



2010

ANNUAL REPORT

Perfectech

Perfectech International Holdings Limited

Incorporated in Bermuda with limited liability
Stock Code: 765



CONTENTS

| | Page |
|---|--------|
| Corporate Information | 2 |
| Notice of Annual General Meeting | 3-5 |
| Chairman's Statement | 6-9 |
| Biographical Details of Directors and Senior Management Staff | 10-11 |
| Corporate Governance Report | 12-20 |
| Report of the Directors | 21-29 |
| Independent Auditors' Report | 30-31 |
| Consolidated Statement of Comprehensive Income | 32 |
| Consolidated Statement of Financial Position | 33-34 |
| Consolidated Statement of Changes in Equity | 35 |
| Consolidated Statement of Cash Flows | 36-37 |
| Notes to the Financial Statements | 38-103 |
| Financial Summary | 104 |

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors:

Mr. Poon Siu Chung
(Chairman and Managing Director)

Mr. Ip Siu On

Mr. Tsui Yan Lee, Benjamin

Dr. Poon Wai Tsun, William
(appointed on 06 July 2010)

Independent Non-executive Directors:

Mr. Lam Yat Cheong

Mr. Yip Chi Hung

Mr. Choy Wing Keung, David

COMPANY SECRETARY

Ms. Pang Siu Yin

AUDITORS

HLM & Co.

Certified Public Accountants

Hong Kong

LEGAL ADVISER

Cheung, Tong and Rosa

REGISTERED OFFICE

Canon's Court
22 Victoria Street
Hamilton HM12
Bermuda

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

7/F, E Tat Factory Building,
4 Heung Yip Road,
Wong Chuk Hang, Aberdeen,
Hong Kong

PRINCIPAL BANKERS

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

HONG KONG BRANCH SHARE REGISTRAR

Tricor Standard Limited
26th Floor Tesbury Centre
28 Queen's Road East
Wanchai
Hong Kong

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the annual general meeting of the Company (the “AGM”) will be held at 3:00 p.m. on 25 May 2011, Wednesday at Falcon Room I, Gloucester Luk Kwok Hong Kong, 72 Gloucester Road, Wanchai, Hong Kong for the purpose of transacting the following business:

ORDINARY BUSINESS

1. To receive and adopt the audited consolidated financial statements and the reports of the directors of the Company (“Directors”) and the independent auditors of the Company (“Auditors”) for the year ended 31 December 2010.
2. To re-appoint Messrs. HLM & Co. as the Auditors and authorize the board of Directors to fix their remuneration.
3. To approve the declaration of a final dividend of 2.5 HK cents per ordinary share of the Company to be paid out of profits to the shareholders of the Company whose names appear on the register of members of the Company on 25 May 2011.
4. To re-elect the newly appointed Director.
5. To re-elect the retiring Director.
6. To re-elect the Directors who hold office until the conclusion of the AGM.
7. To authorize the board of Directors to fix the Directors’ remuneration.

SPECIAL BUSINESS

To consider and, if thought fit, to pass the following resolutions (with or without modification) as ordinary resolutions:

8. **“THAT**
 - a. a general mandate be and is hereby unconditionally given to the Directors to exercise during the Relevant Period (as hereinafter defined) all the powers of the Company to allot, issue and deal with unissued shares in the Company (“Shares”) or securities convertible into Shares or options, warrants or similar rights to subscribe for any Shares or such convertible securities and to make or grant offers, agreements or options which would or might require the exercise of such powers either during or after the Relevant Period, in addition to any Shares which may be issued from time to time (a) on a Rights Issue (as hereinafter defined) or (b) upon the exercise of any options under any option scheme or similar arrangement for the time being adopted for the grant or issue of Shares or rights to acquire Shares or (c) upon the exercise of rights of subscription or conversion attaching to any warrants or convertible bonds issued by the Company or any securities which are convertible into Shares the issue of which warrants and other securities has previously been approved by shareholders of the Company or (d) as any scrip dividend or similar arrangements pursuant to the bye-laws of the Company, not exceeding twenty per cent of the issued share capital of the Company as at the date of this resolution; and

NOTICE OF ANNUAL GENERAL MEETING

- b. for the purpose of this resolution, “Relevant Period” means the period from the passing of this resolution until whichever is the earliest of:
 - i. the conclusion of the next annual general meeting of the Company;
 - ii. the expiration of the period within which the next annual general meeting of the Company is required by law or the bye-laws of the Company to be held; and
 - iii. the revocation or variation of the authority given under this resolution by an ordinary resolution of the shareholders of the Company in general meeting;

and “Rights Issue” means an offer of Shares open for a period fixed by the Directors to holders of Shares on the register of members of the Company on a fixed record date in proportion to their then holdings of such Shares (subject to such exclusions or other arrangements as the Directors may deem necessary or expedient in relation to fractions entitlements or having regard to any restrictions or obligations under the laws of any relevant jurisdiction, or of the requirements of any recognized regulatory body or any stock exchange applicable to the Company).”

- 9. **“THAT** there be granted to the Directors an unconditional general mandate to repurchase Shares, and that the exercise by the Directors of all powers of the Company to purchase Shares subject to and in accordance with all applicable laws, be and is hereby generally and unconditionally approved, subject to the following conditions:
 - (a) such mandate shall not extend beyond the Relevant Period (as hereinafter defined)
 - (b) such mandate shall authorize the Directors to procure the Company to repurchase Shares at such price as the Directors may at their discretion determine;
 - (c) the Shares to be repurchased by the Company pursuant to paragraph (a) of this resolution during the Relevant Period shall be no more than ten per cent of the Shares in issue at the date of passing this resolution; and
 - (d) for the purpose of this resolution, “Relevant Period” means the period from the passing of this resolution until whichever is the earliest of:
 - i. the conclusion of the next annual general meeting of the Company;
 - ii. the expiration of the period within which the next annual general meeting of the Company is required by law or the bye-laws of the Company to be held; and
 - iii. the revocation or variation of the authority given under this resolution by an ordinary resolution of the shareholders of the Company in general meeting.”

NOTICE OF ANNUAL GENERAL MEETING

10. **“THAT**, subject to the availability of unissued share capital and conditional upon the resolutions nos. 8 and 9 above being passed, the number of Shares which are repurchased by the Company pursuant to and in accordance with resolution no. 9 above shall be added to the number of Shares that may be allotted or agreed conditionally or unconditionally to be allotted by the Directors pursuant to and in accordance with resolution no. 8 above.”

By order of the Board

Poon Siu Chung

Chairman

Hong Kong, 19 April 2011

Notes:

1. A member of the Company who is a holder of two or more Shares, and who is entitled to attend and vote at the AGM is entitled to appoint more than one proxy or a duly authorized corporate representative to attend and vote in his stead. A proxy needs not be a member of the Company. Completion and return of the form of proxy will not preclude a member of the Company from attending and voting in person at the AGM and any adjournment thereof should he so wish. In such event, his form of proxy will be deemed to have been revoked.
2. A form of proxy for the AGM is enclosed with the Company's circular dated 19 April 2011. In order to be valid, the form of proxy duly completed and signed in accordance with the instructions printed thereon together with a valid power of attorney or other authority, if any, under which it is signed, or a notarially certified copy of such power or authority, must be deposited at the Company's branch share registrar in Hong Kong, Tricor Standard Limited at 26/F., Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong not less than 48 hours before the time appointed for holding the AGM or any adjournment thereof.
3. The Hong Kong branch register of members of the Company will be closed from 24 May 2011 to 25 May 2011 (both dates inclusive), for the purposes of determining the entitlements of the members of the Company to attend and vote at the AGM. No transfers of Shares may be registered during the said period. In order to qualify for the aforesaid entitlements, all transfers accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Tricor Standard Limited at 26/F., Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong no later than 4:30 p.m. on 23 May 2011, Monday.
4. With regard to resolutions no. 8 above, the Directors wish to state that they have no immediate plans to issue any new Shares pursuant to the general mandate to be granted under resolution no. 8 above.

CHAIRMAN'S STATEMENT

RESULTS

The board of directors of the Company (the "Board") has resolved to announce the audited consolidated financial results for the year ended 31 December 2010. Total revenue for the year amounted to approximately HK\$382,779,000 (2009: HK\$404,606,000). The net profit for the year stood at approximately HK\$20,175,000 (2009: HK\$37,776,000). Basic earnings per share was approximately 7.27 HK cents (2009: 12.95 HK cents).

FINAL DIVIDEND

The Board recommends the payment of a final dividend for the year ended 31 December 2010 of 2.5 HK cents per share (2009: 6.5 HK cents per share) payable to shareholders on the register of members of the Company (the "Register of Members") on 25 May 2011. This dividend together with the interim dividend of 1.0 HK cent per share (2009: 1.0 HK cent per share) will make a total of 3.5 HK cents per share for the year (2009: 7.5 HK cents per share). Subject to the approval of shareholders at the forthcoming Annual General Meeting, the final dividend will be paid on or about 08 June 2011.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members will be closed from 24 May 2011 to 25 May 2011, both days inclusive, during which period no share transfer will be registered. In order to qualify for the proposed final dividend, all transfers accompanied by the relevant share certificates must be lodged with the Company's Share Registrar in Hong Kong at Tricor Standard Limited, 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong no later than 4:30 p.m. on 23 May 2011.

BUSINESS REVIEW

For China and Hong Kong, the year 2010 was a prosperous year, economic recovery progressed steadily. However, for the USA and European countries, they were still striving to resolve their own financial issues. Hence, the USA government continued the policy of quantitative easing which results in the relatively cheap costs of funds, leading to rise in prices of various commodities.

During the year, the revenue of the Group decreased gently by approximately 5% to approximately HK\$382,779,000 (2009: HK\$404,606,000), and the Group recorded a net profit attributable to owners of the Company of approximately HK\$20,175,000 (2009: HK\$37,776,000), representing a decrease of about 47%. The decrease in profitability of the Group was mainly due to both the decrease in profit margin of the core business and investment income.

For the year 2010, the profit of the Group included profit on the disposal of investments held-for-trading of approximately HK\$53,000 (2009: HK\$6,606,000), gain arising from the increase in fair value of investments held-for-trading of approximately HK\$1,967,000 (2009: HK\$12,369,000), increase in fair value of derivative financial instruments of approximately HK\$60,000 (2009: decrease of HK\$2,310,000).

Besides, administrative expenses dropped by about 16% to approximately HK\$33,699,000 (2009: HK\$40,349,000). Such decrease was mainly due to the decrease in provision of doubtful debts and staff costs which was attributable, amongst other things, the write-back of approximately HK\$2,800,000 (2009: nil) of over-provision of discretionary bonus in previous years and no share-based payments expenses were incurred (2009: HK\$1,226,000) as no option was granted during the year.

CHAIRMAN'S STATEMENT

Finance costs decreased further by about 28% to approximately HK\$488,000 (2009: HK\$675,000) as a result of the persistently low level of interest rates in spite of the drawdown of term loan by the Group of HK\$12 million during the year.

FUTURE PLAN & PROSPECT

Looking ahead, the trend of low level of interest rates is likely to continue in 2011, which may lead to the continuing rise in the prices of commodities. Together with the increasing costs of production in mainland China as a result of the expectation of appreciation of Renminbi and annual increase in the level of minimum labour wages, profit margin for manufacturing industries is likely to decrease.

In order to survive the adverse environment, the Group is trying different ways to enhance its profit margin, such as developing our own brand name and trademark, in addition to launching our own products in domestic market and the mainland market.

On other hand, with the available funds on hand, the Group will continue to search for investment opportunities. If possible, experts may be recruited to strengthen the investment function of the Group to enhance the return to shareholders.

Based on the expected greater share of profits from the toy products segment as a result of further acquisition of the shareholdings in Fareastern Trade Limited, details of which were disclosed in the Company's announcement dated 18 February 2011, together with the healthy financial position with available funds for investments, the Board is confident that the Group will continue to bring a reasonable return to its shareholders in the years to come.

MANAGEMENT DISCUSSION AND ANALYSIS

Segment Results

Novelties and decorations

The turnover of this segment for the year showed a slight drop of about 2% and stood at approximately HK\$97,985,000 (2009: HK\$99,887,000), while the segment result decreased substantially by about 51% to approximately HK\$2,395,000 (2009: HK\$4,882,000). Included in the gain was an amount of approximately HK\$1,800,000 (2009: nil) of write-back of over-provision of discretionary bonus in previous years. The segment result was disappointing as compared to the figures of last corresponding period and of the interim result. The deterioration in segment result was mainly due to the increase in materials and labour costs.

Packaging products

The revenue of packaging products to external customers decreased further by about 18% to approximately HK\$63,057,000 (2009: HK\$76,639,000), while the segment result recorded a gain of approximately HK\$436,000 (2009: loss of HK\$8,281,000). Included in the gain was an amount of approximately HK\$1,000,000 (2009:nil) of write-back of over-provision of discretionary bonus in previous years. No further operating loss was incurred from this segment as a result of the termination of the production plant in Shenzhen in July 2010. Certain production facilities thereof have been relocated to the Group's production plant in Zhongshan to continue its operations at optimal scale.

CHAIRMAN'S STATEMENT

Trading activities

The revenue of the trading of PVC films and plastic materials increased gently by about 27% to approximately HK\$65,360,000 (2009: HK\$51,582,000). The growth was gentle as a result of the Group's prudent credit policy in selecting customers together with the target to maximize gains. And the segment recorded a contribution of approximately HK\$1,546,000 (2009: HK\$860,000) for the year representing a growth of about 80%. However, keen competition in the market and credit risks of customers were still the major issues faced by the Group in the segment and the continuity of this segment is subject to the overall strategic benefits that it can bring to the Group as a whole.

Toy products

The turnover of this segment remained steady with a decrease of about 11% to approximately HK\$156,377,000 (2009: HK\$176,498,000), while the segment result therefrom decreased substantially to approximately HK\$10,826,000 (2009: HK\$26,228,000), representing a drop of about 59%. Decrease in contribution was the result of the increase in production costs in certain sub-segment, especially the sharp rise in the costs of raw materials, which could not be transferred to ultimate buyers effectively.

Investments

To well utilize the available cash on hand, the Group has invested in the securities of various listed companies, for the purposes of trading for capital gain in the value of the securities. As at 31 December 2010, the market value of investments held-for-trading was approximately HK\$72,910,000 (2009: HK\$92,996,000).

In addition, the Group may also utilise its cash on hand by other types of investment with a view to enhancing the value to the shareholders. Such investment activities will be carried out in strict accordance with the guidelines on investment transactions, details of which are posted on the Company's website, www.perfectech.com.hk.

Foreign currency exposure

The Group's sales and purchases are mainly denominated in Hong Kong Dollar and US Dollar. As all its factories are located in the PRC, expenses incurred are dominated in Renminbi.

Since Hong Kong Dollar remains pegged to US Dollar, the Group does not foresee a substantial exposure in this area, but will closely monitor the trend of Renminbi in case any action is required.

At 31 December 2010, the Group had not entered into any financial instrument for the hedging of foreign currency exposures.

Liquidity and financial resources

At 31 December 2010, the long-term finance lease obligation and bank loan of the Group were nil (2009: nil), while the short term bank borrowings were approximately HK\$27,750,000 (2009: 23,815,000), and none of the Group's plant and machinery (2009: nil) was held under a finance lease. The gearing ratio, measured by total bank and other borrowings divided by equity, of the Group was 13% (2009: 10%). At 31 December 2010, the total bank balances and cash of the Group were approximately HK\$72,487,000 (2009: HK\$77,020,000).

With cash and other current assets at 31 December 2010 of HK\$267,215,000 (2009: HK\$276,734,000) as well as available banking facilities, the Group had sufficient financial resources to satisfy its commitments and working capital requirements.

CHAIRMAN'S STATEMENT

Net asset value

The net asset value of the Group at 31 December 2010 was approximately HK\$0.80 (2009: HK\$0.85) per share based on the actual number of 275,207,607 shares in issue on that date.

Employees and remuneration policies

At 31 December 2010, the Group employed approximately 1,700 full time employees. The Group remunerates its employees largely based on prevailing industry practice as well as individual merits. The Group has also established a share option scheme for its full time employees.

APPRECIATION

Finally, I would like to take this opportunity to thank all my fellow Directors and staff for their contribution and cordial support during the year.

On behalf of the Board

Poon Siu Chung

Chairman & Managing Director

Hong Kong, 29 March 2011

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT STAFF

DIRECTORS

Executive Directors

Mr. POON Siu Chung, aged 61, is the Chairman and Managing Director of the Company. Mr. Poon is the co-founder of the Group and has over 30 years' experience in the plastic industry and toy business. He oversees the Group's operations and is responsible for formulating the Group's overall corporate policies and development plans. Mr. Poon is the father of Dr. Poon Wai Tsun, William.

Mr. IP Siu On, aged 57, is primarily responsible for the sales and marketing of the Group's packaging products. Before joining the Group in 1984, Mr. Ip had over 10 years of experience in the field of dye mixing and packaging products.

Mr. TSUI Yan Lee, Benjamin, aged 51, is responsible for the sales and marketing of the Group's novelties and festival decorations. Prior to joining the Group in 1983, he worked in a manufacturing company as a sales executive for over 3 years.

Dr. POON Wai Tsun, William, aged 33, graduated from University of Bristol in the United Kingdom with a Bachelor degree in Mechanical Engineering and a Doctor of Philosophy degree in Engineering. Dr. Poon is a founding member of Hong Kong Institute of Patent Attorneys. Dr. Poon is responsible for the research and development of the Group's products. He joined the Group in 2009 and has more than 5 years' experience in manufacturing industry. Dr. Poon is the eldest son of Mr. Poon Siu Chung and Ms. Lau Kwai Ngor, his mother, is a substantial shareholder of the Company.

Independent non-executive Directors

Mr. LAM Yat Cheong, aged 49, graduated from the Hong Kong Baptist University. Mr. Lam is a Certified Public Accountant and a sole proprietor of an audit firm and has over 20 years of auditing and accounting experience. He is a member of the Association of Chartered Certified Accountants and the Hong Kong Institute of Certified Public Accountants. He is also an independent non-executive director of Lee's Pharmaceutical Holdings Limited and Wuyi International Pharmaceutical Company Limited, both listed in Hong Kong.

Mr. YIP Chi Hung, aged 52, is experienced in the construction industry. Mr. Yip is a director of Fong Wing Shing Construction Company Limited. He has over 20 years of experience in a variety of building and maintenance projects for both the public and private sectors and is also well versed in the development of properties in Hong Kong and Singapore. He is also the chairman and executive director of PacMOS Technologies Holdings Limited, a company listed in Hong Kong.

Mr. CHOY Wing Keung, David, aged 45, graduated from the Hong Kong Shue Yan University and is the sole proprietor of David Choy & Co., Certified Public Accountants (Practising). He is a member of the Hong Kong Institute of Certified Public Accountants and the Association of Certified Chartered Accountants. He has over 20 years of experience in the areas of auditing, accounting, secretarial services and taxation.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT STAFF

Senior Management

Mr. FUNG Kun Kwai, aged 57, is the factory manager of the Group. He joined the Group in 1978 and has more than 20 years of experience in vacuum forming operations. Mr. Fung is responsible for overseeing the production facilities of the Group.

