VARITRONIX

EXPLORING NEW HORIZONS

IN THE QUEST FOR EXCELLENCE

ANNUAL REPORT 2012

VARITRONIX INTERNATIONAL LIMITED
STOCK CODE 710

AWARD

Varitronix received the HSBC Living Business Award in 2012 in two categories, namely, the Community Engagement Award (Certificate of Merit) and the Green Achievement Award (Certificate of Excellence).

The HSBC Living Business Awards is an annual award scheme organised by HSBC and supported by the Business Environment Council, The Hong Kong Council of Social Service and the Hong Kong Institute of Human Resource Management. It recognises small to medium enterprises which manage their business responsibly and sensitively with regard to people, the community and the environment to ensure long-term business success.

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CHAIRMAN'S STATEMENT

FINANCIAL HIGHLIGHTS

HK$ million	**2012**	2011
Turnover	**2,222**	2,131
EBITDA	**279**	292
Profit attributable to shareholders	**171**	168
Cash balance	**464**	391
Basic earnings per share	**52.7 HK cents**	51.9 HK cents
Total dividend per share	**28.0 HK cents**	26.5 HK cents

On behalf of Varitronix International Limited (the "Company") and its subsidiaries ("Varitronix" or the "Group"), I present the Group's results for the year ended 31 December 2012.

During the year under review, turnover of HK$2,222 million was recorded, representing an increase of 4% as compared to HK$2,131 million in 2011. EBITDA was HK$279 million, around 4% lower than the HK$292 million recorded in the previous year. Profit attributable to shareholders was HK$171 million, compared to HK$168 million in 2011.

Turnover for 2012 can be assessed in two stages with differing trends. In the first half of the year, the business progress was slow and this cast a negative impact on the financial performance, while in the second half of 2012, production orders increased and helped us to achieve a higher total turnover than in 2011. In terms of geographical allocation, Europe contributed around 39%, the PRC and Hong Kong came second, contributing around 30%. The remaining portion was generated from a combination of the America and other regions.

As at 31 December 2012, the cash balance of the Group was HK$464 million, increased 19% from HK$391 million at the end of 2011.

DIVIDENDS

The Board of Directors (the "Board") has recommended a final dividend of 20.0 HK cents per share (2011: 15.5 HK cents). Together with the interim dividend of 8.0 HK cents (2011: 11.0 HK cents), the total dividend for 2012 amounted to 28.0 HK cents per share (2011: 26.5 HK cents), representing a dividend payout ratio of 53% (2011: 51%).

This year's level of dividend payment reflects our strong cash flow position. Capital investment in new plant construction in 2012 notwithstanding, the dividend payout ratio increased compared to last year.

BUSINESS REVIEW

Automotive Display Business

Revenue from the Group's automotive display business was HK$1,404 million, representing an increase of 16% as compared to 2011. The automotive display business generated 63% of the Group's total turnover. Europe is still the largest automotive display market for the Group.

Turnover from the automotive display business increased markedly in the second half of 2012 as compared to the first half of the year. As well as orders from the European region, there were additional increases in orders from Korea, the United States and some developing regions such as Brazil and India.

The automotive display business in South Korea experienced a drop in 2011 under intensified competition. However, the situation improved and we managed to regain a slight growth in business in 2012. This was mainly attributable to improved product quality and customer service standards.

In the PRC, the automotive display business developed rapidly during the year under review. It is now an important market for the Group. In the past, the Group invested resources in developing the Japan market and we started to reap some rewards in 2012. The Group has gradually adapted to the Japanese operating style and we successfully gained trust from this particular group of customers.

In 2012, the Group started mass production for the Thin Film Transistor (TFT) display products that are designed for automobiles. This is a milestone signifying the beginning of meaningful contribution from TFT orders for our automotive business.

Industrial Display Business

Turnover from the industrial display business was HK$818 million, representing an 11% decrease as compared to 2011. This business contributed 37% of total turnover. Europe and the America are the key markets for this business.

In Europe, the Group's displays are mostly applied in electricity meters, industrial equipment and white goods. The demand is usually stable. Nevertheless, the debt crisis in the Eurozone weakened consumer appetite, and signs of economic slowdown appeared in some countries in 2012. The situation negatively affected the industrial display business of the Group. Reinforced by our long operating history in Europe and deep understanding of it, the Group is still optimistic and regards it as a market with sustainable value.

Business in the America was stable. Our customer base in the country is wide and diversified, mainly covering the categories of industrial equipment, electricity meters and medical products. During the year under review, orders for meter displays increased. In addition, orders for medical products have increased substantially in recent years. There remains ample development space for this business.

BUSINESS OUTLOOK

Automotive Display Business

It is estimated that the automotive display business will achieve satisfactory growth in 2013. On one hand, this is because the scale of the automotive display market will further expand, thus creating more business opportunities for the Group. On the other hand, the Group is now one of the leading automotive display suppliers, and has invested resources in developing displays with more advanced functionality. This will ultimately increase the average selling price of our products and hence generate more revenue.

Europe is currently our key automotive display market, and it will continue to play an important role. In the coming year, some automotive projects in the America will mature and start to contribute revenue for the Group.

In Asia, the PRC will still be the fastest growing market. The Group's products are mostly applied in joint venture branded cars. According to the consumer pattern in the past one to two years, jointly branded cars are more popular among users. The Group's strategy of focusing on the mid to high-end automobile segment is appropriate, and we will benefit from our customers' business growth.

In South Korea, the Group has successfully strengthened its customer base and further business development is anticipated in that market in the future. In Japan, we have tuned our product quality specifications to align with local customers' standards and the situation in that market is favourable for a rise in order quantity.

Industrial Display Business

The industrial display business will develop steadily in 2013. Though news about the debt crisis in Europe will still be topical from time to time, market response towards such news is not as sensitive as before. We believe the worst situation has passed. The priority of the European governments is to stimulate consumption and improve exports so as to strengthen each economy as soon as possible. The Group will remain vigilant to this environment and take action at the right time, with an aim to put our industrial business back on the rising track.

The industrial display business in the America will continue to grow at a steady pace. Some newly developed projects will reach mass production stage in 2013 and contribute to revenue growth. The Group intends to expand its customer network by dedicating more resources to untapped states in the US.

TFT Display Business

The Group's TFT business is focused on automotive applications. The TFT market is more competitive than the market for monochrome display products as there are more active players. By capitalising on its strengths, the Group is committed to expanding its presence in the more sophisticated product segments. Reflecting the effectiveness of this strategy, TFT orders have continued to increase and mass production will start for a number of projects in the coming years, which will bring more meaningful contribution to the automotive business.

Touch-panel Display Business

In early 2012 the Group set up a dedicated unit to develop the touch-panel display business. Within a year, progress has been achieved and new orders received. Through its exploratory efforts, the Group concludes that its product design and production capability is well suited for industrial applications.

Currently, industrial application of touch panels is rather limited. However, the use of touch panels is expected to increase, driven by the growing popularity of smartphones and other devices. While the order size for touch panels in industrial equipment is small, quality expectations are high and products must be made-to-order. This is an area where the Group can make the most of its operating model and tap into the tremendous growth potential of the industrial market.

The Group can provide customers with a one-stop solution that combines design, optical bonding and production. Together with the Group's development of unique features especially for industrial applications, we can offer more practical display solutions and thus generate more demand.

OPERATING STRATEGY

The automotive display business accounted for over 60% of the Group's total turnover in 2012, and the proportion is expected to increase in the future. The continued expansion of the automotive business is interactively linked to the Group's internal operating model and competitive advantages. This means that Varitronix must continue to sharpen its competitive edge in order to solidify its leading position in the automotive display market.

LCDs are high precision instruments with high customer dependency, and the level of LCD technology continues to advance. To consolidate the Group's market position in the automotive market, attention must be focused on three important areas:

1. ensuring stable quality levels,

2. improving service standards, including sales, and the ability to deal with product quality issues, and

3. fostering a relationship of mutual trust with customers.

PROSPECTS

With the continuing expansion of monochrome display applications in the automotive and industrial sectors, we can see more scope for growth in this market. Supported by new product development, enhanced product features, improved quality and services tailored to customer specifications, the Group will be able to create higher product value and command higher average selling prices. Our competitive advantages are strong, thus reinforcing the Group's leading position in the high-end monochrome display market.

Over the last few years, we have been improving our internal processes and lowering operating costs to raise productivity. With all the right conditions like capital and business opportunities firmly in place, a close examination of the business environment has led us to believe that now is the most opportune time to gain capacity expansion by means of capital investment, with an aim of increasing productivity. In this way we will be well positioned to capitalise on business opportunities, and further expand our market share in the monochrome display products sector in particular.

With productivity enhancement as our mission, management is placing high hopes on the new plant, which will come into operation in phases during 2013. We will make sure that the operating processes, hierarchy and manpower are streamlined and effective, and that productivity levels are maintained at a high standard. With higher productivity and lower costs, the Group's profit potential can be enhanced.

At the same time, as users require displays to show more information, the design of display products will become more complex. The Group is prepared to invest more resources and leverage on our strengths to develop our TFT and touch panel businesses, targeting high-end customers. We hope to see these businesses becoming a major source of income for the Group.

ACKNOWLEDGEMENTS

I would like to take this opportunity to thank all members of staff for your hard work over the past year. Your efforts have given Varitronix the ability to explore new horizons and to quest for expansion in production and market coverage. In addition, I would like to convey my appreciation to all shareholders, customers and business partners. May we work together to achieve business excellence in the coming year!

Ko Chun Shun, Johnson
Chairman
Hong Kong, 22 March 2013

TURNOVER

The Group's turnover for the year ended 31 December 2012 increased by 4% to HK$2,222 million as compared to the previous financial year.

PROFIT FROM OPERATIONS

The profit from operations for the year ended 31 December 2012 was HK$184 million, a decrease of HK$4 million or 2% as compared to the previous financial year.

During the financial year 2012, the Group made an impairment loss of HK$77 million on the non-listed available-for-sales equity securities, "Hydis Technologies Co., Ltd." in South Korea, a company specialises in the manufacturing on thin-film transistor liquid crystal displays ("TFT-LCD").

During the financial year 2012, the Group spent HK$165 million on research and development ("R&D") activities, which represented approximately 7% of the Group's turnover.

NET PROFIT AND DIVIDENDS

The profit attributable to shareholders for the year ended 31 December 2012 was HK$171 million, as compared to a profit of HK$168 million in 2011.

Basic earnings per share for the year ended 31 December 2012 were 52.7 HK cents as compared to basic earnings per share of 51.9 HK cents in the previous financial year. During the year, the Group declared and paid the interim dividend of 8.0 HK cents per share, which aggregated to HK$26 million. The Board have recommended a final dividend of 20.0 HK cents per share, which will aggregate to HK$65 million. The total dividend for the year amounts to 28.0 HK cents per share.

STRUCTURE OF ASSETS

As at 31 December 2012, the total assets of the Group amounted to HK$2,315 million (2011: HK$1,968 million). At the year end, inventories increased by 9% to HK$367 million (2011: HK$336 million) while available-for-sale securities decreased by 40% to HK$107 million (2011: HK$179 million).

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2012, the total equity of the Group was HK$1,549 million (2011: HK$1,436 million). The Group's current ratio, being the proportion of total current assets against total current liabilities, was 2.31 as at 31 December 2012 (2011: 2.46).

At the year end, the Group held a liquid portfolio of HK$601 million (2011: HK$553 million) of which HK$464 million (2011: HK$391 million) was in cash and cash equivalents and HK$137 million (2011: HK$162 million) in securities. The unsecured interest-bearing bank loans amounted to HK$318 million (2011: HK$154 million). The gearing ratio (bank loans over net assets) was 20% (2011: 11%).

The Group's inventory turnover ratio for the year was 5.0 times (2011: 5.3 times). Debtor turnover days for the year was 76 days (2011: 70 days).

CASH FLOWS

In the year under review, the Group's cash generated from operations amounted to HK$158 million (2011: HK$159 million). The increase in inventories reduced cash flow by HK$31 million, while the increase in trade and other receivables reduced cash flow by HK$89 million.

Net cash used in investing activities amounted to HK$155 million (2011: net cash used in investing activities amounted to HK$20 million). There was an increase in payments for the purchase of fixed assets to HK$295 million (2011: HK$43 million).

CAPITAL STRUCTURE

The Group's long-term capital comprises shareholders' equity and debt, which includes the bank borrowings. There was no change as to the capital structure of the Group during the year. The Group had repaid the bank borrowings amounted to HK$110 million during the year and the bank borrowings increased to HK$318 million as at 31 December 2012.

FOREIGN CURRENCY EXPOSURE

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

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

CONTINGENT LIABILITIES

As at 31 December 2012, the Company had contingent liabilities for guarantees given to banks in respect of banking facilities granted to certain subsidiaries, which were utilised to the extent of HK$318 million (2011: HK$154 million).

COMMITMENTS

As at 31 December 2012, the Group had capital commitments of HK$93 million (2011: HK$364 million), representing the purchase of property, plant and equipment not provided for in the financial statements. The total future minimum lease payments under non-cancellable operating leases for properties payable within one year amounted to HK$7 million (2011: HK$3 million).

STAFF

As at 31 December 2012, the Group employed 4,747 staff around the world, of whom 175 were in Hong Kong, 4,530 in the People's Republic of China ("PRC") and 42 were in overseas. The Group remunerates its employees based on their performance, experience and prevailing industry practice. The Group operates an employee share option scheme and provides rent-free quarters to certain of its employees in Hong Kong and the PRC.

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

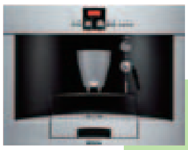
STAFF RETIREMENT SCHEMES

The Group principally participates in defined contribution retirement plans. In Hong Kong, the Group participates in the Mandatory Provident Fund Scheme operated by independent trustees. Contribution at a fixed rate of 5% of the employee's relevant income, subject to a cap of monthly relevant income of HK$20,000 per employee, are made to the scheme and are vested immediately. With effect from 1 June 2012, the maximum level of income has been increased to HK$25,000 monthly.

In addition, the Group also operates a Top-Up ORSO scheme, approved by the Inland Revenue Department under Section 87A of the Inland Revenue Ordinance, and both the employer and the employee are required to contribute 5% of the excess of the employee's relevant income to the scheme. It is only eligible for employees who joined the Group on or before 30 June 2009.

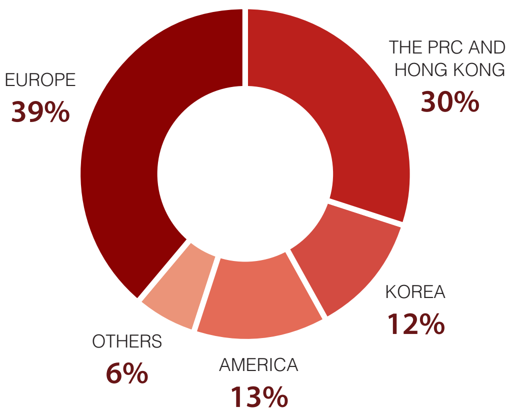
The employees of the Group's subsidiaries which operate in the PRC are required to participate in central pension schemes operated by the local municipal government. The subsidiaries are required to contribute certain percentage of the payroll costs to the central pension schemes. The contributions are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

During the year, the total retirement scheme cost charged to the Consolidated Income Statement for the year ended 31 December 2012 was HK$18 million (2011: HK$17 million). Charges to administer the scheme are deducted from the employer's contributions. Forfeited contributions are used by the employer to offset against future contributions. The amount so utilised during the year ended 31 December 2012 was HK$15,000 (2011: HK$35,000) and at 31 December 2012, the balance available to reduce the level of contributions in future amounted to HK$5,000 (2011: HK$58,000).



EUROPE

In 2012, the Group's business in Europe recorded revenue of HK$858 million, representing a drop of 3% from 2011. The European business contributed 39% of the Group's total turnover for the year under review.



The decrease in revenue was due to sluggish industrial business in the first half of 2012. Though the industrial market sentiment improved slightly in the second half of the year, the rebound could not reverse the overall trend.

Automotive Display Business

The Group enjoyed a leading position in the automotive display market in the European region. Despite the weak economy in Europe, our automotive orders remained adequate and stable, especially in the second half of 2012. The Group mainly supplies displays for leading automotive brands in Europe, a sector which was less affected by the economic downturn. Moreover, some customers continued to produce and export cars to Eastern Europe and new markets, and thus they continued to ramp up orders for our displays.

One of the characteristics of the automotive business is its long development time. There are new models moving to the mass production stage every year. This in turn ensures a stable revenue stream for this business.

The TFT business contributed a meaningful portion to the automotive revenue in Europe during the year in review. We regard this as a significant indication for the future. It is hoped that the TFT business will continue to grow in the next few years and play an increasingly important role in the automotive display business.

The Group will endeavour to develop high duty displays that can present more complex information in cars. We believe that ever improving displays can sustain revenue growth in the automotive sector.

