



CNT GROUP LIMITED

北海集團有限公司

(Incorporated in Bermuda with limited liability)

(於百慕達註冊成立之有限公司)

(Stock Code 股份代號 : 701)

年報
Annual Report 2010



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CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Lam Ting Ball, Paul (Chairman)

Tsui Ho Chuen, Philip (Executive Deputy Chairman)

Tsui Yam Tong, Terry (Managing Director)

Chong Chi Kwan (Finance Director)

Non-executive Directors

Hung Ting Ho, Richard

Zhang Yulin

Ko Sheung Chi

Independent Non-executive Directors

Sir David Akers-Jones (Deputy Chairman)

Danny T Wong

Chan Wa Shek

Steven Chow

COMPANY SECRETARY

Ma Lai King

ASSISTANT COMPANY SECRETARY

John Charles Ross Collis

AUDITORS

Ernst & Young

18th Floor, Two International Finance Centre, 8 Finance Street, Central, Hong Kong

REGISTRARS

Hong Kong

Tricor Tengis Limited

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

Bermuda

HSBC Securities Services (Bermuda) Limited

6 Front Street, Hamilton HM 11, Bermuda

PRINCIPAL BANKERS

The Hongkong and Shanghai Banking Corporation Limited

DBS Bank (Hong Kong) Limited

REGISTERED OFFICE

Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda

PRINCIPAL OFFICE

31st Floor and Units E & F on 28th Floor, CNT Tower, 338 Hennessy Road, Wanchai, Hong Kong

WEBSITE

www.cntgroup.com.hk

CHAIRMAN'S STATEMENT

Since mid-2010, the PRC Government has exercised a series of credit tightening measures to combat inflation and to prevent domestic economy from over heating, the business environment confronted by the Group remained challenging. The escalating raw material costs during the year 2010 put a significant impact on the production costs which rendered a lower gross profit when compared with last year. Nevertheless, the Group continued to enhance its competitive edge by strengthening marketing channels and sales networks resulting in the increase of approximately 21.4% of the Group's revenue to approximately HK\$1,246.63 million in 2010 from approximately HK\$1,026.56 million in 2009.

RESULTS

The Group recorded a profit attributable to the owners of the parent company for the year was approximately HK\$34.87 million, representing an increase of approximately 7.6% when compared with that of last year.

Revenue for the year amounted to approximately HK\$1,246.63 million, an increase of approximately HK\$220.07 million when compared with last year. Gross profit decreased by approximately 8.6% when compared with that of last year to approximately HK\$317.39 million. The drop was mainly due to the increase in raw material costs of paint products.

OPERATIONS

Paint products

Revenue for the year amounted to approximately HK\$1,064.12 million, representing an increase of approximately 13.7% when compared with that of last year. The operation focused its business on the Mainland China market and achieved an increase of approximately 13.9% in revenue over that of 2009. The Group will continue to focus on Mainland China market. Operating profit for the year amounted to approximately HK\$65.38 million representing a decrease of approximately HK\$14.50 million when compared with that of last year. The persistently high level of raw material costs during 2010 as compared with relatively low level of raw material costs in 2009 following financial crisis rendered a significant drop in gross profit margin. However, the implementation of cost control measures by the Group in production together with the optimisation of product formulations has lessened the impact from the rise of raw material costs. In addition, the Group has also implemented a series of cost control measures to reduce those controllable administrative expenses as well as selling and distribution costs to minimise the drop in operation profit.

The Group has commenced to set up new manufacturing lines through the factory and buildings to be constructed on our existing land located in Xinfeng, Zhongguo, the PRC. The whole production plant will be constructed in different phases, the first phase is expected to be completed in late 2011. During the year, the Group incurred capital expenditure of approximately HK\$17.35 million for the construction costs in respect of the production plant in Xinfeng. The Group believes that the new manufacturing lines would enable the Group to enhance its overall production capacity and to effectively control its manufacturing and production costs to cope with the future business expansion of the Group.

OPERATIONS (continued)

Paint products (continued)

During the year, the Group has participated in the 45th Hong Kong Brands and Products Expo ("Expo") in Hong Kong to promote the brands of our paint products. In the Expo, the Group has launched a new product namely "Flower Anti-Mold Knight" which is a high quality anti-mold cleaner.

Property investment

Revenue for the year amounted to approximately HK\$5.82 million, representing a decrease of approximately 12.9% when compared with that of last year. Operating profit for the year amounted to approximately HK\$15.37 million when compared with that of approximately HK\$8.13 million last year. The Group has recorded a net increase in fair values of approximately HK\$8.69 million on our investment properties this year as compared to that of approximately HK\$6.67 million last year.

On 15 December 2010, the Group entered into a sale and purchase agreement with an independent third party to dispose a residential property located in Taiwan for a cash consideration of TWD105.00 million to capture the capital gain from the disposal. The transaction was completed in January 2011.

On 1 December 2010, the Group submitted an application under Section 16 of Town Planning Ordinance to seek Town Planning Board's approval for a proposed columbarium on the Group's existing land located in Au Tau, Yuen Long. The Group is intended to provide about 20,000 niches from the proposed columbarium.

Iron and steel trading and related investments

Revenue for the year amounted to approximately HK\$176.70 million, representing an increase of approximately 110.4% when compared with that of last year. Operating profit for the year amounted to approximately HK\$8.03 million as compared to a loss of approximately HK\$0.63 million last year. The increase in revenue and share of profit of an associate during the year resulted in increase in operating profit for the year.

Available-for-sale investments

The Group has an effective interest of 11.7% in the cemetery project situated in Sihui, Guangdong Province, the PRC. The principal activities of which are the development, construction, management and operation of a cemetery. The main types of products for the cemetery are outdoor grave lots, ordinary columbarium niches and luxury columbarium niches. There are six sales offices established in Hong Kong, Guangzhou, Foshan, Zhaoqing and Sihui for marketing purpose. Promotion campaigns have been launched, including regular visits of the cemetery, blessing ceremonies in the cemetery to boost the publicity. A new highway linking Guangzhou and Hezhou that passes through Sihui was opened in December 2010. This highway will shorten the travelling time by about 1 hour from Guangzhou to Sihui where our cemetery is located. It is expected that this improvement in infrastructure will enhance the accessibility and demands of the graveyards, in particular, from Guangzhou region.

OUTLOOK

Looking ahead, the operating environment for the Group in 2011 remain challenging as the raw material costs persisted at a high level in the first two months of 2011. In addition, the rise in minimum wages, increase in crude oil prices and other costs will continue to exert pressure on the profit margin of the paint operation in Mainland China. Nevertheless, the Group did not experience pressure to raise wages, except for normal annual review, for its manufacturing labour because the average wage per capita it is paying has already surpassed the regulatory minimum levels as stipulated in the Labour Law of the PRC. Furthermore, the Group will enhance its fundamental management, continuously improve its production efficiency, reduce production costs and apply strict control to daily administrative expenses and adopt proactive measures to constrain all controllable expenses in order to raise the Group's profitability.

The Chinese government has taken proactive measures to accelerate the development of cities and towns and the urbanisation of rural areas. The improvement in living standards from the urbanisation are expected to give a strong impetus to the demand for paint products in Mainland China. The Group will strive to enhance its competitive edge by strengthening marketing channels and sales networks to capture this business opportunities from the growing demand for paint products. The Group will continue to focus on its paint operation and is committed to becoming a leading manufacturer of high quality green and safe paint products.

RESULTS

The Group recorded a profit attributable to the owners of the parent company of approximately HK\$34.87 million for the year when compared with that of approximately HK\$32.41 million last year. Revenue for the year amounted to approximately HK\$1,246.63 million, representing an increase of approximately 21.4% when compared with that of last year. Gross profit for the year amounted to approximately HK\$317.39 million, representing a decrease of approximately 8.6% when compared with that of last year. The decrease in gross profit was mainly due to the increase in raw material costs during the year.

SEGMENT INFORMATION

Business segments

Paint operation continues to be the principal business of the Group with a revenue of approximately HK\$1,064.12 million accounting for approximately 85.4% of the Group's total revenue. It also represents an increase of approximately 13.7% when compared with that of last year. Despite the increase in revenue, the decrease in gross profit for the year rendered segment result for the year amounted to approximately HK\$65.38 million representing a decrease of approximately 18.2% when compared with that of last year. This was mainly due to the increase in raw material costs during the year.

Property investment operation reported a revenue of approximately HK\$5.82 million, accounting for approximately 0.5% of the Group's total revenue. Segment result for the year amounted to a profit of approximately HK\$15.37 million when compared with that of approximately HK\$8.13 million last year. This was mainly due to the net increase in fair values of approximately HK\$8.69 million on our investment properties this year.

Iron and steel operation reported a revenue of approximately HK\$176.70 million, accounting for approximately 14.2% of the Group's total revenue. Segment result for the year amounted to profit of approximately HK\$8.03 million compared with a loss of approximately HK\$0.63 million last year. This was mainly due to the increase in revenue and share of profit of an associate.

Geographical segments

All of the Group's business is mainly in Mainland China and Hong Kong. Revenue from operations in Mainland China and Hong Kong amounted to approximately HK\$1,146.70 million (2009: HK\$935.77 million) and approximately HK\$99.47 million (2009: HK\$90.78 million) respectively.

LIQUIDITY AND FINANCIAL INFORMATION

The Group's business operation is generally financed by its internal funding and bank borrowings. Total cash balances amounted to approximately HK\$283.66 million as at 31 December 2010 compared with approximately HK\$145.02 million as at 31 December 2009. Bank and other borrowings amounted to approximately HK\$150.87 million as at 31 December 2010 compared with approximately HK\$149.09 million as at 31 December 2009. The Group's bank and other borrowings mainly bear interest at floating rates. Of the Group's total bank and other borrowings as at 31 December 2010, approximately HK\$106.13 million (70.3%) is payable within one year, approximately HK\$5.65 million (3.7%) is payable in the second year, approximately HK\$16.97 million (11.3%) is payable in the third to fifth years and the remaining balance of HK\$22.12 million (14.7%) is payable beyond the fifth year.

The Group's cash, bank balances and bank and other borrowings were mainly denominated in Hong Kong Dollars and Renminbi. The Group's results can be affected by movements in the exchange rate between Hong Kong Dollars and Renminbi. However, in view of the strong and supportive treasury policy in Mainland China, the Renminbi exchange rate is expected to remain relatively stable and hence the Group's currency exposure is not significant. The Group considers that no hedging measures are necessary.

Gearing ratio of the Group which expressed as a percentage of total bank and other borrowings to adjusted capital (as defined below) was 19.7% as at 31 December 2010 compared with 24.8% as at 31 December 2009. Liquidity ratio of the Group which is expressed as a percentage of current assets to current liabilities was 1.58 times as at 31 December 2010 compared with 1.25 times as at 31 December 2009.

Equity and net assets value

Shareholders' funds of the Group as at 31 December 2010 was approximately HK\$819.44 million compared with approximately HK\$655.75 million as at 31 December 2009. Adjusted capital of the Group, being shareholders' funds less the unrealized leasehold land and building revaluation reserve and investment property revaluation reserve, as at 31 December 2010 was approximately HK\$764.16 million compared with approximately HK\$600.46 million as at 31 December 2009. Net assets value per share as at 31 December 2010 was HK\$0.44 compared with HK\$0.42 as at 31 December 2009.

Contingent liabilities

At 31 December 2010, guarantees issued by the Company to bankers to secure general banking facilities granted to various subsidiaries outstanding as at 31 December 2010 amounted to HK\$63.86 million compared with HK\$80.27 million as at 31 December 2009.

LIQUIDITY AND FINANCIAL INFORMATION (continued)

Pledge of assets

Certain land and buildings, investment properties, trade receivables and cash deposits with aggregate net book value of HK\$486.15 million (31 December 2009: HK\$463.57 million) were pledged as collaterals for bank and other borrowings. At 31 December 2010, total outstanding secured bank and other borrowings amounted to HK\$125.04 million as compared with HK\$126.69 million as at 31 December 2009.

STAFF

Headcount as at 31 December 2010 was 1,263 (31 December 2009: 1,532). Staff costs (excluding directors' emoluments) amounted to HK\$144.93 million for the year as compared with HK\$126.98 million last year. The Group has a comprehensive and competitive staff remuneration and benefits system which is formulated on the performance of individual employees. In addition, the Group also provides an attractive staff option scheme.

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE PRACTICES

The board of directors of the Company recognises the importance of and benefit from good corporate governance practices and has devoted considerable efforts to develop the best corporate governance practices appropriate to the businesses of the Group. During the year ended 31 December 2010, the Company has complied with the code provisions of the Code on Corporate Governance Practices (the “CG Code”) issued by The Stock Exchange of Hong Kong Limited (the “Stock Exchange”), except that the non-executive directors are not appointed for a specific term. According to the Company’s bye-laws, the non-executive directors are subject to re-election at least once every three years.

THE BOARD

During the year and up to the date of this report, the board comprises the following members:

| | |
|--------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Executive Directors | : Tsui Tsin Tong (Honorary Chairman) (<i>passed away on 2 April 2010</i>) Lam Ting Ball, Paul (Chairman) Tsui Ho Chuen, Philip (Executive Deputy Chairman) Tsui Yam Tong, Terry (Managing Director) Chong Chi Kwan (Finance Director) |
| Non-executive Directors | : Hung Ting Ho, Richard Zhang Yulin Ko Sheung Chi |
| Independent Non-executive Directors | : Sir David Akers-Jones (Deputy Chairman) Danny T Wong Chan Wa Shek Steven Chow |

The biographical details of the directors and the relationships among them are set out in the “Biographies of directors and senior management” on pages 20 to 22.

The role of the Chairman is separate from that of the Managing Director. Their respective responsibilities are clearly established and set out in writing. The Chairman is responsible for ensuring that the board is functioning effectively with good corporate governance practices and procedures; whilst the Managing Director is responsible for managing the Group’s businesses including implementation of major strategies and initiatives set by the board.

THE BOARD (continued)

The non-executive directors (the majority of whom are independent) have diversified expertise and experiences. They provide invaluable contribution and independent judgement on issues of strategic development, performance and accountability. The Company currently has four independent non-executive directors which represent more than one-third of the board and one independent non-executive director possesses appropriate professional accounting qualifications or financial management expertise. 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 of Securities on the Stock Exchange (the “Listing Rules”) and the Company considers that all independent non-executive directors are independent.

The board has reserved for its decision or consideration matters covering the Group’s overall strategy, annual budgets, annual and interim results, major acquisitions and disposals, recommendations on directors’ appointment or re-appointment and other significant operational and financial matters. The board has delegated the day-to-day operations of the Group to management under the leadership of the Managing Director.

The board meets regularly to discuss and review the Group’s overall strategy as well as the operation and financial performance of the Group. During the year, the board held fourteen board meetings (of which four were regular meetings). The attendance record of each director is set out below:

| | Number of board meetings (comprising four regular meetings) attended/held |
|--------------------------------|------------------------------------------------------------------------------------------|
| Executive Directors | |
| Lam Ting Ball, Paul | 13/14 |
| Tsui Ho Chuen, Philip | 14/14 |
| Tsui Yam Tong, Terry | 14/14 |
| Chong Chi Kwan | 11/14 |
| Non-executive Directors | |
| Hung Ting Ho, Richard | 5/14 |
| Zhang Yulin | 2/14 |
| Ko Sheung Chi | 3/14 |

THE BOARD (continued)

| | Number of board meetings (comprising four regular meetings) attended/held |
|--------------------------------------------|------------------------------------------------------------------------------------------|
| Independent Non-executive Directors | |
| Sir David Akers-Jones | 4/14 |
| Danny T Wong | 4/14 |
| Chan Wa Shek | 5/14 |
| Steven Chow | 4/14 |

Board meetings are scheduled to be held at approximately quarterly intervals and as required by business needs. At least 14 days' notice of a regular board meeting is given to all directors who are given an opportunity to include matters for discussion in the agenda. Agenda and accompanying board papers are sent to all directors at least 3 days before the date of a regular board meeting (and so far as practicable for such other board meetings). Draft and final versions of minutes of regular board meetings are circulated to all directors for their comment and records respectively. All directors are kept informed in a timely manner of major changes that may affect the Group's businesses, including relevant rules and regulations. Written procedures are also in place for the directors to obtain independent professional advice in performing their duties at the expense of the Company in appropriate circumstances.

APPOINTMENT AND RE-ELECTION OF DIRECTORS

The board is responsible for the appointment of directors and will take into consideration criteria such as expertise, experience, integrity and commitment of the candidates as recommended by the executive directors when considering new director appointments.

All directors appointed by the board are subject to re-election at the first general meeting after their appointment. Every director (including the non-executive directors) is required to be re-elected at least once every three years at annual general meeting pursuant to the Company's bye-laws.

BOARD COMMITTEES

The board has established the following committees with defined terms of reference (posted on the Company's website), which are of no less exacting terms than those set out in the code provisions of the CG Code: the audit committee and the remuneration committee.

BOARD COMMITTEES (continued)**Audit Committee**

During the year, the audit committee consisted of three independent non-executive directors: Sir David Akers-Jones (Chairman), Messrs. Danny T Wong and Chan Wa Shek.

The audit committee met twice during the year to review with the finance director and the external auditors the reporting of financial and other information to the shareholders (including the 2009 annual results and the 2010 interim results before recommending them to the board for approval), the accounting principles and practices adopted by the Group, the effectiveness and objectivity of the audit process and the internal control system of the Group. The audit committee also keeps under review the independence and objectivity of the external auditors and the non-audit services provided by the external auditors to the Group. The attendance record of each committee member is set out below:

| Directors | Number of committee meetings attended/held |
|----------------------------------|---------------------------------------------------|
| Sir David Akers-Jones (Chairman) | 2/2 |
| Danny T Wong | 2/2 |
| Chan Wa Shek | 2/2 |

Remuneration Committee

During the year, the remuneration committee comprised two independent non-executive directors and one executive director: Sir David Akers-Jones (Chairman), Messrs. Lam Ting Ball, Paul and Chan Wa Shek.

The remuneration of the executive directors are determined by the remuneration committee and the remuneration of the non-executive directors are determined by the board on the recommendation of the remuneration committee, by reference to their duties and responsibilities, performance, experiences, time commitment and the market conditions. No director is involved in deciding his own remuneration. During the year, the remuneration committee held one meeting and resolved by resolutions in writing to review and approve the remuneration policy and the remuneration packages of the directors. The attendance record of each committee member is set out below:

| Directors | Number of committee meetings attended/held | Number of resolutions in writing in lieu of meeting consented/passed |
|----------------------------------|---------------------------------------------------|-----------------------------------------------------------------------------|
| Sir David Akers-Jones (Chairman) | 1/1 | 1/1 |
| Lam Ting Ball, Paul | 1/1 | 1/1 |
| Chan Wa Shek | 1/1 | 1/1 |

CODES FOR SECURITIES TRANSACTIONS BY DIRECTORS AND RELEVANT EMPLOYEES

The Company has adopted a code of conduct regarding securities transactions by directors on terms no less exacting than the required standard set out in Appendix 10 to the Listing Rules (the “Model Code”). After specific enquiry by the Company, all directors confirmed they have complied with the required standard set out in the Model Code and the Company’s own code during the year ended 31 December 2010.

The Company has also established and adopted the Model Code to regulate dealings in the securities of the Company by certain employees of the Group who are considered to be likely in possession of unpublished price sensitive information in relation to the Company or its securities.

EXTERNAL AUDITORS’ REMUNERATION

In 2010, the remuneration of the Company’s external auditors, Ernst & Young, is set out below:

| Services rendered to the Group | Remuneration |
|---------------------------------------|---------------------|
| | HK\$ |
| Audit services | 2,210,000 |
| Non-audit services | 208,000 |
| | <hr/> |
| | 2,418,000 |
| | <hr/> <hr/> |

The non-audit services rendered by the external auditors included: performance of agreed-upon procedures on the Group’s 2010 interim financial statements and the audit examination of the statement on details of contributions of the Group’s occupational retirement schemes.

INTERNAL CONTROL

The board has overall responsibility for maintaining a sound and effective internal control system of the Group. The internal control system is designed to facilitate the effectiveness and efficiency of operations, safeguard assets against unauthorised use and disposition, ensure the maintenance of proper accounting records and the truth and fairness of the financial statements, and ensure compliance with relevant legislation and regulations. The board has conducted a review of the effectiveness of the Group’s internal control system during the year with a view to enhance its internal control system.

RESPONSIBILITY STATEMENTS

The directors are responsible for the preparation of financial statements which give a true and fair view. In preparing the financial statements for the year ended 31 December 2010, the directors have selected appropriate accounting policies and applied them consistently, made judgements and estimates that are prudent and reasonable, and have prepared the financial statements on a going concern basis.

The statement of the external auditors of the Company about their reporting responsibilities on the financial statements is set out in the “Independent auditors’ report” on pages 32 to 33.

COMMUNICATION WITH SHAREHOLDERS

The Company endeavors to maintain a high level of transparency in communicating with the shareholders. Information in relation to the Group is disseminated to the shareholders in a timely manner through a number of communication channels including interim and annual reports, announcements and circulars.

The 2010 annual general meeting of the Company provided an opportunity for communication between the shareholders and the board, at which the chairmen of the board, the audit committee and the remuneration committee and other board members had attended to answer questions from the shareholders. Details of the procedures for conducting a poll were explained at the commencement of the meeting. In accordance with the Listing Rules, the votes of shareholders at the meeting were taken by poll and the poll results were announced at the meeting and published on the Company’s website after the meeting. A separate resolution was proposed at the meeting on each substantial issue, including the re-election of directors. All the resolutions proposed in 2010 for the shareholders’ approval were passed.

On behalf of the board of
CNT GROUP LIMITED

Lam Ting Ball, Paul

Chairman

30 March 2011

REPORT OF THE DIRECTORS

The directors present their report and the audited financial statements of the Company and the Group for the year ended 31 December 2010.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The activities of the principal subsidiaries and associates are set out in notes 20 and 21, respectively, to the financial statements.

RESULTS AND DIVIDENDS

The Group's profit for the year ended 31 December 2010 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 34 to 162.

The directors have resolved to recommend the payment of a final dividend of HK1 cent per share to the shareholders by way of distribution out of the contributed surplus. The final dividend, if approved by the shareholders at the forthcoming annual general meeting, will be paid on Wednesday, 31 August 2011 to the shareholders whose names appear on the Company's register of members on Tuesday, 28 June 2011.

MAJOR SUPPLIERS AND CUSTOMERS

In the year under review, purchases from the Group's five largest suppliers accounted for less than 30% of the total purchases for the year. Sales to the Group's five largest customers accounted for less than 30% of the total sales for the year.

SUMMARY OF FINANCIAL INFORMATION

The following table summarises the published results, assets, liabilities and non-controlling interests of the Group for the last five financial years, as extracted from the audited financial statements and reclassified as appropriate. This summary does not form part of the audited financial statements.

| | Year ended 31 December | | | | |
|----------------------------------------------------------|-------------------------------|-----------|-----------|-----------|-----------|
| | 2010 | 2009 | 2008 | 2007 | 2006 |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| RESULTS | | | | | |
| CONTINUING OPERATIONS | | | | | |
| Revenue | 1,246,634 | 1,026,560 | 941,817 | 734,806 | 611,052 |
| Operating profit/(loss) | 41,550 | 53,623 | (63,815) | 19,094 | 8,474 |
| Share of profits and losses of associates | 3,572 | 864 | 873 | 885 | 1,936 |
| Profit/(loss) before tax | 45,122 | 54,487 | (62,942) | 19,979 | 10,410 |
| Income tax expenses | (10,633) | (22,219) | (8,237) | (10,976) | (3,505) |
| Profit/(loss) from continuing operations | 34,489 | 32,268 | (71,179) | 9,003 | 6,905 |
| DISCONTINUED OPERATIONS | | | | | |
| Gain on disposal of discontinued operations | — | — | — | — | 11,581 |
| Profit/(loss) for the year | 34,489 | 32,268 | (71,179) | 9,003 | 18,486 |
| PROFIT/(LOSS) ATTRIBUTABLE TO: | | | | | |
| Owners of the parent | 34,865 | 32,406 | (71,515) | 12,302 | 18,739 |
| Non-controlling interests | (376) | (138) | 336 | (3,299) | (253) |
| | 34,489 | 32,268 | (71,179) | 9,003 | 18,486 |
| ASSETS, LIABILITIES AND NON-CONTROLLING INTERESTS | | | | | |
| Total assets | 1,301,596 | 1,100,349 | 969,452 | 990,761 | 903,881 |
| Total liabilities | (478,320) | (440,546) | (341,718) | (307,245) | (227,410) |
| Non-controlling interests | (3,832) | (4,056) | (4,194) | (3,632) | (6,699) |
| | 819,444 | 655,747 | 623,540 | 679,884 | 669,772 |

REPORT OF THE DIRECTORS (continued)

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Company and the Group during the year are set out in note 15 to the financial statements.

INVESTMENT PROPERTIES

Details of movements in the investment properties of the Group during the year are set out in note 16 to the financial statements. Further details of the Group's investment properties are set out on page 163.

PROPERTIES UNDER DEVELOPMENT

Details of movements in the properties under development of the Group during the year are set out in note 17 to the financial statements. Further details of the Group's properties under development are set out on page 164.

SHARE CAPITAL

Details of movements in the Company's share capital during the year, together with the reasons therefor, are set out in note 36 to the financial statements.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's bye-laws or the laws of Bermuda, being the jurisdiction in which the Company was incorporated, which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S SHARES

Neither the Company, nor any of its subsidiaries purchased, sold or redeemed any of the Company's shares during the year.

RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 38(b) to the financial statements and in the consolidated statement of changes in equity, respectively.

DISTRIBUTABLE RESERVES

At 31 December 2010, the Company had no reserves available for distribution. Under The Companies Act 1981 of Bermuda (as amended), the contributed surplus of the Company is distributable to shareholders in certain circumstances, prescribed by Section 54 thereof. In addition, the Company's share premium account may be distributed in the form of fully paid bonus shares.

CHARITABLE CONTRIBUTIONS

During the year, the Group made charitable contributions totalling HK\$76,000.

DIRECTORS

The directors of the Company during the year and up to the date of this report are as follows:

Executive Directors

Tsui Tsin Tong (*passed away on 2 April 2010*)

Lam Ting Ball, Paul

Tsui Ho Chuen, Philip

Tsui Yam Tong, Terry

Chong Chi Kwan

Non-executive Directors

Hung Ting Ho, Richard

Zhang Yulin

Ko Sheung Chi

Independent Non-executive Directors

Sir David Akers-Jones

Danny T Wong

Chan Wa Shek

Steven Chow

In accordance with the Company's bye-laws, Mr. Tsui Ho Chuen, Philip, Mr. Ko Sheung Chi and Sir David Akers-Jones will retire from office at the forthcoming annual general meeting and, being eligible, will offer themselves for re-election.

