GROUP

S.A.S. Dragon Holdings Limited

(Stock Code: 1184)

ANNUAL REPORT 2012

HAPPY 開心企業 COMPANY

商界展關懷 caringcompany 2009-12

Awarded by The Hong Kong Council of Social Service

香港社會服務聯會頒發

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CORPORATE INFORMATION

DIRECTORS

Executive Directors

Mr. Yim Yuk Lun, Stanley *JP*
(Chairman and Managing Director)
Mr. Wong Sui Chuen
Mr. Lock Shui Cheung
Mr. Lau Ping Cheung

Non-Executive Director

Dr. Chang Chu Cheng

Independent Non-Executive Directors

Mr. Cheung Chi Kwan
Mr. Liu Chun Ning, Wilfred
Dr. Lui Ming Wah *SBS JP*
Mr. Wong Tak Yuen, Adrian

AUDIT COMMITTEE

Mr. Wong Tak Yuen, Adrian *(Chairman)*
Dr. Chang Chu Cheng
Mr. Cheung Chi Kwan

REMUNERATION COMMITTEE

Mr. Wong Tak Yuen, Adrian *(Chairman)*
Dr. Lui Ming Wah *SBS JP*
Mr. Wong Sui Chuen

NOMINATION COMMITTEE

Mr. Wong Tak Yuen, Adrian *(Chairman)*
Mr. Cheung Chi Kwan
Mr. Wong Sui Chuen

COMPANY SECRETARY

Mr. Wong Wai Tai

REGISTERED OFFICE

Clarendon House
Church Street
Hamilton HM 11
Bermuda

PRINCIPAL OFFICE

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Hunghom Commercial Centre
37 Ma Tau Wai Road
Hong Kong

SHARE REGISTRARS AND TRANSFER OFFICE

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

PRINCIPAL BANKERS

Hang Seng Bank
The Hongkong and Shanghai
Banking Corporation Limited
Standard Chartered Bank (Hong Kong) Limited

LEGAL ADVISOR

Angela Ho & Associates
1106, Tower 1, Lippo Centre
89 Queensway
Hong Kong

AUDITOR

Deloitte Touche Tohmatsu
Certified Public Accountants
35/F., One Pacific Place
88 Queensway
Hong Kong

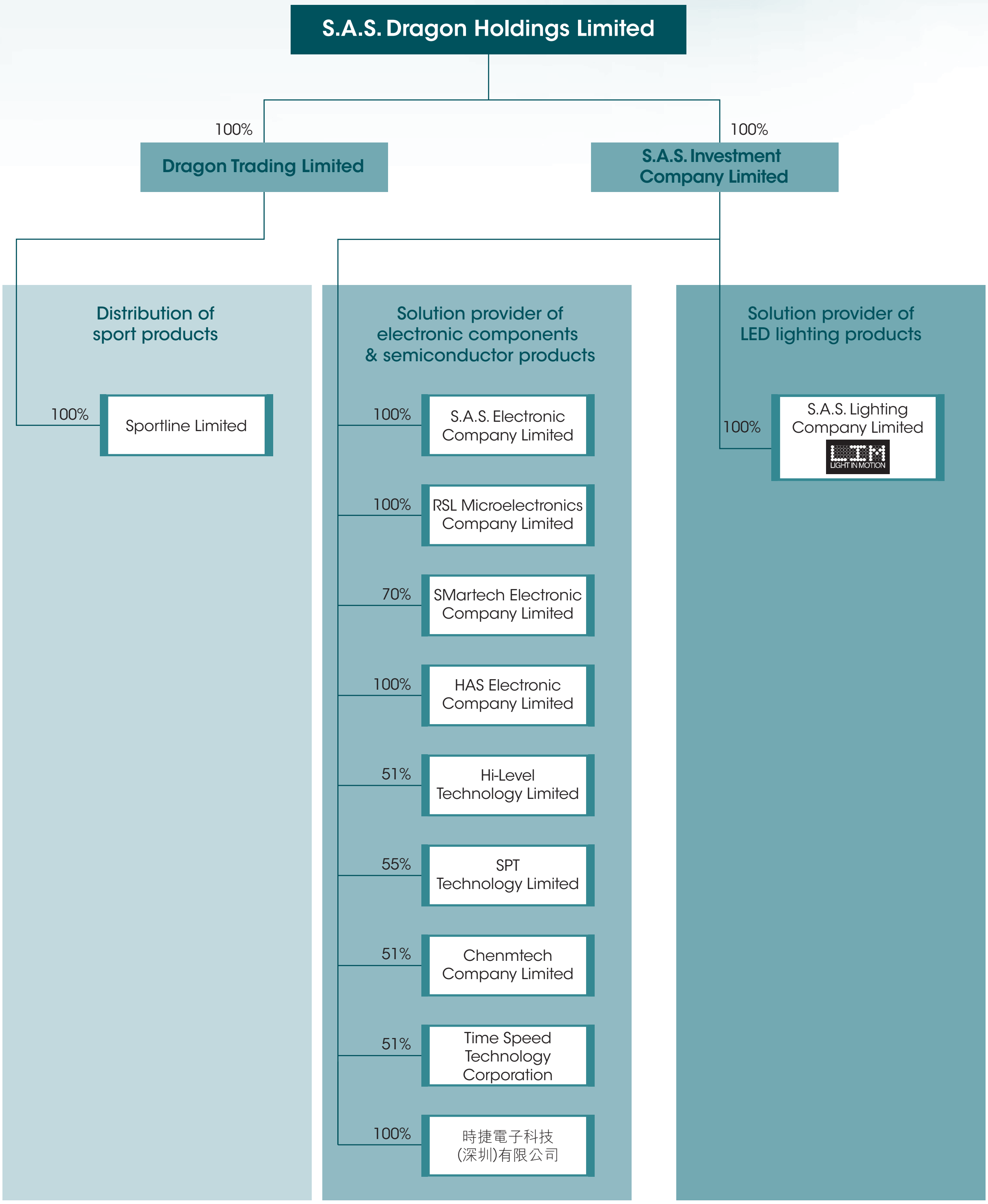
WEBSITE

http://www.sasdragon.com.hk

STOCK CODE

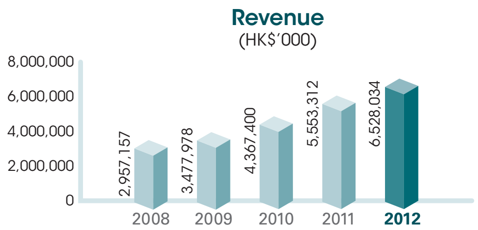
The Stock Exchange of Hong Kong Limited: 1184

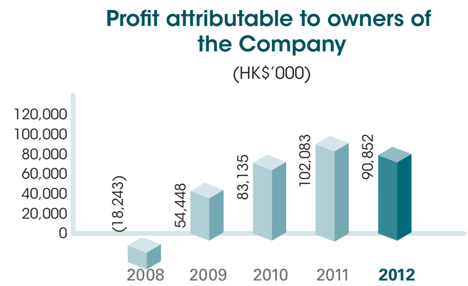
GROUP STRUCTURE

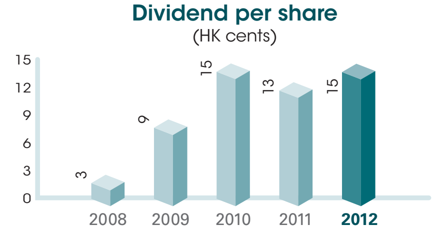


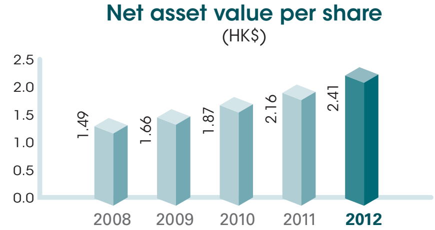
FINANCIAL HIGHLIGHTS

	2012	2011	Change
Revenue (HK$ million)	**6,528.0**	5,553.3	+18%
Net profit attributable to owners of the Company (HK$ million)	**90.9**	102.1	-11%
Basic earnings per share (HK cents)	**34.66**	38.95	-11%
Dividend per share (HK cents)			
– Interim paid	**3.00**	3.00	–
– Proposed final	**12.00**	10.00	+20%
– Full year total	**15.00**	13.00	+15%
Net asset value per share (HK$)	**2.41**	2.16	+12%









Established since 1981 and listed on the Hong Kong Stock Exchange in 1994, S.A.S. GROUP IS A LEADING ELECTRONIC SUPPLY CHAIN SERVICES PROVIDER IN THE GREATER CHINA REGION. The Group specializes in design, development, sourcing, quality assurance and logistics management of global proprietary electronic components and semiconductor products including chipset solutions, display panel, memory chips, light-emitting diode ("LED") lighting solutions, power supply system solutions, multimedia system solutions, PEMCO and other premier solutions for a wide range of applications for mobile, consumer electronic, computer, telecommunication, networking and LED lighting products. S.A.S. Group serves more than 100 famous semiconductor suppliers and over 10,000 electronics manufacturing services ("EMS") providers, original equipment manufacturers, original design manufacturers and valued-added resellers and has more than 15 sales offices in China, Hong Kong and Taiwan.

CHAIRMAN'S STATEMENT

TO OUR SHAREHOLDERS

On behalf of the Board, I am pleased to present the consolidated results of S.A.S. Dragon Holdings Limited (the "Company") and its subsidiaries (collectively the "Group") for the year ended 31 December 2012.

FINANCIAL REVIEW

In 2012, the Group has adhered to its strategy of focusing on high growth potential products in the Greater China region. During the year under review, the Group achieved record turnover of HK$6,528,034,000, up 18% from HK$5,553,312,000 achieved last year. Gross profit was HK$283,665,000, 8% higher than HK$262,968,000 of last year. However, since our focusing products, namely smartphones, tablet computers and LED lighting products, have become the most important driver in the semiconductor market, the Group is facing fierce competition and the overall gross margin declined to 4.3% from 4.7% of last year. As mentioned in 2011, the Group has proactively implemented certain cost control measures to improve its cost efficiency such that its distribution, selling and administrative expenses collectively grew only by 9% when compared with last year. Meanwhile, during the year under review, the Group recorded an non-operating loss related to an impairment on its investment in listed equity securities of PC Partner Group Limited amounting to HK$14,927,000, being the difference between the cost and the fair value of the equity securities as of 31 December 2012 (included in "Other gains and losses") while the Group recorded a non-recurred gain on disposal of distribution rights of HK$46,800,000 in 2011. As a result, the net profit attributable to owners for the Company for the year was approximately HK$90,852,000, decrease 11% compared with HK$102,083,000 of last year. Basic earnings per share was HK34.66 cents (2011: HK38.95 cents).

DIVIDENDS

The Board has recommended a final dividend of HK12 cents (2011: HK10 cents) per ordinary share for the year ended 31 December 2012 subject to approval by shareholders at the forthcoming annual general meeting. Together with an interim dividend of HK3 cents (2011: HK3 cents) per share already paid, total dividend for the year will amount to HK15 cents (2011: HK13 cents) per share.

BUSINESS REVIEW

Distribution of Electronic Components and Semiconductor Products

During the year under review, the slow economic recovery in the USA, the unsettled Eurozone debt crisis and the deceleration of economic growth in China have adversely affected the confidence of consumers all over the world.

Amid the tough market environment, this segment achieved record sales revenue of approximately HK$6.5 billion, up 18% from approximately HK$5.5 billion recorded last year. Such growth was driven by the growing popularity of smartphones, tablet computers and LED lighting products worldwide.

Mobile Phone Products

In 2012, China smartphone vendors achieve significant volume growth and market share expansion in both China and global market by leveraging their strong relationship with telecom operators, improved brand awareness and cost advantages. We work together with many leading China smartphone vendors and generate substantial revenue on smartphone segment by providing wide range product solutions including different 3G/2G baseband processors, large memory storage, high resolution displays, upgraded camera and acoustic modules, WiFi, low power consumption battery IC, cable connectors and other embedded solutions to their factories and design houses in the Greater China region.

Consumer Electronic Products

Growing demand of mobile internet devices (such as tablet computers and e-books) as well as environmental friendly electronic appliances have continued to boost the Group's revenue during the year under review. In 2012, the Group started to promote mobile internet device solutions from Fuzhou Rockchip Electronics Company Limited, a leading China mobile internet IC solution provider.

LED Lighting Products

Growth of demand of LED general lighting for the commercial sector has been accelerated as price declines bring forward the payback time on the initial cost of investment. The Group completed more commercial indoor and outdoor LED lighting installation projects with smart lighting control systems for property developers, hotels, banks, departments stores, retail shops, restaurants, offices and factories under the LIM branding. By leveraging the Group's engineering expertise to deliver one-stop LED lighting solutions, the Group achieved sales revenue under the LED lighting business of approximately HK$289 million during the year under review, representing a growth of 51% compared with approximately HK$192 million recorded in 2011.

Telecommunication and Networking Products

The rapid development of information and communication technology sector created more demand of 3G/4G network, cloud and data center infrastructure. The Group is able to generate satisfactory contributions from providing networking, switches, WIFI, storage, routers and WLAN solutions to those telecommunication and networking equipment makers.

Properties investment

As of 31 December 2012, the Group continues to carry the 6 units of investment properties (31 December 2011: 6 units), all of which are commercial units located in Hong Kong. The aggregate fair value of the investment properties was approximately HK$177 million (31 December 2011: approximately HK$136 million).

The above investment properties altogether generated rental income of approximately HK$5.0 million (2011: approximately HK$3.7 million) with an annualized return of 2.8% (2011: 2.7%).

CHAIRMAN'S STATEMENT

OUTLOOK

Looking ahead, facing with peripheral adverse factors, we are cautiously positive about our business outlook. We have confidence that the Group will manage to perform competitively in the Greater China region by virtue of our economies of scales, solid customer relations supported by our superior local sales and field application engineers, competent inventory management and other value added services.

Recently, the Group has incorporated a subsidiary in Taiwan named Time Speed Technology Corporation so as to capture more distribution business opportunities and provide better support to our customers and vendors in Taiwan. Meanwhile, the Group will continue to adopt measures to reduce expenditure, control costs in a proactive manner with the aim of strengthening the cost efficiency of the Group. We will continue to pursue a healthy and sustainable business growth and are confident to generate more returns to our shareholders.

APPRECIATION

On behalf of the Board of Directors, I would like to thank all our employees for their contribution and commitments. I also wish to extend my sincere gratitude to our shareholders, customers, suppliers and other business partners for their long-term supports and dedication.

TRIBUTE

Dr. Chang Chu Cheng has served as Non-Executive Director of the Company since 17 September 1994. Dr. Chang will retire at the forthcoming annual general meeting to be held on 14 May 2013. The Board wishes to express its appreciation for the valuable contribution of Dr. Chang during his tenure of office.

Yim Yuk Lun, Stanley *JP*
Chairman

Hong Kong, 25 March 2013

MANAGEMENT DISUSSION AND ANALYSIS

LIQUIDITY AND FINANCIAL RESOURCES

As of 31 December 2012, the Group's current ratio was 116% (31 December 2011: 121%). The Group's net gearing ratio was 63% (31 December 2011: 13%), defined as the Group's net borrowings (calculated as total bank borrowings minus total cash and bank balances minus financial assets at fair value through profit or loss) of HK$450,975,000 (31 December 2011: HK$82,092,000) over total equity of HK$716,728,000 (31 December 2011: HK$627,365,000). The increase of net gearing ratio was mainly due to the increase of bank borrowings in relation to the increase of working capital required to support the growth of the distribution business.

The Group recorded debtors turnover of approximately 43 days for the year under review (2011: 30 days) based on the amount of trade and bills receivable as at 31 December 2012 divided by sales for the same period and multiplied by 365 days.

The Group recorded inventory turnover and average payable period of approximately 39 days and 42 days respectively for the year under review (2011: approximately 27 days and 32 days respectively) based on the amount of inventory and trade and bills payables as at 31 December 2012 divided by cost of sales for the same period and multiplied by 365 days.

The increase of debtor, inventory and payable turnover days were mainly due to more shipments were made or prepared to deliver in the last quarter of 2012 compared with that of 2011.

The Group recorded net operating cash outflow of HK$202,566,000 and net raising of bank borrowings of HK$95,071,000 in the year under review, compared with generated net operating cash inflow of HK$30,093,000 and recorded net raising of bank borrowings of HK$219,040,000 of 2011.

FOREIGN EXCHANGE RISK MANAGEMENT

The Group has foreign currency sales and purchases, bank deposits and borrowings primary denominated in United States dollars and Renminbi which expose the Group to foreign currency risk.

The Group entered into foreign currency forward contracts to hedge the currency risk resulting from its short-term bank loans denominated in foreign currencies.

EMPLOYEE AND REMUNERATION POLICY

At 31 December 2012, the Group employed approximately 500 employees in the Greater China. The Group ensures that their employees are offered competitive remuneration packages. Other staff benefits include share option scheme, provident fund schemes and medical insurance. Also, discretionary bonus was granted to eligible employees based on the Group's financial results and individual performance.

DIRECTORS AND SENIOR MANAGEMENT PROFILES

DIRECTORS

Executive Directors

Mr. Yim Yuk Lun, Stanley JP, aged 53, is the founder and the Chairman and Managing Director of the Group. He is responsible for the formulation of corporate strategies and the overall direction for the Group's management team. He is currently the vice chairman of the Hong Kong Electronic Industries Association, a member of Hong Kong Professionals and Senior Executives Association, a member of Yan Chai Hospital Advisory Board, a member of Shanghai Committee of Chinese People's Political Consultative Conference and a member of Yun Fu City Committee of Chinese People's Political Consultative Conference.

Mr. Wong Sui Chuen, aged 59, was appointed as an Executive Director of the Company in 2003. He is mainly responsible for overall administration operations in the PRC. Mr. Wong has over twenty years experience in the PRC business affairs. He is currently appointed as the vice president of Shenzhen Association of Enterprises with Foreign Investment, the director of Shanghai Chinese Overseas Friendship Association, the consultant of Shenzhen Association for the Promotion of International Economy & Culture and the director of Dongguan Electronic Industries Association.

Mr. Lock Shui Cheung, aged 50, was appointed as an Executive Director of the Company in 2010. He holds a higher diploma in Marine Electronics from Hong Kong Polytechnic University and a Master's degree in Business Administration from the University of Hull, England. He has more than twenty years sales and management experience in electronic components distribution business with various global companies including Toshiba Electronics, National Semiconductor and Arrow Electronics.

Mr. Lau Ping Cheung, aged 42, was appointed as an Executive Director of the Company in 2011. He joined S.A.S. Electronic Company Limited, a wholly owned subsidiary of the Company in 2002 and is currently the Sales Vice President of S.A.S. Electronic Company Limited. He graduated from the University of Hong Kong with a Bachelor's degree in Electrical and Electronic Engineering and got his Master's degree in Engineering Business Management jointly awarded by The Hong Kong Polytechnic University and The University of Warwick in 2003. He has over nineteen years experience in electronic field on sales, marketing and R&D project development.

Non-Executive Director

Dr. Chang Chu Cheng, aged 69, was appointed as a Non-Executive Director of the Company in 1994. Dr. Chang gained his Doctorate in Solid State Electronics from the University of Manchester Institute of Science & Technology in 1969 and lectured in physics and electronics at the Chinese University of Hong Kong prior to the founding of Varitronix in 1978. He is presently the Chairman of iView Limited and Honorary Chairman of Varitronix International Limited. He is also currently an independent non-executive director of Fujikon Industrial Holdings Limited.

DIRECTORS AND SENIOR MANAGEMENT PROFILES

Independent Non-Executive Directors

Dr. Lui Ming Wah SBS JP, aged 75, was appointed as an Independent Non-Executive Director of the Company in 1994. He is currently the independent non-executive director of AV Concept Holdings Limited, Glory Mark Hi-Tech (Holdings) Limited, Gold Peak Industries (Holdings) Limited and L.K. Technology Holdings Limited, all being listed companies in the Hong Kong Stock Exchange and a director of Asian Citrus Holding Limited, a listed company in the London Stock Exchange and Hong Kong. Dr. Lui holds a Master's degree in applied science from the University of New South Wales, Australia and a Doctorate in engineering from the University of Saskatchewan, Canada. Dr. Lui is currently the managing director of Keystone Electronics Company Limited. Dr. Lui is the Hon. Chairman of the Hong Kong Electronic Industries Association Limited and Hon. President of CMA.

