Perfectech

Perfectech International Holdings Limited

Incorporated in Bermuda with limited liability

Stock Code:765

Annual Report 2012

CONTENTS

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors:

Mr. Poon Siu Chung
(Chairman and Managing Director)
Mr. Tsui Yan Lee, Benjamin
Dr. Poon Wai Tsun, William
Mr. Poon Wai Yip, Albert
Mr. Ip Siu On
(resigned on 22 May 2012)

Independent Non-executive Directors:

Mr. Lam Yat Cheong
Mr. Yip Chi Hung
Mr. Choy Wing Keung, David

COMPANY SECRETARY

Ms. Pang Siu Yin

AUDITOR

HLM CPA Limited
Certified Public Accountants
Hong Kong

LEGAL ADVISER

Cheung, Tong and Rosa, Solicitors

REGISTERED OFFICE

Canon's Court
22 Victoria Street
Hamilton HM12
Bermuda

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

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

PRINCIPAL BANKERS

The Hongkong and Shanghai Banking Corporation Limited
Hang Seng Bank Limited

PRINCIPAL SHARE REGISTRAR

Butterfield Fulcrum Group (Bermuda) Limited
26 Burnaby Street
Hamilton HM11
Bermuda

HONG KONG BRANCH SHARE REGISTRAR

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

WEBSITE

www.perfectech.com.hk

CHAIRMAN'S STATEMENT

RESULTS

The board of directors of the Company (the "Board") has resolved to announce the audited consolidated results for the year ended 31 December 2012. Total revenue for the year amounted to approximately HK$299,378,000 (2011: HK$382,963,000), representing a decrease of about 22%, of which HK$290,079,000 (2011:HK$330,211,000) was from the continuing operations, representing a decrease of about 12%. The net profit for the year stood at approximately HK$33,856,000 (2011: loss of HK$5,613,000). Basic earnings per share was approximately 12.93 HK cents (2011: loss of 2.09 HK cents).

FINAL AND SPECIAL DIVIDENDS

The Board recommends the payment of a final dividend for the year ended 31 December 2012 of 4.0 HK cents per share (2011: 1.0 HK cent per share) payable to shareholders on the register of members of the Company (the "Register of Members") on 31 May 2013. This dividend together with the interim dividend of 2.0 HK cents per share (2011: 1.0 HK cent per share) will make a total of 6.0 HK cents per share for the year (2011: 2.0 HK cents per share). In order to well utilize cash on hand and reward the shareholders of the Company, a special one-off dividend of 7.0 HK cents is recommended by the Board. Subject to the approval of shareholders at the forthcoming Annual General Meeting (the "AGM"), the final dividend together with the special dividend will be paid on or about 14 June 2013.

CLOSURE OF REGISTER OF MEMBERS

For the purposes of determining the eligibility of shareholders to attend and vote at the AGM, and entitlement to the final and special dividends, the Register of Members will be closed. Details of such closures are set out below:

(i) For determining the eligibility to attend and vote at the AGM:

Latest time to lodge transfer documents for registration –	4:30 p.m. on Tuesday, 21 May 2013
Closure of the Register of Members –	Wednesday, 22 May 2013 to Thursday, 23 May 2013 (both dates inclusive)
Record date –	Thursday, 23 May 2013

(ii) For determining the eligibility to receive the final and special dividends:

Latest time to lodge transfer documents for registration –	4:30 p.m. on Wednesday, 29 May 2013
Closure of the Register of Members –	Thursday, 30 May 2013 to Friday, 31 May 2013 (both dates inclusive)
Record date –	Friday, 31 May 2013

During the above closure periods, no share transfer will be registered. In order to be eligible to attend and vote at the AGM, and to qualify for the proposed final and special dividends, all transfers accompanied by the relevant share certificates must be lodged with the Company's Share Registrar in Hong Kong at Tricor Standard Limited, 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong no later than the aforementioned latest time.

CHAIRMAN'S STATEMENT

BUSINESS REVIEW

It was a hard year for manufacturers in 2012. Three out of four business segments of the Group recorded negative results before interest and tax. Keen competitions and ever increasing costs of production in the mainland China squeezed profit margin. Global economic uncertainties led to the development of prudential attitude of customers and investors. On the other hand, the effect of quantitative easing continued resulting in the problem of inflating prices of commodities.

Nevertheless, global financial markets remained relatively stable and stock markets recovered. Income from securities investment contributed significantly to the results of the Group. Together with the returns from high technique-based manufacturing, the results of the Group improved quite significantly and satisfactorily.

During the year, the revenue of the Group stood at approximately HK$299,378,000 (2011: HK$382,963,000), representing a drop of about 22%, of which HK$290,079,000 (2011: HK$330,211,000) was from the continuing operations, representing a drop of about 12%, and the Group recorded a net profit attributable to owners of the Company of approximately HK$33,856,000 (2011: loss of HK$5,613,000). The improvement in annual results of the Group was mainly due to the increase in income from investment together with the increase of profit margin of the toy products segment.

For the year 2012, the profit of the Group included gain on disposal of investments held-for-trading of approximately HK$8,053,000 (2011: loss of HK$5,355,000), increase in fair value of investments held-for-trading of approximately HK$8,900,000 (2011: decrease of HK$13,197,000) and decrease in fair value of derivative financial instruments of approximately HK$1,084,000 (2011: HK$309,000).

Besides, administrative expenses decreased by about 15% to approximately HK$33,252,000 (2011: HK$39,218,000). Such decrease was mainly due to, among others, the decrease in share-based payments expenses incurred of approximately HK$1,392,000 (2011: HK$6,220,000) as a result of options granted during the year.

Finance costs decreased further by about 24% to approximately HK$319,000 (2011: HK$417,000) as a result of a continuing low level of interest rates and constant level of gearing of the Group.

CHAIRMAN'S STATEMENT

FUTURE PLAN & PROSPECT

As the overall environment for manufacturers is challenging or sometimes difficult, the Board decided to concentrate the Group's resources for the development of more profitable manufacturing business only. Unprofitable business will be terminated determinedly in order to stop incurring further loss.

As the Board considers that the performance of the novelties and decorations segments has been deteriorating gradually and has been striving hard for survival in the recent years, the Board decided to relocate the production facilities in Zhuhai used for the manufacturing of novelties and festival decorations to Zhongshan and merged with the production facilities there stage by stage in order to benefit from the economies of scales.

Further investment in plant and machinery will be concentrated on profitable business so as to further improve the comparative advantage in the industry. Besides securities investment which the Group is currently engaging in and is gradually decreasing in size, other prudent investment projects will be studied to determine their feasibility and whether they are beneficial to the Group. Acquisition of a property for own use will also be considered.

Looking ahead, although the mainland and global economic environment is still uncertain, with solid financial position and experienced and well developed technique in the industry, the Board is optimistic that the performance of the Group will sustain.

MANAGEMENT DISCUSSION AND ANALYSIS

SEGMENT RESULTS

Novelties and decorations

The turnover of this segment for the year showed a drop of about 6% and stood at approximately HK$77,142,000 (2011: HK$81,761,000). The segment recorded a negative results before interests and tax of approximately HK$1,558,000 (2011: gain of HK$3,242,000). Included in the loss was a provision of doubtful debts amounting to HK$2,634,000 (2011: HK$Nil).

Packaging products

The revenue of this segment to external customers decreased further by about 36% to approximately HK$32,200,000 (2011: HK$50,309,000), while the segment result recorded a further loss of approximately HK$3,172,000 (2011: HK$2,744,000). Included in the loss for the year was a gain from the disposal of fixed assets of approximately HK$1,985,000 (2011: HK$2,317,000). The Board considers that the businesses in this segment would no longer be profitable in the future, and it is the intention of the Board to terminate the business in this segment in the near future.

Trading activities

The revenue of the trading of PVC film and plastic materials decreased substantially by about 82% to approximately HK$9,299,000 (2011: HK$52,752,000) as a result of the Board's decision to terminate the business of the segment in the first half of 2012 due to the continuous loss incurred. This segment recorded a loss of approximately HK$1,402,000 (2011: HK$616,000) for the year.

Toy products

The turnover of this segment decreased by about 9% to approximately HK$180,737,000 (2011: HK$198,141,000), while the segment result therefrom improved substantially to approximately HK$30,001,000 (2011: HK$17,675,000), representing a further growth of about 70%. Increase in contribution was due to improved efficiency in certain of its sub-segment, even though the costs of production had increased.

Investments

To well utilise the available cash on hand, the Group has invested in securities of various listed companies. Those securities are held for trading purposes for capital gain in their value. As at 31 December 2012, the market value of investments-held-for-trading was approximately HK$59,736,000 (2011: HK$68,025,000).

In addition, the Group would also apply its cash on hand on other types of investment with a view to enhance the return to the shareholders. All investments would be done in accordance with the Group's guidelines on investment transactions, details of which are posted on the Company's website, www.perfectech.com.hk.

Foreign currency exposure

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

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

MANAGEMENT DISCUSSION AND ANALYSIS

As at 31 December 2012, the Group had not entered into any financial instrument for hedging foreign currency exposures.

Liquidity and financial resources

As at 31 December 2012, the long-term finance lease obligation and bank loan of the Group were HK$nil (2011: HK$nil), while the short term bank borrowings were approximately HK$9,221,000 (2011: HK$25,670,000), and none of the Group's plant and machinery (2011: HK$nil) was held under a finance lease. The gearing ratio, measured by total bank and other borrowings divided by equity, of the Group was 5% (2011: 13%). As at 31 December 2012, the Group had bank balances and cash of approximately HK$75,318,000 (2011: HK$60,399,000).

With cash and other current assets as at 31 December 2012 of HK$223,422,000 (2011: HK$245,375,000) as well as available banking facilities, the Group had sufficient financial resources to satisfy its commitments and working capital requirements.

Net asset value

The net asset value of the Group as at 31 December 2012 was approximately HK$0.77 (2011: HK$0.76) per share based on the actual number of 260,717,607 (2011: 263,807,607) shares in issue on that date.

Employees and remuneration policies

As at 31 December 2012, the Group employed approximately 1,500 (2011: 1,600) full time employees. The Group remunerates its employees largely based on prevailing industry practice as well as individual merits. The Group has also established a share option scheme for its full time employees.

APPRECIATION

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

On behalf of the Board
Poon Siu Chung
Chairman & Managing Director

Hong Kong, 27 March 2013

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the annual general meeting of the Company (the "AGM") will be held at 3:00 p.m. on 23 May 2013, (Thursday) at Falcon Room I, Gloucester Luk Kwok Hong Kong, 72 Gloucester Road, Wanchai, Hong Kong for the purpose of transacting the following business:

ORDINARY BUSINESS

1. To receive and adopt the audited consolidated financial statements and the reports of the directors of the Company (the "Directors") and the independent auditors of the Company (the "Auditors") for the year ended 31 December 2012.

2. To appoint HLM CPA Limited as the Auditors and authorize the board of Directors to fix their remuneration.

3. To declare a final dividend of 4.0 HK cents per ordinary share of the Company and a special dividend of 7.0 HK cents per ordinary share of the Company to be paid to the shareholders of the Company whose names appear on the register of members of the Company on 31 May 2013.

4. To re-elect the retiring Director, Mr. Poon Siu Chung and Dr. Poon Wai Tsun, William.

5. To re-elect the Directors, being Mr. Lam Yat Cheong, Mr. Yip Chi Hung and Mr. Choy Wing Keung, David, who hold office until the conclusion of the AGM.

6. To authorize the board of Directors to fix the Directors' remuneration.

SPECIAL BUSINESS

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

7. "**THAT**

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

NOTICE OF ANNUAL GENERAL MEETING

b. for the purpose of this resolution, "Relevant Period" means the period from the passing of this resolution until whichever is the earliest of:

i. the conclusion of the next annual general meeting of the Company;

ii. the expiration of the period within which the next annual general meeting of the Company is required by law or the bye-laws of the Company to be held; and

iii. the revocation or variation of the authority given under this resolution by an ordinary resolution of the shareholders of the Company in general meeting;

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

8. "**THAT** there be granted to the Directors an unconditional general mandate to repurchase Shares, and that the exercise by the Directors of all powers of the Company to purchase Shares subject to and in accordance with all applicable laws, be and is hereby generally and unconditionally approved, subject to the following conditions:

(a) such mandate shall not extend beyond the Relevant Period (as hereinafter defined);

(b) such mandate shall authorize the Directors to procure the Company to repurchase Shares at such price as the Directors may at their discretion determine;

(c) the Shares to be repurchased by the Company pursuant to paragraph (a) of this resolution during the Relevant Period shall be no more than ten per cent of the Shares in issue at the date of passing this resolution; and

(d) for the purpose of this resolution, "Relevant Period" means the period from the passing of this resolution until whichever is the earliest of:

i. the conclusion of the next annual general meeting of the Company;

ii. the expiration of the period within which the next annual general meeting of the Company is required by law or the bye-laws of the Company to be held; and

iii. the revocation or variation of the authority given under this resolution by an ordinary resolution of the shareholders of the Company in general meeting."

NOTICE OF ANNUAL GENERAL MEETING

9. "**THAT**, subject to the availability of unissued share capital and conditional upon the resolutions nos. 7 and 8 above being passed, the number of Shares which are repurchased by the Company pursuant to and in accordance with resolution no. 8 above shall be added to the number of Shares that may be allotted or agreed conditionally or unconditionally to be allotted by the Directors pursuant to and in accordance with resolution no. 7 above."

By order of the Board
Poon Siu Chung
Chairman & Managing Director

Hong Kong, 16 April 2013

Notes:

1. A shareholder of the Company who is a holder of two or more Shares may appoint more than one proxy to attend on the same occasion. A proxy needs not be a shareholder of the Company. Delivery of an instrument appointing a proxy shall not preclude a shareholder from attending and voting in person at the meeting or upon the poll concerned and, in such event, the instrument appointing a proxy shall be deemed to be revoked.

2. A form of proxy for the AGM is enclosed with the Company's circular dated 16 April 2013. In order to be valid, the form of proxy duly completed and signed in accordance with the instructions printed thereon together with a valid power of attorney or other authority, if any, under which it is signed, or a notarially certified copy of such power or authority, must be deposited at the Company's branch share registrar in Hong Kong, Tricor Standard Limited at 26/F., Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong not less than 48 hours before the time appointed for holding the AGM or any adjournment thereof.

3. The register of members of the Company will be closed from 22 May 2013, (Wednesday) to 23 May 2013, (Thursday) (both dates inclusive), for the purposes of determining the entitlements of the members of the Company to attend and vote at the AGM. No transfers of Shares may be registered during the said period. In order to qualify for the aforesaid entitlements, all transfers accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Tricor Standard Limited at 26/F., Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong no later than 4:30 p.m. on 21 May 2013, (Tuesday).

   The register of members of the Company will be closed from 30 May 2013, (Thursday) to 31 May 2013, (Friday) (both dates inclusive), for the purposes of determining the entitlements of the Shareholders to the proposed final and special dividends upon the passing of relevant resolution. No transfer of the Shares may be registered during the said period. In order to qualify for the proposed final and special dividends, all transfers of shares accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Tricor Standard Limited at 26/F., Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong no later than 4:30 p.m. on 29 May 2013, (Wednesday).

4. With regard to resolutions no. 7 above, the Directors wish to state that they have no immediate plans to issue any new Shares pursuant to the general mandate to be granted under resolution no. 7 above.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS

Executive Directors

Mr. POON Siu Chung (Mr. Poon), aged 63, is the Chairman and Managing Director of the Company. Mr. Poon is the co-founder of the group and has over 40 years' experience in the plastic industry and toy business. He oversees the Group's operations and is responsible for formulating the Group's overall corporate policies and development plans. Mr. Poon is the father of Dr. Poon Wai Tsun, William and Mr. Poon Wai Yip, Albert.

Mr. Poon has entered into a service contract with the Company which shall continue to be effective unless terminated by three months' notice in writing served by either party by the other or payment in lieu.

Mr. IP Siu On, aged 59, is primarily responsible for the sales and marketing of the Group's packaging products. Before joining the Group in 1984, Mr. Ip had over 10 years of experience in the field of dye mixing and packaging products. Mr. Ip resigned on 22 May 2012.