REPORT OF THE DIRECTORS (continued)

BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT

Directors

| Name | Age | Position held | Number of years of service | Business experience |
|----------------------------|-----|---------------------------|----------------------------|--------------------------------------------------------------------|
| Executive Directors | | | | |
| Lam Ting Ball, Paul | 69 | Chairman | 38 | More than 38 years' experience in the paint industry |
| Tsui Ho Chuen, Philip | 47 | Executive Deputy Chairman | 26 | Solicitor |
| Tsui Yam Tong, Terry | 65 | Managing Director | 24 | More than 38 years' experience in administration and management |
| Chong Chi Kwan | 43 | Finance Director | 5 | More than 19 years' experience in auditing, finance and accounting |

BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT (continued)

Directors (continued)

| Name | Age | Position held | Number of years of service | Business experience |
|--------------------------------------------|------------|--------------------------------------------------------|-----------------------------------|------------------------------------------------------------------------------|
| Non-executive Directors | | | | |
| Hung Ting Ho, Richard | 57 | Non-executive Director | 9 | More than 33 years' experience in business and financial management |
| Zhang Yulin | 47 | Non-executive Director | 4 | More than 14 years' experience in finance and management |
| Ko Sheung Chi | 54 | Non-executive Director | 4 | More than 30 years' experience in general management |
| Independent Non-executive Directors | | | | |
| Sir David Akers-Jones GBM, KBE, CMG, JP | 84 | Deputy Chairman and Independent Non-executive Director | 20 | Former Chief Secretary specialising in land planning and housing development |
| Danny T Wong | 65 | Independent Non-executive Director | 7 | More than 36 years' experience in finance, accounting and management |
| Chan Wa Shek CBE, ISO | 80 | Independent Non-executive Director | 4 | Former Commissioner of Correctional Services of Hong Kong |
| Steven Chow | 66 | Independent Non-executive Director | 4 | More than 34 years' experience in finance and management |

REPORT OF THE DIRECTORS (continued)

BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT (continued)

Senior management

The businesses of the Group are under the direct responsibility of three directors, namely, Messrs. Lam Ting Ball, Paul, Tsui Ho Chuen, Philip and Tsui Yam Tong, Terry.

Notes:

- (1) Mr. Tsui Yam Tong, Terry is the uncle of Mr. Tsui Ho Chuen, Philip.
- (2) Mr. Tsui Yam Tong, Terry is the sole director and shareholder of Rapid Growth Ltd. (“RGL”), a substantial shareholder of the Company.
- (3) Mr. Hung Ting Ho, Richard is the chairman and the managing director of Midas International Holdings Limited which is an associated company of Chuang’s Consortium International Limited (“Chuang’s Consortium”), a shareholder of the Company discloseable under Part XV of the Securities and Futures Ordinance (the “SFO”).
- (4) Mr. Zhang Yulin is a director and an employee of Broadsino Investment Company Limited (“Broadsino”), which is interested in 5.18% of the issued share capital of the Company.
- (5) Mr. Ko Sheung Chi is a director of Profit Stability Investments Limited (“Profit Stability”) and the managing director of Chuang’s Consortium, all being the shareholders of the Company discloseable under Part XV of the SFO.

CHANGES IN DIRECTORS’ INFORMATION

Pursuant to Rule 13.51B(1) of the Rules Governing the Listing of Securities (the “Listing Rules”) on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”), the changes in the information of the directors are as follows:

- (a) Sir David Akers-Jones resigned as an independent non-executive director of K. Wah International Holdings Limited on 30 September 2010 and China Everbright International Limited on 1 January 2011, and he will step down as independent non-executive chairman of Hysan Development Company Limited on 9 May 2011, all companies listed on the Stock Exchange.
- (b) Details of changes in the directors’ remuneration are set out in note 8 to the financial statements.

DIRECTORS’ INTERESTS IN CONTRACTS

None of the directors had a material interest, either direct or indirect, in any contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party during the year.

DIRECTORS' INTERESTS IN COMPETING BUSINESSES

Mr. Ko Sheung Chi holds directorships in Chuang's Consortium (a company listed on the Stock Exchange) and certain private companies (the "Private Companies") which engage in the businesses of property development and investment in Hong Kong and the PRC. As the above-mentioned businesses are managed by separate publicly listed company with independent management and the properties owned by the Private Companies are of different types and/or in different locations from those of the Group, the Group operates its businesses independently of the businesses of the above-mentioned companies. Save as disclosed above, none of the directors of the Company or any of their respective associates have any interests in any businesses which compete or are likely to compete, either directly or indirectly, with the businesses of the Group that are required to be disclosed pursuant to Rule 8.10 of the Listing Rules.

DIRECTORS' SERVICE CONTRACTS

Save as set out below, no director has a service contract with the Company which is not determinable by the Company within one year without payment of compensation other than statutory compensation.

- (a) On 11 May 2002, a director's service agreement was entered into between the Company and Mr. Lam Ting Ball, Paul for a term of nine years expiring on 2 May 2011. Under the agreement, Mr. Lam is entitled to the payment of a monthly salary of HK\$89,000 and an accommodation allowance of not more than HK\$70,000 per month. The agreement provides that the Company may terminate the agreement by giving Mr. Lam not less than six months' notice in writing and in the event that the Company shall terminate Mr. Lam's employment, Mr. Lam is entitled to receive a compensation that equals to the total amount of Mr. Lam's remuneration including salary and year-end payment of one month's salary (exclusive of fringe benefits) for the remaining term of his employment.
- (b) On 11 May 2002, a director's service agreement was entered into between the Company and Mr. Tsui Yam Tong, Terry for a term of nine years expiring on 2 May 2011. Under the agreement, Mr. Tsui is entitled to the payment of a monthly salary of HK\$450,000 (revised) and an accommodation allowance of not more than HK\$100,000 per month. The agreement provides that the Company may terminate the agreement by giving Mr. Tsui not less than six months' notice in writing and in the event that the Company shall terminate Mr. Tsui's employment, Mr. Tsui is entitled to receive a compensation that equals to the total amount of Mr. Tsui's remuneration including salary and year-end payment of one month's salary (exclusive of fringe benefits) for the remaining term of his employment.

The remuneration of the executive directors are determined by the remuneration committee and the remuneration of the non-executive directors are determined by the board on the recommendation of the remuneration committee, by reference to their duties and responsibilities, performance, experiences, time commitment and the market conditions.

REPORT OF THE DIRECTORS (continued)

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed in the section "Share options" below, at no time during the year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any director or their respective spouses or minor children, or were any such rights exercised by them; or was the Company or any of its subsidiaries a party to any arrangement to enable the Company's directors to acquire such rights in any other body corporate.

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

As at 31 December 2010, the interests of the directors of the Company in the shares and underlying shares of the Company as recorded in the register maintained by the Company pursuant to Section 352 of the SFO were as follows:

(i) Shares

| Name | Note | Capacity | Number of shares | | | | Percentage of | |
|-----------------------|------|-----------------------------------------------------------------------------|--------------------|------------------|---------------------|-----------------|---------------|----------------------|
| | | | Personal interests | Family interests | Corporate interests | Other interests | Total | issued share capital |
| Tsui Ho Chuen, Philip | 1 | Beneficial owner & beneficiary of trust | 19,681,414 | — | — | 346,231,521 | 365,912,935 | 19.37% |
| Tsui Yam Tong, Terry | 1 | Beneficial owner, beneficiary of trust & interest of controlled corporation | 1,162,231 | — | 346,231,521* | 346,231,521* | 347,393,752 | 18.39% |

* duplication

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES (continued)

(ii) Underlying shares

| Name | Note | Capacity | Nature of equity derivative (unlisted/physically settled) | Number of underlying shares |
|-----------------------|------|-----------------------------------------------------------------|--------------------------------------------------------------|-----------------------------|
| Tsui Ho Chuen, Philip | 2 | Beneficiary of trust | option | 98,000,000 |
| Tsui Yam Tong, Terry | 2 | Beneficiary of trust & interest of controlled corporation | option | 98,000,000 |

Notes:

- (1) The 346,231,521 shares were held by RGL as trustee of a discretionary trust of which Messrs. Tsui Ho Chuen, Philip and Tsui Yam Tong, Terry are the discretionary beneficiaries. Mr. Tsui Yam Tong, Terry is also the sole director and shareholder of RGL.
- (2) The 98,000,000 shares were owned by Broadsino. RGL granted an option to Broadsino to sell to RGL all or any part of such shares exercisable at any time during the term of the option. RGL was taken to be interested in these underlying shares under the SFO. By virtue of the interests of Messrs. Tsui Ho Chuen, Philip and Tsui Yam Tong, Terry in RGL as disclosed in note (1) above, each of them was deemed under the SFO to be interested in such underlying shares.

Save as disclosed above, as at 31 December 2010, none of the directors or chief executives of the Company had any interest or short position in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Part XV of the SFO or pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers, or which were recorded in the register required to be kept by the Company under Section 352 of the SFO. Nor any of the directors and the chief executives had any interest in, or had been granted any right to subscribe for the securities of the Company and its associated corporations (within the meaning of Part XV of the SFO) or had exercised any such right during the year under review.

SHARE OPTIONS

The Company's existing share option scheme (the "Scheme") was adopted on 28 June 2002. The key terms of the Scheme are summarised below:

- (i) the purposes of the Scheme are to recognise and motivate the participants of the Scheme that made contributions to the Group and to attract and retain high calibre employees of the Group;
- (ii) the participants of the Scheme include any employee, director, supplier, customer and securities holder of the Company, its subsidiaries or any entity in which the Group holds an equity interest and any person or entity that provides research, development or other technological support to such companies;
- (iii) the total number of shares available for issue under the Scheme is 188,840,569 (as refreshed by the approval of the shareholders on 30 June 2010) which represents 10% of the issued share capital of the Company as at the date of this report;
- (iv) the total number of shares issued and to be issued upon exercise of the options granted to each participant (including the exercised, cancelled and outstanding options) in any 12-month period must not exceed 1% of the shares in issue unless it is approved by the shareholders in general meeting;
- (v) an option may be exercised in accordance with the terms of the Scheme at any time during the period to be notified by the directors to the grantee, but in any event not beyond the 10-year period after the date of grant;
- (vi) the subscription price of a share in respect of any option granted shall not be lower than the highest of: (i) the closing price of the shares as stated in the daily quotations sheet of the Stock Exchange on the date of grant; (ii) the average of the closing prices of the shares as stated in the Stock Exchange's daily quotations sheet for the 5 trading days immediately preceding the date of grant; and (iii) the nominal value of the Company's share; and
- (vii) the Scheme remains in force until 27 June 2012.

SHARE OPTIONS (continued)

Details of the movement in the share options of the Company during the year are as follows:

| Category of eligible participants | Date of grant | Exercise period | Exercise price per share HK\$ | Balance at 1.1.2010 | Number of shares under options | | | Balance at 31.12.2010 |
|-----------------------------------|---------------|------------------------|----------------------------------|---------------------|--------------------------------|---------------------------|-----------------------------------|-----------------------|
| | | | | | Granted during the year | Exercised during the year | Cancelled/ lapsed during the year | |
| Continuous contract employees | 27.5.2010 | 27.5.2010 to 26.5.2015 | 0.44 | — | 152,800,000 | — | — | 152,800,000 |

Notes:

(1) The vesting periods of the options granted are as follows:

| | | |
|-----|---|----------------------------|
| 10% | : | 27 May 2010 to 26 May 2011 |
| 10% | : | 27 May 2010 to 26 May 2012 |
| 10% | : | 27 May 2010 to 26 May 2013 |
| 20% | : | 27 May 2010 to 26 May 2014 |

50% of the options granted is exercisable on the date of grant.

(2) The closing price of the Company's shares on the day immediately before the date of grant was HK\$0.39.

REPORT OF THE DIRECTORS (continued)

INTERESTS AND SHORT POSITIONS OF SHAREHOLDERS DISCLOSEABLE UNDER THE SFO

As at 31 December 2010, the register maintained by the Company under Section 336 of the SFO showed that the following persons (other than the directors of the Company) had interests and short positions in the shares and underlying shares of the Company:

| Name | Note | Capacity | Number of shares | Number of underlying shares (unlisted/physically settled equity derivative) | Percentage of issued share capital |
|--------------------------------------------|------|-------------------------------------|------------------|-----------------------------------------------------------------------------|------------------------------------|
| 10% or more of issued share capital | | | | | |
| RGL | 1 | Trustee | 346,231,521 | — | 18.33% |
| | 1 | Trustee | — | 98,000,000 | 5.18% |
| Ho Mei Po, Mabel | 2 | Interest of spouse | 365,912,935 | — | 19.37% |
| | 2 | Interest of spouse | — | 98,000,000 | 5.18% |
| Wang Wing Mu, Amy | 3 | Interest of spouse | 359,053,290 | — | 19.01% |
| | 3 | Interest of spouse | — | 98,000,000 | 5.18% |
| Ng Shou Ping, Lucilla | 4 | Interest of spouse | 347,393,752 | — | 18.39% |
| | 4 | Interest of spouse | — | 98,000,000 | 5.18% |
| Diamond Season Limited | 5 | Beneficial owner | 314,734,281 | — | 16.66% |
| Rightwood Enterprises Inc. | 5 | Interest of controlled corporation | 314,734,281 | — | 16.66% |
| Lai Kar Yan, Derek | 5 | Trustee | 314,734,281 | — | 16.66% |
| Lo Kin Ching, Joseph | 5 | Trustee | 314,734,281 | — | 16.66% |
| Chinaculture.com Limited | 6 | Beneficial owner | 196,149,655 | — | 10.38% |
| Chuang's China Investments Limited | 6 | Interest of controlled corporation | 196,149,655 | — | 10.38% |
| Profit Stability | 6 | Interest of controlled corporations | 196,149,655 | — | 10.38% |

INTERESTS AND SHORT POSITIONS OF SHAREHOLDERS DISCLOSEABLE UNDER THE SFO

(continued)

| Name | Note | Capacity | Number of shares | Number of underlying shares (unlisted/physically settled equity derivative) | Percentage of issued share capital |
|------------------------------------------|-------------|-------------------------------------|-------------------------|------------------------------------------------------------------------------------|-------------------------------------------|
| Chuang's Consortium | 6 | Interest of controlled corporations | 196,149,655 | — | 10.38% |
| Evergain Holdings Limited | 6 | Interest of controlled corporations | 196,149,655 | — | 10.38% |
| Chuang (Chong) Shaw Swee, Alan | 6 | Interest of controlled corporations | 196,149,655 | — | 10.38% |
| Chong Ho Pik Yu | 6 | Interest of spouse | 196,149,655 | — | 10.38% |
| Below 10% of issued share capital | | | | | |
| West Avenue Group Co., Ltd. | 7 | Beneficial owner | 162,216,693 | — | 8.59% |
| Tsai Wu Chang | 7 | Interest of controlled corporation | 162,216,693 | — | 8.59% |
| Broadsino | 8 | Beneficial owner | 98,000,000 | — | 5.18% |

INTERESTS AND SHORT POSITIONS OF SHAREHOLDERS DISCLOSEABLE UNDER THE SFO

(continued)

Notes:

- (1) The 346,231,521 shares were held by RGL as trustee of a discretionary trust. The interest in 98,000,000 underlying shares was in respect of an option granted by RGL to Broadsino to sell to RGL all or part of such shares owned by Broadsino exercisable at any time during the term of the option. These interests are duplicated in the interests of Messrs. Tsui Ho Chuen, Philip and Tsui Yam Tong, Terry as disclosed under the heading "Directors' interests and short positions in shares, underlying shares and debentures" above.
- (2) Ms. Ho Mei Po, Mabel is the wife of Mr. Tsui Ho Chuen, Philip and was taken to be interested in 365,912,935 shares and 98,000,000 underlying shares under an equity derivative in which her spouse was interested under the SFO.
- (3) Ms. Wang Wing Mu, Amy is the wife of the late Mr. Tsui Tsing Tong and was taken to be interested in 359,053,290 shares and 98,000,000 underlying shares under an equity derivative in which her spouse was interested in the capacity of the beneficial owner and the founder of a discretionary trust under the SFO.
- (4) Ms. Ng Shou Ping, Lucilla is the wife of Mr. Tsui Yam Tong, Terry and was taken to be interested in 347,393,752 shares and 98,000,000 underlying shares under an equity derivative in which her spouse was interested under the SFO.
- (5) The references to the 314,734,281 shares relate to the same block of 314,734,281 shares beneficially interested by Diamond Season Limited ("Diamond Season").

Diamond Season was a wholly-owned subsidiary of Rightwood Enterprises Inc. ("Rightwood"), which in turn was wholly owned by Mr. Lai Kar Yan also known as Mr. Lai Kar Yan, Derek ("Mr. Lai") and Mr. Lo Kin Ching, Joseph ("Mr. Lo") as joint and several administrators pendente lite of the Estate of Kung, Nina.

Rightwood, Mr. Lai and Mr. Lo were all deemed under the SFO to be interested in these 314,734,281 shares which were owned by Diamond Season.

- (6) The references to the 196,149,655 shares relate to the same block of 196,149,655 shares beneficially interested by Chinaculture.com Limited ("Chinaculture").

Chinaculture was a wholly-owned subsidiary of Chuang's China Investments Limited ("Chuang's China"), which in turn was a 57.04% owned subsidiary of Profit Stability. Chuang's Consortium held 100% equity interest in Profit Stability. Evergain Holdings Limited ("Evergain") was interested in 40.26% of the issued share capital of Chuang's Consortium. Mr. Chuang (Chong) Shaw Swee, Alan ("Mr. Chuang") was interested in 100% of the issued share capital of Evergain. Ms. Chong Ho Pik Yu ("Mrs. Chuang") is the wife of Mr. Chuang.

Chuang's China, Profit Stability, Chuang's Consortium, Evergain, Mr. Chuang and Mrs. Chuang were all deemed under the SFO to be interested in these 196,149,655 shares which were owned by Chinaculture.

- (7) The 162,216,693 shares were beneficially owned by West Avenue Group Co., Ltd. ("West Avenue"). Mr. Tsai Wu Chang was deemed to be interested in these shares under the SFO by virtue of his interest in the entire equity of West Avenue.
- (8) These shares were beneficially owned by Broadsino. Pursuant to an option granted by RGL, Broadsino has a right to sell all or part of these shares to RGL exercisable at any time during the term of the option. This interest is detailed and duplicated with the interests of RGL as shown in note (1) above.

Save as disclosed above, the Company has not been notified by any person (other than the directors of the Company) who had interests or short positions in the shares or underlying shares of the Company as at 31 December 2010 which were required to be disclosed to the Company under Part XV of the SFO, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO.

SUFFICIENCY OF PUBLIC FLOAT

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

AUDITORS

Ernst & Young retire and a resolution for their reappointment as auditors of the Company will be proposed at the forthcoming annual general meeting.

On behalf of the board of
CNT GROUP LIMITED

Lam Ting Ball, Paul

Chairman

30 March 2011



To the shareholders of CNT Group Limited

(Incorporated in Bermuda with limited liability)

We have audited the consolidated financial statements of CNT Group Limited (“the Company”) and its subsidiaries (together, “the Group”) set out on pages 34 to 162, which comprise the consolidated and company statements of financial position as at 31 December 2010, and the consolidated income statement, 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 of consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

AUDITORS' RESPONSIBILITY

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

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

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

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

OPINION

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

Ernst & Young

Certified Public Accountants

18th Floor, Two International Finance Centre

8 Finance Street

Central

Hong Kong

30 March 2011

CONSOLIDATED INCOME STATEMENT

Year ended 31 December 2010

| | Notes | 2010 HK\$'000 | 2009 HK\$'000 |
|-----------------------------------------------------------------------------|-------|------------------|------------------|
| REVENUE | 5 | 1,246,634 | 1,026,560 |
| Cost of sales | | (929,244) | (679,455) |
| Gross profit | | 317,390 | 347,105 |
| Other income and gains | 5 | 12,840 | 7,998 |
| Selling and distribution costs | | (151,603) | (169,549) |
| Administrative expenses | | (116,893) | (125,809) |
| Other expenses, net | | (10,913) | (6,461) |
| Equity-settled share option expense | 37 | (11,871) | — |
| Fair value gains on investment properties, net | 16 | 8,692 | 6,672 |
| Finance costs | 7 | (6,092) | (6,333) |
| Share of profits and losses of associates | | 3,572 | 864 |
| PROFIT BEFORE TAX | 6 | 45,122 | 54,487 |
| Income tax expenses | 10 | (10,633) | (22,219) |
| PROFIT FOR THE YEAR | | 34,489 | 32,268 |
| PROFIT/(LOSS) ATTRIBUTABLE TO: | | | |
| Owners of the parent | 11 | 34,865 | 32,406 |
| Non-controlling interests | | (376) | (138) |
| | | 34,489 | 32,268 |
| EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT | 13 | | |
| Basic and diluted | | HK1.99 cents | HK2.06 cents |

Details of the proposed dividend for the year are disclosed in note 12 to the financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2010

| | 2010 | 2009 |
|-----------------------------------------------------------|----------------------|----------------------|
| | HK\$'000 | HK\$'000 |
| PROFIT FOR THE YEAR | <u>34,489</u> | <u>32,268</u> |
| OTHER COMPREHENSIVE INCOME/(LOSS) | | |
| Exchange differences on translation of foreign operations | <u>11,129</u> | <u>(199)</u> |
| OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR | <u>11,129</u> | <u>(199)</u> |
| TOTAL COMPREHENSIVE INCOME FOR THE YEAR | <u><u>45,618</u></u> | <u><u>32,069</u></u> |
| TOTAL COMPREHENSIVE INCOME/(LOSS) ATTRIBUTABLE TO: | | |
| Owners of the parent | <u>45,842</u> | <u>32,207</u> |
| Non-controlling interests | <u>(224)</u> | <u>(138)</u> |
| | <u><u>45,618</u></u> | <u><u>32,069</u></u> |

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2010

| | Notes | 2010 HK\$'000 | 2009 HK\$'000 |
|---------------------------------------------------------------------|-------|------------------|------------------|
| NON-CURRENT ASSETS | | | |
| Property, plant and equipment | 15 | 309,784 | 316,697 |
| Investment properties | 16 | 138,444 | 128,725 |
| Properties under development | 17 | 28,000 | 28,000 |
| Prepaid land lease payments | 18 | 22,541 | 22,248 |
| Intangible asset | 19 | 1,300 | 2,850 |
| Interests in associates | 21 | 7,597 | 3,180 |
| Available-for-sale investments | 22 | 126,163 | 123,163 |
| Deposits for purchases of items of property, plant and equipment | 23 | 12,576 | 9,231 |
| Net pension scheme assets | 24 | 2,171 | 1,990 |
| Total non-current assets | | 648,576 | 636,084 |
| CURRENT ASSETS | | | |
| Inventories | 25 | 79,932 | 74,782 |
| Trade and bills receivables | 26 | 255,229 | 217,254 |
| Prepayments, deposits and other receivables | 27 | 13,902 | 27,121 |
| Equity investment at fair value through profit or loss | 28 | 174 | 86 |
| Pledged deposits | 29 | 1,956 | 5,097 |
| Cash and cash equivalents | 29 | 281,701 | 139,925 |
| | | 632,894 | 464,265 |
| Non-current assets classified as held for sale | 14 | 20,126 | — |
| Total current assets | | 653,020 | 464,265 |
| CURRENT LIABILITIES | | | |
| Trade and bills payables | 30 | 171,896 | 147,445 |
| Other payables and accruals | 31 | 128,277 | 110,182 |
| Due to an associate | 21 | 1,900 | 1,600 |
| Interest-bearing bank and other borrowings | 32 | 106,125 | 98,230 |
| Tax payable | | 6,013 | 12,873 |
| Total current liabilities | | 414,211 | 370,330 |
| NET CURRENT ASSETS | | 238,809 | 93,935 |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | 887,385 | 730,019 |

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)

31 December 2010

| | Notes | 2010 HK\$'000 | 2009 HK\$'000 |
|----------------------------------------------------|-------|------------------|------------------|
| TOTAL ASSETS LESS CURRENT LIABILITIES | | 887,385 | 730,019 |
| NON-CURRENT LIABILITIES | | | |
| Interest-bearing bank and other borrowings | 32 | 44,745 | 50,858 |
| Deferred tax liabilities | 34 | 15,078 | 14,884 |
| Deferred income | 35 | 4,286 | 4,474 |
| Total non-current liabilities | | 64,109 | 70,216 |
| Net assets | | 823,276 | 659,803 |
| EQUITY | | | |
| Equity attributable to owners of the parent | | | |
| Issued capital | 36 | 188,841 | 157,367 |
| Reserves | 38(a) | 630,603 | 498,380 |
| | | 819,444 | 655,747 |
| Non-controlling interests | | 3,832 | 4,056 |
| Total equity | | 823,276 | 659,803 |

Lam Ting Ball, Paul
Director

Tsui Ho Chuen, Philip
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2010

| | Attributable to owners of the parent | | | | | | | | | | Total equity HK\$'000 | | |
|-----------------------------------------------------------|-----------------------------------------------|-----------------------------------|--------------------------------------------------|---------------------------------------------|-------------------------------------------------------------|------------------------------------------------------|---------------------------------------------|------------------------------------------|----------------------------|-------------------------------------|--------------------------|-------------------|---------------------------------------|
| | Issued share capital HK\$'000 (note 36) | Share premium account HK\$'000 | Share option reserve HK\$'000 (note 38(b)) | Capital reserve HK\$'000 (note 38(a)) | Leasehold land and building revaluation reserve HK\$'000 | Investment property revaluation reserve* HK\$'000 | General reserve HK\$'000 (note 38(a)) | Exchange fluctuation reserve HK\$'000 | Reserve fund** HK\$'000 | Retained profits/losses HK\$'000 | | Total HK\$'000 | Non-controlling interests HK\$'000 |
| At 1 January 2009 | 157,367 | 6,655 | — | 377,677 | 41,732 | 13,557 | 10,144 | 12,485 | 28,866 | (24,923) | 623,540 | 4,194 | 627,734 |
| Profit/(loss) for the year | — | — | — | — | — | — | — | — | — | 32,406 | 32,406 | (138) | 32,268 |
| Other comprehensive loss for the year: | | | | | | | | | | | | | |
| Exchange differences on translation of foreign operations | — | — | — | — | — | — | — | (199) | — | — | (199) | — | (199) |
| Total comprehensive income/(loss) for the year | — | — | — | — | — | — | — | (199) | — | 32,406 | 32,207 | (138) | 32,069 |
| At 31 December 2009 and at 1 January 2010 | 157,367 | 6,655# | — | 377,677# | 41,732# | 13,557# | 10,144# | 12,286# | 28,866# | 7,485# | 655,747 | 4,056 | 659,803 |
| Profit/(loss) for the year | — | — | — | — | — | — | — | — | — | 34,865 | 34,865 | (376) | 34,489 |
| Other comprehensive income for the year: | | | | | | | | | | | | | |
| Exchange differences on translation of foreign operations | — | — | — | — | — | — | — | 10,977 | — | — | 10,977 | 152 | 11,129 |
| Total comprehensive income/(loss) for the year | — | — | — | — | — | — | — | 10,977 | — | 34,865 | 45,842 | (224) | 45,618 |
| Issue of shares | 31,474 | 74,671 | — | — | — | — | — | — | — | — | 106,145 | — | 106,145 |
| Share issue expenses | — | (161) | — | — | — | — | — | — | — | — | (161) | — | (161) |
| Equity-settled share option arrangement | — | — | 11,871 | — | — | — | — | — | — | — | 11,871 | — | 11,871 |
| At 31 December 2010 | 188,841 | 81,145# | 11,871# | 377,677# | 41,732# | 13,557# | 10,144# | 23,263# | 28,866# | 42,348# | 819,444 | 3,832 | 823,276 |

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CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (continued)