Mr. Liu Chun Ning, Wilfred, aged 51, was appointed as an Independent Non-Executive Director of the Company in 2001. He is currently an executive director of Chong Hing Bank Limited who is in charge of the securities business of Chong Hing Bank Limited, an non-executive director of Liu Chong Hing Investment Limited and an independent non-executive director of Get Nice Holdings Limited, whose shares are listed in the Hong Kong Stock Exchange. He was appointed as independent non-executive director of Seamless Green China (Holdings) Limited during 2008 to July 2011, a listed company in the Hong Kong Stock Exchange. He holds a Bachelor's degree in economics from the University of Newcastle-upon– Tyne (UK).

Mr. Wong Tak Yuen, Adrian, aged 58, was appointed as an Independent Non-Executive Director of the Company in 1999. Mr. Wong holds a Bachelor's degree in Economics and Mathematics from the University of Western Ontairo, London, Canada. Mr. Wong has over twenty years experience in the financial Industry.

Mr. Cheung Chi Kwan, aged 53, was appointed as an Independent Non-Executive Director of the Company in 2004. Mr. Cheung has over twenty years of accounting experience. He is an associate member of the Hong Kong Institute of Certified Public Accountants and a fellow member of Association of Chartered Certified Accountants. In addition, Mr. Cheung holds a Bachelor's Degree in Laws from University of Wolverhampton, United Kingdom.

SENIOR MANAGEMENT

Mr. Wang Yi, Michael, aged 46, joined the Group in 2002 as the Sales Director of SMartech Electronic Company Limited. He graduated from Shanghai University of Technology, with a Bachelor's degree in Electronic engineering. He has several years experience as Field Application Engineer in Philips Semiconductor Shanghai and ten years experience as Sales & Marketing Manager of Samsung Semiconductor in the PRC.

Mr. Cao Lei, Benny, aged 46, joined the Group in 2005 as the General Manager of SMartech Electronic Company Limited. He graduated from Shanghai Railway Technology Institute with a college degree in Reliability Engineering. He has more than sixteen years management experience in electronics field on sales and marketing.

DIRECTORS AND SENIOR MANAGEMENT PROFILES

Mr. Chang Wei Hua, Benson, aged 48, joined the Group in 2007 as the Director and General Manager of Hi-Level Technology Limited. He graduated from Tung-Nan Institute of Technology in Taiwan with a Bachelor's degree in Electronics Engineering. He has more than twenty years management experience in electronic field on sales, marketing and R & D project.

Mr. Wei Wei, aged 43, joined the Group in 2007 as the Director and Executive Vice President of Hi-Level Technology Limited. He graduated from Huazhong University of Science & Technology in WuHan with a Bachelor's degree in Electronics Engineering. He has more than eighteen years management experience in electronics field on sales, marketing and R & D project.

Mr. Yim Tsz Kit, aged 28, joined the Group in 2009 as the Director of S.A.S. Lighting Company Limited. He holds a Bachelor's degree from Central Saint Martins in United Kingdom and a Master's degree in Business Administration from the University of Wales. Before joining the group, he was working in banking industry. He is a son of Mr. Yim Yuk Lun, Stanley, the Chairman and Managing Director of the Group and a substantial shareholder of the Company.

Mr. Chin Kan Tak, Danny, aged 56, joined the Group in 1990 as the Chief Operation Officer of the Group. He has more than twenty years experience in the operation and management of electronic industry.

Mr. Wong Wai Tai, Peter, aged 41, joined the Group in 2005 as the Financial Controller of the Group. He holds a Bachelor's degree of Business Administration from Hong Kong Baptist University and a Master of Laws from Renmin University of China. He is an associate member of the Hong Kong Institute of Certified Public Accountants and a fellow member of Association of Chartered Certified Accountants. He has over fifteen years experience in accounting, auditing, taxation and financial management.

CORPORATE GOVERNANCE REPORT

The Group continues to achieve high standards of corporate governance which, it believes, is crucial to the development of the Group and to safeguard the interests of the Company's shareholders.

The Company complied with the applicable code provisions in the Code on Corporate Governance Practices (effective until 31 March 2012) and the Corporate Governance Code (effective from 1 April 2012) (the "Code") as contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") throughout the year ended 31 December 2012, except for the deviations from code provisions A.1.8, A.2.1, A.4.1 and A.6.7 which are explained in the relevant paragraphs below.

BOARD OF DIRECTORS

The Board currently consists of 4 executive directors, namely Mr. Yim Yuk Lun, Stanley *JP*, Mr. Wong Sui Chuen, Mr. Lock Shui Cheung and Mr. Lau Ping Cheung and 1 non-executive director, namely Dr. Chang Chu Cheng, 4 independent non-executive directors ("INEDs") (collectively the "Directors"), namely Mr. Cheung Chi Kwan, Mr. Liu Chun Ning, Wilfred, Dr. Lui Ming Wah *SBS JP* and Mr. Wong Tak Yuen, Adrian.

The Board is responsible for the formulation of corporate strategies, the setting of appropriate strategic policies and internal control and the oversight of the operation and financial performance of the Group. The Board are individually and collectively accountable to the shareholders for the success and sustainable development of the Group.

Day-to-day management of the Group is delegated to the executive directors or senior management. Executive directors and senior management meet regularly to review the performance of the businesses of the Group as a whole, co-ordinate overall resources and make financial and operational decisions. The Board also gives clear directions as to their powers of management including circumstances where management should report back, and will review the delegation arrangements on a periodic basis to ensure that they remain appropriate to the needs of the Group.

The Company has received annual confirmation of independence from the four INEDs pursuant to Rule 3.13 of the Listing Rules. The Company considers all of the INEDs are independent within the definition of the Listing Rules.

During the year, all Directors have received regular updates on the changes to and developments in the relevant laws and regulations applicable to the Directors. Additionally, training has been attended by all Directors covering the updates on the Listing Rules and accounting reporting standards.

Under the code provision A.1.8 of the Code, an issuer should arrange appropriate insurance cover in respect of legal action against its directors. With regular and timely communications among the Directors and the management of the Group, the management of the Group believes that all potential claims and legal actions against the Directors can be handled effectively and the possibility of actual litigation against the Directors is low. The Company will consider to make such an arrangement as and when it thinks necessary.

Under the code provision A.2.1 of the Code, the roles of chairman and chief executive officer should be separate and should not performed by the same individual.

Having considered the current business operation and the size of the Group, the Board is of the view that Mr. Yim Yuk Lun, Stanley *JP* acting as both the Chairman and the Managing Director of the Group is acceptable and in the best interest of the Group. Mr. Yim is responsible for the formulation of corporate strategies and the overall direction for the Group's management team.

Under the code provision A.4.1 of the Code, non-executive directors should be appointed for a specific term and subject to re-election. The non-executive directors of the Company have not been appointed for a specific term. However, according to the Bye-laws of the Company, one-third of the directors for the time being shall retire from office by rotation at each annual general meeting. As such, the Company considers that sufficient measures have been taken to ensure that the Company's corporate governance practices are similar to those in the Code.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Companies contained in Appendix 10 of the Listing Rules (the "Model Code") as the code of conduct regarding directors' securities transactions.

Having made specific enquiry of all Directors, the Company confirmed that all Directors have complied with the required standard set out in the Model Code throughout the year under review.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The Directors acknowledge their responsibility to prepare financial statements for each half and full financial year which give a true and fair view of the state of affairs of the Group.

AUDIT COMMITTEE

The Audit Committee consists of three non-executive directors, namely Mr. Wong Tak Yuen, Adrian, Mr. Cheung Chi Kwan and Dr. Chang Chu Cheng. Mr. Wong Tak Yuen, Adrian is the Chairman of the Audit Committee. In accordance with the terms of reference of the Audit Committee, the Audit Committee met twice in 2012 to review the interim and final results of the Company. The terms of reference of the Committee are aligned with the recommendations set out in "A Guide For Effective Audit Committee" issued by the Hong Kong Institute of Certified Public Accountants and the code provisions set out in the Code.

The principal duties of the Audit Committee include the review and supervision of the Group's financial reporting system and internal control procedures, review of the Group's financial information and review of the relationship with the Auditors of the Company.

During the financial year ended 31 December 2012, the Group has engaged the external auditors to provide the following services and their respective fees charged are set out as below:

Type of Services	Amount HK$'000
Audit fee	1,422
Other non-audit services	327

REMUNERATION COMMITTEE

The Remuneration Committee comprises 3 members, namely Mr. Wong Sui Chuen, Dr. Lui Ming Wah *SBS JP* and Mr. Wong Tak Yuen, Adrian, majority of whom are independent non-executive Directors, and is chaired by Mr. Wong Tak Yuen, Adrian.

The principal responsibilities of the Remuneration Committee are to make recommendations to the Board on the Company's policies and structure for all remuneration of Directors and senior management and to review the specific remuneration packages of Directors and senior management by reference to corporate goals and objectives resolved by the Board from time to time. One meeting has been held during the year under review.

NOMINATION COMMITTEE

The Company has established the Nomination Committee on 30 March 2012 in compliance with the Listing Rules. The Nomination Committee comprises 3 members namely Mr. Wong Sui Chuen, Mr. Wong Tak Yuen, Adrian and Mr. Cheung Chi Kwan, majority of whom are independent non-executive Directors and is chaired by Mr. Wong Tak Yuen, Adrian. Two meetings have been held during the year under review.

The principal responsibilities of the Nomination Committee are to determine the policy for the nomination of Directors, to set out the nomination procedures and the process and criteria adopted to select and recommend candidates for directorship, to review the structure, size and composition of the Board and to assess the independence of the independent non-executive Directors.

CORPORATE GOVERNANCE FUNCTIONS

The Board is responsible for performing the corporate governance duties including:

(a) to develop and review the Company's policies and practices on corporate governance;

(b) to review and monitor the training and continuous professional development of Directors and senior management;

(c) to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;

(d) to develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees and Directors; and

(e) to review the Company's compliance with Appendix 14 to the Listing Rules (Corporate Governance Code and Corporate Governance Report).

BOARD AND COMMITTEE ATTENDANCE

The Board held nine meetings during the year.

Details of the attendance of each of the Directors at board meetings, committee meetings, annual general meeting (the "AGM") and special general meetings (the "SGM") during the year are set out in the table below:

	Board	Audit Committee	Remuneration Committee	Nomination Committee	AGM	SGM
Number of Meeting(s)	9	2	1	2	1	3
Executive Directors						
Yim Yuk Lun, Stanley *JP*	9/9	N/A	N/A	N/A	1/1	3/3
Wong Sui Chuen	9/9	N/A	1/1	2/2	0/1	3/3
Lock Shui Cheung	9/9	N/A	N/A	N/A	0/1	0/3
Lau Ping Cheung	9/9	N/A	N/A	N/A	0/1	0/3
Non-Executive Director						
Dr. Chang Chu Cheng	9/9	2/2	N/A	N/A	0/1	0/3
Independent Non-Executive Directors						
Cheung Chi Kwan	9/9	2/2	N/A	2/2	1/1	2/3
Liu Chun Ning, Wilfred	9/9	N/A	N/A	N/A	0/1	0/3
Dr. Lui Ming Wah *SBS JP*	9/9	N/A	1/1	N/A	1/1	0/3
Wong Tak Yuen, Adrian	9/9	2/2	1/1	2/2	1/1	2/3

In respect of the code provision A.6.7 of the Code, one non-executive Director was unable to attend the AGM meeting held on 16 May 2012 and three SGM meetings held on 27 July 2012 and 20 December 2012 of the Company due to his unexpected business engagement, one independent non-executive Director was unable to attend the AGM meeting of the Company held on 16 May 2012 due to his unexpected business engagement, two independent non-executive Directors were unable to attend two SGM meetings of the Company held on 27 July 2012 due to their unexpected business engagement and four independent non-executive Directors were unable to attend the SGM meeting of the Company held on 20 December 2012 due to their unexpected business engagement.

INTERNAL CONTROL

The Board has overall responsibilities for maintaining sound and effective internal control system of the Group. The Group's system of internal control includes a defined management structure with limits of authority for the achievement of business objectives, safeguarding assets against unauthorized use or disposition, ensuring the maintenance of proper accounting records for the provision of reliable financial information for internal use or for publication, and ensuring compliance with relevant legislation and regulations. The system is designed to manage, but not eliminate, the risk of failure to achieve business objectives and can only provide reasonable, and not absolute, assurance against the risks of material misstatement, fraud or losses.

SHAREHOLDERS' RIGHT

(i) Procedures by which shareholders can convene a SGM

The Board shall, on the requisition in writing of the shareholders of not less than one-tenth of the paid-up capital of the Company upon which all calls or other sums then due have been paid, forthwith proceed to convene a SGM.

If within twenty-one days of such deposit the Board fails to proceed to convene the SGM, the requisitionists or any of them representing more than one half of the total voting rights of all of them, may themselves convene a SGM, but any meeting so convened shall not be held after three months from the date of the original deposit.

(ii) Procedures for putting forward proposals at General Meetings ("GM")

Shareholders can submit a written requisition to move a resolution at GM. The number of shareholders shall represent not less than one-twentieth of the total voting rights of all shareholders having at the date of the requisition a right to vote at the GM, or who are no less than 100 shareholders.

The written requisition must state the resolution, accompanied by a statement of not more than 1,000 words with respect to the matter referred to in any proposed resolution or the business to be dealt with at the GM. It must also be signed by all of the shareholders concerned and be deposited to the Company Secretary at the Company's office in Hong Kong at 6/F., Tower B, Hunghom Commercial Centre, 37 Ma Tau Wai Road, Hunghom, Kowloon, Hong Kong not less than six weeks before the GM in case of a requisition requiring notice of a resolution and not less than one week before the GM in case of any other requisition.

The request will be verified with the Company's Share Registrars and upon its confirmation that the request is proper and in order, the Company Secretary will ask the Board of Directors to include the resolution in the agenda for the meeting provided that the shareholders concerned have deposited a sum of money reasonably sufficient to meet the Company's expenses in serving the notice of the resolution and circulating the statement submitted by the shareholders concerned in accordance with the statutory requirements to all the registered shareholders.

(iii) Shareholders' enquiries

Shareholders may at any time send their enquiries and concerns to the Board in writing with contact information of the requisitionists and deposited to the Company Secretary at the Company's office in Hong Kong at 6/F., Tower B, Hunghom Commercial Centre, 37 Ma Tau Wai Road, Hunghom, Kowloon, Hong Kong.

COMMUNICATION WITH SHAREHOLDERS

To foster effective communications with its shareholders, the Company provides extensive information in its annual report and press release. Also the Group disseminates information relating to its business electronically through its website at www.sasdragon.com.hk. The Company regards the annual general meeting as an important event as it provides an important opportunity for direct communications between the Board and the Company's shareholders. All directors and senior management will make an effort to attend. All shareholders will be given at least 20 clear business days' notice of the annual general meeting and are encouraged to attend the annual general meeting and other shareholders' meetings.

DIRECTORS' REPORT

The directors present their annual report and the audited consolidated financial statements of S.A.S. Dragon Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2012.

PRINCIPAL ACTIVITIES

The Company acts as an investment holding company and the activities of its principal subsidiaries are set out in note 43 to the consolidated financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2012 are set out in the consolidated statement of comprehensive income on page 26.

An interim dividend of HK3 cents per share, amounting to approximately HK$7,864,000 was paid to the shareholders during the year. The directors recommend the payment of a final dividend of HK12 cents per share to the shareholders on the register of members on 23 May 2013.

MAJOR CUSTOMERS AND SUPPLIERS

The aggregate purchases attributable to the Group's largest supplier and five largest suppliers taken together accounted for 29.52% and 65.95% respectively of the Group's total purchases for the year.

During the year, the aggregate sales attributable to the Group's five largest customers were less than 30% of the Group's total sales for the year.

Hon Hai Precision Industry Co., Ltd., a shareholder holding more than 5% of the Company's share capital, was one of the Group's five largest suppliers. Save for this company, none of the directors, their associates or any shareholders (which to the knowledge of the directors owns more than 5% of the Company's share capital) has any interest in the Group's five largest suppliers and customers.

INVESTMENT PROPERTIES

At 31 December 2012, the investment properties of the Group were revalued by an independent firm of professional property valuers on an open market value basis at HK$177,300,000. The revaluation resulted in a surplus of HK$41,000,000 and is recognised in the consolidated statement of comprehensive income. Details are set out in note 16 to the consolidated financial statements.

Particulars of investment properties of the Group at 31 December 2012 are set out on page 114.

PROPERTY, PLANT AND EQUIPMENT

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

SHARE CAPITAL AND WARRANTS

Details of movements during the year in the share capital and outstanding warrants of the Company are set out in notes 31 and 32 (c) to the consolidated financial statements.

DISTRIBUTABLE RESERVES OF THE COMPANY

The Company's reserves available for distribution to shareholders as at 31 December 2012, calculated in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants, is represented by the contributed surplus and the retained profits in the aggregate amount of HK$171,044,000 (2011: HK$152,706,000) as disclosed in note 42 to the consolidated financial statements.

DIRECTORS

The directors of the Company during the year and up to the date of this report were:

Executive Directors

Yim Yuk Lun, Stanley *JP* *(Chairman and Managing Director)*
Wong Sui Chuen
Lock Shui Cheung
Lau Ping Cheung

Non-Executive Director

Dr. Chang Chu Cheng

Independent Non-Executive Directors

Cheung Chi Kwan
Liu Chun Ning, Wilfred
Dr. Lui Ming Wah *SBS JP*
Wong Tak Yuen, Adrian

In accordance with Clause 87 of the Company's Bye-Laws, Mr. Yim Yuk Lun, Stanley *JP*, Mr. Wong Sui Chuen, Mr. Lock Shui Cheung and Dr. Chang Chu Cheng, respectively shall retire by rotation and except for Dr. Chang Chu Cheng who has indicated not to seek for re-election, Mr. Yim Yuk Lun, Stanley *JP*, Mr Wong Sui Chuen and Mr. Lock Shui Cheung, being eligible, offer themselves for re-election at the annual general meeting.

The term of office for all directors is the period up to his retirement by rotation in accordance with the above Bye-Laws.

No director proposed for re-election at the forthcoming annual general meeting has a service contract with the Company or any of its subsidiaries which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

DIRECTORS' INTERESTS IN SHARES AND UNDERLYING SHARES

At 31 December 2012, the interests of the directors of the Company in the shares and underlying shares of the Company and its associated corporations, as recorded in the register maintained by the Company pursuant to Section 352 of the Securities and Future Ordinance ("SFO"), or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers, were as follows:

Long positions

(a) *Ordinary shares of HK$0.10 each of the Company*

Name of directors	Capacity	Number of issued ordinary shares held	Percentage of issued share capital of the Company
Yim Yuk Lun, Stanley *JP*	Beneficial owner	13,990,000	5.33%
	Held by controlled corporation (note)	63,771,400	24.33%
		77,761,400	29.66%
Chang Chu Cheng	Beneficial owner	1,800,000	0.69%
Lock Shui Cheung	Beneficial owner	1,000,000	0.38%
Wong Sui Chuen	Beneficial owner	912,000	0.35%
Lau Ping Cheung	Beneficial owner	300,000	0.11%

(b) *The underlying shares – unlisted warrants of the Company*

Name of director	Capacity	Number of warrants held	Number of underlying shares
Yim Yuk Lun, Stanley *JP*	Held by controlled corporation (note)	50,000,000	50,000,000

note: These shares are held by Unimicro Limited, a company incorporated in the British Virgin Islands, which is beneficially owned by Mr. Yim Yuk Lun, Stanley *JP*.

Save as disclosed above, other than certain nominee shares in subsidiaries held by certain directors in trust for the Company, none of the directors or chief executives or their associates had any interests or short position in any shares, underlying shares or debentures of the Company or any of its associated corporations at 31 December 2012.

SHARE OPTIONS

Particulars of the Company's share option scheme are set out in notes 32(a) and 32(b) to the consolidated financial statements. The Company has not granted or issued any share option during the year.

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

Other than the Company's warrants and share option scheme disclosed above, at no time during the year was the Company, or any of its subsidiaries or fellow subsidiaries, a party to any arrangements to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate, and none of the directors or their spouses or children under the age of eighteen had right to subscribe for the securities of the Company, or had exercised any such right during the year.