Mr. YUEN Che Wai, Victor, aged 45, is the Group's financial controller. Mr. Yuen is a member of the Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountants. He is responsible for the overall supervision on the accounting and finance functions of the Group. Mr. Yuen holds a diploma in accounting from Hong Kong Shue Yan College (now known as Hong Kong Shue Yan University). He joined the Group in 1991 and has more than 10 years of experience in the audit and accounting field.

CORPORATE GOVERNANCE REPORT

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

Throughout the year ended 31 December 2010, the Company has adopted the code provisions (the “Code Provisions”) set out in the “Code on Corporate Governance Practices” (the “Code”) issued by The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) as its corporate governance code and has complied with the Code Provisions, save for the following deviation.

Code Provision A.2.1

Code Provision A.2.1 stipulates that the roles of the chairman and the chief executive officer should be separate and should not be performed by the same individual.

While the Company does not have the position of chief executive officer, the responsibilities normally assumed by such a role are taken up by the Managing Director. Mr. Poon Siu Chung is the Chairman and Managing Director of the Company. The Board considers that this structure will not impair the balance of power and authority between the Board and the management of the Company. The balance of power and authority is ensured by the operations of the Board, which comprises experienced and high calibre individuals who meet regularly to discuss issues affecting the operations of the Company. The Board believes that this structure is conducive to strong and consistent leadership, enabling the Group to make and implement decisions promptly and efficiently. The Board has full confidence in Mr. Poon and believes that having Mr. Poon performing the roles of Chairman and Managing Director is beneficial to the business prospects of the Company.

THE BOARD OF DIRECTORS

The Role of the Board

The Board is responsible for formulating strategies and business plans for the Group and is collectively responsible for its success.

The types of decisions taken up by the Board include:

- corporate and capital structure;
- corporate strategy;
- significant policies affecting the Group as a whole;
- business plan, budgets and public announcements;
- delegation to the Chairman, and delegation to and by Board committees;
- key financial matters;
- appointment, removal or reappointment of Board members, senior management and auditors;

CORPORATE GOVERNANCE REPORT

- remuneration of Directors and senior management; and
- communication with key stakeholders, including shareholders and regulatory bodies.

The Board has delegated decisions in relation to daily operation and administration responsibilities to management under the supervision of the Managing Director.

Board Composition

The Board comprises 7 Directors, 4 of whom are Executive Directors (“EDs”, and each an “ED”) and 3 being Independent Non-Executive Directors (“INEDs”, and each an “INED”). During the year, save for the appointment of Dr. Poon Wai Tsun, William, as Executive Director of the Company on 6 July 2010, there is no change to the composition of the Board.

For the biographies of the Directors, please refer to this Annual Report. There are no relationships (including financial, business, family or other material or relevant relationships) among members of the Board, except the followings:

- Dr. Poon is the son of Mr. Poon Siu Chung, Chairman and Managing Director of the Company and his mother, Ms. Lau Kwai Ngor, is a substantial shareholder of the Company; and
- Mr. Poon Siu Chung and Mr. Ip Siu On are both shareholders and directors of a company incorporated in Hong Kong engaging in property investment, which is owned as to 50% by Mr. Poon, as to 25% by Mr. Poon’s spouse, Ms. Lau Kwai Ngor and as to 25% by Mr. Ip.

As explained earlier, both the roles of the Chairman and Managing Director are taken up by Mr. Poon Siu Chung.

The INEDs of the Company are professionals in different fields, and two of the INEDs have appropriate professional qualifications of accounting or related financial management expertise. They are responsible for ensuring that the Board maintains high standards of financial and other mandatory reporting as well as providing adequate checks and balances for safeguarding the interests of shareholders and the Group as a whole.

Pursuant to Listing Rule 3.13, the Group has received a written confirmation from each INED on his independent status, and the Board considers that they are independent in accordance with the Listing Rules.

CORPORATE GOVERNANCE REPORT

Board Process

In addition to Board meetings that are held regularly to discuss and approve the Group's results, additional Board meetings are held from time to time to discuss important matters that require the Board's attention and decision. In 2010, there were 4 regular Board meetings and 41 Special Board meetings held, and the attendance of the Directors is set out below:

| Directors | Attended/Eligible to attend | |
|--|-----------------------------|---|
| | Regular Board Meeting | Special Board Meeting for operational matters |
| <i>Executive Directors</i> | | |
| Poon Siu Chung (<i>Chairman</i>) | 4/4 | 41/41 |
| Ip Siu On | 3/4 | 41/41 |
| Tsui Yan Lee, Benjamin | 4/4 | 39/41 |
| Poon Wai Tsun, William (<i>appointed on 6 July 2010</i>) | 2/2 | 20/21 |
| <i>Independent Non-Executive Directors</i> | | |
| Yip Chi Hung | 4/4 | 0/41 |
| Lam Yat Cheong | 4/4 | 0/41 |
| Choy Wing Keung, David | 4/4 | 0/41 |

Regular Board meetings were attended to by a majority of the Directors in person.

Besides the regular Board meetings, special Board meetings are convened from time to time for the Board to discuss major matters that require the Board's attention or decision. Since the special Board meetings are concerned with the day-to-day management of the Company which often requires prompt decisions, usually only the executive Directors attend.

The Chairman of the Board ensures that the Board works effectively and that all important issues are discussed in a timely manner. All Directors are supplied with Board papers and relevant materials within a period of time acceptable to members of the Board prior to every Board meeting. All Directors have access to the Company Secretary for advice on compliance matters, and they have access to management for enquiries and to obtain information. If necessary, they may also take independent professional advice at the expense of the Group.

CORPORATE GOVERNANCE REPORT

Nomination, Appointment and Re-election of Directors

The Board has not established a Nomination Committee, and the Board itself is responsible for the selection and approval of new Directors. The Board adopts the procedure and criteria below for nomination of Directors:

During 2010, the Board held two Board meetings to discuss matters related to nomination, appointment and re-election of directors.

On 20 April 2010, a Board meeting was held to discuss the re-election of Mr. Lam Yat Cheong, Mr. Yip Chi Hung and Mr. Choy Wing Keung, David as INEDs. Except for Mr. Ip Siu On, all the aforesaid EDs and INEDs attended this Board meeting and each of them abstained voting from the resolution in respect of his own re-election.

On 6 July 2010, another Board meeting was held to discuss the appointment of Dr. Poon Wai Tsun, William as an executive director of the Company. All the directors attended the Board meeting and the appointment of Dr. Poon as an executive director of the Company was unanimously resolved.

The Board adopted a procedure and criteria for nomination of directors, the details of which are set out below:

Procedure for Nomination of Directors

1. When there is a vacancy in the Board, the Board evaluates the balance of skills, knowledge and experience of the Board, and identifies any special requirements for the vacancy (e.g. independence status in the case of an INED).
2. Prepare a description of the role and capabilities required for the particular vacancy.
3. Identify a list of candidates through personal contacts/recommendations by Board members, senior management, business partners or investors.
4. Arrange interview(s) with each candidate for the Board to evaluate whether he meets the established written criteria for nomination of directors. One or more members of the Board will attend the interview.
5. Conduct verification on information provided by the candidate.
6. Convene a Board meeting to discuss and vote on which candidate to nominate or be appointed to the Board.

CORPORATE GOVERNANCE REPORT

Criteria for Nomination of Directors

1. *Common Criteria for all Directors*

- (a) Character and integrity
- (b) The willingness to assume broad fiduciary responsibility
- (c) Present needs of the Board for particular experience or expertise and whether the candidate would satisfy those needs
- (d) Relevant experience, including experience at the strategy/policy setting level, high level managerial experience in a complex organization, industry experience and familiarity with the products and processes used by the Company
- (e) Significant business or public experience relevant and beneficial to the Board and the Company
- (f) Breadth of knowledge about issues affecting the Company
- (g) Ability to objectively analyse complex business problems and exercise sound business judgment
- (h) Ability and willingness to contribute special competencies to Board activities
- (i) Fit with the Company's culture

2. *Criteria Applicable to the Non-Executive Directors ("NEDs")/INEDs*

- (a) Willingness and ability to make sufficient time commitment to the affairs of the Company in order to effectively perform the duties of a director, including attendance at and active participation in Board and committee meetings
- (b) Accomplishments of the candidate in his or her field
- (c) Outstanding professional and personal reputation
- (d) The candidate's ability to meet the independence criteria for directors established in the Listing Rules

CORPORATE GOVERNANCE REPORT

Appointment, Re-election and Removal

Under Bye-law 99 of the Company's Bye-laws, every director shall be subject to retirement by rotation at the annual general meeting at least once every three years while those retiring directors shall be eligible for re-election.

Under the Code Provision A4.1 of the CG Code, non-executive directors should be appointed for a specific term, subject to re-election.

In accordance with the said provision of the Bye-laws and the Code Provision A4.1, re-election arrangement was made in the annual general meeting held on 9 June 2010, and that all non-executive directors, being Mr. Lam Yat Cheong, Mr. Yip Chi Hung and Mr. Choy Wing Keung, David were re-elected to hold office until the conclusion of the next annual general meeting of the Company, subject to re-election by shareholders.

Directors' Securities Transactions

The Company has adopted a code of conduct governing the Directors' transactions in securities of the Group on terms no less exacting than the standard set out in Appendix 10 to the Listing Rules (the "Model Code").

Following specific enquiry by the Group, all Directors have confirmed that throughout year 2010 they complied with the required standard set out in the Model Code for securities transactions.

The Directors' interests in shares of the Group as at 31 December 2010 are set out in this Annual Report.

Internal Control

The Board annually conducts a review on the structure and effectiveness of the system of internal control of the Group and the resources put into by the Group in performing the internal control work. In 2010, the Board has indentified no major issues on conducting the aforesaid reviews. Throughout this process, the Board has examined reports on internal control and procedures in place submitted by various factories of the Group.

REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT

The Remuneration Committee

The Remuneration Committee makes recommendations to the Board on the Company's policy and structure for all remuneration of Directors and senior management.

The Committee currently comprises Mr. Yip Chi Hung, who is also the chairman of the Committee, Mr. Lam Yat Cheong and Mr. Choy Wing Keung, David as INEDs, Mr. Poon Siu Chung as an Executive Director, and Mr. Yuen Che Wai, Victor, the Financial Controller of the Company.

The Committee is governed by its terms of reference, which are available at the Company's website <http://www.perfectech.com.hk>.

During 2010, one Committee meeting was held on 2 December 2010 which all the current 5 members attended.

CORPORATE GOVERNANCE REPORT

Emolument Policy and Long-Term Incentive Plan

The Company adopts different emolument policies for EDs and NEDs:

Emolument Policy for EDs

1. A proportion of EDs' remuneration should be structured so as to link rewards to corporate and individual performance.
2. The performance-related elements of remuneration should form a significant proportion of the total remuneration package of EDs.
3. The performance-related elements of remuneration should be designed to align the EDs' interests with those of shareholders and to give the Directors keen incentives to perform at the highest levels.
4. Factors for Defining Performance-Based Remuneration:
 - (a) Eligibility for annual bonuses and any upper limits
 - (b) Annual bonuses should be linked to relevant performance indicators designed to enhance the Company's business
 - (c) Eligibility for long-term incentive schemes, e.g. share option schemes, subject to performance criteria which reflect the Company's performance
 - (d) Examples of performance indicators:
 - (i) share price
 - (ii) net earnings figure

Emolument Policy for NEDs

1. Levels of emolument of NEDs should reflect the time commitment and responsibilities of the role.
2. NEDs should have the opportunity to have part of their remuneration in shares on condition that share options should be granted in accordance with the Listing Rules.

Principles of Long-Term Incentive Schemes

1. The purpose is to reward exceptional performance, and awards should be scaled against achievement of performance criteria.
2. The link between executive reward and company performance should be strong and clear.
3. Grants under such schemes should be phased rather than awarded in one large block.

CORPORATE GOVERNANCE REPORT

The emolument payable to the Directors is determined with reference to their qualification and experience, responsibilities undertaken, contribution to the Group, and the prevailing market level of remuneration of similar positions. The details of the fees and any other reimbursement or emolument payable to the Directors are set out in details in this Annual Report.

ACCOUNTABILITY AND AUDIT

Financial Reporting

The Board is responsible for the integrity of the financial information of the Group. The Directors acknowledge their responsibility for the preparation of the accounts for each financial period, which 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 Directors, having made appropriate enquiries, consider that the Group has adequate resources to continue in operational existence for the foreseeable future and that, for this reason, it is appropriate to adopt the going concern basis in preparing the financial statements.

Audit Committee

The Audit Committee usually meets twice a year to review and monitor the financial reporting and internal control procedures of the Company.

The Audit Committee is governed by its terms of reference, which are available at the Group's website <http://www.perfectech.com.hk>.

The Audit Committee currently comprises 3 members, namely Mr. Lam Yat Cheong, who is also the chairman of the Committee, Mr. Yip Chi Hung and Mr. Choy Wing Keung, David, who are INEDs. Both Mr. Lam and Mr. Choy have professional qualifications in accounting. The details of the members' attendance in Committee meetings in 2010 are as follows:

| Members | Attended/Eligible to attend |
|------------------------|-----------------------------|
| Lam Yat Cheong | 2/2 |
| Yip Chi Hung | 1/2 |
| Choy Wing Keung, David | 2/2 |

Other attendees at the Audit Committee meetings include the Financial Controller and the external auditors, for discussion of the audit of the annual results only.

CORPORATE GOVERNANCE REPORT

The Audit Committee's work in 2010 includes consideration of the following matters:

- the completeness and accuracy of the 2009 annual and 2010 interim financial statements;
- the Group's compliance with statutory and regulatory requirements;
- developments in accounting standards and the effect on the Group;
- detailed analysis of various aspects of the Company's financial performance; and
- investment policies and possible impact of certain investment transactions.

External Auditors

The Company's external auditor is HLM & Co. The Group will pay HLM & Co. approximately HK\$800,000 for their audit services for 2010.

CORPORATE COMMUNICATION

The Group values and strives to provide comprehensive and timely communications to its stakeholders, including its shareholders.

Shareholders' Rights

Further to the Companies Act 1981 of Bermuda and the Company's Bye-Laws, a special general meeting ("SGM") can be convened on requisition.

The most recent shareholders' meeting was the AGM held on 9 June 2010 at Falcon Room 1, Gloucester Luk Kwok Hong Kong, 72 Gloucester Road, Wanchai, Hong Kong to discuss and approve the following matters:

- considering and receiving the consolidated audited financial statements and reports for the Directors and auditors for the year ended 31 December 2009;
- declaring the final dividend;
- re-electing certain Directors and authorizing the Board to fix their remunerations;
- appointing the Company's external auditors and authorizing the Board to fix their remunerations;
- passing a general mandate to allow the Directors to allot and issue shares of the Company; and
- passing a general mandate to allow the Directors to repurchase shares of the Company.

REPORT OF THE DIRECTORS

The Directors of the Company present their annual report (the “Report of the Directors”) and the audited financial statements for the year ended 31 December 2010.

PRINCIPAL ACTIVITIES

The Company acts as an investment holding company. The activities of its principal subsidiaries are set out in note 37 to the financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2010 are set out in the consolidated statement of comprehensive income on page 32.

An interim dividend of 1.0 HK cent per share amounting to approximately HK\$2,750,000 was paid to the shareholders during the year. The directors now recommend the payment of a final dividend of 2.5 HK cents per share to the shareholders on the register of members on 25 May 2011, amounting to approximately HK\$6,880,000.

MAJOR CUSTOMERS AND SUPPLIERS

During the year, the five largest customers of the Group in aggregate accounted for approximately 47% of the total revenues of the Group and the largest customer accounted for approximately 31% of the total revenues of the Group.

The five largest suppliers of the Group in aggregate accounted for approximately 38% of the total purchases of the Group and the largest supplier accounted for approximately 12% of the total purchases of the Group.

At no time during the year did a director, an associate of a director or a shareholder of the Company (which to the knowledge of the Directors owns more than 5% of the Company’s issued share capital) have an interest in any of the Group’s five largest customers or suppliers.

PROPERTY, PLANT AND EQUIPMENT AND PREPAID LEASE PAYMENTS

The Group continued with its replacement policy and expended HK\$7,413,000 on property, plant and equipment during the year .

Details of the above and other movements during the year in the property, plant and equipment and prepaid lease payments of the Group are set out in note 14 and 15 to the financial statements.

SHARE CAPITAL

Details of the movements during the year in the share capital of the Company are set out in note 25 to the financial statements.

REPORT OF THE DIRECTORS

DISTRIBUTABLE RESERVES OF THE COMPANY

At 31 December 2010, the Company's reserves available for distribution, calculated in accordance with the provisions of the Companies Act 1981 of Bermuda (as amended), amounted to HK\$39,372,000 of which HK\$6,880,000 has been proposed as a final dividend for the year. In addition, out of the Company's share premium account, in the amount of HK\$72,962,000, may be distributed in the form of fully paid bonus shares.

DIRECTORS

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

Executive Directors

Mr. Poon Siu Chung

(Chairman and Managing Director)

Mr. Ip Siu On

Mr. Tsui Yan Lee, Benjamin

Dr. Poon Wai Tsun, William

(appointed on 6 July 2010)

Independent non-executive Directors

Mr. Lam Yat Cheong

Mr. Yip Chi Hung

Mr. Choy Wing Keung, David

Dr. Poon Wai Tsun, William, who was appointed by the Board as an executive Director effective from 6 July 2010, will be subject to re-election by the shareholders of the Company at the forthcoming annual general meeting of the Company.

In accordance with Bye-law 99 of the Bye-laws and the code of corporate governance of the Company, Mr. Poon Siu Chung, being Executive Director, shall retire from office by rotation at the conclusion of the forthcoming annual general meeting and, being eligible, offers himself for re-election.

Further, Mr. Lam Yat Cheong, Mr. Yip Chi Hung and Mr. Choy Wing Keung, David, all being independent non-executive Directors, will hold office until the conclusion of the forthcoming annual general meeting. All of them, being eligible, will offer themselves for re-election.

DIRECTOR'S SERVICE CONTRACTS

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

All independent non-executive directors have been appointed for a term of approximately one year. All independent non-executive directors will hold office until the conclusion of the forthcoming annual general meeting of the Company.

