VARITRONIX INTERNATIONAL LIMITED

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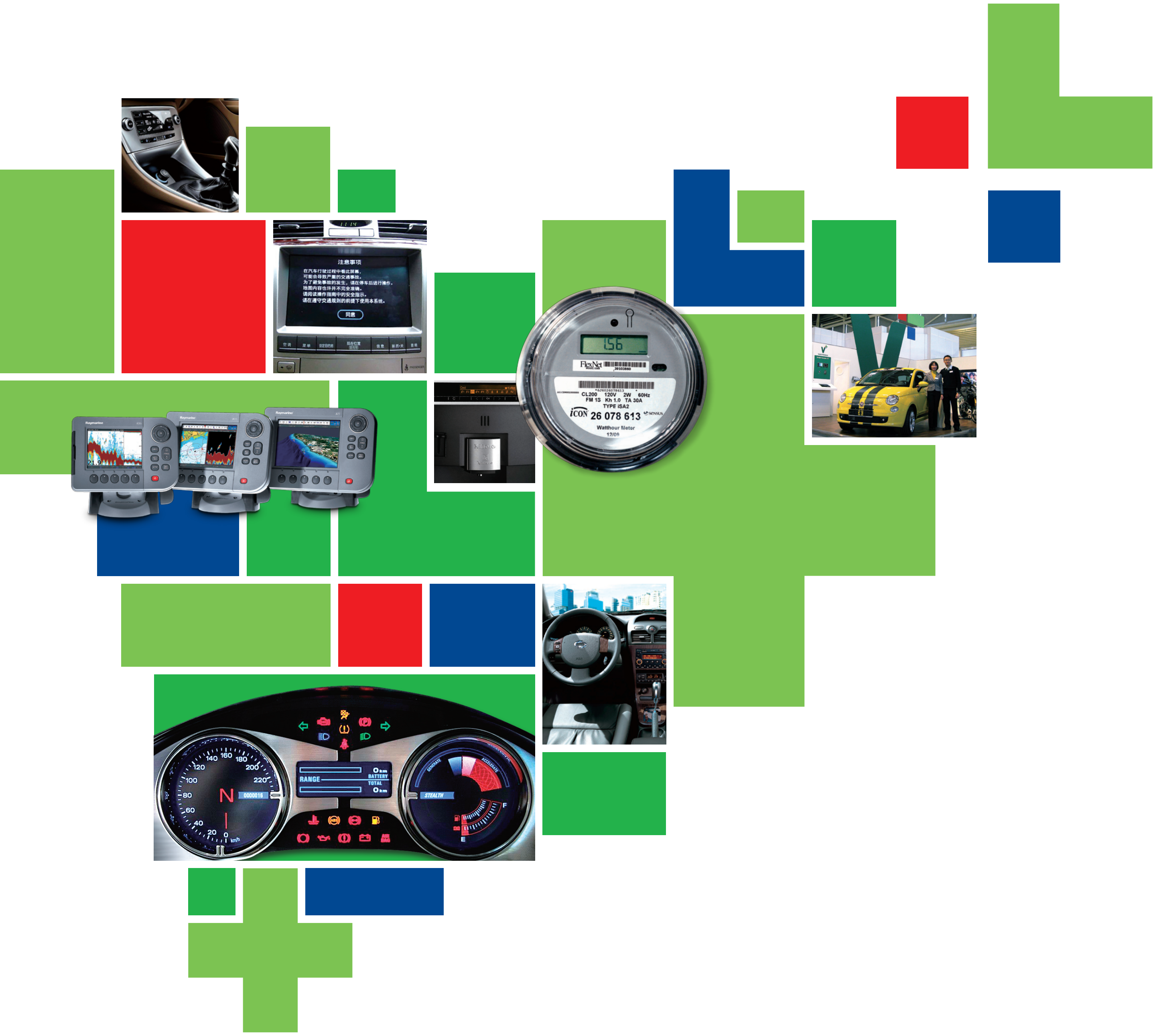

2011 ANNUAL REPORT

WHOLESOME DEVELOPMENT GOOD CORPORATE CITIZEN

Varitronix was pleased to receive the Bronze Award for Manufacturing Enterprises in the "Hong Kong Outstanding Corporate Citizenship Awards" in 2011. Varitronix corporate citizenship measures focus in three main directions. Of these, "Holistic Development of Employees" forms the basic foundation, and "Environmental Conservation" and "Community Service" programs are the tools to create an environment suitable for the wholesome development of our employees.

Varitronix is proud to be selected as the winner of this Award. The honour goes to our supportive management team and our fellow colleagues.

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CHAIRMAN'S STATEMENT

This year's level of dividend payment reflects our strong cash flow position and our commitment to reflect the value achieved for our shareholders through dividend returns. Results in the fourth quarter of 2011 were affected by the European debt crisis, but fortunately the impact was controllable. Marching into 2012, we feel optimistic about the positive moves of our customers. The Group's leading position in the automotive and industrial display markets remains strong.

FINANCIAL HIGHLIGHTS

HK$ million	**2011**	2010
Turnover	**2,131**	2,256
Profit attributable to shareholders	**168**	210
Basic earnings per share	**51.9 HK cents**	65.1 HK cents
Total dividend per share	**26.5 HK cents**	26.5 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 2011.

During the year under review, turnover of HK$2,131 million was recorded, representing a decrease of 6% as compared to the HK$2,256 million reported in 2010. Profit from operations was HK$188 million, down 30% when compared to the HK$268 million reported in the previous year. Profit attributable to shareholders was HK$168 million, a decrease of 20% as compared to HK$210 million in 2010. The decrease in net profit is mainly attributable to the worsening business environment in the fourth quarter of 2011.

The overall gross profit margin was 23%, a rise of 3% as compared to the year 2010. In the face of natural disasters and huge cost pressures on operations in China, the management team successfully elevated the gross profit margin by means of tightened internal controls, improvements in process technology and adjustments in the product mix throughout the year. Orders for high-end automotive displays expanded and thus the average selling price rose correspondingly. During the period under review, the Group's cash flow remained stable. As the Group has lowered its gearing ratio through repayments of its bank loans and has raised the inventory level of some critical components after the tsunami in Japan, the cash balance was reduced to HK$391 million from HK$431 million.

DIVIDENDS

The Board of Directors (the "Board") has recommended a final dividend of 15.5 HK cents per share (2010: 21.0 HK cents). Together with the interim dividend of 11.0 HK cents (2010: 5.5 HK cents), the total dividend for 2011 amounted to 26.5 HK cents per share (2010: 26.5 HK cents) which is at the same level as last year, representing a dividend payout ratio of 51%. This year's level of dividend payment reflects our strong cash flow position and our commitment to reflect the value achieved for our shareholders through dividend returns.

REVIEW

Automotive Display Business

Revenue from the Group's automotive display business was HK$1,211 million, representing an increase of 1% as compared to 2010. The automotive display business generated 57% of the Group's total turnover. Europe is the largest automotive display market for the Group, based on its revenue contributed in 2011.

The first three quarters of 2011 recorded strong sales revenue. It was only when the debt crisis broke out in Europe in the fourth quarter that market sentiment was adversely affected. Customers' confidence became shaky, and as a result they tended to minimise the inventory levels. Orders that would normally have been placed according to schedule were postponed. Customers preferred to reserve their orders to a more suitable time when the market returned to normal. Consequently, the Group's revenue from this business sector was affected in the fourth quarter.

Competition remained strong for the automotive display business in South Korea, where revenue dropped 42% as compared to 2010. Nonetheless, this is still the Group's second largest automotive display market other than Europe. The Group views South Korea as an important market, and is committed to improving quality and service standards so as to strengthen its competitive advantage.

The Group has accumulated five years' experience in the China automotive market, and we have established a strong foothold in the high-end automotive display sector. In 2011, the PRC automotive display business contributed 8% to the Group's overall turnover. Subsequent to the rapid growth in 2009 and 2010, it is generally estimated that the PRC automotive industry will continue to develop along a more gently rising trend. As long as the demand in China is sustained, especially the demand for high-end automobiles, the Group is well positioned to expand in this region in the coming few years.

The first TFT (Thin Film Transistor) automotive project reached the mass production stage in 2011, signifying a new product market for the Group. The Group's positioning in the TFT market is to concentrate on high-end TFT automotive projects. Our TFT Team contributes expertise in automotive displays, and provides professional service to customers. To date, the Group has acquired more new TFT automotive projects.

Industrial Display Business

The turnover from the industrial display business was HK$920 million, representing a 3% decrease as compared to 2010. This business contributed 43% of total turnover in 2011. The industrial display business was also affected by the negative impact of the European debt crisis and the declining economy. Although enquiries for new projects in the fourth quarter of 2011 became fewer, order postponement was not serious. This demonstrates that the Group has chosen the right way to develop the industrial display business in parallel with the automotive display business.

Europe and North America are the key markets for the industrial display business with applications covering electricity meters, white goods, medical products and industrial equipment. This business is characterised by small quantity, high quality and stable selling price. Fluctuations in this sector are comparatively small. It is a stable revenue source even during an uncertain market situation.

KEY GROWTH STRATEGIES

The Group is still confident about our future albeit amid an unstable market. We believe if we can deploy appropriate strategies, our business foundation will become even stronger than before.

Proactive Development Strategy

When facing unclear prospects, and under an environment where the cost of materials fluctuates and wages are ever rising, and with the continuing appreciation of the Renminbi, manufacturers have already taken cost control into their daily routine, and Varitronix is no exception. Nevertheless, if we are determined to grow strong in a highly competitive environment, we need to have a long-term vision and employ proactive market strategies. In 2012, the Group will continue to invest in extensive automation projects aiming at strengthening its competitiveness by reducing labour demand and improving quality and output. Additionally, we consider it a favourable time for machine acquisition during a period of economic downturn.

Supply Chain Management

In 2011, natural disasters such as the tsunami in Japan and the 2011 Thailand floods created a worldwide shortage in the supply of critical components. In particular, the tsunami in Japan temporarily affected the supply of some of the Group's critical components. This highlighted the importance of maintaining close relationships with suppliers, and of the need to build up the inventory of such critical materials in order to minimise the impact on production during such a situation.

Team Expansion

During the uncertainty of the current market situation, some factories in Guangdong area may need to reduce their scale of manufacturing. The Group is committed to expanding its human resources capital at this opportunity. On the one hand it is prepared for the expansion of new production capacity and on the other, the expanded engineering manpower will help to fulfill extra demand during the next market turnaround.

PROSPECTS

Business Trends

Despite a fall in orders during the fourth quarter of 2011, business recovery was favourable at the beginning of 2012. Orders started to return when market uncertainty subsided following a gradual stabilisation of the economic situation in Europe and the US.

Moving into 2012, orders for automotive displays have increased. Through years of cooperation, the Group has established solid relationships with major international customers and the ups and downs of the market have only strengthened the level of mutual trust between us. The Group is confident that these major customers will continue to place orders that will enter into mass production in one to two years' time, which will lock in future revenues at a stable level, and further increase the Group's share in the automotive display market.

The industrial display business remains stable at the beginning of 2012 with a favourable level of orders.

Market Development

The Asian market is expected to continue to grow and the Group has already set the automotive markets in China and Japan as its targets for development. Despite the fact that the rate of growth became slower in the China automotive market in 2011, moderate growth is still expected in the future. With its positioning in the mid- to high-end automobile category, the Group will seek to strengthen its foothold in the China market with excellence in quality and service.

The Group made its way into the Japanese automotive display market a few years ago, and the fruits of our efforts could be seen in 2011. We believe that various conditions have matured, which makes 2012 a good time to further increase the Group's share in the Japanese automotive display market. We will allocate resources accordingly to meet the demand of this market.

Steady development is expected in the US market in 2012. As the majority of customers in this market are in the industrial sector, the impact of market fluctuations has been insignificant. Furthermore, through careful planning by the management of our US sales office, both the business and our customers are being developed in a diversified and balanced way. We therefore believe that the US market still has room for growth and will become one of our main targets for development.

Factory Expansion

The Group is already a leader in the design and manufacture of automotive and industrial displays, and we believe that there is still a large demand for passive LCDs. We therefore expect a positive outlook for this business. Construction of a new factory is in progress with new production lines coming into operation in early 2013 to further boost production capacity and product quality.