SUBSTANTIAL SHAREHOLDERS

At 31 December 2012, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO shows that other than the interests disclosed above in respect of certain directors, the following shareholders had notified the Company of relevant interests in the issued share capital of the Company.

Long positions:

Ordinary shares of HK$0.10 each of the Company

Name of shareholders	Capacity	Number of issued ordinary shares held	Percentage of issued share capital of the Company
Hon Hai Precision Industry Co., Ltd. ("Hon Hai")	Held by controlled corporation (note)	46,000,000	17.55%
Foxconn Holding Limited ("Foxconn")	Beneficial owner	46,000,000	17.55%
Chung Shun Ming	Beneficial owner	27,343,400	10.43%

Note: Hon Hai owns 100% interest in Foxconn and is accordingly deemed to be interested in those ordinary shares of the Company beneficially owned by Foxconn.

Save as disclosed above, the Company has not been notified of any other relevant interests or short positions in the issued share capital of the Company at 31 December 2012.

CONNECTED TRANSACTIONS AND DIRECTORS' INTERESTS IN CONTRACTS

Save for those connected transactions for the year disclosed in notes 32(c) and 41 to the consolidated financial statements,

(i) no contracts of significance subsisted at any time during the year to which the Company or any of its subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly; and

(ii) there were no other transactions which need to be disclosed as connected transactions in accordance with the requirements of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules").

In accordance with the conditions agreed with the Stock Exchange with respect to the connected transactions, the independent non-executive directors have reviewed the connected transactions set out in note 41 to the consolidated financial statements and, in their opinion, these transactions were entered into by the Group:

(i) in the ordinary course of business of the Group;

(ii) on normal commercial terms; and

(iii) in accordance with the relevant agreements on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

The Company's auditor was engaged to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The auditor has issued the unqualified letter containing the findings and conclusions in respect of the continuing connected transactions disclosed by the Group in note 41 of the Annual Report in accordance with Main Board Listing Rule 14A.38.

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

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

DIRECTORS' REPORT

PRE-EMPTIVE RIGHTS

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

EMOLUMENT POLICY

The emolument policy of the employees of the Group is set up by the Board of Directors on the basis of their merit, qualifications, competence and job nature.

The emoluments of the directors of the Company are decided by the Remuneration Committee, having regard to the Company's operating results, individual performance and comparable market statistics.

The Company has adopted a share option scheme as an incentive to eligible directors and employees, details of the scheme is set out in notes 32(a) and 32(b) to the consolidated financial statements.

SUFFICIENCY OF PUBLIC FLOAT

According to the information that is publicly available to the Company and within the knowledge of the directors, the Company has maintained a sufficient public float throughout the year ended 31 December 2012.

DONATIONS

During the year, the Group made charitable and other donations amounting to HK$126,000.

AUDITOR

A resolution will be submitted to the annual general meeting to re-appoint Messrs. Deloitte Touche Tohmatsu as auditor of the Company.

On behalf of the Board

YIM YUK LUN, STANLEY *JP*
CHAIRMAN AND MANAGING DIRECTOR
Hong Kong, 25 March 2013

INDEPENDENT AUDITOR'S REPORT

Deloitte.
德勤

德勤•關黃陳方會計師行
香港金鐘道88號
太古廣場一座35樓

Deloitte Touche Tohmatsu
35/F One Pacific Place
88 Queensway
Hong Kong

TO THE MEMBERS OF S.A.S. DRAGON HOLDINGS LIMITED
(Incorporated in Bermuda with limited liability)

We have audited the consolidated financial statements of S.A.S. Dragon Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 26 to 112, which comprise the consolidated statement of financial position as at 31 December 2012, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with Section 90 of the Bermuda Companies Act, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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

INDEPENDENT AUDITOR'S REPORT

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Group as at 31 December 2012, and of its 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.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
25 March 2013

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2012

	NOTES	2012 HK$'000	2011 HK$'000 (Restated)
Continuing operations			
Revenue	7	6,528,034	5,553,312
Cost of sales		(6,244,369)	(5,290,344)
Gross profit		283,665	262,968
Other income		14,919	4,512
Other gains and losses	13	(885)	(932)
Distribution and selling expenses		(52,782)	(49,187)
Administrative expenses		(148,385)	(135,333)
Increase in fair value of investment properties		41,000	9,100
Share of results of associates		(97)	(185)
Gain on disposal of distribution rights	36	–	46,800
Finance costs	8	(15,077)	(12,823)
Profit before tax		122,358	124,920
Income tax expense	11	(13,599)	(11,765)
Profit for the year from continuing operations		108,759	113,155
Discontinued operation			
Loss for the year from discontinued operation	12	–	(3,760)
Profit for the year	13	108,759	109,395
Other comprehensive income (expense)			
Fair value gain (loss) on available-for-sale investment		150	(3,463)
Reclassification adjustment on disposal of available-for-sale investment		2,773	–
Exchange differences arising on translation of foreign operations		1,294	2,193
Share of other comprehensive income of an associate		8	16
Other comprehensive income (expense) for the year		4,225	(1,254)
Total comprehensive income for the year		112,984	108,141

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2012

	NOTE	2012 HK$'000	2011 HK$'000 (Restated)
Profit (loss) for the year attributable to owners of the Company			
– from continuing operations		90,852	105,843
– from discontinued operation		–	(3,760)
		90,852	102,083
Profit for the year attributable to non-controlling interests from continuing operations		17,907	7,312
		108,759	109,395
Total comprehensive income attributable to:			
Owners of the Company		94,906	100,587
Non-controlling interests		18,078	7,554
		112,984	108,141
Earnings per share (HK cents)	15		
From continuing and discontinued operations			
– basic and diluted		HK34.66 cents	HK38.95 cents
From continuing operations			
– basic and diluted		HK34.66 cents	HK40.38 cents

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2012

	NOTES	31.12.2012 HK$'000	31.12.2011 HK$'000 (Restated)	1.1.2011 HK$'000 (Restated)
Non-current Assets				
Investment properties	*16*	177,300	136,300	127,200
Property, plant and equipment	*17*	189,662	154,149	159,580
Prepaid lease payments	*18*	9,112	9,080	8,650
Goodwill	*19*	20,392	20,392	17,829
Interests in associates	*20*	417	506	675
Available-for-sale investments	*22*	34,414	13,912	17,036
Club memberships	*23*	3,278	3,278	3,278
Deposit paid for acquisition of property, plant and equipment		9,600	14,508	–
Deferred tax assets	*33*	3,399	2,918	3,388
		447,574	355,043	337,636
Current Assets				
Inventories	*25*	659,446	397,045	379,242
Trade and other receivables	*26*	828,052	479,520	435,639
Bills receivable	*26*	9,745	7,448	22,556
Prepaid lease payments	*18*	194	189	177
Financial assets at fair value through profit or loss	*27*	54,785	113,744	65,213
Taxation recoverable		2,732	4,720	76
Pledged bank deposits	*24*	3,961	3,149	19,634
Bank balances and cash	*24*	433,195	648,860	421,820
		1,992,110	1,654,675	1,344,357
Current Liabilities				
Trade and other payables	*28*	522,449	460,708	392,369
Bills payable	*28*	242,605	59,125	122,202
Derivative financial instruments	*29*	7,909	8,776	6,321
Tax liabilities		7,077	5,899	11,502
Bank borrowings – due within one year	*30*	942,916	836,595	576,382
		1,722,956	1,371,103	1,108,776
Net Current Assets		269,154	283,572	235,581
Total Assets less Current Liabilities		716,728	638,615	573,217

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2012

	NOTES	31.12.2012 HK$'000	31.12.2011 HK$'000 (Restated)	1.1.2011 HK$'000 (Restated)
Capital and Reserves				
Share capital	*31*	26,214	26,214	26,214
Share premium and reserves		606,712	539,380	478,114
Equity attributable to owners of the Company		632,926	565,594	504,328
Non-controlling interests		83,802	61,771	51,389
Total Equity		716,728	627,365	555,717
Non-current Liabilities				
Bank borrowings				
– due after one year	*30*	–	11,250	17,500
		716,728	638,615	573,217

The consolidated financial statements on pages 26 to 112 were approved and authorised for issue by the Board of Directors on 25 March 2013 and are signed on its behalf by:

Yim Yuk Lun, Stanley *JP*
DIRECTOR

Wong Sui Chuen
DIRECTOR

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2012

	Attributable to owners of the Company												
	Share capital HK$'000	Share premium HK$'000	Capital redemption reserve HK$'000	Capital reserve HK$'000	Contributed surplus HK$'000	Property revaluation reserve HK$'000	Investment revaluation reserve HK$'000	Translation reserve HK$'000	Warrants reserve HK$'000	Retained profits HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total HK$'000
At 1 January 2011 (as originally stated)	26,214	33,510	1,109	11,145	13,519	32,225	1,789	1,601	–	370,009	491,121	51,389	542,510
Effect of change in accounting policies (see note 2)	–	–	–	–	–	5,122	–	–	–	8,085	13,207	–	13,207
At 1 January 2011 (as restated)	26,214	33,510	1,109	11,145	13,519	37,347	1,789	1,601	–	378,094	504,328	51,389	555,717
Profit for the year (as restated)	–	–	–	–	–	–	–	–	–	102,083	102,083	7,312	109,395
Fair value loss on available-for-sale investment	–	–	–	–	–	–	(3,463)	–	–	–	(3,463)	–	(3,463)
Exchange differences arising on translation of foreign operation													
– subsidiaries	–	–	–	–	–	–	–	1,951	–	–	1,951	242	2,193
– an associate	–	–	–	–	–	–	–	16	–	–	16	–	16
Total comprehensive income for the year (as restated)	–	–	–	–	–	–	(3,463)	1,967	–	102,083	100,587	7,554	108,141
Acquisition of a subsidiary (note 34)	–	–	–	–	–	–	–	–	–	–	–	12,138	12,138
Dividend paid to non-controlling shareholders	–	–	–	–	–	–	–	–	–	–	–	(9,310)	(9,310)
Dividends paid (note 14)	–	–	–	–	–	–	–	–	–	(39,321)	(39,321)	–	(39,321)
At 31 December 2011 (as restated)	26,214	33,510	1,109	11,145	13,519	37,347	(1,674)	3,568	–	440,856	565,594	61,771	627,365
Profit for the year	–	–	–	–	–	–	–	–	–	90,852	90,852	17,907	108,759
Fair value gain on available-for-sale investment	–	–	–	–	–	–	150	–	–	–	150	–	150
Reclassification adjustment on disposal of available-for-sale investment	–	–	–	–	–	–	2,773	–	–	–	2,773	–	2,773
Exchange differences arising on translation of foreign operation													
– subsidiaries	–	–	–	–	–	–	–	1,123	–	–	1,123	171	1,294
– an associate	–	–	–	–	–	–	–	8	–	–	8	–	8
Total comprehensive income for the year	–	–	–	–	–	–	2,923	1,131	–	90,852	94,906	18,078	112,984
Capital contribution from a non-controlling shareholder	–	–	–	–	–	–	–	–	–	–	–	6,448	6,448
Dividend paid to non-controlling shareholders	–	–	–	–	–	–	–	–	–	–	–	(1,500)	(1,500)
Dividends paid (note 14)	–	–	–	–	–	–	–	–	–	(34,078)	(34,078)	–	(34,078)
Disposal of a subsidiary (note 35)	–	–	–	–	–	–	–	–	–	–	–	(995)	(995)
Equity-settled share-based payments	–	–	–	–	–	–	–	–	6,504	–	6,504	–	6,504
At 31 December 2012	26,214	33,510	1,109	11,145	13,519	37,347	1,249	4,699	6,504	497,630	632,926	83,802	716,728

The capital reserve of the Group represents the aggregate of:

(i) the reserve of HK$10,445,000 arising on the acquisition of shares in subsidiaries from non-controlling shareholders pursuant to a previous group reorganisation; and

(ii) the differences between the nominal value of the aggregate share capital of the subsidiaries acquired pursuant to a previous group reorganisation, and the nominal value of the Company's shares issued in exchange of HK$700,000.

At 31 December 2012, the property revaluation reserve includes an amount of HK$23,780,000 (2011: HK$23,780,000) relating to properties previously held as property, plant and equipment and reclassified as investment properties. The remaining balance of HK$13,567,000 (2011: HK$13,567,000) represents revaluation surplus arising from certain of the Group's land and building carried at revalued amount prior to 30 September 1995. On the disposal or retirement of the asset, the revaluation reserve will be transferred directly to retained profits.

The contributed surplus of the Group represents the net aggregate of:

(i) the credit arising from the reduction of the nominal value of the consolidated shares from HK$1.00 each to HK$0.10 each by cancelling HK$0.90 paid up on each issued share, after a transfer of HK$10,565,000 towards the elimination of the accumulated losses of the Company as at 31 December 1997, of HK$70,510,000.

(ii) the credit arising from cancellation of the share premium account of HK$237,881,000, after a transfer of HK$180,003,000 towards the elimination of the accumulated losses of the Company as at 31 December 2002, of HK$57,878,000; and

(iii) the distribution to shareholders from 2003 to 2010 of HK$114,869,000.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2012

	2012 HK$'000	2011 HK$'000
OPERATING ACTIVITIES		
Profit before tax from continuing operations	122,358	124,920
Loss for the year from discontinued operation	–	(3,760)
	122,358	121,160
Adjustments for:		
Interest income	(1,252)	(1,469)
Finance costs	15,077	12,833
Share of results of associates	97	185
Dividend income from equity investments	(5,935)	(1,363)
Increase in fair value of investment properties	(41,000)	(9,100)
Change in fair value of derivative financial instruments	(6,650)	(2,458)
Change in fair value of financial assets at fair value through profit or loss	(9,553)	3,872
Depreciation of property, plant and equipment	16,222	14,602
(Reversal of) allowance for trade and other receivables	(4,645)	4,420
(Reversal of) allowance for inventories	(4,058)	5,529
(Gain) loss on disposal of property, plant and equipment	(2,668)	1,781
Gain on disposal of distribution rights	–	(46,800)
Impairment loss in respect of goodwill	–	1,410
Amortisation of prepaid lease payment	194	189
Equity settled share-based payment expenses	6,504	–
Loss on disposal of a subsidiary	1,035	–
Loss on disposal of available-for-sale investment	2,588	–
Impairment loss on available-for-sale investment	14,927	–
Operating cash flows before movements in working capital	103,241	104,791
Increase in inventories	(259,806)	(14,081)
(Increase) decrease in trade and other receivables	(345,857)	5,168
(Increase) decrease in bills receivable	(2,297)	15,108
Decrease (increase) in investments held for trading	58,935	(60,203)
Increase (decrease) in bills payable	183,480	(63,077)
Increase in derivative financial instruments	5,783	4,913
Increase in trade and other payables	64,841	60,165
Cash (used in) generated from operations	(191,680)	52,784
Hong Kong Profits Tax paid	(8,689)	(22,691)
Taiwan Corporate Income Tax paid	(2,197)	–
NET CASH (USED IN) FROM OPERATING ACTIVITIES	(202,566)	30,093

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2012

	NOTES	2012 HK$'000	2011 HK$'000
INVESTING ACTIVITIES			
Payment for acquisition of available-for-sale investments		(40,306)	–
Payment for acquisition of property, plant and equipment		(38,183)	(18,633)
Deposit paid for acquisition of property, plant and equipment		(9,600)	(14,508)
(Placement) withdrawal of pledged bank deposits		(812)	20,449
Disposal of a subsidiary	*35*	(133)	–
Proceeds from redemption of structured deposits		9,577	7,800
Dividend received from equity investments		5,935	1,363
Proceeds on disposal of property, plant and equipment		3,010	9,013
Interest received		1,252	1,469
Proceeds on disposal/redemption of available-for-sale investment		5,212	–
Proceeds on disposal of distribution rights	*36*	–	46,800
Acquisition of a subsidiary	*34*	–	(14,473)
NET CASH (USED IN) FROM INVESTING ACTIVITIES		(64,048)	39,280
FINANCING ACTIVITIES			
Bank borrowings raised		7,253,969	4,701,495
Capital contribution from a non-controlling shareholder		6,448	–
Repayment of bank borrowings		(7,158,898)	(4,482,455)
Dividends paid		(34,078)	(39,321)
Interest paid		(15,077)	(12,833)
Dividend paid to non-controlling shareholders		(1,500)	(9,310)
NET CASH FROM FINANCING ACTIVITIES		50,864	157,576
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS		(215,750)	226,949
CASH AND CASH EQUIVALENTS AT 1 JANUARY		648,860	421,820
EFFECT OF FOREIGN EXCHANGE RATE CHANGES		85	91
CASH AND CASH EQUIVALENTS AT 31 DECEMBER, represented by bank balances and cash		433,195	648,860

1. GENERAL

The Company is incorporated in Bermuda as an exempted company with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The addresses of the registered office and principal place of business of the Company are disclosed in the "Corporate Information" section to the annual report.

The consolidated financial statements are presented in Hong Kong dollars, which is also the functional currency of the Company.

The Company acts as an investment holding company and the activities of its principal subsidiaries are set out in note 43.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

In the current year, the Group has applied the following amendments to HKFRSs, issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

Amendments to HKAS 12	Deferred Tax: Recovery of Underlying Assets;
Amendments to HKFRS 7	Financial Instruments: Disclosures – Transfers of Financial Assets; and
Amendments to HKAS 1	As part of the Annual Improvements to HKFRSs 2009 – 2011 Cycle issued in 2012.

Except as described below, the application of the amendments to HKFRSs in the current year has had no material impact on the Group's financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

Amendments to HKAS 12 Deferred Tax: Recovery of Underlying Assets

The Group has applied for the first time the amendments to HKAS 12 *Deferred Tax: Recovery of Underlying Assets* in the current year. Under the amendments, investment properties that are measured using the fair value model in accordance with HKAS 40 *Investment Property* are presumed to be recovered entirely through sale for the purposes of measuring deferred taxes, unless the presumption is rebutted in certain circumstances.

The Group measures its investment properties using the fair value model. As a result of the application of the amendments to HKAS 12, the directors reviewed the Group's investment property portfolios and concluded that none of the Group's investment properties are held under a business model whose objective is to consume substantially all of the economic benefits embodied in the investment properties over time. Therefore, the directors have determined that the 'sale' presumption set out in the amendments to HKAS 12 is not rebutted.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(Continued)*

Amendments to HKAS 12 Deferred Tax: Recovery of Underlying Assets *(Continued)*

The application of the amendments to HKAS 12 has resulted in the Group not recognising any deferred taxes on changes in fair value of the investment properties as the Group is not subject to any income taxes on disposal of its investment properties. Previously, the Group recognised deferred taxes on changes in fair value of investment properties on the basis that the entire carrying amounts of the properties were recovered through use.

The amendments to HKAS 12 have been applied retrospectively, resulting in the Group's deferred tax liabilities being decreased by HK$13,207,000 as at 1 January 2011, with the corresponding credit being recognised in retained profits and property revaluation reserve by HK$8,085,000 and HK$5,122,000, respectively. Similarly, the deferred tax liabilities have been decreased by HK$14,709,000 as at 31 December 2011.

In the current year, no deferred taxes have been provided for changes in fair value of the Group's investment properties. The change in accounting policy has resulted in the Group's income tax expense for the years ended 31 December 2012 and 31 December 2011 being reduced by HK$6,765,000 and HK$1,502,000 respectively and hence resulted in profit for the years ended 31 December 2012 and 31 December 2011 being increased by HK$6,765,000 and HK$1,502,000 respectively.

Amendments to HKAS 1 Presentation of Financial Statements (as part of the Annual Improvements to HKFRSs 2009-2011 Cycle issued in June 2012)

Various amendments to HKFRSs were issued in June 2012, the title of which is *Annual Improvements to HKFRSs (2009 – 2011 Cycle)*. The effective date of these amendments is annual periods beginning on or after 1 January 2013.

In current year, the Group has applied for the first time the amendments to HKAS 1 in advance of the effective date (annual periods beginning on or after 1 January 2013).

