Annual Report 2010

A decade of abundance • A time of enjoyment

通達集團
TONGDA GROUP

TONGDA GROUP HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

Stock Code:698

CONTENTS

Corporate Information

Board of Directors

Executive Directors

Mr. Wang Ya Nan *(Chairman)*
Mr. Wang Ya Hua *(Vice Chairman)*
Mr. Wong Ah Yu
Mr. Wong Ah Yeung
Mr. Choi Wai Sang
Mr. Wang Ming Che

Independent Non-executive Directors

Mr. Ting Leung Huel, Stephen
MH, FCCA, FCPA (PRACTISING), ACA, FTIHK, FHKIoD
Mr. Cheung Wah Fung, Christopher, *JP*
Dr. Yu Sun Say, *GBS, SBS, JP*

Audit Committee

Mr. Wang Ya Nan
Mr. Choi Wai Sang
Mr. Ting Leung Huel, Stephen
Mr. Cheung Wah Fung, Christopher
Dr. Yu Sun Say

Remuneration Committee

Mr. Wang Ya Nan
Mr. Ting Leung Huel, Stephen
Mr. Cheung Wah Fung, Christopher
Dr. Yu Sun Say

Company Secretary

Ms. Chan Sze Man

Auditors

Ernst & Young
Certified Public Accountants

Authorised Representatives

Mr. Wang Ya Nan
Mr. Wang Ya Hua

Principal Bankers

In Hong Kong:
Hang Seng Bank Limited
The Hongkong and Shanghai Banking Corporation Limited
The Bank of Tokyo-Mitsubishi UFJ Limited
DBS Bank (Hong Kong) Limited
KBC Bank N.V., Hong Kong Bank
The Bank of East Asia, Limited

In the PRC:
Bank of China Limited
China Construction Bank Corporation

Legal Advisers

As to Hong Kong law:
Michael Li & Co.
Hui & Lam

As to PRC law:
Fujian Xieli & Partners Law Firm

As to Cayman Islands law:
Conyers Dill & Pearman, Cayman

Registered Office

Century Yard
Cricket Square
Hutchins Drive
P.O. Box 2681GT
George Town
Grand Cayman
Cayman Islands

Head Office and Principal Place of Business

Room 1201–03, 12th Floor
Shui On Centre
6–8 Harbour Road
Wanchai
Hong Kong
Tel: (852) 2570 8128
Fax: (852) 2510 0991
Website: http://www.tongda.com
Email (Investor Relations): ir@tongda.com.hk

Listing Information

Listed on the Hong Kong Stock Exchange (Main Board)
Stock short name: Tongda
Stock code: 698
Board lot: 10,000 shares

Hong Kong Branch Share Registrar

Union Registrars Limited
18/F, Fook Lee Commercial Centre
Town Place, 33 Lockhart Road
Wanchai, Hong Kong

Principal Share Registrar

Butterfield Fund Services (Cayman) Limited
Butterfield House
68 Fort Street
P.O. Box 705
George Town
Grand Cayman
Cayman Islands

Chairman's Statement

My heartfelt thanks to all of you for your support of our Group. Now, on behalf of the Board of Directors of Tongda Group Holding Limited (the "Group"), I am pleased to announce the annual results of the Group for the year ended 31 December 2010 ("the Year"). Through a series of strategic deployment and efforts, the Group's business has diversified and expanded into an area of high value-added, innovative and precision technology. During the Year, the Group successfully entered the market of Light Guide Plate used in LED TV and embarked on mass production by the end of 2010. Meanwhile, the Group has also successfully expanded its business to cover the manufacturing of glass touch panel of smart handsets with a view to consolidating our existing customer base and further developing our cooperative relationship. In addition, the Group has made major progress in its core business, as shown, in particular, by the completion and putting into operation of its Changshu-based production line of laptop computer casings, which has substantially boosted the Group's competitive advantage. The breakthroughs we accomplished in our business during the Year have laid a solid foundation for the Group's high-speed development in the future.

The Group's results of operations for 2010 have scored a new high, with the turnover increasing by 30.4% to HK$2,348,264,000 (2009: HK$1,800,254,000), gross profit increasing by 34.8% to HK$407,574,000 (2009: HK$302,379,000), and gross margin reaching 17.4% (2009: 16.8%). With increasing revenue from higher margin products which the Group focused on, profit attributable to the owners of the Company reached HK$200,931,000 (2009: HK$102,085,000), representing a rise of 96.8% over the previous year. The measures taken by the Group during the Year to control cost and improve efficiency have also achieved remarkable results, with its net profit margin significantly increasing 2.9 percentage points to 8.6%.

The Group has always been committed to generating attractive returns for its shareholders and maintaining a stable dividend policy. The Board recommended the payment of a final dividend of HK1 cent per share (2009: HK0.5 cent) and a special dividend of HK0.2 cent per share (2009: Nil) for the Year. Taking into account the interim dividend of HK0.6 cent per share, the Group paid HK1.8 cent per share (2009: HK0.85 cent) as total dividend in the Year, representing a significant increase of 111.8% from the previous year.

As an innovative high-tech enterprise, the Group is well aware of the development potential of the LED TV market, believing that with features of being environmental friendly and slim, LED TV will be the mainstream in the TV market. In fact, as early as two years ago, the Group had entered into cooperation with Matsushita Shokai Co., Ltd. to develop and manufacture light guide plates used in LED TV and the manufacturing facility was formally put into production in late 2010. At present, we have secured orders from Japanese TV brands, with the contribution of this business to the Group's revenue to be reflected in the Group's results of operations of 2011. According to DisplaySearch, the sales of LED TV will rise from 36.5 million in 2010 to 185 million in 2015, showing huge potential for growth. By virtue of its leading technologies and accurate market positioning, the Group has become one of the pioneering manufacturers of the next-generation light guide plates in China. It is expected that this business will become a major growth driver of the Group in the future.

The booming handset market will also be a major contributor to the Group's growth. According to the estimate of Topology Research Institute, the global sales of handsets will stand at around 1.45 billion in 2011, with the sales of smart phones accounting for 400 million, and the number is expected to reach up to 1.76 billion in 2015, promising huge market potential. As an expert in the design of handset fittings and casings, the Group has set about tapping the business of glass touch panel of handsets to expand its access to market opportunities. As glass touch panel of handsets have high technology content, they also enjoy higher gross margin. By developing high-tech and high value-added products, the Group is expected to further consolidate its leading position as an expert in surface decoration while enhancing its profitability.

Chairman's Statement

The Group's highly mature In-Mould Lamination (IML) technology, which constitutes one of its core competitive advantages, enables the Group to win further market recognition and customer praise. During the Year, orders from notebook computers and the income they brought continued to go up. Fashionable and innovative designs based on our sophisticated IML technology have been well-received and trusted by many internationally renowned brands of handsets, notebook computers and electrical appliances, making the Group one of the world's biggest one-stop solution provider of plastic casings of consumer electronics, and gaining new orders from internationally renowned brands.