Industrial Display Business

The industrial display business recorded a decrease in turnover during the year under review. The macro economy in Europe was not favourable and this led to a drop in orders from industrial customers.

Looking forward, we expect to see a slight improvement in the industrial business. Some projects which have been previously developed will start mass run this year. The demand for industrial equipment applications will be stable, and white goods applications will experience steady growth. In terms of electricity meters, however, the demand will drop since some of the existing projects will expire and bidding of new projects will not be available until the end of 2013.

Touch panel displays will be another potential technology for industrial customers. A number of projects started mass production in 2012 and we expect more customers in Europe will explore the usage of touch panels in the future. The Group is eager to improve our own touch panel technology to win more orders from existing customers and potential new customers.

Overall, we have confidence that the European region's economy will slowly improve. Although there will be ups and downs during the process, over the long term the trend will develop upward. The Group is fully prepared to maintain its leading position in the display business in the region.

KOREA

The Group's revenue in South Korea in 2012 recorded a decrease of 8% when compared with 2011. Revenue for the year under review was HK$256 million, representing 12% of the total turnover of the Group.

In 2012, the Group reversed a downward trend of its automotive business with an improvement that was particularly obvious in the second half of the year. This is attributed to the Group's determination in refining its product quality to meet the stringent requirements of automotive customers, plus efforts in speeding up product delivery and service after sales. However, the drop of industrial business in South Korea offset the automotive business improvement effect.

The Group reached out for new customers for industrial applications in 2012. We are eager to explore more business opportunities in the industrial sector in 2013.

In general, customers in South Korea are more inclined to adopt new technology. Therefore, the Group is encouraged to develop more high-end display technology and improve the function of our displays to provide better contrast quality and a higher duty ratio. We believe this extension in technology can help in improving the margins for our products in the future.

AMERICA

The Group's business in America recorded HK$290 million in revenue during the year under review, representing a 10% increase as compared to 2011. This market accounted for 13% of the Group's overall turnover, compared to 12% in 2011.

The economy in America remained stable in the presidential election year. The Group managed to maintain balanced growth in different sectors of its industrial business. Of the diversified applications, industrial equipment and medical products recorded satisfactory growth. The sales team has aggressively promoted displays with higher value to electricity meter customers and successfully secured new orders from 2012 and for subsequent years.

Looking forward, we expect the scale of the business in the America will further expand and play a more significant role in the years to come. It is a market with good potential in terms of customer diversification and geographical coverage. In 2013, it is expected that the key growth prospects are in medical products and the automotive sector where the Group's end-users including both passenger cars and trucks. Development for some of these automotive projects is mature and they will be ready for mass production in the coming years.

Geographically, the Group plans to explore markets in additional states in America with business potential. Both our sales force and customer base will be developed in those states, and more business opportunities are expected in the future.

THE PRC AND HONG KONG

Revenue generated from the PRC and Hong Kong region reached HK$675 million, a 19% increase as compared to 2011. For the year under review, revenue from the PRC and Hong Kong region accounted for 30% of the Group's total turnover, compared to 27% in 2011.

In the PRC, the Group's business focus is on joint venture branded cars. The positioning of the Group aligns with recent development in the PRC automotive industry in the country. As the economy is developing, the middle to upper class segment is growing. This group of consumers is more inclined to buy joint venture branded cars, which are regarded as more prestigious, of higher quality and, at the same time, affordable. This business strategy brought in increased orders for the Group during the period under review.

It is estimated that 2013 will be another year of stable growth for the PRC automotive market. Unlike the low-end market which fluctuates and is susceptible to price competition, the Group's featured segment performed stably both in terms of demand and value. The Group has quite a few mature projects on hand that are going to generate revenue.

The Group aims at promoting high-end display products to its PRC customers in order to maintain its leading position in this market. To achieve this goal, more dedicated manpower will be allocated to serving our PRC customers.

CORPORATE RESPONSIBILITY REPORT

CORPORATE RESPONSIBILITY – INTERPRETATION BY VARITRONIX

As awareness of our environmental, employee and community well-being continues to grow, so does their importance in corporations, as any mistakes or negligence in these areas could easily jeopardise business development and corporate growth.

In our definition, Corporate Responsibility is not a public relations exercise. Rather, we believe that caring for staff, environmental protection, community responsibility and relations building with suppliers and stakeholders are all essential elements for our sustainable development.

We regard Social Corporate Responsibility as a natural mission of a good corporation. Accordingly, one of the key remits of Varitronix management is to ensure the different corporate responsibility elements are incorporated into daily operations so as to sustain continuous economic growth.

CORPORATE RESPONSIBILITY FRAMEWORK

EMPLOYEES

- Safety and well-being at work
- Welfare and benefits
- Ensuring staff can enjoy wholesome development

ENVIRONMENT

- Reduced energy consumption
- Waste management
- Environmental education

SOCIAL SERVICE

- Strengthen community support
- Care for the underprivileged
- Expand employees' scope and horizons

We believe the three aspects are interlinked and should be treated equally. When we treasure our employees, we should also care about their family members and our surrounding community at large. Employees are given equal opportunities to grow and develop in the company. Furthermore, as a responsible corporate citizen, we must ensure that we make the least pollution impact on the environment in order to protect our employees and their families. In turn, we see social service as a way to benefit the underprivileged, whilst at the same time, the service itself provides good development opportunities for our employees and their families to learn from new perspectives and share precious time together.

EMPLOYEE DEVELOPMENT : 2012 REVIEW

Varitronix Full Marathon runners in the HK Standard Chartered Marathon

Coaching Program for Fresh Graduates 2011 – Final Project Presentation winner

Varitronix Cup Competition – Tug of War

Varitronix 30th Anniversary Scholarship for Hong Kong University of Science and Technology in 2012 – Dr Vladimir G. Chigrinov (second from left), Professor of Department of Electronic and Computer Engineering, and Mr Howard Chiu, Manager of Technology Development Team (far left), presented the Scholarship Awards to students

Two teams from Varitronix participating in the Oxfam Trailwalker in 2012

Varitronix runners participating in the HK Standard Chartered Marathon

Workers enjoying a company outing


职业健康安全管理体系
认证证书

OHSAS18000 accreditation

Varitronix Cup Competition – Table Tennis

Engineers teamed up in an outward bound training session in the PRC

EMPLOYEE DEVELOPMENT : 2013 TARGET

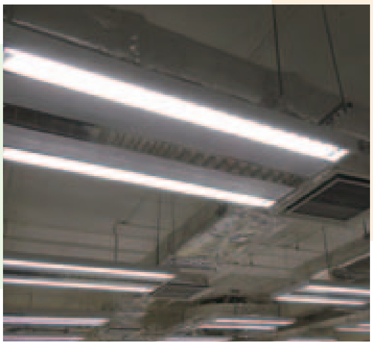
In order to develop a stable, committed and energetic workforce for sustainable corporate growth, Varitronix places particular emphasis on employee well-being. Thus, we are committed to providing a safe and pleasant working environment for our staff and labour force. In 2013, we will strengthen work safety training and aim to keep workplace accidents below 2 cases. An internal audit of labour practices, workplace health and safety and labour union function will be conducted so as to identify future improvement plans.

ENVIRONMENTAL PROTECTION : 2012 REVIEW

Varitronix cyclists journeyed to clean up a tourist site in Heyuan, PRC

Trained observers monitor correct use of garbage classification bins

A new facility was set up to collect heat energy from manufacturing and is utilised as a fuel for hot bath water in the staff dormitory



The new office in Hong Kong uses energy-saving T5 fluorescent tubes, and complies with energy efficiency standards

Garbage Enzyme Workshop in our Production Plant organised by The Conservancy Association

ENVIRONMENTAL PROTECTION : 2013 TARGET

Compliance with environmental regulations and standards is one of our golden operating principles. In 2013, a new production building will be phased into operation. It will be our obligation to minimise energy consumption and reduce waste at source in the new production facility. We hope to establish a cost-efficient manufacturing model in the new building by exerting stringent energy consumption and waste reduction controls.

SOCIAL SERVICE : 2012 REVIEW

Varitronix partnered with the Login Club for New Arrivals of the Evangelical Lutheran Church Social Service for the second year, to co-organise a mentoring program designed to help underprivileged children in the Kwai Hing region.

Varitronix mentors visiting the elderly with children from the programme

Programme Handbooks for the participating children

Opening ceremony of “Star Journey with Children”, the mentoring programme

A warm-hearted mentor and mentee pair up together

An outing organised at Music Farm

A class for snack preparation

A trail walk and BBQ get-together

Small gift workshop before Mothers’ Day

SOCIAL SERVICE : 2013 TARGET

In 2013, Varitronix will cooperate with a new NGO to serve the ethnic minorities in Hong Kong. By launching a new programme, we hope to attract more volunteers to join the social service. We will also encourage more staff family members to participate in volunteering activities so as to create a feeling of family inclusion. All these initiatives are aimed at facilitating wholesome staff development.

DIRECTOR'S BIOGRAPHICAL INFORMATION

Ko Chun Shun, Johnson

aged 61, was appointed as the Chairman and Executive Director of the Company in June 2005. Mr. Ko is a member of the Remuneration Committee and the Nomination Committee of the Company. Mr. Ko is a substantial shareholder of the Company and a director of various subsidiaries of the Group. Mr. Ko is also the Chairman and an Executive Director of DVN (Holdings) Limited and ReOrient Group Limited, and the Vice Chairman and an Executive Director of China WindPower Group Limited. The above companies are listed on the Hong Kong Stock Exchange.

Tsoi Tong Hoo, Tony

aged 48, was appointed as the Chief Executive Officer and an Executive Director of the Company in March 2005. Mr. Tsoi is a director of various subsidiaries of the Group. Mr. Tsoi graduated from the University of Western Ontario, Canada with an Honours degree in Business Administration in 1986. He was selected as one of the "Hong Kong Young Industrialists" by The Federation of Hong Kong Industries in 2010. Mr. Tsoi is an Executive Director of ReOrient Group Limited, a Non-executive Director of China WindPower Group Limited and Zhidao International (Holdings) Limited (formerly known as Ocean Grand Holdings Limited). He is also an Independent Non-executive Director of Fairwood Holdings Limited, all of the above companies are listed on the Hong Kong Stock Exchange. Mr. Tsoi is the deputy chairman of the supervisory board of Data Modul AG, which is listed on the Frankfurt Stock Exchange.

Yuen Kin

aged 58, was appointed as an Independent Non-executive Director of the Company in March 2005 and re-designated as an Executive Director of the Company and appointed as the Chief Financial Officer of the Group in July 2009. Mr. Yuen was also a member of the Audit Committee of the Company until he became an Executive Director of the Company. Mr. Yuen holds a Master of Business Administration degree from the University of Toronto, Canada. He is a Chartered Accountant in Canada and a Fellow of the Hong Kong Institute of Certified Public Accountants ("HKICPA"), and of the Association of Chartered Certified Accountants. Mr. Yuen is an Independent Non-executive Director of China Jiuhao Health Industry Corporation Limited (formerly known as Media China Corporation Limited), which is listed on the Hong Kong Stock Exchange.

Ho Te Hwai, Cecil

aged 52, was appointed as an Executive Director and the Company Secretary of the Company in March 2005. He is a director of various subsidiaries of the Group and is also the Qualified Accountant for the Group. Mr. Ho was appointed as a chief financial officer of ReOrient Group Limited, which is listed on the Hong Kong Stock Exchange, in 2011. Mr. Ho holds a Bachelor of Commerce degree from the University of British Columbia, Canada. He is a member of the Institute of Chartered Accountants of Canada and the HKICPA.

Lo Wing Yan, William

aged 52, was appointed as an Independent Non-executive Director of the Company in July 2004. He is the Chairman of the Remuneration Committee, the Audit Committee and the Nomination Committee of the Company. Dr. Lo holds a Master's degree in Molecular Pharmacology and a Doctorate in Genetic Engineering, both of which are obtained from the University of Cambridge in England. Dr. Lo is currently the Vice Chairman of South China Media Group. Dr. Lo was also a Bye-Fellow of Downing College, the University of Cambridge. In 1999, he was appointed as a Justice of Peace (J.P) by the government of Hong Kong. In 2003, he was appointed as a Member of Shantou Committee of the Chinese People's Political Consultative Conference. Dr. Lo is an Adjunct Professor of The School of Business of Hong Kong Baptist University. He is also a governor of an independent school, the ISF Academy, as well as the Chairman of Junior Achievement Hong Kong. Dr. Lo is currently an Independent Non-executive Director of LZYE Group plc, which is listed on the London Stock Exchange, Nam Tai Electronics, Inc., which is listed on the New York Stock Exchange, SITC International Limited, which is listed on the Hong Kong Stock Exchange, and Westminster Travel Limited, which is listed on the Singapore Stock Exchange. He was appointed as an Independent Non-executive Director of South China Land Limited, which is listed on the Hong Kong Stock Exchange, since 2002 and was re-designated as a Non-executive Director in September 2011.

Hou Ziqiang

aged 75, was appointed as an Independent Non-executive Director of the Company in March 2005. He is a member of the Remuneration Committee, the Audit Committee and the Nomination Committee of the Company. Mr. Hou graduated from Peking University in 1958 with a Bachelor's degree in Physics. From 1993 to 1997, Mr. Hou was a Director of the Institute of Acoustics of the Chinese Academy of Sciences. From 1988 to 1993, Mr. Hou was a Secretary General of the Chinese Academy of Sciences.

Chau Shing Yim, David

aged 49, was appointed as an Independent Non-executive Director of the Company in July 2009. He is a member of the Audit Committee of the Company. Mr. Chau has over 20 years of experience in corporate finance, working on projects ranging from initial public offering transactions and restructuring of PRC enterprises to cross-border and domestic takeover transactions. Mr. Chau was formerly a partner of one of the big four accounting firms in Hong Kong, holding the position as their Head of Merger and Acquisition and Corporate Advisory. He is a member of the Hong Kong Securities Institute, the Institute of Chartered Accountants of England and Wales ("ICAEW"), and was granted the Corporate Finance Qualification of ICAEW, and the HKICPA, and was an ex-committee member of the Disciplinary Panel of the HKICPA. Mr. Chau is an Executive Director of Zhidao International (Holdings) Limited (formerly known as Ocean Grand Holdings Limited). He is also a Non-executive Director of Up Energy Development Group Limited. He is also an Independent Non-executive Director of Lee & Man Paper Manufacturing Limited, Shandong Molong Petroleum Machinery Company Limited, Man Wah Holdings Limited and Evergrande Real Estate Group Limited. All the aforesaid companies are listed on the Hong Kong Stock Exchange. He resigned as an Independent Non-executive Director of Duoyuan Global Water Inc., which is listed on the New York Stock Exchange, in April 2012.

SENIOR MANAGEMENT'S BIOGRAPHICAL INFORMATION

Suen Mo Ha, Rossetti

aged 41, is the Chief Operating Officer of the Group. She holds a Master's degree in Statistics from The University of Hong Kong, and a Bachelor's degree in Quantitative Analysis for Business from City Polytechnic University. She joined the Group in December 2000.

Lam Cheuk Yin, Kenneth

aged 38, is the Financial Controller of the Group. He has a Bachelor of Business Administration (Accountancy) from City University of Hong Kong, and is an Associate Member of the HKICPA. He joined the Group in July 2005.

Fung Yeuk Keung

aged 58, is the General Manager – Manufacturing of the Group. He conducted his PhD research study in the Liquid Crystal Institute of Kent State University and obtained a Master and a Doctorate degree in Physics from the same university. Dr. Fung joined the Group in 1995 and resigned in 2006. He rejoined the Group in November 2009.

Park Soo Bin, James

aged 42, is the General Manager – Technical Group & Touch Panel Unit. He holds a Bachelor of Physics degree from Sogang University in South Korea. He joined the Group in October 2006.

Lo Pak Chi, Patrick

aged 39, is the Senior Manager – Corporate Development of the Group. He holds a Bachelor's degree in Applied Physics from The Hong Kong Baptist University. He joined the Group in May 1998.

Ng Siu Keung, Ricardo

aged 50, is the Senior Manager – Information Service, Facilities & External Affairs (PRC) of the Group. He holds a Master's degree in Business Administration from International University of America. He joined the Group in September 2006.

Chan Siu Wah, Susana

aged 43, is the Senior Manager – Human Resources & Public Relations of the Group. She holds a Bachelor's degree of Arts from The Chinese University of Hong Kong. She joined the Group in November 2005.

CORPORATE GOVERNANCE REPORT

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

CORPORATE GOVERNANCE PRACTICES

The corporate governance standards of the Company are built on the principles of independence, accountability, transparency and fairness. The Company has adopted and complied with the code provision set out in the Code on Corporate Governance Practices (the "CG Code") which was in force prior to 1 January 2005 and in the revised version of the CG Code which takes effect from April 2012 (the "New CG Code") contained in Appendix 14 of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited ("the Stock Exchange"). The Board has taken actions and measures to ensure that the Company is in all aspects in strict compliance.