Mr. TSUI Yan Lee, Benjamin, aged 53, is responsible for the sales and marketing of the Group's novelties and festival decorations. Prior to joining the Group in 1983, he worked in a manufacturing company as a sales executive for over 3 years.

Mr. Tsui has entered into a service contract with the Company which shall continue to be effective unless terminated by three months' notice in writing served by either party by the other or payment in lieu.

Dr. POON Wai Tsun, William, aged 35, graduated from University of Bristol in the United Kingdom with a Bachelor degree in Mechanical Engineering and a Doctor of Philosophy degree in Engineering. Dr. Poon is responsible for the research and development of the Group's products. He joined the Group in 2009 and has more than 5 years' experience in manufacturing industry. Dr. Poon is the eldest son of Mr. Poon Siu Chung and Ms. Lau Kwai Ngor, his mother, is a substantial shareholder of the Company, and is the elder brother of Mr. Poon Wai Yip, Albert.

Mr. POON Wai Yip, Albert (Mr. A. Poon), aged 29, graduated from the University of Nottingham, United Kingdom with a Bachelor degree of Engineering in Civil Engineering and a Master of Science degree in Management from the Imperial College of Science, Technology and Medicine in the United Kingdom. Mr. A. Poon has five years' experience in corporate finance and is responsible for the investment activities and corporate finance function of the Group. Prior to joining the Group in 2011, he worked for the corporate finance division of a licensed corporation registered under the Securities and Futures Ordinance (the "SFO") in Hong Kong and has been involved in several corporate finance transactions including mergers and acquisitions, corporate reorganization, takeover matters and a variety of fund raising exercises. Mr. A. Poon is a son of Mr. Poon Siu Chung and Ms. Lau Kwai Ngor, his mother, is a substantial shareholder of the Company, and is the younger brother of Dr. Poon Wai Tsun, William.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Independent non-executive Directors

Mr. LAM Yat Cheong, aged 51, graduated from the Hong Kong Baptist University. Mr. Lam is a Certified Public Accountant and a sole proprietor of an audit firm and has over 20 years of auditing and accounting experience. He is a member of the Association of Chartered Certified Accountants and the Hong Kong Institute of Certified Public Accountants. He is also an independent non-executive director of Lee's Pharmaceutical Holdings Limited and Wuyi International Pharmaceutical Company Limited, both companies are listed in Hong Kong.

Mr. YIP Chi Hung, aged 54, is experienced in the construction industry. Mr. Yip is a director of Fong Wing Shing Construction Company Limited, a reputable registered building contractor in Hong Kong. He has over 25 years of experience in a variety of building and maintenance projects for both the public and private sectors and is also well versed in the development of properties in Hong Kong and Singapore. He is also the chairman and executive director of PacMOS Technologies Holdings Limited, a company listed in Hong Kong.

Mr. CHOY Wing Keung, David, aged 47, graduated from the Hong Kong Shue Yan University and is the sole proprietor of David Choy & Co., Certified Public Accountants (Practising). He is a member of the Hong Kong Institute of Certified Public Accountants and the Association of Certified Chartered Accountants. He has over 20 years of experience in the areas of auditing, accounting, secretarial services and taxation.

SENIOR MANAGEMENT

Mr. YUEN Che Wai, Victor, aged 47, is the Group's financial controller. Mr. Yuen is a member of the Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountants. He is responsible for the overall supervision on the accounting and finance functions of the Group. Mr. Yuen holds a diploma in accounting from Hong Kong Shue Yan College (now known as Hong Kong Shue Yan University). He joined the Group in 1991 and has more than 20 years of experience in the audit and accounting field.

CORPORATE GOVERNANCE REPORT

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

Throughout the year ended 31 December 2012, the Company has adopted the code provisions (the "Code Provisions") set out in the "Corporate Governance Code and Corporate Governance Report" (the "Code") issued by The Stock Exchange of Hong Kong Limited (the "Stock Exchange") as its corporate governance code and has complied with the Code Provisions, save for the following deviations.

Code Provision A.2.1

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

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

Code Provision D.1.4

Code Provision D.1.4 stipulates that all directors should clearly understand delegation arrangements in place. The Company should have formal letters of appointment for directors setting out the key terms and conditions of their appointment.

The Company has no formal letters of appointment for the independent non-executive directors, namely Mr. Lam Yat Cheong, Mr. Yip Chi Hung and Mr. Choy Wing Keung, David, as all of them have been serving as directors for a considerable period of time, a clear understanding of the terms and conditions of their appointment already exists between the Company and the directors, and so there is no written record of the same. In any event, all directors, including those without a letter of appointment and those appointed for a specific term, shall be subject to retirement by rotation in the manner prescribed under the bye-laws of the Company, and on re-election of the retiring directors, shareholders are given information that is reasonably necessary for them to make an informed decision on the reappointment of the relevant directors.

CORPORATE GOVERNANCE REPORT

Code Provision F.1.1

Code Provision F.1.1 stipulates that company secretary of the Company should be an employee of the Company and have day-to-day knowledge of the Company's affairs.

The company secretary of the Company, Ms. Pang Siu Yin, is a partner of the Company's legal adviser, Cheung Tong & Rosa Solicitors. Ms. Pang has been appointed as the company secretary of the Company since 1 April 1998. The Company has also assigned Mr. Poon Wai Yip, Albert, an executive director of the Company, and Mr. Yuen Che Wai, Victor, the financial controller of the Company, as the contact persons with Ms. Pang. Information in relation to the performance, financial position and other major developments and affairs of the Group (including but not limited to the management monthly report to the Board) are speedily delivered to Ms. Pang through the contact persons assigned. Given the long-term relationship between Ms. Pang and the Group, she is very familiar with the operations of the Group and has an in depth knowledge of the management of the Group. Having in place a mechanism that she will get hold of the Group's development promptly without material delay and with her expertise and experience, the Board is confident that having Ms. Pang as the company secretary is beneficial to the Group's compliance of the relevant board procedures, applicable laws, rules and regulations.

THE BOARD OF DIRECTORS

The Role of the Board

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

The types of decisions taken up by the Board include:

- corporate and capital structure;
- corporate strategy;
- significant policies affecting the Group as a whole;
- business plan, budgets and public announcements;
- delegation to the Chairman, and delegation to and by Board committees;
- key financial matters;
- appointment, removal or reappointment of Board members, senior management and auditors;
- remuneration of Directors and senior management;
- communication with key stakeholders, including shareholders and regulatory bodies; and
- reviewing and monitoring the policies and practices on corporate governance.

CORPORATE GOVERNANCE REPORT

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

Board Composition

The Board comprises 7 Directors, 4 of whom are Executive Directors ("EDs", and each an "ED") and 3 being Independent Non-Executive Directors ("INEDs", and each an "INED"). During the year, save for the resignation of Mr. Ip Siu On from office on 22 May 2012, there is no change to the composition of the Board.

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

- Dr. Poon Wai Tsun, William and Mr. Poon Wai Yip, Albert are sons of Mr. Poon Siu Chung, the Chairman and the Managing Director of the Company and their mother, Ms. Lau Kwai Ngor, is a substantial shareholder of the Company.

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

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

During the year ended 31 December 2012, the Board has met the requirement of the Listing Rules for having INEDs representing one-third of the Board.

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

CORPORATE GOVERNANCE REPORT

Board Process

In addition to Board meetings that are held regularly to discuss and approve the Group's results, additional Board meetings are held from time to time to discuss important matters that require the Board's attention and decision. In 2012, there were 4 regular Board meetings and 28 special Board meetings held, and the attendance of the Directors is set out below:

	Attended/Eligible to attend		
Directors	**Regular Board Meeting**	**Special Board Meeting for operational matters**	**General Meeting**
Executive Directors			
Poon Siu Chung *(Chairman)*	4/4	28/28	1/1
Tsui Yan Lee, Benjamin	4/4	24/28	1/1
Poon Wai Tsun, William	3/4	1/28	1/1
Poon Wai Yip, Albert	4/4	27/28	1/1
Independent Non-Executive Directors			
Yip Chi Hung	2/4	1/28	1/1
Lam Yat Cheong	4/4	1/28	1/1
Choy Wing Keung, David	4/4	1/28	1/1

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

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

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

CORPORATE GOVERNANCE REPORT

Directors' Training and Professional Development

The Directors are regularly briefed on the amendments to or updates on the relevant laws, rules and regulations, and the business and market changes. In addition, the Company has been encouraging the Directors to participate in the relevant professional development seminars and courses.

According to the records maintained by the Company, the Directors received the following training with an emphasis on the roles, functions and duties of a director of a listed company in compliance with the requirement of the Code on continuous professional development during the period from 1 January 2012 to 31 December 2012:

	Corporate Governance/ Updates on Laws, Rules and Regulation		Accounting/ Financial/ Management or Other professional Skills	
	Read Materials	Attend Seminars/ Briefings	Read Materials	Attend Seminars/ Briefings
Executive Directors				
Poon Siu Chung	✓		✓	
Tsui Yan Lee, Benjamin	✓		✓	✓
Poon Wai Tsun, William	✓		✓	
Poon Wai Yip, Albert	✓		✓	
Independent Non-executive Directors				
Yip Chi Hung	✓	✓	✓	
Lam Yat Cheong	✓		✓	
Choy Wing Keung, David	✓		✓	

Nomination, Appointment and Re-election of Directors

On 27 March 2012, the Board has established a Nomination Committee pursuant to the requirements of the Code. It considers matters regarding the nomination and/or appointment or re-appointment of Director(s). The Nomination Committee currently comprises Mr. Choy Wing Keung, David, who is also the chairman of the Committee, Mr. Lam Yat Cheong, Vincent, Mr. Yip Chi Hung and Mr. Poon Wai Yip, Albert.

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

Before the Nomination Committee was established on 27 March 2012, the Board itself was responsible for the selection and approval of new Directors. A Board meeting was held on 27 March 2012 to discuss the election of Mr. Poon Wai Yip, Albert, re-election of Mr. Tsui Yan Lee, Benjamin and re-election of Mr. Lam Yat Cheong, Mr. Yip Chi Hung and Mr. Choy Wing Keung, David. All the aforesaid EDs and INEDs attended this Board meeting and each of them abstained voting from the resolution in respect of his own election or re-election.

CORPORATE GOVERNANCE REPORT

From 27 March 2012 to 31 December 2012, one Nomination Committee meeting was held on 3 December 2012 which all the current 4 members attended. The Nomination Committee's work in 2012 includes consideration of the following matters:

- the structure, size and composition of the Board;
- recommendation to the Board regarding proposed changes to implement the Company's corporate strategy;
- assessment of the independence of INEDs of the Company; and
- the time required from a Director to perform his responsibilities.

Appointment, Re-election and Removal

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

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

In accordance with the said provision of the Bye-laws and the Code Provision A4.1, re-election arrangement was made in the annual general meeting held on 30 May 2012, and that all INEDs, being Mr. Lam Yat Cheong, Mr. Yip Chi Hung and Mr. Choy Wing Keung, David were re-elected to hold office until the conclusion of the next annual general meeting of the Company, subject to re-election by shareholders. Mr. Tsui Yan Lee, Benjamin retired from office on 30 May 2012 and was re-elected subject to rotation. Mr. Poon Wai Yip, Albert, who was appointed by the Board as an ED effective from 6 December 2011, was elected by shareholders on 30 May 2012.

Mr. Ip Siu On has resigned from office with effect from 22 May 2012.

Directors' Securities Transactions

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

Following specific enquiry by the Group, all Directors have confirmed that throughout year 2012 they complied with the required standard set out in the Model Code for securities transactions.

The Directors' interests in shares of the Group as at 31 December 2012 are set out in this Annual Report.

CORPORATE GOVERNANCE REPORT

Internal Control

The Board annually conducts a review on the structure and effectiveness of the system of internal control of the Group and the resources put into by the Group in performing the internal control work. In 2012, the Board has identified no major issues on conducting the aforesaid reviews. Throughout this process, the Board has examined reports on internal control and procedures in place submitted by various factories of the Group.

REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT

The Remuneration Committee

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

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

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

During 2012, one Committee meeting was held on 3 December 2012 which all the current 5 members attended. The Remuneration Committee's work in 2012 includes consideration of the following matters:

- remuneration policy and structure of directors and senior management;
- specific remuneration packages of all executive directors and senior management;
- recommendations to the Board of the remuneration of NEDs; and
- the salary review of the Group for 2013.

Emolument Policy and Long-Term Incentive Plan

The Company adopts different emolument policies for EDs and NEDs:

Emolument Policy for EDs

1. A proportion of EDs' remuneration should be structured so as to link rewards to corporate and individual performance.

2. The performance-related elements of remuneration should form a significant proportion of the total remuneration package of EDs.

3. The performance-related elements of remuneration should be designed to align the EDs' interests with those of shareholders and to give the Directors keen incentives to perform at the highest levels.

CORPORATE GOVERNANCE REPORT

4. Factors for Defining Performance-Based Remuneration:

   (a) Eligibility for annual bonuses and any upper limits

   (b) Annual bonuses should be linked to relevant performance indicators designed to enhance the Company's business

   (c) Eligibility for long-term incentive schemes, e.g. share option schemes, subject to performance criteria which reflect the Company's performance

   (d) Examples of performance indicators:

      (i) share price

      (ii) net earnings figure

Emolument Policy for NEDs

1. Levels of emolument of NEDs should reflect the time commitment and responsibilities of the role.

2. NEDs should have the opportunity to have part of their remuneration in shares on condition that share options should be granted in accordance with the Listing Rules.

Principles of Long-Term Incentive Schemes

1. The purpose is to reward exceptional performance, and awards should be scaled against achievement of performance criteria.

2. The link between executive reward and company performance should be strong and clear.

3. Grants under such schemes should be phased rather than awarded in one large block.

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

CORPORATE GOVERNANCE REPORT

ACCOUNTABILITY AND AUDIT

Financial Reporting

The Board is responsible for the integrity of the financial information of the Group. The Directors acknowledge their responsibility for the preparation of the accounts for each financial period, which give a true and fair view of the state of affairs of the Group and of the results and cash flows for that period.

The Directors, having made appropriate enquiries, consider that the Group has adequate resources to continue in operational existence for the foreseeable future and that, for this reason, it is appropriate to adopt the going concern basis in preparing the financial statements.

Audit Committee

The Audit Committee usually meets twice a year to review and monitor the financial reporting and internal control procedures of the Company. The Audit Committee also reviews and monitors the scope and effectiveness of the work of external auditor.

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

The Audit Committee currently comprises 3 members, namely Mr. Lam Yat Cheong, who is also the chairman of the Committee, Mr. Yip Chi Hung and Mr. Choy Wing Keung, David, who are INEDs. Both Mr. Lam and Mr. Choy have professional qualifications in accounting. The details of the members' attendance in Committee meetings in 2012 are as follows:

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

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

The Audit Committee's work in 2012 includes consideration of the following matters:

- the completeness and accuracy of the 2011 annual and 2012 interim financial statements;
- the Group's compliance with statutory and regulatory requirements;
- developments in accounting standards and the effect on the Group;
- detailed analysis of various aspects of the Company's financial performance;
- investment policies and possible impact of certain investment transactions; and

CORPORATE GOVERNANCE REPORT

- remuneration and engagement of the Company's external auditor, and its independence and objectivity, and the effectiveness of the audit process.

External Auditor

The Company's external auditor is HLM CPA Limited. The remuneration paid/payable for audit and non-audit services provided by the external auditor to the Company for the year ended 31 December 2012 is as follows:

Services rendered	Fee paid/payable (HK$'000)
Audit services	930
Non-audit services	–
	930

COMPANY SECRETARY

The position of Company Secretary is held by Ms. Pang Siu Yin, a practising solicitor of Hong Kong who is not an employee of the Company. The Company Secretary can contact the Company through Mr. Poon Wai Yip, Albert, an executive director of the Company, and Mr. Yuen Che Wai, Victor, the financial controller of the Company. The Company Secretary reported to the chairman of the Board from time to time. All directors have access to the advice and services of the company secretary to ensure that board procedures, and all applicable laws, rules and regulations are followed.

Since Ms. Pang was appointed in 1998, she has to take no less than 15 hours of relevant professional training during the year 2012. She has fulfilled the requirement during the year under review.