Year ended 31 December 2010

- * *The investment property revaluation reserve represents the attributable revaluation surplus in respect of the leasehold land and buildings, which were reclassified as investment properties in prior years. This revaluation reserve arose while the properties were classified as land and buildings, and therefore is not available to offset subsequent revaluation deficits arising on the investment properties. The revaluation reserve is transferred to retained profits/set off against accumulated losses only upon the disposal or retirement of the relevant assets and such transfer is not made in the consolidated income statement.*
- ** *Pursuant to the relevant laws and regulations for foreign investment enterprises, a portion of the profit of certain subsidiaries of the Group in the People's Republic of China (the "PRC") is required to be transferred to the PRC reserve funds which are restricted as to use. The subsidiaries are not required to effect any further transfer when the amount of the PRC reserve fund reaches 50% of their registered capital. The PRC reserve fund can be used to make good future losses or to increase the capital of the subsidiaries.*
- # *These reserve accounts comprise the consolidated reserves of HK\$630,603,000 (2009: HK\$498,380,000) in the consolidated statement of financial position.*

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2010

| | Notes | 2010 HK\$'000 | 2009 HK\$'000 |
|----------------------------------------------------------------------------------------------------|-------|------------------|------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| Profit before tax | | 45,122 | 54,487 |
| Adjustments for: | | | |
| Finance costs | 7 | 6,092 | 6,333 |
| Share of profits and losses of associates | | (3,572) | (864) |
| Bank interest income | 5 | (1,336) | (601) |
| Interest income from a long term receivable | 5 | — | (29) |
| Dividend income from an available-for-sale investment | 5 | (251) | — |
| Dividend income from an equity investment at fair value through profit or loss | 5 | (3) | — |
| Depreciation | 6 | 23,810 | 21,612 |
| Amortisation of an intangible asset | 6 | 150 | 150 |
| Amortisation of prepaid land lease payments | 6 | 511 | 477 |
| Recognition of deferred income | 5 | (332) | (291) |
| Loss on disposal of items of property, plant and equipment, net | 6 | 3,083 | 1 |
| Write-off of items of property, plant and equipment | 6 | 4,207 | 768 |
| Fair value gains on investment properties, net | 16 | (8,692) | (6,672) |
| Fair value gain on an equity investment at fair value through profit or loss - held for trading | 5 | (88) | (55) |
| Impairment of properties under development | 6 | — | 4,000 |
| Impairment of available-for-sale investments | 6 | 2,000 | — |
| Impairment of an intangible asset | 6 | 1,400 | — |
| Write-down of inventories to net realisable value | 6 | 1,028 | 7,892 |
| Provision for/(reversal of) impairment for trade receivables | 6 | (2,566) | 4,737 |
| Impairment of amounts due from an associate | 6 | 114 | 1,585 |
| Equity-settled share option expense | 37 | 11,871 | — |
| | | 82,548 | 93,530 |
| Increase in inventories | | (3,730) | (20,740) |
| Increase in trade and bills receivables | | (28,599) | (62,963) |
| Decrease/(increase) in prepayments, deposits and other receivables | | 14,077 | (13,209) |
| Increase in trade and bills payables | | 19,332 | 62,196 |
| Increase in other payables and accruals | | 14,956 | 18,643 |
| Exchange realignment | | (1,408) | (692) |
| Cash generated from operations | | 97,176 | 76,765 |

CONSOLIDATED STATEMENT OF CASH FLOWS (continued)

Year ended 31 December 2010

| | Notes | 2010 HK\$'000 | 2009 HK\$'000 |
|---------------------------------------------------------------------------------------------|-------|------------------|------------------|
| Cash generated from operations | | 97,176 | 76,765 |
| Interest paid | | (6,271) | (6,738) |
| Interest element of finance lease rental payments | | (87) | (107) |
| Overseas taxes paid | | (17,268) | (10,145) |
| Hong Kong profits tax refunded/(paid) | | 275 | (537) |
| Net cash flows from operating activities | | <u>73,825</u> | <u>59,238</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | |
| Purchases of items of property, plant and equipment | | (39,607) | (37,456) |
| Proceeds from disposal of items of property, plant and equipment | | 5,012 | 429 |
| Additions to investment properties | 16 | (345) | (536) |
| Investment in an associate | | (1,886) | (1,417) |
| Advances to associates | | (114) | (113) |
| Repayment from an associate | | — | 1,523 |
| Repayment of a long term receivable | | — | 757 |
| Decrease/(increase) in net pension scheme assets | | (181) | 209 |
| Interest received | | 1,336 | 630 |
| Dividend received from an associate | | 1,041 | 1,090 |
| Dividend received from an available-for-sale investment | | 251 | — |
| Dividend received from an equity investment at fair value through profit or loss | | 3 | — |
| Purchase of an available-for-sale investment | | (5,000) | — |
| Deposits paid for purchases of items of property, plant and equipment | 23 | (5,696) | (7,097) |
| Increase in time deposits with original maturity of more than three months when acquired | | (27,915) | (2,194) |
| Net cash flows used in investing activities | | <u>(73,101)</u> | <u>(44,175)</u> |

CONSOLIDATED STATEMENT OF CASH FLOWS (continued)

Year ended 31 December 2010

| | Notes | 2010 HK\$'000 | 2009 HK\$'000 |
|-----------------------------------------------------------------------------------------------------------------|-------|-----------------------|-----------------------|
| CASH FLOWS FROM FINANCING ACTIVITIES | | | |
| Proceeds from issue of shares | 36 | 106,145 | — |
| Share issue expenses | 36 | (161) | — |
| New bank loans | | 260,845 | 82,831 |
| Repayment of bank loans | | (251,020) | (75,630) |
| Repayment of other loan | | (9,149) | (1,659) |
| Advance from an associate | | 300 | 1,600 |
| Capital element of finance lease rental payments | | (1,333) | (1,149) |
| Net cash flows from financing activities | | <u>105,627</u> | <u>5,993</u> |
| NET INCREASE IN CASH AND CASH EQUIVALENTS | | | |
| Cash and cash equivalents at beginning of year | | 138,126 | 117,065 |
| Effect of foreign exchange rate changes, net | | 4,369 | 5 |
| CASH AND CASH EQUIVALENTS AT END OF YEAR | | <u><u>248,846</u></u> | <u><u>138,126</u></u> |
| ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS | | | |
| Cash and bank balances | 29 | 170,384 | 129,929 |
| Non-pledged time deposits with original maturity of less than three months when acquired | 29 | 76,506 | 5,680 |
| Pledged time deposits with original maturity of less than three months when acquired | 29 | <u>1,956</u> | <u>2,517</u> |
| Cash and cash equivalents as stated in the consolidated statement of cash flows | | 248,846 | 138,126 |
| Time deposits with original maturity of more than three months when acquired | 29 | <u>34,811</u> | <u>6,896</u> |
| Cash and cash equivalents and pledged deposits as stated in the consolidated statement of financial position | | <u><u>283,657</u></u> | <u><u>145,022</u></u> |

STATEMENT OF FINANCIAL POSITION

31 December 2010

| | Notes | 2010 HK\$'000 | 2009 HK\$'000 |
|----------------------------------------------|-------|------------------|------------------|
| NON-CURRENT ASSETS | | | |
| Property, plant and equipment | 15 | 390 | 217 |
| Interests in subsidiaries | 20 | 518,977 | 431,022 |
| Total non-current assets | | 519,367 | 431,239 |
| CURRENT ASSETS | | | |
| Prepayments, deposits and other receivables | 27 | 547 | 636 |
| Cash and cash equivalents | 29 | 11,187 | 10,574 |
| Total current assets | | 11,734 | 11,210 |
| CURRENT LIABILITIES | | | |
| Other payables and accruals | 31 | 4,678 | 3,505 |
| Interest-bearing other borrowings | 32 | 15 | 9 |
| Total current liabilities | | 4,693 | 3,514 |
| NET CURRENT ASSETS | | 7,041 | 7,696 |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | 526,408 | 438,935 |
| NON-CURRENT LIABILITIES | | | |
| Interest-bearing other borrowings | 32 | 31 | 6 |
| Net assets | | 526,377 | 438,929 |
| EQUITY | | | |
| Issued capital | 36 | 188,841 | 157,367 |
| Reserves | 38(b) | 337,536 | 281,562 |
| Total equity | | 526,377 | 438,929 |

Lam Ting Ball, Paul
Director

Tsui Ho Chuen, Philip
Director

NOTES TO FINANCIAL STATEMENTS

31 December 2010

1. CORPORATE INFORMATION

CNT Group Limited is a limited liability company incorporated in Bermuda. The principal place of business of the Company is located at 31st Floor and Units E & F on 28th Floor, CNT Tower, 338 Hennessy Road, Wanchai, Hong Kong.

During the year, the Group was involved in the following principal activities:

- manufacture and sale of paint products and related services
- trading of iron and steel products and related investments
- property investment
- property development
- strategic investments

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (“HKASs”) and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for investment properties, certain buildings, an equity investment at fair value through profit or loss and net pension scheme assets, which have been measured at fair value. These financial statements are presented in Hong Kong dollars (“HK\$”) and all values are rounded to the nearest thousand (“HK\$’000”) except when otherwise indicated.

2.1 BASIS OF PREPARATION (continued)**Basis of consolidation***Basis of consolidation from 1 January 2010*

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the “Group”) for the year ended 31 December 2010. The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All intra-group balances, transactions, unrealised gains and losses resulting from intra-group transactions and dividends are eliminated on consolidation in full. Adjustments are made to bring into line any dissimilar accounting policies that may exist.

Losses within a subsidiary are attributed to the non-controlling interest even if that results in a deficit balance.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group’s share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate.

Basis of consolidation prior to 1 January 2010

Certain of the above-mentioned requirements have been applied on a prospective basis. The following differences, however, are carried forward in certain instances from the previous basis of consolidation:

- Losses incurred by the Group were attributed to the non-controlling interest until the balance was reduced to nil. Any further excess losses were attributable to the parent, unless the non-controlling interest had a binding obligation to cover these. Losses prior to 1 January 2010 were not reallocated between non-controlling interest and the parent shareholders.
- Upon loss of control, the Group accounted for the investment retained at its proportionate share of net asset value at the date control was lost. The carrying amount of such investment at 1 January 2010 has not been restated.

NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2010

2.2 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES

The Group has adopted the following new and revised HKFRSs for the first time for the current year's financial statements.

| | |
|-------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------|
| HKFRS 1 (Revised) | <i>First-time Adoption of Hong Kong Financial Reporting Standards</i> |
| HKFRS 1 Amendments | <i>Amendments to HKFRS 1 First-time Adoption of Hong Kong Financial Reporting Standards – Additional Exemptions for First-time Adopters</i> |
| HKFRS 2 Amendments | <i>Amendments to HKFRS 2 Share-based Payment – Group Cash-settled Share-based Payment Transactions</i> |
| HKFRS 3 (Revised) | <i>Business Combinations</i> |
| HKAS 27 (Revised) | <i>Consolidated and Separate Financial Statements</i> |
| HKAS 39 Amendment | <i>Amendment to HKAS 39 Financial Instruments: Recognition and Measurement – Eligible Hedged Items</i> |
| HK(IFRIC)-Int 17 | <i>Distributions of Non-cash Assets to Owners</i> |
| HKFRS 5 Amendments included in <i>Improvements to HKFRSs</i> issued in October 2008 | <i>Amendments to HKFRS 5 Non-current Assets Held for Sale and Discontinued Operations – Plan to sell the controlling interest in a subsidiary</i> |
| Improvements to HKFRSs 2009 | <i>Amendments to a number of HKFRSs issued in May 2009</i> |
| HK Interpretation 4 Amendment | <i>Amendment to HK Interpretation 4 Leases – Determination of the Length of Lease Term in respect of Hong Kong Land Leases</i> |
| HK Interpretation 5 | <i>Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause</i> |

2.2 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES (continued)

The principal effects of adoption these new and revised HKFRSs are as follows:

(a) HKFRS 1 (Revised) *First-time Adoption of Hong Kong Financial Reporting Standards*

HKFRS 1 (Revised) was issued with an aim to improve the structure of the standard. The revised version of the standard does not make any changes to the substance of accounting by first-time adopters. As the Group is not a first-time adopter of HKFRSs, the revision is not applicable to the Group.

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

The HKFRS 1 Amendments provide relief from the full retrospective application of HKFRSs for the measurement of oil and gas assets and leases. As a result of extending the options for determining deemed cost to oil and gas assets, the existing exemption relating to decommissioning liabilities has also been revised. As the Group is not a first-time adopter of HKFRSs, the amendments are not applicable to the Group.

(c) Amendments to HKFRS 2 *Share-based Payment – Group Cash-settled Share-based Payment Transactions*

The HKFRS 2 Amendments provide guidance on how to account for cash-settled share-based payment transactions in the separate financial statements of an entity receiving the goods and services when the entity has no obligation to settle the share-based payment transactions. The amendments also incorporate guidance that was previously included in HK(IFRIC)-Int 8 *Scope of HKFRS 2* and HK(IFRIC)-Int 11 *HKFRS 2 – Group and Treasury Share Transactions*. The adoption of the amendments has had no impact on the financial position or results of operations of the Group.

2.2 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES (continued)

The principal effects of adoption these new and revised HKFRSs are as follows: (continued)

(d) HKFRS 3 (Revised) *Business Combinations* and HKAS 27 (Revised) *Consolidated and Separate Financial Statements*

HKFRS 3 (Revised) introduces a number of changes in the accounting for business combinations that affect the initial measurement of non-controlling interests, the accounting for transaction costs, the initial recognition and subsequent measurement of a contingent consideration and business combinations achieved in stages. These changes will impact the amount of goodwill recognised, the reported results in the period that an acquisition occurs, and future reported results.

HKAS 27 (Revised) requires that a change in the ownership interest of a subsidiary without loss of control is accounted for as an equity transaction. Therefore, such a change will have no impact on goodwill, nor will it give rise to a gain or loss. Furthermore, the revised standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. Consequential amendments were made to various standards, including, but not limited to HKAS 7 *Statement of Cash Flows*, HKAS 12 *Income Taxes*, HKAS 21 *The Effects of Changes in Foreign Exchange Rates*, HKAS 28 *Investments in Associates* and HKAS 31 *Interests in Joint Ventures*.

The changes introduced by these revised standards are applied prospectively and affect the accounting of acquisitions, loss of control and transactions with non-controlling interests after 1 January 2010.

(e) Amendment to HKAS 39 *Financial Instruments: Recognition and Measurement – Eligible Hedged Items*

The HKAS 39 Amendment addresses the designation of a one-sided risk in a hedged item, and the designation of inflation as a hedged risk or portion in particular situations. It clarifies that an entity is permitted to designate a portion of the fair value changes or cash flow variability of a financial instrument as a hedged item. As the Group has not entered into any hedges, the amendment has had no impact on the financial position or results of operations of the Group.

2.2 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES (continued)

The principal effects of adoption these new and revised HKFRSs are as follows: (continued)

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

HK(IFRIC)-Int 17 standardises practice in the accounting for non-reciprocal distributions of non-cash assets to owners. The interpretation clarifies that (i) a dividend payable should be recognised when the dividend is appropriately authorised and is no longer at the discretion of the entity; (ii) an entity should measure the dividend payable at the fair value of the net assets to be distributed; and (iii) an entity should recognise the difference between the dividend paid and the carrying amount of the net assets distributed in profit or loss. Other consequential amendments were made to HKAS 10 *Events after the Reporting Period* and HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*. Since the Group did not make any non-cash asset distributions to owners during the year, the adoption of the interpretation has had no impact on the financial position or results of operations of the Group.

(g) Amendments to HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* – *Plan to sell the controlling interest in a subsidiary*

The amendments to HKFRS 5 clarify that all assets and liabilities of a subsidiary shall be classified as held for sale if an entity has a sale plan involving loss of control of the subsidiary, regardless of whether the entity will retain a non-controlling interest. The changes must be applied prospectively and will affect future sale transactions or plans involving loss of control of a subsidiary. As the Group currently has no sale plan involving loss of control of a subsidiary, the adoption of the amendments has had no impact on the financial position or results of operations of the Group.

2.2 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES (continued)

The principal effects of adoption these new and revised HKFRSs are as follows: (continued)

(h) *Improvements to HKFRSs 2009*

Improvements to HKFRSs 2009 issued in May 2009 set out amendments to a number of HKFRSs. There are separate transitional provisions for each standard. While the adoption of some of the amendments results in changes in accounting policies, none of these amendments has had a significant financial impact on the Group.

Details of the key amendments applicable to the Group are as follows:

- *HKAS 7 Statement of Cash Flows*: Requires that only expenditures that result in a recognised asset in the statement of financial position can be classified as a cash flow from investing activities.
- *HKAS 17 Leases*: Removes the specific guidance on classifying land as a lease. As a result, leases of land should be classified as either operating or finance leases in accordance with the general guidance in HKAS 17.

Amendment to HK Interpretation 4 *Leases - Determination of the Length of Lease Term in respect of Hong Kong Land Leases* is revised as a consequence of the amendment to HKAS 17 *Leases* included in *Improvements to HKFRSs 2009*. Following this amendment, the scope of HK Interpretation 4 has been expanded to cover all land leases, including those classified as finance leases. As a result, this Interpretation is applicable to all leases of property accounted for in accordance with HKAS 16, HKAS 17 and HKAS 40.

The Group has reassessed its leases, previously classified as operating leases under “prepaid land lease payments”, upon the adoption of the amendments. Since these leases were leases in Mainland China in which the associated risks and rewards have not been substantially transferred to the Group, the classification of these leases in Mainland China remained as operating leases. The amendment has had no impact on the financial position or results of operations of the Group.

2.2 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES (continued)

The principal effects of adoption these new and revised HKFRSs are as follows: (continued)

(h) Improvements to HKFRSs 2009 (continued)

- *HKFRS 5 Non-current Assets Held for Sale and Discontinued Operations*: Clarifies that (i) the disclosures required in respect of non-current assets (or a disposal group) classified as held for sale or a discontinued operation are those set out in HKFRS 5; (ii) the general requirements of HKAS 1 still apply (e.g., source of estimation uncertainty); and (iii) the disclosures in other HKFRSs are not required unless:
 - those HKFRSs specifically require disclosures in respect of non-current assets (or disposal groups) classified as held for sale or discontinued operations; or
 - the disclosures relate to the measurement of assets or liabilities within a disposal group that are outside the scope of measurement requirements of HKFRS 5 and disclosures are not provided elsewhere in the financial statements.
- *HKFRS 8 Operating Segments*: Clarifies that segment assets and liabilities need only to be reported when those assets and liabilities are included in measures that are used by the chief operating decision maker.
- *HKAS 36 Impairment of Assets*: Clarifies that the largest unit permitted for allocating goodwill acquired in a business combination is the operating segment as defined in HKFRS 8 before aggregation for financial reporting purposes.
- *HKAS 38 Intangible Assets*: Clarifies that (i) if an intangible asset acquired in a business combination is identifiable only with another intangible asset, the acquirer may recognise the group of assets as a single asset provided that the individual assets have similar useful lives; and (ii) the valuation techniques presented in the standard for determining the fair value of intangible assets acquired in a business combination that are not traded in active markets are only examples and are not restrictive on the methods that can be used.

(i) HK Interpretation 5 Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause

The interpretation requires a term loan that contains a clause that gives the lender the unconditional right to call the loan at any time shall be classified in total by the borrower as current in the statement of financial position. This is irrespective of whether a default event has occurred and notwithstanding any other terms and maturity stated in the loan agreement. As the Group has no term loans that give the lender the unconditional right to call the loans at any time, the interpretation has had no impact on the financial position of the Group.

NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2010

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

The Group has not applied the following applicable new and revised HKFRSs, that have been issued but are not yet effective, in these financial statements.

| | |
|-----------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| HKFRS 1 Amendment | Amendment to HKFRS 1 <i>First-time Adoption of Hong Kong Financial Reporting Standards – Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters</i> ² |
| HKFRS 1 Amendments | Amendments to HKFRS 1 <i>First-time Adoption of Hong Kong Financial Reporting Standards – Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters</i> ⁴ |
| HKFRS 7 Amendments | Amendments to HKFRS 7 <i>Financial Instruments: Disclosures – Transfers of Financial Assets</i> ⁴ |
| HKFRS 9 | <i>Financial Instruments</i> ⁶ |
| HKAS 12 Amendments | Amendments to HKAS 12 <i>Income Taxes – Deferred Tax: Recovery of Underlying Assets</i> ⁵ |
| HKAS 24 (Revised) | <i>Related Party Disclosures</i> ³ |
| HKAS 32 Amendment | Amendment to HKAS 32 <i>Financial Instruments: Presentation – Classification of Rights Issues</i> ¹ |
| HK(IFRIC)-Int 14 Amendments | Amendments to HK(IFRIC)-Int 14 <i>Prepayments of a Minimum Funding Requirement</i> ³ |
| HK(IFRIC)-Int 19 | <i>Extinguishing Financial Liabilities with Equity Instruments</i> ² |

Apart from the above, the HKICPA has issued *Improvements to HKFRSs 2010* which sets out amendments to a number of HKFRSs primarily with a view to removing inconsistencies and clarifying wording. The amendments to HKFRS 3 and HKAS 27 are effective for annual periods beginning on or after 1 July 2010, whereas the amendments to HKFRS 1, HKFRS 7, HKAS 1, HKAS 34 and HK(IFRIC)-Int 13 are effective for annual periods beginning on or after 1 January 2011 although there are separate transitional provisions for each standard.

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

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

³ Effective for annual periods beginning on or after 1 January 2011

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

⁵ Effective for annual periods beginning on or after 1 January 2012

⁶ Effective for annual periods beginning on or after 1 January 2013

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

(continued)

The HKFRS 1 Amendment allows a first-time adopter to utilise the transitional provisions in paragraph 44G of HKFRS 7 and not to provide comparative figures for certain disclosures in an entity's first HKFRS financial statements. The transitional provisions in HKFRS 7 have also been amended to clarify that the disclosures required by the Amendments to HKFRS 7 *Financial Instruments: Disclosures - Improving Disclosures about Financial Instruments* issued in March 2009 need not be provided for (i) annual or interim periods, including any statement of financial position presented within an annual comparative period ended before 31 December 2009 and (ii) any statement of financial position as at the beginning of the earliest comparative period as at a date before 31 December 2009. As the Group is not a first-time adopter of HKFRSs, the amendments will not have any financial impact on the Group.

The HKFRS 1 Amendments require that if an entity elects to measure assets or liabilities at fair value as the deemed cost in its opening HKFRS statement of financial position because of severe hyperinflation, the entity's first HKFRS financial statements shall disclose an explanation of how, and why, the entity had, and then ceased to have, a functional currency that is under the situation which has (a) no reliable general price index to all entities with transactions and balances in that currency and (b) no exchangeability between that currency and a relatively stable foreign currency. In addition, the amendments require a first-time adopter to apply the fair value measurement of financial assets or financial liabilities at initial recognition and the derecognition requirements in HKAS 39 *Financial Instruments: Recognition and Measurement* prospectively for transactions occurring on or after the date of the entity's transition to HKFRSs instead of after certain previous fixed dates.

The HKFRS 7 Amendments introduce more extensive quantitative and qualitative disclosure requirements regarding transfer transactions of financial assets (e.g., securitisations), including information for understanding the possible effects of any risks that may remain with the entity that transferred the assets. The Group expects to adopt the amendments from 1 January 2012 and comparative disclosures are not required for any period beginning before that date.

HKFRS 9 issued in November 2009 is the first part of phase 1 of a comprehensive project to entirely replace HKAS 39 *Financial Instruments: Recognition and Measurement*. This phase focuses on the classification and measurement of financial assets. Instead of classifying financial assets into four categories, an entity shall classify financial assets as subsequently measured at either amortised cost or fair value, on the basis of both the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. This aims to improve and simplify the approach for the classification and measurement of financial assets compared with the requirements of HKAS 39.

31 December 2010

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

(continued)

In November 2010, the HKICPA issued additions to HKFRS 9 to address financial liabilities (the “Additions”) and incorporated in HKFRS 9 the current derecognition principles of financial instruments of HKAS 39. Most of the Additions were carried forward unchanged from HKAS 39, while changes were made to the measurement of financial liabilities designated at fair value through profit or loss using the fair value option (“FVO”). For these FVO liabilities, the amount of change in the fair value of a liability that is attributable to changes in credit risk must be presented in other comprehensive income (“OCI”). The remainder of the change in fair value is presented in profit or loss, unless presentation of the fair value change in respect of the liability’s credit risk in OCI would create or enlarge an accounting mismatch in profit or loss. However, loan commitments and financial guarantee contracts which have been designated under the FVO are scoped out of the Additions.

It is expected that HKAS 39 will be aimed to be replaced by HKFRS 9 in its entirety. Before this entire replacement, the guidance in HKAS 39 on hedge accounting, derecognition and impairment of financial assets continues to apply. The Group expects to adopt HKFRS 9 from 1 January 2013 to conform with the simplified classification and measurement of financial assets.

The Amendments to HKAS 12 *Income Taxes* mainly deal with the measurement of deferred tax for investment properties that are measured using the fair value model in accordance with HKAS 40 *Investment Property*. Based on the amendments, for the purposes of measuring deferred tax liabilities and deferred tax assets for investment properties measured using the fair value model, the carrying amounts of the investment properties are presumed to be recovered through sale, unless the presumption is rebutted in certain circumstances. Since certain investment properties of the Group were determined to be recovered through use previously under HK(SIC)-Int 21 *Income Taxes - Recovery of Revalued Non-Depreciable Assets*, the Group anticipates that the application of the amendments to HKAS 12 will have an impact on deferred tax recognised for investment properties that are measured using the fair value model and is in the process of quantifying the impact.

HKAS 24 (Revised) clarifies and simplifies the definition of related parties. It also provides for a partial exemption of related party disclosure to government-related entities for transactions with the same government or entities that are controlled, jointly controlled or significantly influenced by the same government. The Group expects to adopt HKAS 24 (Revised) from 1 January 2011 and the comparative related party disclosures will be amended accordingly. While the adoption of the revised standard will result in changes in the accounting policy, the revised standard is unlikely to have any impact on the related party disclosures as the Group currently does not have any significant transactions with government-related entities.

The HKAS 32 Amendment revises the definition of financial liabilities such that rights, options or warrants issued to acquire a fixed number of an entity’s own equity instruments for a fixed amount of any currency are equity instruments, provided that the entity offers the rights, options or warrants pro rata to all of its existing owners of the same class of its own non-derivative equity instruments. The Group expects to adopt the HKAS 32 Amendment from 1 January 2011. As the Group currently has no such rights, options or warrants in issue, the amendment is unlikely to have any financial impact on the Group.

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

(continued)

The HK(IFRIC)-Int 14 Amendments remove an unintended consequence arising from the treatment of prepayments of future contributions in certain circumstances when there is a minimum funding requirement. The amendments require an entity to treat the benefit of an early payment as a pension asset. The economic benefit available as a reduction in future contributions is thus equal to the sum of (i) the prepayment for future services and (ii) the estimated future services costs less the estimated minimum funding requirement contributions that would be required as if there were no prepayments. The Group expects to adopt the HK(IFRIC)-Int 14 Amendments from 1 January 2011. As the Group's defined benefit scheme is not subject to any minimum funding requirements, the adoption of the amendments will not have any financial impact on the Group.

HK(IFRIC)-Int 19 addresses the accounting by an entity when the terms of a financial liability are renegotiated and result in the entity issuing equity instruments to a creditor of the entity to extinguish all or part of the financial liability. The Group expects to adopt the interpretation from 1 January 2011. The interpretation clarifies that equity instruments issued to a creditor to extinguish a financial liability are a consideration paid in accordance with HKAS 39 *Financial Instruments: Recognition and Measurement* and the difference between the carrying amount of the financial liability extinguished, and the consideration paid, shall be recognised in profit or loss. The consideration paid should be measured based on the fair value of the equity instrument issued or, if the fair value of the equity instrument cannot be reliably measured, the fair value of the financial liability extinguished. As the Group has not undertaken such transactions, the interpretation is unlikely to have any material financial impact on the Group.