In the opinion of the Directors, the Company has complied with the code provisions of the CG Code and the New CG Code throughout the year ended 31 December 2012.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

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

BOARD OF DIRECTORS

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

As at 31 December 2012, the Board comprises four Executive Directors and three Independent Non-executive Directors.

Executive Directors:	Mr. Ko Chun Shun, Johnson *(Chairman)* Mr. Tsoi Tong Hoo, Tony *(Chief Executive Officer)* Mr. Yuen Kin *(Chief Financial Officer)* Mr. Ho Te Hwai, Cecil
Independent Non-executive Directors:	Dr. Lo Wing Yan, William Mr. Chau Shing Yim, David Mr. Hou Ziqiang

All the Independent Non-executive Directors meet the guidelines for assessment of independence as set out in Rule 3.13 of the Listing Rules.

The Board meets at least 4 times a year with additional meetings arranged when necessary to review the financial performance, material investments and other matters of the Group that require the resolution of the Board.

During the financial year ended 31 December 2012, a total of 7 Board meetings and 1 annual general meeting ("2012 AGM") were held and the attendance of each Director is set out as follows:

	Number of meetings attended in 2012				
Name	**Board**	**2012 AGM**	**Remuneration Committee**	**Nomination Committee**	**Audit Committee**
Executive Directors:					
Mr. Ko Chun Shun, Johnson	7/7	1/1	2/2	2/2	N/A
Mr. Tsoi Tong Hoo, Tony	7/7	1/1	N/A	N/A	N/A
Mr. Yuen Kin	6/7	1/1	N/A	N/A	N/A
Mr. Ho Te Hwai, Cecil	7/7	1/1	N/A	N/A	N/A
Independent Non-executive Directors:					
Dr. Lo Wing Yan, William	7/7	1/1	2/2	2/2	3/3
Mr. Chau Shing Yim, David	7/7	1/1	N/A	N/A	3/3
Mr. Hou Ziqiang	7/7	1/1	2/2	2/2	3/3

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

(1) Messrs. Ko Chun Shun, Johnson and Tsoi Tong Hoo, Tony are directors of China WindPower Group Limited (stock code: 182) and ReOrient Group Limited (stock code: 376), which are listed on the Main Board of the Stock Exchange.

(2) Messrs. Tsoi Tong Hoo, Tony and Chau Shing Yim, David are directors of Zhidao International (Holdings) Limited (formerly known as Ocean Grand Holdings Limited) (stock code: 1220), a company listed on the Main Board of the Stock Exchange.

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

Professional Development

Pursuant to A.6.5 of the New CG Code, all Directors should participate in continuous professional development to develop and refresh their knowledge and skills. This is to ensure that their contribution to the Board remains informed and relevant. Up to the date of this report, all Directors have participated in continuous professional development by attending training course and/or referring materials on the topics related to corporate governance and regulations.

Responsibilities of the Board

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

Corporate Governance Functions

No corporate governance committee has been established and the Board is responsible for performing the corporate governance functions such as developing and reviewing the Company's policies, practices on corporate governance, training and continuous professional development of the Directors and senior management of the Group, the Company's policies and practices on compliance with legal and regulatory requirements, etc.

The Board held meetings from time to time whenever necessary. At least 14 days notice of regular Board meetings is given to all Directors and they can include matters for discussion in the agenda as they think fit. The agenda accompanying board papers are sent to all Directors at least 3 days before the date of every Board meeting in order to allow sufficient time for the Directors to review the documents.

Minutes of every Board meeting are circulated to all Directors for their perusal and comments prior to confirmation of the minutes. The Board also ensures that it is supplied in a timely manner with all necessary information in a form and of a quality appropriate to enable it to discharge its duties.

Every Board member has full access to the advice and services of the company secretary of the Company with a view to ensuring that board procedures, and all applicable rules and regulations are followed and they are also entitled to have full access to board papers and related materials so that they are able to make an informed decision and to discharge their duties and responsibilities.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

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

TERM OF APPOINTMENT OF NON-EXECUTIVE DIRECTORS

The Independent Non-executive Directors have been appointed for a fixed term expiring on 31 December 2013 or such other date as agreed by the Independent Non-executive Directors. All Directors are subject to retirement by rotation at least once every three years under the Company's Bye-laws.

BOARD COMMITTEES

Remuneration Committee

The Remuneration Committee of the Company (the "RC") is responsible for setting and monitoring the remuneration policy for all Directors and senior management of the Group. The RC comprises Dr. Lo Wing Yan, William (Chairman of the RC), Mr. Hou Ziqiang and Mr. Ko Chun Shun, Johnson. Among the 3 members of the RC, 2 members are Independent Non-Executive Directors. The terms of reference of the RC are available at the websites of the Company and the Stock Exchange.

The roles and functions of the RC include consulting the Chairman of the Board about their remuneration proposals for other Executive Directors, making recommendation to the Board on the Company's remuneration policy and structure for all Directors' and senior management of the Group and the RC has adopted the approach under B.1.2(c)(ii) of the New CG Code to make recommendations to the Board on the remuneration packages of individual Executive Director and senior management of the Group.

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

2 meetings were held in 2012. During the meetings, the RC reviewed the Company's remuneration policy and fixed the remuneration packages for the Executive Directors and senior management of the Group. No change has been proposed to the remuneration policy and the Directors' remuneration. The number of RC meeting held during the year and record of individual attendance of members, on a named basis, at meetings held is set out in section headed "BOARD OF DIRECTORS" above in this report.

Remuneration of Directors and Senior Management

The Director's remuneration is set out in note 7 to the consolidated financial statements of this Annual Report.

The remuneration paid to the members of the senior management by bands in 2012 is set out below:

Remuneration Bands	Number of Individuals
HK$500,001 to HK$1,000,000	4
HK$1,000,001 to HK$1,500,000	2
HK$1,500,001 to HK$2,000,000	1

Nomination Committee

The Nomination Committee (the "NC") comprises Dr. Lo Wing Yan, William (Chairman of the NC), Mr. Hou Ziqiang and Mr. Ko Chun Shun, Johnson. Among the 3 members of the NC, 2 members are Independent Non-executive Directors. The terms of reference of the NC are available at the websites of the Company and the Stock Exchange.

The roles and functions of the NC include reviewing the structure, size and composition of the Board at least annually, making recommendations on any proposed changes to the Board to complement the Company's corporate strategy, identifying individuals suitably qualified to become members of the Board and selecting individuals nominated for directorship (if necessary), assessing the independence of the Independent Non-executive Directors and making recommendations to the Board on the appointment or re-appointment of directors and succession planning for the Directors, in particular the Chairman of the Board and the Chief Executive Officer. New Directors are sought mainly through referrals. In evaluating whether an appointee is suitable to act as a Director of the Company, the Board will review the independence, experience and expertise of the appointee as well as personal ethics, integrity and time commitment of the appointee.

2 meetings were held in 2012. Issues concerning the structure, size and composition of the Board were discussed and no change has been proposed to the structure, size and composition. The number of NC meeting held during the year and record of individual attendance of members, on a named basis, at meetings held during is set out in section headed "BOARD OF DIRECTORS" above in this report.

Audit Committee

The Audit Committee (the "AC") comprises 3 Independent Non-executive Directors: Dr. Lo Wing Yan, William (Chairman of the AC), Mr. Chau Shing Yim, David and Mr. Hou Ziqiang. The AC is responsible for appointment of external auditors, review of the Group's financial information and oversight of the Group's financial reporting system and internal control procedures. It is also responsible for reviewing the interim and annual results of the Group prior to recommending them to the Board for approval. It meets regularly to review financial reporting and internal control matters and to this end has unrestricted access to both the Company's internal and external auditors. The terms of reference of the AC are available at the websites of the Company and the Stock Exchange.

The AC held 3 meetings in 2012, in which the Committee reviewed with management the accounting principles and practices adopted by the Group and discussed internal controls and financial reporting matters so as to ensure that an effective control environment is maintained. The number of AC meeting held during the year and record of individual attendance of members, on a named basis, at meetings held during is set out in section headed "BOARD OF DIRECTORS" above in this report.

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

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

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

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

Accountability and Audit

Financial Reporting

The management provides such explanation and information to the Board and reports regularly to the Board on financial position and prospects of the business of the Company so as to enable the Board to make an informed assessment of the financial and other information put before the Board for approval.

The Directors acknowledge their responsibilities (as set out in the Report of the Independent Auditor) for preparing the financial statements for each financial period with a view to ensuring such financial statements give a true and fair view of the state of affairs of the Group and of the results and cash flows for that period. The Company's financial statements are prepared in accordance with all relevant statutory requirements and applicable accounting standards. The Directors are responsible for ensuring that appropriate accounting policies are selected and applied consistently; and that judgments and estimates made are prudent and reasonable. The Board was not aware of any material uncertainties relating to events or conditions that might cast significant doubt upon the Group's ability to continue as a going concern and the Board has prepared the financial statements on a going concern basis. The responsibility of the external auditor is to form an independent opinion, based on their audit, on those consolidated financial statements prepared by the Board and to report their opinion to the shareholders of the Company. The reporting responsibilities of KPMG are set out in the Report of the Independent Auditor on page 28 of this Annual Report.

Internal Control and Risk Management

The Board is responsible for the Company's internal control system and risk management procedures and for reviewing the effectiveness of the Company's internal control. The Board has conducted a review of, and is satisfied with the effectiveness of the system of internal controls of the Group. The review covered financial, operational and compliance controls and risk management functions. To further strengthen its control system, the Company has established an Internal Audit Department to perform independent evaluations and reporting of the adequacy and effectiveness of the Company's controls, information system and operations.

Auditors' Remuneration

Total auditors' remuneration in relation to audit and non-audit services provided to the Group amounted to HK$4 million (2011: HK$4 million), of which a sum of HK$3 million (2011: HK$3 million) was paid to KPMG. Details of the external auditor's fees are set out in note 5(c) to the consolidated financial statements of this Annual Report.

Company Secretary

Mr. Ho Te Hwai, Cecil was appointed as the company secretary of the Company in March 2005. The biographical details of Mr. Ho are set out under the section headed "Board of Directors and Senior Management" in this Annual Report.

According to the newly introduced Rule 3.29 of the Listing Rules, Mr. Ho has taken no less than 15 hours of relevant professional training during the financial year ended 31 December 2012.

Shareholders' Rights

The general meetings of the Company provide an opportunity for communication between the shareholders of the Company and the Board. The Company holds an annual general meeting ("AGM") every year, and may hold a general meeting known as an extraordinary general meeting ("EGM") whenever necessary.

– Right to convene EGM

Members of the Company holding at the date of deposit of the requisition not less than one-tenth of the paid-up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition sent to the Company's registered office at Clarendon House, 2 Church Street, Hamilton HM11, Bermuda (the "Registered Office") and its principal office at Units A – F, 35th Floor, Legend Tower, No. 7 Shing Yip Street, Kwun Tong, Kowloon, Hong Kong (the "Principal Office"), for the attention of the company secretary of the Company, to require an EGM to be called by the Board for the transaction of any business specified in such requisition; and such meeting shall be held within two months after the deposit of such requisition.

The written requisition must state the purposes of the general meeting, signed by the member(s) concerned and may consist of several documents in like form, each signed by one or more of those members.

If the requisition is in order, the company secretary of the Company will ask the Board to convene an EGM by serving sufficient notice in accordance with the statutory requirements to all the registered members. On the contrary, if the requisition is invalid, the members concerned will be advised of this outcome and accordingly, an EGM will not be convened as requested.

The notice period to be given to all the registered members for consideration of the proposal raised by the member(s) concerned at an EGM varies according to the nature of the proposal, as follows:

– At least 21 clear days' and not less than 10 clear business days' notice in writing if the proposal constitutes a special resolution of the Company, which cannot be amended other than to a mere clerical amendment to correct a patent error; and

– At least 14 clear days' and not less than 10 clear business days' notice in writing if the proposal constitutes an ordinary resolution of the Company.

– Right to put enquiries to the Board

Members of the Company do not generally have any right to put forward enquiries to the Board. There is no procedure set out in the Bermuda Companies Act 1981 or in the Bye-Laws of the Company available for any member to put forward an enquiry to the Board. A member of the Company may, of course, at any time write to the Board and it is up to the Board to decide whether or not to entertain any request made by a member of the Company.

Members of the Company who have enquires about the above procedures or have enquires to put to the Board may write to the company secretary of the Company at Units A – F, 35/F., Legend Tower, No. 7 Shing Yip Street, Kwun Tong, Kowloon, Hong Kong.

– Right to put forward proposals at shareholders' meetings

Member(s) of the Company holding (i) not less than one-twentieth of the total voting rights of all members having the right to vote at the shareholders' meeting; or (ii) not less than 100 members, can submit a written request stating the resolution intended to be moved at an AGM; or 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 a particular shareholders' meeting.

The written request/statements must be signed by the member(s) concern and deposited at the Registered Office and the Principal Office, for the attention of the company secretary of the Company, not less than six weeks before the AGM in the case of a requisition requiring notice of a resolution and not less than one week before the shareholders' meeting in the case of any other requisition.

If the written request is in order, the company secretary of the Company will ask the Board (i) to include the resolution in the agenda for an AGM; or (ii) to circulate the statement for the shareholders' meeting, provided that the member(s) concerned have deposited a sum of money reasonably determined by the Board sufficient to meet the Company's expenses in serving the notice of the resolution and/or circulating the statement submitted by the member(s) concerned in accordance with the statutory requirements to all the registered members. On the contrary, if the requisition is invalid or the member(s) concerned have failed to deposit sufficient money to meet the Company's expenses for the said purposes, the member(s) concerned will be advised of this outcome and accordingly, the proposed resolution will not be included in the agenda for the AGM; or the statement will not be circulated for the shareholders' meeting.

The procedures for shareholders of the Company to propose a person for election as a director is posted on the Company's website.

INVESTOR RELATIONS

The Company attaches great importance to communicate with shareholders of the Company and a number of means, including regular group meetings and plant tours, are used to promote greater understanding and dialogue with investment community. This also include the annual general meeting, the annual and interim reports, notices, announcements and circulars. Key executives maintain regular dialogue with institutional investors and analysts to keep them abreast of the Company's development.

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

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

During the year ended 31 December 2012, there had been no significant change in the Company's constitutional documents.

REPORT OF THE DIRECTORS

The Directors have pleasure in submitting herewith their report together with the audited financial statements of the Company and its subsidiaries (the "Group") for the year ended 31 December 2012.

PRINCIPAL ACTIVITIES

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

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

SUBSIDIARIES

Particulars of the Company's subsidiaries as at 31 December 2012 are set out in Note 15 to the financial statements.

FINANCIAL STATEMENTS

The results of the Group for the year ended 31 December 2012 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 29 to 77 of this Annual Report.

DIVIDEND

The Board has recommended declaring a final dividend of 20.0 HK cents (2011: 15.5 HK cents) per share as compared to interim dividend of 8.0 HK cents (2011: 11.0 HK cents) per share representing a total of 28.0 HK cents (2011: 26.5 HK cents) per share for the year ended 2012.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Monday, 27 May 2013 to Monday, 3 June 2013 (both days inclusive), during which period no transfer of shares will be registered. In order to be eligible to attend and vote at the forthcoming AGM (the "2013 AGM"), all transfers of shares accompanied by the relevant share certificates must be lodged with the Company's Hong Kong branch share registrar and transfer office, Computershare Hong Kong Investor Services Limited ("Computershare"), of Shops 1712-16, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on Friday, 24 May 2013.

Subject to the shareholders approving the recommended final dividend at the 2013 AGM of the Company, such dividend will be payable on or around Tuesday, 9 July 2013 to shareholders whose names appear on the register of members of the Company on Monday, 10 June 2013. To determine eligibility for the final dividend, the register of members of the Company will be closed from Friday, 7 June 2013 to Monday, 10 June 2013 (both days inclusive), during which period no shares can be registered. In order to qualify for the aforementioned final dividend, all transfers of shares accompanied by the relevant share certificates must be lodged with Computershare, of Shops 1712-16, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on Thursday, 6 June 2013.

SHARE CAPITAL

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

CHARITABLE DONATIONS

Charitable donations made by the Group during the year amounted to HK$144,000 (2011: HK$114,000).

FIXED ASSETS

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

RESERVES

Details of movements in reserves of the Company during the year are set out in Note 27(a) to the financial statements. Details of movements in reserves of the Group during the year are set out in the Consolidated Statement of Changes in Equity.

DIRECTORS

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

Executive Directors:

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

Independent Non-executive Directors:

Dr. Lo Wing Yan, William
Mr. Chau Shing Yim, David
Mr. Hou Ziqiang

In accordance with Bye-laws of the Company, Mr. Yuen Kin, Mr. Chau Shing Yim, David and Mr. Hou Ziqiang shall retire and being eligible, offer themselves for re-election at the forthcoming annual general meeting.