Technological Extension

In terms of LCD technology, development is well under way for sophisticated displays with improved contrast, duty ratio, viewing angles, response time, etc., with an aim to improve the current levels of cost and quality.

The Group has determined to allocate more resources to technological research in order to widen the applications for LCD technology. The Group sees capacitive touch panels as an area with potential, as what is mainly used in notepad computers and smart phones now could penetrate every aspect of our daily lives in the future. The Group will set its target on industrial and automotive grade touch panels and has already established a dedicated unit to develop this business.

Summary

Results in the fourth quarter were affected by the European debt crisis, but fortunately the impact was controllable. Marching into 2012, we feel optimistic about the positive moves of our customers. The Group's leading position in the automotive and industrial display markets remains strong. 2012 is particularly crucial for the Group, as a new factory will be completed at the end of the year. If demand for automotive and industrial displays remains high, the Group will be able to take on additional orders, fully utilising the expanded production capacity, and thereby accelerating the sales growth momentum.

ACKNOWLEDGEMENTS

The year 2011 was without doubt difficult, but for 2012 the Group remains optimistic. I would like to take this opportunity to thank our shareholders, customers, suppliers and our loyal staff members. The manufacturing industry is full of challenges and I am grateful for my fellow comrades who are willing to take part in this industry. Only with your support can our industry develop in a steady and concrete way.

Ko Chun Shun, Johnson
Chairman
Hong Kong, 23 March 2012

TURNOVER

The Group's turnover for the year ended 31 December 2011 decreased by 6% to HK$2,131 million as compared to the previous financial year.

PROFIT FROM OPERATIONS

The profit from operations for the year ended 31 December 2011 was HK$188 million, a decrease of HK$80 million or 30% as compared to the previous financial year.

During the financial year 2011, the Group spent HK$129 million on research and development ("R&D") activities, which represented approximately 6% of the Group's turnover.

NET PROFIT AND DIVIDENDS

The profit attributable to shareholders for the year ended 31 December 2011 was HK$168 million, as compared to a profit of HK$210 million in 2010.

Basic earnings per share for the year ended 31 December 2011 were 51.9 HK cents as compared to basic earnings per share of 65.1 HK cents in the previous financial year. During the year, the Group declared and paid the interim dividend of 11.0 HK cents per share, which aggregated to HK$36 million. The Board have recommended a final dividend of 15.5 HK cents per share, which will aggregate to HK$50 million. The total dividend for the year amounts to 26.5 HK cents per share.

STRUCTURE OF ASSETS

As at 31 December 2011, the total assets of the Group amounted to HK$1,968 million (2010: HK$2,102 million). At the year end, inventories increased by 17% to HK$336 million (2010: HK$286 million) while available-for-sale securities decreased by 4% to HK$179 million (2010: HK$186 million).

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2011, the total equity of the Group was HK$1,436 million (2010: HK$1,357 million). The Group's current ratio, being the proportion of total current assets against total current liabilities, was 2.46 as at 31 December 2011 (2010: 1.92).

At the year end, the Group held a liquid portfolio of HK$553 million (2010: HK$695 million) of which HK$391 million (2010: HK$431 million) was in cash and cash equivalents and HK$162 million (2010: HK$264 million) in securities. The unsecured interest-bearing bank loans amounted to HK$154 million (2010: HK$178 million). The gearing ratio (bank loans over net assets) was 11% (2010: 13%).

The Group's inventory turnover ratio for the year was 5.3 times (2010: 6.4 times). Debtor turnover days for the year was 70.0 days (2010: 65.5 days).

CASH FLOWS

In the year under review, the Group's cash generated from operations amounted to HK$159 million (2010: HK$124 million). The increase in inventories reduced cash flow by HK$45 million, while the decrease in trade and other receivables raised cash flow by HK$5 million.

Net cash used in investing activities amounted to HK$20 million (2010: generated from investing activities amounted to HK$45 million). There was a decrease in payments for the purchase of fixed assets to HK$43 million (2010: HK$47 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$446 million during the year and the bank borrowings reduced to HK$154 million as at 31 December 2011.

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 2011, 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$154 million (2010: HK$178 million).

COMMITMENTS

As at 31 December 2011, the Group had capital commitments of HK$364 million (2010: HK$8 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 (2010: HK$3 million).

STAFF

As at 31 December 2011, the Group employed 4,277 staff around the world, of whom 162 were in Hong Kong, 4,077 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.

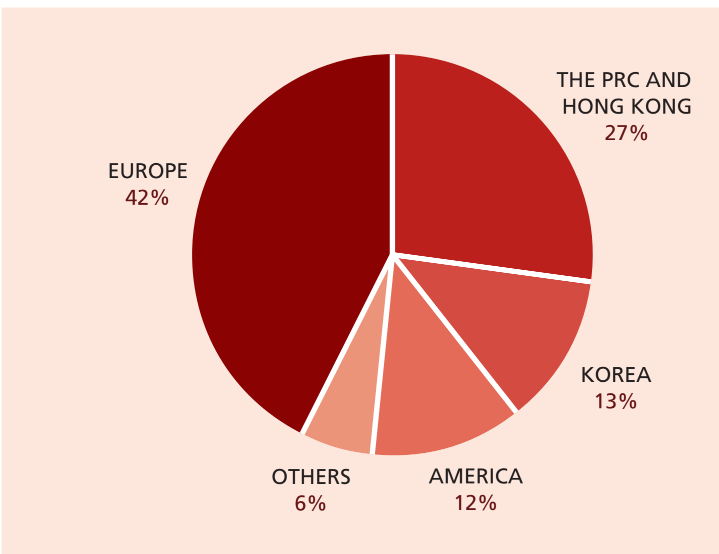
STAFF RETIREMENT SCHEMES

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. It is only eligible for employees who joined the Group on or before 30 June 2009.

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 profit or loss 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 2011 was HK$17 million (2010: HK$10 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 2011 was HK$35,000 (2010: HK$24,000) and at 31 December 2011, the balance available to reduce the level of contributions in future amounted to HK$58,000 (2010: HK$165,000).



EUROPE

In 2011, the Group's business in Europe recorded revenue of HK$886 million, representing an 18% increase over 2010. The scale of the European business expanded to contribute 42% of the Group's total turnover for the year under review. In 2010, the region represented 33% of the Group's total turnover.

Automotive Display Business

The automotive display business contributed largely to the turnover in Europe in 2011. When the Japanese automotive makers' capacity was adversely affected by the tsunami in the first half of 2011, the European

automotive manufacturers reacted quickly to expand their market share. They were eager to raise their stock level and thus increased their order quantities. When the debt crisis occurred in some of the European countries in the fourth quarter, the confidence level dropped. Automotive manufacturers became cautious and adjusted down their stock levels. Hence, some display order placement was postponed to 2012.

Despite the sluggish sales in the fourth quarter, the overall performance of the automotive display business in Europe was satisfactory in 2011.

In the shadow of the debt crisis, the Group still expects its turnover from the automotive display business in Europe to remain steady. Enquiries and new projects have begun to improve in early 2012. Given the high technical threshold in the design and manufacture of automotive displays together with European customers' high service level requirements, all these combined to make our position not easily to be replaced by others. In addition, long term partnerships with this group of European customers play an important role. These solid customer relationships are vital to maintaining business especially during the ups and downs in the market.

Industrial Display Business

The industrial display business in Europe recorded growth in turnover during the year under review. Orders from the white goods and industrial equipment sector contributed to the success of this business. The number of new projects is expected to sustain mass run orders in the coming two to three years.

Though the development pace of the industrial display sector in the second half of 2011 slowed down slightly, orders for components like electricity meter displays remained firm. This demonstrates industrial displays are similar to daily necessities and have relatively stable sales performance amid the uncertainties of the macroeconomic situation. This is the wisdom of the business mix of the Group.

In general, we expect the turnover in Europe will be stable in 2012, given there are no unfavourable changes in the environment. The Group will remain vigilant and well prepared to accommodate changes in the coming months.

KOREA

Due to the intensified competition in the Korean automotive display business, the Group's revenue in South Korea in 2011 recorded a decrease of 42% when compared with 2010. Revenue for the year under review was HK$278 million, representing 13% of the total turnover of the Group.

The Group faced competition from other players in terms of product price, quality, buffer stock and customer service. During the year under review, the Group worked hard to improve its performance with an aim to win back new projects without suffering a price cut. The efforts made in 2011 included strengthening quality surveillance, close monitoring of raw materials and speeding up response to customers, among others. Progress overall was satisfactory.

As a result of quality and customer service enhancements, a number of new projects were awarded by Korean customers in 2011 and will move to the mass production stage in 2012. Hence, it is expected that revenue in 2012 will be maintained at the level of 2011.

AMERICA

The Group's business in America recorded HK$264 million in revenue during the year under review, representing a 9% increase as compared to 2010. This market accounted for 12% of the Group's overall turnover in 2011, as compared to 11% in 2010.

Though the business in America mainly focuses on industrial displays, the industrial applications are quite diversified. Electricity meters, medical products, industrial equipment and large trucks are the four main types of applications in the region. During the first three quarters of 2011, abundant orders were received from customers. In the last quarter of 2011, however, market sentiment was adversely affected by the sovereign debt crisis of some European countries. Some US customers postponed order placement to 2012.

The economy in America is not as negative as expected, its performance overall is somewhat stable. The industrial sector, where the Group's business is focused, is more resistant to market fluctuations compared to consumer products. Hence it is estimated that revenue generated from the American market in 2012 will be higher than that in 2011. During the first quarter of 2012, the demand from the medical products sector is strong. Progress of new project design and sample development is on track, and we continue to receive new orders from customers.

THE PRC AND HONG KONG

Revenue generated from the PRC and Hong Kong region decreased to HK$567 million, a 15% decrease as compared to 2010. For the year under review, revenue from the PRC and Hong Kong region accounted for 27% of the Group's total turnover.

In the PRC, the Group's business focus is on the mid-range to high-end car types. Unlike the low-end market, this market segment performed stably in 2011 with a mild increase in demand. The sales situation in the automotive market in 2011 can be divided into two stages. During the first half of 2011, new orders and sales developed rapidly. In the second half of 2011, the growth began to slow down due to the accumulation of stock in the market.

It is estimated that 2012 will be a year of stable growth for the PRC automotive market, and that in the coming three to five years there will be ample development space in this area. Though there is increased competition in this market, the Group has confidence in its own technology, quality and customer service. The Group continued to receive new orders in early 2012, with more new projects in the design stage.

Unlike western customers, Asian and especially Chinese customers are more receptive to new products, and are quick to adapt to technology changes. When difficulties occur, they expect our engineers solve the problems together with them on site. To accommodate this style, we need to adjust our service to a more mobilised pattern. The Group will make every endeavour to expand its market share in the PRC automotive market.

CSR MISSION

The CSR mission of Varitronix is to ensure employees enjoy wholesome development and our CSR activities are designed and geared towards this ultimate goal. By means of policy, training and activities, we have successfully created an environment where Varitronix staff members are respected and cared for, and where we expect they can grow together with the Group.

Winners of Varitronix 30th Anniversary Scholarship from Hong Kong University of Science and Technology in 2011: Mr Chan King Hei, Dickens (fourth from right) , Mr Cheng Ming Hong (middle), Mr Tam Kam Fung (fourth from left)

CSR MEASURES

Different measures are employed to facilitate the development of our employees. Training, work-life balance activities and sports activities are direct measures to this end. Environmental protection and community service are indirect activities to achieve the same goal, and additionally bring with them other beneficial side effects.

STAFF DEVELOPMENT

Care for Staff

In order to create an ideal environment for employees to grow, we have to ensure in the first place that our staff feels they are respected and that they are comfortable with the company culture. Varitronix set up a Labour Union in the Production Plant in Heyuan, Guangdong. This serves to offer help to needy staff, and also functions as an opinion collection agent and is ready to receive complaints from workers. Varitronix has also established a mechanism to facilitate staff and workers to vent any dissatisfaction.

Training Program

There is an annual training plan for general workers and staff. This is designed to meet the training needs identified by the various department heads. Basic work skills, technical knowledge, management skills, code of conduct, work attitude covering confidentiality and intellectual property rights are conveyed to workers and staff through seminars, workshops and classroom teaching.

Workers enjoyed a day out at a water park in Guangzhou.