REPORT OF THE DIRECTORS

DIRECTORS' INTERESTS IN SHARES AND OPTIONS

At 31 December 2010, the interests of the directors in the shares, underlying shares and debentures of the Company and its associated corporations (as defined in Part XV of the Securities and Futures Ordinance (Cap 571) ("SFO")) as recorded in the register maintained under Section 352 of Part XV of the SFO or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code"), were as follows:

(A) Long positions in interests of the Company

| Director | Capacity | No. of shares held | No of underlying shares held under equity derivatives | Total | % of issued share capital of the Company |
|----------------------------|------------------------------------|--------------------|---|-----------------|--|
| Mr. Poon Siu Chung | Beneficial owner | 17,164,000 | - | | |
| | Interest of controlled corporation | 101,139,430 | - | 118,303,430 (a) | 42.99 |
| Mr. Ip Siu On | Beneficial owner | 6,825,600 | 1,000,000 (b) | 7,825,600 | 2.84 |
| Mr. Tsui Yan Lee, Benjamin | Beneficial owner | 1,611,000 | 1,000,000 (b) | 2,611,000 | 0.95 |
| Mr. Yip Chi Hung | Interest of controlled corporation | 2,800,000 (c) | - | 2,800,000 | 1.02 |
| Mr Lam Yat Cheong | Beneficial owner | - | 300,000 (b) | 300,000 | 0.11 |
| Mr. Choy Wing Keung, David | Beneficial owner | - | 300,000 (b) | 300,000 | 0.11 |

Notes:

- (a) Mr. Poon Siu Chung was the beneficial owner of 17,164,000 shares of the Company and he was deemed to be interested in 101,139,430 shares which were held through Mime Limited, a limited company incorporated in Hong Kong and owned as to 55% by Mr. Poon Siu Chung and as to 45% by his spouse, Ms. Lau Kwai Ngor respectively.
- (b) These interests represented interests in underlying shares in respect of share options granted by the Company to these directors as beneficial owners, details of which are set out in the section "Share Options" of this report.
- (c) Mr. Yip Chi Hung was deemed to be interested in 2,800,000 shares which were held through First Canton Investment Limited, a company incorporated in the British Virgin Islands and 100% beneficially owned by Mr. Yip.

REPORT OF THE DIRECTORS

(B) Long position in shares of associated corporations of Company

| Director | Name of associated corporation | Capacity | No. of shares held | Total | % of issued share capital of the associated corporation |
|----------------------------|---------------------------------------|--------------------|--------------------|-----------|---|
| Mr. Poon Siu Chung | Perfectech International Limited | Beneficial owner | 200 | 400(d) | 50 |
| | | Interest of spouse | 200 | | |
| | Sunflower Garland Manufactory Limited | Beneficial owner | 60,800 | 81,600(e) | 51 |
| | | Interest of spouse | 20,800 | | |
| Mr. Ip Siu On | Sunflower Garland Manufactory Limited | Beneficial owner | 28,800 | 28,800 | 18 |
| | | | | | |
| Mr. Tsui Yan Lee, Benjamin | Sunflower Garland Manufactory Limited | Beneficial owner | 28,800 | 28,800 | 18 |
| | | | | | |

Notes:

- (d) Mr. Poon Siu Chung was the beneficial owner of 200 non-voting deferred shares (“Perfectech Shares”) of HK\$100 each in Perfectech International Limited, a subsidiary of the Company and was deemed to be interested in 200 Perfectech Shares through interests of his spouse, Ms. Lau Kwai Ngor.
- (e) Mr. Poon Siu Chung was the beneficial owner of 60,800 non-voting deferred shares (“Sunflower Shares”) of HK\$1 each in Sunflower Garland Manufactory Limited, a subsidiary of the Company and was deemed to be interested in 20,800 Sunflower Shares through interests of his spouse, Ms. Lau Kwai Ngor.

Details of the directors, or their associates, interests in the share options of the Company or any of its associated corporations are set out in the “Share Options” section of this report.

Other than as disclosed above and nominee shares in certain subsidiaries held in trust for the Group, none of the directors, nor their associates, had any interests or short positions in any shares, underlying shares or debenture of the Company or any of its associated corporations as at 31 December 2010.

REPORT OF THE DIRECTORS

SHARE OPTIONS

Particulars of the Company's share option scheme are set out in note 32 to the financial statements. Details of the movements in the Company's share option during the year are as follows:

| | Number of options outstanding at 1.1.2010 | Number of options granted during the year | Number of shares issued and exercise of options during the year | Number of options lapsed during the year | Number of options outstanding at 31.12.2010 | Date granted | Exercise price per share HK\$ | Exercisable period |
|------------------------|---|---|---|--|---|-----------------|-------------------------------|------------------------------------|
| Directors | | | | | | | | |
| Ip Siu On | 1,000,000 | - | - | - | 1,000,000 | 2 February 2005 | 0.608 | 2 May 2005 – 31 December 2014 |
| | 900,000 | - | (900,000) | - | - | 20 May 2009 | 0.375 | 1 June 2009 – 31 December 2018 |
| Tsui Yan Lee, Benjamin | 1,000,000 | - | - | - | 1,000,000 | 2 February 2005 | 0.608 | 2 May 2005 – 31 December 2014 |
| | 1,000,000 | - | (1,000,000) | - | - | 14 October 2008 | 0.389 | 1 November 2008 – 31 December 2017 |
| | 900,000 | - | (900,000) | - | - | 20 May 2009 | 0.375 | 1 June 2009 – 31 December 2018 |
| Yip Chi Hung | 300,000 | - | (300,000) | - | - | 2 November 2007 | 0.850 | 1 December 2007 – 31 December 2016 |
| Lam Yat Cheong | 300,000 | - | - | - | 300,000 | 2 November 2007 | 0.850 | 1 December 2007 – 31 December 2016 |
| Choy Wing Keung, David | 300,000 | - | - | - | 300,000 | 2 November 2007 | 0.850 | 1 December 2007 – 31 December 2016 |
| Employees | 4,500,000 | - | - | - | 4,500,000 | 24 March 2006 | 0.540 | 24 April 2006 – 31 December 2014 |
| | 8,200,000 | - | - | - | 8,200,000 | 2 November 2007 | 0.850 | 1 December 2007 – 31 December 2016 |
| | 3,500,000 | - | (3,500,000) | - | - | 14 October 2008 | 0.389 | 1 November 2008 – 31 December 2017 |
| | 3,900,000 | - | (3,900,000) | - | - | 20 May 2009 | 0.375 | 1 June 2009 – 31 December 2018 |
| | <u>25,800,000</u> | <u>-</u> | <u>(10,500,000)</u> | <u>-</u> | <u>15,300,000</u> | | | |
| Others | 1,000,000 | - | - | - | 1,000,000 | 5 June 2002 | 0.664 | 5 July 2002 – 17 May 2012 |
| | 1,000,000 | - | - | - | 1,000,000 | 2 February 2005 | 0.608 | 2 May 2005 – 31 December 2014 |
| | <u>2,000,000</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>2,000,000</u> | | | |
| Grant Total | <u>27,800,000</u> | <u>-</u> | <u>(10,500,000)</u> | <u>-</u> | <u>17,300,000</u> | | | |

The closing price of the Company's shares on 5 June 2002, 2 February 2005, 24 March 2006, 2 November 2007, 14 October 2008 and 20 May 2009, the dates of grant of the options, were HK\$0.64, HK\$0.60, HK\$0.52, HK\$0.85, HK\$0.335 and HK\$0.375 respectively.

Share options were exercised on various dates during the year, the weighted average closing price of the Company's shares immediately before those dates was HK\$0.7658.

REPORT OF THE DIRECTORS

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

Other than the share options disclosed above, at no time during the year was the Company or any of its subsidiaries, a party to any arrangements to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

DIRECTORS' AND CONTROLLING SHAREHOLDERS' INTEREST IN CONTRACTS OF SIGNIFICANCE AND CONNECTED TRANSACTIONS

- (a) On 31 December, 2010, the Group entered into a tenancy agreement in renewal of the tenancy agreement entered into on 31 December 2007 with Mr. Poon Siu Chung, a substantial shareholder and director of the Company, in relation to premises at Nos. 34 and 35 of Xiazha Industrial Street, Jinding Town, Zhuhai, the People's Republic of China, for a monthly rent of HK\$20,000 for a period of three years commencing from 1st January, 2011. The said premises are used by the Group as factories. The total rent payable by the Group for the premises for the full period of the tenancy under the aforesaid tenancy agreement will amount to HK\$720,000. During the year, the Group paid rent to Mr. Poon Siu Chung totalling HK\$240,000.
- (b) On 18 February 2011, Perfectech International Manufacturing Limited ("PIML"), an indirect wholly-owned subsidiary of the Company, entered into an agreement as the purchaser with Close Contact Agents Limited as the vendor (the "Vendor") and Mr. Lo Wing Wai as the guarantor (the "Guarantor") to acquire 10,340 shares of US\$1.00 each in the issued share capital of Fareastern Trade Limited ("FE"), an indirect non-wholly-owned subsidiary of the Company, representing approximately 11.80% of the entire issued share capital of FE at a consideration of HK\$4,638,000 (the "Consideration"). The Consideration was settled by cash on the date of completion, 18 February 2011.

The Vendor is a substantial shareholder of FE and the Guarantor is a director of each of FE, the Vendor and PIML, and is the ultimate beneficial owner of the Vendor. Therefore, each of the Vendor and the Guarantor is regarded as a connected person of the Company under Chapter 14A of the Listing Rules.

Having considered the significant contribution of FE and its subsidiaries to the Group's financial performance since the acquisition of PIML in 2003, the Consideration which represents approximately 4.5 times of the average unaudited profit attributable to the owners of FE for the years ended 31 December 2006, 2007, 2008 and 2009 of approximately HK\$8,735,000, and the expected growth of the business of FE and its subsidiaries, the Directors (including independent non-executive Directors) are of the view that the terms of the acquisition are in the interests of the Company and the shareholders as a whole.

Details of the transaction are disclosed in the announcement of the Company dated 18 February 2011.

The independent non-executive directors confirm that the transactions have been entered into by the Group (i) in the ordinary and usual course of its business; (ii) in accordance with the terms of the relevant agreements governing such transactions on terms that are fair and reasonable and in the interests of the Company and the shareholders as a whole and (iii) on normal commercial terms or on terms no less favourable to the Group than terms available to or from independent third parties.

Other than as disclosed above, no contracts of significance to which the Company or any of its subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

REPORT OF THE DIRECTORS

SUBSTANTIAL SHAREHOLDERS

Other than the interests disclosed above in the section “Directors’ Interests in Shares and Options”, as at 31 December 2010, the register of substantial shareholders’ interests maintained by the Company pursuant to Section 336 of the SFO showed that the following shareholders had notified the Company of the relevant interests in the shares capital of the Company as follows:

Long positions in shares of the Company

| Shareholder | Capacity | Number of Shares held | | % of issued share capital of the Company |
|-----------------------------|---|-----------------------|-----------------|--|
| | | | Total | |
| Ms. Lau Kwai Ngor | Interest of spouse | 17,164,000 | | |
| | Interest of controlled corporation | 101,139,430 | 118,303,430 (a) | 42.99 |
| Mime Limited | Beneficial owner | 101,139,430 | 101,139,430 (a) | 36.75 |
| Mr. Leung Ying Wai, Charles | Interest of spouse and controlled corporation | 63,097,200 | 63,097,200 (b) | 22.93 |
| Ms. Tai Yee Foon | Interest of spouse and controlled corporation | 63,097,200 | 63,097,200 (b) | 22.93 |
| Nielsen Limited | Beneficial owner | 63,097,200 | 63,097,200 (b) | 22.93 |

Notes:

- (a) Under the SFO, Ms. Lau Kwai Ngor was deemed to be interested in 118,303,430 shares of the Company through interests of her spouse, Mr. Poon Siu Chung. Mr. Poon Siu Chung was the beneficial owner of 17,164,000 shares of the Company and he was deemed to be interested in 101,139,430 shares which were held through Mime Limited, a limited company incorporated in Hong Kong and owned as to 55% by Mr. Poon Siu Chung and as to 45% by his spouse, Ms. Lau Kwai Ngor.
- (b) Under the SFO, Mr. Leung Ying Wai, Charles and Ms. Tai Yee Foon were deemed to be interested in 63,097,200 shares of the Company, which were held through Nielsen Limited, a limited company incorporated in Hong Kong and beneficially owned by Mr. Leung Ying Wai, Charles, Ms. Tai Yee Foon and his family members.

APPOINTMENT OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received, from each of the independent non-executive directors, an annual confirmation of his independence pursuant to Rule 3.13 of the Rules Governing the Listing Securities on the Stock Exchange of Hong Kong Limited (“Listing Rules”). The Company considers all of the independent non-executive directors are independent.

CORPORATE GOVERNANCE

Save as disclosed in the Corporate Governance Report, the Company has adopted throughout the year ended 31 December 2010 the Code of Corporate Governance Practices (“Code Provision”) set out in the Appendix 14 of the Listing Rules.

Details of the Company’s corporate governance practices can be found in the Corporate Governance Report in page 12 to 20 of this annual report.

REPORT OF THE DIRECTORS

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

During the year, the Company repurchased its own shares through the Stock Exchange as follows:

| Month of repurchase | No. of shares of HK\$0.10 each | Price per share | | Total Amount Paid HK\$ |
|---------------------|-----------------------------------|-----------------|----------------|------------------------------|
| | | Highest HK\$ | Lowest HK\$ | |
| January 2010 | 3,926,000 | 0.740 | 0.680 | 2,814,364 |
| February 2010 | 2,280,000 | 0.730 | 0.700 | 1,636,689 |
| April 2010 | 4,790,000 | 0.950 | 0.900 | 4,467,264 |
| May 2010 | 2,066,000 | 0.890 | 0.840 | 1,812,629 |
| June 2010 | 1,770,000 | 0.860 | 0.740 | 1,417,070 |
| July 2010 | 3,218,000 | 0.780 | 0.710 | 2,460,449 |
| September 2010 | 950,000 | 0.730 | 0.720 | 695,368 |
| November 2010 | 3,330,000 | 0.780 | 0.720 | 2,511,004 |
| | <u>22,330,000</u> | | | <u>17,814,837</u> |

Save as disclosed herein, neither the Company nor any of its subsidiaries had purchased, redeemed or sold any of the Company's listed securities during the year and up to the date of this report.

EMOLUMENT POLICY

The emolument policy of the employees of the Group is set by the Board and reviewed by the Remuneration Committee on the basis of their merit, qualifications and competence. The emoluments of the directors of the Company are decided by the Board and reviewed by the Remuneration Committee, having regard to the Company's operating results, individual performance and comparable market statistics. The Company has adopted a share option scheme as an incentive to directors and eligible employees, details of the scheme is set out in note 32 to the financial statements.

PRE-EMPTIVE RIGHTS

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

SUFFICIENCY OF PUBLIC FLOAT

The Company has maintained a sufficient public float throughout the year ended 31 December 2010 and up to the date hereof.

REPORT OF THE DIRECTORS

EVENTS AFTER THE REPORTING PERIOD

Details of significant events occurring after the reporting period are set out in note 34 to the financial statements.

AUDITORS

The financial statements of the Company for the year under review have been audited by Messrs. HLM & Co., Certified Public Accountants, who shall retire and, being eligible, offer themselves for re-appointment as independent auditors of the Company at the forthcoming annual general meeting.

On behalf of the Board

Poon Siu Chung

Chairman & Managing Director

Hong Kong, 29 March 2011

INDEPENDENT AUDITORS' REPORT

恒健會計師行
HLM & Co.
Certified Public Accountants

Room 305, Arion Commercial Centre
2-12 Queen's Road West, Hong Kong.
香港皇后大道西 2-12 號聯發商業中心 305 室
Tel 電話: (852) 3103 6980
Fax 傳真: (852) 3104 0170
Email 電郵: hlm@hlm.com.hk

TO THE MEMBERS OF PERFECTECH INTERNATIONAL HOLDINGS LIMITED

(incorporated in the Bermuda with limited liability)

We have audited the consolidated financial statements of Perfectech International Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 32 to 103 which comprise the consolidated statement of financial position as at 31 December 2010, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' responsibility for the consolidated financial statements

The directors of the Company are responsible for the preparation and the true and fair presentation of these consolidated financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and 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.

Auditors' responsibility

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

INDEPENDENT AUDITORS' REPORT

Auditors' responsibility *(Cont'd)*

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 auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and true and fair presentation of the consolidated financial statements 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 Group as at 31 December 2010 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

HLM & Co.

Certified Public Accountants

Hong Kong, 29 March 2011

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2010

| | Notes | 2010 HK\$'000 | 2009 HK\$'000 |
|---|-------|------------------|------------------|
| Revenue | 5 & 6 | 382,779 | 404,606 |
| Cost of sales | | (323,020) | (327,925) |
| Gross profit | | 59,759 | 76,681 |
| Net other income | 7 | 10,248 | 24,905 |
| Distribution costs | | (14,279) | (14,720) |
| Administrative expenses | | (33,699) | (40,349) |
| Finance costs | 8 | (488) | (675) |
| Profit before tax | 9 | 21,541 | 45,842 |
| Income tax expenses | 11 | (154) | (7,156) |
| Profit for the year | | 21,387 | 38,686 |
| Other comprehensive income (expenses) | | | |
| Exchange difference on translation of overseas operations | | 103 | (64) |
| Total comprehensive income for the year | | 21,490 | 38,622 |
| Profit for the year attributable to: | | | |
| Owners of the Company | | 20,175 | 37,776 |
| Non-controlling interests | | 1,212 | 910 |
| Profit for the year | | 21,387 | 38,686 |
| Total comprehensive income for the year attributable to: | | | |
| Owners of the Company | | 20,268 | 37,712 |
| Non-controlling interests | | 1,222 | 910 |
| Total comprehensive income for the year | | 21,490 | 38,622 |
| Dividends | 12 | 20,688 | 5,822 |
| Earnings per share | 13 | | |
| Basic | | 7.27 Cents | 12.95 Cents |
| Diluted | | 7.15 Cents | 12.88 Cents |

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2010

| | Notes | 2010 HK\$'000 | 2009 HK\$'000 (Restated) |
|--|-------|------------------|--------------------------------|
| NON-CURRENT ASSETS | | | |
| Property, plant and equipment | 14 | 38,567 | 46,163 |
| Prepaid lease payments | 15 | – | 6 |
| Deferred tax assets | 24 | 2,168 | 2,221 |
| | | 40,735 | 48,390 |
| CURRENT ASSETS | | | |
| Inventories | 16 | 57,432 | 50,157 |
| Trade and other receivables | 17 | 58,944 | 55,134 |
| Prepaid lease payments | 15 | 6 | 74 |
| Tax recoverable | | 370 | 462 |
| Investments held-for-trading | 20 | 72,910 | 92,996 |
| Derivative financial instruments | 19 | 248 | 98 |
| Pledged bank deposits | 21 | 4,818 | 793 |
| Bank balances and cash | 18 | 72,487 | 77,020 |
| | | 267,215 | 276,734 |
| CURRENT LIABILITIES | | | |
| Trade and other payables | 22 | 45,556 | 47,620 |
| Derivative financial instruments | 19 | 3,009 | 2,919 |
| Tax liabilities | | 2,347 | 6,834 |
| Bank borrowings | 23 | 27,750 | 23,815 |
| | | 78,662 | 81,188 |
| NET CURRENT ASSETS | | 188,553 | 195,546 |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | 229,288 | 243,936 |
| NON-CURRENT LIABILITIES | | | |
| Deferred tax liabilities | 24 | 827 | 801 |
| NET ASSETS | | 228,461 | 243,135 |