HKAS 1 requires an entity that changes accounting policies retrospectively, or makes a retrospective restatement or reclassification to present a statement of financial position as at the beginning of the preceding period (third statement of financial position). The amendments to HKAS 1 clarify that an entity is required to present a third statement of financial position only when the retrospective application, restatement or reclassification has a material effect on the information in the third statement of financial position and that related notes are not required to accompany the third statement of financial position.

In the current year, the Group has applied the amendments to HKAS 12 *Deferred Tax: Recovery of Underlying Assets* for the first time, which has resulted in a material effect on the information in the consolidated statement of financial position as at 1 January 2011. In accordance with the amendments to HKAS 1, the Group has therefore presented a third statement of financial position as at 1 January 2011 without the related notes.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(Continued)*

Summary of the effects of the above changes in accounting policies

The effects of changes in accounting policies described above on the results for the current and prior years by line items are as follows:

	2012 HK$'000	2011 HK$'000
Decrease in income tax expense	(6,765)	(1,502)
Increase in profit for the year	6,765	1,502

The effects of the above changes in accounting policies on the financial positions of the Group as at 1 January 2011 and 31 December 2011 is as follows:

	As at 1.1.2011 (originally stated) HK$'000	Adjustments HK$'000	As at 1.1.2011 (restated) HK$'000	As at 31.12.2011 (originally stated) HK$'000	Adjustments HK$'000	As at 31.12.2011 (restated) HK$'000
Deferred tax assets (liabilities)	(9,819)	13,207	3,388	(11,791)	14,709	2,918
Total effect on net assets	542,510	13,207	555,717	612,656	14,709	627,365
Retained profits	370,009	8,085	378,094	431,269	9,587	440,856
Property revaluation reserve	32,225	5,122	37,347	32,225	5,122	37,347
Total effect on equity	402,234	13,207	415,441	463,494	14,709	478,203

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(Continued)*

Summary of the effects of the above changes in accounting policies *(Continued)*

The effects of the above changes in accounting policies on the financial positions of the Group as at 31 December 2012 is as follows:

	As at 31.12.2012 HK$'000
Decrease in deferred tax liabilities	21,474
Total effects on net assets	21,474
Increase in retained profits	16,352
Increase in property revaluation reserve	5,122
Total effect on equity	21,474

The effects of the above changes in accounting policies on the Group's basic and diluted earnings per share for the current and prior year are as follows:

Impact on basic and diluted earnings per share

	Impact on basic and diluted earnings per share from continuing and discontinued operations		Impact on basic and diluted earnings per share from continuing operations	
	Year ended 31.12.2012 HK cents	Year ended 31.12.2011 HK cents	Year ended 31.12.2012 HK cents	Year ended 31.12.2011 HK cents
Figure before adjustment	32.08	38.37	32.08	39.80
Adjustment arising from changes in the Group's accounting policies in relation to application of amendment to HKAS 12 in respect of deferred taxes on investment properties	2.58	0.58	2.58	0.58
Figure after adjustment	34.66	38.95	34.66	40.38

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(Continued)*

New and revised HKFRSs issued but not yet effective

The Group has not early applied the following new and revised HKFRSs that have been issued but are not yet effective:

Amendments to HKFRSs	Annual Improvements to HKFRSs 2009 – 2011 Cycle, except for the amendments HKAS 1[1]
Amendments to HKFRS 7	Disclosures – Offsetting Financial Assets and Financial Liabilities[1]
Amendments to HKFRS 9 and HKFRS 7	Mandatory Effective Date of HKFRS 9 and Transition Disclosures[3]
Amendments to HKFRS 10, HKFRS 11 and HKFRS 12	Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance[1]
Amendments to HKFRS 10, HKFRS 12 and HKAS 27	Investment Entities[2]
HKFRS 9	Financial Instruments[3]
HKFRS 10	Consolidated Financial Statements[1]
HKFRS 11	Joint Arrangements[1]
HKFRS 12	Disclosure of Interests in Other Entities[1]
HKFRS 13	Fair Value Measurement[1]
HKAS 19 (as revised in 2011)	Employee Benefits[1]
HKAS 27 (as revised in 2011)	Separate Financial Statements[1]
HKAS 28 (as revised in 2011)	Investments in Associates and Joint Ventures[1]
Amendments to HKAS 1	Presentation of Items of Other Comprehensive Income[4]
Amendments to HKAS 32	Offsetting Financial Assets and Financial Liabilities[2]
HK(IFRIC) – Int 20	Stripping Costs in the Production Phase of a Surface Mine[1]

1 Effective for annual periods beginning on or after 1 January 2013.
2 Effective for annual periods beginning on or after 1 January 2014.
3 Effective for annual periods beginning on or after 1 January 2015.
4 Effective for annual periods beginning on or after 1 July 2012.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(Continued)*

HKFRS 9 Financial Instruments

HKFRS 9 issued in 2009 introduces new requirements for the classification and measurement of financial assets. HKFRS 9 amended in 2010 includes the requirements for the classification and measurement of financial liabilities and for derecognition.

HKFRS 9 requires all recognised financial assets that are within the scope of HKAS 39 *Financial Instruments: Recognition and Measurement* are subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent reporting periods. In addition, under HKFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

HKFRS 9 is effective for annual periods beginning on or after 1 January 2015, with earlier application permitted.

The directors anticipate that the adoption of HKFRS 9 in the future may affect the classification and measurement of the Group's available-for-sale investments. However, it is not practicable to provide a reasonable estimate of that effect until a detailed review has been completed.

New and revised standards on consolidation, joint arrangements, associates and disclosures

In June 2011, a package of five standards on consolidation, joint arrangements, associates and disclosures was issued, including HKFRS 10, HKFRS 11, HKFRS 12, HKAS 27 (as revised in 2011) and HKAS 28 (as revised in 2011).

Key requirements of these five standards are described below.

HKFRS 10 replaces the parts of HKAS 27 *Consolidated and Separate Financial Statements* that deal with consolidated financial statements. HK (SIC)-Int 12 *Consolidation – Special Purpose Entities* will be withdrawn upon the effective date of HKFRS 10. Under HKFRS 10, there is only one basis for consolidation, that is, control. In addition, HKFRS 10 includes a new definition of control that contains three elements: (a) power over an investee, (b) exposure, or rights, to variable returns from its involvement with the investee, and (c) the ability to use its power over the investee to affect the amount of the investor's returns. Extensive guidance has been added in HKFRS 10 to deal with complex scenarios.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(Continued)*

New and revised standards on consolidation, joint arrangements, associates and disclosures *(Continued)*

HKFRS 11 replaces HKAS 31 *Interests in Joint Ventures*. HKFRS 11 deals with how a joint arrangement of which two or more parties have joint control should be classified. HK (SIC)-Int 13 *Jointly Controlled Entities – Non-monetary Contributions by Venturers* will be withdrawn upon the effective date of HKFRS 11.

Under HKFRS 11, joint arrangements are classified as joint operations or joint ventures, depending on the rights and obligations of the parties to the arrangements. In contrast, under HKAS 31, there are three types of joint arrangements: jointly controlled entities, jointly controlled assets and jointly controlled operations. In addition, joint ventures under HKFRS 11 are required to be accounted for using the equity method of accounting, whereas jointly controlled entities under HKAS 31 can be accounted for using the equity method of accounting or proportionate consolidation.

HKFRS 12 is a disclosure standard and is applicable to entities that have interests in subsidiaries, joint arrangements, associates and/or unconsolidated structured entities. In general, the disclosure requirements in HKFRS 12 are more extensive than those in the current standards.

In July 2012, the amendments to HKFRS 10, HKFRS 11 and HKFRS 12 were issued to clarify certain transitional guidance on the application of these five HKFRSs for the first time.

These five standards, together with the amendments relating to the transitional guidance, are effective for annual periods beginning on or after 1 January 2013 with earlier application permitted provided that all of these standards are applied at the same time.

The directors anticipate that the application of these five standards may have a significant impact on amounts reported in the consolidated financial statements. The application of HKFRS 11 will change the classification and subsequent accounting of the Group's jointly controlled entities. For example, under HKAS 31, the Group's jointly controlled entities that include Kitronix Limited and SPT Technology Limited have been accounted for using proportionate consolidation method. Under HKFRS 11, Kitronix Limited and SPT Technology Limited will be classified as joint ventures and will be accounted for using the equity method, resulting in the aggregation of the Group's proportionate share of Kitronix Limited's and SPT Technology Limited's respective net assets and items of profit or loss and other comprehensive income into a single line item which will be presented in the consolidated statement of financial position and in the consolidated statement of comprehensive income as 'investment in joint ventures' and 'share of profits of joint ventures' respectively. The summarized financial information in respect of Kitronix Limited and SPT Technology Limited are disclosed in note 21.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(Continued)*

Amendments to HKAS 1 Presentation of Items of Other Comprehensive Income

The amendments to HKAS 1 Presentation of Items of Other Comprehensive Income introduce new terminology for the statement of comprehensive income and income statement. Under the amendments to HKAS 1, a "statement of comprehensive income" is renamed as a "statement of profit or loss and other comprehensive income". The amendments to HKAS 1 also require items of other comprehensive income to be grouped into two categories: (a) items that will not be reclassified subsequently to profit or loss; and (b) items that may be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis – the amendments do not change the option to present items of other comprehensive income either before tax or net of tax.

The amendments to HKAS 1 are effective for the Group for annual period beginning on 1 January 2013. The presentation of items of other comprehensive income will be modified accordingly when the amendments are applied.

The directors of the Company anticipate that the application of the other new and revised HKFRSs will have no material impact on the consolidated financial statements.

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and by the Hong Kong Companies Ordinance.

The consolidated financial statements have been prepared on the historical cost basis except for certain properties and financial instruments that are measured at revalued amounts or fair values, as explained in the accounting policies set out below. Historical cost is generally based on the fair value of the consideration given in exchange for assets.

The principal accounting policies are set out below.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

Income and expenses of subsidiaries acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

Non-controlling interests in subsidiaries are presented separately from the Group's equity therein.

Allocation of total comprehensive income to non-controlling interests

Total comprehensive income and expense of a subsidiary is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Basis of consolidation *(Continued)*

Changes in the Group's ownership interests in existing subsidiaries

When the Group loses control of a subsidiary, it (i) derecognises the assets (including any goodwill) and liabilities of the subsidiary at their carrying amounts at the date when control is lost, (ii) derecognises the carrying amount of any non-controlling interests in the former subsidiary at the date when control is lost (including any components of other comprehensive income attributable to them), and (iii) recognises the aggregate of the fair value of the consideration received and the fair value of any retained interest, with any resulting difference being recognise as a gain or loss in profit or loss attributable to the Group. When assets of the subsidiary are carried at revalued amounts or fair values and the related cumulative gain or loss has been recognised in other comprehensive income and accumulated in equity, the amounts previously recognised in other comprehensive income and accumulated in equity are accounted for as if the Group had directly disposed of the related assets (i.e. reclassified to profit or loss or transferred directly to retained earnings as specified by applicable HKFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under HKAS 39 *Financial Instruments: Recognition and Measurement* or, when applicable, the cost on initial recognition of an investment in an associate or a jointly controlled entity.

Business combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition related costs are generally recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value at the acquisition date, except that deferred tax assets or liabilities, and assets or liabilities related to employee benefit arrangements are recognised and measured in accordance with HKAS 12 *Income Taxes* and HKAS 19 *Employee Benefits* respectively.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after re-assessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Business combinations *(Continued)*

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation have been initially measured at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets. Other types of non-controlling interests are measured at their fair value or, when applicable, on the basis specified in another Standard.

Goodwill

Goodwill arising on an acquisition of a business or a jointly controlled entity (which is accounted for using proportionate consolidation) is carried at cost less accumulated impairment losses, if any, and is presented separately in the consolidated statement of financial position.

For the purposes of impairment testing, goodwill is allocated to each of the cash-generating units (or groups of cash-generating units), that is expected to benefit from the synergies of the combination.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually or more frequently whenever there is indication that the unit may be impaired. For goodwill arising on an acquisition in a reporting period, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that reporting period. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit on a pro rata basis based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in profit or loss. An impairment loss for goodwill is not reversed in subsequent periods.

On disposal of the relevant cash-generating unit or a jointly controlled entity, the attributable amount of goodwill is included in the determination of the amount of profit or loss on disposal.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investments in associates

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting. Under the equity method, investments in associates are initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associates. When the Group's share of losses of an associate exceeds its interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of an associate recognised at the date of acquisition is recognised as goodwill, which is included within the carrying amount of the investment.

Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss.

The requirements of HKAS 39 are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group's investment in an associate. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with HKAS 36 *Impairment of Assets* as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount. Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with HKAS 36 to the extent that the recoverable amount of the investment subsequently increases.

When a group entity transacts with its associate, profits and losses resulting from the transactions with the associate are recognised in the Group's consolidated financial statements only to the extent of interests in the associate that are not related to the Group.

Jointly controlled entities

Joint venture arrangements that involve the establishment of a separate entity in which venturers have joint control over the economic activity of the entity are referred to as jointly controlled entities.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Jointly controlled entities *(Continued)*

The Group recognises its interest in jointly controlled entities using proportionate consolidation. The Group's share of each of the assets, liabilities, income and expenses of the jointly controlled entities are combined with the Group's similar line items, line by line, in the consolidated financial statements.

The financial statements of jointly controlled entities used for proportionate consolidation purposes are prepared using uniform accounting policies as those of the Group for like transactions and events in similar circumstances.

When a group entity transacts with its jointly controlled entity, profits and losses resulting from the transactions with the jointly controlled entity are recognised in the Group's consolidated financial statements only to the extent of interests in the jointly controlled entity that are not related to the Group.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods sold in the normal course of business, net of discounts and sales related taxes.

Revenue from the sale of goods is recognised when the goods are delivered and titles have passed, at which time all the following conditions are satisfied:

- the Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the Group; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Rental income, including rentals invoiced in advance from properties let under operating leases, is recognised on a straight-line basis over the term of the relevant lease.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Revenue recognition *(Continued)*

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Dividend income from investments is recognised when the shareholders' rights to receive payment have been established (provided that it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably).

Investment properties

Investment properties are properties held to earn rentals and/or for capital appreciation.

Investment properties are initially measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are measured at their fair value. Gains or losses arising from changes in the fair value of investment property are included in profit or loss for the period in which they arise.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the profit or loss in the period in which the property is derecognised.

Property, plant and equipment

Property, plant and equipment including land and buildings held for use in the production or supply of goods or services, or for administrative purposes are stated in the consolidated statement of financial position at cost, deemed cost or valuation less subsequent accumulated depreciation and accumulated impairment losses, if any.

Certain of the Group's leasehold land and buildings were revalued at 31 December 1994. The surplus arising on revaluation of these properties was credited to the asset revaluation reserve. Advantage has been taken of the transitional relief provided by paragraph 80A of HKAS 16 *Property, Plant and Equipment* from the requirement to make regular revaluations of the Group's land and buildings which had been carried at revalued amounts prior to 30 September 1995, and accordingly no further revaluation of land and buildings is carried out. Prior to 30 September 1995, the revaluation increase arising on the revaluation of these assets was credited to the property revaluation reserve. Any future decreases in value of these assets will be dealt with as an expense to the extent that they exceed the balance, if any, on the revaluation reserve relating to a previous revaluation of the same asset. On the subsequent sale or retirement of a revalued asset, the corresponding revaluation surplus is transferred to retained profits.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Property, plant and equipment *(Continued)*

Depreciation is recognised so as to write off the cost or valuation of items of property, plant and equipment other than properties under construction over their estimated useful lives, using the straight-line method. The estimated useful lives and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

Properties in the course of construction for production, supply or administrative purposes are carried at cost, less any recognised impairment loss. Costs include professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Such properties are classified to the appropriate categories of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

If an item of property, plant and equipment becomes an investment property because its use has changed as evidenced by end of owner-occupation, any difference between the carrying amount and the fair value of that item at the date of transfer is recognised in other comprehensive income and accumulated in property revaluation reserve. On the subsequent sale or retirement of the asset, the relevant revaluation reserve will be transferred directly to retained profits.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Impairment losses on tangible assets other than club memberships (see the accounting policy in respect of club memberships below)

At the end of the reporting period, the Group reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of 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 for which the estimates of future cash flows have not been adjusted.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Impairment losses on tangible assets other than club memberships (see the accounting policy in respect of club memberships below) *(Continued)*

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount under another standard, in which case the impairment loss is treated as a revaluation decrease under that standard.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or a cash-generating unit) in prior years. A reversal of an impairment loss is recognised as income immediately, unless the relevant asset is carried at a revalued amount under another standard, in which case the reversal of the impairment loss is treated as a revaluation increase under that standard.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessor

Rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant lease.

The Group as lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Leasing *(Continued)*

Leasehold land and building

When a lease includes both land and building elements, the Group assesses the classification of each element as a finance or an operating lease separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Group, unless it is clear that both elements are operating leases in which case the entire lease is classified as an operating lease. Specifically, the minimum lease payments (including any lump-sum upfront payments) are allocated between the land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element of the lease at the inception of the lease.

To the extent the allocation of the lease payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as "prepaid lease payments" in the consolidated statement of financial position and is amortised over the lease term on a straight-line basis. When the lease payments cannot be allocated reliably between the land and building elements, the entire lease is generally classified as a finance lease and accounted for as property, plant and equipment.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity ("foreign currencies") are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise, except for exchange differences arising on a monetary item that forms part of the Company's net investment in a foreign operation, in which case, such exchange differences are recognised in other comprehensive income and accumulated in equity and will be reclassified from equity to profit or loss on disposal of the foreign operation.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Foreign currencies *(Continued)*

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. Hong Kong dollars) using exchange rates prevailing at the end of each reporting period. Income and expenses items are translated at the average exchange rates for the year. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of the translation reserve (attributed to non-controlling interests as appropriate).

On the disposal of a foreign operation (i.e. a disposal of the Group's entire interest in a foreign operation), all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Company are reclassified to profit or loss.

Goodwill and fair value adjustments on identifiable assets acquired arising on an acquisition of a foreign operation on or after 1 January 2005 are treated as assets and liabilities of that foreign operation and retranslated at the rate of exchange prevailing at the end of each reporting period. Exchange differences arising are recognised in equity under the heading of translation reserve.

Borrowing costs

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

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

Retirement benefit costs

Payments to defined contribution retirement benefits schemes are recognised as an expense when employees have rendered service entitling them to the contributions. Payments made to state-managed retirement benefits schemes are dealt with as payments to defined contribution schemes where the Group's obligations under the schemes are equivalent to those arising in a defined contribution retirement benefits scheme.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from 'profit before tax' as reported in the consolidated statement of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax base used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of the reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Taxation *(Continued)*

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

For the purposes of measuring deferred tax liabilities or deferred tax assets for investment properties that are measured using the fair value model, the carrying amounts of such properties are presumed to be recovered entirely through sale, unless the presumption is rebutted. The presumption is rebutted when the investment property is depreciable and is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale. If the presumption is rebutted, deferred tax liabilities and deferred tax assets for such investment properties are measured in accordance with the above general principles set out in HKAS 12 (i.e. based on the expected manner as to how the properties will be recovered).

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

Club memberships

Club memberships with indefinite useful lives are carried at cost less any subsequent accumulated impairment losses.

Club memberships are tested for impairment at least annually, and whenever there is any indication that they may be impaired by comparing their carrying amounts with their recoverable amounts. If the recoverable amount of club memberships is estimated to be less than its carrying amount, the carrying amount of the club memberships is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

If an impairment loss subsequently reverses, the carrying amount of the club memberships is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for those club memberships in prior years. A reversal of an impairment loss is recognised as income immediately.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the first-in, first-out method for electronic products and the weighted average cost method for other inventories. Net realisable value represents the estimated selling price for inventories less costs necessary to make the sale.

Financial instruments

Financial assets and financial liabilities are recognised in the consolidated statement of financial position when a group entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

The Group's financial assets are classified as financial assets at fair value through profit or loss ("FVTPL"), loans and receivables and available-for-sale financial assets. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest income is recognised on an effective interest basis for debt instruments, other than those financial assets classified as at FVTPL, of which interest income is included in net gains or losses.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets (Continued)

Financial assets at fair value through profit or loss

Financial assets at FVTPL has two subcategories, including financial assets held for trading and those designated at FVTPL on initial recognition.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near future; or
- it is a part of portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial asset other than a financial asset held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and HKAS 39 permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial assets at FVTPL are measured at fair value, with changes in fair value arising from remeasurement recognised directly in profit or loss in the period in which they arise. The net gain or loss recognised in profit or loss includes any dividend or interest earned on the financial assets. Fair value is determined in the manner described in note 6.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including trade and other receivables, bills receivable, pledged bank deposits and bank balances) are carried at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment of financial assets below).