CORPORATE COMMUNICATION

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

Shareholders' Rights

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

The most recent shareholders' meeting was the AGM held on 30 May 2012 at Falcon Room I, Luk Kwok Hotel, 72 Gloucester Road, Wanchai, Hong Kong to discuss and approve the following matters:

- considering and receiving the consolidated audited financial statements and reports for the Directors and auditors for the year ended 31 December 2011;
- declaring the final and special dividends;
- re-electing certain Directors and authorizing the Board to fix their remunerations;

CORPORATE GOVERNANCE REPORT

- appointing the Company's external auditor and authorizing the Board to fix their remunerations;
- passing a general mandate to allow the Directors to allot and issue shares of the Company;
- passing a general mandate to allow the Directors to repurchase shares of the Company;
- adopting a new share option scheme; and
- adopting a new Bye-laws of the Company in substitution for and to the exclusion of the existing Bye-laws.

Enquiries and proposals putting forward at shareholders' meetings can also be sent to the Board by contacting the Investment Department at (852)39650088, via email to info@perfectech.com.hk, or directly through the questions and answers session at shareholders' meetings.

Investor Relations

On 30 May 2012, the Company has adopted the amended Bye-Laws of the Company which brings it in line with the new requirements under the revised Listing Rules and the Code, in substitution of the Company's existing Bye-laws. All these amendments are disclosed on pages 32 to 38 of the circular of the Company published on 20 April 2012.

An updated version of the Company's Bye-laws is available on the Company's website http://www.perfectech.com.hk.

REPORT OF THE DIRECTORS

The Directors of the Company are pleased to present their annual report (the "Report of the Directors") and the audited financial statements for the year ended 31 December 2012.

PRINCIPAL ACTIVITIES

The Company acts as an investment holding company. The activities of its principal subsidiaries are set out in note 38 to the financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2012 are set out in the consolidated statement of comprehensive income on pages 35 to 36.

An interim dividend of 2.0 HK cents per share amounting to approximately HK$5,230,000 was paid to the shareholders during the year. The directors now recommend the payment of a final dividend of 4.0 HK cents per share and a special one-off dividend of 7.0 HK cents per share to the shareholders on the register of members on 31 May 2013, amounting to approximately HK$28,569,000.

MAJOR CUSTOMERS AND SUPPLIERS

During the year, the five largest customers of the Group in aggregate accounted for approximately 64.90% of the total revenues of the Group and the largest customer accounted for approximately 38.03% of the total revenues of the Group.

The five largest suppliers of the Group in aggregate accounted for approximately 27.82% of the total purchases of the Group and the largest supplier accounted for approximately 9.52% of the total purchases of the Group.

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

PROPERTY, PLANT AND EQUIPMENT

The Group continued its replacement policy and expended HK$5,945,000 on property, plant and equipment during the year.

Details of this and other movements during the year in the property, plant and equipment and prepaid lease payments of the Group are set out in note 15 and 16 to the financial statements.

SHARE CAPITAL

Details of the movements during the year in the share capital of the Company are set out in note 27 to the financial statements.

REPORT OF THE DIRECTORS

DISTRIBUTABLE RESERVES OF THE COMPANY

At 31 December 2012, the Company's reserves available for distribution, calculated in accordance with the provisions of the Companies Act 1981 of Bermuda (as amended), amounted to approximately HK$55,137,000 of which HK$28,569,000 has been proposed as final and special dividends for the year. In addition, the Company's share premium account, in the amount of approximately HK$63,502,000, may be distributed in the form of fully paid bonus shares.

DIRECTORS

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

Executive Directors

Mr. Poon Siu Chung *(Chairman and Managing Director)*
Mr. Ip Siu On *(resigned on 22 May 2012)*
Mr. Tsui Yan Lee, Benjamin
Dr. Poon Wai Tsun, William
Mr. Poon Wai Yip, Albert

Independent non-executive Directors

Mr. Lam Yat Cheong
Mr. Yip Chi Hung
Mr. Choy Wing Keung, David

In accordance with Bye-law 99 of the Bye-laws and the code of corporate governance of the Company, Mr. Poon Siu Chung and Dr. Poon Wai Tsun, William, being executive Directors, shall retire from office by rotation at the conclusion of the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

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

DIRECTOR'S SERVICE CONTRACTS

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

All independent non-executive Directors have been appointed for a term of approximately one year.

All independent non-executive Directors will hold office until the conclusion of the forthcoming annual general meeting of the Company.

REPORT OF THE DIRECTORS

DIRECTORS' INTERESTS IN SHARES AND OPTIONS

At 31 December 2012, the interests of the Directors in the shares, underlying shares and debentures of the Company and its associated corporations (as defined in Part XV of the Securities and Futures Ordinance (Cap 571) ("SFO")) as recorded in the register maintained under Section 352 of Part XV of the SFO or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code"), were as follows:

(A) Long position in the shares of the Company

Directors	Capacity	Number of shares held	Number of underlying shares held under equity derivatives	Total	% of issued share capital of the Company
Mr. Poon Siu Chung	Beneficial owner	17,164,000	2,700,000 (b)		
	Interest of spouse	3,380,000	–		
	Interest of controlled corporation	101,139,430	–	124,383,430 (a)	47.71
Mr. Tsui Yan Lee, Benjamin	Beneficial owner	611,000	3,700,000 (b)	4,311,000	1.65
Dr. Poon Wai Tsun, William	Beneficial owner	–	5,200,000 (b)	5,200,000	1.99
Mr. Poon Wai Yip, Albert	Beneficial owner	–	5,200,000 (b)	5,200,000	1.99
Mr. Yip Chi Hung	Interest of controlled corporation	500,000 (c)	–		
	Beneficial owner	–	600,000 (b)	1,100,000	0.42
Mr. Lam Yat Cheong	Beneficial owner	–	900,000 (b)	900,000	0.35
Mr. Choy Wing Keung, David	Beneficial owner	–	900,000 (b)	900,000	0.35

Notes:

(a) Mr. Poon Siu Chung was the beneficial owner of 17,164,000 shares of the Company and he was deemed to be interested in 3,380,000 shares and 101,139,430 shares which were held by his spouse, Ms. Lau Kwai Ngor and through Mime Limited, a limited company incorporated in Hong Kong and owned as to 55% by Mr. Poon Siu Chung and as to 45% by his spouse, Ms. Lau Kwai Ngor respectively.

(b) These interests represented interests in underlying shares in respect of share options granted by the Company to these Directors as beneficial owners, details of which are set out in the section "Share Options" of this report.

(c) Mr. Yip Chi Hung was deemed to be interested in 500,000 shares which were held through First Canton Investment Limited, a company incorporated in the British Virgin Islands and 100% beneficially owned by Mr. Yip.

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

Directors	Name of associated corporation	Capacity	Number of shares held	Total	% of issued share capital of the associated corporation
Mr. Poon Siu Chung	Perfectech International Limited	Beneficial owner	200		
		Interest of spouse	200	400 (d)	50
	Sunflower Garland Manufactory Limited	Beneficial owner	60,800		
		Interest of spouse	20,800	81,600 (e)	51
Mr. Tsui Yan Lee, Benjamin	Sunflower Garland Manufactory Limited	Beneficial owner	28,800	28,800	18

Notes:

(d) Mr. Poon Siu Chung was the beneficial owner of 200 non-voting deferred shares ("Perfectech Shares") of HK$100 each in Perfectech International Limited, a subsidiary of the Company and was deemed to be interested in 200 Perfectech Shares through interests of his spouse, Ms. Lau Kwai Ngor.

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

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

Other than as disclosed above and nominee shares in certain subsidiaries held in trust for the Group, none of the Directors, nor their associates, had any interests or short positions in any shares, underlying shares or debenture of the Company or any of its associated corporations as at 31 December 2012.

REPORT OF THE DIRECTORS

SHARE OPTIONS

Particulars of the Company's share option scheme are set out in note 33 to the financial statements.

Details of the movements in the Company's share options during the year are as follows:

	Number of options outstanding 1.1.2012	Number of options granted during the year	Number of options exercised during the year	Number of options lapsed during the year	Number of options outstanding at 31.12.2012	Date granted	Exercise price per share HK$	Exercisable period
Directors								
Poon Siu Chung	2,700,000	–	–	–	2,700,000	13/04/2011	0.740	01/05/2011–31/12/2020
Tsui Yan Lee, Benjamin	1,000,000	–	(1,000,000)	–	–	02/02/2005	0.608	02/05/2005–31/12/2014
	2,700,000	–	–	–	2,700,000	13/04/2011	0.740	01/05/2011–31/12/2020
	–	1,000,000	–	–	1,000,000	15/06/2012	0.600	16/06/2012–15/06/2022
Poon Wai Tsun, William	2,700,000	–	–	–	2,700,000	13/04/2011	0.740	01/05/2011–31/12/2020
	–	2,500,000	–	–	2,500,000	15/06/2012	0.600	16/06/2012–15/06/2022
Poon Wai Yip, Albert	2,700,000	–	–	–	2,700,000	13/04/2011	0.740	01/05/2011–31/12/2020
	–	2,500,000	–	–	2,500,000	15/06/2012	0.600	16/06/2012–15/06/2022
Yip Chi Hung	300,000	–	–	–	300,000	13/04/2011	0.740	01/05/2011–31/12/2020
	–	300,000	–	–	300,000	15/06/2012	0.600	16/06/2012–15/06/2022
Lam Yat Cheong	300,000	–	–	–	300,000	02/11/2007	0.850	01/12/2007–31/12/2016
	300,000	–	–	–	300,000	13/04/2011	0.740	01/05/2011–31/12/2020
	–	300,000	–	–	300,000	15/06/2012	0.600	16/06/2012–15/06/2022
Choy Wing Keung, David	300,000	–	–	–	300,000	02/11/2007	0.850	01/12/2007–31/12/2016
	300,000	–	–	–	300,000	13/04/2011	0.740	01/05/2011–31/12/2020
	–	300,000	–	–	300,000	15/06/2012	0.600	16/06/2012–15/06/2022
Employees	1,000,000	–	(1,000,000)	–	–	02/02/2005	0.608	02/05/2005–31/12/2014
	1,500,000	–	(1,500,000)	–	–	24/03/2006	0.540	24/04/2006–31/12/2014
	7,000,000	–	–	–	7,000,000	02/11/2007	0.850	01/12/2007–31/12/2016
	2,700,000	–	–	(2,700,000)	–	13/04/2011	0.740	01/05/2011–31/12/2020
	13,196,000	–	–	(1,598,000)	11,598,000	28/04/2011	0.770	01/05/2011–31/12/2020
	–	5,000,000	–	–	5,000,000	15/06/2012	0.600	16/06/2012–15/06/2022
Sub-total	38,696,000	11,900,000	(3,500,000)	(4,298,000)	42,798,000			
Others	1,000,000	–	–	(1,000,000)	–	05/06/2002	0.664	05/07/2002–17/05/2012
	1,000,000	–	–	–	1,000,000	02/02/2005	0.608	02/05/2005–31/12/2014
Sub-total	2,000,000	–	–	(1,000,000)	1,000,000			
Grand Total	40,696,000	11,900,000	(3,500,000)	(5,298,000)	43,798,000			

The closing price of the Company's shares on 5 June 2002, 2 February 2005, 24 March 2006, 2 November 2007, 13 April 2011, 28 April 2011 and 15 June 2012, the dates of grant of the options, were HK$0.640, HK$0.600, HK$0.520, HK$0.850, HK$0.740, HK$0.770 and HK$0.590 respectively.

REPORT OF THE DIRECTORS

SHARE OPTIONS *(Cont'd)*

According to the Binomial Option Pricing Model, the details of the options granted during the year under the option scheme were as follows:

Date of grant	Number of shares issuable under options granted	Option value	Closing share price oat date of grant	Risk free rate	Volatility	Expiration of the options	Dividend yield
15 June 2012	11,900,000	HK$1,392,300	HK$0.590	1.06%	39.90%	15 June 2022	9.21%

Share options were exercised on various dates during the year, the weighted average closing price of the Company's shares immediately before those dates was HK$0.773.

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

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

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

On 31st December, 2010, the Group entered into a tenancy agreement with Mr. Poon Siu Chung, a substantial shareholder and director of the Company, in relation to the premises at Nos. 34 and 35 of Xiazha Industrial Street, Jinding Town, Zhuhai, the People's Republic of China, for a monthly rent of HK$20,000 for a period of three years commencing from 1st January, 2011. The said premises are used by the Group as factories. The total rent payable by the Group for the premises for the full period of the tenancy under the aforesaid tenancy agreement will amount to HK$720,000. During the year, the Group paid rent to Mr. Poon Siu Chung totalling HK$240,000.

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

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

REPORT OF THE DIRECTORS

SUBSTANTIAL SHAREHOLDERS

Other than the interests disclosed above in the section "Directors' Interests in Shares and Options", as at 31 December 2012, the register of substantial shareholders' interests maintained by the Company pursuant to Section 336 of the SFO showed that the following shareholders had notified the Company of the relevant interests in the shares capital of the Company as follows: –

Long position in the shares of the Company

Shareholder	Capacity	Number of Shares held	Number of underlying shares held under equity derivatives	Total	% of issued share capital of the Company
Ms. Lau Kwai Ngor	Beneficial owner	3,380,000	–		
	Interest of spouse	17,164,000	2,700,000		
	Interest of controlled corporation	101,139,430	–	124,383,430(a)	47.71
Mime Limited	Beneficial owner	101,139,430	–	101,139,430(a)	38.79
Mr. Leung Ying Wai, Charles	Interest of spouse and controlled corporation	63,097,200	–	63,097,200(b)	24.20
Ms. Tai Yee Foon	Interest of spouse and controlled corporation	63,097,200	–	63,097,200(b)	24.20
Nielsen Limited	Beneficial owner	63,097,200	–	63,097,200(b)	24.20

Notes:

(a) Under the SFO, Ms. Lau Kwai Ngor was the beneficial owner of 3,380,000 shares of the Company and was deemed to be interested in 19,864,000 shares of the Company through interests of her spouse, Mr. Poon Siu Chung. Mr. Poon Siu Chung was the beneficial owner of 17,164,000 shares of the Company and he was deemed to be interested in 101,139,430 shares of the Company which were held through Mime Limited, a limited company incorporated in Hong Kong and owned as to 55% by Mr. Poon Siu Chung and as to 45% by his spouse, Ms. Lau Kwai Ngor.

(b) Under the SFO, Mr. Leung Ying Wai, Charles and Ms. Tai Yee Foon were deemed to be interested in 63,097,200 shares of the Company, which were held through Nielsen Limited, a limited company incorporated in Hong Kong and beneficially owned by Mr. Leung Ying Wai, Charles, Ms. Tai Yee Foon and his family members.

APPOINTMENT OF INDEPENDENT NON-EXECUTIVE DIRECTORS

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

REPORT OF THE DIRECTORS

CORPORATE GOVERNANCE

Save as disclosed in the Corporate Governance Report, the Company has adopted throughout the year ended 31 December 2012 with the Corporate Governance Code and Corporate Governance Report ("Code Provision") set out in the Appendix 14 of the Listing Rules.

Details of the Company's corporate governance practices can be found in the Corporate Governance Report in pages 13 to 23 of this annual report.

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

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

Month of repurchase	No. of shares of HK$0.10 each	Price per share Highest	Price per share Lowest	Aggregate amount paid
		HK$	HK$	HK$
January 2012	2,200,000	0.710	0.710	1,571,577
April 2012	1,800,000	0.770	0.770	1,394,117
May 2012	1,800,000	0.770	0.760	1,382,086
October 2012	290,000	0.710	0.710	207,163
November 2012	500,000	0.740	0.740	372,216
	6,590,000			4,927,159

EMOLUMENT POLICY

The emolument policy of the employees of the Group is set by the Board and reviewed by the Remuneration Committee on the basis of their merit, qualifications and competence.

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

The Company has adopted a share option scheme as an incentive to directors and eligible employees, details of the scheme is set out in note 33 to the financial statements.

PRE-EMPTIVE RIGHTS

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

SUFFICIENCY OF PUBLIC FLOAT

The Company has maintained a sufficient public float throughout the year ended 31 December 2012 and up to the date hereof.