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

As at 31 December 2012, the interests of the Directors and chief executive of the Company and their associates in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO), as recorded in the register required to be maintained by the Company under Section 352 of the SFO or as required, pursuant to the Model Code to be notified to the Company and the Stock Exchange were as follows:

Name of Director	Capacity	Number of shares in the Company held	Approximate percentage of the total issued share capital of the Company
Ko Chun Shun, Johnson	Interest of controlled corporations	48,579,000 (Notes)	14.98

Notes:

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

(2) The above interests represented long positions.

Other than the aforesaid and as disclosed under the section headed "Share Option Schemes and Directors' and Chief Executives' Rights to Acquire Shares or Debentures" below, as at 31 December 2012, none of the Directors, chief executives or any of their associates had any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations as recorded in the register required to be kept under Section 352 of Part XV of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

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

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

A third share option scheme of the Company was adopted on 12 May 2003 as an incentive to the Participants. This scheme shall be valid and effective for a period of ten years ending on 11 May 2013, after which no further share options will be granted. The Company can grant share options to the Participants for a consideration of HK$1.00 for each grant payable by the Participants. The maximum number of shares in respect of which share options may be granted under the third share option scheme and any other schemes of the Company may not exceed 10% of the issued share capital of the Company at the date of approval of the third share option scheme. The maximum entitlement of each Participant in the total number of shares issued and to be issued upon exercise of share options granted under the third share option scheme and any other share option schemes of the Company in any 12-month period shall not exceed 1% of the total number of shares in issue. The third share option scheme limit was subsequently refreshed by a resolution passed at the annual general meeting held on 2 June 2011. The maximum number of share options that can be granted by the Company was refreshed to 32,342,220 share options.

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

As at the date of this Annual Report, the total number of share options that can be granted was 22,007,720, representing 6.78% of the issued share capital of the Company. The total number of shares available for issue under the share option schemes as at 31 December 2012 represents 7.67% (2011: 8.03%) of the issued share capital of the Company at that date. Further details of the share option schemes are set out in Note 26 to the financial statements.

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

Category	Date of grant	Number of share options at 1 January 2012	Number of share options granted during the year	Number of share options cancelled/ lapsed during the year	Number of share options exercised during the year	Number of share options at 31 December 2012	Exercisable period	Price per share to be paid on exercise of share options	Market value per share at date of grant of share options	Weighted average closing price of share options immediately before the dates on which the share options were exercised
Directors										
Ko Chun Shun, Johnson	19 December 2005	3,000,000	–	–	–	3,000,000	19 December 2005 to 18 December 2015	HK$5.73	HK$5.65	N/A
	24 June 2010	1,900,000	–	–	–	1,900,000	(Note 1)	HK$2.50	HK$2.50	N/A
Tsoi Tong Hoo, Tony	22 July 2005	3,000,000	–	–	–	3,000,000	22 July 2005 to 21 July 2015	HK$6.60	HK$6.55	N/A
	24 June 2010	1,900,000	–	–	–	1,900,000	(Note 1)	HK$2.50	HK$2.50	N/A
Yuen Kin	24 June 2010	800,000	–	–	–	800,000	(Note 1)	HK$2.50	HK$2.50	N/A
Ho Te Hwai, Cecil	19 December 2005	3,000,000	–	–	–	3,000,000	19 December 2005 to 18 December 2015	HK$5.73	HK$5.65	N/A
	24 June 2010	1,200,000	–	–	–	1,200,000	(Note 1)	HK$2.50	HK$2.50	N/A
Lo Wing Yan, William	24 June 2010	400,000	–	–	–	400,000	(Note 1)	HK$2.50	HK$2.50	N/A
Chau Shing Yim, David	24 June 2010	400,000	–	–	–	400,000	(Note 1)	HK$2.50	HK$2.50	N/A
Hou Ziqiang	24 June 2010	400,000	–	–	–	400,000	(Note 1)	HK$2.50	HK$2.50	N/A
Others										
Chang Chu Cheng (Note 2)	30 October 2002	1,000,000	–	(1,000,000) (Note 3)	–	0	31 October 2002 to 30 October 2012	HK$4.605	HK$4.35	N/A
	21 December 2004	300,000	–	–	–	300,000	21 December 2004 to 20 December 2014	HK$7.45	HK$7.45	N/A
	19 December 2005	3,000,000	–	–	–	3,000,000	19 December 2005 to 18 December 2015	HK$5.73	HK$5.65	N/A
Employees	13 September 2002	99,000	–	(99,000) (Note 3)	–	0	13 September 2002 to 12 September 2012	HK$3.905	HK$3.85	N/A
	6 October 2003	126,000	–	–	–	126,000	6 October 2003 to 5 October 2013	HK$7.35	HK$7.35	N/A
	20 December 2004	1,697,000	–	(3,000) (Note 3)	–	1,694,000	20 December 2004 to 19 December 2014	HK$7.50	HK$7.50	N/A
	24 June 2010	3,810,000	–	–	(50,000)	3,760,000	(Note 1)	HK$2.50	HK$2.50	HK$3.62
		26,032,000	–	(1,102,000)	(50,000)	24,880,000				

Notes:

(1) Exercisable period:

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

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

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

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

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

(2) Dr. Chang Chu Cheng ("Dr. Chang") retired as Director and became Honorary Chairman on 11 June 2007. The 3,300,000 share options held by Dr. Chang were retained until the end of the expiry of the respective exercisable periods of the share options, and reclassified from the category 'Directors' to 'Others'.

(3) The share options are lapsed.

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

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

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

As at 31 December 2012, other than the interests disclosed under the section headed "Directors' and Chief Executives' Interests and Short Positions in Shares, Underlying Shares and Debentures" in respect of Mr. Ko Chun Shun, Johnson and Rockstead Technology Limited, so far as is known to the Directors and chief executives of the Company, the following company had interests and short positions in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO:

Name	Capacity	Number of shares in the Company held	Approximate percentage of the total issued share capital of the Company
FMR LLC	Interest in controlled corporation	19,000,000 (Note)	5.86
Hof Hoorneman Bankiers N.V.	Interest in controlled corporation	16,437,415 (Note)	5.07

Note: All the above interests represented long positions.

DIRECTORS' SERVICE CONTRACTS

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

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

Independent Non-executive Directors are appointed for a period up to 31 December 2013 or such other date as agreed by the Independent Non-executive Directors and the Company.

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

DIRECTORS' INTERESTS IN CONTRACTS

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

MANAGEMENT CONTRACTS

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

PRE-EMPTIVE RIGHTS

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

BANK LOANS

Particulars of bank loans of the Group at 31 December 2012 are set out in Note 24 to the financial statements.

CAPITALISATION OF INTEREST

Particulars of interest expenses was capitalised by the Group during the year are set out in Note 5(a).

PROPERTIES

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

FIVE YEAR SUMMARY

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

SUFFICIENCY OF PUBLIC FLOAT

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

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2012, the five largest customers of the Group accounted for 22% of the Group's total turnover while the largest customer of the Group accounted for 8% of the Group's total turnover. In addition, for the year ended 31 December 2012, the five largest suppliers of the Group accounted for 41% of the Group's total purchases while the largest supplier of the Group accounted for 16% of the Group's total purchases.

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

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

Dr. Lo Wing Yan, William, the Independent Non-Executive Director of the Company, was appointed as an independent non-executive director of LZYE Group plc on 25 July 2012, which is listed on the London Stock Exchange.

Mr. Chau Shing Yim, David, the Independent Non-Executive Director of the Company, resigned as an independent non-executive director of Duoyuan Global Water Inc., which is listed on the New York Stock Exchange, in April 2012.

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

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2012.

CONFIRMATION OF INDEPENDENCE

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

AUDITORS

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

By order of the Board

Ko Chun Shun, Johnson
Chairman

Hong Kong, 22 March 2013

REPORT OF THE INDEPENDENT AUDITOR

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

We have audited the consolidated financial statements of Varitronix International Limited ("the Company") and its subsidiaries (together "the Group") set out on pages 29 to 77, which comprise the consolidated and company statements of financial position as at 31 December 2012, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

AUDITOR'S RESPONSIBILITY

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

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

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

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

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2012 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

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

22 March 2013

CONSOLIDATED INCOME STATEMENT

for the year ended 31 December 2012
(Expressed in Hong Kong dollars)

	Note	2012 $'000	2011 $'000
Turnover	3	**2,222,380**	2,131,410
Other operating income	4	**33,492**	23,483
Change in inventories of finished goods and work in progress		**(6,855)**	25,519
Raw materials and consumables used		**(1,416,377)**	(1,366,117)
Staff costs		**(332,940)**	(312,027)
Depreciation		**(86,528)**	(95,135)
Other operating expenses		**(229,642)**	(219,268)
Profit from operations		**183,530**	187,865
Finance costs	5(a)	**(2,096)**	(1,754)
Share of profits less losses of associates		**9,341**	8,932
Profit before taxation	5	**190,775**	195,043
Income tax	6(a)	**(19,940)**	(27,016)
Profit for the year		**170,835**	168,027
Attributable to:			
Equity shareholders of the Company	10	**170,835**	168,027
Non-controlling interests		**–**	–
Profit for the year		**170,835**	168,027
Earnings per share (in HK cents)	12		
Basic		**52.7 cents**	51.9 cents
Diluted		**52.4 cents**	51.3 cents

The notes on pages 35 to 77 form part of these financial statements. Details of dividends payable to equity shareholders of the Company attributable to the profit for the year are set out in note 27(b).

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 December 2012
(Expressed in Hong Kong dollars)

	Note	2012 $'000	2011 $'000
Profit for the year		**170,835**	168,027
Other comprehensive income for the year (after tax and reclassification adjustments):	11		
Foreign currency translation adjustments: net movement in the exchange reserve		**11,128**	15,167
Available-for-sale securities: net movement in the fair value reserve		**5,000**	(5,797)
Total comprehensive income for the year		**186,963**	177,397
Attributable to:			
Equity shareholders of the Company		**186,963**	177,397
Non-controlling interests		**–**	–
Total comprehensive income for the year		**186,963**	177,397

The notes on pages 35 to 77 form part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

at 31 December 2012
(Expressed in Hong Kong dollars)

	Note	2012 $'000	2011 $'000
Non-current assets			
Fixed assets	14		
– Property, plant and equipment		**504,459**	264,723
– Interest in leasehold land held for own use under operating leases		**13,667**	14,284
		518,126	279,007
Interest in associates	16	**113,917**	107,673
Loans receivable	17	**82,848**	71,918
Other financial assets	18	**131,719**	203,519
Deferred tax assets	25(b)	**479**	237
		847,089	662,354
Current assets			
Trading securities	19	**107,578**	138,516
Inventories	20	**367,450**	335,675
Trade and other receivables	21	**527,444**	437,611
Current tax recoverable	25(a)	**1,650**	2,845
Cash and cash equivalents	22	**464,178**	391,479
		1,468,300	1,306,126
Current liabilities			
Trade and other payables	23	**437,405**	363,751
Bank loans	24	**188,217**	153,511
Current tax payable	25(a)	**8,745**	12,910
		634,367	530,172
Net current assets		**833,933**	775,954
Total assets less current liabilities		**1,681,022**	1,438,308
Non-current liabilities			
Other payables		**1,116**	2,214
Bank loans	24	**129,304**	–
Deferred tax liabilities	25(b)	**1,534**	155
NET ASSETS		**1,549,068**	1,435,939
CAPITAL AND RESERVES			
Share capital	27(c)	**81,049**	81,036
Reserves		**1,467,775**	1,354,659
Total equity attributable to equity shareholders of the Company		**1,548,824**	1,435,695
Non-controlling interests		**244**	244
TOTAL EQUITY		**1,549,068**	1,435,939

Approved and authorised for issue by the board of directors on 22 March 2013

Tsoi Tong Hoo, Tony
Director

Ko Chun Shun, Johnson
Director

The notes on pages 35 to 77 form part of these financial statements.

STATEMENT OF FINANCIAL POSITION

at 31 December 2012
(Expressed in Hong Kong dollars)

	Note	2012 **$'000**	2011 $'000
Non-current assets			
Investments in subsidiaries	15	**685,398**	631,444
Loans receivable	17	**82,848**	71,918
Other financial assets	18	**77,979**	154,979
		846,225	858,341
Current assets			
Other receivables	21	**761**	739
Cash and cash equivalents	22	**2,027**	983
		2,788	1,722
Current liabilities			
Other payables	23	**6,731**	6,806
Net current liabilities		**(3,943)**	(5,084)
NET ASSETS		**842,282**	853,257
CAPITAL AND RESERVES			
Share capital	27(c)	**81,049**	81,036
Reserves	27(a)	**761,233**	772,221
TOTAL EQUITY		**842,282**	853,257

Approved and authorised for issue by the board of directors on 22 March 2013

Tsoi Tong Hoo, Tony
Director

Ko Chun Shun, Johnson
Director

The notes on pages 35 to 77 form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2012
(Expressed in Hong Kong dollars)

		Attributable to shareholders of the Company									
	Note	Share capital (note 27(c)) $'000	Share premium (note 27(d)(i)) $'000	Exchange reserve (note 27(d)(iii)) $'000	Fair value reserve (note 27(d)(iv)) $'000	Capital reserve (note 27(d)(v)) $'000	Other reserves (note 27(d)(vi)) $'000	Retained profits $'000	Total $'000	Non-controlling interests $'000	Total equity $'000
Balance at 1 January 2011		80,856	695,336	50,096	14,665	13,916	(32,665)	525,875	1,348,079	8,498	1,356,577
Changes in equity for 2011:											
Profit for the year		–	–	–	–	–	–	168,027	168,027	–	168,027
Other comprehensive income	11	–	–	15,167	(5,797)	–	–	–	9,370	–	9,370
Total comprehensive income		–	–	15,167	(5,797)	–	–	168,027	177,397	–	177,397
Recycle of reserve upon disposal of a subsidiary	4(b)	–	–	–	–	–	30,320	(30,320)	–	–	–
Derecognition of non-controlling interests upon disposal of a subsidiary	4(c)	–	–	–	–	–	–	8,254	8,254	(8,254)	–
Dividends approved in respect of the previous year	27(b)(ii)	–	–	–	–	–	–	(67,919)	(67,919)	–	(67,919)
Issue of shares upon exercise of share options	27(c)(ii)	180	2,246	–	–	(573)	–	–	1,853	–	1,853
Equity settled share-based transactions		–	–	–	–	3,687	–	–	3,687	–	3,687
Dividends declared in respect of the current year	27(b)(i)	–	–	–	–	–	–	(35,656)	(35,656)	–	(35,656)
Balance at 31 December 2011 and 1 January 2012		**81,036**	**697,582**	**65,263**	**8,868**	**17,030**	**(2,345)**	**568,261**	**1,435,695**	**244**	**1,435,939**
Changes in equity for 2012:											
Profit for the year		**–**	**–**	**–**	**–**	**–**	**–**	**170,835**	**170,835**	**–**	**170,835**
Other comprehensive income	11	**–**	**–**	**11,128**	**5,000**	**–**	**–**	**–**	**16,128**	**–**	**16,128**
Total comprehensive income		**–**	**–**	**11,128**	**5,000**	**–**	**–**	**170,835**	**186,963**	**–**	**186,963**
Transfer to surplus reserve		**–**	**–**	**–**	**–**	**–**	**4,510**	**(4,510)**	**–**	**–**	**–**
Dividends approved in respect of the previous year	27(b)(ii)	**–**	**–**	**–**	**–**	**–**	**–**	**(50,250)**	**(50,250)**	**–**	**(50,250)**
Issue of shares upon exercise of share options	27(c)(ii)	**13**	**157**	**–**	**–**	**(45)**	**–**	**–**	**125**	**–**	**125**
Equity settled share-based transactions		**–**	**–**	**–**	**–**	**2,227**	**–**	**–**	**2,227**	**–**	**2,227**
Dividends declared in respect of the current year	27(b)(i)	**–**	**–**	**–**	**–**	**–**	**–**	**(25,936)**	**(25,936)**	**–**	**(25,936)**
Balance at 31 December 2012		**81,049**	**697,739**	**76,391**	**13,868**	**19,212**	**2,165**	**658,400**	**1,548,824**	**244**	**1,549,068**

The notes on pages 35 to 77 form part of these financial statements.