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets (Continued)

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated or not classified as financial assets at FVTPL, loans and receivables or held-to-maturity investments.

Equity securities held by the Group that are classified as available-for-sale financial assets and are traded in an active market are measured at fair value at the end of each reporting period. Changes in the carrying amount of available-for-sale financial assets are recognised in other comprehensive income and accumulated under the heading of investments revaluation reserve. When the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the investment revaluation reserve is reclassified to profit or loss (see the accounting policy in respect of impairment of financial assets below).

Dividends on available-for-sale equity instruments are recognised in profit or loss when the Group's right to receive the dividends is established.

For available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured, they are measured at cost less any identified impairment losses at the end of the reporting period (see accounting policy on impairment of financial assets below).

Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of the reporting period. Financial assets are considered to be impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected.

For an available-for-sale equity investment, a significant or prolonged decline in the fair value of that investment below its cost is considered to be objective evidence of impairment.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets (Continued)

Impairment of financial assets *(Continued)*

For all other financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as default or delinquency in interest and principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation; or
- disappearance of an active market for that financial asset because of financial difficulties.

Trade receivables that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the credit period (ranging from 30 days to 120 days), or observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate.

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

When an available-for-sale financial asset is considered to be impaired, cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss in the period in which the impairment takes place.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets (Continued)

Impairment of financial assets *(Continued)*

For financial assets measured at amortised cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment losses was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Impairment losses on available-for-sale equity investments will not be reversed through profit or loss. Any increase in fair value subsequent to impairment loss is recognised directly in other comprehensive income and accumulated in the investment revaluation reserve.

Financial liabilities and equity instruments

Debt and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities. Equity instruments issued by the group entities are recognised at the proceeds received, net of direct issue costs.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest expense is recognised on an effective interest basis.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial liabilities and equity instruments (Continued)

Financial liabilities

Financial liabilities including trade and other payables, bills payable and bank borrowings are subsequently measured at amortised cost, using the effective interest method.

Derivative financial instruments and hedging

Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at the end of the reporting period. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

Derecognition

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group continues to recognise the asset to the extent of its continuing involvement and recognises an associated liability. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Share-based payment transactions

Equity-settled share-based payment transactions

Share options granted to employees

The fair value of services received determined by reference to the fair value of share options granted at the grant date is expensed on a straight-line basis over the vesting period, with a corresponding increase in equity (share options reserve).

At the end of the reporting period, the Group revises its estimates of the number of options that are expected to ultimately vest. The impact of the revision of the original estimates during the vesting period, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to the share options reserve.

When share options are exercised, the amount previously recognised in share options reserve will be transferred to share premium. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share options reserve will be transferred to retained profits.

Warrants granted to employees

The fair value of services received determined by reference to the fair value of warrants granted at the date of grant is recognised as an expense in full at the grant date when the warrants granted vest immediately, with a corresponding increase in equity (warrants reserve).

When warrants are exercised, the amount previously recognised in warrants reserve will be transferred to share premium. When the warrants are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in warrants reserve will be transferred to retained profits.

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 3, the directors of the Company are required to make estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. 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.

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY *(Continued)*

Critical judgements in applying accounting policies

The following are the critical judgements, apart from those involving estimations (see below), that the directors have made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the consolidated financial statements.

Deferred taxation on investment properties

For the purposes of measuring deferred tax liabilities or deferred tax assets arising from investment properties that are measured using the fair value model, the directors have reviewed the Group's investment property portfolios and concluded that the Group's investment properties are not held under a business model whose objective is to consume substantially all of the economic benefits embodied in the investment properties over time. Therefore, in measuring the Group's deferred taxation on investment properties, the directors have determined that the presumption that the carrying amounts of investment properties measured using the fair value model are recovered entirely through sale is not rebutted. As a result, the Group has not recognised any deferred taxes on changes in fair value of investment properties as the Group is not subject to any income taxes on disposal of its investment properties.

Key sources of estimation uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Estimated impairment of trade receivables

When there is objective evidence of impairment loss, the Group takes into consideration the estimation of future cash flows. The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). Where the actual future cash flows are less than expected, a material impairment loss may arise. As at 31 December 2012, the carrying value of trade receivables is HK$767,669,000 (2011: HK$443,985,000) (net of allowance of HK$3,997,000 (2011: HK$8,642,000)).

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY *(Continued)*

Key sources of estimation uncertainty *(Continued)*

Estimated impairment of inventories

Management of the Group reviews inventories on a product-by-product basis at the end of each reporting period, and makes allowance for obsolete and slow-moving inventory items identified that are no longer suitable for use in production. Management estimates the net realisable value for such items based primarily on the latest invoice prices and current market conditions. As at 31 December 2012, the carrying value of inventories is HK$659,446,000 (2011: HK$397,045,000) (net of allowance for inventories of HK$39,960,000 (2011: HK$44,018,000)).

Income tax

As at 31 December 2012, unused tax losses of the Group amounted to approximately HK$99,264,000 (2011: HK$94,803,000), of which approximately HK$24,334,000 (2011: HK$12,718,000) has been recognised as a deferred tax asset. No deferred tax asset has been recognised in respect of the remaining approximately HK$74,930,000 (2011: HK$82,085,000) due to unpredictability of future profit streams. In addition, for the deductible temporary differences in relation to allowance for doubtful debts and inventories of the Group which amounted to approximately HK$7,884,000 (2011: HK$8,428,000), a deferred tax asset has been recognised in respect of approximately HK$2,490,000 (2011: HK$850,000). No deferred tax asset has been recognised in respect of the remaining approximately HK$5,394,000 (2011: HK$7,578,000). In cases where the actual future profits generated are more than or less than expected, a material recognition or reversal of deferred tax assets may arise, which would be recognised in profit or loss for the period in which such a recognition or reversal takes place.

5. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from prior year.

The capital structure of the Group consists of net debt, which includes the bank borrowings, net of cash and cash equivalents and equity attributable to owners of the Company, comprising issued share capital, reserves and retained profits.

The directors of the Company review the capital structure regularly. As part of this review, the directors consider the cost of capital and the risks associates with each class of capital. Based on recommendations of the directors, the Group will balance its overall capital structure through the payment of dividends, new share issues as well as the issue of new debt or the redemption of existing debt.

6. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

	2012 HK$'000	2011 HK$'000
Financial assets		
Fair value through profit or loss		
Held for trading	48,359	98,186
Designated at FVTPL	6,426	15,558
Loans and receivables (including cash and cash equivalents)	1,255,434	1,127,312
Available-for-sale investments	34,414	13,912
Financial liabilities		
Amortised cost	1,670,827	1,341,005
Derivative financial instruments	7,909	8,776

(b) Financial risk management objectives and policies

The Group's major financial instruments include available-for-sale investments, trade and other receivables, bills receivable, financial assets at fair value through profit or loss, pledged bank deposits, bank balances, trade and other payables, bills payable, derivative financial instruments and bank borrowings. Details of the financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (currency risk, interest rate risk and other price risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented in a timely and effective manner.

Market risk

(i) Currency risk

Several subsidiaries of the Company have foreign currency sales and purchases and foreign currency trade and other receivables, bills receivable, financial assets at fair value through profit or loss, pledged bank deposits, bank balances, trade and other payables, bills payable and bank borrowings, which expose the Group to foreign currency risk.

6. FINANCIAL INSTRUMENTS *(Continued)*

(b) Financial risk management objectives and policies *(Continued)*

Market risk (Continued)

(i) Currency risk *(Continued)*

The carrying amounts of the Group's foreign currency denominated monetary liabilities (including intercompany payables within the Group) and monetary assets at the reporting date are as follows:

	Liabilities		Assets	
	2012	2011	**2012**	2011
	HK$'000	HK$'000	**HK$'000**	HK$'000
United States dollars ("USD")	**497,637**	454,948	**376,018**	444,676
Renminbi ("RMB")	**–**	4	**20,889**	61,201
Hong Kong dollars ("HK$")	**59,192**	57,367	**–**	–

Includes in above are the Group's foreign currency denominated monetary assets designated at FVTPL at the reporting date which are as follows:

	Assets	
	2012	2011
	HK$'000	HK$'000
USD	**6,426**	15,558
RMB	**12,077**	57,727

The Group currently does not have a foreign currency hedging policy. However, management will monitor foreign exchange exposure closely and consider for further usage of hedging instruments when the need arise.

The carrying amount of foreign exchange forward contract as at year end amounted to approximately HK$3,397,000 classified as current liabilities (2011: HK$2,515,000), in which the Group was in the position of buying USD with notional amount of USD20,450,000 (2011: buying USD with notional amount of USD58,330,000).

6. FINANCIAL INSTRUMENTS *(Continued)*

(b) Financial risk management objectives and policies *(Continued)*

Market risk (Continued)

(i) Currency risk *(Continued)*

No sensitivity analysis is presented for USD denominated financial assets and liabilities in which the functional currency of the respective group entities is Hong Kong dollars as Hong Kong dollars is currently pegged to USD, management considers that the exposure to exchange fluctuation in respect of USD is limited.

The Group is mainly exposed to the fluctuation in HK dollars against RMB.

The following table details the Group's sensitivity to a 5% increase and decrease in relevant foreign currencies against HK dollars (excluding structured deposits designated at FVTPL and foreign currency forward contracts). 5% (2011: 5%) represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the year end for a 5% (2011: 5%) change in foreign currency rates. The sensitivity analysis includes mainly foreign currency trade and other receivables and bank balances. The sensitivity analysis also includes external loan, as well as loans to foreign operations within the Group where the denomination of the loan is in a currency other than the functional currency of the lender in the borrower. A 5% (2011: 5%) strengthening of RMB against HK dollars will decrease/increase the Group's profit for the year by the following amount. For 5% (2011: 5%) weakening of RMB against HK dollars, there would be an equal and opposite impact on the profit or loss.

	RMB	
	2012	2011
	HK$'000	HK$'000
Increase in profit	2,839	2,539

No sensitivity analysis was prepared in relation to the currency risk of structured deposits designated at FVTPL and foreign exchange forward contracts as the directors consider the exposure is limited.

In management's opinion, the sensitivity analysis is unrepresentative of the inherent foreign exchange risk as the year end exposure does not reflect the exposure during the year.

6. FINANCIAL INSTRUMENTS *(Continued)*

(b) Financial risk management objectives and policies *(Continued)*

Market risk (Continued)

(ii) Interest rate risk

The Group is exposed to cash flow interest rate risk in relation to variable-rate bank balances and bank borrowings (see notes 24 and 30 for details). Management will monitor interest rate risk exposure closely. By management's discretion, the Group keeps its borrowings at floating rates and may enter into interest rate swaps to balance the fair value interest rate risk and cash flow interest rate risk exposure of the Group.

The Group's exposures to interest rates on financial liabilities are detailed in the liquidity risk management section of this note. The Group's cash flow interest rate risk is mainly concentrated on the fluctuation of London Inter Bank Offer Rate ("LIBOR") and Hong Kong Inter Bank Offer Rate ("HIBOR") arising from the Group's variable-rate bank borrowings.

Sensitivity analysis

The sensitivity analysis below has been determined based on the exposure to interest rates for its variable-rate bank balances and bank borrowings. The analysis is prepared assuming the amount of variable-rate bank balances and bank borrowings at the end of reporting period were outstanding for the whole year. For variable-rate bank balances, 20 basis points increase and 5 basis points decrease (2011: 20 basis points increase and 5 basis points decrease) are used. For variable-rate bank borrowings, 20 basis points (2011: 20 basis points) increase or decrease is used.

If interest rates had been 20 basis points higher for variable-rate bank balances and variable-rate bank borrowings/5 basis points lower for variable-rate bank balances and 20 basis points lower for variable-rate bank borrowings and all other variables were held constant (2011: 20 basis points higher for variable-rate bank balances and variable-rate bank borrowings/5 basis points lower for variable-rate bank balances and 20 basis points lower for variable-rate bank borrowings and all other variables were held constant), the Group's profits for the year ended 31 December 2012 would decrease by approximately HK$1,227,000 if interest rate is higher/increase by approximately HK$1,721,000 if interest rate is lower (2011: decrease by approximately HK$765,000/increase by approximately HK$1,463,000). This is mainly attributable to the Group's exposure to interest rates on its variable-rate bank balances and bank borrowings.

For interest rate swap, 20 basis points (2011: 20 basis points) increase or decrease is used. If interest rates had been 20 basis points higher/lower and all other variables were held constant, the Group's profit for the year ended 31 December 2012 would increase/decrease by approximately HK$200,000 (2011: increase/decrease by HK$200,000).

6. FINANCIAL INSTRUMENTS *(Continued)*

(b) Financial risk management objectives and policies *(Continued)*

Market risk (Continued)

(iii) Other price risk

The Group is exposed to other price risk through its investments in structured deposits classified as financial assets designated at fair value through profit or loss, listed equity securities and unlisted equity funds and securities classified as available-for-sale investment and FVTPL. For the available-for-sale investment stated at cost, the exposure to other price risk is not measurable as the range of reasonable fair value estimates is significant, accordingly, sensitivity analysis is not presented. The management manages the other price risk exposure by maintaining a portfolio of investments with different risks.

Sensitivity analysis

The sensitivity analysis below have been determined based on the exposure to equity price risks at the reporting date.

If the market prices of the respective listed equity instruments and the quoted price of the equity funds, and the mark to market valuation amount of the structured deposits provided by financial institutions (which are the counterparties of the structured deposits) had been 5% (2011: 5%) higher/lower and all other variables were held constant:

- profit for the year would increase/decrease by approximately HK$2,739,000 (2011: increase/decrease by approximately HK$5,687,000) as a result of the changes in fair value of financial assets through profit or loss; and
- the investment revaluation reserve would increase/decrease by approximately HK$1,414,000 (2011: increase/decrease by approximately HK$379,000) for the Group as a result of the changes in fair value of available-for-sale investments.

Credit risk

As at 31 December 2012, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties arises from the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position.

In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at the end of the reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

6. FINANCIAL INSTRUMENTS *(Continued)*

(b) Financial risk management objectives and policies *(Continued)*

Credit risk (Continued)

The credit risk on structured deposits classified as financial assets at fair value through profit or loss, bank balances and bank deposits and bills receivables is limited because the counterparties are banks with good reputation.

Other than the concentration of credit risk on bank balances and structured deposits classified as financial assets at fair value through profit or loss, which are deposited with several banks with high credit ratings, the Group has no significant concentration of credit risk on other financial assets and trade receivables, with exposure spread over a number of counterparties and customers.

Liquidity risk

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. The management monitors the utilisation of bank borrowings and ensures compliance with loan covenants.

The Group relies on bank borrowings as a significant source of liquidity. As at 31 December 2012, the Group has available unutilised overdraft and bank loan facilities of approximately HK$29,000,000 (2011: HK$29,000,000) and HK$1,781,774,000 (2011: HK$1,403,449,000) respectively.

The following table details the Group's remaining contractual maturity for its non-derivative and derivative financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. Specifically, bank loans with a repayment on demand clause are included in the earliest time band regardless of the probability of the banks choosing to exercise their rights. The maturity dates for other non-derivative financial liabilities are based on the agreed repayment dates.

The table includes both interest and principal cash flows. To extent that interest flows are floating rate, the undiscounted amount is derived from interest rate curve at the end of the reporting period.

In addition, the liquidity analysis for the Group's derivative financial instruments is prepared based on the expected settlement date as the management considers that such basis is essential for an understanding of the timing of the expected cash flows of the contracts.

6. FINANCIAL INSTRUMENTS *(Continued)*

(b) Financial risk management objectives and policies *(Continued)*

Liquidity risk (Continued)

Liquidity tables

	Weighted average effective interest rate %	On demand or less than 1 month HK$'000	1-3 months HK$'000	3 months to 1 year HK$'000	Over 1 year HK$'000	Total undiscounted cash flows HK$'000	Carrying amount at 31.12.2012 HK$'000
2012							
Non-derivative financial liabilities							
Trade and other payables	–	463,212	16,914	5,180	–	485,306	485,306
Bills payable	–	224,728	17,877	–	–	242,605	242,605
Bank borrowings – variable rate	*1.65	942,916	–	–	–	942,916	942,916
		1,630,856	34,791	5,180	–	1,670,827	1,670,827
Derivatives – net settlement							
Foreign exchange forward contracts	–	–	–	–	3,397	3,397	3,397
Interest rate swap	–	651	–	1,953	1,953	4,557	4,512
		651	–	1,953	5,350	7,954	7,909

* Weighted average effective interest rate determined based on the variable interest rate of outstanding bank borrowings at the end of the reporting period.

	Weighted average effective interest rate %	On demand or less than 1 month HK$'000	1-3 months HK$'000	3 months to 1 year HK$'000	Over 1 year HK$'000	Total undiscounted cash flows HK$'000	Carrying amount at 31.12.2011 HK$'000
2011							
Non-derivative financial liabilities							
Trade and other payables	–	343,959	72,758	17,318	–	434,035	434,035
Bills payable	–	51,776	7,349	–	–	59,125	59,125
Bank borrowings – variable rate	*1.85	830,658	1,273	4,774	12,570	849,275	847,845
		1,226,393	81,380	22,092	12,570	1,342,435	1,341,005
Derivatives – net settlement							
Foreign exchange forward contracts	–	–	–	–	2,515	2,515	2,515
Interest rate swap	–	695	–	2,085	4,864	7,644	6,261
		695	–	2,085	7,379	10,159	8,776

* Weighted average effective interest rate determined based on the variable interest rate of outstanding bank borrowings at the end of the reporting period.

6. FINANCIAL INSTRUMENTS *(Continued)*

(b) Financial risk management objectives and policies *(Continued)*

Liquidity risk (Continued)

Bank loans with a repayment on demand clause are included in the "on demand or less than 1 month" time band in the above maturity analysis. As at 31 December 2012, the aggregate undiscounted principal amounts of these bank loans amounted to HK$942,916,000 (2011: HK$830,345,000). Taking into account the Group's financial position, the directors do not believe that it is probable that the banks will exercise their discretionary rights to demand immediate repayment. The directors believe that such bank loans will be repaid in accordance with the scheduled repayment dates set out in the loan agreements. However, in accordance with *Hong Kong Interpretation 5 Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause,* all such bank loans have been classified as current liabilities.

	Weighted average effective interest rate %	Less than 1 month HK$'000	1 – 3 months HK$'000	3 months to 1 year HK$'000	Over 1 year HK$'000	Total undiscounted cash flows HK$'000	Carrying amount HK$'000
As at 31 December 2012							
Bank borrowings – variable rate	1.65	755,839	146,755	16,190	27,973	946,757	942,916
As at 31 December 2011							
Bank borrowings – variable rate	1.85	228,402	320,384	258,791	33,905	841,482	830,345

The amount included above for variable interest rate instruments for non-derivative financial liabilities is subject to change if changes in variable interest rate differ to those estimates of interest rates determined at the end of the reporting period.

(c) Fair value

The fair value of financial assets and financial liabilities are determined as follows:

- the fair value of financial assets with standard terms and conditions and traded in active liquid markets are determined with reference to quoted market bid prices; and

- the fair value of other financial assets and financial liabilities (including derivative instruments) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using forward exchange rates, prices or rates from observable current market transactions or unobservable inputs, such as risk filter multiple and coupon payment index of underlying stock.

The directors consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate their fair values.