Improvements to HKFRSs 2010 issued in May 2010 sets out amendments to a number of HKFRSs. The Group expects to adopt the amendments from 1 January 2011. There are separate transitional provisions for each standard. While the adoption of some of the amendments may result in changes in accounting policies, none of these amendments are expected to have a significant financial impact on the Group. Those amendments that may be applicable to the Group are as follows:

- (a) HKFRS 3 *Business Combinations*: Clarifies that the amendments to HKFRS 7, HKAS 32 and HKAS 39 that eliminate the exemption for contingent consideration do not apply to contingent consideration that arose from business combinations whose acquisition dates precede the application of HKFRS 3 (as revised in 2008).

In addition, the amendments limit the measurement choice of non-controlling interests at fair value or at the proportionate share of the acquiree's identifiable net assets to components of non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation. Other components of non-controlling interests are measured at their acquisition date fair value, unless another measurement basis is required by another HKFRS.

The amendments also added explicit guidance to clarify the accounting treatment for non-replaced and voluntarily replaced share-based payment awards.

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

(continued)

- (b) HKAS 1 *Presentation of Financial Statements*: Clarifies that an analysis of other comprehensive income for each component of equity can be presented either in the statement of changes in equity or in the notes to the financial statements.
- (c) HKAS 27 *Consolidated and Separate Financial Statements*: Clarifies that the consequential amendments from HKAS 27 (as revised in 2008) made to HKAS 21, HKAS 28 and HKAS 31 shall be applied prospectively for annual periods beginning on or after 1 July 2009 or earlier if HKAS 27 is applied earlier.
- (d) HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards*: (i) Clarifies that if a first-time adopter changes its accounting policies or its use of the exemptions in HKFRS 1 after it has published an interim financial report in accordance with HKAS 34 *Interim Financial Reporting*, it needs to explain those changes and update the reconciliation between the previous GAAP and HKFRSs; (ii) allows a first-time adopter to use an event-driven fair value as deemed cost, even if the event occurs after the date of transition, but during the period covered by the first HKFRS financial statements or allows an existing HKFRS preparer to apply the amendment retrospectively in the first annual period after the amendment is effective; and (iii) expands the scope of deemed cost for property, plant and equipment or intangible assets to include items subject to rate regulated activities.
- (e) HKFRS 7 *Financial Instruments: Disclosures*: (i) Emphasises the interaction between quantitative and qualitative disclosures and the nature and extent of risk associated with the financial instruments; (ii) amends several quantitative and credit risk disclosures to simplify the disclosures; and (iii) requires the disclosure of the financial effect of collateral held as security and of other credit enhancements in respect of the amount that best represents the maximum exposure of credit risk.
- (f) HK(IFRIC)-Int 13 *Customer Loyalty Programmes*: Clarifies that when the fair value of award credits is measured based on the value of the awards for which they could be redeemed, the amounts of discounts or incentives otherwise granted to customers not participating in the award credit scheme are to be taken into account.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

A subsidiary is an entity whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

The results of subsidiaries are included in the Company's income statement to the extent of dividends received and receivable. The Company's interests in subsidiaries are stated at cost less any impairment losses.

Joint ventures

A joint venture is an entity set up by contractual arrangement, whereby the Group and other parties undertake an economic activity. The joint venture operates as a separate entity in which the Group and the other parties have an interest.

The joint venture agreement between the venturers stipulates the capital contributions of the joint venture parties, the duration of the joint venture and the basis on which the assets are to be realised upon its dissolution. The profits and losses from the joint venture's operations and any distributions of surplus assets are shared by the venturers, either in proportion to their respective capital contributions, or in accordance with the terms of the joint venture agreement.

A joint venture is treated as:

- (a) a subsidiary, if the Group/Company has unilateral control, directly or indirectly, over the joint venture;
- (b) a jointly-controlled entity, if the Group does not have unilateral control, but has joint control, directly or indirectly, over the joint venture;
- (c) an associate, if the Group does not have unilateral or joint control, but holds, directly or indirectly, generally not less than 20% of the joint venture's registered capital and is in a position to exercise significant influence over the joint venture; or
- (d) an equity investment accounted for in accordance with HKAS 39, if the Group holds, directly or indirectly, less than 20% of the joint venture's registered capital and has neither joint control of, nor is in a position to exercise significant influence over, the joint venture.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Associates

An associate is an entity, not being a subsidiary or a jointly-controlled entity, in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence.

The Group's interests in associates are stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses. The Group's share of the post-acquisition results and reserves of associates is included in the consolidated income statement and consolidated reserves, respectively. Unrealised gains and losses resulting from transactions between the Group and its associates are eliminated to the extent of the Group's investments in the associates, except where unrealised losses provide evidence of an impairment of the asset transferred. Goodwill arising from the acquisition of associates is included as part of the Group's interests in associates and is not individually tested for impairment. Adjustments are made to bring into line any dissimilar accounting policies that may exist.

Business combinations and goodwill

Business combinations from 1 January 2010

Business combinations are accounted for using the acquisition method. The consideration transferred is measured at the acquisition date fair value which is the sum of the acquisition date fair values of assets transferred by the Group, liabilities assumed by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. For each business combination, the acquirer measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition costs are expensed as incurred.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value as at the acquisition date through profit or loss.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**Business combinations and goodwill** (continued)*Business combinations from 1 January 2010* (continued)

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability is recognised in accordance with HKAS 39 either in profit or loss or as a change to other comprehensive income. If the contingent consideration is classified as equity, it shall not be remeasured until it is finally settled within equity.

Goodwill is initially measured at cost being the excess of the aggregate of the consideration transferred, the amount recognised for non-controlling interests and any fair value of the Group's previously held equity interests in the acquiree over the net identifiable assets acquired and liabilities assumed. If the sum of this consideration and other items is lower than the fair value of the net assets of the subsidiary acquired, the difference is, after reassessment, recognised in profit or loss as a gain on bargain purchase.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Group performs its annual impairment test of goodwill as at 31 December. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Where goodwill forms part of a cash-generating unit (group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Business combinations and goodwill (continued)

Business combinations prior to 1 January 2010 but after 1 January 2005

In comparison to the above-mentioned requirements which were applied on a prospective basis, the following differences applied to business combinations prior to 1 January 2010:

Business combinations were accounted for using the purchase method. Transaction costs directly attributable to the acquisition formed part of the acquisition costs. The non-controlling interest was measured at the proportionate share of the acquiree's identifiable net assets.

Business combinations achieved in stages were accounted for as separate steps. Any additional acquired share of interest did not affect previously recognised goodwill.

When the Group acquired a business, embedded derivatives separated from the host contract by the acquiree were not reassessed on acquisition unless the business combination resulted in a change in the terms of the contract that significantly modified the cash flows that otherwise would have been required under the contract.

Contingent consideration was recognised if, and only if, the Group had a present obligation, the economic outflow was more likely than not and a reliable estimate was determinable. Subsequent adjustments to the contingent consideration were recognised as part of goodwill.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**Impairment of non-financial assets**

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, contracts for services, net pension scheme assets, financial assets, investment properties and goodwill), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs to sell, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. 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. An impairment loss is charged to the income statement in the period in which it arises in those expense categories consistent with the function of the impaired asset, unless the asset is carried at a revalued amount, in which case the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

An assessment is made at the end of each reporting period as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to the income statement in the period in which it arises, unless the asset is carried at a revalued amount, in which case the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Related parties

A party is considered to be related to the Group if:

- (a) the party, directly or indirectly through one or more intermediaries, (i) controls, is controlled by, or is under common control with, the Group; (ii) has an interest in the Group that gives it significant influence over the Group; or (iii) has joint control over the Group;
- (b) the party is an associate;
- (c) the party is a member of the key management personnel of the Group or its parent;
- (d) the party is a close member of the family of any individual referred to in (a) or (c);
- (e) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (c) or (d); or
- (f) the party is a post-employment benefit plan for the benefit of the employees of the Company/Group, or of any entity that is a related party of the Company/Group.

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost or valuation less accumulated depreciation and any impairment losses. When an item of property, plant and equipment is classified as held for sale, it is not depreciated and is accounted for in accordance with HKFRS 5, as further explained in the accounting policy for “Non-current assets held for sale”. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the income statement in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciation.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**Property, plant and equipment and depreciation** (continued)

Depreciation is calculated on the straight-line basis to write off the cost or valuation of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

| | |
|-----------------------------------|-------------------------------------------------------------|
| Freehold land | Not depreciated |
| Freehold buildings and leasehold | |
| land and buildings | 2% - 4% or over the lease terms, whichever rate is higher |
| Leasehold improvements | 10% - 33% or over the lease terms, whichever rate is higher |
| Plant and machinery | 9% - 25% |
| Furniture, fixtures and equipment | 10% - 33% |
| Motor vehicles | 18% - 25% |

Where parts of an item of property, plant and equipment have different useful lives, the cost or valuation of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

The transitional provisions set out in paragraph 80A of HKAS 16 *Property, Plant and Equipment* have been adopted for fixed assets stated at valuation. As a result, those assets stated at revalued amounts based on revaluations which were reflected in the financial statements for periods ended before 30 September 1995 have not been further revalued after that date.

An item of property, plant and equipment and any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the income statement in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress mainly represents buildings and leasehold improvements under construction, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction and capitalised borrowing costs on related borrowed funds during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investment properties

Investment properties are interests in land and buildings (including the leasehold interest under an operating lease for a property which would otherwise meet the definition of an investment property) held to earn rental income and/or for capital appreciation, rather than for use in the production or supply of goods or services or for administrative purposes; or for sale in the ordinary course of business. Such properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the end of the reporting period.

Gains or losses arising from changes in the fair values of investment properties are included in the income statement in the year in which they arise.

Any gains or losses on the retirement or disposal of an investment property are recognised in the income statement in the year of the retirement or disposal.

Properties under development

Properties under development are stated at cost less impairment losses. Cost includes all development expenditure, capitalised interest and other direct costs attributable to such properties.

Non-current assets held for sale

Non-current assets are classified as held for sale if their carrying amounts will be recovered principally through a sales transaction rather than through continuing use. For this to be the case, the asset must be available for immediate sale in its present condition subject only to terms that are usual and customary for the sale of such assets and its sale must be highly probable.

Non-current assets classified as held for sale are measured at the lower of their carrying amounts and fair values less costs to sell. Property, plant and equipment classified as held for sale are not depreciated.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**Intangible asset (other than goodwill)**

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value as at the date of acquisition. The useful life of intangible asset is assessed to be either finite or indefinite. Intangible asset with finite life is subsequently amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end.

Technical know-how

The cost of acquiring the right to technical know-how for the manufacturing of materials for exterior wall insulation panels is stated at cost less any impairment losses and is amortised on the straight-line basis over its estimated useful life of 20 years.

Leases

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalised finance leases, including prepaid land lease payments under finance leases, are included in property, plant and equipment, and depreciated over the shorter of the lease terms and the estimated useful lives of the assets. The finance costs of such leases are charged to the income statement so as to provide a constant periodic rate of charge over the lease terms.

Assets acquired through hire purchase contracts of a financing nature are accounted for as finance leases, but are depreciated over their estimated useful lives.

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets, and rentals receivable under the operating leases are credited to the income statement on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under operating leases net of any incentives received from the lessor are charged to the income statement on the straight-line basis over the lease terms.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Leases (continued)

Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms. When the lease payments cannot be allocated reliably between the land and buildings elements, the entire lease payments are included in the cost of the land and buildings as a finance lease in property, plant and equipment.

Investments and other financial assets

Initial recognition and measurement

Financial assets of the Group within the scope of HKAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables, and available-for-sale financial investments, as appropriate. The Group determines the classification of its financial assets at initial recognition. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

The Group's financial assets include available-for-sale investments, trade and bills receivables, deposits and other receivables, loans to associates, an equity investment at fair value through profit or loss, pledged deposits and cash and cash equivalents.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**Investments and other financial assets** (continued)*Subsequent measurement*

The subsequent measurement of financial assets depends on their classification as follows:

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. This category includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by HKAS 39. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with changes in fair value recognised in other income and gains or finance costs in the income statement. These net fair value changes do not include any dividends or interest earned on these financial assets, which are recognised in accordance with the policies set out for "Revenue recognition" below.

The Group evaluates its financial assets at fair value through profit or loss (held for trading) to assess whether the intent to sell them in the near term is still appropriate. When the Group is unable to trade these financial assets due to inactive markets and management's intent to sell them in the foreseeable future significantly changes, the Group may elect to reclassify these financial assets in rare circumstances. The reclassification from financial assets at fair value through profit or loss to loans and receivables, available-for-sale financial assets or held-to-maturity investments depends on the nature of the assets.

Derivatives embedded in host contracts are accounted for as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contracts and the host contracts are not held for trading or designated at fair value through profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognised in the income statement. Reassessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such assets are subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in the income statement. The loss arising from impairment is recognised in the income statement in other expenses.

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets (continued)

Available-for-sale financial investments

Available-for-sale financial investments of the Group are non-derivative financial assets in unlisted equity securities. Equity investments classified as available for sale are those which are neither classified as held for trading nor designated at fair value through profit or loss.

After initial recognition, available-for-sale financial investments are subsequently measured at fair value, with unrealised gains or losses recognised as other comprehensive income in a separate component of equity until the investment is derecognised, at which time the cumulative gain or loss is recognised in the income statement, or until the investment is determined to be impaired, at which time the relevant cumulative gain or loss is recognised in the income statement and removed from the separate component of equity. Interest and dividends earned are reported as interest income and dividend income, respectively and are recognised in the income statement as other income in accordance with the policies set out for "Revenue recognition" below.

When the fair value of unlisted equity securities cannot be reliably measured because (a) the variability in the range of reasonable fair value estimates is significant for that investment or (b) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, such securities are stated at cost less any impairment losses.

The Group evaluates its available-for-sale financial assets whether the ability and intention to sell them in the near term are still appropriate. When the Group is unable to trade these financial assets due to inactive markets and management's intent to do so significantly changes in the foreseeable future, the Group may elect to reclassify these financial assets in rare circumstances. Reclassification to loans and receivables is permitted when the financial assets meet the definition of loans and receivables and the Group has the intent and ability to hold these assets for the foreseeable future or to maturity. Reclassification to the held-to-maturity category is permitted only when the entity has the ability and intent to hold until the maturity date of the financial asset.

For a financial asset reclassified out of the available-for-sale category, any previous gain or loss on that asset that has been recognised in equity is amortised to profit or loss over the remaining life of the investment using the effective interest rate. Any difference between the new amortised cost and the expected cash flows is also amortised over the remaining life of the asset using the effective interest rate. If the asset is subsequently determined to be impaired, then the amount recorded in equity is reclassified to the income statement.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**Derecognition of financial assets**

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- the rights to receive cash flows from the asset have expired; or
- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a “pass-through” arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group’s continuing involvement in the asset. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Impairment of financial assets

The Group assesses at the end of each reporting period whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred “loss event”) and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets (continued)

Financial assets carried at amortised cost

For financial assets carried at amortised cost, the Group first assesses individually whether objective evidence of impairment exists for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the income statement. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group.

If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to the income statement.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**Impairment of financial assets (continued)***Assets carried at cost*

If there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Impairment losses on these assets are not reversed.

Available-for-sale financial investments

For available-for-sale financial investments, the Group assesses at the end of each reporting period whether there is objective evidence that an investment or a group of investments is impaired.

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in the income statement, is removed from other comprehensive income and recognised in the income statement.

In the case of the equity investments classified as available for sale, objective evidence would include a significant or prolonged decline in the fair value of an investment below its cost. The determination of what is "significant" or "prolonged" requires judgement. "Significant" is evaluated against the original cost of the investment and "prolonged" against the period in which the fair value has been below its original cost. Where there is evidence of impairment, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the income statement - is removed from other comprehensive income and recognised in the income statement. Impairment losses on equity instruments classified as available for sale are not reversed through the income statement. Increases in their fair value after impairment are recognised directly in other comprehensive income.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial liabilities

Initial recognition and measurement

Financial liabilities of the Group within the scope of HKAS 39 are classified as loans and borrowings. The Group determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognised initially at fair value and in the case of loans and borrowings, plus directly attributable transaction costs.

The Group's financial liabilities include amounts due to associates, trade and bills payables, other payables, and interest-bearing bank and other borrowings.

Subsequent measurement of loans and borrowings

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the effective interest rate method amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in the income statement.

Financial guarantee contracts

Financial guarantee contracts issued by the Group are those contracts that require a payment to be made to reimburse the holder for a loss it incurs because the specified debtor fails to make a payment when due in accordance with the terms of a debt instrument. A financial guarantee contract is recognised initially as a liability at its fair value, adjusted for transaction costs that are directly attributable to the issuance of the guarantee. Subsequent to initial recognition, the Group measures the financial guarantee contract at the higher of: (i) the amount of the best estimate of the expenditure required to settle the present obligation at the end of the reporting period; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**Financial liabilities** (continued)*Derecognition of financial liabilities*

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in the income statement.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

Fair value of financial instruments

The fair value of financial instruments that are traded in active markets is determined by reference to quoted market prices or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs. For financial instruments where there is no active market, the fair value is determined using appropriate valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument which is substantially the same; a discounted cash flow analysis; and option pricing models.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the weighted average basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of manufacturing overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the statement of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the end of the reporting period of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the income statement.

Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**Income tax** (continued)

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- where the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries and associates, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carryforward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilised, except:

- where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries and associates, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

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

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an asset, the fair value is credited to a deferred income account and is released to the income statement over the expected useful life of the relevant asset by equal annual instalments.

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

- (a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;
- (b) from the rendering of services, on the percentage of completion basis, as further explained in the accounting policy for “Contacts for services” below;
- (c) rental income, on a time proportion basis over the lease terms;
- (d) interest income, on an accrual basis using the effective interest method by applying the rate that discounts the estimated future cash receipts through the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset;
- (e) dividend income, when the shareholders’ right to receive payment has been established; and
- (f) commission income and service fee income, in the period in which the related services are rendered.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**Contracts for services**

Contract revenue on the rendering of services comprises the agreed contract amount. Costs of rendering services comprise labour and other costs of personnel directly engaged in providing the services and attributable overheads.

Revenue from the rendering of services is recognised based on the percentage of completion of the transaction, provided that the revenue, the costs incurred and the estimated costs to completion can be measured reliably. The percentage of completion is established by reference to the costs incurred to date as compared to the total costs to be incurred under the transaction. Where the outcome of a contract cannot be measured reliably, revenue is recognised only to the extent that the expenses incurred are eligible to be recovered.

Provision is made for foreseeable losses as soon as they are anticipated by management.

Where contract costs incurred to date plus recognised profits less recognised losses exceed progress billings, the surplus is treated as an amount due from contract customers. Where progress billings exceed contract costs incurred to date plus recognised profits less recognised losses, the surplus is treated as an amount due to contract customers.

Share-based payment transactions

The Company operates share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Employees of the Group receive remuneration in the form of share-based payment transactions, whereby employees render services as consideration for equity instruments ("equity-settled transactions").

The cost of equity-settled transactions with employees for grants after 7 November 2002, if any, is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using an appropriate pricing model, further details of which are given in note 37 to the financial statements.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Share-based payment transactions (continued)

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled. The cumulative expense recognised for equity-settled transactions at the end of each reporting period until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to the income statement for a period represents the movement in the cumulative expense recognised as at the beginning and end of that period.

No expense is recognised for awards that do not ultimately vest, except for equity-settled transactions where vesting is conditional upon a market or non-vesting condition, which are treated as vesting irrespective of whether or not the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified, if the original terms of the award are met. In addition, an expense is recognised for any modification that increases the total fair value of the share-based payment transaction, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. This includes any award where non-vesting conditions within the control of either the Group or the employee are not met. However, if a new award is substituted for the cancelled award, and is designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph. All cancellations of equity-settled transaction awards are treated equally.

The dilutive effect of outstanding options, if any, is reflected as additional share dilution in the computation of earnings per share.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**Other employee benefits***Paid leave carried forward*

The Group provides paid annual leave to its employees under their employment contracts on a calendar year basis. Under certain circumstances, such leave which remains untaken as at the end of the reporting period is permitted to be carried forward and utilised by the respective employees in the following year. An accrual is made at the end of the reporting period for the expected future cost of such paid leave earned during the year by the employees and carried forward.

Pension schemes and other retirement benefits

The Group operates a funded final salary defined benefit pension scheme (the “Scheme”) registered under the Occupational Retirement Schemes Ordinance for those employees who are eligible to participate in the Scheme. The expected costs of providing pensions under the Scheme are charged to the income statement over the periods during which the employees provide the related service to the Group.

An actuarial estimate is made annually by a professionally qualified actuary, using the projected unit credit actuarial valuation method, of the present value of the Group’s future defined benefit obligations under the Scheme earned by the employees as at the end of the reporting period (the “Scheme Obligations”). The assets contributed by the Group to the Scheme (the “Scheme Assets”) are held separately from the assets of the Group in an independently administered fund, and are valued at their fair value at the end of the reporting period.

The effect of the actuarial gains and losses experienced in the estimation of the Scheme Obligations and the valuation of the Scheme Assets is initially recorded in the statement of financial position and is subsequently recognised in the income statement only when the net cumulative actuarial gain or loss in the statement of financial position exceeds 10% of the higher of the Scheme Obligations and the fair value of the Scheme Assets at the beginning of the period. Such “excess” net cumulative actuarial gain or loss is recognised in the income statement over the expected average remaining working lives of the employees participating in the Scheme.

When the Group improves the benefits provided by the Scheme, the effect of the resulting increase in the Scheme Obligations relating to past service by the employees is initially recorded in the statement of financial position and is subsequently recognised in the income statement evenly over the period until the benefits vest with the employees.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Other employee benefits (continued)

Pension schemes and other retirement benefits (continued)

The net total of the fair value of the Scheme Assets, plus any actuarial losses (less any actuarial gains) not recognised, plus any past service cost not yet recognised and minus the present value of the Scheme Obligations at the end of the reporting period is recognised in the statement of financial position within non-current assets or non-current liabilities, as appropriate. If the net amount results in net assets, the amount of the net assets is limited to the net total of any net cumulative actuarial losses remaining in the statement of financial position, and the present value of any future refunds from the Scheme or reductions in future contributions to the Scheme. Movements in the net assets or liabilities recognised in the statement of financial position during the period, other than those deferred in the statement of financial position, are recorded in the income statement for the period.

The amounts of the contributions payable by the Group to the Scheme are determined by the actuary using the projected unit credit actuarial valuation method.

The Group also operates defined contribution schemes under the Hong Kong Mandatory Provident Fund Schemes Ordinance for those employees who are eligible to participate in the schemes. Contributions are made based on a percentage of the employees' basic salaries and are charged to the income statement as they become payable in accordance with the rules of the schemes. The assets of the schemes are held separately from those of the Group in independently administered funds. When an employee leaves the employment prior to his/her interest in the Group's employer contributions vesting fully, the relevant amount of forfeited benefits may be refunded to the Group or used to reduce the ongoing contributions payable by the Group. In respect of the Mandatory Provident Fund retirement benefit schemes, the Group's employer contributions vest fully with the employees when contributed into the schemes.

The employees of the Group's subsidiaries which operate in Mainland China are required to participate in a central pension scheme operated by the local municipal government. These subsidiaries are required to contribute 10% - 20% of their payroll costs to the central pension scheme. The contributions are charged to the income statement as they become payable in accordance with the rules of the central pension scheme.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**Borrowing costs**

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. All other borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Dividends

Final dividend distribution to the Company's shareholders is recognised as a liability in the statement of financial position when the dividends are declared and approved by the shareholders in a general meeting.

Foreign currencies

These financial statements are presented in Hong Kong dollars, which is the Company's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the end of the reporting period. All differences are taken to the income statement. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

The functional currencies of certain overseas subsidiaries and associates are currencies other than the Hong Kong dollar. As at the end of the reporting period, the assets and liabilities of these entities are translated into the presentation currency of the Company at the exchange rates ruling at the end of the reporting period and their income statements are translated into Hong Kong dollars at the weighted average exchange rates for the year. The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange fluctuation reserve. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in the income statement.

For the purpose of the consolidated statement of cash flows, the cash flows of overseas subsidiaries are translated into Hong Kong dollars at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into Hong Kong dollars at the weighted average exchange rates for the year.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements:

Operating lease commitments - Group as lessor

The Group has entered into commercial property leases on its investment property portfolio. The Group has determined, based on an evaluation of the terms and conditions of the arrangements, that it retains all the significant risks and rewards of ownership of these properties which are leased out on operating leases.

Classification between investment properties and owner-occupied properties

The Group determines whether a property qualifies as an investment property and has developed criteria in making that judgement. Investment property is a property held to earn rentals or for capital appreciation or both. Therefore, the Group considers whether a property generates cash flows largely independently of the other assets held by the Group.

Some properties comprise a portion that is held to earn rentals or for capital appreciation and another portion that is held for use in the production or supply of goods or services or for administrative purposes. If these portions could be sold separately (or leased out separately under a finance lease), the Group accounts for the portions separately. If the portions could not be sold separately, the property is an investment property only if an insignificant portion is held for use in the production or supply of goods or services or for administrative purposes.

Judgement is made on an individual property basis to determine whether ancillary services are so significant that a property does not qualify as an investment property.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)**Judgements** (continued)*Deferred tax liabilities*

Deferred tax liabilities are recognised for withholding tax in respect of the unremitted earnings of certain subsidiaries of the Group established in Mainland China to the extent that the directors are of the opinion that they would be probable for distribution in foreseeable future. Significant management judgement is required to determine the amount of deferred tax liabilities that should be recognised. Further details are contained in note 34 to the financial statements.

Estimation uncertainty

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, are discussed below.

Estimation of fair value of investment properties

In the absence of current prices in an active market for similar properties, the Group considers information from a variety of sources, including:

- (a) current prices in an active market for properties of a different nature, condition or location (or subject to different leases or other contracts), adjusted to reflect those differences;
- (b) recent prices of similar properties on less active markets, with adjustments to reflect any changes in economic conditions since the date of the transactions that occurred at those prices;
- (c) the new replacement cost of the buildings and other site works, from which deductions are made to allow for the age, condition, economic or functional obsolescence and environmental factors, etc.; and
- (d) the development potential of the properties by deducting development costs and profit element from the estimated gross development value of the properties.

The principal assumptions for the Group's estimation of the fair value include those related to current market rents for similar properties in the same location and condition, appropriate discount rates, expected future market rents and future maintenance costs. The carrying amount of investment properties at 31 December 2010 was HK\$138,444,000 (2009: HK\$128,725,000).

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3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Estimation uncertainty (continued)

Estimation of fair value of investment properties (continued)

As at 31 December 2010, an investment property of the Group in Hong Kong with a carrying amount of HK\$21,000,000 (2009: HK\$20,000,000) was estimated based on the assumption that the corresponding extension of a building covenant, which would require the development on the piece of land it situated to be completed and made fit for occupation on or before 5 January 2012, would be approved by the Lands Department of Hong Kong at the provision of certain estimated premium. Up to the date of these financial statements, the directors are not aware of any unfavourable circumstances that might indicate the approval could not be granted.

