group received a waiver from compliance with the covenants from the lender concerned.

25. TRADE AND OTHER PAYABLES

	The Group 2010 $'000	The Group 2009 $'000	The Company 2010 $'000	The Company 2009 $'000
Trade and other creditors	**326,738**	442,830	**–**	–
Fixed assets payable	**35,368**	27,616	**–**	–
Accrued charges	**84,493**	48,422	**9,296**	2,329
Liabilities recognised in respect of a discontinued operation (note 9)	**82,953**	–	**–**	–
Derivative financial instruments (note 26)	**–**	200	**–**	–
Continuing operations	**529,552**	519,068	**9,296**	2,329
Liabilities relating to a discontinued operation (note 23)	**–**	95,830		
	529,552	614,898		

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

Included in trade and other payables are trade creditors and bills payable with the following ageing analysis as of the end of the reporting period:

	The Group 2010 $'000	The Group 2009 $'000
Within 60 days of supplier invoice date	**238,082**	308,524
61 to 120 days after supplier invoice date	**69,104**	125,181
More than 120 days but within 12 months after supplier invoice date	**19,216**	8,945
More than 12 months after supplier invoice date	**336**	180
	326,738	442,830

26. DERIVATIVE FINANCIAL INSTRUMENTS

	The Group 2010 $'000	The Group 2009 $'000
Derivative financial instruments used for hedging:		
Interest rate swaps	**–**	(86)
Foreign exchange forward contracts	**–**	19
	–	(67)
Represented by:		
Derivative financial instruments assets (note 21)	**–**	133
Derivative financial instruments liabilities (note 25)	**–**	(200)
	–	(67)

27. INCOME TAX IN THE STATEMENT OF FINANCIAL POSITION

(a) Current taxation in the statement of financial position represents:

	The Group 2010 $'000	2009 $'000
Provision for Hong Kong Profits Tax for the year	**16,882**	3,089
Provisional Hong Kong Profits Tax paid	**(4)**	(4,501)
	16,878	(1,412)
Balance of Hong Kong Profits Tax relating to prior years	**12,678**	2,768
Overseas taxation	**1,301**	(784)
	30,857	572
Current taxation recoverable	**(1,224)**	(1,285)
Current taxation payable	**32,081**	1,857
Continuing operations	**30,857**	572

(b) Deferred tax assets and liabilities recognised:

The Group

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

	Depreciation allowances in excess of the related depreciation $'000	Provisions $'000	Unremitted earnings of subsidiaries $'000	Total $'000
At 1 January 2009	1,699	(6,517)	–	(4,818)
(Credited) / charged to profit or loss (note 8(a))	(1,486)	6,388	–	4,902
At 31 December 2009	213	(129)	–	84
At 1 January 2010	**213**	**(129)**	**–**	**84**
(Credited) / charged to profit or loss (note 8(a))	**(235)**	**16**	**3,045**	**2,826**
At 31 December 2010	**(22)**	**(113)**	**3,045**	**2,910**

The reconciliation to the statement of financial position is as follows:

	2010 $'000	2009 $'000
Net deferred tax assets recognised in the statement of financial position	**(213)**	(2,198)
Net deferred tax liabilities recognised in the statement of financial position	**3,123**	2,282
	2,910	84

27. INCOME TAX IN THE STATEMENT OF FINANCIAL POSITION (CONTINUED)

(c) Deferred tax assets not recognised

Continuing operations

In accordance with the accounting policy set out in note 1(t), the Group has not recognised deferred tax assets in respect of cumulative tax losses of $21,283,000 (2009: $13,539,000) as it is not probable that future taxable profits against which the losses can be utilised will be available in the relevant tax jurisdictions and entities for the foreseeable future. None of the tax losses expire under current tax legislation.

Discontinued operation

In accordance with the accounting policy set out in note 1(t), the Group had not recognised deferred tax assets in respect of cumulative tax losses of $322,222,000 as at 31 December 2009 of a discontinued operation. As explained in note 9 the entities related to the discontinued operation were deconsolidated during the year.