Work-life Balance

For workers, the Group's Recreation Centre organises a variety of activities and competitions each month. Karaoke, a snooker competition, computer training and interest classes were conducted during the year under review. Regular birthday parties were held for workers staying in dormitories. For workers with seniority, a series of benefits including buffets, outings and medical body checks were offered.

The Group organised leisure activities such as a band show night and outings for fellow colleagues. Leadership Forums were held every two months. During the Forums, special guests were invited to share their experience and opinions.

Bowling competition of "Heyuan Varitronix Cup".

Full marathon runners of Varitronix.

Sporting Activities

After years of planning and promotion, a sporting culture has been established within the Group. During the year under review, a series of sports competitions under the title of "Heyuan Varitronix Cup" were organised in the production plant. The program encompassed basketball, table tennis, bowling, badminton and a tug-of-war competition, and both teams and individuals were invited to participate.

Highlight events of the year included the Trailwalker and Standard Chartered Marathon. During the year under review, the Group formed four teams to participate in the Oxfam Trailwalker Event. Including support teams, over 30% of all Hong Kong staff members participated in the event.

Four teams of Varitronix Trailwalkers 2011.

Supporters play an important role for the Walkers along the 100km trail.

In February 2012, 28 colleagues participated in and completed the Marathon Race. Of the 28 staff members, seven entered the Full Marathon Race and five joined the Half Marathon Race. The Group set up its own "Varitronix Billboard" to honour those runners who could create a new running time record. The Group is very proud to have a group of dedicated, energetic, young-at-heart and sports-loving employees.

Environmental seminar conducted by Mr Terence Tang (left), Education Manager of The Conservancy Association.

ENVIRONMENTAL PROTECTION

The Group is committed to reducing energy consumption and the Environmental Committee in our Production Plant sets electricity, water and paper consumption targets every year. Comparing 2011 and 2010, electricity consumption was reduced by 6.2%, water consumption was reduced by 1.5%, and paper consumption was reduced by 10%.

Under the collaboration between the Environmental Committee and Human Resources Department, environmental education programs and activities are organised each year. In 2011, we educated our fellow colleagues about environmental protection through an Environmental Knowledge Quiz Competition,

A group of Production Plant colleagues rode on bicycles to promote environmental messages to the Heyuan public.

Environmental Seminar and a tree-planting activity. The Group also held different innovative environmental initiatives like an environmental creative slogan competition and a cycling tour to promote the environmental slogans in the city of Heyuan, the location of the Group's production plant. In 2011, the Group continued to secure ISO14001 and QC080000 environmental accreditations.

COMMUNITY SERVICE

The Varitronix Social Service Team was set up in 2006 and the Team now partners regularly with non-governmental organisations (NGOs) to take part in well-organised and relatively long-term schemes. In 2011, the Group collaborated with the Login Club for New Arrivals of the Evangelical Lutheran Church Social Service – Hong Kong (the Login Club) to

Social Service Team and the Program children at the recognition ceremony of the Program.

organise activities for children from underprivileged or new immigrant families in the Kwai Chung area. The Group provided seed funding for the Login Club to apply for equivalent funding from the Social Welfare Department. It is a structured program encompassing study groups, peer-group activities, interest classes and outings. Varitronix volunteers became mentors for the kids in the program and friendships were built up over time.

In order to encourage staff to join the volunteering service, the social service hours of volunteers can be redeemed as annual leave. On the side of the youngsters who entered the program, small gifts were given to those children with satisfactory attendance and performance.

Social Service Team and the Program children enjoyed an outing on the Peak.

RECOGNITION

It is the Group's responsibility to provide a good environment for its employees to grow and develop. We believe a group of healthy and enthusiastic employees can have a positive impact on their families, friends and the community.

The Group is honoured to have been presented with the Manufacturing Enterprise Bronze Award in the "Hong Kong Outstanding Corporate Citizenship Awards 2011", organised by the Hong Kong Productivity Council and the Committee on the Promotion of Civic Education. This award is recognition of the Group's efforts in developing our staff, in giving them a sense of mission, and in extending the good will of the Group to needy people.

Varitronix was named as a "Caring Company" for the fifth consecutive year in 2012. This signifies that the Group has built up strategic partnerships with social service partners and inspired corporate social responsibility through caring for its employees, the community and the environment.

Varitronix was named as a "Caring Company" for the fifth consecutive year in 2012.

DIRECTOR'S BIOGRAPHICAL INFORMATION

Ko Chun Shun, Johnson

aged 60, was appointed as the Chairman and Executive Director of the Company in June 2005. Mr. Ko is a substantial shareholder of the Company and a director of various subsidiaries of the Group. Mr. Ko is also the Chairman and an Executive Director of DVN (Holdings) Limited and the Vice Chairman and an Executive Director of China WindPower Group Limited. Mr. Ko has been appointed as the Chairman and an Executive Director of ReOrient Group Limited (formerly known as Asia TeleMedia Limited) on 5 September and 9 August 2011 respectively. The above companies are listed on the Hong Kong Stock Exchange.

Tsoi Tong Hoo, Tony

aged 47, 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. He was selected as one of the "Hong Kong Young Industrialists" by The Federation of Hong Kong Industries in 2010. Mr. Tsoi is an Executive Director of ReOrient Group Limited, a Non-executive Director of China WindPower Group Limited and Ocean Grand Holdings Limited. He is also an Independent Non-executive Director of Fairwood Holdings Limited, all of the above companies are listed on the Hong Kong Stock Exchange. Mr. Tsoi is the deputy chairman of the supervisory board of Data Modul AG, which is listed on the Frankfurt Stock Exchange.

Yuen Kin

aged 57, 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 51, 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 51, 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.

Hou Ziqiang

aged 74, 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.

Chau Shing Yim, David

aged 48, 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 re-designated as a non-executive director of Up Energy Development Group Limited (formerly known as Tidetime Sun Holdings Limited) on 20 June 2011. He is also an independent 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 the aforesaid companies are listed on the Hong Kong Stock Exchange. He has been appointed as an independent non-executive director of Duoyuan Global Water Inc. on 21 April 2011, which is listed on the New York Stock Exchange.

Subsequent to the year end, Mr. Chau has been appointed as executive director of Ocean Grand Holdings Limited on 9 January 2012, which is listed on the Hong Kong Stock Exchange.

SENIOR MANAGEMENT'S BIOGRAPHICAL INFORMATION

Lam Cheuk Yin, Kenneth

aged 37, 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 41, is the General Manager – Technical Group & Touch Panel Unit. He holds a Bachelor of Physics degree from Sogang University in South Korea. He joined the Group in October 2006.

Fung Yeuk Keung

aged 57, is the Assistant General Manager – Quality & LCD 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 40, 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 49, is the Senior Manager – Information Service, Facilities & 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 42, 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") recognises 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 2011.

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 2011, 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 2012 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 2011. 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 2011	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	4
Mr. Chau Shing Yim, David	4	4
Mr. Hou Ziqiang	4	3

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) and ReOrient Group Limited (formerly known as Asia TeleMedia Limited) (stock code: 376), which are listed on the Main Board of the Stock Exchange.

(2) Messrs. Tsoi Tong Hoo, Tony and Mr. Chau Shing Yim, David are directors of Ocean Grand Holdings Limited (stock code: 1220), 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.

Subsequent to the year, the Nomination Committee was established on 26 March 2012. The Nomination Committee comprises Dr. Lo Wing Yan, William (Chairman of the Nomination Committee), Mr. Hou Ziqiang and Mr. Ko Chun Shun, Johnson. Among the 3 members of the Nomination Committee, 2 members are independent non-executive Directors.

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 one meeting in 2011, 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 2011	Number of meetings attended
Dr. Lo Wing Yan, William *(Chairman)*	1	1
Mr. Hou Ziqiang	1	1
Mr. Ko Chun Shun, Johnson	1	1

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 two meetings in 2011, 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 2011	Number of meetings attended
Dr. Lo Wing Yan, William *(Chairman)*	2	2
Mr. Chau Shing Yim, David	2	2
Mr. Hou Ziqiang	2	2

AUDITORS' REMUNERATION

Total auditors' remuneration in relation to audit services provided to the Group amounted to HK$4 million (2010: HK$3 million), of which a sum of HK$3 million (2010: 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 2011. 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.

REPORT OF THE DIRECTORS

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 2011.

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 2011 are set out in Note 15 to the financial statements.

FINANCIAL STATEMENTS

The results of the Group for the year ended 31 December 2011 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 15.5 HK cents (2010: 21.0 HK cents) per share as compared to interim dividend of 11.0 HK cents (2010: 5.5 HK cents) per share representing a total of 26.5 HK cents (2010: 26.5 HK cents) per share for the year ended 2011.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Monday, 28 May 2012 to Friday, 1 June 2012 (both days inclusive), during which period no transfer of shares will be registered. In order to be eligible to attend and vote at the forthcoming AGM (the "2012 AGM"), 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 ("Computershare"), of Shops 1712-16, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on Friday, 25 May 2012.

Subject to the shareholders approving the recommended final dividend at the 2012 AGM of the Company, such dividend will be payable on or around Monday, 9 July 2012 to shareholders whose names appear on the register of members of the Company on Friday, 8 June 2012. To determine eligibility for the final dividend, the register of members of the Company will be closed from Thursday, 7 June 2012 to Friday, 8 June 2012 (both days inclusive), during which period no shares can 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 Computershare, of Shops 1712-16, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on Wednesday, 6 June 2012.

SHARE CAPITAL

Details of the movements in the share capital of the Company during the year are set out in Note 27(c) to the financial statements.

CHARITABLE DONATIONS

Charitable donations made by the Group during the year amounted to HK$114,000 (2010: HK$444,000).

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 27(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. Ko Chun Shun, Johnson, Mr. Tsoi Tong Hoo, Tony and Mr. Ho Te Hwai, Cecil 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 2011, 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)	14.99

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 2011, 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 20,905,720, representing 6.37% 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 2011 represents 8.03% (2010: 8.35%) of the issued share capital of the Company at that date. Further details of the share option schemes are set out in Note 26 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 2011	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 2011	Exercisable period	Price per share to be paid on exercise of share options	Market value per share at date of grant of share options	Weighted average closing price of share options immediately before the dates on which the share options were exercised
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	N/A
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	N/A
Yuen Kin	24 June 2010	800,000	–	–	–	800,000	(Note 1)	HK$2.50	HK$2.50	N/A
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	N/A
Lo Wing Yan, William	24 June 2010	400,000	–	–	–	400,000	(Note 1)	HK$2.50	HK$2.50	N/A
Chau Shing Yim, David	24 June 2010	400,000	–	–	–	400,000	(Note 1)	HK$2.50	HK$2.50	N/A
Hou Ziqiang	24 June 2010	400,000	–	–	–	400,000	(Note 1)	HK$2.50	HK$2.50	N/A
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	30 August 2001	96,500	–	(13,500) (Note 3)	(83,000)	–	30 August 2001 to 29 August 2011	HK$3.06	HK$3.575	HK$5.00
	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	–	(250,000) (Note 3)	(640,000)	3,810,000	(Note 1)	HK$2.50	HK$2.50	HK$5.06
		27,018,500	–	(263,500)	(723,000)	26,032,000				

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) The share options are lapsed.

(4) 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 2011, 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	19,000,000 (Note)	5.86

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 2012 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 2011 are set out in Note 23 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 2011, the five largest customers of the Group accounted for 21% of the Group's total turnover while the largest customer of the Group accounted for 8% of the Group's total turnover. In addition, for the year ended 31 December 2011, the five largest suppliers of the Group accounted for 40% of the Group's total purchases while the largest supplier of the Group accounted for 15% 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. Ko Chun Shun, Johnson, the Executive Director of the Company, was appointed as the chairman and an executive director of ReOrient Group Limited (formerly known as Asia TeleMedia Limited) ("ReOrient") on 5 September and 9 August 2011 respectively, which is listed on the Stock Exchange.

Mr. Tsoi Tong Hoo, Tony, the Executive Director of the Company, was appointed as an executive director of ReOrient on 9 August 2011. Mr. Tsoi was appointed as a non-executive director of Ocean Grand Holdings Limited ("Ocean Grand") on 11 January 2012. Both companies are listed on the Stock Exchange. Mr. Tsoi was appointed as the deputy chairman of the supervisory board of Data Modul AG in May 2011, which is listed on the Frankfurt Stock Exchange.