Tongda Group has been striving to promote its own strength and explore international market, hence successfully consolidating its leading role as a one-stop solution provider for consumer electronic casing in the international market. With different business segments successfully establishing a vast and sound client base of the prestigious international brands for consumer electronics, the Group will continue its efforts in further improving the long-term business relationship with prestigious brands, as well as expanding our international client network, in order to increase our market share in consumer electronics. Meanwhile, we will carry on the development of high technology and innovative design, with a focus on developing high value-added products, thereby consolidating the Group's image and role as an innovative high-tech enterprise and meanwhile achieving greater profits.

Looking forward, in view of the gradual revival of the US and Europe markets, concurrent with China being the production base of global electronic products, the management are confident of the prospects of consumer electronics. With our state-of-the-art IML technology, our role as the forerunner in China's manufacturing industry for light guide plates used in LED TV, the promising smart phone business, our strong R&D team and sound financial status, the Group is well prepared to strengthen the diversified existing high value added sectors, as well as capture every market opportunity to enter a phase of high growth in the next five years, thereby delivering sustainable returns to our shareholders and creating substantial value.

Appreciation

I, on behalf of the Board, wish to thank all our clients and shareholders for supporting and trusting the Group over the years. I would also like to express my gratitude to all staff of the Group for their dedication and contributions during the Year. We will continue to work together with our shareholders and staff and dedicate our best efforts to create fruitful results that we can all share.

Chairman
Wang Ya Nan

Hong Kong, 16 March 2011

Management Discussion and Analysis

I. Financial

Due to strong revenue growth recorded in handset, notebook computer, electrical appliance casing business, as well as consistent optimization of our product portfolio, the Group's turnover kept growing in the year and amounted to HK$2,348,264,000 representing a rise of 30.4% when compared with last year (2009: HK$1,800,254,000). In spite of the rise in labor and materials costs in Mainland China, the Group took effective measures for cost control, focused on the development of highly value-added products, and managed to increase its gross profit to HK$407,574,000, representing a rise of 34.8% when compared with last year (2009: HK$302,379,000); the Group's gross profit margin was maintained at 17.4% (2009: 16.8%). The profit attributable to owners of the Company was increased from HK$102,085,000 in 2009 to HK$200,931,000 a rise of 96.8% in 2010. The Group's overall net profit margin was increased to 8.6% (2009: 5.7%).

Besides, the Group made great progress in the development of highly value-added products. In view of the huge smart handset market, the Group has begun to develop the business of glass touch panel of handsets, such production line has been completed and started mass production.

The Group adhered to a prudent financial strategy. As at 31 December 2010, the Group had pledged deposits balances, restricted bank balances and cash and cash equivalents of approximately HK$228,006,000 (2009: HK$246,050,000).

II. Operations Information by Division

(a) Electrical Fittings Division

Being a global one-stop solutions providers of consumer electronics plastic casings, the Group strives to develop its IML technology, enhance leadership in the industry, and maintain rapid growth in casing business. During the Year, the Group's volume of orders from handset, notebook computer, electrical appliance casing business kept growing; orders from new clients were acquired. The turnover from this Division was increased significantly to HK$1,874,656,000 a year-on-year increase of 43.6% (2009: HK$1,305,676,000).

i. Handsets

During the Year, the turnover handset business was increased by 50.8% to HK$950,723,000 account for 51% of the turnover from the entire Electrical Fittings Division. Being a strategic partner of Huawei and ZTE which are renowned leading handset manufacturers in the industry, the Group benefited from these clients' rise of market share and achieved remarkable growth in volume of orders. Meanwhile, the Group maintained close cooperation with world-famous cellphone manufacturers like Nokia, TCL, Sony Ericsson and Lenovo, which created a stable revenue stream for the Group. Along with improvement of the IML technology, the Group is able to design and manufacture tailor-made, stylish and innovative casings, surface ornaments and components which helps enhance cooperation relationship with clients.

II. Operations Information by Division *(continued)*

(a) Electrical Fittings Division *(continued)*

ii. Notebook computers

The Group's volume of orders of notebook cases business kept growing, with turnover increased by 42.6% to HK$321,497,000, occupying 17% of the turnover from the entire Division. Apart from the increasing orders from the world's top 4 computer manufacturers including Asus, Acer, Quanta and Compal, as well as famous computer brands like Lenovo, Dell and HP, the Group managed to acquire orders from new clients including NEC and Toshiba, thus further expanded its customer base. The growth of consumer demand in personalized notebook casings with colorful and stylish designs also created infinite business opportunities and made a contribution to the outstanding achievements of the Division.

iii. Electrical appliances

Thanks to China's "Consumer Electronics Subsidy Program" extending to more domestic cities, the Group's turnover from consumer electrical appliance cases business increased by 35.3% to HK$602,436,000 account for 32% of the turnover from the entire Electrical Fittings Division from last year. Along with the rise in domestic household income and living standards, market demand in high-end household electrical appliances is increasing day by day, creating numerous business opportunities for the Group. During the Year, we have maintained close cooperative relationships with our customers and the Group's orders from clients manufacturing high-end household appliances increased significantly, our customers including Haier, Midea, Gree, Sharp, Toshiba, Hitachi, Philips, Cisco, Sony, Samsung and Zojirushi, which created a stable revenue stream for the Group.

iv. Light Guide Plate for LED TV

As early as two years ago, being well aware of the development potential of the LED TV market, the Group had entered into cooperation with Matsushita Shokai to develop and manufacture high-quality light guide plates used in LED TVs. The light guide plate is a core component of an LED TV that provides more exquisite and vivid images by transmitting the LED backlight evenly to the whole screen. By virtue of the Group's own strong production team and R&D strength, coupled with the professional consultancy and technology support from Matsushita Shokai, the Group boasts a substantially heightened competitive advantage in the production of light guide plates for LED TVs.

The Group's Xiamen-based production line of light guide plates for LED TVs was formally put into operation in late 2010. Backed by the strong brand of Matsushita Shokai and by a vast customer base, the Group has secured orders from Japanese TV brands. This business will be a major growth driver of the Group in the future, with its contribution to the Group's revenue to be reflected in the results of operations for 2011.

II. Operations Information by Division *(continued)*

(b) Ironware Parts Division

This division posted a stable turnover of HK$330,169,000 (2009: HK$338,124,000) for the Year. The Group will continue its focus on higher gross margin products, including smaller and more sophisticated ironware parts that used by electronic products. With the shift of the Group's resource allocation toward more profitable core business, the sales of this business will account for a gradually decreasing share of the Group's total turnover.

(c) Communication Facilities Division and Other Business

The Communication Facilities Division of the Group focuses on the production of satellite TV receivers and set top boxes, with its turnover for the Year standing at HK$143,439,000 (2009: HK$156,454,000).