28. EQUITY SETTLED SHARE-BASED TRANSACTIONS

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

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

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

On 24 June 2010, the Company granted 11,700,000 share options to the Current Participants under the third Share Option Scheme. Each share option entitles the holder to subscribe for one share of $0.25 of the Company at an exercise price of $2.50. The contractual life of these share options is the period from the date on which an option certificate is issued after acceptance by the grantees and expiring on 30 June 2016. Among the 11,700,000 share options granted, 7,000,000 share options were granted to the directors of the Company. Further details are set out in the Company's announcement dated 24 June 2010.

28. EQUITY SETTLED SHARE-BASED TRANSACTIONS (CONTINUED)

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

	Number of options	Vesting conditions	Contractual life of options
Options granted to directors:			
– 22 July 2005	3,000,000	Immediate from the date of grant	10 years
– 19 December 2005	6,000,000	Immediate from the date of grant	10 years
– 24 June 2010	7,000,000	Exercisable in five equal tranches immediately from 1 July of each year from 2011 to 2015	Expire at the close of business on 30 June 2016
Options granted to employees:			
– 1 June 2000	214,000	One month from the date of grant	10 years
– August 2001	96,500	Immediate from the date of grant	10 years
– September 2002	99,000	Immediate from the date of grant	10 years
– October 2003	126,000	Immediate from the date of grant	10 years
– December 2004	1,697,000	Immediate from the date of grant	10 years
– 24 June 2010	4,700,000	Exercisable in five equal tranches immediately from 1 July of each year from 2011 to 2015	Expire at the close of business on 30 June 2016
Others:			
– 30 October 2002	1,000,000	One day from the date of grant	10 years
– 21 December 2004	300,000	Immediate from the date of grant	10 years
– 19 December 2005	3,000,000	Immediate from the date of grant	10 years

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

	2010 Weighted average exercise price	**2010** Number of options	2009 Weighted average exercise price	2009 Number of options
Outstanding at the beginning of the year	**$6.114**	**15,532,500**	$6.181	16,044,250
Forfeited during the year	**$11.300**	**(214,000)**	$8.223	(511,750)
Granted during the year	**$2.500**	**11,700,000**		–
Outstanding at the end of the year	**$4.508**	**27,018,500**	$6.114	15,532,500
Exercisable at the end of the year		**15,318,500**		15,532,500

Except for the forfeitures as disclosed above, no share options were exercised or lapsed during the years ended 31 December 2010 and 2009.

The options outstanding at 31 December 2010 had an exercise price which ranged from $2.50 to $7.50 (2009: $3.06 to $11.30) and a weighted average remaining contractual life of 4.94 years (2009: 4.28 years)

28. EQUITY SETTLED SHARE-BASED TRANSACTIONS (CONTINUED)

(c) Fair value of share options and assumptions

The fair value of services received in return for share options granted is measured by reference to the fair value of share options granted. The estimate of the fair value of the share options granted is measured based on the Black-Scholes pricing model. The contractual life of the share option and expectations of early exercise are incorporated into the Black-Scholes pricing model.

	2010
Fair value of and assumptions for share options granted during the year ended 31 December	
Fair value at measurement date	**$0.94**
Share price	**$2.50**
Exercise price	**$2.50**
Weighted average volatility	**43.89% – 50.29%**
Weighted average share option life	**3.52 – 5.52 years**
Expected dividends	**0.8%**
Risk-free interest rate (based on Exchange Fund Notes)	**1.30% – 1.80%**

The expected volatility is based on the historic volatility (calculated based on the weighted average remaining life of the share options), adjusted for any expected changes to future volatility based on publicly available information. Expected dividends are based on historical dividends. Changes in the subjective input assumptions could materially affect the fair value estimate.

Share options were granted under a service condition. This condition has not been taken into account in the grant date fair value measurement of the services received. There were no market conditions associated with the share option grants.