CONSOLIDATED CASH FLOW STATEMENT

for the year ended 31 December 2012
(Expressed in Hong Kong dollars)

	Note	2012 $'000	2011 $'000
Operating activities			
Cash generated from operations	22(b)	**157,781**	159,400
Tax paid			
– Hong Kong Profits Tax paid		**(7,188)**	(24,838)
– People's Republic of China ("PRC") income taxes paid		**(8,087)**	(15,225)
– Tax paid in respect of jurisdictions outside Hong Kong and the PRC		**(6,498)**	(10,737)
Net cash generated from operating activities		**136,008**	108,600
Investing activities			
Proceeds from disposal of fixed assets		**96,656**	6,953
Payment for the purchase of fixed assets		**(295,188)**	(43,204)
Payment for the purchase of held-to-maturity securities		**–**	(23,800)
Proceeds from sale of trading securities		**41,623**	28,216
Payment for the purchase of trading securities		**(9,537)**	(68,876)
Proceeds from repayment of loans receivable		**–**	21,718
Proceeds from disposal of a subsidiary		**–**	38,750
Dividends received from investments in trading and available-for-sale securities		**1,165**	12,522
Dividends received from associates		**4,117**	2,303
Interest received		**5,931**	5,310
Net cash used in investing activities		**(155,233)**	(20,108)

	Note	2012 $'000	2011 $'000
Financing activities			
Issue of shares upon exercise of share options	27(c)(ii)	**125**	1,853
Proceeds from new bank loans		**281,348**	420,106
Repayment of bank loans		**(109,652)**	(445,804)
Interest paid		**(5,694)**	(1,754)
Dividends paid		**(76,186)**	(103,575)
Net cash generated from/(used in) financing activities		**89,941**	(129,174)
Net increase/(decrease) in cash and cash equivalents		**70,716**	(40,682)
Cash and cash equivalents at 1 January		**391,479**	431,331
Effect of foreign exchange rates changes		**1,983**	830
Cash and cash equivalents at 31 December	22(a)	**464,178**	391,479

The notes on pages 35 to 77 form part of these financial statements.

1. SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

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

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Group and the Company. Note 1(c) provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these financial statements.

(b) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31 December 2012 comprise the Company and its subsidiaries (together referred to as the "Group") and the Group's interest in associates.

The measurement basis used in the preparation of the financial statements is the historical cost basis except that financial instruments classified as available-for-sale or as trading securities and derivative financial instruments are stated at their fair value (see notes 1(g) and (h)).

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

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

Judgements made by management in the application of HKFRSs that have a significant effect on the financial statements and major sources of estimation uncertainty are discussed in note 2.

(c) Changes in accounting policies

The HKICPA has issued several amendments to HKFRSs that are first effective for the current accounting period of the Group and the Company. Of these, none of the developments are relevant to the Group's financial statements.

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

(d) Subsidiaries and non-controlling interests

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

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

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

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(d) Subsidiaries and non-controlling interests (continued)

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

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

(e) Associates

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

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

When the Group's share of losses exceeds its interest in the associate, the Group's interest is reduced to nil and recognition of further losses is discontinued.

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

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

(f) Goodwill

Goodwill represents the excess of

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

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

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

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

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

(g) Other investments in debt and equity securities

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

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

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

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(g) Other investments in debt and equity securities (continued)

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

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

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

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

(h) Derivative financial instruments

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

(i) Property, plant and equipment

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

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

The cost of self-constructed items of property, plant and equipment includes the cost of materials, direct labour, the initial estimate, where relevant, of the costs of dismantling and removing the items and restoring the site on which they are located, and an appropriate proportion of production overheads and borrowing costs (see note 1(x)).

Construction in progress is stated at cost, which comprises construction expenditure, including interest costs on related borrowed funds, to the extent that they are regarded as an adjustment to interest costs during the construction period, and the cost of related equipment. Capitalisation of these costs ceases and the construction in progress is transferred to relevant categories of fixed assets when the asset is substantially ready for its intended use, notwithstanding any delays in the issue of the relevant commissioning certificate by the appropriate authorities. No depreciation is provided in respect of construction in progress.

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

–	Land and buildings	40 years
–	Plant and machinery	2 to 7 years
–	Tools and equipment	2 to 5 years
–	Others	2 to 5 years

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

(j) Leased assets

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

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(j) Leased assets (continued)

(i) Classification of assets leased to the Group

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

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

(ii) Operating lease charges

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

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

(k) Impairment of assets

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

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

– significant financial difficulty of the debtor;

– a breach of contract, such as a default or delinquency in interest or principal payments;

– it becoming probable that the debtor will enter bankruptcy or other financial reorganisation;

– significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; and

– a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

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

– For investments in subsidiaries and associates (including those recognised using the equity method (see note 1(e))), the impairment loss is measured by comparing the recoverable amount of the investment with its carrying amount in accordance with note 1(k)(ii). The impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount in accordance with note 1(k)(ii).

– For unquoted equity securities carried at cost, the impairment loss is measured as the difference between the carrying amount of the financial asset and the estimated future cash flows, discounted at the current market rate of return for a similar financial asset, where the effect of discounting is material. Impairment losses for equity securities at cost are not reversed.

– For trade and other receivables and other financial assets carried at amortised cost, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of the asset), where the effect of discounting is material. This assessment is made collectively where financial assets share similar risk characteristics, such as similar past due status, and have not been individually assessed as impaired. Future cash flows for financial assets which are assessed for impairment collectively are based on historical loss experience for assets with credit risk characteristics similar to the collective group.

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(k) Impairment of assets (continued)

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

If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

– For available-for-sale securities, the cumulative loss that had been recognised in the fair value reserve is reclassified to profit or loss. The amount of the cumulative loss that is recognised in profit or loss is the difference between the acquisition cost (net of any principal repayment and amortisation) and current fair value, less any impairment loss on that asset previously recognised in profit or loss.

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

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

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

(ii) Impairment of other assets

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

– property, plant and equipment;

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

– goodwill.

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

– *Calculation of recoverable amount*

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

– *Recognition of impairment losses*

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

– *Reversal of impairment losses*

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

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

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(k) Impairment of assets (continued)

(iii) Interim financial reporting and impairment

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

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

(l) Inventories

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

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

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

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

(m) Trade and other receivables

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

(n) Loans receivable

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

(o) Interest-bearing borrowings

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

(p) Trade and other payables

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

(q) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition.

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(r) Employee benefits

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

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

(ii) Share-based payments

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

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

(iii) Termination benefits

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

(s) Income tax

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

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

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

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

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

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(s) Income tax (continued)

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

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

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

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

– in the case of current tax assets and liabilities, the Company or the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or

– in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:

  – the same taxable entity; or

  – different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

(t) Financial guarantees issued, provisions and contingent liabilities

(i) Financial guarantees issued

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

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

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

(ii) Other provisions and contingent liabilities

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

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

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(u) Revenue recognition

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

(i) Sale of goods

Revenue is recognised when goods are delivered at the customers' premises which is taken to be the point in time when the customer has accepted the goods and the related risks and rewards of ownership. Revenue excludes value added tax or other sales taxes and is after deduction of returns and any trade discounts.

(ii) Dividends

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

(iii) Interest income

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

(v) Research and development

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

(w) Translation of foreign currencies

Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the end of the reporting period. Exchange gains and losses are recognised in profit or loss.

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

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

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

(x) Borrowing costs

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

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

(y) Related parties

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

- (i) has control or joint control over the Group;
- (ii) has significant influence over the Group; or
- (iii) is a member of the key management personnel of the Group or the Group's parent.

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

- (i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
- (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(y) Related parties (continued)

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

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

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

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

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

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

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

(z) Segment reporting

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

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

2. ACCOUNTING JUDGEMENT AND ESTIMATES

Notes 9, 18, 26 and 28(g) contain information about assumptions and their risk factors relating to valuation of other non-current financial assets, fair value of share options granted and financial instruments. Other key sources of estimation uncertainty are as follows:

(a) Impairment of assets

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

(b) Write-down of inventories

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

(c) Depreciation

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

(d) Recognition of deferred tax assets

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

3. TURNOVER

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

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

The Group's customer base is diversified and no customer with transactions which exceeded 10% of the Group's revenues (2011: Nil). In 2012 revenues from sales to the largest customer in terms of sales amount, including sales to entities which are known to the Group to be under common control with such customer, amounted to approximately $186,439,000 (2011: $173,309,000). Details of concentrations of credit risk arising from this customer are set out in note 28(a).

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

4. OTHER OPERATING INCOME

	2012 $'000	2011 $'000
Dividend income from listed equity securities	**1,165**	12,522
Interest income from listed debt securities	**1,880**	1,621
Interest income from non-listed debt securities	**7,343**	6,318
Other interest income	**1,361**	1,378
Net gain/(loss) on disposal of fixed assets (note (a))	**87,820**	(992)
Reversal of liabilities recognised in respect of a disposal of a subsidiary (note (b))	**–**	83,860
Net gain on disposal of subsidiaries (note (c))	**–**	36,689
Impairment loss on non-listed available-for-sale equity securities (note 9)	**(77,000)**	–
Net realised and unrealised losses on trading securities	**(9,184)**	(135,000)
Net exchange gain/(loss)	**18,678**	(4,848)
Other income	**1,429**	21,935
	33,492	23,483

(a) Net gain/(loss) on disposal of fixed assets

During the year ended 31 December 2012, the Group disposed of certain properties to independent third parties at a consideration of $95,356,000 which resulted in a net gain of $86,918,000 included in net gain/(loss) on disposal of fixed assets.

(b) Reversal of liabilities recognised in prior years in respect of a disposal of a subsidiary

In August 2011, the liquidation process of a subsidiary of the Group, Varitronix Pengyuan Electronics Limited ("Varitronix Pengyuan"), had been concluded upon a declaration of bankruptcy under the relevant legislation. There were no claims made against the Group in the capacity of the then shareholders of Varitronix Pengyuan. The Company's directors (the "Directors") considered that upon the liquidation of Varitronix Pengyuan, there were no obligations for the Group to settle the liabilities borne by Varitronix Pengyuan amounted to $83,860,000. Accordingly, such liabilities were derecognised and a reversal was credited to the profit or loss during the year ended 31 December 2011.

Upon the conclusion of liquidation process of Varitronix Pengyuan, the other reserve amounted to $30,320,000, representing the consideration paid in excess of the net assets attributable to the non-controlling interests at the time of acquisition of such interests in Varitronix Pengyuan, had been transferred to retained earnings.

(c) Net gain on disposal of subsidiaries

During the year ended 31 December 2011, the Group disposed of its 100% equity interest in a subsidiary which held certain non-listed equity securities (see note 18) at a consideration of $38,750,000 which resulted in a net gain of $37,385,000 in the profit or loss. The Group also disposed of its equity interest in certain subsidiaries which were dormant with insignificant assets and liabilities. The disposals were made with a resultant loss on disposal amounting to $696,000. Upon the completion of this disposal, the Group obtained a waiver from the non-controlling shareholders in respect of servicing their interests in the net assets of the disposed subsidiary. Such waiver was related to net assets amounted to $8,254,000 and transferred from non-controlling interests to retained earnings directly within equity.

5. PROFIT BEFORE TAXATION

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

	2012 $'000	2011 $'000
(a) Finance costs		
Interest on bank advances and other borrowings wholly repayable within five years	**5,694**	1,754
Less: interest expense capitalised into construction in progress*	**(3,598)**	–
	2,096	1,754

* The borrowing costs have been capitalised at a rate of 1.49% – 1.58% per annum (2011: Nil).

	2012 $'000	2011 $'000
(b) Impairment losses recognised/(written-back)		
Trade and other receivables in respect of:		
– allowance for doubtful debts	**590**	1,204
– allowance for sales return provision	**(92)**	2,733

	2012 $'000	2011 $'000
(c) Other items		
Cost of inventories (note 20(b))	**1,751,141**	1,631,132
Auditors' remuneration:		
– audit services fees	**3,220**	3,925
– non-audit services fees	**300**	–
Research and development costs	**164,739**	128,722
Operating lease charges: minimum lease payments – hire of assets (including property rentals)	**3,036**	2,794
Contributions to defined contribution retirement plans	**17,652**	17,373
Equity-settled share-based payment expenses (note 26)	**2,227**	3,687

6. INCOME TAX IN THE CONSOLIDATED INCOME STATEMENT

(a) Taxation in the consolidated income statement represents:

	2012 $'000	2011 $'000
Current tax – Hong Kong Profits Tax		
Provision for the year	**7,113**	8,264
Over-provision in respect of prior years	**(5,263)**	(3,345)
	1,850	4,919
Current tax – the PRC income taxes		
Provision for the year	**10,477**	15,230
Over-provision in respect of prior years	**(1,656)**	(4)
	8,821	15,226
Current tax – Jurisdictions outside Hong Kong and the PRC		
Provision for the year	**8,135**	10,092
Over-provision in respect of prior years	**(3)**	(229)
	8,132	9,863
Deferred tax		
Origination and reversal of temporary differences (note 25(b))	**1,137**	(2,992)
	19,940	27,016

(i) Hong Kong Profits Tax

The provision for Hong Kong Profits Tax for 2012 is calculated at 16.5% (2011: 16.5%) of the estimated assessable profits for the year.

(ii) PRC income taxes

According to the Corporate Income Tax Law of the PRC with effective on 1 January 2008, the standard corporate income tax rate for enterprises in the PRC is 25%.

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

(a) Taxation in the consolidated income statement represents: (continued)

(ii) PRC income taxes (continued)

Varitronix (Heyuan) Display Technology Limited ("Varitronix Heyuan"), a subsidiary of the Group, had been granted a tax holiday where it is fully exempted from the PRC Corporate Income Tax for two years from its first profit-making year of operations and then subject to a reduced tax rate at 50% of the applicable income tax rate for the following three years. Varitronix Heyuan has its first profit-making year for tax purpose in the calendar year ended 31 December 2008 and the applicable tax rate for the year ended 31 December 2012 is 12.5% (2011: 12.5%).

On 22 November 2012, Varitronix Heyuan was designated as high and new technology enterprise, which qualified for a reduced Corporate Income Tax rate of 15%, and such status is valid for the three years ending 31 December 2015.

Withholding tax is levied on dividend distributions arising from profit of the Group's subsidiaries operating in the PRC earned after 1 January 2008 based on an applicable tax rate at 5%.

(iii) Jurisdictions outside Hong Kong and the PRC

Taxation for subsidiaries with operations outside Hong Kong and the PRC is charged at the appropriate current rates of taxation ruling in the relevant countries.

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

	2012 $'000	2011 $'000
Profit before taxation	**190,775**	195,043
Notional tax expense on profit before taxation, calculated at the rates applicable to profits in the tax jurisdictions concerned	**28,345**	36,582
Tax effect of non-deductible expenses	**14,590**	4,456
Tax effect of non-taxable income	**(11,471)**	(9,532)
Tax effect of prior year's tax losses utilised this year	**(196)**	(36)
Tax effect of tax rates differentials in respect of tax expenses for jurisdictions outside local operations	**(4,668)**	–
Tax effect of unused tax losses not recognised	**262**	782
Reversal of tax liabilities in respect of unremitted earnings in relation to prior years	**–**	(1,658)
Over-provisions in respect of prior years	**(6,922)**	(3,578)
Actual tax expense	**19,940**	27,016

7. DIRECTORS' REMUNERATION

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

Year ended 31 December 2011

	Directors' fees $'000	Salaries, allowances and benefits in kind $'000	Discretionary bonuses $'000	Retirement scheme contributions $'000	Share-based payments $'000	Total $'000
Executive Directors						
Ko Chun Shun, Johnson	–	2,811	400	120	621	3,952
Tsoi Tong Hoo, Tony	–	5,400	4,000	240	621	10,261
Ho Te Hwai, Cecil	–	1,540	300	12	392	2,244
Yuen Kin	–	2,160	300	12	261	2,733
Non-executive Directors						
Dr. Lo Wing Yan, William	200	–	–	–	131	331
Hou Ziqiang	200	–	–	–	131	331
Chau Shing Yim, David	200	–	–	–	131	331
Total	600	11,911	5,000	384	2,288	20,183

Year ended 31 December 2012

	Directors' fees $'000	**Salaries, allowances and benefits in kind $'000**	**Discretionary bonuses $'000**	**Retirement scheme contributions $'000**	**Share-based payments $'000**	**Total $'000**
Executive Directors						
Ko Chun Shun, Johnson	**–**	**2,779**	**400**	**120**	**370**	**3,669**
Tsoi Tong Hoo, Tony	**–**	**5,200**	**4,000**	**240**	**370**	**9,810**
Ho Te Hwai, Cecil	**–**	**1,440**	**300**	**12**	**233**	**1,985**
Yuen Kin	**–**	**2,080**	**300**	**14**	**156**	**2,550**
Non-executive Directors						
Dr. Lo Wing Yan, William	**200**	**–**	**–**	**–**	**78**	**278**
Hou Ziqiang	**200**	**–**	**–**	**–**	**78**	**278**
Chau Shing Yim, David	**200**	**–**	**–**	**–**	**78**	**278**
Total	**600**	**11,499**	**5,000**	**386**	**1,363**	**18,848**

8. INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, four (2011: four) are Directors, whose emoluments are disclosed in note 7. The aggregate of the emoluments in respect of the other one (2011: one) individual is as follows:

	2012 $'000	2011 $'000
Salaries and allowances	**1,831**	1,593
Retirement scheme contributions	**96**	92
	1,927	1,685

9. IMPAIRMENT LOSS ON NON-LISTED AVAILABLE-FOR-SALE EQUITY SECURITIES

During the year ended 31 December 2012, the non-listed available-for-sale equity securities, which is carried at cost, represents 10.42% equity interest (the "Investment") in a private company (the "Investee") held by the Group. When preparing the Company's financial statements, the Directors became aware that the Investee incurred operating loss and failed to meet the business forecast for the period as a result of the adverse operating environment. The Directors considered that the existence of the above conditions indicated that the Investment might be impaired. In view of this, the Directors have engaged a professional appraiser to estimate the future cash flows based on the revised business plan of the Investee, discounted at the current market rate of return for a similar financial asset (the "Estimate Future Cash Flows"). After comparing the carrying amount of the Investment and the Estimated Future Cash Flows of $78,000,000, the Directors determined that it is appropriate to recognise an impairment loss of $77,000,000 (note 4). The impairment on other non-current financial assets carried at cost is not reversed.