Mr. Chau Shing Yim, David, the Independent Non-executive Director of the Company, re-designated as a non-executive director of Up Energy Development Group Limited (formerly known as Tidetime Sun Holdings Limited) on 20 June 2011. Mr. Chau was appointed as an executive director of Ocean Grand on 9 January 2012. Both companies are listed on the Stock Exchange. Mr. Chau was appointed as an independent non-executive director of Duoyuan Global Water Inc. on 21 April 2011, which is listed on the New York Stock Exchange.

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 2011.

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, 23 March 2012

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 2011, 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 2011 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

23 March 2012

CONSOLIDATED INCOME STATEMENT

for the year ended 31 December 2011
(Expressed in Hong Kong dollars)

	Note	2011 $'000	2010 $'000
Continuing operations			
Turnover	3	**2,131,410**	2,255,851
Other operating income	4	**23,483**	93,592
Change in inventories of finished goods and work in progress		**25,519**	27,170
Raw materials and consumables used		**(1,366,117)**	(1,481,128)
Staff costs		**(312,027)**	(307,408)
Depreciation		**(95,135)**	(95,354)
Other operating expenses		**(219,268)**	(224,793)
Profit from operations		**187,865**	267,930
Finance costs	5(a)	**(1,754)**	(3,358)
Share of profits less losses of associates		**8,932**	2,210
Profit before taxation	5	**195,043**	266,782
Income tax	8(a)	**(27,016)**	(46,935)
Profit for the year from continuing operations		**168,027**	219,847
Discontinued operation			
Loss for the year from discontinued operation	9	**–**	(9,652)
Profit for the year		**168,027**	210,195
Attributable to:			
Equity shareholders of the Company	10	**168,027**	210,496
Non-controlling interests		**–**	(301)
Profit for the year		**168,027**	210,195

	Note	2011 $'000	2010 $'000
Earnings per share			
Basic	12		
– from continuing and discontinued operations		**51.9 cents**	65.1 cents
– from continuing operations		**51.9 cents**	68.1 cents
– from discontinued operation		**– cents**	(3.0) cents
Diluted			
– from continuing and discontinued operations		**51.3 cents**	65.1 cents
– from continuing operations		**51.3 cents**	68.1 cents
– from discontinued operation		**– cents**	(3.0) 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 for the year are set out in Note 27(b).

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 December 2011
(Expressed in Hong Kong dollars)

	Note	**2011** **$'000**	2010 $'000
Profit for the year		**168,027**	210,195
Other comprehensive income for the year (after tax and reclassification adjustments):	11		
Foreign currency translation adjustments: net movement in the exchange reserve		**15,167**	4,614
Available-for-sale securities: net movement in the fair value reserve		**(5,797)**	2,068
Total comprehensive income for the year from continuing operations		**177,397**	216,877
Discontinued operation			
Foreign currency translation adjustment: release of exchange reserve on deconsolidation		**–**	(6,026)
Total comprehensive income for the year		**177,397**	210,851
Attributable to:			
Equity shareholders of the Company		**177,397**	211,152
Non-controlling interests		**–**	(301)
Total comprehensive income for the year		**177,397**	210,851

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
at 31 December 2011
(Expressed in Hong Kong dollars)

	Note	**2011 $'000**	2010 $'000
Non-current assets			
Fixed assets	14		
– Property, plant and equipment		**264,723**	315,441
– Interest in leasehold land held for own use		**14,284**	5,588
		279,007	321,029
Interest in associates	16	**107,673**	101,905
Loans receivable	17	**71,918**	70,201
Other financial assets	18	**203,519**	186,083
Deferred tax assets	25(b)	**237**	213
		662,354	679,431
Current assets			
Trading securities	19	**138,516**	232,856
Inventories	20	**335,675**	285,774
Trade and other receivables	21	**437,611**	471,745
Current tax recoverable	25(a)	**2,845**	1,224
Cash and cash equivalents	22	**391,479**	431,331
		1,306,126	1,422,930
Current liabilities			
Bank loans	23	**153,511**	177,842
Trade and other payables	24	**363,751**	529,552
Current tax payable	25(a)	**12,910**	32,081
		530,172	739,475
Net current assets		**775,954**	683,455
Total assets less current liabilities		**1,438,308**	1,362,886
Non-current liabilities			
Other payables		**2,214**	3,186
Deferred tax liabilities	25(b)	**155**	3,123
NET ASSETS		**1,435,939**	1,356,577
CAPITAL AND RESERVES			
Share capital	27(c)	**81,036**	80,856
Reserves		**1,354,659**	1,267,223
Total equity attributable to equity shareholders of the Company		**1,435,695**	1,348,079
Non-controlling interests		**244**	8,498
TOTAL EQUITY		**1,435,939**	1,356,577

Approved and authorised for issue by the board of directors on 23 March 2012

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 2011
(Expressed in Hong Kong dollars)

	Note	**2011** **$'000**	2010 $'000
Non-current assets			
Investments in subsidiaries	15	**631,444**	646,715
Loans receivable	17	**71,918**	70,201
Other financial assets	18	**154,979**	154,979
		858,341	871,895
Current assets			
Trade and other receivables	21	**739**	755
Cash and cash equivalents	22	**983**	1,600
		1,722	2,355
Current liabilities			
Trade and other payables	24	**6,806**	9,296
Net current liabilities		**(5,084)**	(6,941)
NET ASSETS		**853,257**	864,954
CAPITAL AND RESERVES			
Share capital	27(c)	**81,036**	80,856
Reserves	27(a)	**772,221**	784,098
TOTAL EQUITY		**853,257**	864,954

Approved and authorised for issue by the board of directors on 23 March 2012

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 2011
(Expressed in Hong Kong dollars)

	Note	Attributable to shareholders of the Company									Non-controlling interests	Total equity
		Share capital (note 27(c))	Share premium (note 27(d)(i))	Exchange reserve (note 27(d)(iii))	Fair value reserve (note 27(d)(iv))	Capital reserve (note 27(d)(v))	Other reserves (note 27(d)(vi))	Retained profits	Amounts accumulated in equity relating to a discontinued operation	Total		
		$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Balance at 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 years	27(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	27(b)(i)	–	–	–	–	–	–	(17,788)	–	(17,788)	–	(17,788)
Balance at 31 December 2010 and 1 January 2011		80,856	695,336	50,096	14,665	13,916	(32,665)	525,875	–	1,348,079	8,498	1,356,577
Changes in equity for 2011:												
Profit for the year		–	–	–	–	–	–	168,027	–	168,027	–	168,027
Other comprehensive income	11	–	–	15,167	(5,797)	–	–	–	–	9,370	–	9,370
Total comprehensive income		–	–	15,167	(5,797)	–	–	168,027	–	177,397	–	177,397
Transfer of reserve upon disposal of a subsidiary	9	–	–	–	–	–	30,320	(30,320)	–	–	–	–
Derecognition of non-controlling interests upon disposal of a subsidiary	4	–	–	–	–	–	–	8,254	–	8,254	(8,254)	–
Dividends approved in respect of the previous year	27(b)(ii)	–	–	–	–	–	–	(67,919)	–	(67,919)	–	(67,919)
Issue of shares upon exercise of share options	27(c)(ii)	180	2,246	–	–	(573)	–	–	–	1,853	–	1,853
Equity settled share-based transactions		–	–	–	–	3,687	–	–	–	3,687	–	3,687
Dividends declared in respect of the current year	27(b)(i)	–	–	–	–	–	–	(35,656)	–	(35,656)	–	(35,656)
Balance at 31 December 2011		81,036	697,582	65,263	8,868	17,030	(2,345)	568,261	–	1,435,695	244	1,435,939

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

CONSOLIDATED CASH FLOW STATEMENT

for the year ended 31 December 2011
(Expressed in Hong Kong dollars)

	Note	2011 $'000	2010 $'000
Operating activities			
Cash generated from operations	22(b)	**159,400**	124,339
Tax paid			
– Hong Kong Profits Tax paid		**(24,838)**	(22)
– Overseas tax paid		**(25,962)**	(13,802)
Net cash generated from operating activities		**108,600**	110,515
Investing activities			
Proceeds from disposal of fixed assets		**6,953**	12,095
Payment for the purchase of fixed assets		**(43,204)**	(47,466)
Proceeds from disposal of available-for-sale securities		**–**	2,766
Payment for purchase of available-for-sale securities		**–**	(1,365)
Payment for purchase of held-to-maturity securities		**(23,800)**	–
Proceeds from sale of trading securities		**28,216**	21,743
Payment for purchase of trading securities		**(68,876)**	(25,425)
Proceeds from repayment of loans receivable		**21,718**	75,891
Proceeds from disposal of a subsidiary		**38,750**	–
Dividends received from investments in trading and available-for-sale securities		**12,522**	626
Dividends received from associates		**2,303**	–
Interest received		**5,310**	6,428
Net cash (used in)/ generated from investing activities		**(20,108)**	45,293
Financing activities			
Issue of shares upon exercise of share options	27(c)(ii)	**1,853**	–
Proceeds from new bank loans		**420,106**	155,135
Repayment of bank loans		**(445,804)**	(234,676)
Interest paid		**(1,754)**	(3,358)
Dividends paid		**(103,575)**	(21,022)
Net cash used in financing activities		**(129,174)**	(103,921)
Net (decrease)/ increase in cash and cash equivalents		**(40,682)**	51,887
Cash and cash equivalents at 1 January		**431,331**	380,713
Effect of foreign exchange rates changes		**830**	(1,269)
Cash and cash equivalents at 31 December	22(a)	**391,479**	431,331

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 1(c) 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 2011 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 that financial instruments classified as available-for-sale or as trading securities and derivative financial instruments are stated at their fair value (see notes 1(g) and (h)).

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 2.

(c) Changes in accounting policies

The HKICPA has issued a number of amendments to HKFRSs and one new Interpretation 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:

– HKAS 24 (revised 2009), *Related party disclosures*

– Improvements to HKFRSs (2010)

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

HKAS 24 (revised 2009) revises the definition of a related party. As a result, the Group has re-assessed the identification of related parties and concluded that the revised definition does not have any material impact on the Group's related party disclosures in the current and previous period. HKAS 24 (revised 2009) also introduces modified disclosure requirements for government-related entities. This does not impact the Group because the Group is not a government-related entity.

Improvements to HKFRSs (2010) omnibus standard introduces a number of amendments to the disclosure requirements in HKFRS 7, *Financial instruments: Disclosures.* The disclosures about the Group's financial instruments in notes 21 and 28 have been conformed to the amended disclosure requirements. These amendments do not have any material impact on the classification, recognition and measurements of the amounts recognised in the financial statements in the current and previous periods.

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(d) Subsidiaries and non-controlling interests

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

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

Non-controlling interests represent the equity in a subsidiary not attributable directly or indirectly to the Company, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability.

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

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

When the Group loses control of a subsidiary, it is accounted for as a disposal of the entire interest in that subsidiary, with a resulting gain or loss being recognised in profit 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(g)) or, when appropriate, the cost on initial recognition of an investment in an associate (see note 1(e)).

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

(e) 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 associate'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(f) and (k)). 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.

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.

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(e) Associates (continued)

When the Group ceases to have significant influence over an associate, it is accounted for as a disposal of the entire interest in that associate, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former associate 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(g)).

(f) Goodwill

Goodwill represents the excess of

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

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

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

Goodwill is stated at cost less accumulated impairment losses. Goodwill arising on a business combination is allocated to 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(k)).

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.

(g) 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(r)(ii) and 1(r)(iii) respectively.

Dated debt securities that the Group and/or the Company have the positive ability and intention to hold to maturity are classified as held-to-maturity securities. Held-to-maturity securities are stated at amortised cost less impairment losses (see note 1(k)).

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(k)).

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

(h) 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.

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(i) Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses (see note 1(k)).

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

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

–	Land and 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 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.

(j) Leased assets

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

(i) Classification of assets leased to the Group

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

– 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.

The cost of acquiring land held under an operating lease is amortised on a straight-line basis over the lease term. Impairment losses are recognised in accordance with the accounting policy set out in note 1(k).

(k) Impairment of assets

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

Investments in debt and equity securities 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.

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(k) Impairment of assets (continued)

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

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

– For investments in subsidiaries and associates (including those recognised using the equity method (see note 1(e))), the impairment loss is measured by comparing the recoverable amount of the investment with its carrying amount in accordance with note 1(k)(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(k)(ii).