6. FINANCIAL INSTRUMENTS *(Continued)*

(c) Fair value *(Continued)*

Fair value measurements recognised in the statement of financial position

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active market for identical assets and liabilities.
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

	2012			
	Level 1 HK$'000	Level 2 HK$'000	Level 3 HK$'000	Total HK$'000
Financial assets at FVTPL				
Investments held-for-trading (note)	48,359	–	–	48,359
Structured deposits	–	–	6,426	6,426
Available-for-sale investments	25,587	2,697	–	28,284
	73,946	2,697	6,426	83,069
Financial liabilities at FVTPL				
Derivative financial liabilities	–	7,909	–	7,909

	2011			
	Level 1 HK$'000	Level 2 HK$'000	Level 3 HK$'000	Total HK$'000
Financial assets at FVTPL				
Investments held-for-trading (note)	98,186	–	–	98,186
Structured deposits	–	–	15,558	15,558
Available-for-sale investments	–	7,573	–	7,573
	98,186	7,573	15,558	121,317
Financial liabilities at FVTPL				
Derivative financial liabilities	–	8,776	–	8,776

Note: Included in the balance with an amount of HK$20,728,000 (2011: HK$65,796,000) represented investment in equity funds/debentures which are quoted in an active market.

There were no transfers between Level 1 and 2 in current and prior years.

6. FINANCIAL INSTRUMENTS *(Continued)*

(c) Fair value *(Continued)*

Reconciliation of Level 3 fair value measurement of financial assets

	Structured deposits HK$'000
At 1 January 2011	23,103
Gain recognised in profit or loss (included in change in fair value of financial assets at fair value through profit and loss)	
– realised	335
– unrealised	(80)
Settlements	(7,800)
At 31 December 2011	15,558
Gain recognised in profit or loss (included in change in fair value of financial assets at fair value through profit and loss)	
– realised	190
– unrealised	255
Settlements	(9,577)
At 31 December 2012	6,426

Structured deposits are principal protected and only the interest or yield on the deposit may be affected by movements in the relevant reference value. The principal amount deposited will be repayable in full at the end of the deposit period. The structured deposit are valued using valuation techniques with observable and unobservable inputs principally comprising interest rate and foreign currency forward rates, subject to change in the weighting of components of the portfolio. The deposits are classified as Level 3 due to unobservability of the risk filter multiple that includes inputs of swap spreads and implied foreign exchange option volatility.

Structured deposits are measured at fair value. Fair value is estimated using net present value of estimated future cash flow, adjusted as appropriate for market risk (currency risk and other price risk), which included some assumptions that are not supportable by observable market price or risks and was estimated by a high credit rating financial institution. Whilst such valuations are sensitive to estimates, it is believed that changing of one or more of the assumptions to reasonably possible alternative assumptions would not have a big impact on the Group's financial position (see other price risk above). The total amount of the gain in fair value estimated using this valuation technique that was recognised in the consolidated statement of comprehensive income during the year is HK$445,000 including realised gain of HK$190,000 (2011: HK$255,000 including a realised gain of HK$335,000).

7. REVENUE AND SEGMENT INFORMATION

Revenue represents the net amounts received and receivable for goods sold by the Group in the normal course of business to outside customers, net of discounts for the year.

The Group are engaged in the distribution of electronic components and semiconductor products that can be used in consumer electronic products, mobile phone products, computer products, telecommunication products and lighting products, properties investments and distribution of sport products.

Information reported to chairman and managing director of the Company, being the chief operating decision maker, for the purposes of resource allocation and assessment of segment performance focuses only on revenue analysis excluding the revenue generated by the jointly controlled entity by geographical location of customers. As no other discrete financial information is available for the assessment of different business activities, no segment information is presented other than entity-wide disclosures.

The Group was involved in the manufacturing of liquid crystal display modules (operated through a jointly controlled entity accounted for using proportionate consolidation), which was reporting as a major business product and services of the Group. That operation was discontinued with effect in prior year. Details of the discontinued operation are set out in note 12.

Continuing operations

Entity-wide disclosures

Revenue from major business product and services

The following is an analysis of the Group's revenue from its major business products and services:

	2012 HK$'000	2011 HK$'000
Distribution of electronic components and semiconductor products	6,492,651	5,519,349
Distribution of sport products	30,410	30,230
Office building rental	4,973	3,733
	6,528,034	5,553,312

7. REVENUE AND SEGMENT INFORMATION *(Continued)*

Geographical information

The Group's operations are located in different places of domicile, including mainland PRC, Hong Kong and Taiwan.

The following is an analysis of the Group's revenue by the geographical locations of customers and properties for rental income for the year:

	Sales revenue by Geographical market	
	2012	2011
	HK$'000	HK$'000
Mainland PRC	3,508,839	3,008,246
Hong Kong	2,581,938	1,928,658
Taiwan	252,832	401,253
Republic of Korea	54,561	1,037
Brazil	53,567	8,212
India	25,479	18,561
Japan	12,468	4,687
Singapore	–	27,733
Mexico	4,672	125,565
Others	33,678	29,360
	6,528,034	5,553,312

The following is an analysis of the carrying amount of non-current assets excluding financial instruments and deferred tax assets by geographical area in which the assets are located.

	Carrying amount of non-current assets	
	2012	2011
	HK$'000	HK$'000
Hong Kong	291,790	246,297
Mainland PRC	101,984	87,014
Taiwan	15,059	3,973
Others	928	929
	409,761	338,213

Information about major customers

During the years ended 31 December 2012 and 2011, no single customer contributed over 10% of the total sales of the Group for the respective year.

8. FINANCE COSTS

Continuing operations

	2012 HK$'000	2011 HK$'000
Interest on bank borrowings		
– wholly repayable within five years	14,946	12,782
– not wholly repayable within five years	131	41
	15,077	12,823

9. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION

The remuneration paid or payable to each of the directors of the Company were as follows:

2012

	Yim Yuk Lun, Stanley *JP* HK$'000	Wong Sui Chuen HK$'000	Lock Shui Cheung HK$'000	Lau Ping Cheung HK$'000	Dr. Chang Chu Cheng HK$'000	Cheung Chi Kwan HK$'000	Liu Chun Ning, Wilfred HK$'000	Dr. Lui Ming Wah, *SBS JP* HK$'000	Wong Tak Yuen, Adrian HK$'000	Total HK$'000
Fees	–	–	–	–	–	100	–	50	50	200
Other emoluments										
Salaries and other benefits	4,320	750	690	965	–	–	–	–	–	6,725
Equity-settled share based payment expenses	6,504	–	–	–	–	–	–	–	–	6,504
Retirement benefits scheme contributions	216	14	26	14	–	–	–	–	–	270
Performance related incentive payments (note)	5,000	110	650	100	–	–	–	–	–	5,860
Total emoluments	16,040	874	1,366	1,079	–	100	–	50	50	19,559

2011

	Yim Yuk Lun, Stanley *JP* HK$'000	Wong Sui Chuen HK$'000	Lock Shui Cheung HK$'000	Lau Ping Cheung HK$'000	Dr. Chang Chu Cheng HK$'000	Cheung Chi Kwan HK$'000	Liu Chun Ning, Wilfred HK$'000	Dr. Lui Ming Wah, *SBS JP* HK$'000	Wong Tak Yuen, Adrian HK$'000	Total HK$'000
Fees	–	–	–	–	–	100	–	50	50	200
Other emoluments										
Salaries and other benefits	4,320	689	690	600	–	–	–	–	–	6,299
Retirement benefits scheme contributions	216	16	24	8	–	–	–	–	–	264
Performance related incentive payments (note)	4,000	131	868	288	–	–	–	–	–	5,287
Total emoluments	8,536	836	1,582	896	–	100	–	50	50	12,050

Note: Performance related incentive payments were determined with reference to the Group's operating results, individual performance and comparable market statistics.

Mr. Yim Yuk Lun, Stanley *JP* is also the Chief Executive of the Company and his emoluments disclosed above included those for services rendered by him as Chief Executive.

9. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION *(Continued)*

During the years ended 31 December 2012 and 2011, no emoluments were paid by the Group to the directors as an inducement to join or upon joining the Group or as compensation for loss of office. In addition, during the years ended 31 December 2012 and 2011, no directors waived any emoluments.

10. EMPLOYEES' REMUNERATIONS

Of the five highest paid individuals in the Group, three (2011: three) were directors of the Company whose remunerations are set out in note 9 above. The remuneration of the remaining two (2011: two) individuals are as follows:

	2012 HK$'000	2011 HK$'000
Salaries and other benefits	1,718	1,779
Performance related incentive payments	203	276
Retirement benefits scheme contributions	27	24
	1,948	2,079

Their remunerations were within the following bands:

	2012 No. of employees	2011 No. of employees
Not exceeding HK$1,000,000	2	1
HK$1,000,001 to HK$1,500,000	–	1

During the years ended 31 December 2012 and 2011, no emoluments were paid by the Group to these individuals as an inducement to join or upon joining the Group.

11. TAXATION

Continuing operations

	2012 HK$'000	2011 HK$'000 (Restated)
The charge comprises:		
Hong Kong Profits Tax		
Current year	12,381	11,082
Under(over)provision in prior years	334	(28)
Taiwan Corporate Income Tax		
Current year	1,337	347
	14,052	11,401
Deferred tax (note 33)		
Current year	(453)	364
	13,599	11,765

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for both years.

Corporate Income Tax in Taiwan is charged at 17%.

Under the Law of the People's Republic of China on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25%. No PRC income tax is payable by the Group since the Mainland PRC subsidiaries incurred tax losses for both years.

11. TAXATION *(Continued)*

The tax charge for the year can be reconciled to the profit before tax per the consolidated statement of comprehensive income as follows:

	2012 HK$'000	2011 HK$'000 (Restated)
Profit before tax (from continuing operations)	122,358	124,920
Tax at Hong Kong Profits Tax rate of 16.5%	20,189	20,612
Tax effect of expenses not deductible for tax purpose	4,694	400
Tax effect of income not taxable for tax purpose	(10,123)	(10,538)
Under(over)provision in respect of prior years	334	(28)
Tax effect of share of loss of associates	16	31
Tax effect of tax losses/deductible temporary differences not recognised	338	2,200
Utilisation of tax losses/deductible temporary differences previously not recognised	(1,880)	(920)
Effect of different tax rates of subsidiaries operating in other jurisdictions	31	8
Tax charge for the year (relating to continuing operations)	13,599	11,765

12. DISCONTINUED OPERATION

During the year ended 31 December 2011, the Group's jointly controlled entity accounted for using proportionate consolidation which was engaged in the manufacturing of liquid crystal display modules disposed of certain property, plant and equipment. After these disposals, the Group discontinued the business of manufacturing of liquid crystal display modules (operated through the jointly controlled entity) (the "Discontinued Business").

The results of the discontinued operation for the year ended 31 December 2011, which had been included in the consolidated statement of comprehensive income, were as follows:

	2011 HK$'000
Revenue	–
Cost of sales	–
Other income	19
Other gains and losses	(2,543)
Distribution and selling expenses	(19)
Administrative expenses	(1,207)
Finance cost	(10)
Loss for the year	(3,760)

	2011 HK$'000
Loss for the year from discontinued operation has been arrived at after charging and (crediting):	
Staff costs	
– salaries and other benefits	41
– retirement benefits scheme contribution	4
	45
Depreciation of property, plant and equipment	734
Net foreign exchange loss	10
Interest income	(11)
Loss on disposal of property, plant and equipment	2,533

During the year ended 31 December 2011, the Discontinued Business contributed net operating outflow of HK$353,000, cash inflow of HK$1,720,000 in respect of investing activities and cash outflow of HK$1,680,000 in respect of the financing activities to the Group's cash flows.

13. PROFIT FOR THE YEAR

	2012 HK$'000	2011 HK$'000
Profit for the year has been arrived at after charging and (crediting):		
Continuing operations		
Staff costs, including directors' remunerations		
– salaries and other benefits	68,979	62,920
– performance related incentive payments	10,039	10,424
– retirement benefits scheme contributions	6,666	4,772
– share-based payment expenses	6,504	–
	92,188	78,116
Auditor's remuneration	1,422	1,387
Depreciation of property, plant and equipment	16,222	13,868
Amortisation of prepaid lease payment	194	189
(Reversal of) allowance for trade and other receivables	(4,645)	4,420
Cost of inventories recognised as an expense (including reversal of allowance for inventories of HK$4,058,000 (2011: allowance of inventories of HK$5,529,000)) (note)	6,244,369	5,290,344
Interest income	(1,252)	(1,458)
Dividend income from equity investments	(5,935)	(1,363)
Rental income from investment properties, net of outgoings of HK$35,000 (2011: HK$25,000)	(4,938)	(3,708)
The following items are included in other gains and losses:		
Change in fair value of derivative financial instruments	(6,650)	(2,458)
Impairment loss recognised in respect of goodwill	–	1,410
Change in fair value of financial assets at fair value through profit or loss	(9,553)	3,872
Loss on disposal of available-for-sale investment	2,588	–
Net foreign exchange loss (gain)	1,206	(1,140)
Gain on disposal of property, plant and equipment	(2,668)	(752)
Loss on disposal of a subsidiary	1,035	–
Impairment loss on available-for-sale investment	14,927	–

Note: The reversal of allowance for inventories arose because the subsequent sale prices for the relevant inventories were higher than the carrying amount of such inventories which were written down in prior years.

14. DIVIDENDS

	2012 HK$'000	2011 HK$'000
Dividends recognised as distribution during the year:		
2012 Interim dividend of HK3.0 cents (2011: 2011 interim dividend of HK3.0 cents) per share	7,864	7,864
2011 Final dividend of HK10.0 cents (2011: 2010 final dividend of HK10.0 cents and a special dividend of HK2.0 cents) per share	26,214	31,457
	34,078	39,321

The final dividend of HK12.0 cents per share in respect of the year ended 31 December 2012 (2011: final dividend of HK10.0 cents per share in respect of the year ended 31 December 2011) have been proposed by the directors and is subject to approval by the shareholders at the forthcoming general meeting.

15. EARNINGS PER SHARE

From continuing and discontinued operations

The calculation of the basic and diluted earnings per share for continuing and discontinued operations for the year is based on the profit for the year attributable to owners of the Company from continuing and discontinued operations of approximately HK$90,852,000 (2011: HK$102,083,000) and on the 262,140,720 (2011: 262,140,720) ordinary shares in issued during the year.

The computation of diluted earnings per share for the year ended 31 December 2012 and 2011 does not assume the exercise of the Company's outstanding warrants because the exercise prices of those warrants were higher than the average market price of the Company's share for the corresponding period.

From continuing operations

The calculation of the basic and diluted earnings per share for continuing operations for the year is based on the profit for the year attributable to owners of the Company from continuing operations of approximately HK$90,852,000 (2011: HK$105,843,000) and on the 262,140,720 (2011: 262,140,720) ordinary shares in issued during the year. The computation of diluted earnings per share for both years are the same as those detailed above.

From discontinued operation

During the year ended 31 December 2011, basic and diluted loss per share for discontinued operation is HK1.43 cents per share based on the loss for the year attributable to owners of the Company from discontinued operation of approximately HK$3,760,000 and on the 262,140,720 ordinary shares in issued during prior year. The computation of diluted loss per share for prior year is the same as those detailed above.

16. INVESTMENT PROPERTIES

	HK$'000
FAIR VALUE	
At 1 January 2011	127,200
Net increase in fair value recognised in profit or loss	9,100
At 31 December 2011	136,300
Net increase in fair value recognised in profit or loss	41,000
At 31 December 2012	177,300

The fair values of the Group's investment properties at 31 December 2012 and 2011 have been arrived at on the basis of a valuation carried out on that date by B.I. Appraisals Limited ("B.I."), independent qualified professional valuers not related to the Group. B.I. are members of the Institute of Valuers. The valuation was arrived at by reference to market evidence of transaction prices for similar properties in similar locations.

The investment properties are held under medium-term leases in Hong Kong and held for rental income under operating leases.

All of the Group's property interests held under operating leases to earn rentals or for capital appreciation purposes are measured using the fair value model and are classified and accounted for as investment properties.

17. PROPERTY, PLANT AND EQUIPMENT

	Leasehold land and buildings HK$'000	Leasehold improve-ments HK$'000	Plant and machinery HK$'000	Furniture and fixtures HK$'000	Office equipment HK$'000	Motor vehicles and vessel HK$'000	Construction in progress HK$'000	Total HK$'000
COST OR VALUATION								
At 1 January 2011	168,155	15,138	5,577	28,092	25,947	16,575	–	259,484
Exchange realignment	873	314	330	67	121	38	–	1,743
Additions	–	2,402	1,390	2,908	5,635	6,298	–	18,633
Disposals	(6,610)	(1,669)	(5,377)	(336)	(1,010)	(2,081)	–	(17,083)
At 31 December 2011	162,418	16,185	1,920	30,731	30,693	20,830	–	262,777
Exchange realignment	737	197	98	31	46	24	–	1,133
Additions	13,720	498	–	3,913	1,456	25,934	7,170	52,691
Disposal of a subsidiary	–	–	(1,730)	–	–	–	–	(1,730)
Disposals	–	–	(138)	–	(270)	(7,534)	–	(7,942)
At 31 December 2012	176,875	16,880	150	34,675	31,925	39,254	7,170	306,929
Comprising:								
At cost	131,525	16,880	150	34,675	31,925	39,254	7,170	261,579
At valuation – 1994	45,350	–	–	–	–	–	–	45,350
	176,875	16,880	150	34,675	31,925	39,254	7,170	306,929
DEPRECIATION								
At 1 January 2011	39,550	10,788	1,577	16,662	17,697	13,630	–	99,904
Exchange realignment	75	159	70	35	52	20	–	411
Provided for the year	4,134	1,383	597	3,532	3,541	1,415	–	14,602
Eliminated on disposals	(1,945)	(3)	(1,942)	(147)	(366)	(1,886)	–	(6,289)
At 31 December 2011	41,814	12,327	302	20,082	20,924	13,179	–	108,628
Exchange realignment	60	127	58	25	32	14	–	316
Provided for the year	4,003	1,461	13	3,612	3,129	4,004	–	16,222
Eliminated on disposal of a subsidiary	–	–	(299)	–	–	–	–	(299)
Eliminated on disposals	–	–	(7)	–	(103)	(7,490)	–	(7,600)
At 31 December 2012	45,877	13,915	67	23,719	23,982	9,707	–	117,267
CARRYING VALUES								
At 31 December 2012	130,998	2,965	83	10,956	7,943	29,547	7,170	189,662
At 31 December 2011	120,604	3,858	1,618	10,649	9,769	7,651	–	154,149

17. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

The above items of property, plant and equipment (other than construction in progress) are depreciated on a straight-line basis at the following rates per annum:

Leasehold land and buildings	4% or over the term of the relevant lease, whichever is shorter
Leasehold improvements	Over the term of the relevant lease
Motor vehicles and vessels	10% to 20%
Others	20%

The carrying values of leasehold land and buildings held by the Group at the end of the reporting period comprises:

	2012 HK$'000	2011 HK$'000
Land and buildings in Hong Kong:		
Medium-term lease	62,129	62,244
Land and buildings outside Hong Kong:		
Long lease	68,869	58,360
	130,998	120,604

Owner-occupied leasehold land is included in property, plant and equipment, as in the opinion of the directors, allocations between the land and buildings elements could not be made reliably.

18. PREPAID LEASE PAYMENTS

The Group's prepaid lease payments comprise leasehold land located in Mainland PRC held under medium-term lease.

	2012 HK$'000	2011 HK$'000
Analysed for reporting purposes as:		
Non-current asset	9,112	9,080
Current asset	194	189
	9,306	9,269

19. GOODWILL

	HK$'000
CARRYING VALUES	
At 1 January 2011	17,829
Arising on acquisition of a subsidiary	3,973
Impairment loss in respect of goodwill	(1,410)
At 31 December 2011 and 31 December 2012	20,392

Goodwill acquired in business combinations was allocated, at acquisition, to the individual cash-generating units ("CGUs") that are expected to benefit from that business combination. The carrying amount of goodwill was allocated as follows:

	2012 & 2011 HK$'000
Distribution of sport products	1,369
Distribution of electronic components and semiconductor products	19,023
Development and production of light-emitting diode ("LED") optoelectronics products	–
	20,392

The basis of the recoverable amounts of the CGUs and their major underlying assumptions are summarised below:

Distribution of sport products

The recoverable amount of this unit has been determined based on a value in use calculation. That calculation uses cash flow projections based on financial budgets approved by management covering a five-year period using zero (2011: zero) growth rate, and discount rate of 8% (2011: 8%). This growth rate is based on the relevant industry growth forecasts and does not exceed the average long-term growth rate for the relevant industry. Another key assumption for the value in use calculation is the budgeted gross margin, which is determined based on the unit's past performance and management's expectations for the market development. Management believes that any reasonably possible change in any of these assumptions would not cause the aggregate carrying amount of this unit to exceed the aggregate recoverable amount of this unit.