REPORT OF THE DIRECTORS

EVENTS AFTER THE REPORTING PERIOD

Details of significant events occurring after the reporting period are set out in note 35 to the financial statements.

AUDITOR

During the year, Messrs. HLM & Co., who acted as auditor of the Company for the past three years, resigned and Messrs. HLM CPA Limited was appointed as auditor of the Company. A resolution will be submitted to the annual general meeting to re-appoint the auditor, Messrs. HLM CPA Limited.

On behalf of the Board

Poon Siu Chung
Chairman & Managing Director

Hong Kong, 27 March 2013

INDEPENDENT AUDITOR'S REPORT

恒健會計師行有限公司
HLM CPA LIMITED
Certified Public Accountants

Room 305, Arion Commercial Centre,
2-12 Queen's Road West, Hong Kong.
香港皇后大道西 2-12 號聯發商業中心 305 室
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TO THE MEMBERS OF PERFECTECH INTERNATIONAL HOLDINGS LIMITED
(incorporated in the Bermuda with limited liability)

We have audited the consolidated financial statements of Perfectech International Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 35 to 114 which comprise the consolidated statement of financial position as at 31 December 2012, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' responsibility for the consolidated financial statements

The directors of the Company are responsible for the preparation 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 disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

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

INDEPENDENT AUDITOR'S REPORT

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

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

Opinion

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

HLM CPA Limited
Certified Public Accountants
Chan Lap Chi
Practising Certificate Number: P04084
Hong Kong, 27 March 2013

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2012

	Notes	2012 HK$'000	2011 HK$'000 (Restated)
Continuing operations			
Revenue	5 & 6	**290,079**	330,211
Cost of sales		**(227,689)**	(275,052)
Gross profit		**62,390**	55,159
Net other income (expenses)	7	**24,106**	(9,120)
Distribution costs		**(9,796)**	(11,675)
Increase in fair value of an investment property	17	**1,700**	884
Administrative expenses		**(33,252)**	(39,218)
Finance costs	8	**(319)**	(417)
Profit (loss) before tax	9	**44,829**	(4,387)
Income tax (expenses) credit	11	**(5,660)**	1,371
Profit (loss) for the year from continuing operations		**39,169**	(3,016)
Discontinued operations			
Loss for the year from discontinued operations	12	**(1,402)**	(616)
Profit (loss) for the year		**37,767**	(3,632)
Other comprehensive income			
Exchange difference on translation of overseas operations		**1,667**	379
Total comprehensive income (expenses) for the year		**39,434**	(3,253)
Profit (loss) for the year attributable to:			
Owners of the Company		**33,856**	(5,613)
Non-controlling interests		**3,911**	1,981
Profit (loss) for the year		**37,767**	(3,632)
Total comprehensive income (expenses) for the year attributable to:			
Owners of the Company		**35,424**	(5,245)
Non-controlling interests		**4,010**	1,992
Total comprehensive income (expenses) for the year		**39,434**	(3,253)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2012

	Notes	2012 HK$	2011 HK$ (Restated)
Earnings (loss) per share	14		
From continuing and discontinued operations			
Basic		**12.93 Cents**	(2.09 Cents)
Diluted		**12.85 Cents**	(2.09 Cents)
From continuing operations			
Basic		**13.47 Cents**	(1.86 Cents)
Diluted		**13.39 Cents**	(1.86 Cents)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2012

	Notes	2012 HK$'000	2011 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	15	**35,264**	38,330
Investment property	17	**10,200**	8,500
Deferred tax assets	26	**4,075**	5,984
Deferred rental income		**10**	–
		49,549	52,814
CURRENT ASSETS			
Inventories	18	**39,689**	60,256
Trade and other receivables	19	**38,741**	53,050
Deferred rental income		**5**	–
Amounts due from a related company	36	**527**	1,161
Prepaid lease payments	16	**–**	–
Tax recoverable		**771**	608
Investments held-for-trading	22	**59,736**	68,025
Derivative financial instruments	21	**354**	622
Pledged bank deposits	23	**8,281**	1,254
Bank balances and cash	20	**75,318**	60,399
		223,422	245,375
CURRENT LIABILITIES			
Trade and other payables	24	**41,260**	55,151
Derivative financial instruments	21	**4,508**	3,692
Tax liabilities		**4,243**	2,373
Bank borrowings	25	**9,221**	25,670
		59,232	86,886
NET CURRENT ASSETS		**164,190**	158,489
TOTAL ASSETS LESS CURRENT LIABILITIES		**213,739**	211,303
NON-CURRENT LIABILITIES			
Deferred tax liabilities	26	**245**	668
NET ASSETS		**213,494**	210,635

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2012

	Notes	2012 HK$'000	2011 HK$'000
CAPITAL AND RESERVES			
Share capital	27	**26,072**	26,381
Reserves		**175,259**	175,031
Equity attributable to owners of the Company		**201,331**	201,412
Non-controlling interests		**12,163**	9,223
TOTAL EQUITY		**213,494**	210,635

The financial statements on pages 35 to 114 were approved and authorised for issue by the board of directors on 27 March 2013 and are signed on its behalf by:

DIRECTOR DIRECTOR

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2012

	Share capital HK$'000	Share premium HK$'000	Capital redemption reserve HK$'000	Share options reserve HK$'000	Translations reserve HK$'000	Retained profits HK$'000	Equity attributable to equity holders of the Company HK$'000	Non-controlling interests HK$'000	Total HK$'000
At 1 January 2011	27,521	72,962	8,138	2,852	78	107,652	219,203	9,258	228,461
(Loss) profit for the year	–	–	–	–	–	(5,613)	(5,613)	1,981	(3,632)
Other comprehensive income for the year	–	–	–	–	368	–	368	11	379
Total comprehensive income (expenses) for the year	–	–	–	–	368	(5,613)	(5,245)	1,992	(3,253)
Share issued upon exercise of options	300	1,761	–	(441)	–	–	1,620	–	1,620
Dividends (Note 13)	–	–	–	–	–	(9,414)	(9,414)	(315)	(9,729)
Share option lapsed	–	–	–	(247)	–	247	–	–	–
Share option granted	–	–	–	6,220	–	–	6,220	–	6,220
Repurchase and cancellation of shares	(1,440)	(9,101)	1,440	–	–	(1,440)	(10,541)	–	(10,541)
Reserves released upon winding up of a subsidiary	–	–	–	–	(58)	49	(9)	9	–
Disposal of partial equity interest of an existing subsidiary	–	–	–	–	–	(115)	(115)	2,610	2,495
Acquisition of additional equity interest of an existing subsidiary	–	–	–	–	–	(307)	(307)	(4,331)	(4,638)
At 31 December 2011	26,381	65,622	9,578	8,384	388	91,059	201,412	9,223	210,635
At 1 January 2012	26,381	65,622	9,578	8,384	388	91,059	201,412	9,223	210,635
Profit for the year	–	–	–	–	–	33,856	33,856	3,911	37,767
Other comprehensive income for the year	–	–	–	–	1,568	–	1,568	99	1,667
Total comprehensive income for the year	–	–	–	–	1,568	33,856	35,424	4,010	39,434
Share issued upon exercise of options	350	2,148	–	(472)	–	–	2,026	–	2,026
Dividends (Note 13)	–	–	–	–	–	(33,996)	(33,996)	(1,070)	(35,066)
Share option lapsed	–	–	–	(965)	–	965	–	–	–
Share option granted	–	–	–	1,392	–	–	1,392	–	1,392
Repurchase and cancellation of shares	(659)	(4,268)	659	–	–	(659)	(4,927)	–	(4,927)
At 31 December 2012	26,072	63,502	10,237	8,339	1,956	91,225	201,331	12,163	213,494

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2012

	2012 HK$'000	2011 HK$'000
OPERATING ACTIVITIES		
Profit (loss) before tax	**43,252**	(5,255)
Adjustments for:		
Allowance for doubtful debts	**2,777**	1,325
Depreciation of property, plant and equipment	**8,983**	10,064
Dividend income from investment held-for-trading	**(2,328)**	(1,860)
Gain on disposal of property, plant and equipment	**(2,115)**	(2,676)
(Gain) loss on disposal of investments held-for-trading	**(8,053)**	5,355
Net change in fair value of investment property	**(1,700)**	(884)
Interest expenses	**371**	478
Interest income	**(63)**	(73)
Net change in fair value of derivative financial instruments	**1,084**	309
Net change in fair value of investments held-for-trading	**(8,900)**	13,197
Release of prepaid lease payments	**–**	6
Share-based payment expenses	**1,392**	6,220
Written down of inventories	**–**	800
Operating cash flows before movements in working capital	**34,700**	27,006
Decrease in trade and other receivables	**11,532**	2,124
Decrease (increase) in inventories	**20,567**	(3,624)
Increase in deferred rental income	**(15)**	–
(Decrease) increase in trade and other payables	**(13,891)**	9,595
Decrease in amounts due from a related company	**634**	1,284
Cash generated from operations	**53,527**	36,385
Hong Kong Profits Tax paid, net	**(2,027)**	(2,563)
PRC Enterprise Income Tax paid, net	**(265)**	(1)
NET CASH FROM OPERATING ACTIVITIES	**51,235**	33,821
INVESTING ACTIVITIES		
(Increase) decrease in pledged bank deposits	**(7,027)**	3,564
Dividends received from investments held-for-trading	**2,328**	1,860
Interest received	**63**	73
Proceeds on disposal of investments held-for-trading	**76,605**	227,442
Proceeds on disposal of property, plant and equipment	**2,843**	3,620
Purchase of investments held-for-trading	**(51,363)**	(241,109)
Purchase of property, plant and equipment	**(5,945)**	(10,597)
Purchase of an investment property	**–**	(7,616)
Acquisition of additional equity interest of an existing subsidiary	**–**	(4,638)
Proceeds on disposal of partial equity interest of an existing subsidiary	**–**	2,495
NET CASH FROM (USED IN) INVESTING ACTIVITIES	**17,504**	(24,906)

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2012

	2012 HK$'000	2011 HK$'000
FINANCING ACTIVITIES		
Dividends paid to owners of the Company	**(33,996)**	(9,414)
Dividends paid to non-controlling interests	**(1,070)**	(315)
Interest paid	**(371)**	(478)
New bank borrowings and trust receipt loans raised	**16,878**	40,180
Payment for repurchase of shares	**(4,927)**	(10,541)
Proceeds received upon share option exercised	**2,026**	1,620
Repayment of bank borrowings and trust receipt loans	**(33,327)**	(42,260)
NET CASH USED IN FINANCING ACTIVITIES	**(54,787)**	(21,208)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**13,952**	(12,293)
CASH AND CASH EQUIVALENTS AT 1 JANUARY	**60,399**	72,487
Effect of change in foreign exchange rates	**967**	205
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	**75,318**	60,399
ANALYSIS OF CASH AND CASH EQUIVALENTS		
Bank balances and cash	**75,318**	60,399

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

1. GENERAL

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

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

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

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

The accounting policies and methods of computation used in these financial statements are the same as those followed in the preparation of the Group's financial statements for the year ended 31 December 2011, except for the following amendments to HKFRSs that the Group has applied for the first time in the current year. The application of these new and revised HKFRSs has had no impact on the Group's financial performance and positions for the current and prior years but may affect the accounting for future transactions or arrangements.

HKFRS 1 (Amendments)	Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters
HKFRS 7 (Amendments)	Financial Instruments: Disclosures – Transfers of Financial Assets
HKAS 12 (Amendments)	Deferred Tax: Recovery of Underlying Assets

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

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

HKFRS 9 Financial Instruments

HKFRS 9 issued in 2009 introduced new requirements for the classification and measurement of financial assets. HKFRS 9 was amended in 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition.

Key requirements of HKFRS 9 are described below:

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

- With regard to the measurement of financial liabilities designated as at fair value through profit or loss, HKFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value of financial liabilities attributable to changes in the financial liabilities' credit risk are not subsequently reclassified to profit or loss. Previously, under HKAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss was presented in profit or loss.

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

The directors anticipate that the adoption of HKFRS 9 in the future may have impact on amounts reported in respect of the Group's financial assets and financial liabilities. Regarding the Group's financial assets, it is not practicable to provide a reasonable estimate of that effect until a detailed review has been completed.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

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

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

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

Key requirements of these five standards are described below.

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

HKFRS 11 replaces HKAS 31 Interests in Joint Ventures. HKFRS 11 deals with how a joint arrangement of which two or more parties have joint control should be classified. HK (SIC) – Int 13 Jointly Controlled Entities – Non-monetary Contributions by Venturers will be withdrawn upon the effective date of HKFRS 11. Under HKFRS 11, joint arrangements are classified as joint operations or joint ventures, depending on the rights and obligations of the parties to the arrangements. In contrast, under HKAS 31, there are three types of joint arrangements: jointly controlled entities, jointly controlled assets and jointly controlled operations. In addition, joint ventures under HKFRS 11 are required to be accounted for using the equity method of accounting, whereas jointly controlled entities under HKAS 31 can be accounted for using the equity method of accounting or proportionate consolidation.

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

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

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

The directors anticipate that these five standards will be adopted in the Group's consolidated financial statements for the annual period beginning 1 January 2013. The application of these five standards may have impact on amounts reported in the consolidated financial statements. However, the directors have not yet performed a detailed analysis of the impact of the application of these Standards and hence have not yet quantified the extent of the impact.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

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

HKFRS 13 Fair Value Measurement

HKFRS 13 establishes a single source of guidance for fair value measurements and disclosures about fair value measurements. The Standard defines fair value, establishes a framework for measuring fair value, and requires disclosures about fair value measurements. The scope of HKFRS 13 is broad; it applies to both financial instrument items and non-financial instrument items for which other HKFRSs require or permit fair value measurements and disclosures about fair value measurements, except in specified circumstances. In general, the disclosure requirements in HKFRS 13 are more extensive than those in the current standards. For example, quantitative and qualitative disclosures based on the three-level fair value hierarchy currently required for financial instruments only under HKFRS 7 Financial Instruments: Disclosures will be extended by HKFRS 13 to cover all assets and liabilities within its scope.

HKFRS 13 is effective for annual periods beginning on or after 1 January 2013, with earlier application permitted.

The directors anticipate that HKFRS 13 will be adopted in the Group's consolidated financial statements for the annual period beginning 1 January 2013 and that the application of the new Standard may affect the amounts reported in the consolidated financial statements and result in more extensive disclosures in the consolidated financial statements.

Amendments to HKFRS 10, HKFRS 12 and HKAS 27 (as revised in 2011) – Investment Entities

The amendment to HKFRS 10 introduce an exception to consolidating subsidiaries for an investment entity, except where the subsidiaries provide services that relate to the investment entity's investment activities. Under the amendments to HKFRS 10, an investment entity is required to measure its interest in subsidiaries at fair value through profit or loss.

To qualify as in investment entity, certain criteria have to be met. Specifically, an entity is required to:

- Obtain funds from one or more investors for the purpose of providing them with professional investment management services;
- Commit to its investor(s) that its business purpose is to invest funds solely for returns from capital appreciation, investment income, or both; and
- Measure and evaluate performance of substantially all of its investments on a fair value basis.

Consequential amendments to HKFRS 12 and HKAS 27 have been made to introduce new disclosure requirements for investment entities.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

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

Amendments to HKFRS 10, HKFRS 12 and HKAS 27 (as revised in 2011) – Investment Entities *(Cont'd)*

The amendments to HKFRS 10, HKFRS 12 and HKAS 27 are effective from annual periods beginning on or after 1 January 2014 with early application permitted. The directors is in the process of assessing the potential impact of the new HKFRSs but is not yet in a position to determine whether the new HKFRSs will have a significant impact on how its results of operations and financial position are prepared and presented. The new HKFRSs may result in changes in the future as to how the results and financial position are prepared and presented.

Amendments to HKFRS 7 and HKAS 32 Offsetting Financial Assets and Financial Liabilities and the related disclosures

The amendments to HKAS 32 clarify existing application issues relating to the offset of financial assets and financial liabilities requirements. Specifically, the amendments clarify the meaning of 'currently has a legally enforceable right of set-off' and 'simultaneous realisation and settlement'.