29. CAPITAL, RESERVES AND DIVIDENDS

(a) Movements in components of equity

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

	Note	Share capital $'000	Share premium (note 29(d)(i)) $'000	Contributed surplus (note 29(d)(ii)) $'000	Capital reserve (note 29(d)(v)) $'000	Retained profits $'000	Total $'000
Balance at 1 January 2009		80,856	695,336	51,636	11,373	18,488	857,689
Changes in equity for 2009:							
Final dividends approved in respect of the previous year	29(b)(ii)	–	–	–	–	(3,234)	(3,234)
Total comprehensive income for the year	10	–	–	–	–	9,420	9,420
Interim dividend declared in respect of the current year	29(b)(i)	–	–	–	–	(3,234)	(3,234)
Balance at 31 December 2009		80,856	695,336	51,636	11,373	21,440	860,641

29. CAPITAL, RESERVES AND DIVIDENDS (CONTINUED)

(a) Movements in components of equity (continued)

	Note	Share capital $'000	Share premium (note 29(d)(i)) $'000	Contributed surplus (note 29(d)(ii)) $'000	Capital reserve (note 29(d)(v)) $'000	Retained profits $'000	Total $'000
Balance at 1 January 2010		80,856	695,336	51,636	11,373	21,440	860,641
Changes in equity for 2010:							
Final dividends approved in respect of the previous year	29(b)(ii)	–	–	–	–	(3,234)	(3,234)
Total comprehensive income for the year	10	–	–	–	–	22,792	22,792
Equity settled share-based transactions		–	–	–	2,543	–	2,543
Interim dividend declared in respect of the current year	29(b)(i)	–	–	–	–	(17,788)	(17,788)
At 31 December 2010		80,856	695,336	51,636	13,916	23,210	864,954

(b) Dividends

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

	2010 $'000	2009 $'000
Interim dividend declared and paid of 5.5 cents (2009: 1.0 cent) per share	17,788	3,234
Final dividend proposed after the end of reporting period date of 21.0 cents (2009: 1.0 cent) per share	67,919	3,234
	85,707	6,468

The final dividend proposed after the end of the reporting period has not been recognised as a liability at the end of the reporting period.

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

	2010 $'000	2009 $'000
Final dividend in respect of the previous financial year, approved and paid during the year, of 1.0 cent (2009: 1.0 cent) per share	3,234	3,234

(c) Share capital

(i) Authorised and issued share capital

	2010 No. of shares '000	2010 Amount $'000	2009 No. of shares '000	2009 Amount $'000
Authorised:				
Ordinary shares of $0.25 each	400,000	100,000	400,000	100,000
Ordinary shares, issued and fully paid:				
At 1 January and at 31 December	323,422	80,856	323,422	80,856

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

(expressed in Hong Kong dollars unless otherwise indicated)

29. CAPITAL, RESERVES AND DIVIDENDS (CONTINUED)

(c) Share capital (continued)

(ii) Terms of unexpired and unexercised share options at the end of the reporting period

Exercise period	Exercise price HK$	2010 Number	2009 Number
1 July 2000 to 30 June 2010	11.300	**–**	214,000
30 August 2001 to 29 August 2011	3.060	**96,500**	96,500
13 September 2002 to 12 September 2012	3.905	**99,000**	99,000
30 October 2002 to 29 October 2012	4.605	**1,000,000**	1,000,000
6 October 2003 to 5 October 2013	7.350	**126,000**	126,000
20 December 2004 to 19 December 2014	7.500	**1,697,000**	1,697,000
21 December 2004 to 20 December 2014	7.450	**300,000**	300,000
22 July 2005 to 21 July 2015	6.600	**3,000,000**	3,000,000
19 December 2005 to 18 December 2015	5.730	**9,000,000**	9,000,000
1 July 2011 to 30 June 2016	2.500	**11,700,000**	–
		27,018,500	15,532,500

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

(d) Nature and purpose of reserves

(i) Share premium

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

(ii) Contributed surplus

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

(iii) Exchange reserve

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

(iv) Fair value reserve

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

(v) Capital reserve

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

(vi) Other reserves

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

(vii) Distributability of reserves

At 31 December 2010, the aggregate amount of reserves available for distribution to shareholders of the Company was $74,846,000 (2009: $73,076,000).

(e) Capital management

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

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

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

During 2010, the Group's strategy, which was unchanged from 2009, was to maintain a stable net debt-to-adjusted capital ratio. 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.