19. GOODWILL *(Continued)*

Distribution of electronic components and semiconductor products

The recoverable amount of this unit has been determined based on a value in use calculation. That calculation uses cash flow projections based on financial budgets approved by management covering a five-year period with 7. 5% (2011: 7. 5%) growth rate, and discount rate of 8% (2011: 8%). This growth rate is based on the relevant industry growth forecasts and does not exceed the average long-term growth rate for the relevant industry. Another key assumption for the value in use calculation is the budgeted gross margin, which is determined based on the unit's past performance and management's expectations for the market development. Management believes that any reasonably possible change in any of these assumptions would not cause the aggregate carrying amount of this unit to exceed the aggregate recoverable amount of this unit.

Development and production of LED optoelectronics products

The recoverable amount of this unit as at 31 December 2011 was determined based on a value in use calculation. That calculation used cash flow projections based on financial budgets approved by management covering a five-year period using zero growth rate, and discount rate of 7%. This growth rate was based on the relevant industry growth forecasts and did not exceed the average long-term growth rate for the relevant industry. Another key assumption for the value in use calculation was the budgeted gross margin, which was determined based on the unit's past performance and management's expectations for the market development.

During the year ended 31 December 2011, the Group recognised an impairment loss of HK$1,410,000 in relation to goodwill to CGU in the development and production of LED optoelectronics products. This CGU was disposed of during the current year. Details of the disposal are set out in note 35.

20. INTERESTS IN ASSOCIATES

	2012 HK$'000	2011 HK$'000
Cost of unlisted investments in associates	1,450	1,450
Share of post-acquisition losses and other comprehensive expense	(1,033)	(944)
	417	506

As at 31 December 2012 and 2011, the Group had interests in the following associates:

Name of associate	Form of business structure	Place of incorporation/ establishment/ operations	Class of shares held	Proportion of issued share capital held by the Group 2012 %	2011 %	Principal activities
Bestime Technology Development Limited	Incorporated	Hong Kong	Ordinary	30	30	Trading of electronic products
Now Electron Inc. ("Now Electron")	Incorporated	Republic of Korea	Ordinary	29	29	Trading of electronic products
成都凌點科技有限公司	Established	Mainland PRC	Registered Capital	30	30	Provision of research and development services

Included in cost of investments in associates is goodwill of HK$117,000 (2011: HK$117,000) arising on acquisition of an associate.

20. INTERESTS IN ASSOCIATES *(Continued)*

The summarised financial information in respect of the Group's associates is set out below:

	2012 HK$'000	2011 HK$'000
Total assets	1,180	1,700
Total liabilities	(1,137)	(1,297)
Net assets	43	403
Group's share of net assets of associates	300	389
Revenue	1,504	3,133
Loss for the year	(331)	(655)
Other comprehensive income	27	53
Group's share of loss and other comprehensive income of associates for the year	(89)	(169)

The Group has discontinued recognition of its share of losses of an associate. The amounts of unrecognised share of the associate, both for the year and cumulatively, are as follows:

	2012 HK$'000	2011 HK$'000
Unrecognised share of losses of an associate for the year	3	3
Accumulated unrecognised share of losses of an associate	386	383

21. INTERESTS IN JOINTLY CONTROLLED ENTITIES

As at 31 December 2012 and 2011, the Group had interests in the following jointly controlled entities:

Name of jointly controlled entity	Form of business structure	Place of incorporation/ operations	Class of shares held	Proportion of issued share capital held by the Group 2012 %	Proportion of issued share capital held by the Group 2011 %	Principal activity
Kitronix Limited	Incorporated	Hong Kong	Ordinary	35	35	Manufacturing of liquid crystal display modules
SPT Technology Limited ("SPT Technology") (note)	Incorporated	Hong Kong	Ordinary	55	55	Distribution of electronic products

Note: SPT Technology is a jointly controlled entity of the Group as the financial and operating policies requires over 50% approval from the board representatives, while the Group only has 50% of the board representatives in SPT Technology.

The summarised financial information in respect of the Group's interests in jointly controlled entities which is accounted for using proportionate consolidation with the line-by-line reporting format is set out below:

	2012 HK$'000	2011 HK$'000
Current assets	100,909	96,692
Non-current assets	5,015	5,386
Current liabilities	92,104	88,903
Income recognised in profit or loss	279,593	331,686
Expenses recognised in profit or loss	279,063	333,741

22. AVAILABLE-FOR-SALE INVESTMENTS

	2012 HK$'000	2011 HK$'000
Available-for-sale investments comprise:		
At fair value		
Investments in unlisted equity funds/club debenture (note i)	2,697	7,573
Investments in listed equity securities in Hong Kong (note ii)	25,587	–
At cost		
Investments in unlisted equity securities in Hong Kong	6,000	6,000
Investments in unlisted equity securities elsewhere	130	339
Total	34,414	13,912
Analysed for reporting purposes as:		
Non-current assets	34,414	13,912

Notes:

(i) As at 31 December 2011, included in the balance with an amount of HK$5,027,000 represented an investment in unlisted equity fund which can be redeemed or purchased at the fund market value provided by the trustee of the fund. The fair value of the investment is determined by reference to the fund market value as at 31 December 2011 provided by the trustee. During the year ended 31 December 2012, the fund has been redeemed.

(ii) Listed securities are stated at fair value which is determined based on the quoted market bid price available on the Stock Exchange. During the year ended 31 December 2012, the Group identified an impairment loss of approximately HK$14,927,000 related to these listed securities whose share price were significantly declined below the cost.

As at 31 December 2011, included in Group's available-for-sale investments with aggregate amount of HK$5,027,000 denominated in USD which is other than the functional currency of the relevant group entities.

The above unlisted equity securities investments represent investments in equity securities issued by a private entity which is engaging in manufacturing of paper products and measured at cost less impairment at the end of the reporting period because the range of reasonable fair value estimation is so significant that the directors of the Company are of the opinion that their fair values cannot be measured reliably.

23. CLUB MEMBERSHIPS

	2012 & 2011 HK$'000
Club memberships outside Hong Kong, at cost	3,278

During the year, the club memberships were tested for impairment by comparing their carrying amounts with their recoverable amounts. The directors determined that no impairment loss was necessary and are of the opinion that the club memberships are worth at least their carrying amounts.

24. BANK BALANCES AND CASH AND PLEDGED BANK DEPOSITS

At 31 December 2012 and 2011, the pledged bank deposits represent amount pledged to banks to secure short-term banking facilities granted to the Group. The pledged bank deposits will be released upon the settlement of the relevant bank borrowings.

The bank balances and pledged bank deposits carry fixed interest at rates which range from 0.12% to 3% (2011: from 0.5% to 3%) per annum and variable interest at rates which range from 0.01% to 3% (2011: from 0.01% to 3%) per annum, respectively.

The Group's bank balances and cash and pledged bank deposits that are denominated in currencies other than the functional currency of the relevant group entities are set out below:

	2012 HK$'000	2011 HK$'000
USD	72,889	297,732
RMB	8,763	3,394
	81,652	301,126

25. INVENTORIES

	2012 HK$'000	2011 HK$'000
Finished goods	659,446	397,045

26. TRADE AND OTHER RECEIVABLES AND BILLS RECEIVABLE

	2012 HK$'000	2011 HK$'000
Trade receivables	771,666	452,627
Less: allowance for doubtful debts	(3,997)	(8,642)
	767,669	443,985
Other receivables	40,864	23,870
Prepayment and deposits paid	19,519	11,665
Total trade and other receivables	828,052	479,520
Bills receivable	9,745	7,448

The Group allows a credit period ranging from 30 days to 120 days to its trade customers.

The following is an aged analysis of trade and bills receivable net of allowance for doubtful debts presented based on the due date at the end of the reporting period.

	2012 HK$'000	2011 HK$'000
Current	561,708	355,921
Within 30 days	179,183	77,549
More than 30 days and within 60 days	19,510	7,820
More than 60 days and within 90 days	2,891	2,547
More than 90 days	14,122	7,596
	777,414	451,433

Before accepting a new customer, the Group assesses the potential customer's credit quality by investigating their historical credit record and then sets a credit limit for that customer. Limits attributed to customers are reviewed periodically. The majority of the trade receivables that are neither past due nor impaired have no history of defaults on payments.

Other receivables are unsecured, interest-free, repayable on demand and expected to be settled within twelve months from the reporting date.

26. TRADE AND OTHER RECEIVABLES AND BILLS RECEIVABLE *(Continued)*

Included in the Group's trade receivable balance are debtors with aggregate carrying amount of HK$215,706,000 (2011: HK$95,512,000) which are past due as at the reporting date for which the Group has not provided for impairment loss as these debtors have good repayment history and there has not been a significant change in credit quality. The Group does not hold any collateral over these balances. The average age of these receivables is 57 days (2011: 58 days).

Ageing of trade receivables which are past due but not impaired

	2012 HK$'000	2011 HK$'000
Within 30 days	179,183	77,549
More than 30 days and within 60 days	19,510	7,820
More than 60 days and within 90 days	2,891	2,547
More than 90 days	14,122	7,596
Total	215,706	95,512

The Group has provided fully for all receivables over 365 days because historical experience is such that receivables that are past due beyond 365 days are generally not recoverable.

Movement in the allowance for doubtful debts

	2012 HK$'000	2011 HK$'000
1 January	8,642	8,334
Impairment losses recognised on receivables	619	4,504
Reversal of bad debt provision	(5,264)	(84)
Amounts written off as uncollectible	–	(4,112)
31 December	3,997	8,642

Included in the allowance for doubtful debts are individually impaired trade receivables with an aggregate balance of HK$3,997,000 (2011: HK$8,642,000) which have either been placed under liquidation or in severe financial difficulties. The Group does not hold any collateral over these balances.

26. TRADE AND OTHER RECEIVABLES AND BILLS RECEIVABLE *(Continued)*

The Group trade and other receivables and bills receivable that are denominated in currencies other than the functional currency of the relevant group entities are set out below:

	2012 HK$'000	2011 HK$'000
USD	296,703	126,359
RMB	49	80
	296,752	126,439

27. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2012 HK$'000	2011 HK$'000
Investments held-for-trading:		
Equity securities listed in Hong Kong	27,631	32,390
Unlisted equity funds/debentures (note)	20,728	65,796
	48,359	98,186
Financial assets designated at fair value through profit or loss:		
Structured deposits	6,426	15,558
	54,785	113,744

Note: The amount represented unlisted equity funds/debentures which are quoted in an active market. The fair value of the investments is determined by reference to the quoted prices as at 31 December 2012 and 2011.

Included in financial assets designated at fair value through profit or loss are principal protected structured deposits of HK$6,426,000 (2011: HK$15,558,000) placed with one bank. Under the relevant agreements, such structured deposits contains an embedded derivative in which its return is determined by reference to the changes in exchange rate of foreign currencies including Australia Dollar, Canadian Dollar, Swiss France, Euro, British Pound, Japanese Yen, New Zealand Dollar, Norwegian Krone, Swedish Krona and USD. The fair value is based on the mark to market valuation amount provided by the counterparty financial institution, which is based on discounted cash flow analysis taking into account of observable market data and unobservable inputs (see note 6(c) for details).

Included in Group's financial assets at fair value through profit or loss are balances with aggregate amount of approximately HK$6,426,000 (2011: HK$15,558,000) denominated in USD, and HK$12,077,000 (2011: HK$57,727,000) denominated in RMB, which are other than the functional currency of the relevant group entities.

28. TRADE AND OTHER PAYABLES AND BILLS PAYABLE

	2012 HK$'000	2011 HK$'000
Trade payables	467,453	404,212
Other payables	17,853	29,823
Accruals and deposits received	37,143	26,673
Total trade and other payables	522,449	460,708
Bills payable	242,605	59,125

The average credit period on purchase of goods ranged from 30 days to 120 days.

Other payables are unsecured, interest-free and repayable on demand.

Included in Group's trade and other payables and bills payable with aggregate amount of approximately HK$211,793,000 (2011: HK$217,061,000) denominated in USD which is other than the functional currency of the relevant group entities.

The following is an aged analysis of trade and bills payable presented based on the due date at the end of the reporting period.

	2012 HK$'000	2011 HK$'000
Current	664,892	392,992
Within 30 days	35,558	53,504
More than 30 days and within 60 days	6,490	14,521
More than 60 days and within 90 days	24	251
More than 90 days	3,094	2,069
	710,058	463,337

29. DERIVATIVE FINANCIAL INSTRUMENTS

	LIABILITIES	
	2012 HK$'000	2011 HK$'000
Fair value of derivatives not under hedge accounting:		
Foreign currency forward contracts – net settled	3,397	2,515
Interest rate swap	4,512	6,261
	7,909	8,776

As at 31 December 2012, the Group has certain outstanding foreign exchange forward contracts with monthly net-settlement to which the Group is committed are as follows:

Notional amount	Maturity	Forward exchange rates
Thirty-one contracts to buy USD in total notional amount of USD20,450,000	Ranging from 3 January 2013 to 11 November 2014	HK$/USD ranging from 7.7045 to 7.749

As at 31 December 2011, the Group had certain outstanding foreign exchange forward contracts with monthly net-settlement to which the Group was committed were as follows:

Notional amount	Maturity	Forward exchange rates
Twenty contracts to buy USD in total notional amount of USD58,330,000	Ranging from 13 January 2012 to 4 September 2013	HK$/USD ranging from 7.711 to 7.749

The Group uses interest rate swap to swap a portion of the floating rate borrowings from floating rates to fixed rates of which hedge accounting is not applied. The interest rate swap is net-settled in each quarter. Major terms of the interest rate swap are set out below:

31 December 2012 and 2011

Notional amount	Maturity	Swap
HK$100,000,000	24 July 2014	HIBOR to 2.98%

30. BANK BORROWINGS

	2012 HK$'000	2011 HK$'000
Bank borrowings comprise:		
Bank import loans	607,518	588,777
Other bank loans	335,398	259,068
	942,916	847,845
Analysed as:		
Secured	768,521	789,689
Unsecured	174,395	58,156
	942,916	847,845

	2012 HK$'000	2011 HK$'000
Carrying amount repayable*:		
– Within one year	–	6,250
– more than one year, but not exceeding two years	–	6,250
– more than two years, but not exceeding five years	–	5,000
	–	17,500
Carrying amount of bank loans contain a repayment on demand clause are repayables as follows:		
– within one year	916,144	795,056
– more than one year, but not exceeding two years	11,981	13,569
– more than two years, but not exceeding five years	9,378	19,917
– over five year	5,413	1,803
	942,916	830,345
	942,916	847,845
Less: Amounts due within one year under current liabilities	(942,916)	(836,595)
Amounts shown under non-current liabilities	–	11,250

* The amounts due are based on scheduled repayment date set out in the loan agreements.

At 31 December 2012, all of the bank borrowings bear interest at LIBOR plus a margin per annum or HIBOR plus a margin per annum with the average effective interest rate of 1.65% (2011: 1.85%).

Included in Group's borrowings with aggregate amount of HK$285,844,000 (2011: HK$237,887,000) denominated in USD which is other than the functional currency of the relevant group entities.

31. SHARE CAPITAL OF THE COMPANY

	Number of ordinary shares	Amount
		HK$'000
Ordinary shares of HK$0.10 each		
Authorised:		
At 1 January 2011, 31 December 2011 and 31 December 2012	1,454,000,000	145,400
Issued and fully paid:		
At 1 January 2011, 31 December 2011 and 31 December 2012	262,140,720	26,214

	Number of non-redeemable convertible preference shares	Amount
		HK$'000
Non-redeemable convertible preference shares of HK$0.10 each		
Authorised:		
At 1 January 2011, 31 December 2011 and 31 December 2012	46,000,000	4,600
Issued and fully paid:		
At 1 January 2011, 31 December 2011 and 31 December 2012	–	–

Warrants granted to third parties

At 31 December 2011, the Company had outstanding 10,000,000 warrants to be exercised at any time on or before 22 March 2012 at the exercise price of HK$2.28 per share. Exercise in full of such warrants would result in the issue of approximately 10,000,000 additional ordinary shares in the Company of HK$0.10 each. No warrants were exercised and all warrants lapsed on the maturity date accordingly.

32. SHARE-BASED PAYMENT TRANSACTIONS

(a) Old Share Option Scheme

Pursuant to a resolution passed on 28 June 2002, the Company adopted a share option scheme (the "Old Scheme") for recognition of past services contributed by, and giving incentives to the eligible directors and employees.

According to the Old Scheme, the board of directors (the "Board") of the Company may at their discretion grant options to any director, executive and employee of each member of the Group to subscribe for shares in the Company for a consideration of HK$1 for each lot of share options granted. Share options granted should be accepted within 28 days from the date of grant. The Board may at its absolute discretion determine the period during which a share option may be exercised, such period should expire no later than 10 years from the date of grant. There is no minimum period that a grantee must hold an option before it can be exercised. The Board may also provide restrictions on the exercise of a share option during the period a share option may be exercised. The exercise price is determined by the Board of the Company, and shall be at least the highest of: (i) the closing price of the Company's shares on the date of grant; (ii) the average closing price of the Company's shares for the five business days immediately preceding the date of grant; and (iii) the nominal value of the share.

The maximum number of shares in respect of which options may be granted under the Old Scheme and any other share option schemes of the Company shall not exceed 10% (or such higher percentage as may be allowed under the Rule Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited) of the total number of shares in issue as at the date of adoption of the Old Scheme.

The maximum number of shares issued and to be issued upon exercise of the options granted to each individual under the Old Scheme and any other share option schemes (including both exercised, cancelled and outstanding options) in any 12-month period shall not exceed 1% of the total number of shares in issue.

The Old Scheme had a term of ten years and expired on 27 June 2012. There were no share options granted under the Old Scheme during year ended 31 December 2011 and 2012. No share options granted under the Old Scheme were outstanding and exercisable as at 31 December 2011 and the expiry date of the Old Scheme.

32. SHARE-BASED PAYMENT TRANSACTIONS *(Continued)*

(b) New Share Option Scheme

Pursuant to a resolution passed on 27 July 2012, the Company adopted a new share option scheme (the "New Scheme") for recognition of past services contributed by, and giving incentives to the eligible participants. All directors, non-executive directors, employees, shareholders, suppliers, customers of each member of the Group, any other person or entity that provides research, development or other technological support to any member of the Group and any other persons who, in the sole discretion of the Board, have contributed or will contributed to the Group are eligible to participate in the New Scheme.

Shares which may be issued upon exercise of all options to be granted under the New Scheme or any other share option scheme adopted by the Company must not in aggregate exceed 10% of the shares of the Company in issue on the date of adoption of the New Scheme.

The Company may renew this 10% limit with shareholders' approval provided that each such renewal may not exceed 10% of the shares in the Company in issue as at the date of the shareholders' approval.

The total number of shares of the Company which may be issued upon exercise of all outstanding options granted and yet to be exercised under the New Scheme or any other share option scheme adopted by the Company must not exceed 30% of the shares in issue from time to time.

Unless approved by shareholders of the Company, the total number of shares of the Company issued and to be issued upon the exercise of the options granted to each participant (including both exercised and unexercised options) under the New Scheme or any other share option scheme adopted by the Company in any 12-month period must not exceed 1% of the shares of the Company in issue.

The period within which the options must be exercised will be specified by the Company at the time of grant. This period must expire no later than 10 years from the date of grant of the options. At the time of grant of the options, the Company may specify a minimum period for which an option must be held before it can be exercised. The offer of a grant of share options may be accepted within 28 days from the date on which the letter containing the offer is delivered to that participant and the amount payable on acceptance of an option is HK$1.

The subscription price for the shares of the Company to be issued upon exercise of the options shall be no less than the highest of (i) the closing price of the shares of the Company as stated in the daily quotations sheets issued by the Stock Exchange on the date of grant; (ii) the average closing price of the shares of the Company as stated in the daily quotations sheets issued by the Stock Exchange for the five business days immediately preceding the date of grant; and (iii) the nominal value of a share. The subscription price will be established by the board of directors of the Company at the time the option is offered to the participants.

32. SHARE-BASED PAYMENT TRANSACTIONS *(Continued)*

(b) New Share Option Scheme *(Continued)*

No share options have been granted under the New Scheme since the adoption of the New Scheme or outstanding as at 31 December 2012.