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2010

| | Notes | 2010 HK\$'000 | 2009 HK\$'000 (Restated) |
|--|-------|------------------|--------------------------------|
| CAPITAL AND RESERVES | | | |
| Share capital | 25 | 27,521 | 28,704 |
| Reserves | | 191,682 | 204,940 |
| | | <hr/> | <hr/> |
| Equity attributable to owners of the Company | | 219,203 | 233,644 |
| Non-controlling interests | | 9,258 | 9,491 |
| | | <hr/> | <hr/> |
| TOTAL EQUITY | | 228,461 | 243,135 |
| | | <hr/> <hr/> | <hr/> <hr/> |

The consolidated financial statements on pages 32 to 103 were approved and authorised for issue by the board of directors on 29 March 2011 and are signed on its behalf by:

DIRECTOR

DIRECTOR

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2010

| | Share capital | Share premium | Capital redemption reserve | Share options reserve | Translations reserve | Retained profits | Equity attributable to equity holders of the Company | Non-controlling interests | Total |
|---|---------------|---------------|----------------------------|-----------------------|----------------------|------------------|--|---------------------------|----------------|
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| At 1 January 2009 | 29,870 | 82,900 | 4,639 | 3,902 | 49 | 83,529 | 204,889 | 9,291 | 214,180 |
| Total comprehensive income for the year | - | - | - | - | (64) | 37,776 | 37,712 | 910 | 38,622 |
| Recognition of equity – settled share based payment | - | - | - | 1,494 | - | - | 1,494 | - | 1,494 |
| Share option lapsed | - | - | - | (268) | - | - | (268) | - | (268) |
| Share issued upon exercise of options | 100 | 498 | - | (223) | - | - | 375 | - | 375 |
| Dividends (note 12) | - | - | - | - | - | (5,822) | (5,822) | (710) | (6,532) |
| Repurchase and cancellation of shares | (1,266) | - | 1,266 | - | - | (4,736) | (4,736) | - | (4,736) |
| At 31 December 2009 | 28,704 | 83,398 | 5,905 | 4,905 | (15) | 110,747 | 233,644 | 9,491 | 243,135 |
| At 1 January 2010 | 28,704 | 83,398 | 5,905 | 4,905 | (15) | 110,747 | 233,644 | 9,491 | 243,135 |
| Total comprehensive income for the year | - | - | - | - | 93 | 20,175 | 20,268 | 1,222 | 21,490 |
| Share issued upon exercise of options | 1,050 | 5,146 | - | (2,053) | - | - | 4,143 | - | 4,143 |
| Dividends (note 12) | - | - | - | - | - | (20,688) | (20,688) | (1,126) | (21,814) |
| Repurchase and cancellation of shares | (2,233) | (15,582) | 2,233 | - | - | (2,233) | (17,815) | - | (17,815) |
| Acquisition of additional equity interest in an existing subsidiary | - | - | - | - | - | (349) | (349) | (329) | (678) |
| At 31 December 2010 | 27,521 | 72,962 | 8,138 | 2,852 | 78 | 107,652 | 219,203 | 9,258 | 228,461 |

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2010

| | Note | 2010 HK\$'000 | 2009 HK\$'000 (Restated) |
|---|------|------------------|--------------------------------|
| OPERATING ACTIVITIES | | | |
| Profit before tax | | 21,541 | 45,842 |
| Adjustments for: | | | |
| Allowance for doubtful debts | | 55 | 1,090 |
| Depreciation of property, plant and equipment | | 11,529 | 14,059 |
| Dividend income from investments held-for-trading | | (2,661) | (1,211) |
| Gain on settlement of equity-linked-note | | – | (2,845) |
| Loss (gain) on disposal of property, plant and equipment | | 1,258 | (1) |
| Gain on disposal of investments held-for-trading | | (53) | (6,606) |
| Interest expenses | | 488 | 675 |
| Interest income | | (54) | (62) |
| Impairment loss on other receivables | | – | 297 |
| Net change in fair value of derivative financial instruments | | (60) | 2,310 |
| Net change in fair value of investments held-for-trading | | (1,967) | (12,369) |
| Release of prepaid lease payments | | 74 | 73 |
| Share-based payment expenses | | – | 1,494 |
| Lapse of share-based payment expense | | – | (268) |
| Written down of inventories | | – | 3,531 |
| Operating cash flows before movements in working capital | | 30,150 | 46,009 |
| (Increase) decrease in trade and other receivables | | (3,865) | 19,947 |
| (Increase) decrease in inventories | | (7,275) | 19,186 |
| Decrease in trade and other payables | | (2,064) | (6,034) |
| Cash generated from operations | | 16,946 | 79,108 |
| Hong Kong Profits Tax paid, net | | (4,470) | (1,279) |
| PRC Enterprise Income Tax paid, net | | – | (131) |
| NET CASH FROM OPERATING ACTIVITIES | | 12,476 | 77,698 |
| INVESTING ACTIVITIES | | | |
| Increase in pledged bank deposits | | (4,025) | (672) |
| Dividends received from investments held-for-trading | | 2,661 | 1,211 |
| Interest received | | 54 | 62 |
| Proceeds on disposal of investments held-for-trading | | 203,053 | 122,271 |
| Proceeds on disposal of property, plant and equipment | | 2,222 | 639 |
| Purchase of investments held-for-trading | | (180,947) | (143,583) |
| Purchase of property, plant and equipment | | (7,413) | (6,199) |
| Acquisition of additional equity interest of an existing subsidiary | 26 | (678) | – |
| Proceeds received from settlement of equity-linked-note | | – | 7,800 |
| NET CASH FROM (USED IN) INVESTING ACTIVITIES | | 14,927 | (18,471) |

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2010

| | 2010 HK\$'000 | 2009 HK\$'000 (Restated) |
|---|------------------|--------------------------------|
| FINANCING ACTIVITIES | | |
| Dividends paid to owners of the Company | (20,688) | (5,822) |
| Dividends paid to non-controlling interests | (1,126) | (710) |
| Interest paid | (488) | (675) |
| New bank borrowings and trust receipt loans raised | 48,421 | 56,700 |
| Payments for repurchase of shares | (17,815) | (4,736) |
| Proceeds received upon share option exercised | 4,143 | 375 |
| Repayments of bank borrowings and trust receipt loans | (44,486) | (69,540) |
| | <hr/> | <hr/> |
| NET CASH USED IN FINANCING ACTIVITIES | (32,039) | (24,408) |
| | <hr/> | <hr/> |
| NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS | (4,636) | 34,819 |
| | <hr/> | <hr/> |
| CASH AND CASH EQUIVALENTS AT 1 JANUARY | 77,020 | 42,265 |
| Effect of change in foreign exchange rates | 103 | (64) |
| | <hr/> | <hr/> |
| CASH AND CASH EQUIVALENTS AT 31 DECEMBER | 72,487 | 77,020 |
| | <hr/> <hr/> | <hr/> <hr/> |
| ANALYSIS OF CASH AND CASH EQUIVALENTS | | |
| Bank balances and cash | 72,487 | 77,020 |
| | <hr/> <hr/> | <hr/> <hr/> |

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

1. GENERAL

The Company is a public limited company incorporated in Bermuda as an exempted company with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”). The address of the registered office is Cannon’s Court, 22 Victoria Street, Hamilton HM 12, Bermuda and principal place of business is 7th Floor, E Tat Factory Building, 4 Heung Yip Road, Wong Chuk Hang, Aberdeen, Hong Kong.

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

The principal activities of the Group are the manufacture and sale of novelties, decorations, packaging and toys products, and the trading of PVC films and plastic materials.

2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS

The following new and revised standards, amendments and interpretations (the “new HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”) have been applied by the Group in the current year and have affected the amounts reported in these consolidated financial statements and/or disclosures set out in these consolidated financial statements. The impact of the application of the new HKFRSs is discussed below. The impact on basic and diluted earnings per share is discussed in note 13.

Amendments to HKFRS 7 Financial Instruments: Disclosures (as part of Improvements to HKFRSs issued in 2010)

The amendments to HKFRS 7 clarify the required level of disclosures about credit risk and collateral held and provide relief from disclosures previously required regarding renegotiated loans. The Group has applied the amendments in advance of their effective date (annual periods beginning on or after 1 January 2011). The amendments have been applied retrospectively.

Amendments to HKAS 17 Leases

As part of Improvements to HKFRSs issued in 2009, HKAS 17 Leases has been amended in relation to the classification of leasehold land. Before the amendments to HKAS 17, the Group was required to classify leasehold land as operating leases and to present leasehold land as prepaid lease payments in the consolidated statement of financial position. The amendments to HKAS 17 have removed such a requirement. The amendments require that the classification of leasehold land should be based on the general principles set out in HKAS 17, that is, whether or not substantially all the risks and rewards incident to ownership of a leased asset have been transferred to the lessee.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS

(Cont'd)

Amendments to HKAS 17 Leases *(Cont'd)*

In accordance with the transitional provisions set out in the amendments to HKAS 17, the Group reassessed the classification of unexpired leasehold land as at 1 January 2010 based on information that existed at the inception of the leases. Leasehold land that qualifies for finance lease classification has been reclassified from prepaid lease payment to property, plant, and equipment retrospectively. This resulted in prepaid lease payments with the carrying amounts of HK\$56,000 and HK\$54,000 as at 1 January 2009 and 31 December 2009 respectively being reclassified to property, plant and equipment.

As at 31 December 2010, leasehold land that qualifies for finance lease classification with the carrying amount of HK\$52,000 has been included in property, plant and equipment. The application of the amendments to HKAS 17 has had no impact on the reported profit or loss for the current and prior years.

Hong Kong Interpretation 5 Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause

Hong Kong Interpretation 5 Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause (“HK Int 5”) clarifies that term loans that include a clause that gives the lender the unconditional right to call the loans at any time (“repayment on demand clause”) should be classified by the borrower as current liabilities. The Group has applied HK Int 5 for the first time in the current year. Hong Kong Interpretation 5 requires retrospective application.

In order to comply with the requirements set out in HK Int 5, the Group has changed its accounting policy on classification of term loans with a repayment on demand clause. In the past, the classification of such term loans were determined based on the agreed schedule repayment dates set out in the loan agreements. Under HK Int 5, term loans with a repayment on demand clause are classified as current liabilities.

As a result, bank loans that contain a repayment on demand clause with the aggregate carrying amounts of HK\$16,950,000 and HK\$23,814,000 have been reclassified from non-current liabilities to current liabilities as at 31 December 2009 and 1 January 2009 respectively. As at 31 December 2010, bank loans (that are repayable more than one year after the end of the reporting period but contain a repayment on demand clause) with the aggregate of HK\$18,486,000 have been classified as current liabilities. The application of HK Int 5 has had no impact on the reported profit or loss for the current and prior years.

Such term loans have been presented in the earliest time band in the maturity analysis for financial liabilities that reflects the remaining contractual maturities.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS

(Cont'd)

New and revised standards, amendments and interpretations applied with no material effects on the consolidated financial statements

The following new HKFRSs have been also applied in these consolidated financial statements. The application of these new HKFRSs has not had any material impact on the amounts reported for the current and prior years but may affect the accounting for future transactions or arrangements.

Amendments to HKFRS 1 First-time Adoption of Hong Kong Financial Reporting Standards – Additional Exemptions for First-time Adopters

The amendments provide two exemptions when adopting HKFRSs for the first time relating to oil and gas assets, and the determination as to whether an arrangement contains a lease.

Amendments to HKFRS 2 Share – based Payment – Group Cash-settled Share-based Payment Transactions

The amendments clarify the scope of HKFRSs, as well as payment transactions in the separate (or individual) financial statements of an entity receiving the goods or services when another group entity or shareholder has the obligation to settle the award.

Amendments to HKFRS 5 Non-current Assets Held for Sale and Discontinued Operations (as part of Improvements to HKFRSs issued in 2008)

The amendments clarify that all the assets and liabilities of a subsidiary should be classified as held for sale when the Group is committed to a sale plan involving loss of control of that subsidiary, regardless of whether the Group will retain a non-controlling interest in the subsidiary after the sale.

Amendments to HKFRS 5 Non-current Assets Held for Sale and Discontinued Operations (as part of Improvements to HKFRSs issued in 2009)

The amendments to HKFRS 5 clarify that the disclosure requirements in HKFRSs other than HKFRS 5 do not apply to non-current assets (or disposal group) classified as held for sale or discontinued operations unless those HKFRSs require (i) specific disclosures in respect of non-current assets (or disposal groups) classified as held for sale or discontinued operations, or (ii) disclosures about measurement of assets and liabilities within a disposal group that are not within the scope of the measurement requirement of HKFRS 5 and the disclosures are not already provided in the consolidated financial statements.

Amendments to HKAS 1 Presentation of Financial Statements (as part of Improvements to HKFRSs issued in 2009)

The amendments to HKAS 1 Clarify that the potential settlement of a liability by the issue of equity is not relevant to its classification as current or non-current.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS

(Cont'd)

New and revised standards, amendments and interpretations applied with no material effects on the consolidated financial statements (Cont'd)

Amendments to HKAS 1 Presentation of Financial Statements (as part of Improvements to HKFRSs issued in 2010)

The amendments to HKAS 1 clarify that an entity may choose to present the required analysis of items of other comprehensive income either in the consolidated statement of changes in equity or in the notes to the consolidated financial statements. The Group has applied the amendments in advance of their effective date (annual periods beginning on or after 1 January 2011).

Amendments to HKAS 7 Statement of Cash Flows (as part of Improvements to HKFRSs issued in 2009)

The amendments to HKAS 7 specify that only expenditures that result in a recognised asset in the statement of financial position can be classified as investing activities in the statement of cash flows. The application of the amendments to HKAS 7 has resulted in a change in the presentation of cash outflows in respect of development costs that do not meet the criteria in HKAS 38 Intangible Assets for capitalisation as part of an internally generated intangible asset in the consolidated statement of cash flows.

Amendments to HKAS 39 Financial Instruments: Recognition and Measurement – Eligible Hedged Items

The amendments provide clarification on two aspects of hedge accounting: identifying inflation as a hedged risk or portion, and hedging with options.

HK(IFRIC) – Int 17 Distributions of Non-cash Assets to Owners

The Interpretation provides guidance on the appropriate accounting treatment when an entity distributes assets other than cash as dividends to its shareholders.

HK(IFRIC) – Int 18 Transfers of Assets from Customers

The Interpretation addresses the accounting by recipients for transfers of property, plant and equipment from 'customers' and concludes that when the item of property, plant and equipment transferred meets the definition of an asset from the perspective of the recipient, the recipient should recognise the asset at its fair value on the date of the transfer, with the credit being recognised as revenue in accordance with HKAS 18 Revenue.

Improvements to HKFRSs issued in 2009

Except for the amendments to HKFRS 7 and HKAS 17 as described earlier, the application of Improvements to HKFRSs issued in 2009 has not had any material effect on amounts reported in the consolidated financial statements.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS

(Cont'd)

The Group has not early applied the following new standards, amendments and interpretations that have been issued but are not yet effective.

| | |
|---------------------------------|---|
| HKFRSs (Amendments) | Improvements to HKFRSs issued in 2010 except for the amendments to HKFRS 3 (as revised in 2008), HKFRS 7, HKAS 1 and HKAS 28 ¹ |
| HKFRS 1 (Amendments) | Limited Exception from Comparative HKFRS 7 Disclosures for First-time Adopters ³ |
| HKFRS 9 (Revised) | Financial Instruments ⁵ |
| HKAS 24 (as revised in 2009) | Related Party Disclosures ⁴ |
| HKAS 32 (Amendments) | Classification of Rights Issues ² |
| HK(IFRIC) – Int 14 (Amendments) | Prepayments of a Minimum Funding Requirement ⁴ |
| HK(IFRIC) – Int 19 | Extinguishing Financial Liabilities with Equity Instruments ³ |

¹ Effective for annual periods beginning on or after 1 July 2010 or 1 January 2011, as appropriate

² Effective for annual periods beginning on or after 1 February 2010

³ Effective for annual periods beginning on or after 1 July 2010

⁴ Effective for annual periods beginning on or after 1 January 2011

⁵ Effective for annual periods beginning on or after 1 January 2013

HKFRS 9 Financial Instruments (as issued in November 2009) introduces new requirements for the classification and measurement of financial assets. HKFRS 9 Financial Instruments (as revised in November 2010) adds requirements for financial liabilities and for derecognition.

- Under HKFRS 9 all recognised financial assets that are within the scope of HKAS 39 Financial Instruments: Recognition and Measurement are subsequently measured at either amortised cost or fair value. Specially, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods.
- In relation to financial liabilities, the significant change relates to financial liabilities that are designated as at fair value through profit or loss. Specifically, under HKFRS 9, for financial liabilities that are designated as at fair value through profit or loss, the amount if change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Previously, under HKAS 39, the entire amount of the change in the fair value of the financial liability designated as at fair value through profit or loss was presented in profit or loss.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS

(Cont'd)

HKFRS 9 is effective for annual periods beginning on or after 1 January 2013, with earlier application permitted.

The directors anticipate that HKFRS 9 that will be adopted in the Group's consolidated financial statements for the annual period beginning 1 January 2013 and that the application of the new Standard may have significant impact on amounts reported in respect of the Groups' financial assets. However, it is not practicable to provide a reasonable estimate of that effect until a detailed review has been completed.

The amendments to HKFRS 7 titled Disclosures – Transfer of Financial Assets increase the disclosure requirements for transactions involving transfers of financial assets. These amendments are intended to provide greater transparency around risk exposure when a financial asset is transferred but the transferor retains some level of continuing exposure in the asset. The amendments also require disclosures where transfers of financial assets are not evenly distributed throughout the period.

The directors do not anticipate that these amendments to HKFRS 7 will have a significant effect on the Group's disclosures regarding transfers of trade receivables previously affected. However, if the Group enters into other types of transfers of financial assets in the future, disclosures regarding those transfers may be affected.

HKAS 24 Related Party Disclosures (as revised in 2009) modifies the definition of a related party and simplifies disclosures for government-related entities.

The disclosure exemptions introduced in HKAS 24 (as revised in 2009) do not affect the Group because the Group is not a government-related entity.

The amendments to HKAS 32 titled Classification of Rights Issues address the classification of certain rights issues denominated in a foreign currency as either an equity instrument or as a financial liability. To date, the Group has not entered into any arrangements that would fall within the scope of the amendments. However, if the Group does enter into any rights issues within the scope of the amendments in future accounting periods, the amendments to HKAS 32 will have an impact in the classification of those rights issues.