(d) Total turnover analysis (by products) for the years ended 31 December 2010 and 2009 is as follows:

	2010	2009
Electrical Fittings Division	80%	73%
i. Handset	*40%*	*35%*
ii. Notebook Computers	*14%*	*13%*
iii. Electrical Appliances	*26%*	*25%*
Ironware Parts Division	14%	19%
Communication Facilities and Other Business	6%	8%

Management Discussion and Analysis

III. Prospects

With the gradual recovery of the US and Europe markets in the wake of the global financial crisis, as well as the continued growth of Mainland China's economy, the Group believes that the global market of consumer electronics will maintain high-speed growth. In its bid to capitalize on the surging opportunities of the market, the Group has made a full range of strategic business deployments by diversifying and expanding to higher value-added, innovative and precision technology fields while enhancing its competitive advantage in its core business. The Group has full confidence that it will continue to accomplish a satisfactory growth in the coming year.

The Group is a pioneer in the Chinese market of light guide plates for LED TVs, which will be its major growth driver in the coming year. The Xiamen-based production facility has launched mass production in late 2010 and expects its processing and production facilities of light guide plates for LED TVs to reach approximately six million units in 2011 to meet the huge market demand. In the meantime, the Group will also make active efforts to obtain orders from more renowned customers to expand its source of income.

Regarding its core business of casing products, the Group's new production facility located in Changshu City of Jiangsu Province, in response to the rapid growth of the market demand, has been completed and put into production in early 2011 with focus on notebook casing products. This facility, abutting the production bases of international notebook manufacturers, gives the Group considerable advantages in transportation and cost. Meanwhile, with this adjacent facility, we can strengthen our cooperation with the world's renowned notebook computer manufacturers accordingly, and ultimately enhance the competitiveness of our products. In the meantime, the Group will continue to make active efforts to strengthen its IML technology in order to meet customers' different needs in product design.

The Group has built a large and strong customer base, and in the future, will intensify its R&D efforts to focus on high value-added products and deepen cooperative relations with existing and new customers. In view of the huge market of smart handset, the Group will take active efforts to seize business opportunities; in fact, it has begun to develop the business of glass touch panels of handsets. The production line for this product has been completed and put into operation and targets a production volume of 12.5 million units for 2011. These efforts to develop high-tech and high value-added products are expected to further consolidate the Group's leading position as an expert in surface decoration, while contributing to its profit margin.

Besides business expansion, the Group will continue to implement effective cost control measures and sound financial policies and remain committed to consolidating the Group's image and status as an innovative high-tech enterprise toward a long-term business growth.

IV. Cash Flows and Financial Resources

During the year, the Group's primary sources of funding included cash generated from operating activities and the credit facilities provided by the Group's principal banks in Hong Kong and China.

As at 31 December 2010, it has cash and bank, restricted bank balances and pledged deposits balance of about HK$228 million and without holding any structural investment contract. During the year, the Group secured a three-year bank loan of HK$300 million to re-finance the three-year HK$350 million bank loan secured in 2008. Heeding the current economic situation, the Group will allocate its resources carefully and with prudence focusing on developing more high profit and high value-adding products, and applying IML technology in more productions so as to gain maximum benefit from the technology. Furthermore, the Group will closely monitor market trends and look for merger and acquisition opportunities at suitable time to help speed up business development and also strengthen and raise its industry position.

As at 31 December 2010, the Group had total assets of HK$3,017 million (2009: HK$2,359 million); net current assets of HK$682 million (2009: HK$462 million) and equity of HK$1,663 million (2009: HK$1,381 million).

The Group's cash and bank balance of about HK$228 million, of which HK$5.2 million (2009: Nil) has been designated in a bank account for the Group's purchase and, HK$39 million has been pledged to bank to secure trade facilities (2009: HK$20.2 million).

The gearing ratio of the Group (net debt/equity plus net debt) was 0.39 (2009: 0.32).

The Company's bank loans are with annual effective interest rates of Hong Kong Interbank Offered rate ("HIBOR") plus 1.1% and 1.15%. Other than the Company's bank loans, the effective interest rates of the other bank loans range from 4.95% to 6.12% and board rate or HIBOR plus 2.5% per annum, respectively.

Biographical Details of Directors and Senior Management

Executive Directors

Mr. Wang Ya Nan, aged 53, is the Chairman and CEO of the Group. He is responsible for the overall strategic planning and business development of the Group. He is also responsible for the development of overseas markets. He joined the Group in December 1988 and has over 20 years of experience in the electronics and electrical industry. He is a brother of Messrs. Wong Ah Yeung, Wong Ah Yu and Wang Ya Hua.

Mr. Wang Ya Hua, aged 55, is the Vice Chairman and the general manager of the Group. He is responsible for the overall management of the Group with special focus on product development, preparation and monitoring of annual production plans and operating budget. He is also required to give direction of the day-to-day operations to the operation unit located at Xiamen, Fujan Province. He joined the Group in December 1988 and has over 20 years of experience in the electronics and electrical industry. He is a brother of Messrs. Wong Ah Yeung, Wong Ah Yu and Wang Ya Nan.

Mr. Wong Ah Yu, aged 58, is the deputy general manager of the Group and the general manager of Tongda Electrics Company Limited, Shishi City, Fujian. He is responsible for overseeing the operation unit of the Group in Shishi city, Fujian Province and requires to give direction of the day-to-day operation. He joined the Group in December 1988 and has over 20 years experience in the electronics and electrical industry. He is a brother of Messrs. Wong Ah Yeung, Wang Ya Hua and Wang Ya Nan.

Mr. Wong Ah Yeung, aged 61, is the deputy general manager of the Group and the general manager of Tongda Ironware (Shenzhen) Company Limited ("Tongda Ironware"). He is responsible for overseeing the operation unit of the Group in Shenzhen, Guangdong Province and requires to give direction of the day-to-day operation. He joined the Group in December 1988 and has over 20 years experience in the ironware and electrical industry. He is a brother of Messrs. Wong Ah Yu, Wang Ya Hua and Wang Ya Nan and the father of Mr. Wang Ming Che.

Mr. Choi Wai Sang, aged 55, is an executive director and is responsible for the development of overseas market and the technical support of the Group's product development. He joined the Group in December 1988. He graduated with a Bachelor and Master of Science degrees in electrical engineering from the University of Illinois, USA.

Mr. Wang Ming Che, aged 35, has been appointed as executive director with effect from 18 March 2008. He is the Deputy General Manager of Tongda Ironware. He joined the Group and was employed as a salesman in Tongda Electronics and as an assistant in Tongda Ironware since 2002. Mr. Wang is the son of Mr. Wong Ah Yeung.

Biographical Details of Directors and Senior Management

Independent Non-Executive Directors

Dr. Yu Sun Say, *G.B.S. S.B.S, J.P.*, aged 72, joined the Company as an independent non-executive director in October 2007. Dr. Yu is the Chairman of the H.K.I. Group of Companies and a director of a number of manufacturing and investment companies. He is an Independent non-executive director of Wong's International (Holdings) Limited. He served as member of the Preparatory Committee for the Hong Kong Special Administrative Region and as a Hong Kong Affairs Adviser. He is currently a member of the Standing Committee of the Chinese People's Political Consultative Conference, a member of the Standing Committee of the Chinese General Chamber of Commerce and Permanent Honorary President of the Chinese Manufacturers' Association of Hong Kong.