The Estimated Future Cash Flows are based on the Directors' best estimates and are measured based on the following assumptions:

Discount rate	15.9%
Terminal growth rate	1.0%

10. PROFIT ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF THE COMPANY

The consolidated profit attributable to equity shareholders of the Company includes a loss of $62,141,000 (2011: profit of $338,000) which has been dealt with in the financial statements of the Company.

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

	2012 $'000	2011 $'000
Amount of consolidated profit attributable to equity shareholders dealt with in the Company's financial statements	**(62,141)**	338
Dividends from subsidiaries attributable to the profits of subsidiaries, approved and paid during the year	**125,000**	86,000
Company's profit for the year (note 27(a))	**62,859**	86,338

11. OTHER COMPREHENSIVE INCOME

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

Components of other comprehensive income including reclassification adjustments are as follows:

	2012 $'000	2011 $'000
Foreign currency translation adjustments:		
Exchange differences on translation of financial statements of operations outside Hong Kong	**11,128**	15,334
Transfer to profit or loss upon disposal of operations outside Hong Kong	**–**	(167)
Net movement in the exchange reserve during the year recognised in other comprehensive income	**11,128**	15,167
Available-for-sale securities:		
Changes in fair value recognised during the year	**5,000**	(5,797)

12. EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share is based on the consolidated profit attributable to equity shareholders of the Company of $170,835,000 (2011: $168,027,000) and the weighted average number of shares of 324,183,560 shares (2011: 323,713,973 shares) in issue during the year, calculated as follows:

Weighted average number of ordinary shares

	2012	2011
Issued ordinary shares at 1 January	**324,145,204**	323,422,204
Effect of share options exercised (note 27(c)(ii))	**38,356**	291,769
Weighted average number of ordinary shares at 31 December	**324,183,560**	323,713,973

(b) Diluted earnings per share

The calculation of diluted earnings per share is based on the consolidated profit attributable to equity shareholders of the Company of $170,835,000 (2011: $168,027,000) and the weighted average number of shares of 325,748,687 shares (2011: 327,234,423 shares), calculated as follows:

Weighted average number of ordinary shares (diluted)

	2012	2011
Weighted average number of ordinary shares at 31 December	**324,183,560**	323,713,973
Effect of deemed issue of shares under the Company's share option scheme for nil consideration (note 26)	**1,565,127**	3,520,450
Weighted average number of ordinary shares (diluted) at 31 December	**325,748,687**	327,234,423

13. SEGMENT REPORTING

(a) Operating segment results

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

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

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

(b) Geographic information

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

(i) Group's revenues from external customers

	2012 $'000	2011 $'000
Europe	**857,730**	886,000
Hong Kong and the PRC (places of domicile)	**674,728**	566,542
America	**290,195**	264,081
Korea	**256,442**	278,384
Others	**143,285**	136,403
Consolidated turnover	**2,222,380**	2,131,410

13. SEGMENT REPORTING (CONTINUED)

(b) Geographic information (continued)

(i) Group's revenues from external customers (continued)

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

	2012 $'000	2011 $'000
France	**192,451**	224,786
Germany	**116,795**	149,958
United Kingdom	**91,375**	65,484
Italy	**73,212**	71,288
Other European countries	**383,897**	374,484
	857,730	886,000

(ii) Group's specified non-current assets

	2012 $'000	2011 $'000
Hong Kong and the PRC (place of domicile)	**514,910**	275,649
Germany	**109,481**	103,935
Korea	**4,436**	3,738
Others	**3,216**	3,358
	632,043	386,680

14. FIXED ASSETS

The Group

	Land and buildings held for own use $'000	Construction in progress $'000	Plant, machinery, tools and equipment $'000	Others $'000	Sub-total $'000	Interest in leasehold land held for own use under operating leases $'000	Total $'000
Cost:							
At 1 January 2011	92,444	–	855,253	167,080	1,114,777	11,258	1,126,035
Exchange adjustments	2,539	–	19,333	3,559	25,431	318	25,749
Additions	–	–	28,499	5,557	34,056	9,148	43,204
Disposals	–	–	(34,945)	(6,054)	(40,999)	–	(40,999)
At 31 December 2011	94,983	–	868,140	170,142	1,133,265	20,724	1,153,989
At 1 January 2012	**94,983**	**–**	**868,140**	**170,142**	**1,133,265**	**20,724**	**1,153,989**
Exchange adjustments	**638**	**–**	**4,087**	**831**	**5,556**	**138**	**5,694**
Additions	**1,809**	**73,655**	**254,332**	**6,786**	**336,582**	**–**	**336,582**
Disposals	**(15,315)**	**–**	**(18,486)**	**(30,599)**	**(64,400)**	**–**	**(64,400)**
At 31 December 2012	**82,115**	**73,655**	**1,108,073**	**147,160**	**1,411,003**	**20,862**	**1,431,865**

14. FIXED ASSETS (CONTINUED)

The Group (continued)

	Land and buildings held for own use $'000	Construction in progress $'000	Plant, machinery, tools and equipment $'000	Others $'000	Sub-total $'000	Interest in leasehold land held for own use under operating leases $'000	Total $'000
Accumulated amortisation and depreciation:							
At 1 January 2011	28,270	–	634,949	136,117	799,336	5,670	805,006
Exchange adjustments	635	–	11,389	2,688	14,712	94	14,806
Charge for the year	2,893	–	82,930	8,636	94,459	676	95,135
Written back on disposals	–	–	(33,949)	(6,016)	(39,965)	–	(39,965)
At 31 December 2011	31,798	–	695,319	141,425	868,542	6,440	874,982
At 1 January 2012	**31,798**	**–**	**695,319**	**141,425**	**868,542**	**6,440**	**874,982**
Exchange adjustments	**198**	**–**	**6,417**	**1,156**	**7,771**	**22**	**7,793**
Charge for the year	**2,916**	**–**	**74,449**	**8,430**	**85,795**	**733**	**86,528**
Written back on disposals	**(7,885)**	**–**	**(17,358)**	**(30,321)**	**(55,564)**	**–**	**(55,564)**
At 31 December 2012	**27,027**	**–**	**758,827**	**120,690**	**906,544**	**7,195**	**913,739**
Net book value:							
At 31 December 2012	**55,088**	**73,655**	**349,246**	**26,470**	**504,459**	**13,667**	**518,126**
At 31 December 2011	63,185	–	172,821	28,717	264,723	14,284	279,007

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

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

	2012 $'000	2011 $'000
In Hong Kong		
– medium-term leases	**275**	7,442
Outside Hong Kong		
– freehold	**7,641**	7,941
– medium-term leases	**60,839**	62,086
	68,480	70,027
	68,755	77,469
Representing:		
Land and buildings held for own use	**55,088**	63,185
Interest in leasehold land held for own use under operating leases	**13,667**	14,284
	68,755	77,469

15. INVESTMENTS IN SUBSIDIARIES

	The Company 2012 $'000	2011 $'000
Non-listed shares, at cost	**101,453**	101,453
Amounts due from subsidiaries	**583,945**	529,991
	685,398	631,444

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

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

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

			Proportion of ownership interest			
Name of company	**Place of incorporation/ operation**	**Particulars of issued share capital/ registered capital**	**Group's effective interest**	**Held by the Company**	**Held by a subsidiary**	**Principal activities**
In Achieve Investments Limited	British Virgin Islands/ Hong Kong	1,000 ordinary shares of US$1 each	100%	–	100%	Holding of investment securities
Link Score Investment Limited	Hong Kong	100 ordinary shares of $1 each	100%	–	100%	Investment holding
Polysources Properties Limited	Hong Kong	2 ordinary shares of $100 each 154 non-voting deferred ordinary shares of $100 each	100%	–	100%	Property holding
Starel Trading Limited	Republic of Cyprus/ United Kingdom	1,000 shares of €1.71 each	100%	–	100%	Property holding
Varitronix Limited	Hong Kong	2 ordinary shares of $1,000 each 1,848 non-voting deferred ordinary shares of $1,000 each	100%	–	100%	Design and sale of liquid crystal displays and related products
Varitronix (B.V.I.) Limited	British Virgin Islands/ Hong Kong	18,480 ordinary shares of US$1 each	100%	100%	–	Investment holding

(Expressed in Hong Kong dollars unless otherwise indicated)

15. INVESTMENTS IN SUBSIDIARIES (CONTINUED)

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

			Proportion of ownership interest			
Name of company	Place of incorporation/ operation	Particulars of issued share capital/ registered capital	Group's effective interest	Held by the Company	Held by a subsidiary	Principal activities
Varitronix Finance Limited	British Virgin Islands/ Hong Kong	100 ordinary shares of US$1 each	100%	–	100%	Provision of financial co-ordination services for group companies and holding of investment securities
Varitronix France SAS	France	2,500 ordinary shares of €15.25 each	100%	–	100%	Marketing and sales consultants
Varitronix GmbH	Germany	100,000 shares of €0.51 each	100%	–	100%	Marketing and sales consultants
# Varitronix (Heyuan) Display Technology Limited	The People's Republic of China	Paid-up registered capital RMB632,634,987	100%	–	100%	Manufacture and sale of liquid crystal displays and related products
Varitronix Investment Limited	British Virgin Islands/ Hong Kong	5,000 ordinary shares of US$1 each	100%	–	100%	Holding of investment securities
Varitronix Italy s.r.l.	Italy	12,000 ordinary shares of €1 each	100%	–	100%	Marketing and sales consultants
Varitronix (Macao Commercial Offshore) Limited	Macau	Registered capital MOP100,000	100%	–	100%	Trading of electronic components
Varitronix (Switzerland) GmbH	Switzerland	Registered capital CHF30,000	100%	–	100%	Marketing and sales consultants
Varitronix (U.K.) Limited	United Kingdom	100 ordinary shares of GBP10 each	100%	–	100%	Marketing and sales consultants
VL Electronics, Inc.	United States	5,000 common stock of US$10 each	100%	–	100%	Marketing and sales consultants

# Name of company	Type of legal entity
Varitronix (Heyuan) Display Technology Limited	Wholly owned foreign enterprise

16. INTEREST IN ASSOCIATES

	The Group 2012 $'000	2011 $'000
Share of net assets	**112,625**	106,487
Amount due from an associate	**1,292**	1,186
	113,917	107,673

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

(a) Particulars of the associates

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

Name of associate	Place of incorporation and operation	Particulars of issued share capital/ registered capital	Attributable indirect equity interest % held	Principal activity
New On Technology Company Limited	Korea	40,000 ordinary shares of KRW5,000 each	50%	Trading of electronic components
Data Modul AG* ("Data Modul")	Germany	3,417,238 common stock of no-par value bearer shares	20%	Manufacturing of complete flat display monitors in liquid crystal displays and plasma technology for the industrial and professional areas

* Data Modul's shares are listed on the Frankfurt Stock Exchange. The market price of Data Modul's shares as at 31 December 2012 was Euro 17.00 (2011: Euro 11.50) per share. The market value of the Group's effective interest in Data Modul as at 31 December 2012 is Euro 11,989,000 (2011: Euro 8,110,000) (equivalent to $122,767,000 (2011: $81,589,000)).

(b) Summary of financial information on associates

	Assets $'000	Liabilities $'000	Equity $'000	Revenues $'000	Profits $'000
2012					
100 percent	**889,877**	**(336,184)**	**553,693**	**1,424,860**	**55,581**
Group's effective interest	**180,726**	**(68,101)**	**112,625**	**292,213**	**9,341**
2011					
100 percent	857,813	(333,034)	524,779	1,181,443	46,185
Group's effective interest	173,987	(67,500)	106,487	240,517	8,932

17. LOANS RECEIVABLE

Loans receivable represent loans which are unsecured, interest bearing at 4% per annum and are originally repayable in May 2013. The Company has been in progress of negotiation with the borrower for a refinancing arrangement which is expected to defer the repayment date beyond twelve months from 31 December 2012. The Directors consider that these loans will be recoverable in full.

The loans receivable are repayable as follows:

	The Group		The Company	
	2012	2011	**2012**	2011
	$'000	$'000	**$'000**	$'000
After 1 year but within 5 years	**82,848**	71,918	**82,848**	71,918

18. OTHER NON-CURRENT FINANCIAL ASSETS

	The Group		The Company	
	2012	2011	**2012**	2011
	$'000	$'000	**$'000**	$'000
Available-for-sale debt securities				
Listed outside Hong Kong, carried at fair value	**8,712**	7,983	**–**	–
Available-for-sale mutual funds				
Non-listed, carried at fair value	**6,556**	5,209	**–**	–
Available-for-sale equity securities				
Listed in Hong Kong	**13,672**	10,748	**–**	–
Non-listed, carried at cost	**77,979**	154,979	**77,979**	154,979
	91,651	165,727	**77,979**	154,979
Held-to-maturity debt securities				
Listed outside Hong Kong, carried at amortised cost	**24,800**	24,600	**–**	–
Total other non-current financial assets	**131,719**	203,519	**77,979**	154,979

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

Movements in other non-current financial assets are as follows:

	The Group		The Company	
	2012	2011	**2012**	2011
	$'000	$'000	**$'000**	$'000
At 1 January	**203,519**	186,083	**154,979**	154,979
Additions	**–**	23,800	**–**	–
Exchange adjustments	**200**	798	**–**	–
Disposals	**–**	(1,365)	**–**	–
Impairment loss recognised	**(77,000)**	–	**(77,000)**	–
Revaluation surplus/(deficit)	**5,000**	(5,797)	**–**	–
Total	**131,719**	203,519	**77,979**	154,979

18. OTHER NON-CURRENT FINANCIAL ASSETS (CONTINUED)

During the year ended 31 December 2011, the Group entered into a share transfer agreement with an independent third party under which the Group disposed of its entire 100% equity interest in a subsidiary which held a non-listed equity investment carried at cost. The transaction was completed on 28 December 2011 and the disposed subsidiary had ceased to be a subsidiary of the Group since then. The resulted gain on disposal of $37,385,000 (note 4(c)), which mainly represented the accumulated fair value gain of the non-listed equity investment held by the disposed subsidiary, was recognised in profit or loss during the year ended 31 December 2011.

19. TRADING SECURITIES

	The Group	
	2012	2011
	$'000	$'000
Listed debt securities at fair value		
– outside Hong Kong	**3,859**	2,885
Listed equity securities at fair value		
– in Hong Kong	**103,719**	123,868
– outside Hong Kong	**–**	11,763
	103,719	135,631
Total	**107,578**	138,516

20. INVENTORIES

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

	The Group	
	2012	2011
	$'000	$'000
Raw materials	**180,130**	141,500
Work in progress	**79,930**	94,716
Finished goods	**107,390**	99,459
	367,450	335,675

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

	The Group	
	2012	2011
	$'000	$'000
Carrying amount of inventories sold	**1,774,555**	1,636,275
Write-down of inventories	**1,016**	244
Reversal of write-down of inventories	**(24,430)**	(5,387)
	1,751,141	1,631,132

The reversal of write-down of inventories made in prior years is due to an increase in the estimated net realisable value of certain thin-film transistor liquid crystal displays as a result of changes in customer preferences.

21. TRADE AND OTHER RECEIVABLES

	The Group 2012 $'000	The Group 2011 $'000	The Company 2012 $'000	The Company 2011 $'000
Trade debtors and bills receivable	**472,337**	416,018	**–**	–
Less: Allowance for doubtful debts	**(2,475)**	(1,885)	**–**	–
Allowance for sales returns	**(5,168)**	(5,260)	**–**	–
	464,694	408,873	**–**	–
Other receivables	**49,618**	15,177	**422**	405
Deposits and prepayments	**13,132**	13,561	**339**	334
	527,444	437,611	**761**	739

Except for the Group's rental deposit of $1,020,000 (2011: Nil), all of the trade and other receivables are expected to be recovered or recognised as expense within 12 months from the end of the reporting period.