29. CAPITAL, RESERVES AND DIVIDENDS (CONTINUED)

(e) Capital management (continued)

The adjusted net debt-to-capital ratio at 31 December 2010 and 2009 was as follows:

	Note	The Group 2010 $'000	2009 $'000
Current liabilities			
Trade and other payables	25	**529,552**	519,068
Bank loans	24	**177,842**	218,955
		707,394	738,023
Non-current liabilities			
Other payables		**3,186**	4,104
Bank loans	24	**–**	37,000
Total debt		**710,580**	779,127
Add: Proposed dividends		**67,919**	3,234
Less: Trading securities	19	**(232,856)**	(144,613)
Cash and cash equivalents	22	**(431,331)**	(380,713)
Net debt		**114,312**	257,035
Total equity		**1,356,577**	1,164,205
Less: Proposed dividends		**(67,919)**	(3,234)
Adjusted capital		**1,288,658**	1,160,971
Adjusted net debt-to-capital ratio		**9%**	22%

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

30. FINANCIAL RISK MANAGEMENT AND FAIR VALUES

Exposure to credit, liquidity, interest rate and currency risks arises in the normal course of the Group's business. The Group is also exposed to equity price risk arising from its equity investments in other entities.

The Group's exposure to these risks and the financial risk management policies and practices used by the Group to manage these risks are described below.

(a) Credit risk

The Group's credit risk is primarily attributable to trade and other receivables and loans receivable. Management has a credit policy in place and exposures to these credit risks are monitored on an ongoing basis.

Investments are normally only in liquid securities quoted on a recognised stock exchange, except where entered into for long term strategic purposes. Transactions involving derivative financial instruments are with counterparties of sound credit standing and with whom the Group has a signed netting agreement. Given their high credit standing, management does not expect any investment counterparty to fail to meet its obligations.

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

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each debtor rather than the industry or country in which the customers operate and therefore significant concentrations of credit risk primarily arise when the Group has significant exposure to individual customers. At the end of the reporting period, 10% (2009: 28%) and 17% (2009: 35%) of the total trade and other receivables were due from the Group's largest customer and the five largest customers respectively.

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

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

(b) Liquidity risk

Individual operating entities within the Group are responsible for their own cash management, including the short term investment of cash surpluses and the raising of loans to cover expected cash demands, subject to approval by the parent company's board when the borrowings exceed certain predetermined levels of authority. The Group's policy is to regularly monitor its liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash and cash equivalents and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

The following tables show the remaining contractual maturities at the end of reporting period of the Group's and the Company's non-derivative financial liabilities and derivative financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates currently applicable at the end of reporting period) and the earliest date that the Group and the Company can be required to pay:

30. FINANCIAL RISK MANAGEMENT AND FAIR VALUES

(b) Liquidity risk (continued)

The Group

	2010 Contractual undiscounted cash outflow					2009 Contractual undiscounted cash outflow				
	Within 1 year or on demand $'000	More than 1 year but less than 2 years $'000	More than 2 years but less than 5 years $'000	Total $'000	Carrying amount at 31 December $'000	Within 1 year or on demand $'000	More than 1 year but less than 2 years $'000	More than 2 years but less than 5 years $'000	Total $'000	Carrying amount at 31 December $'000
Non-derivative liabilities:										
Bank loans	178,043	–	–	178,043	177,842	219,968	37,261	–	257,229	255,955
Trade and other payables	529,552	1,062	2,124	532,738	532,738	518,868	1,026	3,078	522,972	522,972
	707,595	1,062	2,124	710,781	710,580	738,836	38,287	3,078	780,201	778,927

	2010 Contractual undiscounted cash inflow/(outflow)				2009 Contractual undiscounted cash inflow/(outflow)			
	Within 1 year or on demand $'000	More than 1 year but less than 2 years $'000	More than 2 years but less than 5 years $'000	Total $'000	Within 1 year or on demand $'000	More than 1 year but less than 2 years $'000	More than 2 years but less than 5 years $'000	Total $'000
Derivative liabilities settled net:								
– Forward foreign exchange contracts	–	–	–	–	200	–	–	200

30. FINANCIAL RISK MANAGEMENT AND FAIR VALUES (CONTINUED)

(b) Liquidity risk (continued)