Mr. Ting Leung Huel Stephen, *MH, FCCA, FCPA (PRACTISING), ACA, FTIHK, FHKIoD*, aged 57, is an independent non-executive director of the Company and joined the Company in December 2000. Mr. Ting is the managing partner of Ting Ho Kwan & Chan, Certified Public Accountants since 1987. Mr. Ting is a member of the 9th & 10th Chinese People's Political & Consultative Conference, Fujian. He is now a non-executive director of Chow Sang Sang (Holdings) International Limited and an independent non-executive director of seven listed companies, namely, China SCE Property Holdings Limited, Computer and Technologies Holdings Limited, Dongyue Group Limited, JLF Investment Company Limited, Minmetals Resources Limited, Texhong Textile Group Limited and Tong Ren Tang Technologies Company Limited.

Mr. Cheung Wah Fung Christopher, *JP*, aged 59, is an independent non-executive director of the Company and joined the Company in September 2004. Mr. Cheung is currently the independent non-executive director of Fujian Holdings Limited and the chairman of Christfund Securities group of companies. He serves as a member of the National Committee of the Chinese People's Political Consultative Council, chairman of the Hong Kong Securities Professionals Association, elected-director of the Hong Kong Chinese General Chamber of Commerce, director of the Chinese Overseas Friendship Association, director of the Friends of Hong Kong Association, member of the Standing Committee of the Federation of Commerce and Industry of Guangdong Province, Honorary Chairman of Hong Kong Federation of Fujian Associations.

Biographical Details of Directors and Senior Management

Senior Management

Mr. Ko Chun Hay, Kelvin, *MSc, FCPA, ACMA*, aged 47, is the Chief Financial Officer and Company Secretary of the Group from 2000 to 2010 and is responsible for the corporate finance, accounts and company secretarial functions of the Group. Mr. Ko graduated from the City University of Hong Kong with a Master of Science Degree of Finance. He is a fellow member of the Hong Kong Institute of Certified Public Accountants and an associate member of the Chartered Institute of Management Accountants. He has over 20 years of working experience in the field of commercial, audit and taxation. Mr. Ko was appointed as the consultant of the Group since 2011.

Mr. Hui Wai Man, Anthony, *BSc*, aged 43, is the deputy general manager of a subsidiary of the Group. He is mainly responsible for the sales and marketing activities of the Group in Hong Kong & overseas. He is also responsible for the overall purchasing management of the Group. He has over 15 years experience in the field of electronic market. He joined the Group in April 2003.

Mr. Shu Yuen Shu, aged 72, is the senior management consultant of the Group. He assists the Group's General Manager to formulate corporate strategies and staff training, and to implement the Group's quality control program. He holds a Bachelor's Degree in Physics from the University of Xiamen. He joined the Group in June 1998 and has over 30 years of quality management experience in the electronics industry.

Mr. Yuen Sik Kin, aged 50, is the accounting manager of a subsidiary of the Group and is mainly responsible for the accounts and financial management in the PRC. He obtained his qualification as an accountant from the Finance Department of the People's Republic of China. He joined the Group in 1994 and has over 20 years of working experience in the accounts and finance field.

Ms. Chan Sze Man, aged 30, is the Chief Financial Officer and Company Secretary since 2011 and is responsible for the corporate finance, accounts and company secretarial functions of the Group. Ms. Chan graduated from the Hong Kong University of Science and Technology with a Bachelor's Degree in Accounting. She is a member of the Hong Kong Institute of Certified Public Accountants. She joined the Group in June 2010 and have over 8 years of working experience in the field of accounting, auditing and financial management.

Mr. Pan Jianjun, aged 36, is the business manager of a subsidiary of the Group. Mr. Pan joined the Group in March 2003, he has over a decade of experience in electronics and ironware industry, served various positions in Taiwan and American invested entities.

Mr. Zhang Haijiang, aged 35, is the production manager of a subsidiary of the Group. Mr. Zhang joined the Group in 2002, has more than 10 year experience in production management, and he having served successively as Production supervisor, Production manager and Precision Parts Manager.

Biographical Details of Directors and Senior Management

Mr. Zhou Shuangxi, aged 38, he is the business manager of a subsidiary of the Group. He joined the Group in June 1998 and has held successively such positions as manager assistant of the integrated management department (in charge of human resources and quality management), technical manager of the R&D Centre and business manager. Mr. Zhou has nearly 13 years experience in internal management of integrated corporate operation.

Mr. Ye Jinhuang, aged 46, joined the Group in 2008 and is the general manger of a subsidiary of the Group. He has over 25 years experience in the plastic product industry. Beginning to engage in high-tech industry in 1986, he is currently the vice president of 廈門注塑工業協會 (Xiamen Association of the Molded Plastic Industry*).

Mr. You Junfeng, aged 42, is the vice general manager of a subsidiary of the Group. With over 20 years of technical and managerial experience in the production of molded plastic components, Mr. You joined the Group in 2008 and is now responsible for the management of operations including marketing, procurement and project management.

Mr. Xiao Ruihai, aged 39, he is the vice general manager of a subsidiary of the Group, gained over 16 years of experience in electronic technology industry. He joined the Group in 2005 and is responsible for the business operation management in Xiamen.

Mr. Liu Zhenzhou, aged 53, he is the vice general manager of a subsidiary of the Group, and he joined the Group in 2010. Mr. Liu has 19 years of experience in the high-tech industry and 5 years of managerial experience in touch panels and modules operations.

Mr. Zhang Bing, aged 37, he is the engineering manager of a subsidiary of the Group, and he joined the Group in 2007, Mr. Zhang has more than 14 years of experience in mould design & manufacturing as well as new product development.

Mr. Wang Mingli, aged 29, he is the general manager of a subsidiary of the Group, responsible for the sales and promotion of the Group's notebook computer business. Graduated from Macquarie University in Australia and majored in Accounting, and he has accounting and audit experience. Mr. Wang joined the Group in October 2008 and he is the son of Mr. Wong Ah Yu.

* *For identification purpose only*

Corporate Governance Report

Throughout the year ended 31 December 2010, the Company has compiled with the Code of Best Practice as set out in Appendix 14 to the Rules Governing the Listing of Securities (the "Listing Rules") of The Stock Exchange of Hong Kong Limited. In addition, the Group is committed to maintain a high standard of corporate governance in order to provide transparency and protection of shareholders' interest.

With reference to the code provision set out in the Code of Corporate Governance Practices (the "Corporate Governance Code") contained in Appendix 14 of the Listing Rules, with due consideration of the interest of shareholders and the economic benefit of the Company, the Company has adopted the relevant Corporate Governance Code as follows:

Board of Directors

The Board of Directors (the "Board") comprises six executive directors and three independent non-executive Directors and the Board is accountable to shareholders. The management and control of the business of the Company is vested in its Board. It is the duty of the Board to create value to the shareholders of the Company.

The Board is bound to manage the Company in a responsible and effective manner, and therefore every Director should ensure that he carries out his duty in good faith and in compliance with the standards of the applicable laws and regulations, and acts in the best interests of the Company and its shareholders at all times.