– For unquoted equity securities carried at cost, the impairment loss is measured as the difference between the carrying amount of the financial asset and the estimated future cash flows, discounted at the current market rate of return for a similar financial asset, where the effect of discounting is material. Impairment losses for equity securities at cost 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 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:

– property, plant and equipment;

– interest in leasehold land held for own use under operating leases; and

– goodwill.

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(k) Impairment of assets (continued)

(ii) Impairment of other assets (continued)

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.

– *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 Listing Rules, 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(k)(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.

(l) Trade and other receivables

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost using the effective interest method, less allowance for impairment losses of doubtful debts (see note 1(k)), 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.

(m) 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(k)(i)).

(n) 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.

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(n) Inventories (continued)

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

(o) 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(t)(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.

(p) 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.

(q) 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.

(r) 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.

(s) Employee benefits

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

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

(ii) 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).

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(s) Employee benefits (continued)

(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.

(t) Financial guarantees issued, provisions and contingent liabilities

(i) Financial guarantees issued

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

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(t)(ii) if and when (i) it becomes probable that the holder of the guarantee will call upon the Group under the guarantee, and (ii) the amount of that claim on the Group is expected to exceed the amount currently carried in trade and other payables in respect of that guarantee i.e. the amount initially recognised, less accumulated amortisation.

(ii) Other provisions and contingent liabilities

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

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

(u) 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.

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(u) Income tax (continued)

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 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.

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

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

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.

(v) Research and development

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

(w) Borrowing costs

Borrowing costs are expensed in the period in which they are incurred.

(x) 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.

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 operations outside Hong Kong 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 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 an operation outside Hong Kong, the cumulative amount of the exchange differences relating to that operation is reclassified from equity to profit or loss when the gain or loss on disposal is recognised.

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(y) 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.

(z) Related parties

(1) A person, or a close member of that person's family, is related to the Group if that person:

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Group or the Group's parent.

(2) An entity is related to the Group if any of the following conditions applies:

(i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

(iii) Both entities are joint ventures of the same third party.

(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

(v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group.

(vi) The entity is controlled or jointly controlled by a person identified in (1).

(vii) A person identified in (1)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

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

(aa) 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.

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(aa) Segment reporting (continued)

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. ACCOUNTING JUDGEMENT AND ESTIMATES

Notes 26 and 28(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) Write-down of 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(n). 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 or loss.

(c) Depreciation

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.

(d) Recognition of deferred tax assets

The Group has recognised deferred tax assets which arose from deductible temporary differences as set out in note 25(b). The realisability of the deferred tax assets mainly depends on whether it is probable that future taxable profits or taxable temporary differences will be available against which the assets can be utilised. In case where the actual future taxable profits or taxable temporary differences generated are less than expected, a reversal of deferred tax assets may arise, which will be recognised in profit or loss for the period in which such a reversal takes place.

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 no customer with transactions which exceeded 10% of the Group's revenues (2010: one). In 2011, revenues from sales to the largest customer in terms of sales amount, including sales to entities which are known to the Group to be under common control with such customer, amounted to approximately $173,309,000 (2010: $356,223,000). Details of concentrations of credit risk arising from this customer are set out in note 28(a).

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

4. OTHER OPERATING INCOME

	2011 $'000	2010 $'000
Continuing operations		
Dividend income from listed equity securities	**12,522**	626
Interest income from listed debt securities	**1,621**	299
Interest income from unlisted debt securities	**6,318**	6,185
Other interest income	**1,378**	3,378
Reversal of liabilities recognised in respect of a disposal of a subsidiary (note 9)	**83,860**	–
Net (loss)/gain on disposal of fixed assets	**(992)**	2,152
Net gain/(loss) on disposal of subsidiaries*	**36,689**	(1,215)
Available-for-sale securities: reclassified from equity on disposal (note 11)	**–**	2,618
Net realised and unrealised (losses)/ gains on trading securities	**(135,000)**	84,561
Unrealised gains on derivative financial assets	**–**	86
Exchange loss	**(4,848)**	(9,146)
Other income	**21,935**	4,048
	23,483	93,592
Discontinued operation		
Interest income	**–**	37
Exchange loss	**–**	(2,764)
	–	(2,727)
	23,483	90,865

* During the year ended 31 December 2011, the Group has disposed of its 100% interests in a subsidiary which held unlisted equity securities (see note 18) at a consideration of $38,750,000 which resulted a net gain of $37,385,000 in the profit or loss.

During the year ended 31 December 2011, the Group has also disposed of its 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 $696,000. Upon the completion of disposal, the Group has obtained a waiver from the non-controlling interests on the net assets of a disposed subsidiary attributable to the non-controlling interests. Such waiver relating to net assets amounted to $8,254,000 and transferred to retained earnings directly within equity.

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.

5. PROFIT BEFORE TAXATION

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

		2011 $'000	2010 $'000
(a)	**Finance costs**		
	Continuing operations		
	Interest on bank advances and other borrowings wholly repayable within five years	**1,754**	3,358
(b)	**Impairment losses recognised/ (written-back)**		
	Continuing operations		
	Trade and other receivables:		
	– in respect of doubtful debts	**1,204**	(99)
	– in respect of sales returns provision	**2,733**	(707)
	Inventories	**(5,143)**	20,581
(c)	**Other items**		
	Continuing operations		
	Cost of inventories	**1,631,132**	1,797,867
	Auditors' remuneration	**3,925**	3,472
	Research and development costs	**128,722**	101,149
	Operating lease charges: minimum lease payments		
	– hire of assets (including property rentals)	**2,794**	3,047
	Contributions to defined contribution retirement plans	**17,373**	10,378
	Equity-settled share-based payment expenses (note 26)	**3,687**	2,543

6. DIRECTORS' REMUNERATION

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

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

Year ended 31 December 2011

	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	**–**	**2,811**	**400**	**120**	**621**	**3,952**
Tsoi Tong Hoo, Tony	**–**	**5,400**	**4,000**	**240**	**621**	**10,261**
Ho Te Hwai, Cecil	**–**	**1,540**	**300**	**12**	**392**	**2,244**
Yuen Kin	**–**	**2,160**	**300**	**12**	**261**	**2,733**
Non-executive Directors						
Dr. Lo Wing Yan, William	**200**	**–**	**–**	**–**	**131**	**331**
Hou Ziqiang	**200**	**–**	**–**	**–**	**131**	**331**
Chau Shing Yim, David	**200**	**–**	**–**	**–**	**131**	**331**
Total	**600**	**11,911**	**5,000**	**384**	**2,288**	**20,183**

7. INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, four (2010: four) are Directors, whose emoluments are disclosed in note 6. The aggregate of the emoluments in respect of the other one (2010: one) individual is as follows:

	2011 $'000	2010 $'000
Salaries and allowances	1,593	13,128
Retirement scheme contributions	92	6
	1,685	13,134

8. INCOME TAX IN THE CONSOLIDATED INCOME STATEMENT

(a) Continuing operations

(i) Taxation in the consolidated income statement represents:

	2011 $'000	2010 $'000
Current tax – Hong Kong Profits Tax		
Provision for Hong Kong Profits Tax for the year	8,264	16,882
(Over)/under-provision in respect of prior years	(3,345)	11,340
	4,919	28,222
Current tax – Overseas		
Provision for the year	25,322	15,887
Over-provision in respect of prior years	(233)	–
	25,089	15,887
Deferred tax		
Origination and reversal of temporary differences (note 25(b))	(2,992)	2,826
	27,016	46,935

The provision for Hong Kong Profits Tax is calculated at 16.5% (2010: 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.

In prior years, 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. The subsidiary reached an agreement with the IRD for settlement for the years of assessment 1994/95 to 2003/04 in 2006. During the year ended 31 December 2011, the subsidiary reached an agreement with the IRD to settle the disputes in relation to the years of assessment 2004/05 to 2009/10 based on a revised assessment of the subsidiary's tax liabilities in relation to the relevant years of assessment. Provisions for Hong Kong Profits Tax in relation to the aforesaid years of assessment had been made in prior years and the excessive provision of $3,345,000 has been credited to profit or loss upon the settlement of the tax dispute. The directors consider that provisions and tax payments made are sufficient and there was no outstanding tax dispute as at 31 December 2011.

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

	2011 $'000	2010 $'000
Profit before taxation	195,043	266,782
Notional tax expense on profit before taxation, calculated at the rates applicable to profits in the tax jurisdictions concerned	36,582	43,133
Tax effect of non-deductible expenses	4,456	14,209
Tax effect of non-taxable income	(9,532)	(26,049)
Tax effect of prior year's tax losses utilised this year	(36)	–
Tax effect of unused tax losses not recognised	782	1,257
(Reversal)/provision of tax liabilities in respect of unremitted earnings in relation to prior years	(1,658)	3,045
(Over)/under-provision in respect of prior years	(3,578)	11,340
Actual tax expense	27,016	46,935

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

(b) Discontinued operation

(i) There were no current tax expenses for the years ended 31 December 2011 and 2010.

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

	2011 **$'000**	2010 $'000
Loss before taxation	–	(9,652)
Notional tax credit on loss before taxation calculated at the rate applicable to profits in the tax jurisdictions concerned	–	(1,447)
Tax effect of non-deductible expenses	–	1,447
Actual tax expense	–	–

9. DISCONTINUED OPERATION

On 30 December 2009, the Group passed a written resolution to proceed with a voluntary winding-up of two wholly-owned subsidiaries, Varitronix Marketing (China) Limited ("Varitronix Marketing") and Varitronix Pengyuan Electronics Limited ("Varitronix Pengyuan"). 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, both companies were placed into liquidation and at that time the directors had recognised a disposal of these companies. At the time of deconsolidating Varitronix Marketing and Varitronix Pengyuan from the Group, the Group had recognised a related liability of $82,953,000 and no profit or loss on disposal had been recognised.

In August 2011, the liquidation process was concluded upon the declaration of bankruptcy of Varitronix Pengyuan under the relevant legislation. There were no claims made against the Group in the capacity of the then shareholders of Varitronix Pengyuan. The directors consider that the Group is no longer obligated to settle the aforesaid related liability of $83,860,000 as being remeasured at the corresponding exchange rate between Hong Kong dollar and Renminbi as of the date of derecognition. Accordingly, the related liability was derecognised and credited to profit or loss during the year ended 31 December 2011.

Upon the conclusion of liquidation process of Varitronix Pengyuan, an amount of $30,320,000 included in other reserves, represented the consideration paid in excess of the net assets attributable to the non-controlling interests at the time of acquisition of such interests in Varitronix Pengyuan, has been transferred to retained earnings.