(a) Ageing analysis

As at the end of the reporting period, the ageing analysis of trade debtors and bills receivable which are included in trade and other receivables, based on the invoice date and net of allowance for doubtful debts, is as follows:

	The Group 2012 $'000	The Group 2011 $'000
Within 60 days of the invoice issue date	**348,397**	294,504
61 to 90 days after the invoice issue date	**75,333**	70,090
91 to 120 days after the invoice issue date	**27,836**	27,981
More than 120 days but less than 12 months after the invoice issue date	**13,128**	16,298
	464,694	408,873

Trade debtors and bills receivable are generally due within 60 to 90 days from the date of billing. Further details on the Group's credit policy are set out in note 28(a).

21. TRADE AND OTHER RECEIVABLES (CONTINUED)

(b) Impairment of trade debtors and bills receivable

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

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

	The Group	
	2012	2011
	$'000	$'000
At 1 January	**1,885**	681
Impairment loss recognised	**590**	1,204
At 31 December	**2,475**	1,885

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

	The Group	
	2012	2011
	$'000	$'000
At 1 January	**5,260**	2,527
Allowance for sales returns (reversed)/recognised	**(92)**	2,733
At 31 December	**5,168**	5,260

At 31 December 2012, the Group's trade debtors and bills receivable of $2,475,000 (2011: $1,885,000) were individually determined to be impaired. The individually impaired receivables related to customers those were in financial difficulties and management assessed that none of the receivables is expected to be recovered. Consequently, specific allowances for doubtful debts of $2,475,000 (2011: $1,885,000) were recognised.

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

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

	The Group	
	2012	2011
	$'000	$'000
Neither past due nor impaired	**348,999**	295,533
Less than 1 month	**76,447**	70,639
1 to 2 months	**28,096**	28,180
More than 2 months but less than 12 months	**16,320**	19,781
	120,863	118,600
	469,862	414,133

Receivables that were neither past due nor impaired related to a wide range of customers for whom there was no recent history of default.

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

22. CASH AND CASH EQUIVALENTS

(a) Cash and cash equivalents comprise:

	The Group 2012 $'000	The Group 2011 $'000	The Company 2012 $'000	The Company 2011 $'000
Deposits with banks and other financial institutions	**83,110**	141,424	**–**	–
Cash at bank and in hand	**381,068**	250,055	**2,027**	983
Cash and cash equivalents in the statement of financial position and consolidated cash flow statement	**464,178**	391,479	**2,027**	983

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

	Note	2012 $'000	2011 $'000
Profit before taxation		**190,775**	195,043
Adjustments for:			
Depreciation		**86,528**	95,135
Finance costs	5(a)	**2,096**	1,754
Dividend income from listed equity securities	4	**(1,165)**	(12,522)
Interest income		**(10,584)**	(9,317)
Net realised and unrealised losses on trading securities	4	**9,184**	135,000
Impairment loss on non-listed available-for-sale equity securities	4	**77,000**	–
Share of profits less losses of associates		**(9,341)**	(8,932)
Net (gain)/loss on disposal of fixed assets	4	**(87,820)**	992
Reversal of liabilities recognised in respect of a disposal of a subsidiary	4	**–**	(83,860)
Net gain on disposal of subsidiaries	4	**–**	(36,689)
Equity-settled share-based payment expenses	5(c)	**2,227**	3,687
Foreign exchange (gain)/loss		**(6,339)**	3,177
		252,561	283,468
Changes in working capital:			
Increase in inventories		**(30,855)**	(49,782)
(Increase)/decrease in trade and other receivables		**(88,658)**	5,147
Increase/(decrease) in trade and other payables		**24,733**	(79,433)
Cash generated from operations		**157,781**	159,400

23. TRADE AND OTHER PAYABLES

	The Group		The Company	
	2012	2011	**2012**	2011
	$'000	$'000	**$'000**	$'000
Trade creditors	**321,071**	296,080	**–**	–
Accrued charges and other payables	**116,334**	67,671	**6,731**	6,806
	437,405	363,751	**6,731**	6,806

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

As at the end of the reporting period, the ageing analysis of trade creditors and bills payable (which are included in trade and other payables), based on the invoice date, is as follows:

	The Group	
	2012	2011
	$'000	$'000
Within 60 days of supplier invoice date	**254,039**	243,212
61 to 120 days after supplier invoice date	**63,079**	49,425
More than 120 days but within 12 months after supplier invoice date	**3,630**	3,161
More than 12 months after supplier invoice date	**323**	282
	321,071	296,080

24. BANK LOANS

At 31 December 2012, the unsecured, interest-bearing bank loans and overdrafts are repayable as follows:

	The Group	
	2012	2011
	$'000	$'000
Within 1 year or on demand	**188,217**	153,511
After 1 year but within 2 years	**91,318**	–
After 2 years but within 5 years	**37,986**	–
	317,521	153,511

All of the Group's banking facilities are subject to the fulfilment of covenants relating to the Group's statement of financial position ratios which are commonly found in lending arrangements with financial institutions. In the event that the Group breaches the covenants, the drawn down facilities would become payable on demand. The Group regularly monitors its compliance with these covenants. Such banking facilities amounted to $730,472,000 (2011: $292,000,000) as at 31 December 2012. The facilities were utilised to the extent of $317,521,000 (2011: $153,511,000). Further details of the Group's management of liquidity risk are set out in note 28(b). As at 31 December 2012 and 2011, none of the covenants relating to drawn down facilities has been breached.

25. INCOME TAX IN THE STATEMENT OF FINANCIAL POSITION

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

	The Group 2012 $'000	The Group 2011 $'000
Provision for Hong Kong Profits Tax for the year	**7,113**	8,264
Provisional Hong Kong Profits Tax paid	**(7,536)**	(7,840)
	(423)	424
Balance of Hong Kong Profits Tax relating to prior years	**4,722**	9,213
Taxation in respect of PRC income taxes	**3,408**	2,674
Taxation in respect of jurisdictions outside Hong Kong and the PRC	**(612)**	(2,246)
	7,095	10,065
Current tax recoverable	**(1,650)**	(2,845)
Current tax payable	**8,745**	12,910
	7,095	10,065

(b) Deferred tax assets and liabilities recognised:

The Group

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

	Depreciation allowances in excess of the related depreciation $'000	Provisions $'000	Unremitted earnings $'000	Total $'000
Deferred tax arising from:				
At 1 January 2011	(22)	(113)	3,045	2,910
Charged/(credited) to profit or loss (note 6(a))	160	(107)	(3,045)	(2,992)
At 31 December 2011	138	(220)	–	(82)
At 1 January 2012	**138**	**(220)**	**–**	**(82)**
(Credited)/charged to profit or loss (note 6(a))	**(68)**	**–**	**1,205**	**1,137**
At 31 December 2012	**70**	**(220)**	**1,205**	**1,055**

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

	2012 $'000	2011 $'000
Net deferred tax assets recognised in the consolidated statement of financial position	**(479)**	(237)
Net deferred tax liabilities recognised in the consolidated statement of financial position	**1,534**	155
	1,055	(82)

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

(c) Deferred tax assets not recognised

In accordance with the accounting policy set out in note 1(s), the Group has not recognised deferred tax assets in respect of cumulative tax losses of $30,236,000 (2011: $26,151,000) as it is not probable that future taxable profits against which the losses can be utilised will be available in the relevant tax jurisdictions and entities for the foreseeable future. None of the tax losses expire under current tax legislation.

26. EQUITY SETTLED SHARE-BASED TRANSACTIONS

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

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

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

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

(Expressed in Hong Kong dollars unless otherwise indicated)

26. EQUITY SETTLED SHARE-BASED TRANSACTIONS (CONTINUED)

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

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

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

	2012		2011	
	Weighted average exercise price	**Number of options**	Weighted average exercise price	Number of options
Outstanding at the beginning of the year	**$4.582**	**26,032,000**	$4.508	27,018,500
Exercised during the year	**$2.500**	**(50,000)**	$2.564	(723,000)
Forfeited during the year	**$7.500**	**(3,000)**	$2.529	(263,500)
Lapsed during the year	**$4.542**	**(1,099,000)**	N/A	–
Outstanding at the end of the year	**$4.587**	**24,880,000**	$4.582	26,032,000
Exercisable at the end of the year		**18,010,000**		16,872,000

There were no options granted during the year ended 31 December 2012 (2011: Nil).

The weighted average share price at the date of exercise for share options exercised during the year was $3.92 (2011: $4.99).

The options outstanding at 31 December 2012 had an exercise price which ranged from $2.50 to $7.50 (2011: $2.50 to $7.50) and a weighted average remaining contractual life of 3.07 years (2011: 3.94 years).

26. EQUITY SETTLED SHARE-BASED TRANSACTIONS (CONTINUED)

(c) Fair value of share options and assumptions

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

Fair value of and assumptions for share options granted on 24 June 2010	
Fair value at measurement date	$0.94
Share price	$2.50
Exercise price	$2.50
Weighted average volatility	43.89% – 50.29%
Weighted average share option life	3.52 – 5.52 years
Expected dividends	0.8%
Risk-free interest rate (based on Exchange Fund Notes)	1.30% – 1.80%

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

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

27. CAPITAL, RESERVES AND DIVIDENDS

(a) Movements in components of equity

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

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

27. CAPITAL, RESERVES AND DIVIDENDS (CONTINUED)

(a) Movements in components of equity (continued)

	Note	Share capital $'000	Share premium 27(d)(i) $'000	Contributed surplus 27(d)(ii) $'000	Capital reserve 27(d)(v) $'000	Retained profits/ (accumulated losses) $'000	Total $'000
Balance at 1 January 2012		81,036	697,582	51,636	17,030	5,973	853,257
Changes in equity for 2012:							
Final dividends approved in respect of the previous year	27(b)(ii)	–	–	–	–	(50,250)	(50,250)
Profit and total comprehensive income for the year	10	–	–	–	–	62,859	62,859
Share issued under share option scheme	27(c)(ii)	13	157	–	(45)	–	125
Equity settled share-based transactions		–	–	–	2,227	–	2,227
Interim dividend declared in respect of the current year	27(b)(i)	–	–	–	–	(25,936)	(25,936)
Balance at 31 December 2012		81,049	697,739	51,636	19,212	(7,354)	842,282

(b) Dividends

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

	2012 $'000	2011 $'000
Interim dividend declared and paid of 8.0 cents (2011: 11.0 cents) per share	25,936	35,656
Final dividend proposed after the end of reporting period date of 20.0 cents (2011: 15.5 cents) per share	64,885	50,250
	90,821	85,906

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

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

	2012 $'000	2011 $'000
Final dividend in respect of the previous financial year, approved and paid during the year, of 15.5 cents (2011: 21.0 cents) per share	50,250	67,919

27. CAPITAL, RESERVES AND DIVIDENDS (CONTINUED)

(c) Share capital

(i) Authorised and issued share capital

	2012 No. of shares '000	2012 Amount $'000	2011 No. of shares '000	2011 Amount $'000
Authorised:				
Ordinary shares of $0.25 each	**400,000**	**100,000**	400,000	100,000
Ordinary shares, issued and fully paid:				
At 1 January	**324,145**	**81,036**	323,422	80,856
Shares issued under share option scheme	**50**	**13**	723	180
At 31 December	**324,195**	**81,049**	324,145	81,036

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

(ii) Shares issued under share option scheme

During the year ended 31 December 2012, options have been exercised to subscribe for 50,000 ordinary shares (2011: 723,000 ordinary shares) in the Company at a consideration of $125,000 (2011: $1,853,000) of which $13,000 (2011: $180,000) was credited to share capital and the balance of $112,000 (2011: $1,673,000) was credited to the share premium account. $45,000 (2011: $573,000) has been transferred from the capital reserve to the share premium account in accordance with policy set out in note 1(r)(ii).

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

Exercise period	Exercise price HK$	2012 Number	2011 Number
13 September 2002 to 12 September 2012	3.905	**–**	99,000
31 October 2002 to 30 October 2012	4.605	**–**	1,000,000
6 October 2003 to 5 October 2013	7.350	**126,000**	126,000
20 December 2004 to 19 December 2014	7.500	**1,694,000**	1,697,000
21 December 2004 to 20 December 2014	7.450	**300,000**	300,000
22 July 2005 to 21 July 2015	6.600	**3,000,000**	3,000,000
19 December 2005 to 18 December 2015	5.730	**9,000,000**	9,000,000
1 July 2011 to 30 June 2016	2.500	**10,760,000**	10,810,000
		24,880,000	26,032,000

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

27. CAPITAL, RESERVES AND DIVIDENDS (CONTINUED)

(d) Nature and purpose of reserves

(i) Share premium

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

(ii) Contributed surplus

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

(iii) Exchange reserve

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

(iv) Fair value reserve

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

(v) Capital reserve

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

(vi) Other reserves

Other reserves comprise statutory reserves required in respect of a subsidiary in accordance with the relevant rules and regulations in the PRC and the premium paid for the acquisition of non-controlling interests.

(vii) Distributability of reserves

At 31 December 2012, the aggregate amount of reserves available for distribution to shareholders of the Company was $44,282,000 (2011: $57,609,000).

On 22 March 2013, a subsidiary of the Company declared and approved a dividend of $40,000,000 to the Company.

(e) Capital management

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

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

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

During 2012, the Group's strategy, which was unchanged from 2011, was to maintain a stable net debt-to-adjusted capital ratio. In order to maintain or adjust the ratio, the Group may adjust the amount of dividends paid to shareholders, issue new shares, return capital to shareholders, raise new debt financing or sell assets to reduce debt.

27. CAPITAL, RESERVES AND DIVIDENDS (CONTINUED)

(e) Capital management (continued)

The adjusted net debt-to-capital ratio at 31 December 2012 and 2011 was as follows:

	Note	The Group 2012 $'000	2011 $'000
Current liabilities			
Trade and other payables	23	**437,405**	363,751
Bank loans	24	**188,217**	153,511
		625,622	517,262
Non-current liabilities			
Bank loans	24	**129,304**	–
Other payables		**1,116**	2,214
Total debt		**756,042**	519,476
Add: Proposed dividends		**64,885**	50,243
Less: Trading securities	19	**(107,578)**	(138,516)
Cash and cash equivalents	22	**(464,178)**	(391,479)
Net debt		**249,171**	39,724
Total equity		**1,549,068**	1,435,939
Less: Proposed dividends		**(64,885)**	(50,243)
Adjusted capital		**1,484,183**	1,385,696
Adjusted net debt-to-capital ratio		**17%**	3%

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

28. FINANCIAL RISK MANAGEMENT AND FAIR VALUES

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

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

(a) Credit risk

The Group's credit risk is primarily attributable to cash at bank, deposits with banks and other financial institutions, trade and other receivables, loans receivable and investments in debt and equity securities. Management has a credit policy in place and exposures to these credit risks are monitored on an ongoing basis.

Investments are normally only in liquid securities quoted on a recognised stock exchange, except where entered into for long term strategic purposes. Given their high credit standing, management does not expect any investment counterparty to fail to meet its obligations. Cash at bank and deposits with banks and other financial institutions are placed with licensed financial institutions with high credit ratings. The Group monitors the exposure to each financial institution.

In respect of trade and other receivables, credit evaluations are performed on all customers requiring credit over a certain amount. The status of the receivable is closely monitored to minimise any credit risk associated with these receivables. Trade receivables are generally due within 60 to 90 days from the date of billing. Normally, the Group does not obtain collateral from customers.

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

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each debtor rather than the industry or country in which the customers operate and therefore significant concentrations of credit risk primarily arise when the Group has significant exposure to individual customers. At the end of the reporting period, 6% (2011: 7%) and 21% (2011: 16%) of the total trade and other receivables were due from the Group's largest customer and the five largest customers respectively.

The maximum exposure to credit risk without taking account of any collateral held is represented by the carrying amount of each financial asset, in the statement of financial position after deducting any impairment allowance. Except for the financial guarantees given by the Group as set out in note 30, the Group does not provide any other guarantees which would expose the Group or the Company to credit risk. The maximum exposure to credit risk in respect of these financial guarantees at the end of reporting period is disclosed in note 30.