HK(IFRIC) – Int 19 provides guidance regarding the accounting for the extinguishment of a financial liability by the issue of equity instruments. To date, the Group has not entered into transactions of this nature. However, if the Group does enter into any such transactions in the future, HK(IFRIC) – Int 19 will affect the required accounting. In particular, under HK(IFRIC) – 19, equity instruments issued under such arrangements will be measured at their fair value, and any difference between the carrying amount of the financial liability extinguished and the fair value of equity instruments issued will be recognised in profit or loss.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

3. SIGNIFICANT ACCOUNTING POLICIES

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

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

Basis of consolidation

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

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

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

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

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

Allocation of total comprehensive income to non-controlling interests

Total comprehensive income and expense of a subsidiary is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance. Prior to 1 January 2010, losses applicable to the non-controlling interests in excess of the non-controlling interests in the subsidiary's entity were allocated against the interests of the Group except to the extent that the non-controlling interests had a binding obligation and were able to make an additional investment to cover the losses.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Basis of consolidation (Cont'd)

Changes in the Group's ownership interests in existing subsidiaries prior to 1 January 2010

Increase in interests in existing subsidiaries were treated in the same manner as the acquisition of subsidiaries, with goodwill or a bargain purchase gain being recognised where appropriate. For decreases in interests in subsidiaries, regardless of whether the disposals would result in the Group losing control over the subsidiaries, the difference between the consideration received and the adjustment to the non-controlling interests was recognised in profit or loss.

Changes in the Group's ownership interests in existing subsidiaries on or after 1 January 2010

Changes in the Group's ownership interest in a subsidiary that do not result in the Group losing control over the subsidiary are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiary. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

When the Group loses control over a subsidiary, the profit or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) previous carrying amount of the assets (including goodwill) and liabilities of the subsidiary and any non-controlling interests. Where certain assets of the subsidiary are measured at revalued amounts or fair values and the related cumulative gain or loss has been recognised in other comprehensive income and accumulated in equity, the amounts previously recognised in other comprehensive income and accumulated in equity are accounted for as if the Company had directly disposed of the related assets (i.e. reclassified to profit or loss or transferred directly to retained earnings at the date when control is lost). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under HKAS 39 Financial Instruments: Recognition and Measurement or, when applicable, the cost on initial recognition of an investment in an associate or a jointly controlled entity.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Business combinations

Business combinations prior to 1 January 2010

Acquisition of business was accounted for using the purchase method. The cost of the acquisition was measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that met the relevant conditions for recognition were generally recognised at their fair values at the acquisition date.

Goodwill arising on acquisition was recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If, after assessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeded the cost of the business combination, the excess was recognised immediately in profit or loss.

The non-controlling interest in the acquiree was initially measured at the non-controlling interest's proportion of the fair value of the assets, liabilities and contingent liabilities recognised.

Contingent consideration was recognised, if and only if, the contingent consideration was probable and could be measured reliably. Subsequent adjustments to contingent consideration were recognised against goodwill.

Business combinations achieved in stages were accounted for as separate steps. Goodwill was determined at each step. Any additional acquisition did not affect the previously recognised goodwill.

Business combinations on or after 1 January 2010

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Business combinations (Cont'd)

Business combinations on or after 1 January 2010 (Cont'd)

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value at the acquisition date, except that:

- deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognised and measured in accordance with HKAS 12 Income Taxes and HKAS 19 Employee Benefits respectively;
- liabilities or equity instruments related to share-based payment transactions of the acquiree or the replacement of an acquiree's share-based payment transactions with share-based payment transactions of the Group are measured in accordance with HKFRS 2 Share-based Payment at the acquisition date; and
- assets (or disposal groups) that are classified as held for sale in accordance with HKFRS 5 Non-current Assets Held for Sales and Discontinued Operations are measured in accordance with that Standard.

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

Non-controlling interests that are present ownership interest and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-basis. Other types of non-controlling interests are measured at their fair value or another measurement basis required by another Standard.

Where the consideration the Group transfers in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and considered a part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with the corresponding adjustments being made against goodwill or gain on bargain purchase. Measurement period adjustments are adjustments that arise from additional information obtained during the measurement period about facts and circumstances that existed as of the acquisition date. Measurement period does not exceed one year from the acquisition date.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

3. SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

Business combinations *(Cont'd)*

Business combinations on or after 1 January 2010 (Cont'd)

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustment depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates in accordance with HKAS 39, or HKAS 37 Provisions, Contingent Liabilities and Contingent Assets, as appropriate, with the corresponding gain or loss being recognised in profit or loss.

Where a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date (i.e. the date when the Group obtains control) and the resulting gain or loss, if any, is recognised in profit or loss. Amounts arising from interests in the acquisition date that have previously been recognised in other comprehensive income are reclassified to profit or loss where such treatment would be appropriate if that interest were disposed of.

Changes in the value of the previously held equity interest recognised in other comprehensive income and accumulated in equity before the acquisition date are reclassified to profit or loss when the Group obtains control over the acquiree.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see above), or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed as the acquisition date that, if known, would have affected the amounts recognised as of that date.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates and other similar allowances.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

3. SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

Revenue recognition *(Cont'd)*

Revenue from the sale of goods is recognised when all the following conditions are satisfied:

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

Specifically, revenue from the sale of goods is recognised when goods are delivered and legal title is passed.

Rental income under operating leases is recognised on a straight line basis over the terms of the relevant leases.

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

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

Management fee income is recognised where services are rendered.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

3. SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

Property, plant and equipment

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

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

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

Impairment of tangible and intangible assets other than goodwill

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

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or a cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or a cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Leasing

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

The Group as lessor

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line over the lease term.

The Group as lessee

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

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

Leasehold land for own use

The land and building elements of a lease of land and building are considered separately for the purpose of lease classification, unless the lease payments cannot be allocated reliably between the land and building elements, in which case the entire lease is generally treated as a finance lease and accounted for as property, plant and equipment. To the extent the allocation of the lease payments can be made reliably, interest in leasehold land is accounted for as operating lease and amortised over the lease terms on a straight-line basis.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

3. SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

Foreign currencies

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

Exchange differences on monetary items are recognised in profit or loss in the period in which they arise except for:

- exchange differences on foreign currency borrowings relating to assets under construction for future productive use, which are included in the cost of those assets when they are regarded as an adjustment to interest costs on those foreign currency borrowings;
- exchange differences on transactions entered into in order to hedge certain foreign currency risks; and
- exchange differences on monetary items receivable from or payable to foreign operation for which settlement is neither planned nor likely to occur (therefore forming part of the net investment in the foreign operation), which are recognised initially in other comprehensive income and reclassified from equity to profit or loss on repayment of the monetary items.

For the purpose of presenting consolidated financial statements, the assets and liabilities of the Group’s foreign operations are translated into the presentation currency of the Group (i.e. Hong Kong dollars) using exchange rates prevailing at the end of each reporting period. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising if any, are recognised in other comprehensive income and accumulated in equity under the heading of foreign currency translation reserve (attributed to non- controlling interests as appropriate).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

3. SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

Foreign currencies *(Cont'd)*

From 1 January 2010 onwards, on the disposal of a foreign operation (i.e. a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of a control over a subsidiary that includes a foreign operations, a disposal involving loss of joint control over a jointly controlled entity that includes a foreign operation, or a disposal involving loss of significant influence over an associate that includes a foreign operation), all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Company are reclassified to profit or loss. In addition, in relation to a partial disposal that does not result in the Group losing control over a subsidiary that includes a foreign operation, the proportionate share of accumulated exchange differences are re-attributed to non-controlling interests and are not recognised in profit or loss. For all other partial disposal (i.e. partial disposal of associates or jointly controlled entities that do not result in the Group losing significant influence or joint control), the proportionate share of the accumulated exchange differences is reclassified to profit or loss.

Goodwill and fair value adjustments on identifiable assets acquired arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the rate of exchange prevailing at the end of each reporting period. Exchange differences arising are recognised in the foreign currency translation reserve.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their indeed use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

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

Retirement benefit costs

Payments to defined contribution retirement benefit plans and state-managed retirement benefit schemes are charged as an expense as they fall due.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Taxation

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

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

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

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

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

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to cover or settle the carrying amount of its asset and liabilities.

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

3. SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

Inventories

Inventories are stated at the lower of cost and net realisable value. Costs, including an appropriate portion of fixed and variable overhead expenses, are determined on a first-in, first-out basis. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

Financial instruments

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

Financial assets

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

Effective interest method

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

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Financial instruments (Cont'd)

Financial assets (Cont'd)

Financial assets at FVTPL

Financial assets are classified as at FVTPL when the financial asset is either held for trading or it is designated as at FVTPL.

A financial asset is classified as held for trading if:

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

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

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

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any dividend or interest earned on the financial asset.

Loans and receivables

Loan and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loan and receivables (including trade and other receivables, pledged bank deposits, bank balances and cash, and amounts due from Directors) are measured at amortised cost using the effective interest method, less any impairment (see the accounting policy in respect of impairment loss on financial assets below).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Financial instruments (Cont'd)

Financial assets (Cont'd)

Impairment of financial assets

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

For an AFS equity investment, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

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

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

For certain categories of financial assets, such as trade receivables, assets that are assessed not to be impaired individually are assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 60 days, observable changes in national or local economic conditions that correlate with default on receivables.

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

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

3. SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

Financial instruments *(Cont'd)*

Financial assets (Cont'd)

Impairment of financial assets (Cont'd)

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

When an AFS financial asset is considered to be impaired cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss in the period.

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

In respect of AFS equity investments, impairment losses previously recognised in profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognised in other comprehensive income and accumulated under the heading of investments revaluation reserve. In respect of AFS debt investments, impairment losses are subsequently reversed through profit or loss if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Financial instruments (Cont'd)

Financial liabilities and equity

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

Equity instrument

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

Repurchase of the Company's own equity instruments is recognised and deducted directly in equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Company's own equity instruments.

Effective interest method

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

Interest expense is recognised on an effective interest basis other than financial liabilities classified as at FVTPL.

Financial liabilities at FVTPL

Financial liabilities are classified as at FVTPL when the financial liability is either held for trading or it is designated as at FVTPL on initial recognition.

A financial liability is classified as held for trading if:

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Financial instruments (Cont'd)

Financial liabilities and equity (Cont'd)

Financial liabilities at FVTPL (Cont'd)

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

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

Financial liabilities at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss includes any interest paid on the financial liabilities.

Other financial liabilities

Other financial liabilities (including borrowings, trade and other payables) are subsequently measured at amortised cost using the effective interest method.

Derivative financial instruments

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

Derecognition

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

3. SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

Financial instruments *(Cont'd)*

Derecognition (Cont'd)

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

On derecognition of a financial asset other than in its entirety (e.g. when the Group retains an option to repurchase part of a transferred asset or retains a residual interest does not result in the retention of substantially all the risks and rewards of ownership and the Group retains control), the Group allocates the previous carrying amount of the financial asset between the part it continues to recognise under continuing involvement, and the part it no longer recognises on the basis of the relative fair values of those parts on the date of transfer. The difference between the carrying amount allocated to the part that is no longer recognised and the sum of the consideration received for the part no longer recognised and any cumulative gain or loss allocated to it that had been recognised in other comprehensive income is recognised in profit or loss. A cumulative gain or loss that had been recognised in other comprehensive income is allocated between the part that continues to be recognised and the part that is no longer recognised on the basis of the relative fair values of those parts.

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

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amounts recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect is material).

When some or all of the economic benefit required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

3. SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

Contingent liabilities acquired in a business combination

Contingent liabilities acquired in a business combination are initially measured at fair value at the date of acquisition. At the end of the reporting period, such contingent liabilities are measured at the higher of the amount that would be recognised in accordance with HKAS 37 and the amount initially recognised less cumulative amortisation recognised in accordance with HKAS 18 Revenue.

Equity-settled share-based payment transactions

For grants of share options that are conditional upon satisfying specified vesting conditions, the fair value of services received determined by reference to the fair value of share options granted at the grant date and is expensed on a straight-line basis over the vesting period, with a corresponding increase in equity (share options reserve). At the end of the reporting period, the Group revises its estimates of the number of options that are expected to ultimately vest. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to share options reserve.

For share options that are vested at the date of grant, the fair value of the share options granted is expensed immediately to profit or loss.

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

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

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

Depreciation and amortisation

The Group's net book value of property, plant and equipment as at 31 December 2010 was HK\$ 38,567,000. The Group depreciates the property, plant and equipment, using the straight-line method, at the rate 2% to 30% per annum or over the term of the lease, commencing from the date the assets is placed into productive use. The estimated useful life and dates that the Group places the assets into productive use reflects the Directors' estimate of the periods that the Group intend to derive future economic benefits from the use of the Group's property, plant and equipment.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

4. KEY SOURCES OF ESTIMATION UNCERTAINTY (Cont'd)

Impairment on trade receivables

The policy for impairment on trade receivables of the Group is based on the evaluation of collectability and aging analysis of accounts and on management's judgment. A considerable amount of judgment is required in assessing the ultimate realisation of these receivables, including the current creditworthiness and the past collection history of each customer. If the financial conditions of customers of the Group had deteriorated, resulting in an impairment of their ability to make payments, additional impairment may be required.

Impairment on inventories

The management of the Group reviews an aging analysis at each reporting period, and identifies obsolete and slow-moving inventory items that are no longer suitable for use in production. The management estimates the net realisable value for such finished goods and work-in progress based primarily on the latest invoice prices and current market conditions. The Group carries out an inventory review on a product-by-product basis at the end of each reporting period and provides impairment on obsolete items.

Income taxes

As at 31 December 2010, a deferred tax asset of HK\$2,245,000 in relation to unused tax losses has been recognised in the Group's consolidated statement of financial position. The realisability of the deferred tax asset mainly depends on whether sufficient future profits or taxable temporary differences will be available in the future. In cases where the actual future profits generated are less than expected, a material reversal of deferred tax assets may arise, which would be recognised in the income statement for the period in which such a reversal takes place.

5. REVENUE

Revenue represents the amounts received and receivable for goods sold by the Group to outside customers, less returns and trade discounts, during the year.

| | 2010 HK\$'000 | 2009 HK\$'000 |
|------------------------------------|------------------|------------------|
| Novelties and decorations products | 97,985 | 99,887 |
| Packaging products | 63,057 | 76,639 |
| PVC films and plastic materials | 65,360 | 51,582 |
| Toys products | 156,377 | 176,498 |
| | 382,779 | 404,606 |

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

6. SEGMENTS REPORTING

For management purposes, the Group is currently organised into four operating segments, namely the manufacture and sale of novelties and decorations products, the manufacture and sale of packaging products, the trading of PVC films and plastic materials and the manufacture and sale of toy products.

The following is an analysis of the Group's revenue and results by reportable segment:

2010

| | Novelties and decorations products HK\$'000 | Packaging products HK\$'000 | PVC films and plastic materials HK\$'000 | Toy products HK\$'000 | Eliminations HK\$'000 | Consolidated HK\$'000 |
|------------------------------|---|-----------------------------------|--|-----------------------------|--------------------------|--------------------------|
| REVENUE | | | | | | |
| External sales | 97,985 | 63,057 | 65,360 | 156,377 | – | 382,779 |
| Inter-segment sales | 88 | 19,371 | 1,063 | – | (20,522) | – |
| Total revenue | 98,073 | 82,428 | 66,423 | 156,377 | (20,522) | 382,779 |
| RESULT | | | | | | |
| Segment result | 2,395 | 436 | 1,546 | 10,826 | – | 15,203 |
| Income from investments | | | | | | 4,749 |
| Unallocated corporate income | | | | | | 2,077 |
| Finance costs | | | | | | (488) |
| Profit before tax | | | | | | 21,541 |
| Income tax expenses | | | | | | (154) |
| Profit for the year | | | | | | 21,387 |

Inter-segment sales are charged at prevailing market rates.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

6. SEGMENTS REPORTING (Cont'd)

| | Novelties and decorations products HK\$'000 | Packaging products HK\$'000 | PVC films and plastic materials HK\$'000 | Toy products HK\$'000 | Consolidated HK\$'000 |
|---|---|-----------------------------------|--|-----------------------------|--------------------------|
| ASSETS | | | | | |
| Segment assets | 63,862 | 60,305 | 21,591 | 77,832 | 223,590 |
| Unallocated corporate assets | | | | | 84,360 |
| Consolidated total assets | | | | | <u>307,950</u> |
| LIABILITIES | | | | | |
| Segment liabilities | 42,291 | 6,094 | 4,167 | 21,623 | 74,175 |
| Unallocated corporate liabilities | | | | | 5,314 |
| Consolidated total liabilities | | | | | <u>79,489</u> |
| | | | | | |
| | Novelties and decorations products HK\$'000 | Packaging products HK\$'000 | PVC films and plastic materials HK\$'000 | Toy products HK\$'000 | Consolidated HK\$'000 |
| Additions of property, plant and equipment | 705 | 1,735 | 7 | 4,966 | 7,413 |
| Depreciation and amortisation | 2,581 | 4,304 | 54 | 4,590 | 11,529 |
| Release of prepaid lease payments | - | - | - | 74 | 74 |

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

6. SEGMENTS REPORTING (Cont'd)

2009

| | Novelties and decorations products HK\$'000 | Packaging products HK\$'000 | PVC films and plastic materials HK\$'000 | Toy products HK\$'000 | Eliminations HK\$'000 | Consolidated HK\$'000 |
|------------------------------|---|-----------------------------------|--|-----------------------------|--------------------------|--------------------------|
| REVENUE | | | | | | |
| External sales | 99,887 | 76,639 | 51,582 | 176,498 | – | 404,606 |
| Inter-segment sales | 39 | 22,152 | 1,863 | 189 | (24,243) | – |
| Total revenue | 99,926 | 98,791 | 53,445 | 176,687 | (24,243) | 404,606 |
| RESULT | | | | | | |
| Segment result | 4,882 | (8,281) | 860 | 26,228 | – | 23,689 |
| Income from investments | | | | | | 21,477 |
| Unallocated corporate income | | | | | | 1,351 |
| Finance costs | | | | | | (675) |
| Profit before tax | | | | | | 45,842 |
| Income tax expenses | | | | | | (7,156) |
| Profit for the year | | | | | | 38,686 |

Inter-segment sales are charged at prevailing market rates.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

6. SEGMENTS REPORTING (Cont'd)

| | Novelties and decorations products HK\$'000 | Packaging products HK\$'000 | PVC films and plastic materials HK\$'000 | Toy products HK\$'000 | Consolidated HK\$'000 |
|---|---|-----------------------------------|--|-----------------------------|--------------------------|
| ASSETS | | | | | |
| Segment assets | 69,944 | 60,087 | 15,493 | 73,710 | 219,234 |
| Unallocated corporate assets | | | | | 105,890 |
| Consolidated total assets | | | | | <u>325,124</u> |
| LIABILITIES | | | | | |
| Segment liabilities | 41,989 | 10,514 | 1,533 | 19,794 | 73,830 |
| Unallocated corporate liabilities | | | | | 8,159 |
| Consolidated total liabilities | | | | | <u>81,989</u> |
| | | | | | |
| | Novelties and decorations products HK\$'000 | Packaging products HK\$'000 | PVC films and plastic materials HK\$'000 | Toy products HK\$'000 | Consolidated HK\$'000 |
| Additions of property, plant and equipment | 1,312 | 2,472 | – | 2,415 | 6,199 |
| Depreciation and amortisation | 3,319 | 5,738 | 55 | 4,947 | 14,059 |
| Release of prepaid lease payments | – | – | – | 73 | 73 |

Segment profit represents the profit earned by each segment without allocation of central administration costs including directors' salaries, investment and other income, finance costs, and income tax expense. This is the measure reported to the chief operating decision maker for the purposes of resource allocation and assessment of segment performance.