(a) The results of the discontinued operation for the years ended 31 December 2011 and 2010 are as follows:

	2011 **$'000**	2010 $'000
Other operating loss (note 4)	–	(2,727)
Staff costs	–	(5,984)
Other operating expenses	–	(941)
Loss from operation and before taxation	–	(9,652)
Income tax	–	–
Loss for the year from discontinued operation attributable to equity shareholders of the Company	–	(9,652)

(b) The net cash flows of the discontinued operation for the years ended 31 December 2011 and 2010 are as follows:

	2011 **$'000**	2010 $'000
Net cash outflow from operating activities	–	(2,936)
Net cash inflow from investing activities	–	32
Net cash outflow from financing activities	–	(75,199)
Net cash outflow of the discontinued operation	–	(78,103)

10. PROFIT ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF THE COMPANY

The consolidated profit attributable to equity shareholders of the Company includes a profit of $338,000 (2010: $1,792,000) 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:

	2011 $'000	2010 $'000
Amount of consolidated profit attributable to equity shareholders dealt with in the Company's financial statements	**338**	1,792
Dividends from subsidiaries attributable to the profits of subsidiaries, approved and paid during the year	**86,000**	21,000
Company's profit for the year (note 27(a))	**86,338**	22,792

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:

	2011 $'000	2010 $'000
Foreign currency translation adjustments:		
– exchange differences on translation of financial statements of operations outside Hong Kong	**15,334**	3,110
– transfer to profit or loss on disposal of operations outside Hong Kong	**(167)**	1,504
Net movement in the exchange reserve during the year recognised in other comprehensive income	**15,167**	4,614

	2011 $'000	2010 $'000
Available-for-sale securities:		
Changes in fair value recognised during the year	**(5,797)**	4,686
Reclassification adjustments for amounts transferred to profit or loss: – gain on disposal	**–**	(2,618)
Net movement in the fair value reserve during the year recognised in other comprehensive income	**(5,797)**	2,068

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 $168,027,000 (2010: $210,496,000) and the weighted average number of shares of 323,713,973 shares (2010: 323,422,204 shares) in issue during the year, calculated as follows:

(i) Profit attributable to equity shareholders of the Company

	2011 Profit attributable to equity shareholders $'000	2010 Profit/(loss) attributable to equity shareholders $'000
Continuing operations	**168,027**	220,148
Discontinued operation	**–**	(9,652)
	168,027	210,496
Weighted average number of ordinary shares	**323,713,973**	323,422,204

(ii) Weighted average number of ordinary shares

	2011	2010
Issued ordinary shares at 1 January	**323,422,204**	323,422,204
Effect of share options exercised (note 27(c)(ii))	**291,769**	–
Weighted average number of ordinary shares at 31 December	**323,713,973**	323,422,204

12. EARNINGS PER SHARE (CONTINUED)

(b) Diluted earnings per share

The calculation of diluted earnings per share is based on the consolidated profit attributable to equity shareholders of the Company of $168,027,000 (2010: $210,496,000) and the weighted average number of shares of 327,234,423 shares (2010: 323,422,204 shares), calculated as follows:

(i) Profit attributable to equity shareholders of the Company (diluted)

	2011 Profit attributable to equity shareholders $'000	2010 Profit/(loss) attributable to equity shareholders $'000
Continuing operations	**168,027**	220,148
Discontinued operation	**–**	(9,652)
	168,027	210,496
Weighted average number of ordinary shares (diluted)	**327,234,423**	323,422,204

(ii) Weighted average number of ordinary shares (diluted)

	2011	2010
Weighted average number of ordinary shares at 31 December	**323,713,973**	323,422,204
Effect of deemed issue of shares under the Company's share option scheme for nil consideration (note 26)	**3,520,450**	–
Weighted average number of ordinary shares (diluted) at 31 December	**327,234,423**	323,422,204

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 consolidated 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

	2011 $'000	2010 $'000
Continuing operations		
Europe	**886,000**	750,638
Hong Kong and the PRC (place of domicile)	**566,542**	667,900
Korea	**278,384**	478,196
America	**264,081**	241,921
Others	**136,403**	117,196
Consolidated turnover	**2,131,410**	2,255,851

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

	2011 $'000	2010 $'000
France	**224,786**	172,896
Germany	**149,958**	186,197
Italy	**71,288**	60,410
United Kingdom	**65,484**	47,547
Other European countries	**374,484**	283,588
	886,000	750,638

13. SEGMENT REPORTING (CONTINUED)

(b) Geographic information (CONTINUED)

(ii) Group's specified non-current assets

	2011 $'000	2010 $'000
Continuing operations		
Hong Kong and the PRC (place of domicile)	**275,649**	317,199
Germany	**103,935**	97,533
Korea	**3,738**	4,372
Others	**3,358**	3,830
	386,680	422,934

There were no specified non-current assets held as of 31 December 2010 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	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
At 1 January 2011	**92,444**	**855,253**	**167,080**	**1,114,777**	**11,258**	**1,126,035**
Exchange adjustments	**2,539**	**19,333**	**3,559**	**25,431**	**318**	**25,749**
Additions	**–**	**28,499**	**5,557**	**34,056**	**9,148**	**43,204**
Disposals	**–**	**(34,945)**	**(6,054)**	**(40,999)**	**–**	**(40,999)**
At 31 December 2011	**94,983**	**868,140**	**170,142**	**1,133,265**	**20,724**	**1,153,989**

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	Interest in leasehold land held for own use under operating leases $'000	Total $'000
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
At 1 January 2011	**28,270**	**634,949**	**136,117**	**799,336**	**5,670**	**805,006**
Exchange adjustments	**635**	**11,389**	**2,688**	**14,712**	**94**	**14,806**
Charge for the year	**2,893**	**82,930**	**8,636**	**94,459**	**676**	**95,135**
Written back on disposals	**–**	**(33,949)**	**(6,016)**	**(39,965)**	**–**	**(39,965)**
At 31 December 2011	**31,798**	**695,319**	**141,425**	**868,542**	**6,440**	**874,982**
Net book value:						
At 31 December 2011	**63,185**	**172,821**	**28,717**	**264,723**	**14,284**	**279,007**
At 31 December 2010	64,174	220,304	30,963	315,441	5,588	321,029

(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:

	2011 $'000	2010 $'000
In Hong Kong		
– medium-term leases	**7,442**	7,760
Outside Hong Kong		
– freehold	**7,941**	8,242
– medium-term leases	**62,086**	53,760
	70,027	62,002
	77,469	69,762
Representing:		
Land and buildings held for own use	**63,185**	64,174
Interest in leasehold land held for own use under operating leases	**14,284**	5,588
	77,469	69,762

15. INVESTMENTS IN SUBSIDIARIES

	The Company 2011 $'000	2010 $'000
Unlisted shares, at cost	**101,453**	101,453
Amounts due from subsidiaries	**529,991**	545,262
	631,444	646,715

All of these are controlled subsidiaries as defined under note 1(d) 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 from the end of the reporting period.

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 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

15. INVESTMENTS 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)

			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
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 Euro15.25 each	100%	–	100%	Marketing and sales consultants
Varitronix GmbH	Germany	100,000 shares of Euro0.51 each	100%	–	100%	Marketing and sales consultants
# Varitronix (Heyuan) Display Technology Limited	The People's Republic of China	Paid-up registered capital RMB458,785,302	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 Euro1 each	100%	–	100%	Marketing and sales consultants
Varitronix (Macao Commercial Offshore) Limited	Macau	Registered capital MOP100,000	100%	–	100%	Trading of electronic components
Varitronix Marketing Limited	British Virgin Islands/ United Kingdom	1,000 shares of US$1 each	100%	–	100%	Investment holding
Varitronix (Switzerland) GmbH	Switzerland	Registered capital 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) Display Technology Limited	Wholly Foreign Owned Enterprise

16. INTEREST IN ASSOCIATES

	The Group 2011 $'000	2010 $'000
Share of net assets	**106,487**	100,684
Amount due from an associate	**1,186**	1,221
	107,673	101,905

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

(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 Euro1 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 2011 was Euro 11.50 (2010: Euro 13.25) per share. The market value of the Group's effective interest in Data Modul as at 31 December 2011 is Euro 8,110,000 (2010: Euro 9,344,000) (equivalent to $81,589,000 (2010: $97,088,000)).

(b) Summary of financial information on associates

	Assets $'000	Liabilities $'000	Equity $'000	Revenues $'000	Profits $'000
2011					
100 percent	**857,813**	**(333,034)**	**524,779**	**1,181,443**	**46,185**
Group's effective interest	**173,987**	**(67,500)**	**106,487**	**240,517**	**8,932**
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

17. LOANS RECEIVABLE

Loans receivable represent loans which are unsecured, interest bearing at rates ranging from 4% to 5% per annum and are fully repayable within two years after 2011. Management considers that these loans are recoverable in full.

The loans receivable are repayable as follows:

	The Group		The Company	
	2011	2010	**2011**	2010
	$'000	$'000	**$'000**	$'000
Within 1 year *	**–**	21,689	**–**	–
After 1 year but within 5 years	**71,918**	70,201	**71,918**	70,201
	71,918	91,890	**71,918**	70,201

* The current portion of loans receivable had been included in trade and other receivables (note 21).

18. OTHER FINANCIAL ASSETS

	The Group		The Company	
	2011	2010	**2011**	2010
	$'000	$'000	**$'000**	$'000
Available-for-sale debt securities				
Listed outside Hong Kong, carried at fair value	**7,983**	9,068	**–**	–
Available-for-sale mutual funds				
Unlisted, carried at fair value	**5,209**	7,152	**–**	–
Available-for-sale equity securities				
Listed in Hong Kong	**10,748**	13,517	**–**	–
Unlisted, carried at cost	**154,979**	156,346	**154,979**	154,979
	165,727	169,863	**154,979**	154,979
Held-to-maturity debt securities				
Listed outside Hong Kong, carried at amortised cost	**24,600**	–	**–**	–
Total other financial assets	**203,519**	186,083	**154,979**	154,979

The held-to-maturity debt securities are not past due or impaired. The listed debt securities are issued by a corporate entity.

Movements in other financial assets are as follows:

	The Group		The Company	
	2011	2010	**2011**	2010
	$'000	$'000	**$'000**	$'000
At 1 January	**186,083**	182,798	**154,979**	154,979
Additions	**23,800**	1,365	**–**	–
Exchange adjustment	**798**	–	**–**	–
Disposals	**(1,365)**	(2,766)	**–**	–
Revaluation (deficit)/surplus	**(5,797)**	4,686	**–**	–
Total	**203,519**	186,083	**154,979**	154,979

During the year ended 31 December 2011, the Group entered into a share transfer agreement with an independent third party under which the Group disposed of its entire 100% equity interest in a subsidiary, Clear Ray Holdings Limited ("Clear Ray") which held an unlisted equity investment carried at cost. The transaction was completed on 28 December 2011 and Clear Ray had ceased to be a subsidiary of the Group since then. There were no other material assets or liabilities relating to Clear Ray as of the date of the transaction. The resulted gain on disposal of $37,385,000 (note 4), which mainly represented the accumulated fair value gain of the unlisted equity investment held by Clear Ray, was recognised in profit or loss during the year ended 31 December 2011.

19. TRADING SECURITIES (AT FAIR VALUE)

	The Group	
	2011	2010
	$'000	$'000
Listed debt securities at fair value		
– outside Hong Kong	**2,885**	3,424
Listed equity securities at fair value		
– in Hong Kong	**123,868**	143,129
– outside Hong Kong	**11,763**	86,303
	135,631	229,432
Total	**138,516**	232,856

20. INVENTORIES

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

	The Group	
	2011	2010
	$'000	$'000
Raw materials	**141,500**	117,118
Work in progress	**94,716**	73,988
Finished goods	**99,459**	94,668
	335,675	285,774

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

	The Group	
	2011	2010
	$'000	$'000
Continuing operations		
Carrying amount of inventories sold	**1,636,275**	1,777,286
Write down of inventories	**244**	24,851
Reversal of write down of inventories	**(5,387)**	(4,270)
	1,631,132	1,797,867

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 customer preferences.

21. TRADE AND OTHER RECEIVABLES

	The Group		The Company	
	2011	2010	**2011**	2010
	$'000	$'000	**$'000**	$'000
Trade debtors and bills receivable	**416,018**	408,033	**–**	–
Less: Allowance for doubtful debts	**(1,885)**	(681)	**–**	–
Allowance for sales returns	**(5,260)**	(2,527)	**–**	–
	408,873	404,825	**–**	–
Other receivables	**15,177**	37,945	**405**	419
	424,050	442,770	**405**	419
Loans receivable (note 17)	**–**	21,689	**–**	–
	424,050	464,459	**405**	419
Deposits and prepayments	**13,561**	7,286	**334**	336
Continuing operations	**437,611**	471,745	**739**	755

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	
	2011	2010
	$'000	$'000
Within 60 days of the invoice issue date	**294,504**	335,062
61 to 90 days after the invoice issue date	**70,090**	40,903
91 to 120 days after the invoice issue date	**27,981**	19,024
More than 120 days but less than 12 months after the invoice issue date	**16,298**	9,836
	408,873	404,825

Trade debtors and bills receivable are due within 90 days from the date of billing. Further details on the Group's credit policy are set out in note 28(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(k)).

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

	The Group	
	2011	2010
	$'000	$'000
At 1 January	**681**	780
Impairment loss recognised/ (reversed)	**1,204**	(99)
At 31 December	**1,885**	681

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	
	2011	2010
	$'000	$'000
At 1 January	**2,527**	3,234
Sales returns provision recognised/ (reversed)	**2,733**	(707)
At 31 December	**5,260**	2,527

At 31 December 2011, the Group's and the Company's trade debtors and bills receivable of $1,885,000 (2010: $700,000) and $Nil (2010: $Nil) respectively were individually determined to be impaired. The individually impaired receivables related to customers those were in financial difficulties and management assessed that only a portion of the receivables is expected to be recovered. Consequently, specific allowances for doubtful debts of $1,885,000 (2010: $681,000) and $Nil (2010: $Nil) respectively were recognised.