The Board has delegated a schedule of responsibilities to each of the executive directors. Mr. Wang Ya Nan, the Chairman and the Chief Executive Officer of the Board, who requires to establish the Company's strategic direction, set the Company's objectives and plans, and provide leadership and ensure availability of resources in the attainment of such objectives. He is also required to control, supervise and monitor the capital, corporate finance, technical and human resources of the Group. Mr. Wang Ya Hua, the Vice Chairman of the Board, implements the decisions of the Board and manages strategies and plans approved by the Board; and prepares and monitors the annual production plans and operating budget. He is also required to give direction of the day-to-day operation in one of the main operation unit of the Group in Xiamen. Mr. Wong Ah Yu oversees the operation unit in Shishi and requires to give direction of the day-to-day operation. Mr. Wong Ah Yeung and Mr. Wang Ming Che oversee the operation unit in Shenzhen and requires to give direction of the day-to day operation. Mr. Choi Wai Sang is responsible for the marketing function of the overseas market and product development.

The roles of Chairman and Chief Executive Officer should be separated and should not be performed by the same individual. The Company does not have a separate Chairman and Chief Executive Officer and Mr. Wang Ya Nan currently holds both positions. The Board believes that vesting the roles of both Chairman and Chief Executive Officer in the same person provides the Group with strong and consistent leadership and allows for more effective planning and execution of long term business strategies. The present structure is considered to be appropriate under the current size of operation.

The three independent non-executive Directors are responsible for ensuring a high standard of financial and other mandatory reporting of the Board as well as to provide a balance in the Board in order to protect shareholders' interest and overall interest of the Group. There is no fixed term of office for each independent non-executive Director but each of them is required to retire in accordance with the articles of association of the Company.

The Group believes that the structure of the Board is most suitable for the Group's existing operation and is most beneficial to the shareholders' interest. However, a review of the structure will be done regularly to see if any change is needed.

The Board held 12 meetings during the year with attendance record as follows:

Attendance at Board meeting	Number of meetings attended (12 meetings in total)
Executive Directors:	
Mr. Wang Ya Nan	12
Mr. Wang Ya Hua	12
Mr. Wong Ah Yu	12
Mr. Wong Ah Yeung	12
Mr. Choi Wai Sang	11
Mr. Wang Ming Che	10
Independent Non-Executive Directors:	
Mr. Ting Leung Huel Stephen ("Mr. Ting")	12
Mr. Cheung Wah Fung Christopher, *JP*	10
Dr. Yu Sun Say, *GBS, SBS, JP*	10

The Board held 12 meetings during the year under review. The Chief Financial Officer and company secretary attended all the scheduled Board meetings to report matters arising from corporate governance, risk management, statutory compliance, accounting and finance.

In compliance with the code provisions of the Corporate Governance Code, the Company has set up a Remuneration Committee and an Audit Committee under the Board. The Board considers the determination of the appointment and removal of Directors to be the Board's collective decision and thus does not intend to adopt the recommended best practice of the Corporate Governance Code to set up a Nomination Committee.

Corporate Governance Report

Remuneration Committee

The Remuneration Committee (the "RC") comprises the Chairman and CEO of the Company, Mr. Wang Ya Nan, and three independent non-executive directors, Mr. Ting, Mr. Cheung Wah Fung Christopher and Dr. Yu Sun Say. Mr. Ting takes the chair of the RC. The main responsibility of the RC is to review and to determine the remuneration of each director and senior management.

The RC held 1 meeting during the year with attendance record as follows:

Attendance at RC meeting	Number of meetings attended (1 meeting in total)
RC members:	
Mr. Wang Ya Nan	1
Mr. Ting Leung Huel, Stephen	1
Mr. Cheung Wah Fung Christopher, *JP*	1
Dr. Yu Sun Say, *GBS, SBS, JP*	1

Audit Committee

The Audit Committee (the "AC") comprises the three independent non-executive Directors. Mr. Ting takes the chair of the AC. The term of reference of the AC are aligned with the recommendations as set out in "A Guide for Effective Audit Committee" issued by the Hong Kong Institute of Certified Public Accountants and the code provisions as set out in the Corporate Governance Code. The AC provides accounting and financial advices and recommendations to the Board as well as monitor and safeguard the independence of external auditors and relevant auditing matters.

The AC held 2 meetings during the year with attendance record as follows:

Attendance at AC meeting	Number of meetings attended (2 meetings in total)
AC members and attendants:	
Mr. Wang Ya Nan	2
Mr. Choi Wai Sang	2
Mr. Ting Leung Huel, Stephen	2
Mr. Cheung Wah Fung Christopher, *JP*	2
Dr. Yu Sun Say, *GBS, SBS, JP*	2

Auditors' Remuneration

Details of fees paid or payable to the Group's external auditors for the year ended 31 December 2010 are as follows:

Services	Fees HK$'000
Annual audit	2,160
Non-audit services	320
	2,480

Accountability and Internal Control

The Directors acknowledge their responsibilities for the preparation of the financial statements of the Group. The Directors consider that the financial statements have been prepared in conformity with the generally accepted accounting standards in Hong Kong, and reflect amounts that are based on the best estimates and reasonable, informed and prudent judgment of the Board and management with an appropriate consideration to materiality.

The accounting systems and internal control of the Group are designed to prevent any misappropriation of the Group's assets, any unauthorized transactions as well as to ensure the accuracy of the accounting records and the true and fairness of the financial statements.

The Board is responsible for the effectiveness of the Group's internal control system. The internal control system is designated to meet the Group's needs. Relevant procedures have been designed for safeguarding assets against unauthorised use or disposal; for controlling excessive capital expenditure; for maintaining proper accounting records; and for the reliability of financial information used in the operations or for publication. Qualified management personnel of the company will maintain and monitor the internal control system on a going-concern basis. The management and the Chief Financial Officer of the Company will report the internal control situation to the Audit Committee and the Board periodically for evaluation.

External Auditors

Ernst and Young has been appointed as the external auditors of the Company for the Year by the shareholders of the Company at the Annual General Meeting 2010. The AC has given their opinion on the fee charged to the Company. The responsibilities of the external auditors with respect to financial reporting are set out in the section of "Independent Auditors' Report" on pages 31 to 32.

Communication with Shareholders

The Company attaches great priority to establish effective communication with its shareholders and investors. In an effort to enhance such communications, the Company provides information relating to the Company and its business in its annual report and also disseminates such information electronically through its web site at www.tongda.com.

The Company regards the annual general meeting as an important event as it provides an opportunity for direct communication between the Board and its shareholders. All Directors, senior management and external auditors make an effort to attend the annual general meeting of the Company to address shareholders' queries. All the shareholders of the Company are given a minimum of 20 clear business days' notice of the date and venue of the annual general meeting of the Company. The Company supports the Corporate Governance Code's principle to encourage shareholders' participation.

Directors' Securities Transactions

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

The Board will review regularly the Group's operation and corporate governance of the Company in order to ensure compliance of the articles of association of the Company, the laws of the Cayman Islands and regulations and to protect the interest of its shareholders.