The amendments to HKFRS 7 require entities to disclose information about rights of offset and related arrangements (such as collateral posting requirements) for financial instruments under an enforceable master netting agreement or similar arrangement.

The amendments to HKFRS 7 are effective for annual periods beginning on or after 1 January 2013 and interim periods within those annual periods. The disclosures should be provided retrospectively for all comparative periods. However, the amendments to HKAS 32 are not effective until annual periods beginning on or after 1 January 2014, with retrospective application required.

The directors anticipate that the application of these amendments to HKAS 32 and HKFRS 7 may result in more disclosures being made with regard to offsetting financial assets and financial liabilities in the future.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

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

HKAS 19 Employee Benefits

The amendments to HKAS 19 change the accounting for defined benefit plans and termination benefits. The most significant change relates to the accounting for changes in defined benefit obligations and plan assets. The amendments require the recognition of changes in defined benefit obligations and in fair value of plan assets when they occur, and hence eliminate the 'corridor approach' permitted under the previous version of HKAS 19 and accelerate the recognition of past service costs. The amendments require all actuarial gains and losses to be recognised immediately through other comprehensive income in order for the net pension asset or liability recognised in the consolidated statement of financial position to reflect the full value of the plan deficit or surplus. Furthermore, the interest cost and expected return on plan assets used in the previous version of HKAS 19 are replaced with a 'net-interest' amount, which is calculated by applying the discount rate to the net defined benefit liability or asset.

The amendments to HKAS 19 are effective for annual periods beginning on or after 1 January 2013 and require retrospective application. The directors anticipate that the amendments to HKAS 19 will have no effect to the Group's financial statements as the Group does not provide in such benefits.

Amendments to HKAS 1 Presentation of Items of Other Comprehensive Income

The amendments to HKAS 1 introduce new terminology for the statement of comprehensive income and income statement. Under the amendments to HKAS 1, a statement of comprehensive income is renamed as a statement of profit or loss and other comprehensive income and an income statement is renamed as a statement of profit or loss. The amendments to HKAS 1 retain the option to present profit or loss and other comprehensive income in either a single statement or in two separate but consecutive statements. However, the amendments to HKAS 1 require items of other comprehensive income to be grouped into two categories in the other comprehensive income section: (a) items that will not be reclassified subsequently to profit or loss and (b) items that may be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis. The amendments do not change the option to present items of other comprehensive income either before tax or net of tax.

The amendments to HKAS 1 are effective for annual periods beginning on or after 1 July 2012. The presentation of items of other comprehensive income will be modified accordingly when the amendments are applied in the future accounting periods.

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

Annual Improvements to HKFRSs 2009 – 2011 Cycle issued in June 2012

The Annual Improvements to HKFRSs 2009 – 2011 Cycle include a number of amendments to various HKFRSs. The amendments are effective for annual periods beginning on or after 1 January 2013. Amendments to HKFRSs include:

- amendments to HKAS 16 Property, Plant and Equipment; and
- amendments to HKAS 32 Financial Instruments: Presentation.

Amendments to HKAS 16

The amendments to HKAS 16 clarify that spare parts, stand-by equipment and servicing equipment should be classified as property, plant and equipment when they meet the definition of property, plant and equipment in HKAS 16 and as inventory otherwise. The directors do not anticipate that the amendments to HKAS 16 will have a significant effect on the Group's consolidated financial statements.

Amendments to HKAS 32

The amendments to HKAS 32 clarify that income tax on distributions to holders of an equity instrument and transaction costs of an equity transaction should be accounted for in accordance with HKAS 12 Income Taxes. The directors anticipate that the amendments to HKAS 32 will have no effect on the Group's consolidated financial statement.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

3. SIGNIFICANT ACCOUNTING POLICIES

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

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

The principal accounting policies are set out below.

Basis of consolidation

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

Income and expenses of subsidiaries acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the effective date of acquisition and up to the effective date of disposal, as appropriate. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

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

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

Changes in the Group's ownership interests in existing subsidiaries

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

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

Basis of consolidation *(Cont'd)*

Changes in the Group's ownership interests in existing subsidiaries (Cont'd)

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

Business combinations

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

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

- deferred tax assets or liabilities, and assets or liabilities related to employee benefit arrangements are recognised and measured in accordance with HKAS 12 Income Taxes and HKAS 19 Employee Benefits respectively;

- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with HKFRS 2 Share-based Payment at the acquisition date (see the accounting policy below); and

- assets (or disposal groups) that are classified as held for sale in accordance with HKFRS 5 Non-current Assets Held for Sale and Discontinued Operations are measured in accordance with that Standard.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

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

Business combinations *(Cont'd)*

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

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 may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at their fair value or, when applicable, on the basis specified in another HKFRS.

When the consideration transferred by the Group in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with the corresponding adjustments against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the "measurement period" (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

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

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

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

Business combinations *(Cont'd)*

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

Revenue recognition

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

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

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

Revenue recognition *(Cont'd)*

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

Management fee income is recognised where services are rendered.

Property, plant and equipment

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

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

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

Investment properties

Investment properties are properties held to earn rentals and/or for capital appreciation. Investment properties are measured initially at cost. Subsequent to initial recognition, investment properties are measured at fair value. Gains and losses arising from changes in the fair value of investment properties are included in profit or loss in the period in which they arise.

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

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

Impairment of tangible and intangible assets other than goodwill

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

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

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

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

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

Leasing

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

The Group as lessor

Amounts due from lessees under finance leases are recognised as receivables at the amount of the Group's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Group's net investment outstanding in respect of the leases.

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

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

Leasing *(Cont'd)*

The Group as lessee

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

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

Leasehold land for own use

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

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

Foreign currencies

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

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

Foreign currencies *(Cont'd)*

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

- exchange differences on foreign currency borrowings relating to assets under construction for future productive use, which are included in the cost of those assets when they are regarded as an adjustment to interest costs on those foreign currency borrowings;

- exchange differences on transactions entered into in order to hedge certain foreign currency risks; and

- exchange differences on monetary items receivable from or payable to foreign operation for which settlement is neither planned nor likely to occur (therefore forming part of the net investment in the foreign operation), which are recognised initially in other comprehensive income and reclassified from equity to profit or loss on repayment of the monetary items.

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

On the disposal of a foreign operation (i.e. a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, a disposal involving loss of joint control over a jointly controlled entity that includes a foreign operation, or a disposal involving loss of significant influence over an associate that includes a foreign operation), all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Company are reclassified to profit or loss.

In relation to a partial disposal of a subsidiary that does not result in the Group losing control over the subsidiary, the proportionate share of accumulated exchange differences are re-attributed to non-controlling interests and are not recognised in profit or loss. For all other partial disposals (i.e. partial disposals of associates or jointly controlled entities that do not result in the Group losing significant influence or joint control), the proportionate share of the accumulated exchange differences is reclassified to profit or loss.

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

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

Borrowing costs

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

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

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

Retirement benefit costs

Payments to defined contribution retirement benefit plans and state-managed retirement benefit schemes are recognised as an expense when employees have rendered service entitling them to the contributions.

Taxation

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

Current tax

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

Deferred tax

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

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

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

Taxation *(Cont'd)*

Deferred tax (Cont'd)

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

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

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

For the purposes of measuring deferred tax liabilities or deferred tax assets for investment properties that are measured using the fair value model, the carrying amounts of such properties are presumed to be recovered entirely through sale, unless the presumption is rebutted. The presumption is rebutted when the investment property is depreciable and is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale.

Current and deferred tax for the year

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

Inventories

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

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

Financial instruments

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

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

Financial assets

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

Effective interest method

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

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

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

Financial instruments *(Cont'd)*

Financial assets (Cont'd)

Financial assets at FVTPL

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

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near future; or

- on initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or

- it is a derivative that is not designated and effective as a hedging instrument.

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

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or

- the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or

- it forms part of a contract containing one or more embedded derivatives, and HKAS 39 Financial Instruments: Recognition and Measurement permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any dividend or interest earned on the financial asset and is included in the 'other gains and losses' line item in the consolidated statement of comprehensive income. Fair value is determined in the manner described in note 21.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

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

Financial instruments *(Cont'd)*

Financial assets (Cont'd)

Loan and receivables

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

Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

Impairment of financial assets

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

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

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

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

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

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

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

Financial instruments *(Cont'd)*

Financial assets (Cont'd)

Impairment of financial assets (Cont'd)

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

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

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

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

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

Classification as debt or equity

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

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

Financial instruments *(Cont'd)*

Financial assets (Cont'd)

Equity instrument

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

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

Financial liabilities at FVTPL

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

A financial liability is classified as held for trading if:

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

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

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

Financial liabilities at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any interest paid on the financial liability and is included in the 'other gains and losses' line item in the consolidated statement of comprehensive income. Fair value is determined in the manner described in note 21.

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

Financial instruments *(Cont'd)*

Financial assets (Cont'd)

Other financial liabilities

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

Effective interest method

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

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

Derivative financial instruments

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

Derecognition

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

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

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

Financial instruments *(Cont'd)*

Derecognition (Cont'd)

On derecognition of a financial asset other than in its entirety, the Group allocates the previous carrying amount of the financial asset between the part it continues to recognise, and the part it no longer recognises on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognised and the sum of the consideration received for the part no longer recognised and any cumulative gain or loss allocated to it that had been recognised in other comprehensive income is recognised in profit or loss. A cumulative gain or loss that had been recognised in other comprehensive income is allocated between the part that continues to be recognised and the part that is no longer recognised on the basis of the relative fair values of those parts.

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

Provisions

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

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

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

Contingent liabilities acquired in a business combination

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

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

Share-based payment arrangements

Share-based payment transactions of the Company

For grants of share options that are conditional upon satisfying specified vesting conditions, the fair value of services received is determined by reference to the fair value of share options granted at the grant date and is expensed on a straight-line basis over the vesting period, with a corresponding increase in equity (share options reserve).

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

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

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

When share-based payment awards held by the employees of an acquiree (acquiree awards) are replaced by the Group's share-based payment awards (replacement awards), both the acquire awards and the replacement awards are measured in accordance with HKFRS 2 Share-based Payment ("market-based measure") at the acquisition date. The portion of the replacement awards that is included in measuring the consideration transferred in a business combination equals the market-based measure of the acquiree awards multiplied by the ratio of the portion of the vesting period completed to the greater of the total vesting period or the original vesting period of the acquiree award. The excess of the market-based measure of the replacement awards over the market-based measure of the acquiree awards included in measuring the consideration transferred is recognised as remuneration cost for post-combination service.

However, when the acquiree awards expire as a consequence of a business combination and the Group replaces those awards when it does not have an obligation to do so, the replacement awards are measured at their market-based measure in accordance with HKFRS 2. All of the market-based measure of the replacement awards is recognised as remuneration cost for post-combination service.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

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

Share-based payment arrangements *(Cont'd)*

Share-based payment transactions of the Company (Cont'd)

At the acquisition date, when the outstanding equity-settled share-based payment transactions held by the employees of an acquiree are not exchanged by the Group for its share-based payment transactions, the acquiree share-based payment transactions are measured at their market-based measure at the acquisition date. If the share-based payment transactions have vested by the acquisition date, they are included as part of the non-controlling interest in the acquiree. However, if the share-based payment transactions have not vested by the acquisition date, the market-based measure of the unvested share-based payment transactions is allocated to the non-controlling interest in the acquiree based on the ratio of the portion of the vesting period completed to the greater of the total vesting period or the original vesting period of the share-based payment transaction. The balance is recognised as remuneration cost for post-combination service.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 3, management is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and underlying assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

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

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

Depreciation

The Group's net book value of property, plant and equipment as at 31 December 2012 was approximately HK$35,264,000. The Group depreciates the property, plant and equipment, using the straight-line method, at the rate 2% to 30% per annum, commencing from the date the assets is placed into productive use. The estimated useful life and dates that the Group places the assets into productive use reflect the Directors' estimate of the periods that the Group intends to derive future economic benefits from the use of the Group's property, plant and equipment.

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

Fair value of investment property

Investment property is carried in the consolidated statement of financial position at 31 December 2012 at its fair value of HK$10,200,000. The fair value of the investment property was determined by reference to valuations conducted on the property by independent firms of property valuers using property valuation techniques which involve certain assumptions. Favourable or unfavourable changes to these assumptions may result in changes in the fair value of the Group's investment property and corresponding adjustments to the changes in fair value reported in the consolidated statement of comprehensive income and the carrying amount of the property included in the consolidated statement of financial position.

Impairment on trade receivables

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

Recoverability of Deferred Tax Assets

As at 31 December 2012, a deferred tax asset of HK$3,695,000 in relation to unused tax losses has been recognised in the Group's consolidated statement of financial position. The recoverability of deferred tax assets requires the Group to estimate the probability of taxable profits expected to arise from future operations. At the end of each reporting period, management evaluates the recoverability of deferred tax assets by way of profit forecast when necessary.

Impairment on inventories

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

5. REVENUE

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

	2012	2011
	HK$'000	HK$'000
Novelties and decorations products	**77,142**	81,761
Packaging products	**32,200**	50,309
Toys products	**180,737**	198,141
	290,079	330,211

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

6. SEGMENTS REPORTING

For management purposes, the Group is currently organised into three operating segments, namely the manufacture and sale of novelties and decorations products, the manufacture and sale of packaging products and the manufacture and sale of toy products.

Trading of PVC films and plastic materials was discontinued in the current year. The segment information reported on the next pages does not include any amounts for these discontinued operations, which are described in more detail in note 12.

The following is an analysis of the Group's revenue and results from continuing operations by reportable segment.

2012

	Novelties and decorations products HK$'000	Packaging products HK$'000	Toy products HK$'000	Eliminations HK$'000	Consolidated HK$'000
REVENUE					
External sales	77,142	32,200	180,737	–	290,079
Inter-segment sales	–	11,020	–	(11,020)	–
Total revenue for continuing operations	77,142	43,220	180,737	(11,020)	290,079
RESULT					
Segment result	(1,558)	(3,172)	30,001	–	25,271
Profit from investments					18,199
Increase in fair value of an investment property					1,700
Unallocated corporate expenses					(22)
Finance costs					(319)
Profit before tax					44,829
Income tax expenses					(5,660)
Profit for the year					39,169

Inter-segment sales are charged at prevailing market rates.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

6. SEGMENTS REPORTING *(Cont'd)*

	Novelties and decorations products HK$'000	Packaging products HK$'000	Toy products HK$'000	Consolidated HK$'000
ASSETS				
Segment assets	63,898	32,200	93,876	189,974
Unallocated corporate assets				81,344
Assets relating to PVC films and plastic materials operations				1,653
Consolidated total assets				272,971
LIABILITIES				
Segment liabilities	22,638	4,162	25,800	52,600
Unallocated corporate liabilities				6,828
Liabilities relating to PVC films and plastic materials operations				49
Consolidated total liabilities				59,477

	Novelties and decorations products HK$'000	Packaging products HK$'000	Toy products HK$'000	Others HK$'000	Consolidated HK$'000
Additions of property, plant and equipment	680	30	5,182	53	5,945
Depreciation and amortisation	1,961	2,192	4,809	8	8,970
Interest Income	20	25	15	1	61

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

6. SEGMENTS REPORTING *(Cont'd)*

2011

	Novelties and decorations products HK$'000	Packaging products HK$'000	Toy products HK$'000	Eliminations HK$'000	Consolidated HK$'000
REVENUE					
External sales	81,761	50,309	198,141	–	330,211
Inter-segment sales	1	15,728	–	(15,729)	–
Total revenue for continuing operations	81,762	66,037	198,141	(15,729)	330,211
RESULT					
Segment result	3,242	(2,744)	17,675	–	18,173
Loss from investments					(16,998)
Increase in fair value of an investment property					884
Unallocated corporate expenses					(6,029)
Finance costs					(417)
Loss before tax					(4,387)
Income tax credit					1,371
Loss for the year					(3,016)

Inter-segment sales are charged at prevailing market rates.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

6. SEGMENTS REPORTING *(Cont'd)*

	Novelties and decorations products HK$'000	Packaging products HK$'000	Toy products HK$'000	Consolidated HK$'000
ASSETS				
Segment assets	54,663	50,557	92,372	197,592
Unallocated corporate assets				82,813
Assets relating to PVC films and plastic materials operations				17,784
Consolidated total assets				298,189
LIABILITIES				
Segment liabilities	37,168	8,508	28,563	74,239
Unallocated corporate liabilities				6,020
Liabilities relating to PVC films and plastic materials operations				7,295
Consolidated total liabilities				87,554

	Novelties and decorations products HK$'000	Packaging products HK$'000	Toy products HK$'000	Consolidated HK$'000
Additions of property, plant and equipment	591	739	9,265	10,595
Depreciation and amortisation	2,225	3,345	4,463	10,033
Interest Income	21	32	18	71
Release of prepaid lease payments	–	–	6	6

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

6. SEGMENTS REPORTING *(Cont'd)*

For the purposes of monitoring segment performance and allocating resources between segments:

- all assets are allocated to operating segments other than held-for-trading investments, other financial assets, and deferred tax assets. Assets used jointly by segments are allocated on the basis of the revenues earned by individual segments; and

- all liabilities are allocated to operating segments other than deferred tax liabilities, other financial liabilities and borrowings. Liabilities for which segments are jointly liable are allocated in proportion to segment assets.