(c) Warrants granted to director

On 23 May 2012, the Company entered into a warrant subscription agreement with Unimicro Limited ("Unimicro", a substantial shareholder of, and which has significant influence over the Company and beneficially owned by Mr. Yim Yuk Lun, Stanley *JP*, the Chairman, Managing Director and Executive Director of the Company) pursuant to which the Company has agreed to issue 50,000,000 warrants to Unimicro, at consideration of HK$500,000, to subscribe for up to 50,000,000 shares at the exercise price HK$1.80 per warrant share, which also represented a gratuity for Mr. Yim's long term services to the Group in the past. The warrant subscription agreement was approved by the independent shareholders in the special general meeting held on 27 July 2012. The warrants were granted on 7 August 2012 and were exercisable at any time on or before 6 August 2014. Unimicro is not allowed to sell or transfer interests in the warrant shares within 3 years from the date on which the warrant shares are issued. No warrants were exercised by Unimicro during the year ended 31 December 2012. As at 31 December 2012, 50,000,000 warrants remained outstanding and will expire on 6 August 2014.

As at grant date, the fair value of the warrants was HK$6,504,000 and was recognised as equity-settled share based payment expense in profit or loss in the current year.

The fair value of warrant at the date of grant was calculated using the Binomial Option Pricing model.

The inputs into the model were as follows:

Spot market price	HK$1.90
Exercise price	HK$1.80
Expected volatility	35.44%
Expected life	2 years
Risk-free rate	0.185%
Dividend yield	6.84%
Lock-up period	3 years

Expected volatility was determined by using the weekly historical volatility of the Company's share price over the previous 520 days.

33. DEFERRED TAXATION

The following are the major deferred tax liabilities (assets) recognised and movements thereon during the current and prior years:

	(Decelerated) accelerated tax depreciation HK$'000	Revaluation of properties HK$'000	Tax losses HK$'000	Other deductible temporary differences HK$'000	Total HK$'000
At 1 January 2011 (as originally stated)	(511)	13,207	(2,711)	(166)	9,819
Effect of change in accounting policy (note 2)	–	(13,207)	–	–	(13,207)
At 1 January 2011 (as restated)	(511)	–	(2,711)	(166)	(3,388)
Acquisition of a subsidiary (note 34)	–	–	–	106	106
(Credit) charge to profit or loss (restated)	(169)	–	613	(80)	364
At 31 December 2011 (as restated)	(680)	–	(2,098)	(140)	(2,918)
Exchange realignment	–	–	–	(28)	(28)
Charge (credit) to profit or loss	1,704	–	(1,917)	(240)	(453)
At 31 December 2012	1,024	–	(4,015)	(408)	(3,399)

At 31 December 2012, the Group had unused tax losses of HK$99,264,000 (2011: HK$94,803,000) available for offset against future assessable profits. A deferred tax asset has been recognised in respect of HK$24,334,000 (2011: HK$12,718,000) of such losses. No deferred tax asset has been recognised in respect of the remaining HK$74,930,000 (2011: HK$82,085,000) due to the unpredictability of future profit streams. The tax losses may be carried forward indefinitely.

At 31 December 2012, the Group had deductible temporary differences in relation to allowance for doubtful debts and inventories of HK$7,884,000 (2011: HK$8,428,000). A deferred tax asset has been recognised in respect of HK$2,490,000 (2011: HK$850,000) for such deductible temporary differences. No deferred tax asset has been recognised in respect of the remaining HK$5,394,000 (2011: HK$7,578,000) as it is not probable that taxable profit will be available against which the deductible temporary differences can be utilised.

34. ACQUISITION OF A SUBSIDIARY

For the year ended 31 December 2011

In October 2011, the Group acquired 51% equity interest of Chenmtech Company Limited 全曄科技股份有限公司 ("Chenmtech"), a company engaged in distribution of electronic components products, for a cash consideration of HK$16,607,000, with the objective of business expansion. This acquisition has been accounted for using the acquisition method of accounting. The amount of goodwill arising as a result of this acquisition was HK$3,973,000. The acquisition-related costs are negligible.

Assets acquired and liabilities recognised at the date of acquisition are as follows:

	HK$'000
Available-for-sale investments	339
Inventories	9,251
Trade and other receivables	53,469
Pledged bank deposits	3,964
Bank balances and cash	2,134
Trade and other payables	(8,313)
Tax liabilities	(1,043)
Bank borrowings	(34,923)
Deferred tax liabilities	(106)
	24,772

The fair value of trade and other receivables at the date of acquisition amounted to approximately HK$53,469,000. The gross contractual amounts of those trade and other receivables acquired amounted to approximately HK$53,911,000 at the date of acquisition. The best estimate at acquisition date of the contractual cash flows not expected to be collected amounted to approximately HK$442,000.

	HK$'000
Goodwill arising on acquisition:	
Consideration transferred	16,607
Plus: non-controlling interests (49% in Chenmtech)	12,138
Less: net assets acquired	(24,772)
Goodwill arising on acquisition	3,973

The non-controlling interests (49%) in Chenmtech recognised at the acquisition date was measured by reference to the non-controlling interests' share of recognised identifiable net assets of Chenmtech at the date of acquisition.

34. ACQUISITION OF A SUBSIDIARY *(Continued)*

For the year ended 31 December 2011 *(Continued)*

None of the goodwill on this acquisition is expected to be deductible for tax purposes.

	HK$'000
Net cash outflow on acquisition of Chenmtech:	
Cash consideration paid	(16,607)
Bank balances and cash acquired	2,134
	(14,473)

Included in the profit for the year ended 31 December 2011 was HK$1,299,000 attributable to the additional business generated by Chenmtech. Revenue for that year included HK$46,156,000 generated from Chenmtech.

Had the acquisition been completed on 1 January 2011, total group revenue for the year would have been HK$5,700,202,000, and profit for the year would have been HK$119,000,000. The pro forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2011, nor is it intended to be a projection of future results.

The directors consider the goodwill arising on acquisition of Chenmtech was attributable to the anticipated profitability from the continue expansion of the Group's business in distributing electronic components.

35. DISPOSAL OF A SUBSIDIARY

During the year, the Group disposed 51% equity interest of LongFang Fordwin Optical & Electric Co. Ltd. ("Fordwin"), a company engaged in the development and production of LED optoelectronics products, to an independent third party for a cash consideration of RMB1. The net assets of Fordwin at the date of disposal were as follows:

Analysis of assets and liabilities disposed at the date of disposal:

	HK$'000
Property, plant and equipment	1,431
Inventories	1,462
Trade and other receivables	2,103
Bank balances and cash	133
Trade and other payables	(3,099)
	2,030
Non-controlling interest	(995)
Net assets disposed	1,035

	HK$'000
Loss on disposal of a subsidiary:	
Consideration received (RMB1)	–
Net assets disposed of	(1,035)
Loss on disposal	(1,035)

	HK$'000
Net cash outflow on disposal of Fordwin:	
Cash consideration received (RMB1)	–
Bank balances and cash disposed of	(133)
	(133)

The subsidiary disposed of during the year did not contribute significantly to the results and cash flows of the Group during the period prior to the disposal.

36. DISPOSAL OF DISTRIBUTION RIGHTS

In October 2011, the Group disposed of distribution rights for products of National Semiconductor Manufacturing Hong Kong Limited ("NS") pursuant to the distribution and other agreements signed with NS, along with customer assignments and business backlogs relating to the products of NS and product solutions and customers' design registrations for products of NS (the "Disposed Rights") to an outsider, at a cash consideration of HK$46,800,000. At the date of disposal, there is no carrying value of the Disposal Rights in the consolidated financial statements of the Group, and a gain of HK$46,800,000 is recognised in prior year.

The consideration was fully settled in cash in 2011.

37. RETIREMENT BENEFITS SCHEME

The Group participates in both a defined contribution retirement benefits scheme which is registered under the Occupational Retirement Scheme Ordinance (the "ORSO Scheme") and a Mandatory Provident Fund Scheme (the "MPF Scheme") established under the Mandatory Provident Fund Ordinance in December 2000. The assets of the schemes are held separately from those of the Group, in funds under the control of trustees. Employees who were members of the ORSO Scheme prior to the establishment of the MPF Scheme were offered a choice of staying within the ORSO Scheme, or switching to the MPF Scheme, whereas all new employees joining the Group on or after 1 December 2000 are required to join the MPF Scheme.

The retirement benefits cost of the ORSO Scheme and MPF Scheme charged to profit or loss represents contributions payable to the funds by the Group at rates specified in the rules of the schemes. Where there are employees who leave the ORSO Scheme prior to vesting fully in the contributions, the contributions payable by the Group are reduced by the amount of forfeited contributions.

Under the ORSO Scheme and MPF Scheme, no forfeited contributions are available to reduce the contributions payable in the future years.

The employees employed by the PRC subsidiaries are members of the state-managed retirement benefits schemes operated by the Mainland PRC government. The Mainland PRC subsidiaries are required to contribute a certain percentage of their basic payroll to the retirement benefits schemes to fund the benefits. The only obligation of the Group with respect to the retirement benefits schemes is to make the required contributions under the schemes.

38. PLEDGE OF ASSETS

At 31 December 2012, the following assets of the Group were pledged to banks in order to secure general banking facilities granted by these banks to the Group:

(a) investment properties and leasehold land and buildings with carrying values of HK$171,320,000 (2011: HK$131,471,000) and HK$43,157,000 (2011: HK$71,031,000), respectively;

(b) bank deposits of HK$3,961,000 (2011: HK$3,149,000);

(c) trade receivables of HK$237,119,000 (2011: HK$69,336,000);

(d) structured deposits of HK$6,426,000 (2011: HK$15,558,000);

(e) investments held-for-trading of HK$20,728,000 (2011: HK$25,229,000).

39. OPERATING LEASE

The Group as lessee

	2012 HK$'000	2011 HK$'000
Minimum lease payments paid under operating leases in respect of rented premises	2,820	2,673

At the end of the reporting period, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	2012 HK$'000	2011 HK$'000
Within one year	1,129	1,032
In the second to fifth year inclusive	475	–
	1,604	1,032

Operating lease payments represent rentals payable by the Group for certain of its office and warehouse. Leases are negotiated for lease terms of one to two years with fixed rental.

39. OPERATING LEASE *(Continued)*

The Group as lessor

Property rental income earned during the year was HK$4,973,000 (2011: HK$3,733,000). The properties held have committed tenants for the next two (2011: three) years.

At the end of the reporting period, the Group had contracted with tenants for the following future minimum lease payments:

	2012 HK$'000	2011 HK$'000
Within one year	3,641	4,376
In the second to fifth year inclusive	1,900	5,578
	5,541	9,954

40. CAPITAL COMMITMENTS

	2012 HK$'000	2011 HK$'000
Capital expenditure in respect of the acquisition of property, plant and equipment contracted for but not provided in the consolidated financial statements	15,677	9,672

41. CONNECTED AND RELATED PARTY TRANSACTIONS AND BALANCES

(I) Connected parties

During the year, the Group had significant transactions and balances with deemed connected parties pursuant to the Listing Rules. The significant transactions during the year and balances at the end of the reporting period with a substantial shareholder and its subsidiaries are as follows:

(a) Transactions

Name of party	Nature of transactions	2012 HK$'000	2011 HK$'000
Hon Hai Precision Industry Co., Ltd. ("Hon Hai") (note) and its subsidiaries	Purchases of electronic products by the Group	577,095	517,724
	Sales of electronic products by the Group	227,929	459,802

41. CONNECTED AND RELATED PARTY TRANSACTIONS AND BALANCES *(Continued)*

(I) Connected parties *(Continued)*

(b) Balances

Name of party	Nature of balances	2012 HK$'000	2011 HK$'000
Hon Hai and its subsidiaries	Balance		
	– trade receivables	72,575	76,078
	– trade payables	183,517	169,948

Note: Hon Hai is a substantial shareholder of the Company, who held 17.55% (2011: 17.55%) of the issued share capital of the Company as at 31 December 2012.

(II) Related parties, other than connected parties

The significant transactions with related parties, other than connected parties, during the year, and significant balances with them at the end of the reporting period, are as follows:

(a) Transactions

Name of party	Nature of transactions	2012 HK$'000	2011 HK$'000
Jointly controlled entity:			
SPT Technology	Purchases of electronic products	277	82,922
	Sales of electronic products	57,463	16,631
Associate:			
Now Electron	Sales of electronic products	–	225

(b) Balances

Name of party	Nature of balances	2012 HK$'000	2011 HK$'000
Jointly controlled entity:			
SPT Technology	Balance		
	– trade receivables	–	764
	– trade payables	4,502	5,351

(c) Compensation of key management personnel

The directors are the key management personnel of the Company and their compensation for both years is set out in note 9.

42. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

A summary of the statement of financial position of the Company at 31 December 2012 and 31 December 2011 are as follows:

	2012 HK$'000	2011 HK$'000
Assets		
Investment costs and amounts due from subsidiaries	397,285	335,028
Other assets	922	926
	398,207	335,954
Liabilities		
Amounts due to subsidiaries	159,128	121,758
Other payables	698	657
	159,826	122,415
Net assets	238,381	213,539
Capital and reserves		
Share capital	26,214	26,214
Share premium and reserves (note)	212,167	187,325
Total equity	238,381	213,539

Note:

	Share premium HK$'000	Capital redemption reserve HK$'000	Contri-buted surplus HK$'000	Warrants reserve HK$'000	Retained profits HK$'000	Total HK$'000
At 1 January 2011	33,510	1,109	105,796	–	36,318	176,733
Profit and total comprehensive income for the year	–	–	–	–	49,913	49,913
Dividends recognised as distribution	–	–	–	–	(39,321)	(39,321)
At 31 December 2011	33,510	1,109	105,796	–	46,910	187,325
Profit and total comprehensive income for the year	–	–	–	–	52,416	52,416
Dividends recognised as distribution	–	–	–	–	(34,078)	(34,078)
Equity settled share-based payments	–	–	–	6,504	–	6,504
At 31 December 2012	33,510	1,109	105,796	6,504	65,248	212,167

43. PARTICULARS OF PRINCIPAL SUBSIDIARIES

Particulars of the Company's principal subsidiaries at 31 December 2012 and 31 December 2011 are as follows:

Name of subsidiary	Place of incorporation/ establishment/ operations	Nominal value of issued and paid up share capital/ registered capital	Proportion of issued share capital held by the Company 2012 %	2011 %	Principal activities
Dragon Trading Limited	British Virgin Islands	Ordinary US$40,000	100	100	Investment holding
HAS Electronic Company Limited	Hong Kong	Ordinary HK$1,000,000	100	100	Distribution of electronic products
Hi-Level Technology Limited	Hong Kong	Ordinary HK$25,000,000	51	51	Distribution of electronic products
RSL Microelectronics Company Limited	Hong Kong	Ordinary HK$500,000	100	100	Distribution of electronic products
S.A.S. Electronic Company Limited	Hong Kong	Ordinary HK$1,000,000	100	100	Distribution of electronic products
S.A.S. Enterprises Company Limited	Hong Kong	Ordinary HK$100	100	100	Distribution of electronic products
		Non-voting deferred* HK$1,000,000	100	100	
S.A.S. Investment Company Limited	Hong Kong	Ordinary HK$100	100	100	Property and investment holding
		Non-voting deferred* HK$1,000,000	100	100	
S.A.S. Lighting Company Limited	Hong Kong	Ordinary HK$2	100	100	Distribution of LED lighting products

43. PARTICULARS OF PRINCIPAL SUBSIDIARIES *(Continued)*

Name of subsidiary	Place of incorporation/ establishment/ operations	Nominal value of issued and paid up share capital/ registered capital	Proportion of issued share capital held by the Company 2012 %	2011 %	Principal activities
SMartech Electronic Company Limited	Hong Kong	Ordinary HK$1,000,000	70	70	Distribution of electronic products
Sportline Limited	Hong Kong	Ordinary HK$200,000	100	100	Distribution of sport products
時捷電子科技(深圳)有限公司**	Mainland PRC	Registered capital HK$20,000,000	100	100	Distribution of electronic products
Chenmtech Company Limited 全曄科技股份有限公司	Taiwan	Registered capital TWD70,000,000	51	51	Distribution of electronic products
Time Speed Technology Corporation 時曄科技股份有限公司	Taiwan	Registered capital TWD50,000,000	51	–	Distribution of electronic products

* The non-voting deferred shares practically carry no rights to dividends or to receive notice of or to attend or vote at any general meetings of the company or to participate in any distribution on winding up.

** Foreign wholly-owned enterprise

With the exception of Dragon Trading Limited and S.A.S. Investment Company Limited, all the subsidiaries are indirectly held by the Company.

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results or assets and liabilities of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

None of the subsidiaries had any debt securities outstanding at the end of the year or at any time during the year.

FINANCIAL SUMMARY

RESULTS

	For the year ended 31 December				
	2008 HK$'000 (Restated)	2009 HK$'000 (Restated)	2010 HK$'000 (Restated)	2011 HK$'000 (Restated)	**2012** **HK$'000**
Revenue	2,957,157	3,477,978	4,367,400	5,553,312	**6,528,034**
(Loss) profit before tax	(19,160)	69,529	114,161	124,920	**122,358**
Income tax credit (expense)	2,188	(5,661)	(14,133)	(11,765)	**(13,599)**
Profit (loss) for the year from continuing operations	(16,972)	63,868	100,028	113,155	**108,759**
Profit (loss) for the year from discontinued operation	139	(1,533)	(4,501)	(3,760)	**–**
Profit (loss) for the year	(16,833)	62,335	95,527	109,395	**108,759**
Profit (loss) for the year attributable to:					
Owners of the Company	(18,243)	54,448	83,135	102,083	**90,852**
Non-controlling interests	1,410	7,887	12,392	7,312	**17,907**
	(16,833)	62,335	95,527	109,395	**108,759**

ASSETS AND LIABILITIES

	At 31 December				
	2008 HK$'000 (Restated)	2009 HK$'000 (Restated)	2010 HK$'000 (Restated)	2011 HK$'000 (Restated)	**2012** **HK$'000**
Total Assets	1,158,774	1,489,863	1,681,993	2,009,718	**2,439,684**
Total Liabilities	(736,984)	(1,013,836)	(1,126,276)	(1,382,353)	**(1,722,956)**
Net Assets	421,790	476,027	555,717	627,365	**716,728**
Equity attributable to owners of the Company	393,800	440,208	504,328	565,594	**632,926**
Non-controlling interests	27,990	35,819	51,389	61,771	**83,802**
Total Equity	421,790	476,027	555,717	627,365	**716,728**

PARTICULARS OF INVESTMENT PROPERTIES

Location	Lot No.	Category of lease	Use
Units 1 and 2 on Ground Floor and Carparking spaces Nos. B20, B21 and B22 on Basement Floor, Peninsula Square, Sung On Street, Hunghom, Kowloon, Hong Kong	11623/588444 shares of Kowloon Inland Lot No. 10985	Medium term	Commercial
Unit No. 5 on 6th Floor of Tower B, Hunghom Commercial Centre, No. 37 Ma Tau Wai Road, Kowloon, Hong Kong	21/12841 shares of the remaining portion of section O of Kowloon Marine Lot No. 40	Medium term	Commercial
Unit No. 6 on 6th Floor of Tower B, Hunghom Commercial Centre, No. 37 Ma Tau Wai Road, Kowloon, Hong Kong	21/12841 shares of the remaining portion of section O of Kowloon Marine Lot No. 40	Medium term	Commercial
Unit No. 7 on 6th Floor of Tower B, Hunghom Commercial Centre, No. 37 Ma Tau Wai Road, Kowloon, Hong Kong	21/12841 shares of the remaining portion of section O of Kowloon Marine Lot No. 40	Medium term	Commercial
Unit No. 8 on 11th Floor of Tower A, Hunghom Commercial Centre, No. 37 Ma Tau Wai Road, Kowloon, Hong Kong	25/12841 shares of the remaining portion of section O of Kowloon Marine Lot No. 40	Medium term	Commercial
Unit 1212 on 12th Floor, Harbour Crystal Centre, No. 100 Granville Road, Kowloon, Hong Kong	Kowloon Inland Lot No. 10600	Medium term	Commercial

The Group has 100% interest in the above properties.