Report of the Directors

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

Principal Activities

The principal activity of the Company is investment holding. Details of the principal activities of the Company's subsidiaries are set out in note 17 to the financial statements. There were no significant changes in the nature of the Group's principal activities during the year.

Results and Dividends

The Group's profit for the year ended 31 December 2010 and the state of affairs of the Company and of the Group at that date are set out in the financial statements on pages 33 to 118.

An interim dividend of HK0.6 cent per ordinary share was paid on 21 September 2010.

The directors recommend the payment of a final dividend of HK1.0 cent per ordinary share and a special dividend of HK0.2 cent per ordinary share in respect of the year to shareholders whose names appear on the register of members on 25 May 2011. This together with the interim dividend of HK0.6 cent per ordinary share gives a total of HK1.8 cents per ordinary share for the year (2009: HK0.85 cent per ordinary share). The proposed final dividend will be paid on 2 June 2011 following approval at the 2010 Annual General Meeting. Details are set out in note 11 to the financial statements.

Financial Information Summary

A summary of the results and assets, liabilities and non-controlling interests of the Group for the last five financial years, as extracted from the published audited financial statements, is set out below. This summary does not form part of the audited financial statements.

Results

	Year ended 31 December				
	2010 HK$'000	2009 HK$'000	2008 HK$'000	2007 HK$'000	2006 HK$'000
Profit for the year attributable to:					
Owners of the Company	**200,931**	102,085	65,301	174,818	161,194
Non-controlling interests	**9,314**	11,746	6,041	(4,810)	(856)
	210,245	113,831	71,342	170,008	160,338

Assets, Liabilities and Non-controlling Interests

	31 December				
	2010	2009	2008	2007	2006
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
TOTAL ASSETS	**3,016,521**	2,359,468	2,073,015	1,677,384	1,177,306
TOTAL LIABILITIES	**(1,353,988)**	(978,658)	(857,683)	(538,983)	(550,675)
NON-CONTROLLING INTERESTS	**(46,537)**	(47,287)	(33,665)	(5,429)	(10,239)
	1,615,996	1,333,523	1,181,667	1,132,972	616,392

Property, Plant and Equipment and Investment Properties

Details of movements in the property, plant and equipment and the investment properties of the Group during the year are set out in notes 13 and 14 to the financial statements, respectively.

Share Capital, Share Options and Warrants

Details of movements in the share capital, warrants and share options of the Company during the year, together with the reasons therefor, are set out in notes 29 and 30 to the financial statements.

Reserves

Details of movements in the reserves of the Company and of the Group during the year are set out in note 31(b) to the financial statements and in the consolidated statement of changes in equity, respectively.

Distributable Reserves

At 31 December 2010, the Company's reserves available for distribution, calculated in accordance with the Companies Law (2004 Revision) of the Cayman Islands, amounted to HK$754,304,000, of which HK$46,723,000 and HK$9,345,000 have been proposed after the reporting period as a final dividend and a special dividend for the year respectively. This includes the Company's share premium account in the amount of HK$613,649,000 as at 31 December 2010, which may be distributed in the form of fully paid bonus shares.

Pre-emptive Rights

There are no provisions for pre-emptive rights under the Company's articles of association or the laws of the Cayman Islands, being the jurisdiction in which the Company was incorporated, which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

Charitable Contributions

During the year, the Group made charitable contributions totalling HK$1,717,000.

Major Customers and Suppliers

In the year under review, sales to the Group's five largest customers accounted for 37.5% of the total sales for the year and sales to the largest customer included therein amounted to 8.8%. Purchases from the Group's five largest suppliers accounted for 22.4% of the total purchases for the year and purchases from the largest suppliers included therein amounted to 5.8%.

None of the directors of the Company or any of their associates or any shareholders (which, to the best knowledge of the directors, own more than 5% of the Company's issued share capital) had any beneficial interest in the Group's five largest customers or suppliers.

Directors

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

Executive directors:

Mr. Wang Ya Nan *(Chairman)*
Mr. Wang Ya Hua *(Vice chairman)*
Mr. Wong Ah Yu
Mr. Wong Ah Yeung
Mr. Choi Wai Sang
Mr. Wang Ming Che

Independent non-executive directors:

Mr. Ting Leung Huel, Stephen
Mr. Cheung Wah Fung, Christopher, *JP*
Dr. Yu Sun Say, *GBS, SBS, JP*

In accordance with article 108(A) of the Company's articles of association, Mr. Wang Ya Nan, Mr. Wang Ming Che, and Mr. Ting Leung Huel, Stephen will retire and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting.

Directors' Interests and Short Positions in Shares and Underlying Shares

At 31 December 2010, the interests of the directors in the share capital of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register required to be kept by the Company pursuant to Section 352 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, were as follows:

Long positions in ordinary shares of the Company:

	Number of shares held, capacity and nature of interest				
Name of director	Directly beneficially owned	Through controlled corporation	Notes	Total	Percentage of the Company's issued share capital
Mr. Wang Ya Nan	79,020,000	2,296,490,000	1, 2	2,375,510,000	51.59
Mr. Wang Ya Hua	37,720,000	2,000,490,000	1	2,038,210,000	44.26
Mr. Wong Ah Yu	42,960,000	2,000,490,000	1	2,043,450,000	44.38
Mr. Wong Ah Yeung	49,800,000	2,000,490,000	1	2,050,290,000	44.52
Mr. Choi Wai Sang	16,250,000	78,750,000	3	95,000,000	2.06
Mr. Cheung Wah Fung, Christopher, *JP*	3,490,000	—		3,490,000	0.08

Long positions in share options of the Company:

Name of director	Number of share options directly beneficially owned
Mr. Wang Ya Nan	59,300,000
Mr. Wang Ya Hua	59,300,000
Mr. Wong Ah Yu	59,300,000
Mr. Wong Ah Yeung	59,300,000
Mr. Choi Wai Sang	13,500,000
Mr. Wang Ming Che	16,000,000
Mr. Ting Leung Huel, Stephen	8,450,000
Mr. Cheung Wah Fung, Christopher, *JP*	8,450,000
Dr. Yu Sun Say, *GBS, SBS, JP*	6,450,000
	290,050,000

Directors' Interests and Short Positions in Shares and Underlying Shares *(continued)*

Notes:

1. 2,000,490,000 shares are held by Landmark Worldwide Holdings Limited, the issued share capital of which is beneficially owned as to 25% by each Messrs. Wang Ya Nan, Wang Ya Hua, Wong Ah Yu and Wong Ah Yeung (collectively referred to as the "Wong Brothers").

2. 296,000,000 shares are held by E-Growth Resources Limited, the entire issued share capital of which is beneficially owned by Mr. Wang Ya Nan.

3. These shares are held by Faye Limited, the entire issued share capital of which is held and beneficially owned by Mr. Choi Wai Sang.

Save as disclosed above, as at 31 December 2010, none of the directors had registered an interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations that was required to be recorded pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers.

Directors' Rights to Acquire Shares or Debentures

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

Report of the Directors

Share Option Scheme

The Company operates a share option scheme (the "Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Further details of the Scheme are disclosed in note 30 to the financial statements.