Geographical Information

The Group's revenue from continuing operations from external customers by location of operations are detailed below:

	2012	2011
	HK$'000	HK$'000
Sales revenue by geographical market:		
Hong Kong	**27,358**	50,206
Europe	**60,861**	88,803
America	**68,230**	78,661
Asia (other than Hong Kong)	**122,769**	103,380
Others	**10,861**	9,161
	290,079	330,211

6. SEGMENTS REPORTING *(Cont'd)*

Geographical Information *(Cont'd)*

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

	Carrying amount of segment assets		Additions to property, plant and equipment	
	2012 HK$'000	2011 HK$'000	**2012 HK$'000**	2011 HK$'000
Hong Kong	**167,956**	170,322	**506**	4
The People's Republic of China (the "PRC")	**105,015**	127,867	**5,439**	10,591
	272,971	298,189	**5,945**	10,595

Information about major customer

Included in revenues arising from sales of toy products of approximately HK$180,737,000 (2011: HK$198,141,000) are revenues of approximately HK$113,851,000 (2011: HK$152,663,000) which arose from sales to the Group's largest customer.

7. NET OTHER INCOME (EXPENSES)

	2012 HK$'000	2011 HK$'000
Continuing operations		
Bad debt recovered	**44**	283
Dividend incomes on investments held-for-trading	**2,328**	1,860
Gain on disposal of property, plant and equipment	**2,125**	2,676
Interest income	**61**	71
Net change in fair value of investments held-for-trading	**8,900**	(13,197)
Net change in fair value of derivative financial instruments	**(1,084)**	(309)
Rental income	**16**	116
Realised gain (loss) on disposal of investments held-for-trading	**8,053**	(5,355)
Sample sales	**1,092**	337
Scrap sales	**1,026**	1,981
Others	**1,545**	2,417
	24,106	(9,120)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

8. FINANCE COSTS

	2012 HK$'000	2011 HK$'000
Continuing operations		
Interest on:		
Bank borrowings wholly repayable within five years	**319**	417

9. PROFIT (LOSS) BEFORE TAX

	2012 HK$'000	2011 HK$'000
Continuing operations		
Profit (loss) before tax has been arrived at after charging:		
Auditor's remuneration	**890**	810
Allowance for doubtful debts	**2,677**	–
Cost of inventories recognised as an expense	**100,685**	131,575
Depreciation of property, plant and equipment	**8,970**	10,033
Foreign exchange losses, net	**69**	4,890
Operating lease rentals in respect of rented premises	**5,995**	5,533
Release of prepaid lease payments	**–**	6
Share-based payment expenses	**1,392**	6,220
Staff costs (including Directors' emoluments)	**93,205**	87,394
Written down of inventories	**–**	800

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

10. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

(a) Directors' emoluments

The emoluments paid or payable to each of the eight Directors in 2012 were as follows:

Emoluments	Fees	Other emoluments: Salaries and other benefits	Other emoluments: Retirement benefit scheme contributions	Total
	HK$'000	HK$'000	HK$'000	HK$'000
Poon Siu Chung	–	1,205	34	1,239
Ip Siu On *	–	579	25	604
Tsui Yan Lee, Benjamin	–	1,395	30	1,425
Poon Wai Tsun, William	–	903	14	917
Poon Wai Yip, Albert	–	866	14	880
Choy Wing Keung, David	50	35	–	85
Lam Yat Cheong	50	35	–	85
Yip Chi Hung	50	35	–	85
Total for 2012	150	5,053	117	5,320

* Resigned on 22 May 2012

The emoluments paid or payable to each of the eight Directors in 2011 were as follows:

Emoluments	Fees	Other emoluments: Salaries and other benefits	Other emoluments: Retirement benefit scheme contributions	Total
	HK$'000	HK$'000	HK$'000	HK$'000
Poon Siu Chung	–	1,919	30	1,949
Ip Siu On	–	1,759	30	1,789
Tsui Yan Lee, Benjamin	–	1,759	30	1,789
Poon Wai Tsun, William	–	1,039	12	1,051
Poon Wai Yip, Albert	–	626	1	627
Choy Wing Keung, David	50	67	–	117
Lam Yat Cheong	50	67	–	117
Yip Chi Hung	50	67	–	117
Total for 2011	150	7,303	103	7,556

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

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

(b) Employees' emoluments

Of the five individuals with the highest emoluments of the Group, four (2011: four) were Directors of the Company whose emoluments are set out in (a) above. The emoluments of the remaining one (2011: one) individuals were as follows:

	2012	2011
	HK$'000	HK$'000
		(Restated)
Salaries and other benefits	**1,060**	693
Retirement benefit schemes contributions	**14**	27
	1,074	720

Their emoluments were within the following bands:

	2012	2011
	Number of employees	Number of employees
		(Restated)
Nil – HK$1,000,000	**–**	1
HK$1,000,001- HK$1,500,000	**1**	–
	1	1

11. INCOME TAX EXPENSES (CREDIT)

	2012 HK$'000	2011 HK$'000
Relating to continuing operations		
Current tax:		
Hong Kong Profits Tax	**3,785**	2,351
PRC Enterprise Income Tax	**212**	–
	3,997	2,351
(Over) under provision in prior years:		
Hong Kong Profits Tax	**(60)**	–
PRC Enterprise Income Tax	**53**	1
	(7)	1
Deferred tax (note 26)		
Current year	**1,670**	(3,723)
Total income tax expenses (credit) recognised in profit or loss	**5,660**	(1,371)

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

PRC subsidiaries are subject to PRC Enterprise Income Tax at 25% for both years.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

11. INCOME TAX EXPENSES (CREDIT) *(Cont'd)*

The tax charge (credit) for the year can be reconciled to the profit (loss) before tax as follows:

	2012	2011
	HK$'000	HK$'000
Profit (loss) before tax (from continuing operations)	**44,829**	(4,387)
Tax at Hong Kong Profits Tax of 16.5%	**7,397**	(724)
Tax effect of income not taxable for tax purposes	**(3,909)**	(2,026)
Tax effect of expenses not deductible for tax purposes	**1,967**	644
Tax effect on temporary differences not recognised	**(1)**	(1)
Tax effect on tax losses not recognised	**474**	508
Utilisation of tax losses not previously recognised	**3**	8
(Over) under provision in prior year	**(7)**	1
Effect of different tax rates of group entities operating in the PRC	**(264)**	219
Tax charge (credit) for the year (relating to continuing operations)	**5,660**	(1,371)

12. DISCONTINUED OPERATIONS

Discontinue of trading of PVC films and plastic materials operations

During the year, the directors had resolved to terminate the operations of trading of PVC films and plastic materials as a result of its poor performance and the lack of sign of improvement in the future.

Analysis of loss for the year from discontinued operations

The results of the discontinued operations (trading of PVC films and plastic materials) included in the profit for the year are set out below. The comparative loss and cash flows from discontinued operations have been re-presented to include those operations classified as discontinued in the current year.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

12. DISCONTINUED OPERATIONS *(Cont'd)*

Analysis of loss for the year from discontinued operations *(Cont'd)*

	2012 HK$'000	2011 HK$'000
Loss for the year from discontinued operations		
Revenue	**9,299**	52,752
Cost of sales	**(9,595)**	(49,321)
Gross (loss) profit	**(296)**	3,431
Net other income	**90**	3
Distribution costs	**(328)**	(1,244)
Administrative expenses	**(991)**	(2,997)
Finance costs	**(52)**	(61)
Loss before tax	**(1,577)**	(868)
Income tax credit	**175**	252
Loss for the year from discontinued operations	**(1,402)**	(616)
Discontinued operations		
Loss for the year from discontinued operations	**(1,402)**	(616)
Loss for the year from discontinued operations include the following:		
Depreciation and amortisation	**13**	31
Auditor's remuneration	**40**	40
Cash flows from discontinued operations		
Net cash inflows (outflows) from operating activities	**1,870**	(4,767)
Net cash inflows from investing activities	**2**	–
Net cash (outflows) inflows from financing activities	**(4,425)**	4,313
Net cash outflows	**(2,553)**	(454)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

13. DIVIDENDS

	2012	2011
	HK$'000	HK$'000
Interim, paid –2.0 HK cents (2011: 1.0 HK cent) per share	**5,230**	2,658
Final and special, paid –11.0 HK cents per share for 2011 (2011: 2.5 HK cents per share for 2010)	**28,766**	6,756
	33,996	9,414

Subsequent to the end of the reporting period, final dividend in respect of the year ended 31 December 2012 of 4.0 HK cents (2011: 1.0 HK cent) per share and a special one-off dividend of 7.0 HK cents per share have been proposed by the Directors and is subject to approval by the shareholders in general meeting.

14. EARNINGS (LOSS) PER SHARE

From continuing and discontinued operations

The calculation of the basic and diluted earnings (loss) per share attributable to owners of the Company is based on the net profit for the year of approximately HK$33,856,000 (2011: loss of HK$5,613,000) and the following data:

	2012	2011
Number of shares		
Weighted average number of ordinary shares for the purposes of basic earnings (loss) per share	**261,871,378**	268,829,032
Effect of dilutive potential ordinary shares on share options	**1,552,807**	–
Weighted average number of ordinary shares for the purposes of diluted earnings (loss) per share	**263,424,185**	268,829,032

No diluted loss per share has been presented for the year 2011 because the share options outstanding had an anti-dilutive effect in the calculation of diluted loss per share.

14. EARNINGS (LOSS) PER SHARE *(Cont'd)*

From continuing operations

The calculation of the basic and diluted earnings (loss) per share from continuing operations attributable to owners of the Company is based on the following data:

Earnings figures are calculated as follows:

	2012	2011
	HK$'000	HK$'000
Profit (loss) for the year attributable to owners of the Company	**33,856**	(5,613)
Add: Loss for the year from discontinued operations	**1,417**	615
Earnings (loss) for the purpose of basic and diluted earnings (loss) per share from continuing operations	**35,273**	(4,998)

The denominators used are the same as those detailed above for both basic and diluted earnings per share.

From discontinued operations

Basic loss per share for the discontinued operations is 0.54 HK cents per share (2011: 0.23 HK cents per share) and diluted loss per share for the discontinued operations is 0.54 HK cents per share (2011: 0.23 HK cents per share), based on the loss for the year from the discontinued operations of HK$1.4 million (2011: HK$0.6 million) and the denominators detailed above for both basic and diluted loss per share.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

15. PROPERTY, PLANT AND EQUIPMENT

	Land and Buildings HK$'000	Factory premises HK$'000	Furniture, fixtures and office equipment HK$'000	Plant, machinery and moulds HK$'000	Motor vehicles HK$'000	Total HK$'000
COST						
At 1 January 2011	271	38,001	32,730	202,167	4,827	277,996
Additions	–	182	445	9,118	852	10,597
Disposals	(271)	–	(597)	(8,277)	(261)	(9,406)
Exchange alignment	–	12	3	195	8	218
At 31 December 2011 and 1 January 2012	–	38,195	32,581	203,203	5,426	279,405
Additions	–	125	452	4,954	414	5,945
Disposals	–	–	(223)	(8,802)	(559)	(9,584)
Exchange alignment	–	25	17	708	47	797
At 31 December 2012	–	38,345	32,827	200,063	5,328	276,563
DEPRECIATION AND AMORTISATION						
At 1 January 2011	106	29,385	26,919	178,423	4,596	239,429
Provided for the year	1	2,424	931	6,494	214	10,064
Eliminated upon disposals	(107)	–	(595)	(7,499)	(261)	(8,462)
Exchange alignment	–	3	1	36	4	44
At 31 December 2011 and 1 January 2012	–	31,812	27,256	177,454	4,553	241,075
Provided for the year	–	2,157	819	5,693	314	8,983
Eliminated upon disposals	–	–	(213)	(8,086)	(559)	(8,858)
Exchange alignment	–	10	4	77	8	99
At 31 December 2012	–	33,979	27,866	175,138	4,316	241,299
CARRYING VALUES						
At 31 December 2012	–	4,366	4,961	24,925	1,012	35,264
At 31 December 2011	–	6,383	5,325	25,749	873	38,330

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

15. PROPERTY, PLANT AND EQUIPMENT *(Cont'd)*

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

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

The Group has not obtained Certificate for Housing Ownership in respect of the Group's factory premises with an aggregate net book value of approximately HK$4,366,000 (2011: HK$6,383,000) at 31 December 2012.

16. PREPAID LEASE PAYMENTS

The Group's prepaid lease payments comprise:

	2012	2011
	HK$'000	HK$'000
Medium-term leasehold land in Hong Kong	**–**	–
Medium-term leasehold land in PRC	**–**	–
	–	–
Analysed for reporting purposes as:		
Current assets	**–**	–
Non-current assets	**–**	–
	–	–

	2012	2011
	HK$'000	HK$'000
Net book value at 1 January	**–**	6
Amortisation for the year	**–**	(6)
Net book value at 31 December	**–**	–
Current portion of non-current assets	**–**	–
Non-current portion	**–**	–

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

17. INVESTMENT PROPERTY

	2012 HK$'000	2011 HK$'000
At fair value		
Balance at the beginning of the year	**8,500**	–
Additions	**–**	7,616
Gain on property revaluation	**1,700**	884
Balance at the end of the year	**10,200**	8,500

The fair value of the Group's investment property at 31 December 2012 have been arrived at on the basis of a valuation carried out at that date by Messrs. Peak Vision Appraisals Limited, independent qualified professional valuers not connected to the Group. Messrs. Peak Vision Appraisals Limited is members of the Hong Kong Institute of Valuers, and has appropriate qualifications and recent experience in the valuation of properties in relevant locations. The valuation was arrived at by reference to market evidence of transaction prices for similar properties.

The Group's property interests held under operating leases to earn rentals are measured using the fair value model and are classified and accounted for as investment property.

The carrying amounts of investment property shown above comprise:

	2012 HK$'000	2011 HK$'000
Land in Hong Kong:		
Medium-term lease	**10,200**	8,500

18. INVENTORIES

	2012 HK$'000	2011 HK$'000
Raw materials	**24,681**	36,922
Work in progress	**3,443**	5,986
Finished goods	**11,565**	17,348
	39,689	60,256

Inventories of HK$Nil (2011: HK$Nil) are expected to be recovered after more than twelve months.