(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	
	2011	2010
	$'000	$'000
Neither past due nor impaired	**295,533**	336,104
Less than 1 month	**70,639**	41,001
1 to 2 months	**28,180**	19,250
More than 2 months but less than 12 months	**19,781**	10,978
	118,600	71,229
	414,133	407,333

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.

22. CASH AND CASH EQUIVALENTS

(a) Cash and cash equivalents comprise:

	The Group		The Company	
	2011	2010	**2011**	2010
	$'000	$'000	**$'000**	$'000
Deposits with banks and other financial institutions	**250,055**	130,150	**–**	–
Cash at bank and in hand	**141,424**	301,181	**983**	1,600
Cash and cash equivalents in the statement of financial position and consolidated cash flow statement	**391,479**	431,331	**983**	1,600

(b) Reconciliation of profit before taxation to cash generated from operations:

	Note	**2011** **$'000**	2010 $'000
Profit before taxation from			
– continuing operations		**195,043**	266,782
– discontinued operation	9(a)	**–**	(9,652)
		195,043	257,130
Adjustments for:			
Depreciation		**95,135**	95,354
(Reversal)/provision of impairment loss in respect of inventories	5(b)	**(5,143)**	20,581
Finance costs	5(a)	**1,754**	3,358
Dividend income from listed equity securities	4	**(12,522)**	(626)
Interest income		**(9,317)**	(9,899)
Reclassification from equity on disposal of available-for-sale securities	4	**–**	(2,618)
Net realised and unrealised losses/(gains) on trading securities	4	**135,000**	(84,561)
Unrealised gains on derivative financial assets	4	**–**	(86)
Share of profits less losses of associates		**(8,932)**	(2,210)
Reversal of liabilities recognised in respect of a disposal of a subsidiary	4	**(83,860)**	–
Net loss/(gain) on disposal of fixed assets	4	**992**	(2,152)
Net (gain)/loss on disposal of subsidiaries	4	**(36,689)**	1,215
Equity-settled share-based payment expenses	5(c)	**3,687**	2,543
Foreign exchange loss		**3,177**	3,122
		278,325	281,151
Changes in working capital:			
Increase in inventories		**(44,639)**	(30,525)
Decrease in trade and other receivables		**5,147**	13,529
Decrease in trade and other payables		**(79,433)**	(132)
Decrease in assets of a discontinued operation		**–**	23,623
Decrease in liabilities relating to a discontinued operation		**–**	(163,307)
Cash generated from operations		**159,400**	124,339

23. BANK LOANS

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

	The Group	
	2011	2010
	$'000	$'000
Within 1 year or on demand	**153,511**	177,842

All of the Group's banking facilities are subject to the fulfilment of covenants relating to the Group's 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. Such banking facilities amounted to $292,000,000 (2010: $356,500,000) as at 31 December 2011. The facilities were utilised to the extent of $153,511,000 (2010: $177,842,000). Further details of the Group's management of liquidity risk are set out in note 28(b). As at 31 December 2011 and 2010, none of the covenants relating to drawn down facilities had been breached.

24. TRADE AND OTHER PAYABLES

	The Group		The Company	
	2011	2010	**2011**	2010
	$'000	$'000	**$'000**	$'000
Trade and other creditors	**296,080**	326,738	**–**	–
Accrued charges	**67,671**	84,493	**6,806**	9,296
Fixed assets payable	**–**	35,368	**–**	–
Liabilities recognised in respect of a disposed subsidiary (note 9)	**–**	82,953	**–**	–
Continuing operations	**363,751**	529,552	**6,806**	9,296

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	
	2011	2010
	$'000	$'000
Within 60 days of supplier invoice date	**243,212**	238,082
61 to 120 days after supplier invoice date	**49,425**	69,104
More than 120 days but within 12 months after supplier invoice date	**3,161**	19,216
More than 12 months after supplier invoice date	**282**	336
	296,080	326,738

25. INCOME TAX IN THE STATEMENT OF FINANCIAL POSITION

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

	The Group	
	2011	2010
	$'000	$'000
Provision for Hong Kong Profits Tax for the year	**8,264**	16,882
Provisional Hong Kong Profits Tax paid	**(7,840)**	(4)
	424	16,878
Balance of Hong Kong Profits Tax relating to prior years	**9,213**	12,678
Overseas taxation	**428**	1,301
	10,065	30,857
Current tax recoverable	**(2,845)**	(1,224)
Current tax payable	**12,910**	32,081
Continuing operations	**10,065**	30,857

(b) Deferred tax assets and liabilities recognised:

The Group

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

Deferred tax arising from:	**Depreciation allowances in excess of the related depreciation $'000**	**Provisions $'000**	**Unremitted earnings of subsidiaries $'000**	**Total $'000**
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
At 1 January 2011	**(22)**	**(113)**	**3,045**	**2,910**
Charged/(credited) to profit or loss (note 8(a))	**160**	**(107)**	**(3,045)**	**(2,992)**
At 31 December 2011	**138**	**(220)**	**–**	**(82)**

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

	2011	2010
	$'000	$'000
Net deferred tax assets recognised in the statement of financial position	**(237)**	(213)
Net deferred tax liabilities recognised in the statement of financial position	**155**	3,123
	(82)	2,910

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

(c) Deferred tax assets not recognised

In accordance with the accounting policy set out in note 1(u), the Group has not recognised deferred tax assets in respect of cumulative tax losses of $26,151,000 (2010: $21,283,000) 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.

26. 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 of Hong Kong (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.

26. 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
– 30 August 2001	96,500	Immediate from the date of grant	10 years
– 13 September 2002	99,000	Immediate from the date of grant	10 years
– 6 October 2003	126,000	Immediate from the date of grant	10 years
– 20 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:

	2011		2010	
	Weighted average exercise price	**Number of options**	Weighted average exercise price	Number of options
Outstanding at the beginning of the year	**$4.508**	**27,018,500**	$6.114	15,532,500
Exercised during the year	**$2.564**	**(723,000)**	N/A	–
Forfeited during the year	**$2.529**	**(263,500)**	$11.300	(214,000)
Granted during the year	**N/A**	**–**	$2.500	11,700,000
Outstanding at the end of the year	**$4.582**	**26,032,000**	$4.508	27,018,500
Exercisable at the end of the year		**16,872,000**		15,318,500

The weighted average share price at the date of exercise for share options exercised during the year was $4.99 (2010: not applicable).

The options outstanding at 31 December 2011 had an exercise price which ranged from $2.50 to $7.50 (2010: $2.50 to $7.50) and a weighted average remaining contractual life of 3.94 years (2010: 4.94 years).

26. 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 were incorporated into the Black-Scholes pricing model.

Fair value of and assumptions for share options granted on 24 June 2010	
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 were 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.

27. 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 27(d)(i)) $'000	Contributed surplus (note 27(d)(ii)) $'000	Capital reserve (note 27(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	27(b)(ii)	–	–	–	–	(3,234)	(3,234)
Profit and 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	27(b)(i)	–	–	–	–	(17,788)	(17,788)
Balance at 31 December 2010		80,856	695,336	51,636	13,916	23,210	864,954

27. CAPITAL, RESERVES AND DIVIDENDS (CONTINUED)

(a) Movements in components of equity (continued)

	Note	Share capital $'000	Share premium (note 27(d)(i)) $'000	Contributed surplus (note 27(d)(ii)) $'000	Capital reserve (note 27(d)(v)) $'000	Retained profits $'000	Total $'000
Balance at 1 January 2011		80,856	695,336	51,636	13,916	23,210	864,954
Changes in equity for 2011:							
Final dividends approved in respect of the previous year	27(b)(ii)	–	–	–	–	(67,919)	(67,919)
Profit and total comprehensive income for the year	10	–	–	–	–	86,338	86,338
Share issued under share option scheme	27(c)(ii)	180	2,246	–	(573)	–	1,853
Equity settled share-based transactions		–	–	–	3,687	–	3,687
Interim dividend declared in respect of the current year	27(b)(i)	–	–	–	–	(35,656)	(35,656)
Balance at 31 December 2011		81,036	697,582	51,636	17,030	5,973	853,257

(b) Dividends

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

	2011 $'000	2010 $'000
Interim dividend declared and paid of 11.0 cents (2010: 5.5 cents) per share	35,656	17,788
Final dividend proposed after the end of reporting period of 15.5 cents (2010: 21.0 cents) per share	50,243	67,919
	85,899	85,707

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

	2011 $'000	2010 $'000
Final dividend in respect of the previous financial year, approved and paid during the year, of 21.0 cents (2010: 1.0 cent) per share	67,919	3,234

27. CAPITAL, RESERVES AND DIVIDENDS (CONTINUED)

(c) Share capital

(i) Authorised and issued share capital

	2011		2010	
	No. of shares '000	**Amount $'000**	No. of shares '000	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	**323,422**	**80,856**	323,422	80,856
Shares issued under share option scheme	**723**	**180**	–	–
At 31 December	**324,145**	**81,036**	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.

(ii) Shares issued under share option scheme

During the year ended 31 December 2011, options have been exercised to subscribe for 723,000 ordinary shares in the Company at a consideration of $1,853,000 of which $180,000 was credited to share capital and the balance of $1,673,000 was credited to the share premium account. $573,000 has been transferred from the capital reserve to the share premium account in accordance with policy set out in note 1(s)(ii).

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

Exercise period	Exercise price HK$	**2011 Number**	2010 Number
30 August 2001 to 29 August 2011	3.060	**–**	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	**10,810,000**	11,700,000
		26,032,000	27,018,500

Each option entitles the holder to subscribe for one ordinary share in the Company. Further details of these options are set out in note 26 to the financial statements.

27. CAPITAL, RESERVES AND DIVIDENDS (CONTINUED)

(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 operations outside Hong Kong. The reserve is dealt with in accordance with the accounting policies set out in note 1(x).

(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(g) and 1(k).

(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(s).

(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.

(vii) Distributability of reserves

At 31 December 2011, the aggregate amount of reserves available for distribution to shareholders of the Company was $57,609,000 (2010: $74,846,000).

(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 and 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 2011, the Group's strategy, which was unchanged from 2010, 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.

The adjusted net debt-to-capital ratio at 31 December 2011 and 2010 was as follows:

		The Group	
	Note	**2011 $'000**	2010 $'000
Current liabilities			
Trade and other payables	24	**363,751**	529,552
Bank loans	23	**153,511**	177,842
		517,262	707,394
Non-current liabilities			
Other payables		**2,214**	3,186
Total debt		**519,476**	710,580
Add: Proposed dividends		**50,243**	67,919
Less: Trading securities	19	**(138,516)**	(232,856)
Cash and cash equivalents	22	**(391,479)**	(431,331)
Net debt		**39,724**	114,312
Total equity		**1,435,939**	1,356,577
Less: Proposed dividends		**(50,243)**	(67,919)
Adjusted capital		**1,385,696**	1,288,658
Adjusted net debt-to-capital ratio		**3%**	9%

27. CAPITAL, RESERVES AND DIVIDENDS (CONTINUED)

(e) Capital management (continued)

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 23).

28. 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 cash at bank, deposits with banks and other financial institutions, trade and other receivables, loans receivable and investments in debt and equity securities. 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. Given their high credit standing, management does not expect any investment counterparty to fail to meet its obligations. Cash at bank and deposits with banks and other financial institutions are placed with licensed financial institutions with high credit ratings. The Group monitors the exposure to each financial institution.

In respect of trade and other receivables, credit evaluations are performed on all customers requiring credit over a certain amount. The status of the receivable is closely monitored to minimise any credit risk associated with these receivables. Trade receivables are due within 90 days from the date of billing. Normally, the Group does not obtain collateral from customers.

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, 7% (2010: 10%) and 16% (2010: 17%) 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 30, 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 30.