The following table discloses movements in the Company's share options outstanding during the year:

	Number of share options						
Name or category of participants	**At 1 January 2010**	**Granted during the year**	**Exercised during the year**	**At 31 December 2010**	**Date of grant of share options***	**Exercise period of share options**	**Exercise price of share options** HK$ per share**
Directors							
Mr. Wang Ya Nan	41,500,000	17,800,000	—	59,300,000	3 July 2007, 16 February 2008, 25 September 2009 and 31 May 2010	4 July 2007 to 3 July 2017, 16 February 2008 to 15 February 2018, 25 September 2009 to 24 September 2012 and 31 May 2010 to 30 May 2013	0.586, 0.315, 0.2262 and 0.280
Mr. Wang Ya Hua	41,500,000	17,800,000	—	59,300,000	3 July 2007, 16 February 2008, 25 September 2009 and 31 May 2010	4 July 2007 to 3 July 2017, 16 February 2008 to 15 February 2018, 25 September 2009 to 24 September 2012 and 31 May 2010 to 30 May 2013	0.586, 0.315, 0.2262 and 0.280
Mr. Wong Ah Yu	41,500,000	17,800,000	—	59,300,000	3 July 2007, 16 February 2008, 25 September 2009 and 31 May 2010	4 July 2007 to 3 July 2017, 16 February 2008 to 15 February 2018, 25 September 2009 to 24 September 2012 and 31 May 2010 to 30 May 2013	0.586, 0.315, 0.2262 and 0.280
Mr. Wong Ah Yeung	41,500,000	17,800,000	—	59,300,000	3 July 2007, 16 February 2008, 25 September 2009 and 31 May 2010	4 July 2007 to 3 July 2017, 16 February 2008 to 15 February 2018, 25 September 2009 to 24 September 2012 and 31 May 2010 to 30 May 2013	0.586, 0.315, 0.2262 and 0.280

Share Option Scheme *(continued)*

Name or category of participants	Number of share options: At 1 January 2010	Granted during the year	Exercised during the year	At 31 December 2010	Date of grant of share options*	Exercise period of share options	Exercise price of share options** HK$ per share
Directors							
Mr. Choi Wai Sang	8,500,000	5,000,000	—	13,500,000	16 February 2008, 25 September 2009 and 31 May 2010	16 February 2008 to 15 February 2018, 25 September 2009 to 24 September 2012 and 31 May 2010 to 30 May 2013	0.315, 0.2262 and 0.280
Mr. Ting Leung Huel, Stephen	6,500,000	1,950,000	—	8,450,000	3 July 2007, 16 February 2008, 25 September 2009 and 31 May 2010	4 July 2007 to 3 July 2017, 16 February 2008 to 15 February 2018, 25 September 2009 to 24 September 2012 and 31 May 2010 to 30 May 2013	0.586, 0.315, 0.2262 and 0.280
Mr. Cheung Wah Fung, Christopher, *JP*	6,500,000	1,950,000	—	8,450,000	3 July 2007, 16 February 2008, 25 September 2009 and 31 May 2010	4 July 2007 to 3 July 2017, 16 February 2008 to 15 February 2018, 25 September 2009 to 24 September 2012 and 31 May 2010 to 30 May 2013	0.586, 0.315, 0.2262 and 0.280
Dr. Yu Sun Say, *GBS, SBS, JP*	4,500,000	1,950,000	—	6,450,000	16 February 2008, 25 September 2009 and 31 May 2010	16 February 2008 to 15 February 2018, 25 September 2009 to 24 September 2012 and 31 May 2010 to 30 May 2013	0.315, 0.2262 and 0.280
Mr. Wang Ming Che	8,000,000	8,000,000	—	16,000,000	25 September 2009 and 31 May 2010	25 September 2009 to 24 September 2012 and 31 May 2010 to 30 May 2013	0.2262 and 0.280

Share Option Scheme *(continued)*

Name or category of participants	Number of share options: At 1 January 2010	Granted during the year	Exercised during the year	At 31 December 2010	Date of grant of share options*	Exercise period of share options	Exercise price of share options** HK$ per share
Other employees							
In aggregate	28,000,000	12,000,000	(1,500,000)	38,500,000	9 March 2007, 16 February 2008 and 31 May 2010	10 March 2007 to 9 March 2017, 16 February 2008 to 15 February 2018, and 31 May 2010 to 30 May 2013	0.485, 0.315 and 0.280
	228,000,000	102,050,000	(1,500,000)	328,550,000			

Notes to the table of share options outstanding during the year:

* The vesting period of the share options is from the date of grant until the commencement of the exercise period.

** The exercise price of the share options is subject to adjustment in the case of rights or bonus issues, or other similar changes in the Company's share capital.

*** The closing price of the Company's shares immediately before 31 May 2010 on which the share options were granted during the year was HK$0.28 per share.

The directors have estimated the values of the share options granted during the year, calculated using the binomial option pricing model as at the date of grant of the options:

Grantee	Number of share options granted during the year	Theoretical value of share options HK$
Mr. Wang Ya Nan	17,800,000	1,377,000
Mr. Wang Ya Hua	17,800,000	1,377,000
Mr. Wong Ah Yu	17,800,000	1,377,000
Mr. Wong Ah Yeung	17,800,000	1,377,000
Mr. Choi Wai Sang	5,000,000	389,000
Mr. Ting Leung Huel, Stephen	1,950,000	151,000
Mr. Cheung Wah Fung, Christopher, *JP*	1,950,000	151,000
Dr. Yu Sun Say, GBS, SBS, *JP*	1,950,000	151,000
Mr. Wang Ming Che	8,000,000	619,000
	90,050,000	6,969,000

Share Option Scheme *(continued)*

The binomial option pricing model is a generally accepted method of valuing options. The significant assumptions used in the calculation of the values of the share options were the risk-free rate, volatility of the underlying share prices and the term to maturity. The measurement dates used in the valuation calculations were the dates on which the options were granted. Details of the assumptions are set out in note 30 to the financial statements.

The value of an option varies with different variables of certain subjective assumptions. Any change to the variables used may materially affect the estimation of the fair value of an option.

Substantial Shareholders

At 31 December 2010, the following parties were interested in 5% or more of the Company's issued share capital as recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO:

Name of shareholder	Notes	Capacity and nature of interest	Number of ordinary shares held	Percentage of the Company's issued share capital
Landmark Worldwide Holdings Limited	1	Directly beneficially owned	2,000,490,000	43.44
E-Growth Resources Limited	2	Directly beneficially owned	296,000,000	6.43

Notes:

1. The issued share capital of Landmark Worldwide Holdings Limited is held and beneficially owned as to 25% by each of the Wong Brothers.

2. The issued share capital of E-Growth Resources Limited is held and beneficially owned as to 100% by Mr. Wang Ya Nan.

Save as disclosed above, no person, other than the directors of the Company, whose interests are set out in the section "Directors' interests and short positions in shares and underlying shares" above, had registered an interest or short position in the shares or underlying shares of the Company that was required to be recorded pursuant to Section 336 of the SFO.