19. TRADE AND OTHER RECEIVABLES

	2012 HK$'000	2011 HK$'000
Trade receivables	**50,864**	60,935
Less: impairment loss on trade receivables	**(17,956)**	(15,397)
	32,908	45,538
Prepayment and other receivables	**5,833**	7,512
	38,741	53,050

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

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

	2012 HK$'000	2011 HK$'000
0 – 60 days	**31,451**	36,506
61 – 90 days	**1,018**	2,998
91 – 120 days	**171**	2,044
Over 120 days	**268**	3,990
	32,908	45,538

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

19. TRADE AND OTHER RECEIVABLES *(Cont'd)*

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

	2012 HK$'000	2011 HK$'000
Overdue by:		
0 – 60 days	**4,881**	6,032
61 – 90 days	**9**	293
91 – 120 days	**–**	79
Over 120 days	**–**	66
	4,890	6,470

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

	2012 HK$'000	2011 HK$'000
Balance at the beginning of the year	**15,397**	15,696
Allowance for doubtful debts during the year	**2,777**	1,324
Amounts recovered during the year	**(45)**	(283)
Amounts written off during the year	**(173)**	(1,340)
Balance at the end of the year	**17,956**	15,397

In determining the recoverability of a trade receivable, the Group considers any change in the credit quality of the trade receivable from the date credit was initially granted up to the end of the reporting period. The concentration of credit risk is limited due to the customer base being large and unrelated. The fair value of the Group's trade and other receivables at 31 December 2012 approximate to the corresponding carrying amount.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

19. TRADE AND OTHER RECEIVABLES *(Cont'd)*

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

	2012 HK$'000	2011 HK$'000
Overdue by:		
0 – 60 days	**528**	–
61 – 90 days	**2,093**	–
91 – 120 days	**–**	–
Over 120 days	**15,335**	15,397
	17,956	15,397

20. BANK BALANCE AND CASH

The amounts comprise cash held by the Group and short-term bank deposits at market interest rates ranging from 0.001% to 0.0099% (2011: 0.001% to 3.41%) with an original maturity of three months or less. The fair value of these assets at 31 December 2012 approximates to the corresponding carrying amounts.

21 DERIVATIVE FINANCIAL INSTRUMENTS

	2012 HK$'000	2011 HK$'000
Financial assets		
Equity accumulators	**354**	45
Equity decumulators	**–**	577
	354	622
Financial liabilities		
Equity accumulators	**–**	(3,479)
Equity decumulators	**(4,508)**	(213)
	(4,508)	(3,692)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

21 DERIVATIVE FINANCIAL INSTRUMENTS *(Cont'd)*

	2012	2011
	HK$'000	HK$'000
Financial assets		
Balance at the beginning of the year	**622**	248
Changes in fair value of derivative financial instruments	**(268)**	374
Balance at the end of the year	**354**	622
Financial liabilities		
Balance at the beginning of the year	**(3,692)**	(3,009)
Change in fair value of derivative financial instruments	**(816)**	(683)
Balance at the end of the year	**(4,508)**	(3,692)

The derivatives are measured at fair value at each reporting date. Their fair values are measured using closing prices in active markets for similar financial instruments, or using valuation techniques in which all significant inputs are directly or indirectly based on observable market data.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

21 DERIVATIVE FINANCIAL INSTRUMENTS *(Cont'd)*

At 31 December 2012, the major terms of the listed equity decumulators/accumulators contracts are as follows:

Nominal Amount	Underlying Securities	Nature	Maturity	Forward Prices
HK$3,945,720	China Petroleum & Chemical Corporation	Accumulator	08 February 2013	HK$7.86
HK$3,809,280	PetroChina Company Limited	Accumulator	14 February 2013	HK$9.60
HK$3,730,267	CNOOC Limited	Accumulator	18 February 2013	HK$14.19
HK$4,744,376	CNOOC Limited	Accumulator	13 March 2013	HK$13.72
HK$4,179,240	China Petroleum & Chemical Corporation	Accumulator	02 April 2013	HK$7.05
HK$4,856,020	PetroChina Company Limited	Accumulator	02 May 2013	HK$9.83
HK$5,263,908	CNOOC Limited	Decumulator	05 June 2013	HK$16.46
HK$5,414,214	CNOOC Limited	Decumulator	07 June 2013	HK$16.93
HK$5,526,144	CNOOC Limited	Decumulator	11 June 2013	HK$17.28
HK$5,570,565	CNOOC Limited	Decumulator	13 June 2013	HK$17.49
HK$5,681,550	China Life Insurance Company Limited	Decumulator	13 June 2013	HK$23.19
HK$5,275,340	China Petroleum & Chemical Corporation	Decumulator	29 July 2013	HK$7.69
HK$5,353,250	China Construction Bank Corporation	Decumulator	30 July 2013	HK$5.75
HK$5,364,716	China Petroleum & Chemical Corporation	Decumulator	09 September 2013	HK$8.08
HK$5,304,544	Agricultural Bank of China Limited	Decumulator	16 September 2013	HK$3.383
HK$5,435,276	Industrial and Commercial Bank of China Limited	Decumulator	16 September 2013	HK$5.042
HK$5,561,500	PetroChina Company Limited	Decumulator	18 September 2013	HK$11.35
HK$5,397,840	CNOOC Limited	Decumulator	18 September 2013	HK$18.36
HK$5,221,440	China Construction Bank Corporation	Decumulator	19 September 2013	HK$5.92
HK$5,587,600	PetroChina Company Limited	Decumulator	23 September 2013	HK$11.45
HK$5,482,778	Agricultural Bank of China Limited	Decumulator	23 September 2013	HK$3.511
HK$5,526,893	Industrial and Commercial Bank of China Limited	Decumulator	23 September 2013	HK$5.148
HK$5,471,340	Agricultural Bank of China Limited	Decumulator	15 October 2013	HK$3.722
HK$5,547,096	Agricultural Bank of China Limited	Decumulator	21 October 2013	HK$3.789
HK$5,599,230	Agricultural Bank of China Limited	Decumulator	28 October 2013	HK$3.809
HK$5,550,720	CNOOC Limited	Decumulator	19 December 2013	HK$18.88

The analysis of the net cash flows derived from decumulator contracts and accumulator contracts is presented in the section headed "Liquidity risk management" of note 37 to the consolidated financial statements.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

22. INVESTMENTS HELD-FOR-TRADING

	2012 HK$'000	2011 HK$'000
Equity securities listed in Hong Kong	**59,736**	68,025

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

	2012 HK$'000	2011 HK$'000
Balance at the beginning of the year	**68,025**	72,910
Additions	**51,363**	241,109
Disposals	**(68,552)**	(232,797)
Change in fair values of investments held-for-trading	**8,900**	(13,197)
Balance at the end of the year	**59,736**	68,025

The fair values of the investments held-for-trading are determined based on the market closing prices available on the relevant exchanges as at 31 December 2012.

23. PLEDGED BANK DEPOSITS

The amount represents deposits pledged to banks to secure margin loan facilities granted to the Group and are therefore classified as current assets.

The deposits carry variable interest rate ranging from 0.01% to 3.03% (2011: 0.001% to 3.41%) per annum. The pledged bank deposits will be released upon the settlement of relevant bank borrowings. The fair value of bank deposits at 31 December 2012 approximates to the corresponding carrying amount.

24. TRADE AND OTHER PAYABLES

The following is an aged analysis of the Group's trade payables, presented based on the invoice date at the end of reporting period:

	2012	2011
	HK$'000	HK$'000
0 – 60 days	**10,303**	21,705
61 – 90 days	**2,667**	1,621
91 – 120 days	**1,361**	322
Over 120 days	**780**	544
Trade payables	**15,111**	24,192
Other payables	**26,149**	30,959
	41,260	55,151

The fair value of the Group's trade and other payables at 31 December 2012 approximates to the corresponding carrying amount. Included in other payables are accrued salaries and bonuses, customer deposit and auditor's remuneration.

25. BANK BORROWINGS

	2012	2011
	HK$'000	HK$'000
Unsecured bank loans classified as current liabilities	**9,221**	25,670

The unsecured bank loans and unsecured trust receipt loans were secured by corporate cross guarantee given by the Group. The unsecured bank loans and unsecured trust receipt loans will be charged at variable interest rates ranging from 0.61% to 2.67% (2011: 0.6% to 2.65 %).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

25. BANK BORROWINGS *(Cont'd)*

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

	2012	2011
	HK$'000	HK$'000
		(Restated)
On demand or within one year	**5,621**	16,449
More than one year, but not exceeding two years	**2,400**	5,621
More than two year, but not exceeding five years	**1,200**	3,600
	9,221	25,670
Less: carrying amount of bank loans and trust receipt loans that are not repayable within one year from the end of the reporting period but contain a repayment on demand clause (shown under current liabilities)	**(3,600)**	(9,221)
	5,621	16,449

During the year, the Group does not have any new term bank loan (2011: HK$Nil). The bank loan was outstanding balance raised in 2008 and 2010. The term loan bears interest at market rate and is repayable in instalments over a period of 5 years. The proceeds are used to finance the working capital of the Group. Loans of approximately HK$9,264,000 (2011: HK$9,264,000) were repaid during the year.

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

26. DEFERRED TAXATION

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

	Accelerated tax depreciation HK$'000	**Tax losses** HK$'000	**Total** HK$'000
At 1 January 2011	904	(2,245)	(1,341)
Credit to income for the year	(439)	(3,536)	(3,975)
At 31 December 2011 and 1 January 2012	465	(5,781)	(5,316)
(Credit) charge to income for the year	(600)	2,086	1,486
At 31 December 2012	(135)	(3,695)	(3,830)

Under the EIT Law of the PRC, withholding tax is imposed on dividends declared in respect of profits earned by the PRC subsidiaries from 1 January 2008 onwards. Deferred taxation has not been provided for in the consolidated financial statements in respect of temporary differences attributable to the profits earned by the PRC subsidiaries as the Group is able to control the timing of the reversal of the temporary differences and its is probable that the temporary differences will not reverse in the foreseeable future.

No deferred taxes have been provided for changes in fair value of the Group's investment property.

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

	2012 **HK$'000**	2011 HK$'000
Deferred tax liabilities	**245**	668
Deferred tax assets	**(4,075)**	(5,984)
	(3,830)	(5,316)

At the end of reporting period, the Group has unused tax losses of approximately HK$107,412,000 (2011: HK$125,982,000) available for offset against future profits that may be carried forward indefinitely. A deferred tax asset has been recognised in respect of approximately HK$22,394,000 (2011: HK$35,037,000) of such losses. No deferred tax has been recognised in respect of the remaining HK$85,018,000 (2011: HK$90,945,000) due to the unpredictability of future profit streams.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

27. SHARE CAPITAL

	Authorised		Issued and fully paid	
	2012	2011	**2012**	2011
	HK$'000	HK$'000	**HK$'000**	HK$'000
700,000,000 Ordinary shares of HK$0.10 each				
Balance at the beginning of the year	**70,000**	70,000	**26,381**	27,521
Exercise of share options	**–**	–	**350**	300
Share repurchased and cancelled (Note)	**–**	–	**(695)**	(1,440)
Balance at the end of the year	**70,000**	70,000	**26,072**	26,381

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

	No. of shares of HK$0.10 each	Price per share Highest HK$	Price per share Lowest HK$	Aggregate Consideration HK$
Month of repurchase				
January 2012	2,200,000	0.71	0.71	1,571,577
April 2012	1,800,000	0.77	0.77	1,394,117
May 2012	1,800,000	0.77	0.76	1,382,086
October 2012	290,000	0.71	0.71	207,163
November 2012	500,000	0.74	0.74	372,216
	6,590,000			4,927,159

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

28. PLEDGE OF ASSETS

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

(i) Investments held-for-trading with a carrying value of approximately HK$59,698,000 (2011: HK$67,055,000); and

(ii) Bank deposits of approximately HK$8,281,000 (2011: HK$1,254,000).

At 31 December 2012, the Group has utilised margin loan facilities from bank with an amount of approximately HK$Nil (2011: HK$Nil).

29. OPERATING LEASES

The Group as lessee

	2012 HK$'000	2011 HK$'000
Minimum lease payments paid under operating leases during the year		
Rented premises	**5,920**	4,787

At 31 December 2012, the Group had commitments for future minimum lease payments under non-cancellable operating leases in respect of rented premises which fall due as follows:

	2012 HK$'000	2011 HK$'000
Within one year	**5,056**	4,796
In the second to fifth years inclusive	**8,442**	9,511
Over five years	**42,164**	43,009
	55,662	57,316

Operating lease payments represent rentals payable by the Group for certain of its office and factory properties. Leases are negotiated for a term from 1 to 32 years.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

29. OPERATING LEASES *(Cont'd)*

The Group as lessor

Property rental income earned during the year was HK$16,266 (2011: HK$Nil). The investment property is held for rental purposes. It is expected to generate rental yields of 1.7% on an ongoing basis. The property held has committed tenants for the next 3 years.

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

	2012	2011
	HK$'000	HK$'000
Within one year	**178**	–
In the second to fifth years inclusive	**354**	–
	532	–

30. CAPITAL COMMITMENTS

	THE GROUP	
	2012	2011
	HK$'000	HK$'000
Capital expenditure in respect of the acquisition of property, plant and equipment		
Contracted but not provided for	**695**	1,373
Authorised for but not contracted for	**185**	74

31. OTHER COMMITMENTS

At 31 December 2012, the Group carried outstanding forward contracts which entailed a commitment for sale and purchase of equity shares of notional amount of approximately HK$75,164,000 and HK$5,871,000 respectively (2011: HK$88,494,000 and HK$32,939,000) as disclosed in note 21.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

32. CONTINGENT LIABILITIES

(a) Contingent liability in respect of legal claim

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

(b) Financial guarantees issued

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

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

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

As at 31 December 2012, the Directors do not consider it probable that a claim will be made against the Company under any of the guarantees as the probability of default payment for the loans drawn down by the Subsidiaries is remote.

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

33. SHARE-BASED PAYMENT TRANSACTIONS

A share option scheme (the "Old Scheme") was adopted in the annual general meeting held on 17 May 2002 and expired on 16 May 2012. In view of the expiration of the Old Scheme, a new share option scheme (the "New Scheme") was adopted in the annual general meeting held on 30 May 2012 and will expire on 29 May 2022. The primary purpose of the New Scheme is to recognise and motivate the contribution of employees and other persons who may have a contribution to the Group and to provide incentives and help the Company in retaining its existing employees and recruiting additional employees and to provide them with a direct economic interest in attaining the long term business objectives of the Company.

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

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

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

Total consideration received during the year from the Directors and employees for taking up the options granted during the year is HK$8 (2011: HK$15).

All options were vested on the date of grant.

33. SHARE-BASED PAYMENT TRANSACTIONS *(Cont'd)*

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

a) the closing price of shares at the date of grant of a share option;

b) the average closing price of the shares for the five business days immediately preceding the date of grant; and

c) the nominal value of a share.

At the reporting date, the number of shares in respect of which options had been granted and remained outstanding under all the share option schemes was 43,798,000, representing approximately 16.86% of the shares of the Company in issue at that date.

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

	Option type	At 1.1.2011	Granted during the year	Exercised during the year	Lapsed during the year	At 31.12.2011 & 1.1.2012	Granted during the year	Exercised during the year	Lapsed during the year	At 31.12.2012
Directors	B	2,000,000	–	–	–	2,000,000	–	(2,000,000)	–	–
	D	600,000	–	–	–	600,000	–	–	–	600,000
	E	–	14,400,000	–	–	14,400,000	–	–	(2,700,000)	11,700,000
	G	–	–	–	–	–	6,900,000	–	–	6,900,000
		2,600,000	14,400,000	–	–	17,000,000	6,900,000	(2,000,000)	(2,700,000)	19,200,000
Employees	C	4,500,000	–	(3,000,000)	–	1,500,000	–	(1,500,000)	–	–
	D	8,200,000	–	–	(1,200,000)	7,000,000	–	–	–	7,000,000
	F	–	13,196,000	–	–	13,196,000	–	–	(1,598,000)	11,598,000
	G	–	–	–	–	–	5,000,000	–	–	5,000,000
		12,700,000	13,196,000	(3,000,000)	(1,200,000)	21,696,000	5,000,000	(1,500,000)	(1,598,000)	23,598,000
Others	A	1,000,000	–	–	–	1,000,000	–	–	(1,000,000)	–
	B	1,000,000	–	–	–	1,000,000	–	–	–	1,000,000
		2,000,000	–	–	–	2,000,000	–	–	(1,000,000)	1,000,000
Total		17,300,000	27,596,000	(3,000,000)	(1,200,000)	40,696,000	11,900,000	(3,500,000)	(5,298,000)	43,798,000

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For the year ended 31 December 2012

33. SHARE-BASED PAYMENT TRANSACTIONS *(Cont'd)*

Details of specific categories of options are as follows:

Option type	Date of grant	Exercise period	Exercise price HK$
A	5 June 2002	5 July 2002 to 17 May 2012	0.664
B	2 February 2005	2 May 2005 to 31 December 2014	0.608
C	24 March 2006	24 April 2006 to 31 December 2014	0.540
D	2 November 2007	1 December 2007 to 31 December 2016	0.850
E	13 April 2011	1 May 2011 to 31 December 2020	0.740
F	28 April 2011	1 May 2011 to 31 December 2020	0.770
G	15 June 2012	16 June 2012 to 15 June 2022	0.600

The closing price of the Company's shares on 5 June 2002, 2 February 2005, 24 March 2006, 2 November 2007, 13 April 2011, 28 April 2011 and 15 June 2012 being the dates of grant of the respective options, were HK$0.640, HK$0.600, HK$0.520, HK$0.850, HK$0.740, HK$0.770 and HK$0.590 respectively.