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 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:

28. FINANCIAL RISK MANAGEMENT AND FAIR VALUES (CONTINUED)

(b) Liquidity risk (continued)

The Group

	2011 Contractual undiscounted cash outflow					2010 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	**153,746**	**–**	**–**	**153,746**	**153,511**	178,043	–	–	178,043	177,842
Trade and other payables	**363,751**	**1,107**	**1,107**	**365,965**	**365,965**	529,552	1,062	2,124	532,738	532,738
	517,497	**1,107**	**1,107**	**519,711**	**519,476**	707,595	1,062	2,124	710,781	710,580

The Company

	2011 Contractual undiscounted cash outflow			2010 Contractual undiscounted cash outflow		
	Within 1 year or on demand $'000	**Total $'000**	**Carrying amount at 31 December $'000**	Within 1 year or on demand $'000	Total $'000	Carrying amount at 31 December $'000
Trade and other payables	**6,806**	**6,806**	**6,806**	9,296	9,296	9,296
Financial guarantees issued:						
Maximum amount guaranteed (note 30)	**153,746**	**153,746**	**153,511**	178,043	178,043	177,842

28. FINANCIAL RISK MANAGEMENT AND FAIR VALUES (CONTINUED)

(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 $71,918,000 (2010: $91,890,000) and held-to-maturity debt securities of $24,600,000 (2010: $Nil) 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. In respect of available-for-sale debt securities of $7,983,000 (2010: $9,068,000) carried at fair value, they bear fixed interest rates and do not expose the Group to cash flow interest rate risk but expose the Group to fair value interest rate risk. 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			
	2011 Effective interest rate %	**$'000**	2010 Effective interest rate %	$'000
Variable rate borrowings:				
Bank loans	**1.26**	**153,511**	1.44	177,842

(ii) Sensitivity analysis

At 31 December 2011, 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 $1,282,000 (2010: $1,485,000). Other components of equity would not be materially affected 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 2010.

28. 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, loans receivable made and other financial assets acquired which are denominated in a foreign currency. The currencies giving rise to these risks are primarily United States dollars, Euros, Japanese Yen, Renminbi, Korean Won and British Pounds.

There is currently no hedging policy adopted by the Group with respect to its foreign exchange exposure. Most of the sales and purchases are made in the respective functional currency of each group entity, except for group entities whose functional currency is Hong Kong dollars, certain transactions are denominated in United States dollars and Japanese Yen. Given the Hong Kong dollar is pegged to the United States dollar, the Group do not expect that there will be any significant currency risk associated with such United States dollars denominated transactions. In respect of balances denominated in other currencies, the Group ensures that the net exposure is kept to an acceptable level by buying or selling foreign currencies at spot rates where necessary to address short-term imbalances.

(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 operations outside Hong Kong into the Group's presentation currency are excluded.

	2011 Exposure to foreign currencies (expressed in Hong Kong dollars)						2010 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	**314,635**	**428**	**–**	**–**	**–**	**–**	308,418	16,431	–	–	–	–
Other financial assets	**–**	**–**	**–**	**24,600**	**–**	**–**	–	–	–	–	–	–
Loans receivable	**–**	**–**	**–**	**–**	**71,918**	**–**	21,689	–	–	–	70,201	–
Cash and cash equivalents	**210,055**	**8,835**	**16**	**25,722**	**–**	**954**	231,197	24,313	6	327	–	974
Trade and other payables	**(114,819)**	**(228)**	**(63,578)**	**(2)**	**–**	**–**	(160,396)	(239)	(42,567)	(82,955)	–	–
Bank loans	**(70,452)**	**–**	**(70,559)**	**–**	**–**	**–**	(76,956)	–	(30,552)	–	–	–
	339,419	**9,035**	**(134,121)**	**50,320**	**71,918**	**954**	323,952	40,505	(73,113)	(82,628)	70,201	974
The Company												
Trade and other receivables	**–**	**–**	**–**	**–**	**–**	**–**	419	–	–	–	–	–
Cash and cash equivalents	**686**	**–**	**–**	**–**	**–**	**–**	1,517	–	–	–	–	–
Loans receivable	**–**	**–**	**–**	**–**	**71,918**	**–**	–	–	–	–	70,201	–
	686	**–**	**–**	**–**	**71,918**	**–**	1,936	–	–	–	70,201	–

In addition, the Group exposed to currency risk arising from inter-company receivables and payables denominated in currency other than the functional currency of either the lender or the borrower. The net inter-company receivables/(payables) amounted to United States dollars 7,867,000 and Renminbi (119,981,073) (2010: United States dollars 8,042,000 and Renminbi (120,633,000)).

28. 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 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 for group entities whose functional currency is Hong Kong dollar.

	2011			2010		
	Increase/ (decrease) in foreign exchange rates	Increase/ (decrease) in profit after taxation $'000	Increase/ (decrease) in retained profits $'000	Increase/ (decrease) in foreign exchange rates	Increase/ (decrease) in profit after taxation $'000	Increase/ (decrease) in retained profits $'000
The Group						
United States dollars	**10%**	**4,715**	**4,715**	10%	4,053	4,053
	(10)%	**(4,715)**	**(4,715)**	(10)%	(4,053)	(4,053)
Euros	**10%**	**900**	**900**	10%	3,783	3,783
	(10)%	**(900)**	**(900)**	(10)%	(3,783)	(3,783)
Japanese Yen	**10%**	**(12,363)**	**(12,363)**	10%	(6,609)	(6,609)
	(10)%	**12,363**	**12,363**	(10)%	6,609	6,609
Renminbi	**10%**	**(7,881)**	**(7,881)**	10%	(22,497)	(22,497)
	(10)%	**7,881**	**7,881**	(10)%	22,497	22,497
Korean Won	**10%**	**7,192**	**7,192**	10%	7,020	7,020
	(10)%	**(7,192)**	**(7,192)**	(10)%	(7,020)	(7,020)
British Pounds	**10%**	**95**	**95**	10%	97	97
	(10)%	**(95)**	**(95)**	(10)%	(97)	(97)

Results of the analysis as presented in the above table represent an aggregation of the instantaneous effects on each of the Group entities' profit 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 remeasure those financial instruments held by the Group which expose the Group to currency risk at the end of the reporting period. The analysis excludes differences that would result from the translation of the financial statements of operations outside Hong Kong into the Group's presentation currency. The analysis has been performed on the same basis for 2010.

28. 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 or with quoted market price provided by financial institutions.

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 and available-for-sale securities, as at 31 December 2011 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 $2,673,000 (2010: $5,978,000). Other components of equity would not be materially affected.

The sensitivity analysis indicates the instantaneous change in the Group's profit 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 2010.

(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

28. 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
2011			
Assets			
Available-for-sale mutual funds:			
– Unlisted	**–**	**5,209**	**5,209**
Available-for-sale debt securities:			
– Listed	**7,983**	**–**	**7,983**
Available-for-sale equity securities:			
– Listed	**10,748**	**–**	**10,748**
Trading securities	**138,516**	**–**	**138,516**
	157,247	**5,209**	**162,456**
2010			
Assets			
Available-for-sale mutual funds:			
– Unlisted	–	7,152	7,152
Available-for-sale debt securities:			
– Listed	9,068	–	9,068
Available-for-sale equity securities:			
– Listed	13,517	–	13,517
Trading securities	232,856	–	232,856
	255,441	7,152	262,593

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.

28. 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 2011 and 2010 except as follows:

	2011 Carrying amount $'000	**2011** Fair value $'000	2010 Carrying amount $'000	2010 Fair value $'000
The Group				
Loans receivable	**71,918**	**71,407**	91,890	90,922
Unlisted available-for-sale equity securities, carried at cost*	**154,979**	*****	156,346	*
Held-to-maturity debt securities	**24,600**	**21,279**	–	–
The Company				
Loans receivable	**71,918**	**71,407**	70,201	69,586
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, the unlisted available-for-sale equity securities and the held-to-maturity debt securities. The held-to-maturity debt securities are listed on the Singapore Exchange Securities Trading and the market value of the Group's position of such debt securities as at 31 December 2011 is RMB17,300,000 (equivalent to $21,279,000).

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

29. COMMITMENTS

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

	The Group	
	2011	2010
	$'000	$'000
Contracted for	**9,793**	7,996
Authorised but not contracted for	**354,000**	95
	363,793	8,091

(b) At 31 December 2011, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	The Group	
	2011	2010
	$'000	$'000
Within 1 year	**2,779**	2,877
After 1 year but within 5 years	**3,646**	1,787
	6,425	4,664

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.

30. 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 $153,511,000 (2010: $177,842,000).

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.

31. 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$10,171,000 (2010: US$9,118,000) (equivalent to $79,169,000 (2010: $70,855,000)) 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.

32. POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2011

Up to the date of issue of these financial statements, the HKICPA has issued a number of amendments and five new standards which are not yet effective for the year ended 31 December 2011 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
Amendments to HKFRS 7, *Financial instruments: Disclosures – Transfers of financial assets*	1 July 2011
Amendments to HKAS 12, *Income taxes – Deferred tax: Recovery of underlying assets*	1 January 2012
Amendments to HKAS 1, *Presentation of financial statements – Presentation of items of other comprehensive income*	1 July 2012
HKFRS 13, *Fair value measurement*	1 January 2013
Revised HKAS 19, *Employee benefits*	1 January 2013
HKFRS 9, *Financial instruments*	1 January 2015

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)

	Year ended 31 December 2007 $'000	2008 $'000	2009 $'000	2010 $'000	**2011 $'000**
Results:					
Continuing operations					
Turnover	1,489,647	1,720,512	1,817,172	2,255,851	**2,131,410**
Profit from operations	229,910	60,262	53,255	267,930	**187,865**
Finance costs	(3,422)	(5,820)	(3,514)	(3,358)	**(1,754)**
Negative goodwill arising on acquisition of an associate	–	14,861	–	–	**–**
Share of (losses)/profits less losses of associates	(40)	(3,330)	(21,809)	2,210	**8,932**
Profit before taxation	226,448	65,973	27,932	266,782	**195,043**
Income tax	(27,312)	(9,485)	(11,212)	(46,935)	**(27,016)**
Profit for the year from continuing operations	199,136	56,488	16,720	219,847	**168,027**
Discontinued operation					
Profit/(loss) for the year from discontinued operation	55,343	(39,779)	(285,441)	(9,652)	**–**
Profit/(loss) for the year	254,479	16,709	(268,721)	210,195	**168,027**
Attributable to:					
Equity shareholders of the Company	260,367	15,048	(268,325)	210,496	**168,027**
Non-controlling interests	(5,888)	1,661	(396)	(301)	**–**
Profit/(loss) for the year	254,479	16,709	(268,721)	210,195	**168,027**
Assets and liabilities:					
Fixed assets	413,074	464,455	359,239	321,029	**279,007**
Interest in associates	2,306	124,141	99,384	101,905	**107,673**
Loans receivable	52,048	132,618	123,055	70,201	**71,918**
Other financial assets	105,077	176,358	182,798	186,083	**203,519**
Deferred tax assets	3,983	4,898	2,198	213	**237**
Net current assets	946,880	659,005	440,917	683,455	**775,954**
Total assets less current liabilities	1,523,368	1,561,475	1,207,591	1,362,886	**1,438,308**
Non-current bank loans	–	(152,666)	(37,000)	–	**–**
Non-current other payables	–	–	(4,104)	(3,186)	**(2,214)**
Deferred tax liabilities	(195)	(80)	(2,282)	(3,123)	**(155)**
NET ASSETS	1,523,173	1,408,729	1,164,205	1,356,577	**1,435,939**
Capital and reserves					
Share capital	80,856	80,856	80,856	80,856	**81,036**
Reserves	1,428,622	1,307,076	1,068,524	1,267,223	**1,354,659**
Amounts accumulated in equity relating to a discontinued operation	–	6,165	6,026	–	**–**
Total equity attributable to equity shareholders of the Company	1,509,478	1,394,097	1,155,406	1,348,079	**1,435,695**
Non-controlling interests	13,695	14,632	8,799	8,498	**244**
TOTAL EQUITY	1,523,173	1,408,729	1,164,205	1,356,577	**1,435,939**
Earnings/(loss) per share (HK cents)					
Continuing operations					
Basic	63.4	17.0	5.3	68.1	**51.9**
Diluted	63.4	17.0	5.3	68.1	**51.3**
Discontinued operation					
Basic	17.1	(12.3)	(88.3)	(3.0)	**–**
Diluted	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	100%
5.	128 Heyuan Road, Yuancheng District, Heyuan City, Guangdong, The People's Republic of China	Industrial	100%
6.	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
The Hongkong and Shanghai Banking Corporation 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

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STOCK CODE

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