For the purposes of monitoring segment performance and allocating resources between segments, all assets and liabilities are allocated to reportable segments other than those assets and liabilities related to central administration.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

6. SEGMENTS REPORTING (Cont'd)

Geographical Information

The following table provides an analysis of the Group's sales by geographical market:

| | 2010 HK\$'000 | 2009 HK\$'000 |
|---------------------------------------|------------------|------------------|
| Sales revenue by geographical market: | | |
| Hong Kong | 149,726 | 147,382 |
| Europe | 93,485 | 122,083 |
| America | 63,074 | 72,164 |
| Asia (other than Hong Kong) | 62,998 | 52,350 |
| Others | 13,496 | 10,627 |
| | 382,779 | 404,606 |

The following is an analysis of the carrying amount of segment assets, and additions to property, plant and equipment, analysed by the geographical area in which the assets are located:

| | Carrying amount of segment assets | | Additions to property, plant and equipment | |
|---|--------------------------------------|------------------|---|------------------|
| | 2010 HK\$'000 | 2009 HK\$'000 | 2010 HK\$'000 | 2009 HK\$'000 |
| Hong Kong | 191,402 | 209,162 | 13 | 110 |
| The People's Republic of China (the "PRC") | 116,548 | 115,962 | 7,400 | 6,089 |
| | 307,950 | 325,124 | 7,413 | 6,199 |

Information about major customer

Included in revenues arising from sales of toy products of approximately HK\$156,377,000 (2009: HK\$176,498,000) are revenues of approximately HK\$117,702,000 (2009: HK\$ 152,579,000) which arose from sales to the Group's largest customer.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

7. NET OTHER INCOME

| | 2010 HK\$'000 | 2009 HK\$'000 |
|--|------------------|------------------|
| Bad debt recovered | 759 | 719 |
| Dividend income from investments held-for-trading | 2,661 | 1,211 |
| Gain on settlement of equity-linked note | – | 2,845 |
| Gain on disposal of property, plant and equipment | – | 1 |
| Interest income | 54 | 62 |
| Net change in fair value of investments held-for-trading | 1,967 | 12,369 |
| Net change in fair value of derivative financial instruments | 60 | (2,310) |
| Rental income | 608 | 221 |
| Realised gain on disposal of investments held-for-trading | 53 | 6,606 |
| Sample sales | 342 | 758 |
| Scrap sales | 2,242 | 1,296 |
| Others | 1,502 | 1,127 |
| | <u>10,248</u> | <u>24,905</u> |

8. FINANCE COSTS

| | 2010 HK\$'000 | 2009 HK\$'000 |
|--|------------------|------------------|
| Interest on: | | |
| Bank borrowings wholly repayable within five years | <u>488</u> | <u>675</u> |

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

9. PROFIT BEFORE TAX

| | 2010 HK\$'000 | 2009 HK\$'000 (Restated) |
|---|------------------|--------------------------------|
| Profit before tax has been arrived at after charging: | | |
| Auditors' remuneration | 800 | 750 |
| Allowance for doubtful debts | 55 | 1,090 |
| Cost of inventories recognised as an expense | 191,989 | 181,744 |
| Depreciation of property, plant and equipment | 11,529 | 14,059 |
| Foreign exchange losses, net | 7,207 | 6,005 |
| Impairment loss on other receivables | – | 297 |
| Loss on disposals of property, plant and equipment | 1,258 | – |
| Operating lease rentals in respect of rented premises | 5,511 | 5,559 |
| Release of prepaid lease payments | 74 | 73 |
| Share-based payments expenses | – | 1,226 |
| Staff costs (including Directors' emoluments) | 85,852 | 94,483 |
| Written down of inventories | – | 3,531 |

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

10. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

(a) Directors' emoluments

The emoluments paid or payable to each of the seven Directors in 2010 were as follows:

| Emoluments | Fees HK\$'000 | Other emoluments | | Total HK\$'000 |
|------------------------|------------------|--|---|-------------------|
| | | Salaries and other benefits HK\$'000 | Retirement benefit scheme contributions HK\$'000 | |
| Poon Siu Chung | – | 1,775 | 33 | 1,808 |
| Ip Siu On | – | 1,725 | 30 | 1,755 |
| Tsui Yan Lee, Benjamin | – | 1,725 | 30 | 1,755 |
| Poon Wai Tsun, William | – | 175 | 6 | 181 |
| Choy Wing Keung, David | 50 | – | – | 50 |
| Lam Yat Cheong | 50 | – | – | 50 |
| Yip Chi Hung | 50 | – | – | 50 |
| Total for 2010 | 150 | 5,400 | 99 | 5,649 |

The emoluments paid or payable to each of the six Directors in 2009 were as follows:

| Emoluments | Fees HK\$'000 | Other emoluments | | Total HK\$'000 |
|------------------------|------------------|--|---|-------------------|
| | | Salaries and other benefits HK\$'000 | Retirement benefit scheme contributions HK\$'000 | |
| Poon Siu Chung | – | 1,400 | 40 | 1,440 |
| Ip Siu On | – | 1,824 | 30 | 1,854 |
| Tsui Yan Lee, Benjamin | – | 1,601 | 30 | 1,631 |
| Choy Wing Keung, David | 50 | – | – | 50 |
| Lam Yat Cheong | 50 | – | – | 50 |
| Yip Chi Hung | 50 | – | – | 50 |
| Total for 2009 | 150 | 4,825 | 100 | 5,075 |

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

10. DIRECTORS' AND EMPLOYEES' EMOLUMENTS (Cont'd)

(b) Employees' emoluments

Of the five individuals with the highest emoluments of the Group, three (2009: three) were Directors of the Company whose emoluments are set out in (a) above. The emoluments of the remaining two (2009: two) individuals were as follows:

| | 2010 HK\$'000 | 2009 HK\$'000 |
|--|------------------|------------------|
| Salaries and other benefits | 1,461 | 1,431 |
| Retirement benefit schemes contributions | 38 | 38 |
| | <u>1,499</u> | <u>1,469</u> |

Their emoluments were within the following bands:

| | 2010 Number of employees | 2009 Number of employees |
|------------------------------|--------------------------------|--------------------------------|
| Nil – HK\$1,000,000 | 2 | 2 |
| HK\$1,000,001- HK\$1,500,000 | – | – |
| | <u>2</u> | <u>2</u> |

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

11. INCOME TAX EXPENSES

| | 2010 HK\$'000 | 2009 HK\$'000 |
|--|------------------|------------------|
| The charge comprises: | | |
| Current tax: | | |
| Hong Kong Profits Tax | 2,224 | 6,583 |
| PRC Enterprise Income Tax | – | 131 |
| | <hr/> 2,224 | <hr/> 6,714 |
| (Over) under provision in prior years: | | |
| Hong Kong Profits Tax | (2,149) | 1,385 |
| | <hr/> 75 | <hr/> 8,099 |
| Deferred tax (note 24) | | |
| Current year | 79 | (943) |
| | <hr/> 154 | <hr/> 7,156 |
| | <hr/> <hr/> | <hr/> <hr/> |

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

PRC subsidiaries are subject to PRC Enterprise Income Tax at 25% for both years. Taxation arising in other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

11. INCOME TAX EXPENSES (Cont'd)

The tax charge for the year can be reconciled to the profit before tax as follow:

| | 2010 HK\$'000 | 2009 HK\$'000 |
|--|------------------|------------------|
| Profit before tax | 21,541 | 45,842 |
| Tax at Hong Kong Profits Tax of 16.5% | 3,554 | 7,564 |
| Tax effect of income not taxable for tax purposes | (2,399) | (7,548) |
| Tax effect of expenses not deductible for tax purposes | 1,258 | 5,375 |
| Tax effect on temporary differences not recognised | (1) | – |
| Tax effect on tax losses not recognised | 47 | 492 |
| Utilisation of tax losses not previously recognised | (11) | (94) |
| (Over) under provision in prior year | (2,149) | 1,385 |
| Effect of different tax rates of group entities operating in the PRC | (145) | (18) |
| Tax charge for the year | 154 | 7,156 |

12. DIVIDENDS

| | 2010 HK\$'000 | 2009 HK\$'000 |
|---|------------------|------------------|
| Interim, paid – 1.0 HK cent (2009: 1.0 HK cent) per share | 2,750 | 2,873 |
| Final, paid – 6.5 HK cents per share for 2009 (2009: 1.0 HK cent per share for 2008) | 17,938 | 2,949 |
| | 20,688 | 5,822 |

Subsequent to the end of the reporting period, final dividend of 2.5 HK cents (2009: 6.5 HK cents) per share has been proposed by the Directors and is subject to approval by the shareholders in general meeting.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

13. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share attributable to owners of the Company is based on the net profit for the year of approximately HK\$20,175,000 (2009: HK\$37,776,000) and the following data:

| | 2010 | 2009 |
|---|--------------------|--------------------|
| Number of shares | | |
| Weighted average number of ordinary shares for the purposes of basic earnings per share | 277,627,214 | 291,710,176 |
| Effect of dilutive potential ordinary shares on share options | 4,671,307 | 1,472,602 |
| Weighted average number of ordinary shares for the purposes of diluted earnings per share | <u>282,298,521</u> | <u>293,182,778</u> |

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

14. PROPERTY, PLANT AND EQUIPMENT

| | Land and Buildings HK\$'000 (Restated) | Factory premises HK\$'000 | Furniture, fixtures and office equipment HK\$'000 | Plant, machinery and moulds HK\$'000 | Motor vehicles HK\$'000 | Total HK\$'000 (Restated) |
|---|---|---------------------------------|---|--|-------------------------------|---------------------------------|
| COST | | | | | | |
| At 1 January 2009 | 271 | 41,686 | 35,605 | 226,462 | 4,880 | 308,904 |
| Additions | – | 2,202 | 395 | 3,290 | 312 | 6,199 |
| Disposal | – | – | (777) | (5,857) | (113) | (6,747) |
| At 31 December 2009 and 1 January 2010 | 271 | 43,888 | 35,223 | 223,895 | 5,079 | 308,356 |
| Additions | – | 549 | 1,760 | 5,104 | – | 7,413 |
| Disposal | – | (6,436) | (4,253) | (26,832) | (252) | (37,773) |
| At 31 December 2010 | 271 | 38,001 | 32,730 | 202,167 | 4,827 | 277,996 |
| DEPRECIATION AND AMORTISATION | | | | | | |
| At 1 January 2009 | 98 | 29,911 | 29,302 | 190,491 | 4,441 | 254,243 |
| Provided for the year | 4 | 2,694 | 1,227 | 9,809 | 325 | 14,059 |
| Eliminated upon disposals | – | – | (769) | (5,227) | (113) | (6,109) |
| At 31 December 2009 and 1 January 2010 | 102 | 32,605 | 29,760 | 195,073 | 4,653 | 262,193 |
| Provided for the year | 4 | 2,445 | 1,141 | 7,744 | 195 | 11,529 |
| Eliminated upon disposals | – | (5,665) | (3,982) | (24,394) | (252) | (34,293) |
| At 31 December 2010 | 106 | 29,385 | 26,919 | 178,423 | 4,596 | 239,429 |
| CARRYING VALUES | | | | | | |
| At 31 December 2010 | 165 | 8,616 | 5,811 | 23,744 | 231 | 38,567 |
| At 31 December 2009 | 169 | 11,283 | 5,463 | 28,822 | 426 | 46,163 |

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

14. PROPERTY, PLANT AND EQUIPMENT (Cont'd)

The above items of property, plant and equipment are depreciated on a straight-line basis at the following rates per annum:

| | |
|--|--------|
| Land and buildings | 2% |
| Factory premises | 5-20% |
| Furniture, fixtures and office equipment | 15-20% |
| Plant, machinery and moulds | 10-20% |
| Motor vehicles | 25-30% |

The Group has not obtained Certificate for Housing Ownership in respect of the Group's factory premises with an aggregate net book value of approximately HK\$8,616,000 (2009: HK\$11,283,000) at 31 December 2010.

15. PREPAID LEASE PAYMENTS

The Group's prepaid lease payments comprise:

| | 2010 HK\$'000 | 2009 HK\$'000 (Restated) |
|---|------------------|--------------------------------|
| Medium-term leasehold land in Hong Kong | – | – |
| Medium-term leasehold land in PRC | 6 | 80 |
| | <u>6</u> | <u>80</u> |
| Analysed for reporting purposes as: | | |
| Current assets | 6 | 74 |
| Non-current assets | – | 6 |
| | <u>6</u> | <u>80</u> |
| | <u>6</u> | <u>80</u> |
| | 80 | 153 |
| Net book value at 1 January | | |
| Amortisation for the year | (74) | (73) |
| | <u>6</u> | <u>80</u> |
| Net book value at 31 December | | |
| Current portion of non-current assets | (6) | (74) |
| | <u>–</u> | <u>6</u> |
| Non-current portion | | |

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

16. INVENTORIES

| | 2010 HK\$'000 | 2009 HK\$'000 |
|------------------|------------------|------------------|
| Raw materials | 38,043 | 32,296 |
| Work in progress | 6,213 | 3,601 |
| Finished goods | 13,176 | 14,260 |
| | <u>57,432</u> | <u>50,157</u> |

Inventories of HK\$ nil (2009: nil) are expected to be recovered after more than twelve months.

17. TRADE AND OTHER RECEIVABLES

| | 2010 HK\$'000 | 2009 HK\$'000 |
|--|------------------|------------------|
| Trade receivables | 67,757 | 63,513 |
| Less: impairment loss on trade receivables | (15,696) | (16,778) |
| | <u>52,061</u> | <u>46,735</u> |
| Prepayment and other receivables | 6,883 | 8,399 |
| | <u>58,944</u> | <u>55,134</u> |

The Group allows an average credit period of 60 days to its trade customers.

The following is an aging analysis of the Group's trade receivables by age, presented based on the invoice date and net of allowance for doubtful debts at the end of the reporting period:

| | 2010 HK\$'000 | 2009 HK\$'000 |
|---------------|------------------|------------------|
| 0 – 60 days | 37,384 | 35,134 |
| 61 – 90 days | 6,394 | 5,207 |
| 91 – 120 days | 3,622 | 3,990 |
| Over 120 days | 4,661 | 2,404 |
| | <u>52,061</u> | <u>46,735</u> |

Trade receivables disclosed above include amounts which are past due at the end of reporting period for which the Group has not recognized an allowance for doubtful debts because there has not been a significant change in credit quality and the amounts are still considered recoverable. The Group does not hold any collateral or other credit enhancements over these balances nor does it have a legal right of offset against any amounts owed by the Group to the counterparty.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

17. TRADE AND OTHER RECEIVABLES (Cont'd)

The following is an aging analysis of the Group's trade receivables that are past due but not impaired at the end of the reporting period:

| | 2010 HK\$'000 | 2009 HK\$'000 |
|---------------|------------------|------------------|
| Overdue by: | | |
| 0 – 60 days | 3,723 | 3,005 |
| 61 – 90 days | 1,138 | 27 |
| 91 – 120 days | 19 | 245 |
| Over 120 days | 37 | 366 |
| | <u>4,917</u> | <u>3,643</u> |

The following is the movement in the allowance for doubtful debts:

| | 2010 HK\$'000 | 2009 HK\$'000 |
|--|------------------|------------------|
| Balance at beginning of the year | 16,778 | 16,736 |
| Allowance for doubtful debts during the year | 55 | 1,090 |
| Amounts recovered during the year | (759) | (719) |
| Amounts written off during the year | (378) | (329) |
| | <u>15,696</u> | <u>16,778</u> |

The fair value of the Group's trade and other receivables at 31 December 2010 approximate to the corresponding carrying amount.

The following is an aging analysis of the Group's impaired trade receivables:

| | 2010 HK\$'000 | 2009 HK\$'000 |
|---------------|------------------|------------------|
| Overdue by: | | |
| 0 – 60 days | – | 180 |
| 61 – 90 days | – | 154 |
| 91 – 120 days | – | 53 |
| Over 120 days | 15,696 | 16,391 |
| | <u>15,696</u> | <u>16,778</u> |

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

18. OTHER FINANCIAL ASSETS

Bank balances and cash

The amounts comprise cash held by the Group and short-term bank deposits at market interest rates ranging from 0.001% to 3.3% (2009: 0.001% to 2.84%) with an original maturity of three months or less. The fair value of these assets at 31 December 2010 approximates to the corresponding carrying amounts.

19. DERIVATIVE FINANCIAL INSTRUMENTS

| | 2010 HK\$'000 | 2009 HK\$'000 |
|---|------------------|------------------|
| Financial assets | | |
| Equity decumulators | 248 | 98 |
| Financial liabilities | | |
| Equity accumulators | (239) | – |
| Equity decumulators | (2,770) | (2,919) |
| | (3,009) | (2,919) |
| Financial assets | | |
| Beginning of the year | 98 | – |
| Changes in fair value of derivative financial instruments | 150 | 98 |
| End of the year | 248 | 98 |
| Financial liabilities | | |
| Beginning of the year | (2,919) | (511) |
| Changes in fair value of derivative financial instruments | (90) | (2,408) |
| End of the year | (3,009) | (2,919) |

The derivatives are measured at fair value at each reporting date. Their fair values are 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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

19. DERIVATIVE FINANCIAL INSTRUMENTS (Cont'd)

At 31 December 2010, the major terms of the listed equity decumulators/accumulators contracts are as follows:

| Nominal Amount | Underlying Securities | Nature | Maturity | Forward Prices |
|----------------|--------------------------------------|-------------|-------------------|----------------|
| HK\$9,062,000 | China Mobile Limited | Decumulator | 9 February 2011 | HK\$87.84 |
| HK\$3,540,000 | China Construction Bank Corporation | Decumulator | 30 March 2011 | HK\$6.99 |
| HK\$2,815,000 | Bank of China | Decumulator | 26 May 2011 | HK\$4.48 |
| HK\$6,396,000 | CNOOC Limited | Decumulator | 26 May 2011 | HK\$15.11 |
| HK\$6,000,000 | CNOOC Limited | Decumulator | 26 May 2011 | HK\$15.06 |
| HK\$6,176,000 | CNOOC Limited | Decumulator | 1 June 2011 | HK\$15.50 |
| HK\$3,575,000 | China Construction Bank Corporation | Decumulator | 20 June 2011 | HK\$6.97 |
| HK\$3,487,000 | China Construction Bank Corporation | Decumulator | 8 July 2011 | HK\$7.11 |
| HK\$5,554,000 | CNOOC Limited | Decumulator | 20 July 2011 | HK\$14.89 |
| HK\$5,176,000 | Agricultural Bank of China Limited | Decumulator | 23 August 2011 | HK\$3.98 |
| HK\$4,656,000 | China Life Insurance Company Limited | Decumulator | 31 August 2011 | HK\$34.63 |
| HK\$5,791,000 | Agricultural Bank of China Limited | Decumulator | 9 September 2011 | HK\$4.20 |
| HK\$5,422,000 | China Life Insurance Company Limited | Decumulator | 14 September 2011 | HK\$35.12 |
| HK\$4,626,000 | China Life Insurance Company Limited | Decumulator | 21 September 2011 | HK\$35.87 |
| HK\$5,307,000 | Agricultural Bank of China Limited | Decumulator | 22 September 2011 | HK\$4.55 |
| HK\$5,609,000 | China Life Insurance Company Limited | Decumulator | 6 October 2011 | HK\$37.39 |
| HK\$6,925,000 | China Life Insurance Company Limited | Accumulator | 9 November 2011 | HK\$30.9 |
| HK\$4,101,000 | China Life Insurance Company Limited | Accumulator | 16 December 2011 | HK\$27.45 |

The analysis of the net cash flow derived from decumulator contracts and accumulator contracts is presented in the section headed "Liquidity risk management" of note 36 to the consolidated financial statements.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

20. INVESTMENTS HELD-FOR-TRADING

| | 2010 HK\$'000 | 2009 HK\$'000 |
|---------------------------------------|------------------|------------------|
| Equity securities listed in Hong Kong | <u>72,910</u> | <u>92,996</u> |

The movement of investments held-for-trading during the year:

| | 2010 HK\$'000 | 2009 HK\$'000 |
|--|------------------|------------------|
| Beginning of the year | 92,996 | 52,709 |
| Additions | 180,947 | 143,583 |
| Disposals | (203,000) | (115,665) |
| Change in fair value of investments held-for-trading | 1,967 | 12,369 |
| End of the year | <u>72,910</u> | <u>92,996</u> |

The fair values of the investments held-for-trading are determined based on the quoted market bid prices available on the relevant exchanges.