According to the Binomial Option Pricing Model, the details of the options granted during the year under the Option Scheme were as follows:

Date of grant	Number of shares issuable under options granted	Option value	Closing share price at date of grant	Risk free rate	Volatility	Expiration of the options	Dividend yield
15 June 2012	11,900,000	HK$1,392,300	HK$0.590	1.06%	39.90%	15 June 2022	9.21%

Share options were exercised on various dates during the year, the weighted average closing price of the Company's shares immediately before those dates was HK$0.773.

34. RETIREMENT BENEFITS SCHEME

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

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

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

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

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

The total cost recognised in the consolidated statement of comprehensive income of approximately HK$484,000 (2011: HK$492,000) represents contributions payable to these schemes by the Group in respect of the current accounting period.

35. EVENT AFTER THE REPORTING PERIOD

Subsequent to year end, the Company has purchased 1,000,000 Shares of its own shares through the Stock Exchange:

	No. of shares of HK$0.10 each	**Price per share**		**Aggregate Consideration**
		Highest	**Lowest**	
		HK$	HK$	HK$
18 January 2013	1,000,000	0.91	0.90	908,000
	1,000,000			908,000

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

36. RELATED PARTY TRANSACTIONS

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

	2012 HK$'000	2011 HK$'000
Rental expenses paid to:		
Mr. Poon Siu Chung	**240**	240

	2012 HK$'000	2011 HK$'000
Sales to:		
Onwell Headtrade Limited (Note a)	**2,903**	1,823
Amounts due from:		
Onwell Headtrade Limited (Note a)	**527**	1,161

Note a: The shareholder of the above related company is the factory manager of the subsidiary of the Group.

(b) Compensation of key management personnel

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

	2012 HK$'000	2011 HK$'000
Short-term benefits	**5,103**	4,950
Post-employment benefits	**146**	130
Share-based payments	**807**	3,194
	6,056	8,274

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

37. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

Currency risk management

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

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

	Assets 2012 HK$'000	**Liabilities 2012 HK$'000**	Assets 2011 HK$'000	Liabilities 2011 HK$'000
Renminbi ("RMB")	**10,437**	**10,364**	12,250	14,841

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

	Impact of RMB 2012 HK$'000	Impact of RMB 2011 HK$'000
Increase/decrease in profit (loss) for the year	**4**	130

Besides, at the end of the reporting period, the Group has bank balances of US$5,927,000 approximately, the sensitivity analysis of changing in USD exchange rate is insignificant as the Hong Kong dollars banknotes are fully backed by US dollar held by Exchange Fund at the rate of HK$7.8 to US$1.0.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

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

Liquidity risk management

Internally generated cash flow and bank borrowings are the general sources of funds to finance the operations of the Group. The majority of the Group's banking facilities are subject to floating rates and are renewable annually. The Group liquidity risk management includes making available standby banking facilities and diversifying the funding sources. The Group regularly reviews its major funding positions to ensure it has adequate financial resources in meeting its financial obligations.

The maturity profiles of the Group's financial liabilities at the end of reporting period based on contractual undiscounted payments are summarised below:

2012

	Within 1 year	2-5 years	Total
	HK$'000	HK$'000	HK$'000
Trade payables	15,111	–	15,111
Accruals and other payables	26,149	–	26,149
Tax liabilities	4,243	–	4,243
Derivative financial instruments	4,508	–	4,508
Bank borrowings	5,621	3,600	9,221
Capital commitments in respect of the acquisition of property, plant and equipment contracted for but not provided in the consolidated financial statements	695	–	695
Capital commitments in respect of the acquisition of property, plant and equipment authorised but not contracted for in the consolidated financial statements	185	–	185
	56,512	3,600	60,112

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

Liquidity risk management *(Cont'd)*

2011

	Within 1 year HK$'000	2-5 years HK$'000	Total HK$'000
Trade payables	24,192	–	24,192
Accruals and other payables	30,959	–	30,959
Tax liabilities	2,373	–	2,373
Derivative financial instruments	3,692	–	3,692
Bank borrowings	16,449	9,221	25,670
Capital commitments in respect of the acquisition of property, plant and equipment contracted for but not provided in the consolidated financial statements	1,373	–	1,373
Capital commitments in respect of the acquisition of property, plant and equipment authorised but not contracted for in the consolidated financial statements	74	–	74
	79,112	9,221	88,333

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

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

Liquidity risk management *(Cont'd)*

	Less than 1 month HK$'000	1-3 months HK$'000	3 months to 1 year HK$'000	Total undiscounted cash flows HK$'000
2012				
Derivatives – net settlement				
Decumulator contract – inflow	**8,620**	**16,873**	**49,671**	**75,164**
Accumulator contract –outflow	**(1,567)**	**(2,505)**	**(767)**	**(4,839)**
	7,053	**14,368**	**48,904**	**70,325**
2011				
Derivatives – net settlement				
Decumulator contract – inflow	8,123	17,151	63,220	88,494
Accumulator contract – outflow	(5,884)	(12,561)	(14,116)	(32,561)
	2,239	4,590	49,104	55,933

Interest rate risk management

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

Credit risk management

The Group's maximum exposure to credit risk in the event of the counterparties failure to perform their obligations as at 31 December 2012 in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated statement of financial position. In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews regularly the recoverable amount of each individual trade debt to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the management considers that the Group's credit risk is significant reduced.

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

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

Price risk management

The Group's investments in equity listed in Hong Kong. Decisions to buy or sell trading securities are based on daily monitoring of the performance of individual securities compared to that of the relevant stock market index and other industry indicators, as well as the Group's liquidity needs. To manage its price risk arising from the equity securities, the Group maintains a portfolio of diversified investments with different risk profiles.

Sensitivity analysis

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

If listed equity prices had been 5% higher/lower (2011: 5% higher/lower), profit for the year ended 31 December 2012 would increase/decrease by HK$2,987,000 (2011: HK$3,401,000). This is mainly due to the changes in fair value of financial assets at fair value through profit or loss.

Fair values

As at 31 December 2012, the carrying amount of cash and cash equivalents, prepayments, deposits and other receivables, accrued liabilities and other payables approximated their fair values due to the short-term maturities of these assets and liabilities. The Directors considers that financial assets at fair value through profit or loss are included in the statement of financial position at amounts approximating to their fair values.

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

The following table presents the carrying value of financial instruments measured at fair value at 31 December 2012 across the three levels of the fair value hierarchy defined in HKFRS 7, Financial Instruments: Disclosures, with the fair value of each financial instrument categorised in its entirety based on the lowest level of input that is significant to that fair value measurement. The levels are defined as follows:

- Level 1 (Highest level): fair values measured are those derived from quoted prices (unadjusted) in active markets for identical financial instruments.

- Level 2: fair values measured are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

- Level 3 (Lowest level): fair values measured are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

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

Fair values *(Cont'd)*

2012

	Level 1 HK$'000	Level 2 HK$'000	Total HK$'000
Assets			
Investments held-for-trading – listed	59,736	–	59,736
Derivative financial assets	–	354	354
	59,736	354	60,090
Liabilities			
Derivative financial liabilities	–	4,508	4,508

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

The fair values of financial instruments are determined as follows:

- The fair values of financial instruments with standard terms and conditions and traded in active markets are determined with reference to quoted market bid and ask prices respectively.

- The fair values of derivative instruments are calculated using quoted prices. Where such prices are not available, a discounted cash flow analysis is performed using the applicable yield curve for the duration of the instruments for non-optional derivatives, and option pricing models for optional derivatives.

Capital risk management

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

During 2012, the Group's strategy remained unchanged as compared to that in 2011. The Group monitors capital on the basis of the gearing ratio. This gearing ratio is calculated as total borrowings divided by equity attributable to equity holders of the Company.

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

	2012 HK$'000	2011 HK$'000
Borrowings	**9,221**	25,670
Equity attributable to owners of the Company	**201,331**	201,412
Gearing ratio	**5%**	13%

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

38. PARTICULARS OF PRINCIPAL SUBSIDIARIES

Name of subsidiary	Place of incorporation or registration	Proportion of nominal value of issued/paid up capital held by the Company		Paid up ordinary share capital	Principal activities
		Directly	Indirectly		
Asia Rich (Far East) Limited	Hong Kong	–	79.6%	HK$2	Investment Holding
Benefit International Packing Materials Limited	Hong Kong	–	100%	HK$10,000	Trading of PVC films
Benefit Packing Materials Limited	Hong Kong	–	75%	HK$1,000,000	Trading of PVC films
Beyond Growth International Limited	Hong Kong	–	79.6%	HK$100,000	Manufacture and sales of toys
Dream Creation Limited	Hong Kong	–	79.6%	HK$2	Investment holding and distribution of toys
Fareastern Trade Limited	British Virgin Islands (“BVI”)	–	88%	US$87,618	Investment holding
Freshwater Trading Limited	BVI	–	100%	US$1	Investment holding
Golden Enterprise Holdings Limited	Hong Kong	–	100%	HK$2	Distribution of toys
Headfit Paper Bags Trading Limited	Hong Kong	–	100%	HK$10,000	Securities investments and trading of paper bags
iTech Limited	Hong Kong	–	100%	HK$2	Investment holding
Leader Packaging Company Limited	Hong Kong	–	100%	HK$1,000,000	Investment holding
Leader Stationery & Gifts Manufacturing Company Limited	Hong Kong	–	100%	HK$1,000,000	Manufacture and sales of stationery products
Link Faith Company Limited	Hong Kong	–	100%	HK$100,000	Securities investments
Mars Technology Limited	BVI	–	79.6%	US$10	Investment holding
New Genius Technology Limited	BVI	–	100%	US$1	Investment holding
Onward Packing Manufacturer Limited	Hong Kong	–	100%	HK$320,000	Manufacture of novelties, festival decorations products
Perfectech Colour Centre Limited	Hong Kong	–	100%	HK$1,000,000	Dye stuff manufacturing

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

38. PARTICULARS OF PRINCIPAL SUBSIDIARIES *(Cont'd)*

Name of subsidiary	Place of incorporation or registration	Proportion of nominal value of issued/paid up capital held by the Company Directly	Indirectly	Paid up ordinary share capital	Principal activities
Perfectech Enterprises (B.V.I.) Limited	BVI	–	100%	US$1	Investment holding
Perfectech International (B.V.I.) Limited	BVI	100%	–	US$50	Investment holding
Perfectech International Toys Limited	Hong Kong	–	100%	HK$1,000,000	Investment holding
Perfectech International Limited	Hong Kong	–	100%	HK$200 HK$80,000 (non-voting deferred shares)	Investment holding
Perfectech International Manufacturing Limited	BVI	–	100%	US$2,457,000	Investment holding
Perfectech International Packaging Products Company Limited	Hong Kong	–	100%	HK$450,000	Manufacture of packaging products
Perfectech International Trading Limited	Hong Kong	–	100%	HK$2	Trading of novelties and festival decorations
Perfectech Paper Products Company Limited	Hong Kong	–	100%	HK$1,000,000	Manufacture of paper products
Perfectech Plastics Limited	Hong Kong	–	100%	HK$1,000,000	Trading of plastic materials
Perfectech Printing Company Limited	Hong Kong	–	100%	HK$1,000,000	Manufacture of printing products
Perfectech Rigid (PVC) Pipe Manufacturing Limited	Hong Kong	–	100%	HK$1,000,000	Investment holding
Shouji Mould Engineering Company Limited	Hong Kong	–	88%	HK$2	Distribution of mould
Shouji Tooling Factory Limited	Hong Kong	–	88%	HK$1,000	Manufacture and sales of moulds
Skyrocket Assets Limited	BVI		100%	US$1	Investment holding

38. PARTICULARS OF PRINCIPAL SUBSIDIARIES *(Cont'd)*

Name of subsidiary	Place of incorporation or registration	Proportion of nominal value of issued/paid up capital held by the Company Directly	Indirectly	Paid up ordinary share capital	Principal activities
Sunflower Garland Manufactory Limited	Hong Kong	–	100%	HK$2 HK$160,000 (non-voting deferred shares)	Securities investment
Yu-Me (H.K.) Limited	Hong Kong	–	100%	HK$2	Provision of management services
中山市威嘉紙品有限公司	The PRC	–	100%	HK$12,500,000	Manufacture of paper products
東青林模具塑膠（深圳）有限公司	The PRC	–	88%	HK$23,004,200	Manufacture and sales of moulds
珠海市多發塑膠制品有限公司	The PRC	–	100%	HK$500,000	Manufacture and trading of novelties and festival decorations products
金正利貿易（深圳）有限公司	The PRC	–	100%	HK$1,000,000	Trading of PVC films
江門市安發塑膠制品有限公司	The PRC	–	100%	HK$600,000	Manufacture of novelties and festival decorations products
中山市威發塑膠制品有限公司	The PRC	–	100%	RMB923,775	Manufacture of novelties and festival decorations products
中山市志發玩具有限公司	The PRC	–	79.6%	RMB2,469,558	Manufacture and sales of toys

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

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

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

	2012	2011
	HK$'000	HK$'000
Unlisted investments in subsidiaries	**32,061**	32,061
Bank balance and cash	**58**	75
Other current assets	**149,688**	132,780
Current liability	**(17,540)**	(193)
Tax liability	**(980)**	(877)
Net assets	**163,287**	163,846
Share capital (note 27)	**26,072**	26,381
Reserves	**137,215**	137,465
Total equity	**163,287**	163,846

Profit of the Company for 2012 amounted to HK$34,945,000 (2011: HK$25,116,000).

FINANCIAL SUMMARY

RESULTS

	Year ended 31 December				
	2008* HK$'000	2009* HK$'000	2010* HK$'000	2011 HK$'000 (Restated)	**2012 HK$'000**
Continuing operations					
Revenue	514,771	404,606	382,779	330,211	**290,079**
Profit (loss) before tax	(73,805)	45,842	21,541	(4,387)	**44,829**
Income tax expenses	(61)	(7,156)	(154)	1,371	**(5,660)**
Profit (loss) for the year from continuing operations	(73,866)	38,686	21,387	(3,016)	**39,169**
Loss for the year from discontinued operations	–	–	–	(616)	**(1,402)**
Profit (loss) for the year	(73,866)	38,686	21,387	(3,632)	**37,767**
Attributable to:					
Owners of the Company	(75,855)	37,776	20,175	(5,613)	**33,856**
Non-controlling interests	1,989	910	1,212	1,981	**3,911**
Profit (loss) for the year	(73,866)	38,686	21,387	(3,632)	**37,767**

ASSETS AND LIABILITIES

	At 31 December				
	2008 HK$'000	2009 HK$'000	2010 HK$'000	2011 HK$'000	**2012 HK$'000**
Total assets	312,108	325,124	307,950	298,189	**272,971**
Total liabilities	(97,928)	(81,989)	(79,489)	(87,554)	**(59,477)**
Total equity	214,180	243,135	228,461	210,635	**213,494**
Non-controlling interests	9,291	9,491	9,258	9,223	**12,163**
Equity attributable to owners of the Company	204,889	233,644	219,203	201,412	**201,331**
Total equity	214,180	243,135	228,461	210,635	**213,494**

* The result for each of the year 2008-2010 have not been re-presented for the discontinued operation.

PARTICULARS OF MAJOR PROPERTIES

INVESTMENT PROPERTIES

Location	Use	Category of lease	Group's interest
Unit 2, 8/F, Sun Hing Industrial Building, No.46 Wong Chuk Hang Road, Hong Kong	Industrial	Long-term	100%