Impairment of non-financial assets (other than goodwill)

The Group assesses whether there are any indicators of impairment for all non-financial assets at the end of each reporting period. Indefinite life intangible assets are tested for impairment annually and at other times when such an indicator exists. Other non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. An impairment exists when the carrying value of an asset or a cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. The calculation of the fair value less costs to sell is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

Impairment of available-for-sale investments

In the absence of current prices in an active market for similar investments, the Group considers the discounted cash flow projections based on reliable estimates of future cash flows, supported by the terms of existing contracts, planned capacity and unit sale revenue, and by using discount rates that reflect current market assessments of the uncertainty in the amount and timing of the cash flows.

The carrying amount of the available-for-sale investments at 31 December 2010 was HK\$126,163,000 (2009: HK\$123,163,000), net of impairment of HK\$110,783,000 (2009: HK\$108,783,000).

For the year ended 31 December 2010, impairment losses of HK\$2,000,000 (2009: Nil) have been recognised for available-for-sale investments.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)**Estimation uncertainty** (continued)*Impairment of properties under development*

The Group assesses whether there are any indicators of impairment for its properties under development situated in Hong Kong at each reporting date. The Group considers the discounted cash flow projections based on reliable estimates of future cash flows, assuming that the land will be developed into buildings with planned capacity within a reasonable construction period of time. The estimated sales proceeds and associated development cost will be discounted into present value as at the date of valuation.

Provision and write-down of inventories to net realisable value

The Group's management reviews the condition of inventories of the Group and makes provision for obsolete and slow-moving inventory items. The Group carries out an inventory review on a product-by-product basis at the end of each reporting period and makes provision for obsolete items. Net realisable value of inventories is the estimated selling price in the ordinary course of business, less estimated costs of completion and selling expenses. These estimates are based on the current market condition and the historical experience of manufacturing and selling products of similar nature. The Group's management reassesses the estimation at the end of each reporting period.

Provision for income taxes

Provision for income tax is made based on the taxable income for the period as determined by the Group. The determination of taxable income involves the exercise of judgement on interpretation of the relevant tax rules and regulations. The amounts of income tax and hence profit or loss could be affected by any interpretations and clarifications which the tax authority may issue from time to time.

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4. OPERATING SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on their products and services and has four reportable operating segments as follows:

- (a) the paint products segment engages in the manufacture and sale of paint products and related services;
- (b) the property investment segment comprises:
 - (i) the investment in residential and commercial premises for their rental income potential; and
 - (ii) the development and sale of properties;
- (c) the iron and steel trading segment comprises the trading of iron and steel products and related investments; and
- (d) the “others” segment comprises, principally, securities trading and investment.

The chief operating decision maker regularly reviews the operating results of its operating segments separately for the purpose of resources allocation and performance assessment. Segment performance is evaluated based on reportable segment profit/(loss), which is a measure of adjusted profit/(loss) before tax. The adjusted profit/(loss) before tax is measured consistently with the Group’s profit/(loss) before tax except that interest income, dividend income, finance costs, as well as head office and corporate expenses are excluded from such measurement.

Segment assets exclude pledged deposits, cash and cash equivalents, net pension scheme assets and other unallocated head office and corporate assets as these assets are managed on a group basis.

Segment liabilities exclude interest-bearing bank and other borrowings, tax payable, deferred tax liabilities and other unallocated head office and corporate liabilities as these liabilities are managed on a group basis.

Intersegment sales and transfers are transacted on mutually agreed terms.

4. OPERATING SEGMENT INFORMATION (continued)

| Year ended 31 December 2010 | Paint products HK\$'000 | Property investment HK\$'000 | Iron and steel trading HK\$'000 | Others HK\$'000 | Total HK\$'000 |
|---------------------------------------------|-------------------------------|------------------------------------|---------------------------------------|--------------------|-------------------|
| Segment revenue: | | | | | |
| Sales to external customers | 1,064,116 | 5,818 | 176,700 | — | 1,246,634 |
| Intersegment sales | — | 6,519 | — | — | 6,519 |
| Other revenue | 3,357 | 12,546 | 3,794 | 245 | 19,942 |
| | <u>1,067,473</u> | <u>24,883</u> | <u>180,494</u> | <u>245</u> | <u>1,273,095</u> |
| <i>Reconciliation:</i> | | | | | |
| Elimination of intersegment sales | | | | | (6,519) |
| Total revenue | | | | | <u>1,266,576</u> |
| Segment results | 65,376 | 15,370 | 8,034 | (7,443) | 81,337 |
| <i>Reconciliation:</i> | | | | | |
| Elimination of intersegment results | | | | | 7,162 |
| Interest income | | | | | 1,336 |
| Dividend income | | | | | 254 |
| Finance costs | | | | | (6,092) |
| Corporate and other unallocated expenses | | | | | (38,875) |
| Profit before tax | | | | | <u>45,122</u> |

NOTES TO FINANCIAL STATEMENTS (continued)

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4. OPERATING SEGMENT INFORMATION (continued)

| Year ended | Paint | Property | Iron and | Others | Total |
|---------------------------------------------|----------------|----------------|---------------|----------------|------------------|
| 31 December 2010 | products | investment | steel trading | | |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Segment assets | 513,421 | 335,297 | 36,748 | 130,378 | 1,015,844 |
| <i>Reconciliation:</i> | | | | | |
| Elimination of intersegment receivables | | | | | (1,022) |
| Corporate and other unallocated assets | | | | | 286,774 |
| Total assets | | | | | <u>1,301,596</u> |
| Segment liabilities | 288,201 | 13,796 | 451 | 223 | 302,671 |
| <i>Reconciliation:</i> | | | | | |
| Elimination of intersegment payables | | | | | (1,022) |
| Corporate and other unallocated liabilities | | | | | 176,671 |
| Total liabilities | | | | | <u>478,320</u> |

4. OPERATING SEGMENT INFORMATION (continued)

| Year ended | Paint products | Property investment | Iron and steel trading | Others | Total |
|------------------------------------------------------------------|----------------|---------------------|------------------------|----------|----------------|
| 31 December 2010 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Other segment information: | | | | | |
| Share of profits and losses of associates | — | 1,278 | 4,436 | (2,142) | 3,572 |
| Interests in associates | — | 1,941 | 4,436 | 1,220 | 7,597 |
| Depreciation | 18,172 | 5,522 | 1 | — | 23,695 |
| Corporate and other unallocated | | | | | 115 |
| | | | | | <u>23,810</u> |
| Amortisation of an intangible asset | — | — | — | 150 | 150 |
| Capital expenditure | 44,075 | 1,319 | 4 | 3 | 45,401 |
| Corporate and other unallocated | | | | | 296 |
| | | | | | <u>45,697*</u> |
| Fair value gains on investment properties, net | — | (8,692) | — | — | (8,692) |
| Impairment of an intangible asset | — | — | — | 1,400 | 1,400 |
| Impairment of available-for-sale investments | — | — | — | 2,000 | 2,000 |
| Impairment of an amount due from an associate | — | 114 | — | — | 114 |
| Reversal of impairment of trade receivables | (2,566) | — | — | — | (2,566) |
| Write-down of inventories to net realisable value | 1,028 | — | — | — | 1,028 |
| Recovery of amounts due from an associate previously written off | — | — | (3,131) | — | (3,131) |
| | <u>—</u> | <u>—</u> | <u>(3,131)</u> | <u>—</u> | <u>(3,131)</u> |

NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2010

4. OPERATING SEGMENT INFORMATION (continued)

| Year ended | Paint | Property | Iron and | | |
|------------------------------------------|----------------|---------------|---------------|----------------|-------------------------|
| 31 December 2009 | products | investment | steel trading | Others | Total |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Segment revenue: | | | | | |
| Sales to external customers | 935,891 | 6,683 | 83,986 | — | 1,026,560 |
| Intersegment sales | — | 8,088 | — | — | 8,088 |
| Other revenue | 3,900 | 7,366 | 2,665 | 109 | 14,040 |
| | <u>939,791</u> | <u>22,137</u> | <u>86,651</u> | <u>109</u> | <u>1,048,688</u> |
| <i>Reconciliation:</i> | | | | | |
| Elimination of intersegment sales | | | | | <u>(8,088)</u> |
| Total revenue | | | | | <u><u>1,040,600</u></u> |
| Segment results | 79,874 | 8,129 | (634) | (1,656) | 85,713 |
| <i>Reconciliation:</i> | | | | | |
| Elimination of intersegment results | | | | | 7,399 |
| Interest income | | | | | 630 |
| Finance costs | | | | | (6,333) |
| Corporate and other unallocated expenses | | | | | <u>(32,922)</u> |
| Profit before tax | | | | | <u><u>54,487</u></u> |

4. OPERATING SEGMENT INFORMATION (continued)

| Year ended | Paint | Property | Iron and | | |
|---------------------------------------------|-----------------|-------------------|----------------------|-----------------|------------------|
| 31 December 2009 | products | investment | steel trading | Others | Total |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Segment assets | 488,004 | 327,781 | 8,844 | 129,145 | 953,774 |
| <i>Reconciliation:</i> | | | | | |
| Elimination of intersegment receivables | | | | | (1,305) |
| Corporate and other unallocated assets | | | | | 147,880 |
| Total assets | | | | | <u>1,100,349</u> |
| Segment liabilities | 252,509 | 5,483 | 3,023 | 453 | 261,468 |
| <i>Reconciliation:</i> | | | | | |
| Elimination of intersegment payables | | | | | (1,305) |
| Corporate and other unallocated liabilities | | | | | 180,383 |
| Total liabilities | | | | | <u>440,546</u> |

NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2010

4. OPERATING SEGMENT INFORMATION (continued)

| Year ended | Paint | Property | Iron and | | |
|---------------------------------------------------|----------|------------|---------------|----------|----------------|
| 31 December 2009 | products | investment | steel trading | Others | Total |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Other segment information: | | | | | |
| Share of profits and losses of associates | — | 1,073 | — | (209) | 864 |
| Interests in associates | — | 1,703 | — | 1,477 | 3,180 |
| Depreciation | 16,303 | 5,235 | 1 | — | 21,539 |
| Corporate and other unallocated | | | | | 73 |
| | | | | | <u>21,612</u> |
| Amortisation of an intangible asset | — | — | — | 150 | 150 |
| Capital expenditure | 45,139 | 1,199 | — | — | 46,338 |
| Corporate and other unallocated | | | | | 14 |
| | | | | | <u>46,352*</u> |
| Fair value gains on investment properties, net | — | (6,672) | — | — | (6,672) |
| Impairment of properties under development | — | 4,000 | — | — | 4,000 |
| Impairment of amounts due from an associate | — | 1,585 | — | — | 1,585 |
| Impairment of trade receivables | 4,737 | — | — | — | 4,737 |
| Write-down of inventories to net realisable value | 7,892 | — | — | — | 7,892 |

* Capital expenditure consists of additions to property, plant and equipment, deposits for purchases of items of property, plant and equipment, properties under development and investment properties.

4. OPERATING SEGMENT INFORMATION (continued)**Geographical information**

(a) Revenue from external customers

| | 2010 HK\$'000 | 2009 HK\$'000 |
|-----------------|------------------|------------------|
| Hong Kong | 99,465 | 90,778 |
| Mainland China | 1,146,695 | 935,766 |
| Other countries | 474 | 16 |
| | <u>1,246,634</u> | <u>1,026,560</u> |

The revenue information above is based on the location of the customers.

(b) Non-current assets

| | 2010 HK\$'000 | 2009 HK\$'000 |
|-----------------|------------------|------------------|
| Hong Kong | 307,077 | 302,036 |
| Mainland China | 212,909 | 190,659 |
| Other countries | 256 | 18,236 |
| | <u>520,242</u> | <u>510,931</u> |

The non-current asset information above is based on the location of assets and excludes financial instruments and post-employment benefit assets.

No sales to a single customer accounted for 10% or more of the Group's total revenue for the years ended 31 December 2009 and 2010.

NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2010

5. REVENUE, OTHER INCOME AND GAINS

Revenue, which is also the Group's turnover, represents the net invoiced value of goods sold, after allowances for returns and trade discounts; an appropriate proportion of value of services rendered; and gross rental income received and receivable from investment properties during the year. All significant intra-group transactions have been eliminated on consolidation.

An analysis of revenue, other income and gains is as follows:

| | Note | 2010 HK\$'000 | 2009 HK\$'000 |
|-----------------------------------------------------------------------------------|------|------------------|------------------|
| Revenue | | | |
| Sale of paint products and related services | | 1,064,116 | 935,891 |
| Sale of iron and steel products | | 176,700 | 83,986 |
| Gross rental income from investment properties | | 5,818 | 6,683 |
| | | <u>1,246,634</u> | <u>1,026,560</u> |
| Other income | | | |
| Bank interest income | | 1,336 | 601 |
| Dividend income from an available-for-sale investment | | 251 | — |
| Dividend income from an equity investment at fair value through profit or loss | | 3 | — |
| Interest income from a long term receivable | | — | 29 |
| Commission income | | 219 | 2,202 |
| Government grants received from Mainland China authorities | | 1,399 | 2,324 |
| Recognition of deferred income | 35 | 332 | 291 |
| Others | | 3,199 | 1,648 |
| | | <u>6,739</u> | <u>7,095</u> |

5. REVENUE, OTHER INCOME AND GAINS (continued)

| | 2010 HK\$'000 | 2009 HK\$'000 |
|-------------------------------------------------------------------------------------------------|------------------|------------------|
| Gains | | |
| Recovery of amounts due from an associate previously written off | 3,131 | — |
| Foreign exchange differences, net | 2,882 | 848 |
| Fair value gain on an equity investment at fair value through profit or loss - held for trading | 88 | 55 |
| | <u>6,101</u> | <u>903</u> |
| Total other income and gains | <u>12,840</u> | <u>7,998</u> |

6. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging/(crediting):

| | Notes | 2010 HK\$'000 | 2009 HK\$'000 |
|---------------------------------------------------------------------------------------------------------------|-------|------------------|------------------|
| Cost of inventories sold | | 927,061 | 671,256 |
| Cost of services provided | | 2,183 | 8,199 |
| Depreciation | 15 | 23,810 | 21,612 |
| Amortisation of an intangible asset | 19 | 150 | 150 |
| Minimum lease payments under operating leases in respect of land and buildings | | 11,158 | 10,130 |
| Direct operating expenses (including repairs and maintenance) arising on rental-earning investment properties | | 444 | 534 |
| Auditors' remuneration: | | | |
| Audit related services | | 2,273 | 2,100 |
| Other services | | 208 | 168 |

NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2010

6. PROFIT BEFORE TAX (continued)

The Group's profit before tax is arrived at after charging/(crediting): (continued)

| | Notes | 2010 HK\$'000 | 2009 HK\$'000 |
|------------------------------------------------------------------------|-------|---------------------|------------------|
| Employee benefit expense (excluding directors' remuneration (note 8)): | | | |
| Wages and salaries | | 144,019 | 125,656 |
| Pension scheme contributions (defined contribution schemes) | | 1,096 | 1,115 |
| Net pension scheme loss/(gain) (defined benefit scheme) | 24(b) | (181) | 209 |
| | | <u>144,934</u> | <u>126,980</u> |
| Write-down of inventories to net realisable value | | 1,028 | 7,892 |
| Provision for/(reversal of) impairment of trade receivables | 26 | (2,566) | 4,737 |
| Impairment of an intangible asset | 19 | 1,400 | — |
| Loss on disposal of items of property, plant and equipment, net | | 3,083 | 1 |
| Write-off of items of property, plant and equipment | 15 | 4,207 | 768 |
| Impairment of amounts due from an associate | 21 | 114 | 1,585 |
| Amortisation of prepaid land lease payments | 18 | 511 | 477 |
| Impairment of properties under development | 17 | — | 4,000 |
| Impairment of available-for-sale investments | 22 | 2,000 | — |
| | | <u><u>2,000</u></u> | <u><u>—</u></u> |

7. FINANCE COSTS

An analysis of finance costs is as follows:

| | 2010 | Group |
|---------------------------------------------------------------------------|---------------------|---------------------|
| | HK\$'000 | 2009 |
| | | HK\$'000 |
| Interest on bank loans and other loans wholly repayable within five years | 4,762 | 4,697 |
| Interest on other loans | 1,243 | 1,529 |
| Interest on finance leases | 87 | 107 |
| | <u>6,092</u> | <u>6,333</u> |
| | <u><u>6,092</u></u> | <u><u>6,333</u></u> |

8. DIRECTORS' REMUNERATION

Directors' remuneration for the year, disclosed pursuant to the Listing Rules and Section 161 of the Hong Kong Companies Ordinance, is as follows:

| | 2010 | Group |
|-------------------------------------------|----------------------|----------------------|
| | HK\$'000 | 2009 |
| | | HK\$'000 |
| Fees: | | |
| Executive directors | 2,100 | 2,100 |
| Non-executive directors | 900 | 900 |
| | <u>3,000</u> | <u>3,000</u> |
| Other emoluments: | | |
| Salaries, allowances and benefits in kind | 14,855 | 17,571 |
| Discretionary bonuses | 1,673 | 1,049 |
| Pension scheme contributions | 785 | 892 |
| | <u>17,313</u> | <u>19,512</u> |
| | <u><u>20,313</u></u> | <u><u>22,512</u></u> |

NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2010

8. DIRECTORS' REMUNERATION (continued)

(a) Independent non-executive directors

The fees paid to independent non-executive directors during the year were as follows:

| | 2010 HK\$'000 | 2009 HK\$'000 |
|-----------------------|------------------|------------------|
| Sir David Akers-Jones | 200 | 200 |
| Chan Wa Shek | 100 | 100 |
| Steven Chow | 100 | 100 |
| Danny T Wong | 200 | 200 |
| | <u>600</u> | <u>600</u> |

There were no other emoluments payable to the independent non-executive directors during the year (2009: Nil).

8. DIRECTORS' REMUNERATION (continued)

(b) Executive directors and non-executive directors

| | Fees HK\$'000 | Salaries, allowances and benefits in kind HK\$'000 | Discretionary bonuses HK\$'000 | Pension scheme contributions HK\$'000 | Total remuneration HK\$'000 |
|----------------------------------------------------|------------------|----------------------------------------------------------------|--------------------------------------|------------------------------------------------|-----------------------------------|
| 2010 | | | | | |
| Executive directors: | | | | | |
| Tsui Tsin Tong (passed away on 2 April 2010) | — | 2,817 | 644 | 168 | 3,629 |
| Lam Ting Ball, Paul | 300 | 1,927 | 89 | 12 | 2,328 |
| Tsui Ho Chuen, Philip | 760 | 4,432 | 365 | 270 | 5,827 |
| Tsui Yam Tong, Terry | 760 | 5,012 | 450 | 323 | 6,545 |
| Chong Chi Kwan | 280 | 667 | 125 | 12 | 1,084 |
| | <u>2,100</u> | <u>14,855</u> | <u>1,673</u> | <u>785</u> | <u>19,413</u> |
| Non-executive directors: | | | | | |
| Hung Ting Ho, Richard | 100 | — | — | — | 100 |
| Zhang Yulin | 100 | — | — | — | 100 |
| Ko Sheung Chi | 100 | — | — | — | 100 |
| | <u>300</u> | <u>—</u> | <u>—</u> | <u>—</u> | <u>300</u> |
| | <u>2,400</u> | <u>14,855</u> | <u>1,673</u> | <u>785</u> | <u>19,713</u> |

NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2010

8. DIRECTORS' REMUNERATION (continued)

(b) Executive directors and non-executive directors (continued)

| | Fees HK\$'000 | Salaries, allowances and benefits in kind HK\$'000 | Discretionary bonuses HK\$'000 | Pension scheme contributions HK\$'000 | Total remuneration HK\$'000 |
|----------------------------------------------------|------------------|----------------------------------------------------------------|--------------------------------------|------------------------------------------------|-----------------------------------|
| 2009 | | | | | |
| Executive directors: | | | | | |
| Tsui Tsin Tong (passed away on 2 April 2010) | 950 | 10,131 | 690 | 652 | 12,423 |
| Lam Ting Ball, Paul | 300 | 2,627 | 89 | 12 | 3,028 |
| Tsui Ho Chuen, Philip | 300 | 2,166 | 115 | 110 | 2,691 |
| Tsui Yam Tong, Terry | 300 | 1,992 | 55 | 106 | 2,453 |
| Chong Chi Kwan | 250 | 655 | 100 | 12 | 1,017 |
| | <u>2,100</u> | <u>17,571</u> | <u>1,049</u> | <u>892</u> | <u>21,612</u> |
| Non-executive directors: | | | | | |
| Hung Ting Ho, Richard | 100 | — | — | — | 100 |
| Zhang Yulin | 100 | — | — | — | 100 |
| Ko Sheung Chi | 100 | — | — | — | 100 |
| | <u>300</u> | <u>—</u> | <u>—</u> | <u>—</u> | <u>300</u> |
| | <u>2,400</u> | <u>17,571</u> | <u>1,049</u> | <u>892</u> | <u>21,912</u> |

There was no arrangement under which a director waived or agreed to waive any remuneration during the year (2009: Nil).

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included four (2009: four) directors, details of whose remuneration are set out in note 8 above. Details of the remuneration of the remaining one (2009: one) non-director and highest paid employee for the year are as follows:

| | Group | |
|-------------------------------------------|-----------------|--------------|
| | 2010 | 2009 |
| | HK\$'000 | HK\$'000 |
| Salaries, allowances and benefits in kind | 1,166 | 1,565 |
| Discretionary bonus | 76 | — |
| Pension scheme contributions | 73 | 84 |
| | <u>1,315</u> | <u>1,649</u> |

10. INCOME TAX

Hong Kong profits tax has been provided at the rate of 16.5% (2009: 16.5%) on the estimated assessable profits arising in Hong Kong during the year. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates.

| | Group | |
|-------------------------------|-----------------|---------------|
| | 2010 | 2009 |
| | HK\$'000 | HK\$'000 |
| Current - Hong Kong | | |
| Charge for the year | — | — |
| Overprovision in prior years | — | (11) |
| Current - Elsewhere | | |
| Charge for the year | 12,074 | 17,230 |
| Overprovision in prior years | (1,635) | — |
| Deferred (note 34) | 194 | 5,000 |
| Total tax charge for the year | <u>10,633</u> | <u>22,219</u> |

The share of tax attributable to associates amounting to HK\$188,000 (2009: HK\$208,000) is included in "Share of profits and losses of associates" on the face of the consolidated income statement.

NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2010

10. INCOME TAX (continued)

A reconciliation of the tax expense applicable to profit before tax at the statutory rate for the jurisdictions in which the Company and the majority of its subsidiaries are domiciled to the tax expense at the effective tax rate, and a reconciliation of the applicable rate (i.e., the statutory tax rate) to the effective tax rate, are as follows:

| | Group | | | |
|----------------------------------------------------------------------------------------------|---------------|-------------|---------------|-------------|
| | 2010 | | 2009 | |
| | HK\$'000 | % | HK\$'000 | % |
| Profit before tax | <u>45,122</u> | | <u>54,487</u> | |
| Tax at the statutory tax rate | 7,445 | 16.5 | 8,990 | 16.5 |
| Different tax rates for specific provinces in the PRC, net | (1,084) | (2.4) | (1,166) | (2.1) |
| Adjustments in respect of current tax of previous periods | (1,635) | (3.6) | (11) | — |
| Profits attributable to associates | (589) | (1.3) | (143) | (0.3) |
| Depreciation adjustment | 409 | 0.9 | 122 | 0.2 |
| Income not subject to tax | (2,282) | (5.1) | (1,257) | (2.3) |
| Expenses not deductible for tax | 3,905 | 8.7 | 582 | 1.1 |
| Effect of withholding tax at 5% of the distributable profits of the Group's PRC subsidiaries | — | — | 5,983 | 11.0 |
| Tax losses utilised from previous periods | (1,364) | (3.0) | (102) | (0.2) |
| Tax losses not recognised | <u>5,828</u> | <u>12.9</u> | <u>9,221</u> | <u>16.9</u> |
| Tax charge at the Group's effective rate | <u>10,633</u> | <u>23.6</u> | <u>22,219</u> | <u>40.8</u> |

11. PROFIT ATTRIBUTABLE TO OWNERS OF THE PARENT

Of the Group's profit attributable to owners of the parent of HK\$34,865,000 (2009: HK\$32,406,000), a loss of HK\$30,407,000 (2009: HK\$26,078,000) has been dealt with in the financial statements of the Company (note 38(b)).

12. DIVIDEND

| | 2010 HK\$'000 | 2009 HK\$'000 |
|----------------------------------------------------------|------------------|------------------|
| Proposed final - HK1 cent (2009: Nil) per ordinary share | <u>18,884</u> | <u>—</u> |

The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting. The actual amount will be accounted for as an appropriation of the distributable reserves in the year ending 31 December 2011.

13. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of the basic earnings per share amount is based on the profit for the year attributable to ordinary equity holders of the parent of HK\$34,865,000 (2009: HK\$32,406,000), and the weighted average number of ordinary shares of 1,753,026,835 (2009: 1,573,671,409) in issue during the year.

No adjustment has been made to the basic earnings per share amount presented for the year ended 31 December 2010 in respect of a potential dilution as the exercise prices of the outstanding share options granted by the Company were higher than the average market price of the shares of the Company during the year, and accordingly, the share options had no potential dilutive effect.

There were no other diluting events existed during the years ended 31 December 2009 and 2010.

14. NON-CURRENT ASSETS CLASSIFIED AS HELD FOR SALE

On 15 December 2010, the Group entered into a sale and purchase agreement with an independent third party to dispose of certain items of property, plant and machinery located in Taiwan with an aggregate carrying amount of HK\$20,126,000 for a cash consideration of 105,000,000 New Taiwan dollars (approximately HK\$28,003,000). The transaction was completed in January 2011.

The above assets, which were expected to be sold within twelve months from 31 December 2010, have been classified as non-current assets held for sale and are presented separately in the consolidated statement of financial position at the lower of their carrying amounts and fair values less costs to sell.

NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2010

15. PROPERTY, PLANT AND EQUIPMENT

Group

| | Freehold land and buildings HK\$'000 | Leasehold land and buildings HK\$'000 | Construction in progress HK\$'000 | Leasehold improvements HK\$'000 | Plant and machinery HK\$'000 | Furniture, fixtures and equipment HK\$'000 | Motor vehicles HK\$'000 | Total HK\$'000 |
|---------------------------------------------------------------------------------------------------|-----------------------------------------------|------------------------------------------------|-----------------------------------------|---------------------------------------|------------------------------------|-----------------------------------------------------|-------------------------------|-------------------|
| 31 December 2010 | | | | | | | | |
| At 1 January 2010: | | | | | | | | |
| Cost or valuation | 18,695 | 302,901 | 24,571 | 27,850 | 131,395 | 32,262 | 27,299 | 564,973 |
| Accumulated depreciation and impairment | (1,315) | (97,210) | — | (13,854) | (102,086) | (17,542) | (16,269) | (248,276) |
| Net carrying amount | <u>17,380</u> | <u>205,691</u> | <u>24,571</u> | <u>13,996</u> | <u>29,309</u> | <u>14,720</u> | <u>11,030</u> | <u>316,697</u> |
| At 1 January 2010, net of accumulated depreciation and impairment | 17,380 | 205,691 | 24,571 | 13,996 | 29,309 | 14,720 | 11,030 | 316,697 |
| Additions | — | — | 28,879 | 2,500 | 3,927 | 3,547 | 803 | 39,656 |
| Disposals | — | (718) | — | — | (5,115) | (201) | (2,061) | (8,095) |
| Write-off | — | (41) | — | (2,599) | (818) | (268) | (481) | (4,207) |
| Transfer to non-current assets classified as held for sale (note 14) | (18,991) | — | — | (843) | — | (292) | — | (20,126) |
| Transfer from deposits for purchases of items of property, plant and equipment (note 23) | — | — | — | — | 1,692 | 251 | 705 | 2,648 |
| Depreciation provided during the year | (114) | (8,541) | — | (5,205) | (3,504) | (3,446) | (3,000) | (23,810) |
| Transfers | — | — | (514) | 468 | 46 | — | — | — |
| Exchange realignment | 1,725 | 1,811 | 1,471 | 293 | 1,007 | 505 | 209 | 7,021 |
| At 31 December 2010, net of accumulated depreciation and impairment | <u>—</u> | <u>198,202</u> | <u>54,407</u> | <u>8,610</u> | <u>26,544</u> | <u>14,816</u> | <u>7,205</u> | <u>309,784</u> |
| At 31 December 2010: | | | | | | | | |
| Cost or valuation | — | 306,011 | 54,407 | 25,675 | 133,313 | 34,682 | 21,519 | 575,607 |
| Accumulated depreciation and impairment | — | (107,809) | — | (17,065) | (106,769) | (19,866) | (14,314) | (265,823) |
| Net carrying amount | <u>—</u> | <u>198,202</u> | <u>54,407</u> | <u>8,610</u> | <u>26,544</u> | <u>14,816</u> | <u>7,205</u> | <u>309,784</u> |
| Analysis of cost or valuation: | | | | | | | | |
| At cost | — | 95,983 | 54,407 | 25,675 | 133,313 | 34,682 | 21,519 | 365,579 |
| At 31 December 1994 valuation | — | 202,000 | — | — | — | — | — | 202,000 |
| At 30 June 2005 valuation (transferred from investment properties) | — | 8,028 | — | — | — | — | — | 8,028 |
| | <u>—</u> | <u>306,011</u> | <u>54,407</u> | <u>25,675</u> | <u>133,313</u> | <u>34,682</u> | <u>21,519</u> | <u>575,607</u> |

15. PROPERTY, PLANT AND EQUIPMENT (continued)
Group (continued)

| | Freehold land and buildings HK\$'000 | Leasehold land and buildings HK\$'000 | Construction in progress HK\$'000 | Leasehold improvements HK\$'000 | Plant and machinery HK\$'000 | Furniture, fixtures and equipment HK\$'000 | Motor vehicles HK\$'000 | Total HK\$'000 |
|---------------------------------------------------------------------------------------------------|-----------------------------------------------|------------------------------------------------|-----------------------------------------|---------------------------------------|------------------------------------|-----------------------------------------------------|-------------------------------|-------------------|
| 31 December 2009 | | | | | | | | |
| At 1 January 2009: | | | | | | | | |
| Cost or valuation | 18,209 | 292,396 | 12,126 | 22,375 | 127,473 | 28,867 | 23,921 | 525,367 |
| Accumulated depreciation and impairment | (1,171) | (88,779) | — | (9,861) | (102,540) | (16,685) | (13,460) | (232,496) |
| Net carrying amount | <u>17,038</u> | <u>203,617</u> | <u>12,126</u> | <u>12,514</u> | <u>24,933</u> | <u>12,182</u> | <u>10,461</u> | <u>292,871</u> |
| At 1 January 2009, net of accumulated depreciation and impairment | | | | | | | | |
| | 17,038 | 203,617 | 12,126 | 12,514 | 24,933 | 12,182 | 10,461 | 292,871 |
| Additions | — | 344 | 16,529 | 5,455 | 6,959 | 5,992 | 3,440 | 38,719 |
| Disposals | — | — | — | — | (390) | (24) | (16) | (430) |
| Write-off | — | — | — | (22) | (445) | (301) | — | (768) |
| Transfer from deposits for purchases of items of property, plant and equipment (note 23) | — | 7,440 | — | — | — | — | — | 7,440 |
| Depreciation provided during the year | (109) | (8,428) | — | (4,413) | (2,306) | (3,503) | (2,853) | (21,612) |
| Transfers | — | 2,716 | (4,087) | 458 | 541 | 372 | — | — |
| Exchange realignment | 451 | 2 | 3 | 4 | 17 | 2 | (2) | 477 |
| At 31 December 2009, net of accumulated depreciation and impairment | | | | | | | | |
| | <u>17,380</u> | <u>205,691</u> | <u>24,571</u> | <u>13,996</u> | <u>29,309</u> | <u>14,720</u> | <u>11,030</u> | <u>316,697</u> |
| At 31 December 2009: | | | | | | | | |
| Cost or valuation | 18,695 | 302,901 | 24,571 | 27,850 | 131,395 | 32,262 | 27,299 | 564,973 |
| Accumulated depreciation and impairment | (1,315) | (97,210) | — | (13,854) | (102,086) | (17,542) | (16,269) | (248,276) |
| Net carrying amount | <u>17,380</u> | <u>205,691</u> | <u>24,571</u> | <u>13,996</u> | <u>29,309</u> | <u>14,720</u> | <u>11,030</u> | <u>316,697</u> |
| Analysis of cost or valuation: | | | | | | | | |
| At cost | 18,695 | 92,873 | 24,571 | 27,850 | 131,395 | 32,262 | 27,299 | 354,945 |
| At 31 December 1994 valuation | — | 202,000 | — | — | — | — | — | 202,000 |
| At 30 June 2005 valuation (transferred from investment properties) | — | 8,028 | — | — | — | — | — | 8,028 |
| | <u>18,695</u> | <u>302,901</u> | <u>24,571</u> | <u>27,850</u> | <u>131,395</u> | <u>32,262</u> | <u>27,299</u> | <u>564,973</u> |

NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2010

15. PROPERTY, PLANT AND EQUIPMENT (continued)

Company

| | Leasehold improvements HK\$'000 | Furniture, fixtures and equipment HK\$'000 | Motor vehicles HK\$'000 | Total HK\$'000 |
|---------------------------------------------------------|---------------------------------------|-----------------------------------------------------|-------------------------------|-------------------|
| 31 December 2010 | | | | |
| At 1 January 2010: | | | | |
| Cost | 1,126 | 2,146 | 1,172 | 4,444 |
| Accumulated depreciation | (1,126) | (1,929) | (1,172) | (4,227) |
| Net carrying amount | — | 217 | — | 217 |
| At 1 January 2010, net of accumulated depreciation | | | | |
| | — | 217 | — | 217 |
| Additions | — | 106 | 190 | 296 |
| Disposals | — | (9) | — | (9) |
| Depreciation provided during the year | — | (76) | (38) | (114) |
| At 31 December 2010, net of accumulated depreciation | | | | |
| | — | 238 | 152 | 390 |
| At 31 December 2010: | | | | |
| Cost | 1,126 | 2,207 | 490 | 3,823 |
| Accumulated depreciation | (1,126) | (1,969) | (338) | (3,433) |
| Net carrying amount | — | 238 | 152 | 390 |

15. PROPERTY, PLANT AND EQUIPMENT (continued)**Company** (continued)

| | Leasehold improvements HK\$'000 | Furniture, fixtures and equipment HK\$'000 | Motor vehicles HK\$'000 | Total HK\$'000 |
|-----------------------------|---------------------------------------|-----------------------------------------------------|-------------------------------|-------------------|
| 31 December 2009 | | | | |
| At 1 January 2009: | | | | |
| Cost | 1,126 | 2,137 | 1,172 | 4,435 |
| Accumulated depreciation | (1,126) | (1,861) | (1,172) | (4,159) |
| Net carrying amount | — | 276 | — | 276 |
| At 1 January 2009, net of | | | | |
| accumulated depreciation | — | 276 | — | 276 |
| Additions | — | 14 | — | 14 |
| Depreciation provided | | | | |
| during the year | — | (73) | — | (73) |
| At 31 December 2009, net of | | | | |
| accumulated depreciation | — | 217 | — | 217 |
| At 31 December 2009: | | | | |
| Cost | 1,126 | 2,146 | 1,172 | 4,444 |
| Accumulated depreciation | (1,126) | (1,929) | (1,172) | (4,227) |
| Net carrying amount | — | 217 | — | 217 |

Note: As an arrangement of attracting foreign investments in Xuzhou, the PRC, the Group entered into certain agreements (the "Xuzhou Agreements") with the Xuzhou Economic Development Zone Committee (「徐州經濟開發區管委會」) (the "Xuzhou Authority", under the municipal government of Xuzhou) on 10 April 2004. Pursuant to the Xuzhou Agreements, the Xuzhou Authority arranged the construction of the plant and office buildings for a solvent manufacturing subsidiary in Xuzhou (the "Xuzhou Subsidiary") and also provided the required funding to the Xuzhou Subsidiary for the construction in the form of a loan to the Xuzhou Subsidiary (the "Construction Loan"). The construction of the plant and office buildings was completed, and the plant and office buildings were handed over to the Group for the solvent operation in July 2005. On 25 June 2007, the Group entered into certain revised agreements, (collectively the "Revised Xuzhou Agreements") with the Xuzhou Authority to finalise the land premium payable at RMB4,793,000 for the piece of land on which the plant and office buildings were constructed (the "Xuzhou Land") and waive the same amount of the Construction Loan due to it (note 35). The respective land use right certificate and real estate certificate were obtained by the Group in 2007. At 31 December 2009, the carrying value of the buildings of the Xuzhou Subsidiary pledged to the Xuzhou Authority for the Construction Loan amounted to HK\$11,888,000 (note 32). During the year, the Construction Loan was fully settled, and accordingly, the pledges on the buildings were released as at 31 December 2010.

NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2010

15. PROPERTY, PLANT AND EQUIPMENT (continued)

The net carrying amounts of items of property, plant and equipment held under finance leases included in the total amounts of furniture, fixtures and equipment and motor vehicles at 31 December 2010 were as follows:

| | Group | | Company | |
|-----------------------------------|------------------|------------------|------------------|------------------|
| | 2010 HK\$'000 | 2009 HK\$'000 | 2010 HK\$'000 | 2009 HK\$'000 |
| Furniture, fixtures and equipment | 78 | 48 | 52 | 17 |
| Motor vehicles | 1,882 | 3,355 | — | — |
| | <u>1,960</u> | <u>3,403</u> | <u>52</u> | <u>17</u> |

Certain of the Group's leasehold land and buildings situated in Hong Kong and Mainland China were revalued at 31 December 1994 by Vigers Appraisal & Consulting Limited, independent professionally qualified valuers. The leasehold land and buildings situated in Hong Kong were revalued at open market value, based on their existing use. The leasehold land and buildings situated in Mainland China were revalued based on a combination of the market and the depreciated replacement costs. Since 31 December 1994, no further revaluations of the Group's leasehold land and buildings have been carried out, as the Group has relied upon the exemption granted under the transitional provisions in paragraph 80A of HKAS 16 from the requirement to carry out future revaluations of its property, plant and equipment which were stated at valuation at that time. Certain leasehold land and buildings of the Group which had been revalued in 1994 were classified as finance leases under paragraph 16 of HKAS 17 as the lease payments could not be allocated reliably between the land and buildings elements. Accordingly, the entire lease has been classified as a finance lease of the Group's property, plant and equipment.

Had the Group's leasehold land and buildings been carried at historical cost less accumulated depreciation and impairment, their total carrying amount at 31 December 2010 would have been HK\$133,632,000 (2009: HK\$154,561,000).

15. PROPERTY, PLANT AND EQUIPMENT (continued)

The Group's land and buildings were included in property, plant and equipment at their net carrying amounts as at 31 December 2010 and held under the following lease terms:

| | Hong Kong | Elsewhere | Total |
|--------------------|------------------|------------------|-----------------|
| | HK\$'000 | HK\$'000 | HK\$'000 |
| Long term leases | 45,225 | — | 45,225 |
| Medium term leases | 99,302 | 53,675 | 152,977 |
| | <u>144,527</u> | <u>53,675</u> | <u>198,202</u> |

At 31 December 2010, certain of the above land and buildings with an aggregate net carrying amount of HK\$169,111,000 (2009: HK\$188,188,000) were pledged to secure general banking facilities and other loan granted to the Group (note 32).

16. INVESTMENT PROPERTIES

| | Group | |
|------------------------------|-----------------|-----------------|
| | 2010 | 2009 |
| | HK\$'000 | HK\$'000 |
| Carrying amount at 1 January | 128,725 | 121,517 |
| Additions | 345 | 536 |
| Fair value gains, net | 8,692 | 6,672 |
| Exchange realignment | 682 | — |
| | <u>138,444</u> | <u>128,725</u> |

NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2010

16. INVESTMENT PROPERTIES (continued)

The Group's investment properties are held under the following lease terms:

| | 2010 | Group |
|-------------------------------|-----------------------|-----------------------|
| | HK\$'000 | 2009 |
| | | HK\$'000 |
| Long term leases in Hong Kong | <u>68,250</u> | <u>61,050</u> |
| Medium term leases in: | | |
| Hong Kong | 51,410 | 49,160 |
| Elsewhere | <u>18,784</u> | <u>18,515</u> |
| | <u>70,194</u> | <u>67,675</u> |
| | <u><u>138,444</u></u> | <u><u>128,725</u></u> |

The Group's investment properties were revalued on 31 December 2010 by Vigers Appraisal & Consulting Limited, BMI Appraisals Limited or Dudley Surveyors Limited, independent professionally qualified valuers. The properties were revalued at open market value, based on their existing use; by the residual method of valuation, based on their development potential; or on the basis of capitalisation of net rental income.

Certain investment properties are leased to third parties under operating leases, further summary details of which are included in note 42(a).

At 31 December 2010, certain of the Group's investment properties with an aggregate carrying value of HK\$117,444,000 (2009: HK\$90,210,000) were pledged to secure general banking facilities granted to the Group (note 32).

Further particulars of the Group's investment properties are included on page 163.

17. PROPERTIES UNDER DEVELOPMENT

| | Note | 2010 HK\$'000 | Group 2009 HK\$'000 |
|--------------------------------|------|--------------------------------|----------------------------------|
| Carrying amount at 1 January | | 28,000 | 32,000 |
| Impairment during the year | 6 | — | (4,000) |
| Carrying amount at 31 December | | <u>28,000</u> | <u>28,000</u> |

The recoverable amount of the Group's properties under development at the end of the reporting period has been determined by the residual valuation method under the comparison approach based on the development potential of the respective land lots. The impairment recognised during the year ended 31 December 2009 mainly reflected changes in the fair market values and costs of construction of comparable properties.

The carrying value of the Group's properties under development is analysed as follows:

| | 2010 HK\$'000 | Group 2009 HK\$'000 |
|--------------------------------------------------|--------------------------------|----------------------------------|
| Medium and other term leases in Hong Kong (note) | <u>28,000</u> | <u>28,000</u> |

Note: The properties under development are situated in Hong Kong and are either held under medium term leases or held under the Tai Po New Grant with their lease terms being unable to be ascertained from their respective new grants. As at 31 December 2010 and up to the date of these financial statements, two new planning applications for the change of the use of land from agricultural and house lots to comprehensive residential development and to columbarium development are under the consideration by the Town Planning Board of Hong Kong.

Further particulars of the Group's properties under development are included on page 164.

NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2010

18. PREPAID LAND LEASE PAYMENTS

| | Notes | 2010 HK\$'000 | Group 2009 HK\$'000 |
|-----------------------------------------------------------------------------------|-------|------------------|---------------------------|
| Carrying amount at 1 January | | 22,248 | 21,321 |
| Transfer from deposits for purchases of items of property, plant and equipment | 23 | — | 1,404 |
| Recognised during the year | 6 | (511) | (477) |
| Exchange realignment | | 804 | — |
| Carrying amount at 31 December | | <u>22,541</u> | <u>22,248</u> |

At the end of the reporting period, the Group's pieces of leasehold land are situated in Mainland China and are held under medium term leases.

19. INTANGIBLE ASSET
Group

| | Technical know-how HK\$'000 |
|---------------------------------------------------------|--------------------------------------------|
| 31 December 2010 | |
| Cost at 1 January 2010, net of accumulated amortisation | 2,850 |
| Amortisation provided during the year (note 6) | (150) |
| Impairment provided during the year (note 6) | (1,400) |
| | <hr/> |
| At 31 December 2010 | <u>1,300</u> |
| At 31 December 2010: | |
| Cost | 3,000 |
| Accumulated amortisation | (300) |
| Accumulated impairment | (1,400) |
| | <hr/> |
| Net carrying amount | <u>1,300</u> |
| 31 December 2009 | |
| Cost at 1 January 2009, net of accumulated amortisation | 3,000 |
| Amortisation provided during the year (note 6) | (150) |
| | <hr/> |
| At 31 December 2009 | <u>2,850</u> |
| At 31 December 2009: | |
| Cost | 3,000 |
| Accumulated amortisation | (150) |
| | <hr/> |
| Net carrying amount | <u>2,850</u> |

The impairment recognised during the year ended 31 December 2010 mainly reflected the decrease in recoverable amount of the technical know-how as a result of the changes in the estimated market prices of the materials for exterior wall insulation panels and the extended time needed for the initial set up of the underlying operation.

NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2010

20. INTERESTS IN SUBSIDIARIES

| | Company | |
|--------------------------------------|-----------------------|-----------------------|
| | 2010 | 2009 |
| | HK\$'000 | HK\$'000 |
| Unlisted shares/investments, at cost | 224,095 | 224,095 |
| Loans to subsidiaries | 1,732,632 | 1,634,728 |
| Due to subsidiaries | (2,446) | (656) |
| | <u>1,954,281</u> | <u>1,858,167</u> |
| Impairment | <u>(1,435,304)</u> | <u>(1,427,145)</u> |
| | <u><u>518,977</u></u> | <u><u>431,022</u></u> |

An impairment was recognised for certain unlisted investments in and loans to subsidiaries with a total carrying amount of HK\$1,832,027,000 (before deducting the impairment loss) (2009: HK\$1,813,012,000) because the Company's directors considered these subsidiaries have insufficient assets to be realised to recover the Company's interests therein.

Except for the amounts due from subsidiaries of HK\$528,297,000 (2009: HK\$516,379,000), which bear interest at the Hong Kong dollar best lending rate quoted by the Hong Kong and Shanghai Banking Corporation Limited (the "Prime Rate") per annum and are not repayable within one year, the amounts due from subsidiaries are unsecured and interest-free, have no fixed terms of repayment, and are considered as quasi-equity loans to the subsidiaries in the opinion of the Company's directors. The amounts due to subsidiaries are unsecured, interest-free and not repayable within one year. The carrying amounts of the amounts due from/to subsidiaries approximate to their fair values.

20. INTERESTS IN SUBSIDIARIES (continued)

Particulars of the principal subsidiaries as at 31 December 2010 are as follows:

| Name | Place of incorporation/ registration and operations | Nominal value of issued ordinary/ registered share capital | Percentage of equity attributable to the Company | | Principal activities |
|--------------------------------------------------------------|-----------------------------------------------------------|------------------------------------------------------------------------|--------------------------------------------------------|----------|---------------------------------------------------------------------------|
| | | | Direct | Indirect | |
| The China Paint Manufacturing Company (1932) Limited | Hong Kong | Ordinary HK\$200,000 Non-voting deferred HK\$1,761,300 | — | 100 | Manufacture and sale of paint products and investment holding |
| The China Paint Manufacturing (Shenzhen) Co., Ltd. # * | the PRC/ Mainland China | HK\$70,000,000 | — | 100 | Manufacture and sale of paint products |
| The China Paint Mfg. Co., (Xinfeng) Ltd. # * | the PRC/ Mainland China | US\$3,000,000 | — | 100 | Not yet commenced operations |
| China Euronavy Coating (Hong Kong) Company Limited | Hong Kong | HK\$1 | — | 100 | Sale of chemicals for paint products |
| China Paint Property Limited | Hong Kong | HK\$100,000 | — | 100 | Property investment |
| China Utilities Limited | British Virgin Islands ("BVI") | US\$1 | — | 100 | Investment holding |
| CNT Dalian Company Limited | Hong Kong | HK\$2 | — | 100 | Investment holding |
| CNT Finance Company Limited | Hong Kong | HK\$2 | 100 | — | Fund management |
| CNT Industries (BVI) Limited | BVI | US\$1,635,512 | 100 | — | Investment holding |

NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2010

20. INTERESTS IN SUBSIDIARIES (continued)

Particulars of the principal subsidiaries as at 31 December 2010 are as follows: (continued)

| Name | Place of incorporation/ registration and operations | Nominal value of issued ordinary/ registered share capital | Percentage of equity attributable to the Company | | Principal activities |
|------------------------------------------------|-----------------------------------------------------------|------------------------------------------------------------------------|--------------------------------------------------------|----------|-------------------------------------------|
| | | | Direct | Indirect | |
| CNT Investments (BVI) Limited | BVI | US\$159,705 | 100 | — | Investment holding |
| CNT Iron And Steel Limited | BVI | US\$1,566,804 | — | 100 | Investment holding |
| CNT Iron And Steel Trading Company Limited | Hong Kong | HK\$2 | — | 100 | Trading of iron and steel products |
| CNT-Jialing Investments Limited | Hong Kong | HK\$10,000,000 | 100 | — | Property investment |
| CNT Management and Secretaries Limited | Hong Kong | HK\$2 | 100 | — | Management and secretarial services |
| Conley Investment Limited | Hong Kong | HK\$2 | — | 100 | Property investment |
| Dongola Holdings Limited | BVI | US\$1 | 100 | — | Investment holding |
| Fan Ball Development Limited | Hong Kong | HK\$10,000 | — | 100 | Property investment |
| Full Pool Limited | Hong Kong | HK\$2 | — | 100 | Investment holding |
| Giraffe Paint Mfg. Co., (Shanghai) Ltd. # * | the PRC/ Mainland China | US\$4,000,000 | — | 100 | Not yet commenced operations |

20. INTERESTS IN SUBSIDIARIES (continued)

Particulars of the principal subsidiaries as at 31 December 2010 are as follows: (continued)

| Name | Place of incorporation/ registration and operations | Nominal value of issued ordinary/ registered share capital | Percentage of equity attributable to the Company | | Principal activities |
|------------------------------------------------------|-----------------------------------------------------------|------------------------------------------------------------------------|--------------------------------------------------------|----------|--------------------------------------------------------------------------------------|
| | | | Direct | Indirect | |
| Giraffe Paint Mfg. Co., (Xuzhou) Ltd. # * | the PRC/ Mainland China | US\$2,000,000 | — | 100 | Manufacture and sale of solvents and paint products and related services |
| Golden Premium Limited | Hong Kong | HK\$2 | — | 100 | Property investment |
| Guangzhou City Wilfred Marble Company Limited # * | the PRC/ Mainland China | HK\$50,975,000 | — | 100 | Property investment |
| Hua Xia International Development Co. Ltd. * | Taiwan | NTD25,000,000 | 100 | — | Property holding |
| Hubei Giraffe Paint Mfg. Co., Ltd. ## * | the PRC/ Mainland China | RMB40,000,000 | — | 90.5 | Manufacture and sale of paint products |
| Joyous Cheer Limited | Hong Kong | HK\$1 | — | 100 | Property development |
| Majority Faith Corporation | BVI | US\$1 | — | 100 | Investment holding |
| Ocean Wide Assets Limited | BVI | US\$1 | — | 100 | Investment holding |
| Opulent Profits Limited | BVI | US\$1 | — | 100 | Investment holding |

NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2010

20. INTERESTS IN SUBSIDIARIES (continued)

Particulars of the principal subsidiaries as at 31 December 2010 are as follows: (continued)

| Name | Place of incorporation/ registration and operations | Nominal value of issued ordinary/ registered share capital | Percentage of equity attributable to the Company | | Principal activities |
|-----------------------------------|-----------------------------------------------------------|------------------------------------------------------------------------|--------------------------------------------------------|----------|----------------------------------------------|
| | | | Direct | Indirect | |
| Profit Source Limited | Hong Kong | HK\$2 | — | 100 | Securities investment and investment holding |
| Rainbow Path Enterprises Limited | Hong Kong | HK\$1,000 | — | 100 | Investment holding |
| R, J & Thomas Secretaries Limited | Hong Kong | HK\$30,000 | — | 100 | Investment holding |
| Tatpo Corporation Limited | Liberia | US\$20,872 | 100 | — | Investment holding |
| Venture Decade Limited | BVI | US\$1 | — | 100 | Not yet commenced operations |
| Winrank Limited | Hong Kong | HK\$10,000 | — | 75 | Not yet commenced operations |

* Not audited by Ernst & Young, Hong Kong or another member firm of the Ernst & Young global network.

Wholly-foreign-owned enterprises registered under PRC law.

Sino-foreign equity joint venture registered under PRC law.

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

21. INTERESTS IN ASSOCIATES

| | 2010 | Group |
|-----------------------|-----------------|-----------------|
| | HK\$'000 | 2009 |
| | | HK\$'000 |
| Share of net assets | 11,504 | 8,973 |
| Loans to an associate | 1,699 | 1,585 |
| Due to an associate | (398) | (2,284) |
| | <hr/> | <hr/> |
| | 12,805 | 8,274 |
| Impairment | (5,208) | (5,094) |
| | <hr/> | <hr/> |
| | <u>7,597</u> | <u>3,180</u> |

At 31 December 2010, the loans to an associate totalling HK\$1,699,000 are unsecured, interest-free, and have no fixed terms of repayment. In the opinion of the Company's directors, these loans are considered as quasi-equity investments in the associate.

The amount due to an associate totalling HK\$398,000 (2009: HK\$2,284,000) is unsecured, interest-free, and has no fixed terms of repayment. The amount due to another associate included in the Group's current liabilities as at 31 December 2010 totalling HK\$1,900,000 (2009: HK\$1,600,000) is unsecured, interest-free and repayable with not less than 30 days' prior written notice.

Included in the above provision for impairment is a provision for individually impaired loans to an associate of HK\$1,699,000 (2009: HK\$1,585,000) with a carrying amount before provision of HK\$1,699,000 (2009: HK\$1,585,000). An impairment of HK\$114,000 was recognised during the year (2009: HK\$1,585,000) for the loans to an associate because the Company's directors considered that the loans advanced have been outstanding for certain periods and are not expected to be recovered.

NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2010

21. INTERESTS IN ASSOCIATES (continued)

Particulars of the principal associates are as follows:

| Name | Particulars of issued ordinary/registered share capital | Place of incorporation/registration | Percentage of equity attributable to the Group | | Principal activities |
|-----------------------------------------------------------|---------------------------------------------------------|-------------------------------------|------------------------------------------------|------|----------------------------------------------------------------------------------------|
| | | | 2010 | 2009 | |
| Arran Investment Company, Limited # | Ordinary shares of HK\$100 each | Hong Kong | 50 | 50 | Property investment |
| Gobi EcoTech Limited | Ordinary shares of HK\$1 each | Hong Kong | 40 | 40 | Investment holding of a manufacture and sale of flooring materials business in the PRC |
| Liaoyang Beiyang Realestate Development Company Limited # | US\$1,240,000 | the PRC | 50 | 50 | Property investment |
| CNT Tin Plate Limited # | Ordinary shares of HK\$1 each | Hong Kong | 50 | 50 | Investment holding |

Not audited by Ernst & Young, Hong Kong or another member firm of the Ernst & Young global network.

Liaoyang Beiyang Realestate Development Company Limited, Gobi EcoTech Limited, Arran Investment Company, Limited and CNT Tin Plate Limited are corporate associates indirectly held by the Company as at 31 December 2010. The financial year of Liaoyang Beiyang Realestate Development Company Limited, Gobi EcoTech Limited and CNT Tin Plate Limited is coterminous with that of the Group, while Arran Investment Company, Limited uses a financial year end date of 31 October. The consolidated financial statements are adjusted for material transactions between this associate and the Group companies between the financial year end date of this associate and that of the Group.