21. PLEDGED BANK DEPOSITS

The amount represents deposits pledged to banks to secure short-term banking facilities granted to the Group and are therefore classified as current assets.

The deposits carry variable interest rate ranging from 0.001% to 3.30% (2009: 0.001% to 2.84%). The pledged bank deposits will be released upon the settlement of relevant bank borrowings. The fair value of bank deposits at 31 December 2010 approximates to the corresponding carrying amount.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

22. TRADE AND OTHER PAYABLES

The following is an aged analysis of the Group's trade payables at the end of reporting period:

| | 2010 HK\$'000 | 2009 HK\$'000 |
|---------------|------------------|------------------|
| 0 – 60 days | 19,870 | 15,377 |
| 61 – 90 days | 979 | 2,123 |
| 91 – 120 days | 128 | 722 |
| Over 120 days | 355 | 522 |
| | <u>21,332</u> | <u>18,744</u> |

The fair value of the Group's trade and other payables at 31 December 2010 approximates to the corresponding carrying amount.

23. BANK BORROWINGS

| | 2010 HK\$'000 | 2009 HK\$'000 (Restated) |
|--|------------------|--------------------------------|
| Unsecured bank loans classified as current liabilities | <u>27,750</u> | <u>23,815</u> |

The unsecured bank loans and unsecured trust receipt loans were secured by corporate cross guarantee given by the Group. The unsecured bank loans and unsecured trust receipt loans will be charged at variable interest rates ranging from 0.62% to 2.35% (2009: 0.64% to 4.69%).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

23. BANK BORROWINGS (Cont'd)

The amounts repayable as extracted from agreed repayment schedules from financial institutions are as follows:

| | 2010 HK\$'000 | 2009 HK\$'000 |
|--|------------------|------------------|
| On demand or within one year | 9,264 | 6,865 |
| More than one year, but not exceeding two years | 9,264 | 6,865 |
| More than two year, but not exceeding five years | 9,222 | 10,085 |
| | <hr/> | <hr/> |
| | 27,750 | 23,815 |
| Less: carrying amount of bank loans that are not repayable within one year from the end of the reporting period but contain a repayment on demand clause (shown under current liabilities) | (18,486) | (16,950) |
| | <hr/> | <hr/> |
| | 9,264 | 6,865 |
| | <hr/> <hr/> | <hr/> <hr/> |

During the period, the Group has obtained a new term bank loan of HK\$12,000,000 (2009: nil (approximately HK\$nil)). The bank loan was outstanding balance raised in 2008 and 2010. The term loan bears interest at market rate and is repayable in instalments over a period of 5 years. The proceeds are used to finance the working capital of the Group. Loans of approximately HK\$8,065,000 (2009: HK\$ 6,865,000) were repaid during the period.

As all the term loans include a clause that gives the lender the unconditional right to call the loans at any time ("repayment on demand clause"), according to HK Int 5 which requires the classification of whole term loans containing the repayment on demand clause as current liabilities, all the term loans were classified by the Group as current liabilities. The comparative figures were reclassified retrospectively.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

24. DEFERRED TAXATION

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

| | Accelerated tax depreciation HK\$'000 | Tax losses HK\$'000 | Total HK\$'000 |
|--|---|-----------------------------------|--------------------------|
| At 1 January 2009 | 1,718 | (2,195) | (477) |
| Credit to income for the year | (536) | (407) | (943) |
| At 31 December 2009 and 1 January 2010 | 1,182 | (2,602) | (1,420) |
| (Credit) charge to income for the year | (278) | 357 | 79 |
| At 31 December 2010 | <u>904</u> | <u>(2,245)</u> | <u>(1,341)</u> |

For the purposes of presentation in the consolidated statement of financial position, certain deferred tax assets and liabilities have been offset. The following is the analysis of the deferred tax balances for financial reporting purposes:

| | 2010 HK\$'000 | 2009 HK\$'000 |
|--------------------------|--------------------------------|------------------|
| Deferred tax liabilities | 827 | 801 |
| Deferred tax assets | (2,168) | (2,221) |
| | <u>(1,341)</u> | <u>(1,420)</u> |

At the end of reporting period, the Group has unused tax losses of approximately HK\$92,473,000 (2009: HK\$96,254,000) available for offset against future profits that may be carried forward indefinitely. A deferred tax asset has been recognised in respect of approximately HK\$13,608,000 (2009: HK\$15,784,000) of such losses. No deferred tax has been recognised in respect of the remaining HK\$78,865,000 (2009: HK\$80,470,000) due to the unpredictability of future profit streams.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

25. SHARE CAPITAL

| | Authorised | | Issued and fully paid | |
|---|------------------|------------------|-----------------------|------------------|
| | 2010 HK\$'000 | 2009 HK\$'000 | 2010 HK\$'000 | 2009 HK\$'000 |
| 700,000,000 ordinary shares of HK\$0.10 each | | | | |
| At beginning of the year | 70,000 | 70,000 | 28,704 | 29,870 |
| Exercise of share options | – | – | 1,050 | 100 |
| Share repurchased and cancelled (note 1) | – | – | (2,233) | (1,266) |
| At end of the year | 70,000 | 70,000 | 27,521 | 28,704 |

note 1: During the year, the Company repurchased its own shares through the Stock Exchange as follows:

| Month of repurchase | No. of shares of HK\$0.10 each | Price per share | | Aggregate |
|---------------------|-----------------------------------|-----------------|----------------|-------------------------------|
| | | Highest HK\$ | Lowest HK\$ | Consideration Paid HK\$ |
| Jan 2010 | 3,926,000 | 0.74 | 0.68 | 2,814,364 |
| Feb 2010 | 2,280,000 | 0.73 | 0.70 | 1,636,689 |
| Apr 2010 | 4,790,000 | 0.95 | 0.90 | 4,467,264 |
| May 2010 | 2,066,000 | 0.89 | 0.84 | 1,812,629 |
| Jun 2010 | 1,770,000 | 0.86 | 0.74 | 1,417,070 |
| Jul 2010 | 3,218,000 | 0.78 | 0.71 | 2,460,449 |
| Sep 2010 | 950,000 | 0.73 | 0.72 | 695,368 |
| Nov 2010 | 3,330,000 | 0.78 | 0.72 | 2,511,004 |
| | 22,330,000 | | | 17,814,837 |

The above shares were cancelled upon repurchase. None of the Company's subsidiaries repurchased, sold or redeemed any of the Company's shares during the year.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

26. ACQUISITION OF ADDITIONAL EQUITY INTEREST OF AN EXISTING SUBSIDIARY

In February 2010, the Group acquired 10% equity interest of Perfectech Printing Company Limited ("Perfectech Printing"), an existing subsidiary of the Group, for a cash consideration of HK\$ 678,000. The principal activities of Perfectech Printing is manufacturing of printing products. The acquisition has been accounted for using the acquisition method of accounting.

The aggregate net assets acquired in the transaction and the goodwill arising on the acquisition are as follows:

| | HK\$000 |
|--|-------------------|
| Total assets acquired: | |
| Property, plant and equipment | 9,199 |
| Available-for-sale investments | 3,002 |
| Inventories | 3,846 |
| Trade and other receivables | 3,013 |
| Amounts due from fellow subsidiaries | 2,397 |
| Amounts due from immediate holding company | 1,644 |
| Bank balances and cash | 1,397 |
| | <hr/> |
| | 24,498 |
| Total liabilities acquired: | |
| Trade and other payables | (2,537) |
| Amounts due to fellow subsidiaries | (18,468) |
| Deferred tax liability | (202) |
| | <hr/> |
| | (21,207) |
| Net asset acquired | <hr/> <hr/> 3,291 |
| Total Consideration | 678 |
| Additional equity interest acquired (10%) | (329) |
| | <hr/> |
| Goodwill | <hr/> <hr/> 349 |
| Net cash outflow arising on acquisition: | |
| Cash consideration | (678) |
| Less: Cash and bank balance acquired | – |
| | <hr/> |
| | (678) |

Upon the completion of the acquisition of the additional 10% equity interest in Perfectech Printing, Perfectech Printing became a 100% wholly owned subsidiary of the Company.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

27. PLEDGE OF ASSETS

The following assets were pledged to secure the margin loan facilities granted to the Group:

- (i) Investments held-for-trading with a carrying value of approximately HK\$71,935,000 (2009: 91,570,000); and
- (ii) Bank deposits of approximately HK\$4,818,000 (2009: HK\$793,000).

At 31 December 2010, the Group has utilised margin loan facilities from bank with an amount of approximately HK\$ nil. (2009: HK\$nil).

28. OPERATING LEASES

The Group as lessee

| | 2010 HK\$'000 | 2009 HK\$'000 |
|--|------------------|------------------|
| Minimum lease payments paid under operating leases during the year | | |
| Rented premises | 5,906 | 6,600 |

At 31 December 2010, the Group had commitments for future minimum lease payments under non-cancellable operating leases in respect of rented premises which fall due as follows:

| | 2010 HK\$'000 | 2009 HK\$'000 |
|--|------------------|------------------|
| Within one year | 5,380 | 5,306 |
| In the second to fifth years inclusive | 10,951 | 11,972 |
| Over five years | 33,252 | 34,761 |
| | <u>49,583</u> | <u>52,039</u> |

Operating lease payments represent rentals payable by the Group for certain of its office and factory properties. Leases are negotiated for a term from 2 to 35 years.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

29. CAPITAL COMMITMENTS

| | THE GROUP | |
|--|------------------|------------------|
| | 2010 HK\$'000 | 2009 HK\$'000 |
| Capital expenditure in respect of the acquisition of property, plant and equipment | | |
| Contracted but not provided for | 2,066 | 422 |
| Authorised for but not contracted for | 365 | 204 |
| | <u>2,431</u> | <u>626</u> |

30. OTHER COMMITMENTS

At 31 December 2010, the Group carried outstanding forward contracts which entailed a commitment for sale and purchase of equity shares of notional amount of approximately HK\$49,451,000 and HK\$11,098,000 respectively (2009: HK\$85,108,000 and nil) as disclosed in note 19.

31. CONTINGENT LIABILITIES

(a) Contingent liability in respect of legal claim

A subsidiary of the Group (the "Subsidiary") has served a writ and claimed against three former employees of the Subsidiary (the "Defendants"). The claim related to the misconduct of the Defendants during their employment with the Subsidiary. The Defendants has filed a defence and counterclaim against the Subsidiary for wages and other payments allegedly payable upon their termination of employment with the Subsidiary amounting to approximately HK\$419,000 together with interest and costs. The Directors of the Company take the views that the amount of their claims against the Defendants well exceed the Defendants' claims, and accordingly, no provision for any liabilities that may result has been made in the financial statements of the Group.

(b) Financial guarantees issued

As the end of reporting period, the Company has issued the following guarantees:

A corporate guarantee to banks in respect of banking facilities granted to its subsidiaries.

The Company is also one of the entities covered by a cross guarantee arrangement issued by the Company and its Subsidiaries to banks in respect of banking facilities granted to the Group which remains in force so long as the Group has drawn down under the banking facilities. Under the guarantee, the Company and all the Subsidiaries that are a party to the guarantee are jointly and severally liable for all and any of the borrowings of each of them from the bank which is the beneficiary of the guarantee.

As 31 December 2010, the Directors do not consider it probable that a claim will be made against the Company under any of the guarantees as the probability of default payment for the loans drawn down by the Subsidiaries is remote.

The Company has not recognised any deferred income in respect of the corporate guarantee as its fair value cannot be reliably measured and its transaction price was Nil.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

32. SHARE-BASED PAYMENT TRANSACTIONS

The share option scheme (the “Scheme”) was adopted on 17 May 2002 and will expire on 16 May 2012. The primary purpose of the Scheme is to recognise and motivate the contribution of employees and other persons who may have a contribution to the Group and to provide incentives and help the Company in retaining its existing employees and recruiting additional employees and to provide them with a direct economic interest in attaining the long term business objectives of the Company.

Under the Scheme, the board of Directors of the Company may offer to any employees, including full time or part time employees, of the Company and/or its subsidiaries including any executive and non-executive Director or proposed executive and non-executive Director of the Company or any subsidiary options to subscribe for shares in the Company in accordance with the terms of the Scheme for the consideration of HK\$1 for each lot of share options granted.

At the date of this report, the number of shares in respect of which options had been granted and remained outstanding under the Scheme was 17,300,000 representing approximately 6.29% of the shares of the Company in issue at that date.

The total number of shares in respect of which options may be granted under the Scheme is not permitted to exceed 10% of the shares of the Company in issue. In addition, the maximum number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Scheme and any other share option schemes of the Company shall not exceed 30% (or such higher percentage as may be allowed under the Listing Rules) of the total number of shares in issue from time to time. The number of shares in respect of which options may be granted to any individual in any one year is not permitted to exceed 1% of shares of the Company in issue, at any point at time, without prior approval from the Company’s shareholder.

Options granted must remain open for acceptance until 5:00 p.m. the 5th business day following the offer date provided that no such offer shall be opened for acceptance after the tenth anniversary of the adoption date or after the Scheme has been terminated. Option may be exercised during the period as the board of Directors of the Company may in its absolute discretion determine, save that such period shall not be more than 10 years from the date of the grant of the option and the board of Directors may provide restrictions on the exercise of an option during the period an option may be exercised.

Total consideration received during the year from the Directors and employees for taking up the options granted during the year is HK\$nil (2009: HK\$5).

All options were vested on the date of grant.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

32. SHARE-BASED PAYMENT TRANSACTIONS (Cont'd)

The exercise price is determined by the board of Directors of the Company and will be at least the highest of the followings:

- the closing price of shares at the date of grant of a share option;
- the average closing price of the shares for the five business days immediately preceding the date of grant; and
- the nominal value of a share.

The followings table discloses details of the Company's share options held by employees and movements in such holdings during the year:

| | | Number of share options | | | | | | | |
|--------------|---|-------------------------|-------------------------|---------------------------|------------------------|--------------------------|-------------------------|---------------------------|-------------------|
| Option type | | At 1.1.2009 | Granted during the year | Exercised during the year | Lapsed during the year | At 31.12.2009 & 1.1.2010 | Granted during the year | Exercised during the year | At 31.12.2010 |
| Directors | B | 2,000,000 | - | - | - | 2,000,000 | - | - | 2,000,000 |
| | D | 900,000 | - | - | - | 900,000 | - | (300,000) | 600,000 |
| | E | 1,000,000 | - | - | - | 1,000,000 | - | (1,000,000) | - |
| | F | - | 2,800,000 | (1,000,000) | - | 1,800,000 | - | (1,800,000) | - |
| | | | 3,900,000 | 2,800,000 | (1,000,000) | - | 5,700,000 | - | (3,100,000) |
| Employees | C | 4,500,000 | - | - | - | 4,500,000 | - | - | 4,500,000 |
| | D | 9,500,000 | - | - | (1,300,000) | 8,200,000 | - | - | 8,200,000 |
| | E | 3,500,000 | - | - | - | 3,500,000 | - | (3,500,000) | - |
| | F | - | 3,900,000 | - | - | 3,900,000 | - | (3,900,000) | - |
| | | | 17,500,000 | 3,900,000 | - | (1,300,000) | 20,100,000 | - | (7,400,000) |
| Others | A | 1,000,000 | - | - | - | 1,000,000 | - | - | 1,000,000 |
| | B | 1,000,000 | - | - | - | 1,000,000 | - | - | 1,000,000 |
| | | 2,000,000 | - | - | - | 2,000,000 | - | - | 2,000,000 |
| Total | | 23,400,000 | 6,700,000 | (1,000,000) | (1,300,000) | 27,800,000 | - | (10,500,000) | 17,300,000 |

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

32. SHARE-BASED PAYMENT TRANSACTIONS (Cont'd)

Details of specific categories of options are as follows:

| Option type | Date of grant | Exercise period | Exercise price HK\$ |
|-------------|-----------------|-------------------------------------|------------------------|
| A | 5 June 2002 | 5 July 2002 to 17 May 2012 | 0.664 |
| B | 2 February 2005 | 2 May 2005 to 31 December 2014 | 0.608 |
| C | 24 March 2006 | 24 April 2006 to 31 December 2014 | 0.540 |
| D | 2 November 2007 | 1 December 2007 to 31 December 2016 | 0.850 |
| E | 14 October 2008 | 1 November 2008 to 31 December 2017 | 0.389 |
| F | 20 May 2009 | 1 June 2009 to 31 December 2018 | 0.375 |

The closing price of the Company's shares on 5 June 2002, 2 February 2005, 24 March 2006, 2 November 2007, 14 October 2008 and 20 May 2009, being the dates of grant of the respective options, were HK\$0.64, HK\$0.60, HK\$0.52, HK\$0.85, HK\$0.335 and HK\$0.375 respectively.

During the year ended 31 December 2010, no options were granted under the Scheme.

33. RETIREMENT BENEFITS SCHEME

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

For members of the MPF Scheme, the Group contributes 5% of relevant payroll costs to the MPF Scheme, which contribution is matched by the employee.