The Company

	2010 Contractual undiscounted cash outflow					2009 Contractual undiscounted cash outflow				
	Within 1 year or on demand $'000	More than 1 year but less than 2 years $'000	More than 2 years but less than 5 years $'000	Total $'000	Carrying amount at 31 December $'000	Within 1 year or on demand $'000	More than 1 year but less than 2 years $'000	More than 2 years but less than 5 years $'000	Total $'000	Carrying amount at 31 December $'000
Trade and other payables	**9,296**	**–**	**–**	**9,296**	**9,296**	2,329	–	–	2,329	2,329
Financial guarantees issued:										
Maximum amount guaranteed (note 32)	**178,043**	**–**	**–**	**178,043**	**177,842**	234,481	88,980	–	323,461	319,996

(c) Interest rate risk

The Group's interest rate risk arises primarily from bank borrowings issued at variable rates which expose the Group to cash flow interest rate risk. Loans receivable of $91,890,000 (2009: $162,153,000) bear interest at fixed rates and are carried at amortised cost. Accordingly, they do not expose the Group to cash flow interest rate risk on their interest income or fair value interest rate risk on their carrying amount. The Group regularly reviews its strategy on interest rate risk management in light of prevailing market conditions.

(i) Interest rate profile

The following table details the interest rate profile of the Group's borrowings at the end of the reporting period:

	The Group 2010 Effective interest rate %	$'000	2009 Effective interest rate %	$'000
Variable rate borrowings:				
Bank loans	**1.44**	**177,842**	1.53	255,955

(ii) Sensitivity analysis

At 31 December 2010, it is estimated that a general increase / decrease of 100 basis points in interest rates, with all other variables held constant, would have decreased / increased the Group's profit after taxation and its retained profits by approximately $1,485,000 (2009: increased / decreased loss after taxation and decreased / increased its retained profits by approximately $2,137,000). Other components of equity would not have been affected (2009: $Nil) by the changes in interest rates.

The sensitivity analysis above has been determined assuming that the change in interest rates had occurred at the end of the reporting period and had been applied to the exposure to interest rate risk for financial instruments held by the Group. The impact on the Group's profit after taxation (and retained profits) and other components of consolidated equity is estimated as an annualised impact on interest expense of such a change in interest rates. The analysis has been performed on the same basis for 2009.

30. FINANCIAL RISK MANAGEMENT AND FAIR VALUES (CONTINUED)

(d) Currency risk

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

(i) Exposure to currency risk

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

	2010 Exposure to foreign currencies (expressed in Hong Kong dollars)						2009 Exposure to foreign currencies (expressed in Hong Kong dollars)					
	United States Dollars $'000	Euros $'000	Japanese Yen $'000	Renminbi $'000	Korean Won $'000	British Pounds $'000	United States Dollars $'000	Euros $'000	Japanese Yen $'000	Renminbi $'000	Korean Won $'000	British Pounds $'000
The Group												
Trade and other receivables	308,418	16,431	-	-	-	-	363,299	21,030	–	–	403	–
Loans receivable	21,689	-	-	-	70,201	-	97,782	–	–	–	64,371	–
Cash and cash equivalents	231,197	24,313	6	327	-	974	228,322	14,715	4	614	–	17,334
Trade and other payables	(160,396)	(239)	(42,567)	(82,955)	-	-	(237,639)	(551)	(66,205)	(11,715)	–	–
Bank loans	(76,956)	-	(30,552)	-	-	-	(95,037)	–	(8,251)	–	–	–
	323,952	40,505	(73,113)	(82,628)	70,201	974	356,727	35,194	(74,452)	(11,101)	64,774	17,334
The Company												
Trade and other receivables	419	-	-	-	-	-	–	–	–	–	403	–
Cash and cash equivalents	1,517	-	-	-	-	-	1,211	–	–	–	–	–
Loans receivable	-	-	-	-	70,201	-	–	–	–	–	64,371	–
	1,936	-	-	-	70,201	-	1,211	–	–	–	64,774	–

30. FINANCIAL RISK MANAGEMENT AND FAIR VALUES (CONTINUED)

(d) Currency risk (continued)