The above table lists the associates of the Group which, in the opinion of the Company's directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other associates would, in the opinion of the Company's directors, result in particulars of excessive length.

All the above associates have been accounted for using the equity method in these financial statements.

21. INTERESTS IN ASSOCIATES (continued)

The following table illustrates the summarised financial information of the Group's associates extracted from their financial statements:

| | 2010 HK\$'000 | 2009 HK\$'000 |
|---------------------------------------------------|------------------|------------------|
| Assets | 87,737 | 89,626 |
| Liabilities | 65,593 | 69,588 |
| Revenue for the year | 2,986 | 2,779 |
| Profit for the year | 3,681 | 5,189 |
| Reserves movements during the year | 507 | 762 |
| Dividend declared and distributed during the year | <u>2,082</u> | <u>2,179</u> |

22. AVAILABLE-FOR-SALE INVESTMENTS

| | Group | |
|--------------------------------------|------------------|------------------|
| | 2010 HK\$'000 | 2009 HK\$'000 |
| Unlisted equity investments, at cost | 236,946 | 231,946 |
| Impairment | <u>(110,783)</u> | <u>(108,783)</u> |
| | <u>126,163</u> | <u>123,163</u> |

Included in the above provision for impairment of available-for-sale investments as at the end of the reporting period is a provision for individually impaired investments of HK\$110,783,000 (2009: HK\$108,783,000) with a carrying amount before provision of HK\$231,946,000 (2009: HK\$230,346,000). The individually impaired investments relate to companies that either had been loss-making for some time or invested in development projects with reduced estimated future cash flows due to changes in development plans and market conditions. The directors are of the opinion that the individually impaired investments are not expected to be fully recoverable. During the year ended 31 December 2010, an impairment loss of HK\$2,000,000 (2009: Nil) was recognised for the Group's available-for-sale investments.

The available-for-sale investments consist of investments in equity securities which were designated as available-for-sale financial assets and have no fixed maturity date or coupon rate. These unlisted equity investments were stated at cost less impairment because the range of reasonable fair value estimates is so significant that the Company's directors are of the opinion that their fair value cannot be measured reliably. At the end of the reporting period, the Group did not intend to dispose of them in the future.

NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2010

22. AVAILABLE-FOR-SALE INVESTMENTS (continued)

Particulars of the Group's available-for-sale investment with a carrying amount greater than ten percent of the Group's total assets as at 31 December 2010 are as follows:

| Name | Particulars of registered share capital | Place of incorporation | Percentage of equity attributable to the Group | | Principal activities |
|---------------------------------|-----------------------------------------|------------------------|------------------------------------------------|------|----------------------------------------------------------------------------------------------------------------|
| | | | 2010 | 2009 | |
| Profitable Industries Limited # | US\$10,000 | BVI | 12.5 | 12.5 | Indirect investment holding of a 93.7% equity interest in a cemetery development and sales business in the PRC |

Not audited by Ernst & Young, Hong Kong or another member firm of the Ernst & Young global network.

23. DEPOSITS FOR PURCHASES OF ITEMS OF PROPERTY, PLANT AND EQUIPMENT

| | Notes | 2010 HK\$'000 | Group 2009 HK\$'000 |
|-------------------------------------------|-------|------------------|---------------------------|
| Carrying amount at 1 January | | 9,231 | 10,976 |
| Transfer to prepaid land lease payments | 18 | — | (1,404) |
| Transfer to property, plant and equipment | 15 | (2,648) | (7,440) |
| Additions | | 5,696 | 7,097 |
| Exchange realignment | | 297 | 2 |
| Carrying amount at 31 December | | 12,576 | 9,231 |

At 31 December 2010, the carrying amount represented deposits paid for the purchases of a piece of land in Xinfeng, Guangdong Province, the PRC and certain machinery and equipment for the Group's paint operation, and for the construction of a factory in Mainland China.

24. NET PENSION SCHEME ASSETS

- (a) A reconciliation of the fair value of the plan assets and the present value of the defined benefit obligations to the net value of assets and liabilities recognised in the consolidated statement of financial position is as follows:

| | 2010 | Group |
|--------------------------------------------------|-----------------|-----------------|
| | HK\$'000 | 2009 |
| | | HK\$'000 |
| Fair value of scheme assets | 9,059 | 9,339 |
| Present value of the defined benefit obligations | (5,727) | (6,787) |
| | <hr/> | <hr/> |
| Surplus in the pension scheme | 3,332 | 2,552 |
| Net unrecognised actuarial gains | (1,161) | (562) |
| | <hr/> | <hr/> |
| Net pension scheme assets recognised | <u>2,171</u> | <u>1,990</u> |

- (b) The components of the Group's net pension scheme loss/(gain) recognised in the consolidated income statement for the year, together with the actual return on the scheme assets for the year, are as follows:

| | 2010 | Group |
|------------------------------------------------------------------|-----------------|-----------------|
| | HK\$'000 | 2009 |
| | | HK\$'000 |
| Current service cost | 275 | 415 |
| Interest cost on defined benefit obligations | 165 | 103 |
| Expected return on pension scheme assets | (621) | (510) |
| Net cumulative actuarial loss recognised in the income statement | <hr/> — | <hr/> 201 |
| | <u>(181)</u> | <u>209</u> |
| Actual return on scheme assets | <u>656</u> | <u>2,245</u> |

The above amount of the Group's net pension scheme loss/(gain) was included in/set off against the employee benefit expense in "Administrative expenses" on the face of the consolidated income statement.

NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2010

24. NET PENSION SCHEME ASSETS (continued)

(c) The movements in the present value of the Group's defined benefit obligations are as follows:

| | 2010 | Group |
|----------------------|---------------------|---------------------|
| | HK\$'000 | 2009 |
| | | HK\$'000 |
| At 1 January | 6,787 | 9,324 |
| Interest cost | 165 | 103 |
| Current service cost | 275 | 415 |
| Benefits paid | (936) | (376) |
| Actuarial gain | (564) | (2,679) |
| | <u>5,727</u> | <u>6,787</u> |
| At 31 December | <u><u>5,727</u></u> | <u><u>6,787</u></u> |

(d) The movements in the Group's fair value of scheme assets are as follows:

| | 2010 | Group |
|----------------------------------|---------------------|---------------------|
| | HK\$'000 | 2009 |
| | | HK\$'000 |
| At 1 January | 9,339 | 7,470 |
| Expected return on scheme assets | 621 | 510 |
| Benefits paid | (936) | (376) |
| Actuarial gain on scheme assets | 35 | 1,735 |
| | <u>9,059</u> | <u>9,339</u> |
| At 31 December | <u><u>9,059</u></u> | <u><u>9,339</u></u> |

(e) The Group does not expect to pay any contributions to the Group's defined benefit pension scheme during the year ending 31 December 2011.

24. NET PENSION SCHEME ASSETS (continued)

- (f) The major categories of plan assets as a percentage of the fair value of the total plan assets are as follows:

| | 2010 | Group 2009 |
|----------|------|---------------|
| Equities | 83% | 70% |
| Bonds | 15% | 24% |
| Cash | 2% | 6% |
| Total | 100% | 100% |

- (g) The principal actuarial assumptions used in determining the Group's net pension scheme assets as at the end of the reporting period are follows:

| | 2010 | Group 2009 |
|----------------------------------------------|------|---------------|
| Discount rate | 3.0% | 2.6% |
| Expected rate of return on the scheme assets | 8.0% | 7.0% |
| Future salary increases | 3.0% | 3.0% |

The expected return on the pension scheme assets is based on market expectations, at the beginning of the reporting period, for returns over the entire life of the related obligations.

NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2010

24. NET PENSION SCHEME ASSETS (continued)

- (h) A five year summary of the present value of the defined benefit obligations, the fair value of the plan assets, the surplus/(deficit) in the plan and the experience adjustment arising on plan liabilities is as follows:

| | 2010 | 2009 | Group | | |
|-------------------------------------------------------|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|
| | HK\$'000 | HK\$'000 | 2008 | 2007 | 2006 |
| | | | HK\$'000 | HK\$'000 | HK\$'000 |
| Fair value of scheme assets | 9,059 | 9,339 | 7,470 | 11,358 | 9,515 |
| Present value of the defined benefit obligations | 5,727 | 6,787 | 9,324 | 5,973 | 5,331 |
| Surplus/(deficit) in pension scheme | 3,332 | 2,552 | (1,854) | 5,385 | 4,184 |
| Experienced gain/(loss) arising on scheme assets | 35 | 1,735 | (4,525) | 992 | 1,077 |
| Experienced loss/(gain) arising on scheme liabilities | (297) | 112 | (226) | 106 | (320) |
| | <u><u> </u></u> |

- (i) In addition to the above disclosures, the following information is further provided pursuant to the requirements of the Listing Rules. The actuarial valuation of the Group's net pension scheme assets as at 31 December 2010 was performed by an actuarial manager of HSBC Life (International) Limited, a member of the Actuarial Society of Hong Kong, using the valuation method detailed under the heading "Other employee benefits: Pension schemes and other retirement benefits" in note 2.4. The defined benefit scheme is funded by the employers to provide benefits based on the members' salaries and services.

At 31 December 2010, the level of funding of the pension scheme was 158%, as calculated under the projected unit credit actuarial valuation method.

25. INVENTORIES

| | 2010 | Group |
|-------------------------------|-----------------|-----------------|
| | HK\$'000 | 2009 |
| | | HK\$'000 |
| Raw materials and spare parts | 42,892 | 40,253 |
| Work in progress | 8,825 | 7,000 |
| Finished goods | 28,215 | 27,529 |
| | <u>79,932</u> | <u>74,782</u> |

26. TRADE AND BILLS RECEIVABLES

| | 2010 | Group |
|-----------------------------|-----------------|-----------------|
| | HK\$'000 | 2009 |
| | | HK\$'000 |
| Trade and bills receivables | 262,047 | 226,305 |
| Impairment | (6,818) | (9,051) |
| | <u>255,229</u> | <u>217,254</u> |

The Group's trading terms with its customers are mainly on credit, except for new customers, where payment in advance is normally required. The Group maintains a defined credit policy and credit periods are usually granted ranging from one to three months to normal customers. The Group seeks to maintain strict control over its outstanding receivables to minimise credit risk. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's trade and bills receivables relate to a large number of diversified customers and reputable banks, there is no significant concentration of credit risk. Trade and bills receivables are non-interest-bearing.

NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2010

26. TRADE AND BILLS RECEIVABLES (continued)

An aged analysis of the trade and bills receivables (that are not considered to be impaired), as at the end of the reporting period, based on the payment due date and net of impairment, is as follows:

| | 2010 | Group |
|-----------------------------------------|-----------------|-----------------|
| | HK\$'000 | 2009 |
| | | HK\$'000 |
| Neither past due nor impaired | 221,617 | 156,386 |
| Within three months | 27,662 | 56,407 |
| Over three months and within six months | 3,133 | 1,180 |
| Over six months | 2,817 | 3,281 |
| | <u>255,229</u> | <u>217,254</u> |

The movements in provision for impairment of trade and bills receivables are as follows:

| | Note | 2010 | Group |
|------------------------------|------|-----------------|-----------------|
| | | HK\$'000 | 2009 |
| | | | HK\$'000 |
| At 1 January | | 9,051 | 4,314 |
| Impairment losses recognised | 6 | — | 4,737 |
| Impairment losses reversed | 6 | (2,566) | — |
| Exchange realignment | | 333 | — |
| At 31 December | | <u>6,818</u> | <u>9,051</u> |

Included in the above provision for impairment of trade and bills receivables is a provision for individually impaired trade receivables of HK\$6,818,000 (2009: HK\$9,051,000) with a carrying amount before provision of HK\$6,818,000 (2009: HK\$9,051,000). The individually impaired trade receivables relate to customers that have been in default in payment or in financial difficulties for prolonged periods and are not expected to be recovered. The Group does not hold any collateral or other credit enhancements over these balances.

Receivables that were neither past due nor impaired relate to a large number of diversified customers for whom there was no recent history of default.

26. TRADE AND BILLS RECEIVABLES (continued)

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, the directors of the Company are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral or other credit enhancements over these balances.

At 31 December 2010, certain of the trade receivables with an aggregate carrying value of HK\$197,637,000 (2009: HK\$180,072,000) were secured by a floating charge for general banking facilities granted to the Group (note 32).

27. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

| | Group | | Company | |
|-------------------------------------------------------------|------------------|------------------|------------------|------------------|
| | 2010 HK\$'000 | 2009 HK\$'000 | 2010 HK\$'000 | 2009 HK\$'000 |
| Prepayments | 3,131 | 6,099 | 195 | 45 |
| Services contract costs incurred plus recognised profits | 824 | 9,221 | — | — |
| Deposits and other receivables | 8,951 | 10,472 | 352 | 591 |
| Deferred expenses | 996 | 1,329 | — | — |
| | <u>13,902</u> | <u>27,121</u> | <u>547</u> | <u>636</u> |

None of the above assets is either past due or impaired. The financial assets included in the above balances related to receivables for which there was no history of default.

28. EQUITY INVESTMENT AT FAIR VALUE THROUGH PROFIT OR LOSS

| | Group | |
|------------------------------------------------------|------------------|------------------|
| | 2010 HK\$'000 | 2009 HK\$'000 |
| Equity investment listed in Hong Kong, at fair value | <u>174</u> | <u>86</u> |

The above equity investment at 31 December 2009 and 2010 was classified as held for trading.

NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2010

29. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

| | Note | Group | | Company | |
|------------------------------------------------------------------|------|------------------|------------------|------------------|------------------|
| | | 2010 HK\$'000 | 2009 HK\$'000 | 2010 HK\$'000 | 2009 HK\$'000 |
| Cash and bank balances | | 170,384 | 129,929 | 11,187 | 10,574 |
| Time deposits: | | | | | |
| - with original maturity of less than three months when acquired | | 78,462 | 8,197 | — | — |
| - with original maturity of more than three months when acquired | | 34,811 | 6,896 | — | — |
| | | 283,657 | 145,022 | 11,187 | 10,574 |
| Less: Pledged time deposits for bills payable: | | | | | |
| - with original maturity of less than three months when acquired | 30 | (1,956) | (2,517) | — | — |
| - with original maturity of more than three months when acquired | 30 | — | (2,580) | — | — |
| Cash and cash equivalents | | 281,701 | 139,925 | 11,187 | 10,574 |

At the end of the reporting period, the cash and bank balances of the Group denominated in Renminbi (“RMB”) amounted to HK\$125,651,000 (2009: HK\$118,648,000). The Renminbi is not freely convertible into other currencies, however, under the PRC’s Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange Renminbi for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short term time deposits are made for periods of between one month and one year depending on the immediate cash requirements of the Group, and earn interest at the respective short term time deposit rates. The bank balances and pledged deposits are deposited with creditworthy banks with no recent history of default. The carrying amounts of the cash and cash equivalents and pledged deposits approximate to their fair values.

30. TRADE AND BILLS PAYABLES

An aged analysis of the trade and bills payables as at the end of the reporting period, based on the invoice date, is as follows:

| | Group | |
|-----------------------------------------|-----------------|----------------|
| | 2010 | 2009 |
| | HK\$'000 | HK\$'000 |
| Within three months | 169,769 | 143,638 |
| Over three months and within six months | 2,123 | 3,807 |
| Over six months | 4 | — |
| | <u>171,896</u> | <u>147,445</u> |

The trade payables are non-interest-bearing and are normally settled on 60-day terms (2009: 90-day). As at 31 December 2010, bills payable with an aggregate carrying amount of HK\$9,756,000 (2009: HK\$20,770,000) were secured by time deposits of HK\$1,956,000 (2009: HK\$5,097,000).

31. OTHER PAYABLES AND ACCRUALS

| | | Group | | Company | |
|----------------------------------|-----------------|----------------|-----------------|----------------|--|
| Note | 2010 | 2009 | 2010 | 2009 | |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | |
| Deferred income | 35 314 | 291 | — | — | |
| Other payables | 37,883 | 36,133 | 321 | 436 | |
| Accruals and receipts in advance | 90,080 | 73,758 | 4,357 | 3,069 | |
| | <u>128,277</u> | <u>110,182</u> | <u>4,678</u> | <u>3,505</u> | |

The other payables are non-interest-bearing and have an average term of three months.

NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2010

32. INTEREST-BEARING BANK AND OTHER BORROWINGS

| | 2010 | | | 2009 | | |
|-------------------------------------|---------------------------------------|-------------|-----------------------|---------------------------------------|-------------|-----------------------|
| | Effective interest rate per annum (%) | Maturity | HK\$'000 | Effective interest rate per annum (%) | Maturity | HK\$'000 |
| Group | | | | | | |
| Current | | | | | | |
| Finance lease payables (note 33) | 5.3 - 7.9 | 2011 | 684 | 5.3 - 7.9 | 2010 | 1,325 |
| Bank loans - secured | 1.2 - 6.1 | 2011 | 79,613 | 2.5 - 5.6 | 2010 | 49,682 |
| Bank loans - unsecured | 5.8 | 2011 | 11,777 | 5.3 | 2010 | 19,083 |
| Import loans - secured | N/A | N/A | — | 2.5 - 5.4 | 2010 | 15,680 |
| Import loans - unsecured | 2.1 | 2011 | 14,051 | 3.8 | 2010 | 3,311 |
| Other loan - secured | N/A | N/A | — | 5.4 | 2010 | 9,149 |
| | | | <u>106,125</u> | | | <u>98,230</u> |
| Non-current | | | | | | |
| Finance lease payables (note 33) | 5.7 - 6.9 | 2012 - 2014 | 255 | 5.3 - 7.9 | 2011 - 2013 | 898 |
| Bank loans - secured | 1.2 - 2.7 | 2012 - 2020 | 44,490 | 2.5 - 3.0 | 2011 - 2020 | 49,960 |
| | | | <u>44,745</u> | | | <u>50,858</u> |
| | | | <u><u>150,870</u></u> | | | <u><u>149,088</u></u> |

32. INTEREST-BEARING BANK AND OTHER BORROWINGS (continued)

| Company | 2010 | | | 2009 | | |
|----------------------------------|---------------------------------------|-------------|-----------|---------------------------------------|----------|-----------|
| | Effective interest rate per annum (%) | Maturity | HK\$'000 | Effective interest rate per annum (%) | Maturity | HK\$'000 |
| Current | | | | | | |
| Finance lease payables (note 33) | 6.1 - 7.9 | 2011 | 15 | 7.4 - 7.9 | 2010 | 9 |
| Non-current | | | | | | |
| Finance lease payables (note 33) | 6.1 | 2012 - 2014 | 31 | 7.4 - 7.9 | 2011 | 6 |
| | | | <u>46</u> | | | <u>15</u> |

NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2010

32. INTEREST-BEARING BANK AND OTHER BORROWINGS (continued)

| | Group | | Company | |
|-------------------------------------------|-----------------------|-----------------------|------------------|------------------|
| | 2010 HK\$'000 | 2009 HK\$'000 | 2010 HK\$'000 | 2009 HK\$'000 |
| Analysed into: | | | | |
| Bank loans and import loans repayable: | | | | |
| Within one year or on demand | 105,441 | 87,756 | — | — |
| In the second year | 5,422 | 5,060 | — | — |
| In the third to fifth years, inclusive | 16,947 | 16,019 | — | — |
| Beyond five years | 22,121 | 28,881 | — | — |
| | <u>149,931</u> | <u>137,716</u> | <u>—</u> | <u>—</u> |
| Other borrowings repayable: | | | | |
| Within one year or on demand | 684 | 10,474 | 15 | 9 |
| In the second year | 229 | 675 | 10 | 6 |
| In the third to fifth years, inclusive | 26 | 223 | 21 | — |
| | <u>939</u> | <u>11,372</u> | <u>46</u> | <u>15</u> |
| | <u><u>150,870</u></u> | <u><u>149,088</u></u> | <u><u>46</u></u> | <u><u>15</u></u> |

32. INTEREST-BEARING BANK AND OTHER BORROWINGS (continued)

Notes:

- (a) The Group's bank loans and import loans are secured by:
- (i) the Group's land and buildings with an aggregate net book value at the end of the reporting period of HK\$169,111,000 (2009: HK\$176,300,000) (note 15);
 - (ii) the Group's investment properties with an aggregate carrying value at the end of the reporting period of HK\$117,444,000 (2009: HK\$90,210,000) (note 16); and
 - (iii) the Group's trade receivables with an aggregate carrying value at the end of the reporting period of HK\$197,637,000 (2009: HK\$180,072,000) (note 26).
- (b) The Group's other loan as at 31 December 2009 represented the Construction Loan as detailed in note 15, which was secured by the buildings of the Xuzhou Subsidiary with a carrying value of HK\$11,888,000, borne interest at an effective rate 5.4% per annum and was repayable by three instalments over a three-year period. During the year ended 31 December 2010, the Group's other loan was fully settled.
- (c) Included in the Group's interest-bearing bank and other borrowings as at 31 December 2010 are borrowings with a carrying amount of HK\$52,075,000 (2009: HK\$73,534,000) which are denominated in Renminbi. All other borrowings of the Group are denominated in Hong Kong dollars.

NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2010

33. FINANCE LEASE PAYABLES

The Group leases certain of its motor vehicles and office equipment for its operations. These leases are classified as finance leases and have remaining lease terms ranging from one to four years. All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments.

The total future minimum lease payments under finance leases and their present values were as follows:

| | Minimum lease payments | | Present value of minimum lease payments | |
|--------------------------------------------------------|------------------------|------------------|--------------------------------------------|------------------|
| | 2010 HK\$'000 | 2009 HK\$'000 | 2010 HK\$'000 | 2009 HK\$'000 |
| Group | | | | |
| Amounts payable: | | | | |
| Within one year | 716 | 1,412 | 684 | 1,325 |
| In the second year | 234 | 704 | 229 | 675 |
| In the third to fifth years, inclusive | 28 | 227 | 26 | 223 |
| Total minimum finance lease payments | 978 | 2,343 | 939 | 2,223 |
| Future finance charges | (39) | (120) | | |
| Total net finance lease payables | 939 | 2,223 | | |
| Portion classified as current liabilities (note 32) | (684) | (1,325) | | |
| Non-current portion (note 32) | 255 | 898 | | |

33. FINANCE LEASE PAYABLES (continued)

The total future minimum lease payments under finance leases and their present values were as follows:
(continued)

| Company | Minimum lease payments | | Present value of minimum lease payments | |
|--------------------------------------------------------|------------------------|------------------|--------------------------------------------|------------------|
| | 2010 HK\$'000 | 2009 HK\$'000 | 2010 HK\$'000 | 2009 HK\$'000 |
| Amounts payable: | | | | |
| Within one year | 17 | 10 | 15 | 9 |
| In the second year | 11 | 6 | 10 | 6 |
| In the third to fifth years, inclusive | 23 | — | 21 | — |
| Total minimum finance lease payments | 51 | 16 | 46 | 15 |
| Future finance charges | (5) | (1) | | |
| Total net finance lease payables | 46 | 15 | | |
| Portion classified as current liabilities (note 32) | (15) | (9) | | |
| Non-current portion (note 32) | 31 | 6 | | |

NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2010

34. DEFERRED TAX LIABILITIES

The movements in net deferred tax liabilities during the year are as follows:

Group

| | Depreciation | | Revaluation of | | Withholding | | Total | |
|------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------|----------|----------------|----------|-------------|----------|----------|----------|
| | allowance in excess of related depreciation | | properties | | taxes | | | |
| | 2010 | 2009 | 2010 | 2009 | 2010 | 2009 | 2010 | 2009 |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| At 1 January | (663) | (674) | 10,999 | 10,558 | 4,548 | — | 14,884 | 9,884 |
| Deferred tax charged to the income statement during the year (note 10) | 9 | 11 | 185 | 441 | — | 4,548 | 194 | 5,000 |
| Gross deferred tax liabilities/ (assets) recognised in the consolidated statement of financial position at 31 December | (654) | (663) | 11,184 | 10,999 | 4,548 | 4,548 | 15,078 | 14,884 |

The Group has estimated tax losses arising in Hong Kong of HK\$901,719,000 (2009: HK\$884,771,000) that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose. The Group also has estimated tax losses arising in Mainland China of HK\$8,018,000 (2009: HK\$1,349,000) that will expire in one to five years for offsetting against future taxable profits. Deferred tax assets have not been recognised in respect of these losses as they have arisen in subsidiaries that have been loss-making for some time and it is uncertain that taxable profits will be available against which the tax losses can be utilised.

Pursuant to the PRC Corporate Income Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between Mainland China and the jurisdiction of the foreign investors. For the Group, the applicable rate is 5%. The Group is therefore liable for withholding taxes on dividends distributed by those subsidiaries established in Mainland China in respect of earnings generated from 1 January 2008.

34. DEFERRED TAX LIABILITIES (continued)

At 31 December 2010, no deferred tax has been recognised for withholding taxes that would be payable on certain unremitted earnings of the Group's subsidiaries established in Mainland China that may subject to withholding taxes. In the opinion of the directors, it is not probable that these subsidiaries will distribute such earnings in the foreseeable future. The aggregate amount of temporary differences associated with investments in subsidiaries in Mainland China for which deferred tax liabilities have not been recognised totalled approximately HK\$69,136,000 at 31 December 2010 (2009: Nil).

There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders.

35. DEFERRED INCOME

| | Notes | Group | |
|-------------------------------------------|-------|-----------------|--------------|
| | | 2010 | 2009 |
| | | HK\$'000 | HK\$'000 |
| At 1 January | | 4,765 | 5,056 |
| Recognised during the year | 5 | (332) | (291) |
| Exchange realignment | | 167 | — |
| | | <u>4,600</u> | <u>4,765</u> |
| Portion classified as current liabilities | 31 | (314) | (291) |
| Non-current portion | | <u>4,286</u> | <u>4,474</u> |

The deferred income relates to a portion of the Construction Loan of RMB4,793,000 (equivalent to HK\$5,645,000) waived by the Xuzhou Authority upon the finalisation of premium payables for the acquisition of the Xuzhou Land (note 15). It is recognised in the consolidated income statement over the weighted average useful life of the buildings and plant and machinery of the Xuzhou Subsidiary whose construction was financed by the Construction Loan.

NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2010

36. SHARE CAPITAL

Shares

| | 2010 HK\$'000 | 2009 HK\$'000 |
|-------------------------------------------------------------------------|------------------|------------------|
| Authorised: | | |
| 2,880,000,000 ordinary shares of HK\$0.10 each | <u>288,000</u> | <u>288,000</u> |
| Issued and fully paid: | | |
| 1,888,405,690 (2009: 1,573,671,409) ordinary shares of HK\$0.10 each | <u>188,841</u> | <u>157,367</u> |

During the year ended 31 December 2010, 314,734,281 new ordinary shares were issued for cash at a subscription price of HK\$0.33725 per share for a total consideration, before expenses, of HK\$106,145,000. The related transaction costs amounted to HK\$161,000.

There was no movement of the Company's share capital during the year ended 31 December 2009.

Share options

Details of the Company's share option scheme and the share options issued under the scheme are included in note 37 to the financial statements.

37. SHARE OPTION SCHEME

On 27 May 2010, 152,800,000 share options to subscribe for a total of 152,800,000 new shares of the Company of HK\$0.10 each were granted under the share option scheme approved by the shareholders of the Company on 28 June 2002 (the "2002 Scheme"). The 2002 Scheme was adopted by the Company for the purpose of providing incentives to attract and retain employees of the Group, as well as other eligible persons, who made contributions to the Group. Unless terminated by resolution in general meeting or by the board of directors, the 2002 Scheme shall be valid and effective for a period of 10 years commencing on 28 June 2002, after which period no further options will be issued but, in all other respects, the provisions of the 2002 Scheme shall remain in full force and effect.