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

28. FINANCIAL RISK MANAGEMENT AND FAIR VALUES (CONTINUED)

(b) Liquidity risk

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

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

The Group

	2012 Contractual undiscounted cash outflow					2011 Contractual undiscounted cash outflow				
	Within 1 year or on demand $'000	More than 1 year but less than 2 years $'000	More than 2 years but less than 5 years $'000	Total $'000	Carrying amount at 31 December $'000	Within 1 year or on demand $'000	More than 1 year but less than 2 years $'000	More than 2 years but less than 5 years $'000	Total $'000	Carrying amount at 31 December $'000
Non-derivative liabilities:										
Bank loans	190,612	92,796	38,362	321,770	317,521	153,746	–	–`	153,746	153,511
Trade and other payables	437,405	1,116	–	438,521	438,521	363,751	1,107	1,107	365,965	365,965
	628,017	93,912	38,362	760,291	756,042	517,497	1,107	1,107	519,711	519,476

The Company

	2012 Contractual undiscounted cash outflow					2011 Contractual undiscounted cash outflow				
	Within 1 year or on demand $'000	More than 1 year but less than 2 years $'000	More than 2 years but less than 5 years $'000	Total $'000	Carrying amount at 31 December $'000	Within 1 year or on demand $'000	More than 1 year but less than 2 years $'000	More than 2 years but less than 5 years $'000	Total $'000	Carrying amount at 31 December $'000
Other payables	6,731	–	–	6,731	6,731	6,806	–	–`	6,806	6,806
Financial guarantees issued:										
Maximum amount guaranteed (note 30)	190,612	92,796	38,362	321,770	317,521	153,746	–	–	153,746	153,511

28. FINANCIAL RISK MANAGEMENT AND FAIR VALUES (CONTINUED)

(c) Interest rate risk

The Group's interest rate risk arises primarily from bank borrowings issued at variable rates which expose the Group to cash flow interest rate risk. Loans receivable of $82,848,000 (2011: $71,918,000) and held-to-maturity debt securities of $24,800,000 (2011: $24,600,000) bear interest at fixed rates and are carried at amortised cost. Accordingly, they do not expose the Group to cash flow interest rate risk on their interest income or fair value interest rate risk on their carrying amounts. In respect of available-for-sale debt securities of $8,712,000 (2011: $7,983,000) carried at fair value, they bear fixed interest rates and do not expose the Group to cash flow interest rate risk but expose the Group to fair value interest rate risk. The Group regularly reviews its strategy on interest rate risk management in light of prevailing market conditions.

(i) Interest rate profile

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

	The Group			
	2012		2011	
	Effective interest rate %	**$'000**	Effective interest rate %	$'000
Variable rate borrowings:				
Bank loans	**1.43**	**317,521**	1.26	153,511

(ii) Sensitivity analysis

At 31 December 2012, it is estimated that a general increase/decrease of 100 basis points in interest rates, with all other variables held constant, would have decreased/increased the Group's profit after taxation and its retained profits by approximately $2,651,000 (2011: $1,282,000). Other components of equity would not be materially affected by the changes in interest rates.

The sensitivity analysis above has been determined assuming that the change in interest rates had occurred at the end of the reporting period and had been applied to the exposure to interest rate risk for financial instruments held by the Group. The impact on the Group's profit after taxation (and retained profits) and other components of consolidated equity is estimated as an annualised impact on interest expense of such a change in interest rates. The analysis has been performed on the same basis for 2011.

(d) Currency risk

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

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

28. FINANCIAL RISK MANAGEMENT AND FAIR VALUES (CONTINUED)

(d) Currency risk (continued)

(i) Exposure to currency risk

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

	2012					2011				
	Exposure to foreign currencies (expressed in Hong Kong dollars)					Exposure to foreign currencies (expressed in Hong Kong dollars)				
	United States Dollars $'000	Euros $'000	Japanese Yen $'000	Renminbi $'000	Korean Won $'000	United States Dollars $'000	Euros $'000	Japanese Yen $'000	Renminbi $'000	Korean Won $'000
The Group										
Trade and other receivables	**338,125**	**244**	**–**	**3**	**–**	314,635	428	–	–	–
Other financial assets	**–**	**–**	**–**	**24,800**	**77,979**	–	–	–	24,600	154,979
Loans receivable	**–**	**–**	**–**	**–**	**82,848**	–	–	–	–	71,918
Cash and cash equivalents	**202,779**	**11,129**	**4,328**	**2,825**	**–**	210,055	8,835	16	25,722	–
Trade and other payables	**(133,037)**	**(323)**	**(90,765)**	**–**	**–**	(114,819)	(228)	(63,578)	(2)	–
Bank loans	**(160,812)**	**–**	**(37,543)**	**–**	**–**	(70,452)	–	(70,559)	–	–
	247,055	**11,050**	**(123,980)**	**27,628**	**160,827**	339,419	9,035	(134,121)	50,320	226,897
The Company										
Other receivables	**–**	**–**	**–**	**–**	**–**	–	–	–	–	–
Cash and cash equivalents	**1,839**	**–**	**–**	**–**	**–**	686	–	–	–	–
Other financial assets	**–**	**–**	**–**	**–**	**77,979**	–	–	–	–	154,979
Loans receivable	**–**	**–**	**–**	**–**	**82,848**	–	–	–	–	71,918
	1,839	**–**	**–**	**–**	**160,827**	686	–	–	–	226,897

In addition, the Group exposed to currency risk arising from inter-company receivables and payables denominated in currency other than the functional currency of either the lender or the borrower. The net inter-company receivables/(payables) amounted to United States dollars 8,304,000 and Renminbi (164,790,000) (2011: United States dollars 7,867,000 and Renminbi (119,981,000)).

28. FINANCIAL RISK MANAGEMENT AND FAIR VALUES (CONTINUED)

(d) Currency risk (continued)

(ii) Sensitivity analysis

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

	2012			2011		
	Increase/ (decrease) in foreign exchange rates	**Increase/ (decrease) in profit after taxation and retained profits $'000**	**Increase/ (decrease) in other components of equity $'000**	Increase/ (decrease) in foreign exchange rates	Increase/ (decrease) in profit after taxation and retained profits $'000	Increase/ (decrease) in other components of equity $'000
The Group						
United States dollars	**10%**	**5,912**	**–**	10%	4,715	–
	(10)%	**(5,912)**	**–**	(10)%	(4,715)	–
Euros	**10%**	**1,105**	**–**	10%	900	–
	(10)%	**(1,105)**	**–**	(10)%	(900)	–
Japanese Yen	**10%**	**(10,900)**	**–**	10%	(12,363)	–
	(10)%	**10,900**	**–**	(10)%	12,363	–
Renminbi	**10%**	**(15,117)**	**–**	10%	(7,881)	–
	(10)%	**15,117**	**–**	(10)%	7,881	–
Korean Won	**10%**	**8,285**	**7,798**	10%	7,192	15,498
	(10)%	**(8,285)**	**(7,798)**	(10)%	(7,192)	(15,498)

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

The sensitivity analysis assumes that the change in foreign exchange rates had been applied to remeasure those financial instruments held by the Group which expose the Group to currency risk at the end of the reporting period. The analysis excludes differences that would result from the translation of the financial statements of operations outside Hong Kong into the Group's presentation currency. The analysis has been performed on the same basis for 2011.

28. FINANCIAL RISK MANAGEMENT AND FAIR VALUES (CONTINUED)

(e) Equity price risk

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

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

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

With regards to securities held as trading securities and available-for-sale securities, as at 31 December 2012 it is estimated that an increase/decrease of 3% in the relevant stock market index (for listed investments) with all other variables held constant would have increased/decreased the Group's profit after taxation and retained profits by approximately $2,314,000 (2011: $2,673,000). Other components of equity would not be materially affected.

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

The analysis has been performed on the same basis for 2011.

(f) Fair values

Financial instruments carried at fair value

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

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

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

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

28. FINANCIAL RISK MANAGEMENT AND FAIR VALUES (CONTINUED)

(f) Fair values (continued)

Financial instruments carried at fair value (continued)

	The Group		
	Level 1 $'000	**Level 2 $'000**	**Total $'000**
2012			
Assets			
Non-listed available-for-sale mutual funds	**–**	**6,556**	**6,556**
Listed available-for-sale debt securities	**8,712**	**–**	**8,712**
Listed available-for-sale equity securities	**13,672**	**–**	**13,672**
Trading securities	**107,578**	**–**	**107,578**
	129,962	**6,556**	**136,518**

	The Group		
	Level 1 $'000	Level 2 $'000	Total $'000
2011			
Assets			
Non-listed available-for-sale mutual funds	–	5,209	5,209
Listed available-for-sale debt securities	7,983	–	7,983
Listed available-for-sale equity securities	10,748	–	10,748
Trading securities	138,516	–	138,516
	157,247	5,209	162,456

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

Fair values of financial instruments carried at other than fair value

The carrying amounts of the Group's and the Company's financial instruments carried at cost or amortised cost are not materially different from their fair values as at 31 December 2012 and 2011 except as follows:

	2012		2011	
	Carrying amount $'000	**Fair value $'000**	Carrying amount $'000	Fair value $'000
The Group				
Held-to-maturity debt securities	**24,800**	**21,018**	24,600	21,279

28. FINANCIAL RISK MANAGEMENT AND FAIR VALUES (CONTINUED)

(f) Fair values (continued)

Fair values of financial instruments carried at other than fair value (continued)

The Group and the Company have no intention of disposing of the held-to-maturity debt securities. The held-to-maturity debt securities are listed on the Singapore Exchange Securities Trading and the market value of the Group's position of such debt securities as at 31 December 2012 is RMB16,950,000 (equivalent to $21,018,000) (2011: RMB17,300,000 (equivalent to $21,279,000)).

The fair values of non-listed available-for-sale equity securities carried at cost and loans receivables carried at amortised cost have not been disclosed because they do not have a quoted market price in an active market. Such investments are stated at cost or amortised cost less impairment losses.

(g) Estimation of fair values

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

(i) Securities

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

(ii) Interest-bearing loans and borrowings

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

(iii) Financial guarantees

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

29. COMMITMENTS

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

	The Group	
	2012	2011
	$'000	$'000
Contracted for	**87,506**	9,793
Authorised but not contracted for	**5,639**	354,000
	93,145	363,793

(b) At 31 December 2012, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	The Group	
	2012	2011
	$'000	$'000
Within 1 year	**6,542**	2,779
After 1 year but within 5 years	**8,848**	3,646
	15,390	6,425

All operating leases are for properties. The leases typically run for an initial period of 1 to 5 years, with an option to renew the leases when all terms are renegotiated. Lease payments are usually increased every year to reflect market rentals. None of the leases includes contingent rentals.

30. CONTINGENT LIABILITIES

Financial guarantees issued

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

As at the end of the reporting period, the Directors do not consider it probable that a claim will be made against the Company under any of the guarantees. The maximum liability of the Company at the end of the reporting period under the guarantees issued and the facilities drawn down by the subsidiaries is $317,521,000 (2011: $153,511,000).

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

31. MATERIAL RELATED PARTY TRANSACTIONS

(a) Key management personnel remuneration

Remuneration for key management personnel, including amounts paid to the Directors is disclosed in note 7 and certain of the highest paid employees is disclosed in note 8.

(b) Recurring transactions

During the year, the Group sold goods amounting to $63,403,000 (2011: $79,169,000) to Data Modul AG, an associate of the Group. The Directors of the Company are of the opinion that this related party transaction was conducted on normal commercial terms with reference to prevailing market prices, and in the ordinary course of business.

(c) Applicability of the Listing Rules relating to connected transactions

None of the above related party transactions falls under the definition of connected transaction or continuing connected transaction as defined in Chapter 14A of the Listing Rules.

32. POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2012

Up to the date of issue of these financial statements, the HKICPA has issued a number of amendments and five new standards which are not yet effective for the year ended 31 December 2012 and which have not been adopted in these financial statements. These include the following which may be relevant to the Group:

	Effective for accounting periods beginning on or after
Amendments to HKFRS 7, *Financial instruments: Disclosures – Transfers of financial assets*	1 July 2012
HKFRS 10, *Consolidated financial statements*	1 January 2013
HKFRS 12, *Disclosure of interests in other entities*	1 January 2013
HKFRS 13, *Fair value measurement*	1 January 2013
HKAS 28, *Investments in associates and joint ventures*	1 January 2013
Annual Improvement to HKFRSs 2009 – 2011 Cycle	1 January 2013
Amendments to HKFRS 7, *Financial instruments: Disclosures – Disclosures – Offsetting financial assets and financial liabilities*	1 January 2013
Amendments to HKAS 32, *Financial instruments: Presentation – Offsetting financial assets and financial liabilities*	1 January 2014
HKFRS 9, *Financial instruments*	1 January 2015

The Group is in the process of making an assessment of what the impact of these amendments is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the consolidated financial statements.

FIVE YEAR SUMMARY

(Expressed in Hong Kong dollars)

	Year ended 31 December				
	2008 $'000	2009 $'000	2010 $'000	2011 $'000	**2012** **$'000**
Results:					
Continuing operations					
Turnover	1,720,512	1,817,172	2,255,851	2,131,410	**2,222,380**
Profit from operations	60,262	53,255	267,930	187,865	**183,530**
Finance costs	(5,820)	(3,514)	(3,358)	(1,754)	**(2,096)**
Negative goodwill arising on acquisition of an associate	14,861	–	–	–	**–**
Share of profits less losses of associates	(3,330)	(21,809)	2,210	8,932	**9,341**
Profit before taxation	65,973	27,932	266,782	195,043	**190,775**
Income tax	(9,485)	(11,212)	(46,935)	(27,016)	**(19,940)**
Profit for the year from continuing operations	56,488	16,720	219,847	168,027	**170,835**
Discontinued operation					
Loss for the year from discontinued operation	(39,779)	(285,441)	(9,652)	–	**–**
Profit/(loss) for the year	16,709	(268,721)	210,195	168,027	**170,835**
Attributable to:					
Equity shareholders of the Company	15,048	(268,325)	210,496	168,027	**170,835**
Non-controlling interests	1,661	(396)	(301)	–	**–**
Profit/(loss) for the year	16,709	(268,721)	210,195	168,027	**170,835**
Assets and liabilities:					
Fixed assets	464,455	359,239	321,029	279,007	**518,126**
Interest in associates	124,141	99,384	101,905	107,673	**113,917**
Loans receivable	132,618	123,055	70,201	71,918	**82,848**
Other financial assets	176,358	182,798	186,083	203,519	**131,719**
Deferred tax assets	4,898	2,198	213	237	**479**
Net current assets	659,005	440,917	683,455	775,954	**833,933**
Total assets less current liabilities	1,561,475	1,207,591	1,362,886	1,438,308	**1,681,022**
Non-current bank loans	(152,666)	(37,000)	–	–	**(129,304)**
Non-current other payables	–	(4,104)	(3,186)	(2,214)	**(1,116)**
Deferred tax liabilities	(80)	(2,282)	(3,123)	(155)	**(1,534)**
Net assets	1,408,729	1,164,205	1,356,577	1,435,939	**1,549,068**
Capital and reserves					
Share capital	80,856	80,856	80,856	81,036	**81,049**
Reserves	1,307,076	1,068,524	1,267,223	1,354,659	**1,467,775**
Amounts accumulated in equity relating to a discontinued operation	6,165	6,026	–	–	**–**
Total equity attributable to equity shareholders of the Company	1,394,097	1,155,406	1,348,079	1,435,695	**1,548,824**
Non-controlling interests	14,632	8,799	8,498	244	**244**
Total equity	1,408,729	1,164,205	1,356,577	1,435,939	**1,549,068**
Earnings/(loss) per share (in HK cents)					
Continuing operations					
Basic	17.0	5.3	68.1	51.9	**52.7**
Diluted	17.0	5.3	68.1	51.3	**52.4**
Discontinued operation					
Basic	(12.3)	(88.3)	(3.0)	–	**–**
Diluted	(12.3)	(88.3)	(3.0)	–	**–**

PROPERTIES HELD BY THE GROUP

	Location	Existing use	Percentage holding
1.	Flat G, 22nd Floor, Tower 1, Yue Man Centre, Nos. 300 and 302 Ngau Tau Kok Road, Kwun Tong, Kowloon	Staff quarters	100%
2.	128 Heyuan Road, Yuancheng District Heyuan City, Guangdong, The People's Republic of China	Industrial	100%
3.	Unit 3 Milbanke Court, Milbanke Way, Bracknell, Berkshire, United Kingdom	Office	100%

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

CORPORATE INFORMATION

HONORARY CHAIRMAN

Chang Chu Cheng

BOARD OF DIRECTORS

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

* Independent Non-executive Directors

COMPANY SECRETARY

Ho Te Hwai, Cecil

QUALIFIED ACCOUNTANT

Ho Te Hwai, Cecil

AUDIT COMMITTEE

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

REMUNERATION COMMITTEE

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

NOMINATION COMMITTEE

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

INDEPENDENT AUDITORS

KPMG
Certified Public Accountants

PRINCIPAL BANKERS

The Bank of Tokyo-Mitsubishi UFJ Ltd
Hang Seng Bank Limited
The Hongkong and Shanghai Banking Corporation Limited

REGISTERED OFFICE

Clarendon House
2 Church Street
Hamilton HM11
Bermuda

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

Units A – F, 35/F., Legend Tower
No. 7 Shing Yip Street
Kwun Tong, Kowloon
Hong Kong

PRINCIPAL SHARE REGISTRARS AND TRANSFER OFFICE

Butterfield Fulcrum Group (Bermuda) Limited
26 Burnaby Street
Hamilton HM 11
Bermuda

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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

ADR DEPOSITARY

The Bank of New York
American Depositary Receipts
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STOCK CODE

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