The ORSO Scheme is funded by monthly contributions from both employees and the Group at the rate of 5% the employee's basic salary.

Employees of the Group in the PRC are members of the state-sponsored pension operated by the PRC Government. The Group are required to contribute a certain percentage of their payroll to the pension scheme to fund the benefits. The only obligation of the Group with respect to the pension scheme is to make the required contributions.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

33. RETIREMENT BENEFITS SCHEME (Cont'd)

At the end of reporting period, there was no forfeited contributions, which arose upon employees leaving the ORSO Scheme and which are available to reduce the contributions payable in future years.

The total cost recognised in the consolidated statement of comprehensive income of approximately HK\$514,000 (2009: HK\$534,000) represents contributions payable to these schemes by the Group in respect of the current accounting period.

34. EVENTS AFTER THE REPORTING PERIOD

At 18 February 2011, the Group acquired 11.8% equity interest of its subsidiary, Fareastern Trade Limited, with an aggregated consideration of HK\$4,638,000. The unaudited net assets of the subsidiary at the date of acquisition were approximately HK\$35,982,000. After the acquisition, the Company holds approximately 88% equity interest of the subsidiary through its wholly-owned subsidiary.

35. RELATED PARTY TRANSACTIONS

- (a) During the year, the Group entered into the following significant transactions with related parties who are not members of the Group:

| | 2010 HK\$'000 | 2009 HK\$'000 |
|--|------------------|------------------|
| Rental expenses paid to: Mr. Poon Siu Chung | 240 | 240 |

- (b) Compensation of key management personnel

The remuneration of Directors and other members of key management during the year were as follows:

| | 2010 HK\$'000 | 2009 HK\$'000 |
|--------------------------|------------------|------------------|
| Short-term benefits | 5,452 | 4,804 |
| Post-employment benefits | 99 | 127 |
| Share-based payments | - | 624 |
| | <u>5,551</u> | <u>5,555</u> |

The remuneration of Directors and key executives is determined by the Board and reviewed by the remuneration committee having regard to the performance of individuals and market trends.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

36. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's major financial instruments include borrowings, trade and other payables. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Currency risk management

Several subsidiaries of the Company have foreign currency sales, which expose the Group to foreign currency risk. The Group currently has a foreign currency hedging policy and the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arises.

The carrying amounts of the Group's major foreign currency denominated monetary assets and monetary liabilities at the reporting period are as follows:

| | Assets | Liabilities | Assets | Liabilities |
|------------------|-----------------|--------------------|----------|-------------|
| | 2010 | 2010 | 2009 | 2009 |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Renminbi ("RMB") | 13,722 | 13,077 | 7,645 | 10,033 |

The following table shows the sensitivity analysis of a 5% increase/decrease in RMB against the Hong Kong dollars, the effect in the profit for the year is as follows:

| | Impact | Impact |
|--|-----------------|----------|
| | of RMB | of RMB |
| | 2010 | 2009 |
| | HK\$'000 | HK\$'000 |
| Increase/decrease in profit for the year | 32 | 119 |

Besides, at the end of the reporting period, the Group has bank balance of USD2,215,000 approximately, the sensitivity analysis of changing in USD exchange rate is insignificant as the Hong Kong dollars banknotes are fully backed by US dollar held by Exchange Fund at the rate of HK\$7.8 to one US dollar.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

36. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Cont'd)

Liquidity risk management

Internally generate cash flow and bank borrowings are the general sources of funds to finance the operations of the Group. The majority of the Group's banking facilities are subject to floating rates and are renewable annually. The Group liquidity risk management includes making available standby banking facilities and diversifying the funding sources. The Group regularly reviews its major funding positions to ensure it has adequate financial resources in meeting its financial obligations. The maturity profiles of the Group of the Group's financial liabilities at the end of reporting period based on contractual undiscounted payments are summarised below:

2010

| | Within 1 year HK\$'000 | 2-5 years HK\$'000 | Total HK\$'000 |
|---|---------------------------|-----------------------|-------------------|
| Trade payables | 21,332 | – | 21,332 |
| Accruals and other payables | 24,224 | – | 24,224 |
| Tax liabilities | 2,347 | – | 2,347 |
| Derivative financial instruments | 3,009 | – | 3,009 |
| Bank borrowings | 9,264 | 18,486 | 27,750 |
| Capital commitments in respect of the acquisition of property, plant and equipment contracted for but not provided in the consolidated financial statements | 2,066 | – | 2,066 |
| Capital commitments in respect of the acquisition of property, plant and equipment authorised but not contracted for in the consolidated financial statements | 365 | – | 365 |
| | 62,607 | 18,486 | 81,093 |

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

36. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Cont'd)

Liquidity risk management (Cont'd)

2009

| | Within 1 year HK\$'000 | 2-5 years HK\$'000 | Total HK\$'000 |
|---|---------------------------|-----------------------|-------------------|
| Trade payables | 18,744 | – | 18,744 |
| Accruals and other payables | 28,876 | – | 28,876 |
| Tax liabilities | 6,834 | – | 6,834 |
| Derivative financial instruments | 2,919 | – | 2,919 |
| Bank borrowings | 6,865 | 16,950 | 23,815 |
| Capital commitments in respect of the acquisition of property, plant and equipment contracted for but not provided in the consolidated financial statements | 422 | – | 422 |
| Capital commitments in respect of the acquisition of property, plant and equipment authorised but not contracted for in the consolidated financial statements | 204 | – | 204 |
| | 64,864 | 16,950 | 81,814 |
| | 64,864 | 16,950 | 81,814 |

The following table details the Group's liquidity analysis for its derivative instruments. The table has been drawn up based on the undiscounted contractual net cash inflows and outflows from derivative instruments that settle on a net basis, and the undiscounted gross inflows and outflows from those derivatives that require gross settlement. When the amount payable or receivable is not fixed, the amount disclosed has been determined by reference to the projected interest rates as illustrated by the yield curves at the end of the reporting period.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

36. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Cont'd)

Liquidity risk management (Cont'd)

| | Less than 1 month HK\$'000 | 1-3 months HK\$'000 | 3 months to 1 year HK\$'000 | Total undiscounted cash flows HK\$'000 |
|--------------------------------|----------------------------------|------------------------|-----------------------------------|---|
| 2010 | | | | |
| Derivatives – net settlement | | | | |
| Decumulator contract – inflow | 8,146 | 14,512 | 26,793 | 49,451 |
| Accumulator contract – outflow | (988) | (1,881) | (8,229) | (11,098) |
| | <u>7,158</u> | <u>12,631</u> | <u>18,564</u> | <u>38,353</u> |
| 2009 | | | | |
| Derivatives – net settlement | | | | |
| Decumulator contract – inflow | 10,174 | 22,482 | 52,452 | 85,108 |
| Accumulator contract – outflow | – | – | – | – |
| | <u>10,174</u> | <u>22,482</u> | <u>52,452</u> | <u>85,108</u> |

Interest rate risk management

The Group's income and operating cash flows are substantially independent of changes in market interest rates. The Group has no significant interest-bearing assets. The Group's exposure to changes in interest rates is mainly attributable to its borrowings which are not significant.

Credit risk management

The Group's maximum exposure to credit risk in the event of the counterparties failure to perform their obligations as at 31 December 2010 in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated statement of financial position. In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews regularly the recoverable amount of each individual trade debt to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the management considers that the group's credit risk is significant reduced.

The Group has no significant concentration of credit risk, with exposure spread over a number of counterparties and customers.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

36. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Cont'd)

Price risk management

The Group's investments in equity listed in Hong Kong. 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 market index and other industry indicators, as well as the Group's liquidity needs. To manage its price risk arising from the equity securities, the Group maintains a portfolio of diversified investments with different risk profiles.

Sensitivity analysis

The sensitivity analysis below has been determined based on the exposure to equity price risk at the reporting period. For sensitivity analysis purpose, the sensitivity rate is increased to 5% in the current year as a result of the volatile financial market.

If listed equity prices had been 5% higher/lower (2009: 15% higher/lower), profit for the year ended 31 December 2010 would increase/decrease by HK\$3,646,000 (2009: HK\$211,763). This is mainly due to the changes in fair value of financial assets at fair value through profit or loss.

Fair values

As at 31 December 2010, the carrying amount of cash and cash equivalents, prepayments, deposits and other receivables, accrued liabilities and other payables approximated their fair values due to the short-term maturities of these assets and liabilities. The Directors considers that financial assets at fair value through profit or loss are included in the statement of financial position at amounts approximating to their fair values.

As detailed in the following table, the directors consider that the carrying amounts of financial assets and financial liabilities recognised in the consolidated financial statements approximate to their fair values:

The following table presents the carrying value of financial instruments measured at fair value at 31 December 2010 across the three levels of the fair value hierarchy defined in HKFRS 7, Financial Instruments: Disclosures, with the fair value of each financial instrument 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 are those derived from quoted prices (unadjusted) in active markets for identical financial instruments.
- Level 2: fair values measured are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 (Lowest level): fair values measured are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

36. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Cont'd)

Fair values (Cont'd)

2010

| | Level 1 HK\$'000 | Level 2 HK\$'000 | Total HK\$'000 |
|---------------------------------------|---------------------|---------------------|-------------------|
| Assets | | | |
| Investments held-for-trading – listed | 72,910 | – | 72,910 |
| Derivative financial instruments | – | 248 | 248 |
| | <u>72,910</u> | <u>248</u> | <u>73,158</u> |
| Liabilities | | | |
| Derivative financial instruments | – | 3,009 | – |
| | <u>–</u> | <u>3,009</u> | <u>–</u> |

There were no transfers between Levels 1 and 2 in the current year.

The fair values of financial instruments are determined as follows:

- The fair values of financial instruments with standard terms and conditions and traded in active markets are determined with reference to quoted market bid and ask prices respectively.
- The fair values of derivative instruments are calculated using quoted prices. Where such prices are not available, a discounted cash flow analysis is performed using the applicable yield curve for the duration of the instruments for non-optional derivatives, and option pricing models for optional derivatives.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

36. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Cont'd)

Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for equity holders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

During 2010, the Group's strategy remained unchanged as compared to that in 2009. The Group monitors capital on the basis of the gearing ratio. This gearing ratio is calculated as total borrowings divided by equity attributable to equity holders of the Company.

The management considers the gearing ratio at the year end was as follows:

| | 2010 HK\$'000 | 2009 HK\$'000 |
|--|------------------|------------------|
| Borrowings | 27,750 | 23,815 |
| Equity attributable to owners of the Company | <u>219,203</u> | <u>233,644</u> |
| Gearing ratio | <u>13%</u> | <u>10%</u> |

The increase in the gearing ratio during 2010 resulted primarily from the increase in bank borrowings, which is mainly due to the drawdown of a term loan of HK\$12,000,000 during the year.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

37. PARTICULARS OF PRINCIPAL SUBSIDIARIES

| Name of subsidiary | Place of incorporation or registration | Proportion of nominal value of issued/paid up capital held by the Company | | Paid up ordinary share capital | Principal activities |
|---|--|---|------------|--------------------------------|---|
| | | Directly | Indirectly | | |
| Asia Rich (Far East) Limited | Hong Kong | – | 95.3% | HK\$2 | Investment Holding |
| Benefit International Packing Materials Limited | Hong Kong | – | 100% | HK\$10,000 | Trading of PVC films |
| Benefit Packing Materials Limited | Hong Kong | – | 75% | HK\$1,000,000 | Trading of PVC films |
| Beyond Growth International Limited | Hong Kong | – | 95.3% | HK\$100,000 | Manufacture and sales of toys |
| Dream Creation Limited | Hong Kong | – | 95.3% | HK\$2 | Investment holding and distribution of toys |
| Fareastern Trade Limited | British Virgin Islands ("BVI") | – | 76.2% | US\$87,618 | Investment holding |
| Freshwater Trading Limited | BVI | – | 100% | US\$1 | Investment holding |
| Golden Enterprise Holdings Limited | Hong Kong | – | 100% | HK\$2 | Distribution of toys |
| Headfit Paper Bags Trading Limited | Hong Kong | – | 100% | HK\$10,000 | Securities investments and trading of paper bags |
| iTech Limited | Hong Kong | – | 100% | HK\$2 | Investment holding |
| Leader Packaging Company Limited | Hong Kong | – | 100% | HK\$1,000,000 | Investment holding |
| Leader Stationery & Gifts Manufacturing Company Limited | Hong Kong | – | 100% | HK\$1,000,000 | Manufacture and sales of stationery products |
| Link Faith Company Limited | Hong Kong | – | 100% | HK\$100,000 | Securities investments |
| Mars Technology Limited | BVI | – | 95.3% | US\$10 | Investment holding |
| New Genius Technology Limited | BVI | – | 100% | US\$1 | Investment holding |
| Onward Packing Manufacturer Limited | Hong Kong | – | 100% | HK\$320,000 | Manufacture of novelties, Festival decorations products |
| Perfectech Colour Centre Limited | Hong Kong | – | 100% | HK\$1,000,000 | Dye stuff manufacturing |
| Perfectech Enterprises (B.V.I.) Limited | BVI | – | 100% | US\$1 | Investment holding |

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

37. PARTICULARS OF PRINCIPAL SUBSIDIARIES (Cont'd)

| Name of subsidiary | Place of incorporation or registration | Proportion of nominal value of issued/paid up capital held by the Company | | Paid up ordinary share capital | Principal activities |
|---|--|---|------------|---|---|
| | | Directly | Indirectly | | |
| Perfectech International (B.V.I.) Limited | BVI | 100% | – | US\$50 | Investment holding |
| Perfectech International Toys Limited | Hong Kong | – | 100% | HK\$1,000,000 | Investment holding |
| Perfectech International Limited | Hong Kong | – | 100% | HK\$200 HK\$80,000 (non-voting deferred shares) | Investment holding |
| Perfectech International Manufacturing Limited | BVI | – | 100% | US\$2,457,000 | Investment holding |
| Perfectech International Packaging Products Company Limited | Hong Kong | – | 100% | HK\$450,000 | Manufacture of packaging products |
| Perfectech International Trading Limited | Hong Kong | – | 100% | HK\$2 | Trading of novelties and festival decorations |
| Perfectech Paper Products Company Limited | Hong Kong | – | 100% | HK\$1,000,000 | Manufacture of paper products |
| Perfectech Plastics Limited | Hong Kong | – | 100% | HK\$1,000,000 | Trading of plastic materials |
| Perfectech Printing Company Limited | Hong Kong | – | 100% | HK\$1,000,000 | Manufacture of printing products |
| Perfectech Rigid (PVC) Pipe Manufacturing Limited | Hong Kong | – | 100% | HK\$1,000,000 | Investment holding |
| Shouji Mould Engineering Company Limited | Hong Kong | – | 76.2% | HK\$2 | Distribution of mould |
| Shouji Tooling Factory Limited | Hong Kong | – | 76.2% | HK\$1,000 | Manufacture and sales of moulds |
| Skyrocket Assets Limited | BVI | – | 100% | US\$1 | Investment holding |
| Sunflower Garland Manufactory Limited | Hong Kong | – | 100% | HK\$2 HK\$160,000 (non-voting deferred shares) | Securities investment |
| Yu-Me (H.K.) Limited | Hong Kong | – | 100% | HK\$2 | Provision of management services |
| 中山市威嘉紙品有限公司 | The PRC | – | 100% | HK\$12,500,000 | Manufacture of paper products |

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

37. PARTICULARS OF PRINCIPAL SUBSIDIARIES (Cont'd)

| Name of subsidiary | Place of incorporation or registration | Proportion of nominal value of issued/paid up capital held by the Company | | Paid up ordinary share capital | Principal activities |
|--------------------|--|---|------------|--------------------------------|--|
| | | Directly | Indirectly | | |
| 偉發模具塑膠(深圳)有限公司 | The PRC | - | 76.2% | HK\$2,000,000 | Manufacture and sales of moulds |
| 珠海市多發塑膠制品有限公司 | The PRC | - | 100% | HK 500,000 | Manufacture and trading of novelties and festival decorations products |
| 金正利貿易(深圳)有限公司 | The PRC | - | 100% | HK\$1,000,000 | Trading of PVC films |
| 江門市安發塑膠制品有限公司 | The PRC | - | 100% | HK\$600,000 | Manufacture of novelties and festival decorations products |

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

38. INFORMATION ABOUT THE STATEMENT OF FINANCIAL POSITION OF THE COMPANY

Information about the statement of financial position of the Company at the end of the reporting period includes:

| | 2010 HK\$'000 | 2009 HK\$'000 |
|--------------------------------------|------------------|------------------|
| Unlisted investments in subsidiaries | 32,061 | 32,061 |
| Bank balance and cash | 2 | 168 |
| Other current assets | 120,450 | 153,251 |
| Current liability | (773) | (1,053) |
| Tax liability | (894) | (1,131) |
| Net assets | 150,846 | 183,296 |
| Share capital (note 25) | 27,521 | 28,704 |
| Reserves | 123,325 | 154,592 |
| Total equity | 150,846 | 183,296 |

Profit of the Company for 2010 amounted to approximately HK\$1,910,000 (2009: HK\$57,000).

FINANCIAL SUMMARY

For the year ended 31 December 2010

RESULTS

| | Year ended 31 December | | | | 2010 HK\$'000 |
|----------------------------|------------------------|------------------|------------------|------------------|------------------|
| | 2006 HK\$'000 | 2007 HK\$'000 | 2008 HK\$'000 | 2009 HK\$'000 | |
| Revenue | 538,875 | 524,950 | 514,771 | 404,606 | 382,779 |
| Profit (loss) before tax | 39,663 | 38,326 | (73,805) | 45,842 | 21,541 |
| Income tax expenses | (3,317) | (4,229) | (61) | (7,156) | (154) |
| Profit (loss) for the year | 36,346 | 34,097 | (73,866) | 38,686 | 21,387 |
| Attributable to: | | | | | |
| Owners of the Company | 33,763 | 32,207 | (75,855) | 37,776 | 20,175 |
| Non-controlling interests | 2,583 | 1,890 | 1,989 | 910 | 1,212 |
| Profit (loss) for the year | 36,346 | 34,097 | (73,866) | 38,686 | 21,387 |

ASSETS AND LIABILITIES

| | At 31 December | | | | 2010 HK\$'000 |
|---|------------------|------------------|------------------|--------------------------------|------------------|
| | 2006 HK\$'000 | 2007 HK\$'000 | 2008 HK\$'000 | 2009 HK\$'000 (Restated) | |
| Total assets | 351,782 | 389,269 | 312,108 | 325,124 | 307,950 |
| Total liabilities | (59,251) | (89,679) | (97,928) | (81,989) | (79,489) |
| Total equity | 292,531 | 299,590 | 214,180 | 243,135 | 228,461 |
| Non-controlling interests | 7,893 | 8,365 | 9,291 | 9,491 | 9,258 |
| Equity attributable to owners of the Company | 284,638 | 291,225 | 204,889 | 233,644 | 219,203 |
| Total equity | 292,531 | 299,590 | 214,180 | 243,135 | 228,461 |