The equity-settled share options granted on 27 May 2010 vest over a period of four years from the grant date, of which 50% of the share options vested immediately on the grant date, 10% of the share options vesting on 27 May 2011, 10% of the share options vesting on 27 May 2012, 10% of the share options vesting on 27 May 2013 and 20% of the share options vesting on 27 May 2014. These share options are exercisable at HK\$0.44 per share and must be exercised within five years from the grant date, and if not so exercised, the share options shall lapse. These share options do not confer rights on the holders to dividends or to vote at shareholders' meetings.

None of the share options granted during the year ended 31 December 2010 under the 2002 Scheme were exercised, cancelled or lapsed.

NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2010

37. SHARE OPTION SCHEME (continued)

The fair value of equity-settled share options granted during the year ended 31 December 2010 was estimated as at the date of grant, using the Binomial Option Pricing Model (the "Model"), taking into account the terms and conditions upon which the options were granted. The Model is one of the commonly used models to estimate the fair value of an option. The value of an option varies with different variables of certain subjective assumptions. Any change in the variables so adopted may materially affect the estimation of the fair value of an option. The following table lists the inputs to the model used:

| | |
|------------------------------------|-------|
| Dividend yield (%) | 0.00 |
| Expected volatility (%) | 88.27 |
| Risk-free interest rate (%) | 1.57 |
| Contractual life of options (year) | 5 |
| Early exercise behaviour (%) | 127 |
| Exercise price (HK\$ per share) | 0.44 |

The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome.

The fair value of the share options granted on 27 May 2010 was HK\$26,302,000, of which the Group recognised a share option expense of HK\$11,871,000 during the year ended 31 December 2010 (2009: Nil).

At the end of the reporting period, the Company had 152,800,000 share options outstanding under the 2002 Scheme. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 152,800,000 additional ordinary shares of the Company and additional share capital of HK\$15,280,000 and share premium of HK\$51,952,000 (before issue expenses).

At 31 December 2009, no share options were granted under the 2002 Scheme.

38. RESERVES

(a) Group

The amounts of the Group's reserves and the movements therein for the years ended 31 December 2010 and 2009 are presented in the consolidated statement of changes in equity on pages 38 to 39 of the financial statements.

The Group applied the transitional provisions of HKFRS 3 that permitted goodwill in respect of business combinations which occurred prior to 2001 to remain eliminated against consolidated reserves.

The amount of goodwill remaining in consolidated reserves, arising from the acquisition of subsidiaries and associates prior to the adoption of SSAP 30 in 2001, was HK\$46,050,000 as at 31 December 2010 and 2009. The amount of goodwill was stated at its cost, less cumulative impairment which arose in years prior to 1 January 2005.

38. RESERVES (continued)
(b) Company

| | Share premium account HK\$'000 | Share option reserve# HK\$'000 | Contributed surplus* HK\$'000 | Accumulated losses HK\$'000 | Total HK\$'000 |
|------------------------------------------------------|-----------------------------------------|-----------------------------------------|-------------------------------------|-----------------------------------|-------------------|
| At 1 January 2009 | 6,635 | — | 417,982 | (116,977) | 307,640 |
| Total comprehensive loss for the year (note 11) | — | — | — | (26,078) | (26,078) |
| At 31 December 2009 and 1 January 2010 | 6,635 | — | 417,982 | (143,055) | 281,562 |
| Total comprehensive loss for the year (note 11) | — | — | — | (30,407) | (30,407) |
| Issue of shares (note 36) | 74,671 | — | — | — | 74,671 |
| Share issue expenses (note 36) | (161) | — | — | — | (161) |
| Equity-settled share option arrangement (note 37) | — | 11,871 | — | — | 11,871 |
| At 31 December 2010 | 81,145 | 11,871 | 417,982 | (173,462) | 337,536 |

* A portion of the contributed surplus arose as a result of the transfer from the share premium account pursuant to a court approval obtained in 1992 for the purpose of writing off goodwill arising on the acquisition of subsidiaries. The remaining portion of the contributed surplus arose in 1991 as a result of a group reorganisation and originally represented the difference between the nominal value of the Company's shares allotted under the reorganisation scheme and the consolidated net asset value of the acquired subsidiaries.

Under the Companies Act 1981 of Bermuda (as amended), the contributed surplus is distributable to shareholders under certain circumstances.

The share option reserve comprises the fair value of share options granted which are yet to be exercised, as further explained in the accounting policy for share-based payment transactions in note 2.4 to the financial statements. The amount will either be transferred to the share premium account when the related options are exercised, or be transferred to retained profits should the related options expire or be forfeited.

NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2010

39 NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

Major non-cash transactions

- (a) During the year ended 31 December 2010, the Group entered into finance lease arrangements in respect of property, plant and equipment with a total capital value at the inception of the leases of HK\$49,000 (2009: HK\$1,263,000).
- (b) During the year ended 31 December 2010, the Group completed the acquisition of certain items of property, plant and equipment, the considerations of which were settled by the deposits previously paid with an aggregate carrying amount of HK\$2,648,000 (2009: HK\$7,440,000).
- (c) During the year ended 31 December 2009, the Group completed the acquisition of a piece of land in Hubei, the PRC, the consideration of which was settled by the deposit previously paid with a carrying amount of HK\$1,404,000.

40. CONTINGENT LIABILITIES

At the end of the reporting period, contingent liabilities not provided for in the financial statements were as follows:

| | Company | |
|------------------------------------------------------------------------------------|----------------|----------------|
| | 2010 | 2009 |
| | HK\$'000 | HK\$'000 |
| Guarantees given to banks in connection with facilities granted to subsidiaries | <u>241,822</u> | <u>126,737</u> |

At 31 December 2010, the banking facilities granted to subsidiaries subject to guarantees given to banks by the Company were utilised to the extent of approximately HK\$63,856,000 (2009: HK\$80,267,000).

At the end of the reporting period, the Group had no significant contingent liabilities.

41. PLEDGE OF ASSETS

Details of the Group's bank loans and other borrowings and bills payable, which are secured by certain assets of the Group, are included in notes 30 and 32.

42. OPERATING LEASE ARRANGEMENTS**(a) As lessor**

The Group leases its investment properties (note 16) under operating lease arrangements, with leases negotiated for terms ranging from one to ten years. The terms of the leases generally also require the tenants to pay security deposits and provide for periodic rent adjustments according to the prevailing market conditions.

At 31 December 2010, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

| | Group | |
|-----------------------------------------|-----------------|--------------|
| | 2010 | 2009 |
| | HK\$'000 | HK\$'000 |
| Within one year | 4,127 | 1,726 |
| In the second to fifth years, inclusive | 2,470 | 2,241 |
| | <u>6,597</u> | <u>3,967</u> |

NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2010

42. OPERATING LEASE ARRANGEMENTS (continued)

(b) As lessee

The Group leases certain of its properties under operating lease arrangements. Leases for properties are negotiated for terms ranging from one to nine years.

At 31 December 2010, the Group and the Company had total future minimum lease payments under non-cancellable operating leases falling due as follows:

| | Group | | Company | |
|--------------------------------------------|------------------|------------------|------------------|------------------|
| | 2010 HK\$'000 | 2009 HK\$'000 | 2010 HK\$'000 | 2009 HK\$'000 |
| Within one year | 6,655 | 8,015 | 49 | 44 |
| In the second to fifth years, inclusive | 7,719 | 8,729 | — | — |
| | <u>14,374</u> | <u>16,744</u> | <u>49</u> | <u>44</u> |

43. CAPITAL COMMITMENTS

In addition to the operating lease commitments detailed in note 42(b) above, the Group had the following capital commitments at the end of the reporting period:

| | Notes | 2010 HK\$'000 | Group 2009 HK\$'000 |
|----------------------------------------------------------------------|---------------|------------------|---------------------------|
| Contracted, but not provided for: | | | |
| Purchases of land use rights | (c) | 1,839 | 2,949 |
| Capital contribution to subsidiaries | (a), (b), (d) | 20,256 | 24,660 |
| Construction and purchases of items of property, plant and equipment | | 25,502 | 28,017 |
| | | <u>47,597</u> | <u>55,626</u> |

Notes:

- (a) On 25 June 2007, the Group entered into an agreement with the Xuzhou Authority to increase the registered share capital of the Xuzhou Subsidiary by US\$2,000,000. The Group had not made additional capital contribution to the Xuzhou Subsidiary as at 31 December 2010.
- (b) Pursuant to the agreements entered into with the government of Xinfeng, Guangdong Province, the PRC on 21 September 2006, the Group was required to set up a wholly-owned subsidiary with registered share capital of US\$3,000,000. During the year ended 31 December 2010, the Group had fully paid up the remaining contribution of US\$1,180,000 in addition to the initial contribution of US\$1,820,000 paid in the prior years.
- (c) On 21 January 2008, the Group entered into an agreement with the government of Xinfeng, Guangdong Province, the PRC to purchase a piece of land located in Xinfeng, at a consideration of RMB8,220,000, of which RMB6,658,000 had been paid by the Group at 31 December 2010 (2009: RMB5,624,000).
- (d) According to the articles of association of a newly set up wholly-owned subsidiary of the Group in the PRC, the Group is required to pay up a capital contribution of RMB5,000,000 by 31 December 2010. As at 31 December 2010, the Group had paid a contribution of RMB1,000,000. The remaining capital of RMB4,000,000 was fully paid up by the Group on 7 January 2011.

At the end of the reporting period, the Company had no significant capital commitments.

NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2010

44. RELATED PARTY TRANSACTIONS

(a) Outstanding balances with related parties

Details of the Group's balances with its associates as at the end of the reporting period are disclosed in note 21.

(b) Compensation of key management personnel of the Group

| | 2010 HK\$'000 | 2009 HK\$'000 |
|-----------------------------------------------------|------------------|------------------|
| Short term employee benefits | 18,628 | 20,720 |
| Post-employment benefits | 785 | 892 |
| Total compensation paid to key management personnel | <u>19,413</u> | <u>21,612</u> |

Further details of directors' emoluments are included in note 8.

45. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows:

Group

2010

Financial assets

| | Financial assets at fair value through profit or loss – held for trading | Loans and receivables | Available- for-sale financial assets | Total |
|------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------|----------------------------------|---------------------------------------------------------|-----------------|
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Available-for-sale investments | — | — | 126,163 | 126,163 |
| Trade and bills receivables | — | 255,229 | — | 255,229 |
| Financial assets included in prepayments, deposits and other receivables (note 27) | — | 8,951 | — | 8,951 |
| Equity investment at fair value through profit or loss | 174 | — | — | 174 |
| Pledged deposits | — | 1,956 | — | 1,956 |
| Cash and cash equivalents | — | 281,701 | — | 281,701 |
| | <u>174</u> | <u>547,837</u> | <u>126,163</u> | <u>674,174</u> |

NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2010

45. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows: (continued)

Group (continued)

2010

Financial liabilities

| | Financial liabilities at amortised cost HK\$'000 |
|-------------------------------------------------------------------------|-------------------------------------------------------------|
| Due to associates (note 21) | 2,298 |
| Trade and bills payables | 171,896 |
| Financial liabilities included in other payables and accruals (note 31) | 37,883 |
| Interest-bearing bank and other borrowings (note 32) | 150,870 |
| | <hr/> |
| | 362,947 |
| | <hr/> <hr/> |

45. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows: (continued)

Group (continued)

2009

Financial assets

| | Financial assets | | Available- | |
|---------------------------------|--------------------|----------------|----------------|----------------|
| | at fair value | | for-sale | |
| | through | Loans and | financial | Total |
| | profit or loss | receivables | assets | |
| | - held for trading | | | |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Available-for-sale investments | — | — | 123,163 | 123,163 |
| Trade and bills receivables | — | 217,254 | — | 217,254 |
| Financial assets included | | | | |
| in prepayments, deposits and | | | | |
| other receivables (note 27) | — | 10,472 | — | 10,472 |
| Equity investment at fair value | | | | |
| through profit or loss | 86 | — | — | 86 |
| Pledged deposits | — | 5,097 | — | 5,097 |
| Cash and cash equivalents | — | 139,925 | — | 139,925 |
| | <u>86</u> | <u>372,748</u> | <u>123,163</u> | <u>495,997</u> |

NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2010

45. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows: (continued)

Group (continued)

2009

Financial liabilities

| | Financial liabilities at amortised cost HK\$'000 |
|-------------------------------------------------------------------------|--------------------------------------------------------------|
| Due to associates (note 21) | 3,884 |
| Trade and bills payables | 147,445 |
| Financial liabilities included in other payables and accruals (note 31) | 36,133 |
| Interest-bearing bank and other borrowings (note 32) | 149,088 |
| | <hr/> |
| | 336,550 |
| | <hr/> <hr/> |

45. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows: (continued)

Company**Financial assets**

| | Loans and receivables | |
|---------------------------------------------------------------------------------------|------------------------------|----------------|
| | 2010 | 2009 |
| | HK\$'000 | HK\$'000 |
| Due from subsidiaries, net of impairment | 183,979 | 172,056 |
| Financial assets included in prepayments, deposits and other receivables (note 27) | 352 | 591 |
| Cash and cash equivalents | 11,187 | 10,574 |
| | <u>195,518</u> | <u>183,221</u> |

Financial liabilities

| | Financial liabilities | |
|----------------------------------------------------------------------------|------------------------------|--------------|
| | at amortised cost | |
| | 2010 | 2009 |
| | HK\$'000 | HK\$'000 |
| Due to subsidiaries (note 20) | 2,446 | 656 |
| Financial liabilities included in other payables and accruals (note 31) | 321 | 436 |
| Interest-bearing bank and other borrowings (note 32) | 46 | 15 |
| | <u>2,813</u> | <u>1,107</u> |

NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2010

46. FAIR VALUE AND FAIR VALUE HIERARCHY

The carrying amounts and fair values of the Group's and the Company's financial instruments, except for available-for-sale investments (further details of which are set out in note 22 of the financial statements), are as follows:

Group

| | Carrying amounts | | Fair values | |
|--------------------------------------------------------------------------------|------------------|------------------|------------------|------------------|
| | 2010 HK\$'000 | 2009 HK\$'000 | 2010 HK\$'000 | 2009 HK\$'000 |
| Financial assets | | | | |
| Trade and bills receivables | 255,229 | 217,254 | 255,229 | 217,254 |
| Financial assets included in prepayments, deposits and other receivables | 8,951 | 10,472 | 8,951 | 10,472 |
| Equity investment at fair value through profit or loss | 174 | 86 | 174 | 86 |
| Pledged deposits | 1,956 | 5,097 | 1,956 | 5,097 |
| Cash and cash equivalents | 281,701 | 139,925 | 281,701 | 139,925 |
| | <u>548,011</u> | <u>372,834</u> | <u>548,011</u> | <u>372,834</u> |
| Financial liabilities | | | | |
| Due to associates | 2,298 | 3,884 | 2,298 | 3,884 |
| Trade and bills payables | 171,896 | 147,445 | 171,896 | 147,445 |
| Financial liabilities included in other payables and accruals | 37,883 | 36,133 | 37,883 | 36,133 |
| Interest-bearing bank and other borrowings | 150,870 | 149,088 | 150,451 | 148,513 |
| | <u>362,947</u> | <u>336,550</u> | <u>362,528</u> | <u>335,975</u> |

46. FAIR VALUE AND FAIR VALUE HIERARCHY (continued)

The carrying amounts and fair values of the Group's and the Company's financial instruments, except for available-for-sale investments (further details of which are set out in note 22 of the financial statements), are as follows: (continued)

Company

| | Carrying amounts | | Fair values | |
|--------------------------------------------------------------------------------|------------------|------------------|------------------|------------------|
| | 2010 HK\$'000 | 2009 HK\$'000 | 2010 HK\$'000 | 2009 HK\$'000 |
| Financial assets | | | | |
| Due from subsidiaries, net of impairment | 183,979 | 172,056 | 183,979 | 172,056 |
| Financial assets included in prepayments, deposits and other receivables | 352 | 591 | 352 | 591 |
| Cash and cash equivalents | 11,187 | 10,574 | 11,187 | 10,574 |
| | <u>195,518</u> | <u>183,221</u> | <u>195,518</u> | <u>183,221</u> |
| Financial liabilities | | | | |
| Due to subsidiaries | 2,446 | 656 | 2,446 | 656 |
| Financial liabilities included in other payables and accruals | 321 | 436 | 321 | 436 |
| Interest-bearing other borrowings | 46 | 15 | 46 | 15 |
| | <u>2,813</u> | <u>1,107</u> | <u>2,813</u> | <u>1,107</u> |

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The following methods and assumptions were used to estimate the fair values:

Cash and cash equivalents, pledged deposits, trade and bills receivables, trade and bills payables, financial assets included in prepayments, deposits and other receivables, financial liabilities included in other payables and accruals, amounts due to associates and amounts due from/to subsidiaries approximate to their carrying amounts largely due to the short term maturities of these instruments.

NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2010

46. FAIR VALUE AND FAIR VALUE HIERARCHY (continued)

The fair values of the non-current portion of finance lease payables and interest-bearing bank and other borrowings have been calculated by discounting the expected future cash flows using rates currently available for instruments on similar terms, credit risk and remaining maturities.

The fair value of listed equity investment is based on quoted market price.

Fair value hierarchy

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments:

Level 1: fair values measured based on quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2: fair values measured based on valuation techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly

Level 3: fair values measured based on valuation techniques for which any inputs which have a significant effect on the recorded fair value are not based on observable market data (unobservable inputs)

Asset measured at fair value:

Group

| | Level 1 | Level 2 | Level 3 | Total |
|--------------------------------------------------------------------|------------|----------|----------|------------|
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| 31 December 2010 | | | | |
| Equity investment at fair value through profit or loss - listed | <u>174</u> | <u>—</u> | <u>—</u> | <u>174</u> |
| 31 December 2009 | | | | |
| Equity investment at fair value through profit or loss - listed | <u>86</u> | <u>—</u> | <u>—</u> | <u>86</u> |

46. FAIR VALUE AND FAIR VALUE HIERARCHY (continued)**Fair value hierarchy (continued)**

During the year, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 (2009: Nil).

The Company did not have any financial assets or financial liabilities measured at fair value as at 31 December 2010 and 2009.

47. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise bank loans, other borrowings and cash and cash equivalents. The main purpose of these financial instruments is to finance the Group's operations. The Group has various other financial assets and liabilities, such as pledged deposits, trade and bills receivables, deposits and other receivables, available-for-sale investments, amounts due to associates, trade and bills payables, and other payables, which arise directly from its operations.

It is, and has been, throughout the year under review, the Group's policy that no trading in financial instruments shall be undertaken.

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, credit risk and liquidity risk. The Group's policies for managing each of these risks are as follows:

Interest rate risk

The Group is exposed to interest rate risks due to changes in interest rates of interest-bearing financial assets and liabilities. Interest-bearing financial assets are mainly deposits with banks which are mostly short term in nature whereas interest-bearing financing liabilities are mainly bank borrowings with primarily floating interest rates. The Group is therefore exposed to interest rate risk. The Group's policy is to obtain the most favourable interest rates available.

The Company was not exposed to any significant interest rate risk at the end of the reporting period.

NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2010

47. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Interest rate risk (continued)

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's profit before tax (through the impact on floating rate borrowings). There is no impact on the Group's equity, except on the accumulated losses.

| | Increase/ (decrease) in basis points | Group Increase/ (decrease) in profit before tax HK\$'000 |
|-------------|--------------------------------------------|-------------------------------------------------------------------------|
| 2010 | | |
| HK\$ | 50 | (418) |
| RMB | 50 | 398 |
| HK\$ | (50) | 418 |
| RMB | (50) | (398) |
| | <u> </u> | <u> </u> |
| 2009 | | |
| HK\$ | 50 | (313) |
| RMB | 50 | 515 |
| HK\$ | (50) | 313 |
| RMB | (50) | (515) |
| | <u> </u> | <u> </u> |

Foreign currency risk

The Group has transactional currency exposures. Such exposures arise from sales or purchases by operating units in currencies other than the units' functional currency. The Group's main operating subsidiaries are located in Hong Kong and Mainland China and the Group's sales and purchases were mainly conducted in Hong Kong dollars and Renminbi. The Group also has significant investments in Mainland China and its statement of financial position, with a portion of its bank loans denominated in Renminbi included, can be affected by movements in the exchange rate between Hong Kong dollars and Renminbi.

47. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)
Foreign currency risk (continued)

The following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in the Renminbi exchange rate, with all other variables held constant, of the Group's profit before tax (due to changes in the fair value of monetary assets and liabilities) and the Group's equity.

| | Increase/ (decrease) in RMB rate % | Group Increase/ (decrease) in profit before tax HK\$'000 | Increase/ (decrease) in equity* HK\$'000 |
|---------------------------------|------------------------------------------------|-------------------------------------------------------------------------|---------------------------------------------------|
| 2010 | | | |
| If HK\$ weakens against RMB | 5 | (164) | 18,711 |
| If HK\$ strengthens against RMB | <u>(5)</u> | <u>164</u> | <u>(18,711)</u> |
| 2009 | | | |
| If HK\$ weakens against RMB | 5 | (567) | 14,314 |
| If HK\$ strengthens against RMB | <u>(5)</u> | <u>567</u> | <u>(14,314)</u> |

* Excluding retained profits

Credit risk

The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures and cash collateral may be required. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant.

The credit risk of the Group's other financial assets, which comprise pledged deposits, cash and cash equivalents, available-for-sale financial assets, and deposits and other receivables, arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments. The Company is also exposed to credit risk through the granting of financial guarantees to its subsidiaries, further details of which are disclosed in note 40.

NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2010

47. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Liquidity risk

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank borrowings. The Group's policy is to regularly monitor the current and expected liquidity requirements, to ensure that it maintains sufficient reserves of cash and available banking facilities to meet its liquidity requirements in the short and longer terms.

The maturity profile of the Group's financial liabilities as at the end of the reporting period, based on the contractual undiscounted payments, is as follows:

Group

| | On demand | | | | Total HK\$'000 |
|-----------------------------------------------|----------------------------------|-----------------------------------|----------------------------------|--------------------------------|-------------------|
| | or no fixed terms HK\$'000 | Less than one year HK\$'000 | One to five years HK\$'000 | Over five years HK\$'000 | |
| 2010 | | | | | |
| Due to associates | 398 | 1,900 | — | — | 2,298 |
| Trade and bills payables | — | 171,896 | — | — | 171,896 |
| Other payables | 4,039 | 33,844 | — | — | 37,883 |
| Interest-bearing bank and other borrowings | — | 106,383 | 25,028 | 22,912 | 154,323 |
| Finance lease payables | — | 716 | 262 | — | 978 |
| | <u>4,437</u> | <u>314,739</u> | <u>25,290</u> | <u>22,912</u> | <u>367,378</u> |
| 2009 | | | | | |
| Due to associates | 2,284 | 1,600 | — | — | 3,884 |
| Trade and bills payables | — | 147,445 | — | — | 147,445 |
| Other payables | 3,694 | 32,439 | — | — | 36,133 |
| Interest-bearing bank and other borrowings | — | 98,335 | 25,418 | 30,971 | 154,724 |
| Finance lease payables | — | 1,412 | 931 | — | 2,343 |
| | <u>5,978</u> | <u>281,231</u> | <u>26,349</u> | <u>30,971</u> | <u>344,529</u> |

47. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)
Liquidity risk (continued)

The maturity profile of the Company's financial liabilities as at the end of the reporting period, based on the contractual undiscounted payments, is as follows:

Company

| | On demand or no fixed terms HK\$'000 | Less than one year HK\$'000 | One to five years HK\$'000 | Total HK\$'000 |
|-------------------------------------------------------------------------------------------------|-----------------------------------------------|-----------------------------------|----------------------------------|-------------------|
| 2010 | | | | |
| Due to subsidiaries | 2,446 | — | — | 2,446 |
| Finance lease payables | — | 17 | 34 | 51 |
| Other payables | — | 321 | — | 321 |
| Guarantees given to banks in connection with facilities granted to subsidiaries (note 40) | 63,856 | — | — | 63,856 |
| | <u>66,302</u> | <u>338</u> | <u>34</u> | <u>66,674</u> |
| 2009 | | | | |
| Due to subsidiaries | 656 | — | — | 656 |
| Finance lease payables | — | 10 | 6 | 16 |
| Other payables | — | 436 | — | 436 |
| Guarantees given to banks in connection with facilities granted to subsidiaries (note 40) | 80,267 | — | — | 80,267 |
| | <u>80,923</u> | <u>446</u> | <u>6</u> | <u>81,375</u> |

NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2010

47. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Capital management

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholders' value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2010 and 31 December 2009.

The Group monitors capital using a gearing ratio, which is bank and other borrowings divided by the adjusted capital, being equity attributable to owners of the parent less the unrealised leasehold land and building revaluation reserve and the investment property revaluation reserve. The gearing ratios as at the ends of the reporting periods were as follows:

Group

| | 2010 HK\$'000 | 2009 HK\$'000 |
|------------------------------------------------------------------|------------------|------------------|
| Bank and other borrowings | 150,870 | 149,088 |
| Equity attributable to owners of the parent | 819,444 | 655,747 |
| Less: Unrealised leasehold land and building revaluation reserve | (41,732) | (41,732) |
| Investment property revaluation reserve | (13,557) | (13,557) |
| Adjusted capital | 764,155 | 600,458 |
| Gearing ratio | 19.7% | 24.8% |

48. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 30 March 2011.

SCHEDULE OF PRINCIPAL PROPERTIES

31 December 2010

INVESTMENT PROPERTIES

| Location | Percentage of interest in property attributable to the Group | Type of existing leasehold | Existing use |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------|----------------------------|----------------|
| Units A, B, C and D, 28th Floor CNT Tower No. 338 Hennessy Road Wanchai Hong Kong | 100 | Long term | Commercial |
| 18th Floor, CNT Tower No. 338 Hennessy Road Wanchai Hong Kong | 100 | Long term | Commercial |
| Car Parking Space No. 108 CNT Tower No. 338 Hennessy Road Wanchai Hong Kong | 100 | Long term | Commercial |
| Ground Floor, 1st Floor, 2nd Floor and 3rd Floor China Paint Industrial Building Lot No. 991 in Demarcation District 215 Hong Ting Road Tui Min Hoi Sai Kung New Territories Hong Kong | 100 | Medium term | Industrial |
| Factory Complex, Ling Dong Road Xin Hua Gangkou Industrial Development Zone Hua Du Guangdong Province the PRC | 100 | Medium term | Industrial |
| Lot No. 738 in Demarcation District No.2 Mui Wo Lantau Island Hong Kong | 100 | Medium term | Non-industrial |

SCHEDULE OF PRINCIPAL PROPERTIES (continued)

31 December 2010

PROPERTIES UNDER DEVELOPMENT

| Location | Percentage of interest in property attributable to the Group | Existing use | Approximate site/gross floor area | Expected completion date | Stage of completion |
|----------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------|-----------------------------|------------------------------------------|---------------------------------|----------------------------------|
| Lot nos. 879, 880A1, 880B1, 881 to 885, 889RP, 891, 1318, 1326 and 1344 in Demarcation District No. 115 Au Tau Yuen Long New Territories Hong Kong | 100 | Agricultural and house lots | 3,700 sq. m. | 2013 | Planning application in progress |



CNT GROUP LIMITED
北海集團有限公司