(ii) Sensitivity analysis

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

	2010			2009		
	Increase / (decrease) in foreign exchange rates	**Effect on profit after taxation $'000**	**Effect on retained profits $'000**	Increase / (decrease) in foreign exchange rates	Effect on loss after taxation $'000	Effect on retained profits $'000
The Group						
Euros	**10%**	**3,783**	**3,783**	10%	(3,182)	3,182
	(10)%	**(3,783)**	**(3,783)**	(10)%	3,182	(3,182)
Japanese Yen	**10%**	**(6,609)**	**(6,609)**	10%	6,353	(6,353)
	(10)%	**6,609**	**6,609**	(10)%	(6,353)	6,353
Renminbi	**10%**	**8,262**	**8,262**	10%	1,001	(1,001)
	(10)%	**(8,262)**	**(8,262)**	(10)%	(1,001)	1,001
Korean Won	**10%**	**7,020**	**7,020**	10%	(6,470)	6,470
	(10)%	**(7,020)**	**(7,020)**	(10)%	6,470	(6,470)
British Pounds	**10%**	**97**	**97**	10%	(1,733)	1,733
	(10)%	**(97)**	**(97)**	(10)%	1,733	(1,733)

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

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

30. FINANCIAL RISK MANAGEMENT AND FAIR VALUES (CONTINUED)

(e) Equity price risk

The Group is exposed to equity price changes arising from equity investments classified as trading securities (see note 19) and available-for-sale securities (see note 18). Other than unquoted securities held for strategic purposes, all of these investments are listed.

Decisions to buy or sell trading securities are based on daily monitoring of the performance of individual securities compared to that of the relevant stock indexes and other industry indicators, as well as the Group's liquidity needs. Listed investments held in the available-for-sale portfolio have been chosen based on their longer term growth potential and are monitored regularly for performance against expectations.

All of the Group's unquoted investments are held for long term strategic purposes. Their performance is assessed at least bi-annually against performance of similar listed entities, based on the limited information available to the Group, together with an assessment of their relevance to the Group's long term strategic plans.

With regards to securities held as trading securities, as at 31 December 2010 it is estimated that an increase / decrease of 3% in the relevant stock market index (for listed investments) with all other variables held constant would have increased / decreased the Group's profit after taxation and retained profits by approximately $5,978,000 (2009: decreased / increased the Group's loss after taxation and increased / decreased retained profits by approximately $1,815,000).

The sensitivity analysis indicates the instantaneous change in the Group's profit / (loss) after taxation (and retained profits) and other components of consolidated equity that would arise assuming that the changes in the stock market index or other relevant risk variables had occurred at the end of the reporting period and had been applied to re-measure those financial instruments held by the Group which expose the Group to equity price risk at the end of the reporting period. It is also assumed that the fair values of the Group's equity investments would change in accordance with the historical correlation with the relevant stock market index or the relevant risk variables, that none of the Group's available-for-sale investments would be considered impaired as a result of the decrease in the relevant stock market index or other relevant risk variables, and that all other variables remain constant.

The analysis has been performed on the same basis for 2009.

(f) Fair values

Financial instruments carried at fair value

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

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

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

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

30. FINANCIAL RISK MANAGEMENT AND FAIR VALUES (CONTINUED)

(f) Fair values (continued)

***Financial instruments carried at fair value** (continued)*

	The Group Level 1 $'000	Level 2 $'000	Total $'000
2010			
Assets			
Available-for-sale debt securities:			
– Listed	9,068	–	9,068
– Unlisted	–	7,152	7,152
Available-for-sale equity securities:			
– Listed	13,517	–	13,517
Trading securities	232,856	–	232,856
	255,441	7,152	262,593
2009			
Assets			
Available-for-sale debt securities:			
– Listed	8,727	–	8,727
– Unlisted	–	6,085	6,085
Available-for-sale equity securities:			
– Listed	13,007	–	13,007
Trading securities	144,613	–	144,613
Derivative financial instruments:			
– Interest rate swaps	–	112	112
– Forward exchange contracts	–	21	21
	166,347	6,218	172,565
Liabilities			
Derivative financial instruments:			
– Interest rate swaps	–	(198)	(198)
– Forward exchange contracts	–	(2)	(2)
	–	(200)	(200)

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

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

30. FINANCIAL RISK MANAGEMENT AND FAIR VALUES (CONTINUED)

(f) Fair values (continued)

Fair values of financial instruments carried at other than fair value

The carrying amounts of the Group's and the Company's financial instruments carried at cost or amortised cost are not materially different from their fair values as at 31 December 2010 and 2009 except as follows:

	2010		2009	
	Carrying amount $'000	**Fair value $'000**	Carrying amount $'000	Fair value $'000
The Group				
Loans receivable	**91,890**	**90,922**	162,153	159,578
Unlisted available-for-sale equity securities, carried at cost*	**156,346**	*****	154,979	*
The Company				
Loans receivable	**70,201**	**69,586**	64,371	63,712
Unlisted available-for-sale equity securities, carried at cost*	**154,979**	*****	154,979	*

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

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

(g) Estimation of fair values

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

(i) Securities

Fair value is based on quoted market prices at the end of the reporting period without any deduction for transaction costs.

(ii) Interest-bearing loans and borrowings

The fair value is estimated as the present value of future cash flows, discounted at current market interest rates for similar financial instruments.

(iii) Financial guarantees

The fair value of financial guarantees issued is determined by reference to fees charged in an arm's length transaction for similar services, when such information is obtainable, or is otherwise estimated by reference to interest rate differentials, by comparing the actual rates charged by lenders when the guarantee is made available with the estimated rates that lenders would have charged, had the guarantees not been available, where reliable estimates of such information can be made.

31. COMMITMENTS

(a) Capital commitments outstanding at the end of the reporting period not provided for in the financial statements were as follows:

	The Group	
	2010	2009
	$'000	$'000
Contracted for	**7,996**	3,026
Authorised but not contracted for	**95**	233
	8,091	3,259

(b) At 31 December 2010, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	The Group	
	2010	2009
	$'000	$'000
Within 1 year	**2,877**	3,046
After 1 year but within 5 years	**1,787**	4,363
	4,664	7,409

All operating leases are for properties. The leases typically run for an initial period of 1 to 4 years, with an option to renew the leases when all terms are renegotiated. Lease payments are usually increased every year to reflect market rentals. None of the leases includes contingent rentals

32. CONTINGENT LIABILITIES

Financial guarantees issued

As at the end of the reporting period, the Company has issued guarantees to banks in respect of banking facilities granted to certain subsidiaries.

As at the end of the reporting period, the directors do not consider it probable that a claim will be made against the Company under any of the guarantees. The maximum liability of the Company at the end of the reporting period under the guarantees issued and the facilities drawn down by the subsidiaries is $177,842,000 (2009: $319,996,000).

The Company has not recognised any deferred income in respect of the guarantees as their fair value cannot be reliably measured using observable market data.

33. MATERIAL RELATED PARTY TRANSACTIONS

(a) Key management personnel remuneration

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

(b) Recurring transactions

During the year, the Group sold goods amounting to US$9,118,000 (2009: US$7,124,000) (equivalent to $70,855,000 (2009: $55,216,000)) to Data Modul AG, an associate of the Group. The directors of the Company are of the opinion that this related party transaction was conducted on normal commercial terms with reference to prevailing market prices, and in the ordinary course of business.

(c) Acquisition of non-controlling interest in a subsidiary

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

34. ACCOUNTING ESTIMATES AND JUDGEMENTS

Notes 28 and 30(g) contain information about assumptions and their risk factors relating to fair value of share options granted and financial instruments. Other key sources of estimation uncertainty are as follows:

(a) Impairment of assets

Internal and external sources of information are reviewed by the Group at the end of each reporting period to assess whether there is any indication that an asset may be impaired. If any such indication exists, the recoverable amount of the asset is estimated to determine impairment losses on the asset. Changes in facts and circumstances may result in revisions to the conclusion of whether an indication of impairment exists and revised estimates of recoverable amounts, which would affect profit or loss in future years.

(b) Provision for inventories

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

(c) Depreciation

Investment properties and other property, plant and equipment are depreciated on a straight line basis over the estimated useful lives of the assets. The Group reviews the estimated useful lives and residual values of the assets annually in order to determine the amount of depreciation expense to be recorded during any reporting period. The useful lives and residual values are based on the Group's technological experience with similar assets and taking into account anticipated technological changes. The depreciation expense for future periods is adjusted if there are significant changes from previous estimations.

35. POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2010

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

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

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

FIVE YEAR SUMMARY

(Expressed in Hong Kong dollars)

	2006 $'000	2007 $'000	Year ended 31 December 2008 $'000	2009 $'000	2010 $'000
Results:					
Turnover	1,326,244	1,489,647	1,720,512	1,817,172	**2,255,851**
Profit from operations	211,414	229,910	60,262	53,255	**267,930**
Finance costs	(3,297)	(3,422)	(5,820)	(3,514)	**(3,358)**
Negative goodwill arising on acquisition of an associate	–	–	14,861	–	**–**
Share of (losses)/profits of associates	–	(40)	(3,330)	(21,809)	**2,210**
Profit before taxation	208,117	226,448	65,973	27,932	**266,782**
Income tax	(33,358)	(27,312)	(9,485)	(11,212)	**(46,935)**
Profit for the year from continuing operations	174,759	199,136	56,488	16,720	**219,847**
Discontinued operation					
Profit/(loss) for the year from discontinued operation	(11,415)	55,343	(39,779)	(285,441)	**(9,652)**
Profit/(loss) for the year	163,344	254,479	16,709	(268,721)	**210,195**
Attributable to:					
Equity shareholders of the Company	173,228	260,367	15,048	(268,325)	**210,496**
Non-controlling interests	(9,884)	(5,888)	1,661	(396)	**(301)**
Profit/(loss) for the year	163,344	254,479	16,709	(268,721)	**210,195**
Assets and liabilities:					
Fixed assets	335,619	413,074	464,455	359,239	**321,029**
Interest in associates	–	2,306	124,141	99,384	**101,905**
Loans receivable	–	52,048	132,618	123,055	**70,201**
Other financial assets	73,534	105,077	176,358	182,798	**186,083**
Deferred tax assets	4,957	3,983	4,898	2,198	**213**
Net current assets	928,200	946,880	659,005	440,917	**683,455**
Total assets less current liabilities	1,342,310	1,523,368	1,561,475	1,207,591	**1,362,886**
Non-current bank loans	–	–	(152,666)	(37,000)	**–**
Non-current other payables	–	–	–	(4,104)	**(3,186)**
Deferred tax liabilities	(240)	(195)	(80)	(2,282)	**(3,123)**
NET ASSETS	1,342,070	1,523,173	1,408,729	1,164,205	**1,356,577**
Capital and reserves					
Share capital	80,856	80,856	80,856	80,856	**80,856**
Reserves	1,241,598	1,428,622	1,307,076	1,068,524	**1,267,223**
Amounts recognised in other comprehensive income and accumulated in equity relating to a discontinued operation	–	–	6,165	6,026	**–**
Total equity attributable to equity shareholders of the Company	1,322,454	1,509,478	1,394,097	1,155,406	**1,348,079**
Non-controlling interests	19,616	13,695	14,632	8,799	**8,498**
Total equity	1,342,070	1,523,173	1,408,729	1,164,205	**1,356,577**
Earnings/(loss) per share (HK cents)					
Continuing operations					
Basic	56.8	63.4	17.0	5.3	**68.1**
Diluted	56.8	63.4	17.0	5.3	**68.1**
Discontinued operation					
Basic	(3.2)	17.1	(12.3)	(88.3)	**(3.0)**
Diluted	(3.2)	17.1	(12.3)	(88.3)	**(3.0)**

PROPERTIES HELD BY THE GROUP

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

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

CORPORATE INFORMATION

HONORARY CHAIRMAN

Chang Chu Cheng

BOARD OF DIRECTORS

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

** Independent Non-executive Directors*

COMPANY SECRETARY

Ho Te Hwai, Cecil

QUALIFIED ACCOUNTANT

Ho Te Hwai, Cecil

AUDIT COMMITTEE

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

REMUNERATION COMMITTEE

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

INDEPENDENT AUDITORS

KPMG
Certified Public Accountants

PRINCIPAL BANKERS

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

REGISTERED OFFICE

Clarendon House
2 Church Street
Hamilton HM11
Bermuda

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

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

PRINCIPAL SHARE REGISTRARS AND TRANSFER OFFICE

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

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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

ADR DEPOSITARY

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American Depositary Receipts
101 Barclay Street, 22W
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STOCK CODE

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