Connected Transaction

During the year, the Company and the Group had the following connected and continuing connected transactions, certain details of which are disclosed in compliance with the requirements of Chapter 14A of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules").

Connected transactions

(1) During the year, a 30.1% equity interest in Tongda Optical Company Limited ("Tongda Optical"), a subsidiary of the Company, was disposed of by the Group to Tongda Optical's non-controlling shareholder at HK$15,050,000. Further details of the disposal are set out in the Company's announcements dated 24 February 2010, 5 March 2010 and 15 November 2010, and note 17(e) to the financial statements.

(2) During the year, the Group entered into an acquisition agreement for the acquisition of a piece of land in Xiamen. Further details are set out in the Company's announcement dated 7 May 2010 and note 36(c) to the financial statements.

Continuing connected transactions

(1) Purchase of machineries

On 5 March 2010, the Group entered into a supply agreement (the "Supply Agreement") with Matsushita Shokai Co. Ltd. ("Matsushita Shokai"), a non-controlling shareholder holding a then 14.9% equity interest in Tongda Optical, a subsidiary of the Company, pursuant to which the Group has agreed to purchase machineries for light guide plate of not more than HK$10,000,000 from Matsushita Shokai for the year ended 31 December 2010.

On 29 April 2010, the Group entered into a supplemental supply agreement (the "Supplemental Supply Agreement") with Matsushita Shokai to amend certain terms of the Supply Agreement. Pursuant to the Supplemental Supply Agreement, the annual cap for the purchases of machineries to be made by Tongda Optical from Matsushita Shokai increased from HK$10,000,000 (as set out in the Supply Agreement) to HK$20,000,000 for the year ended 31 December 2010.

During the year, the Group purchased machineries from Matsushita Shokai of approximately HK$11,877,000 which did not exceed the annual cap of HK$20,000,000 as set out in the Supplemental Supply Agreement. Further details are set out in the Company's announcements dated 5 March 2010 and 29 April 2010.

(2) Lease of an investment property

A subsidiary of the Company has been leasing the Group's investment property in Shanghai to a related company controlled by a director of the Company. The annual cap for the lease agreement is RMB2,400,000 (equivalent to approximately HK$2,848,000) for each of the four years ended/ending 31 May 2013. Further details are set out in note 36(a)(vi) to the financial statements.

Connected Transaction *(continued)*

The independent non-executive directors of the Company have reviewed the continuing connected transactions set out above and have confirmed that these continuing connected transactions were entered into (i) in the ordinary and usual course of business of the Group; (ii) on normal commercial terms or on terms no less favourable to the Group than terms available to or from independent third parties; and (iii) in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole, except for (1) the late approval by the directors and (2) the annual cap does not fall on the same period as the Company's financial year end date of 31 December in relation to the lease of an investment property to Shanghai Baishi.

Ernst & Young, the Company's auditors, were engaged to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 *Assurance Engagements Other Than Audits or Reviews of Historical Financial Information* and with reference to Practice Note 740 *Auditor's Letter on Continuing Connected Transactions* under the Hong Kong Listing Rules issued by the Hong Kong Institute of Certified Public Accountants. Ernst & Young have issued their qualified letter containing their findings and conclusions in respect of the continuing connected transactions disclosed above by the Group in accordance with Rule 14A.38 of the Listing Rules before the bulk printing date of the annual report. The letter was qualified in respect of (1) the late approval by the directors and (2) the annual cap period not falling on the same period as the Company's financial year in relation to the lease of an investment property to Shanghai Baishi as mentioned in paragraph (2) above.

Directors' service contracts

Each of the Wong Brothers and Mr. Choi Wai Sang, being the executive directors of the Company, has entered into a service agreement with the Company for an initial fixed term of three years commencing from 1 December 2000, and which will continue thereafter until terminated by not less than three months' notice in writing served by either party to the other. Such notice shall not expire until after the aforementioned initial fixed term.

Mr. Wang Ming Che, an executive director, has entered into a service contract with the Company for an initial term of three years commencing from 18 March 2008, renewable automatically for successive terms of one year and may be terminated by either party by giving not less than three months' written notice at the end of the initial term or any time thereafter.

Apart from the foregoing, no director proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

Contract of significance

Save as the connected transactions disclosed above, no contract of significance in relation to the Group's business in which the Company, or any of its subsidiaries and fellow subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted during or at the end of the year.

Report of the Directors

Sufficiency of public float

Based on information that is publicly available to the Company and within the knowledge of the directors, at least 25% of the Company's total issued share capital was held by the public as at the date of this report.

Auditors

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

ON BEHALF OF THE BOARD

Wang Ya Nan
TONGDA GROUP HOLDINGS LIMITED
Chairman

Hong Kong
16 March 2011

Independent Auditors' Report

To the shareholders of Tongda Group Holdings Limited
(Incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of Tongda Group Holdings Limited (the "Company") and its subsidiaries (together the "Group") set out on pages 33 to 118, which comprise the consolidated and company statements of financial position as at 31 December 2010, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' responsibility for the consolidated financial statements

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

Auditors' responsibility

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

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

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

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

Independent Auditors' Report

ERNST & YOUNG
安 永

To the shareholders of Tongda Group Holdings Limited
(Incorporated in the Cayman Islands with limited liability)

Opinion

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

Ernst & Young
Certified Public Accountants
18/F, Two International Finance Centre
8 Finance Street, Central
Hong Kong
16 March 2011

Consolidated Income Statement

Year ended 31 December 2010

	Notes	2010 HK$'000	2009 HK$'000
REVENUE	5	**2,348,264**	1,800,254
Cost of sales		**(1,940,690)**	(1,497,875)
Gross profit		**407,574**	302,379
Other income and gains, net	5	**36,475**	25,003
Selling and distribution costs		**(53,115)**	(49,045)
Administrative expenses		**(122,827)**	(108,080)
Other expenses, net		**(5,974)**	(18,623)
Finance costs	6	**(20,254)**	(16,685)
Share of profits and losses of associates		**2,607**	3,110
PROFIT BEFORE TAX	7	**244,486**	138,059
Income tax expense	9	**(34,241)**	(24,228)
PROFIT FOR THE YEAR		**210,245**	113,831
Attributable to:			
Owners of the Company	10	**200,931**	102,085
Non-controlling interests		**9,314**	11,746
		210,245	113,831
EARNINGS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY	12		
— Basic		**HK4.50 cents**	HK2.52 cents
— Diluted		**HK4.43 cents**	HK2.51 cents

Details of the dividends are disclosed in note 11 to the financial statements.

Consolidated Statement of Comprehensive Income

Year ended 31 December 2010

	Notes	2010 HK$'000	2009 HK$'000
PROFIT FOR THE YEAR		**210,245**	113,831
OTHER COMPREHENSIVE INCOME			
Gain on property revaluation	13	**6,529**	2,119
Income tax effect	28	**(1,077)**	(350)
Exchange differences on translation of foreign operations			
— subsidiaries		**20,817**	—
— associates		**450**	(105)
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX		**26,719**	1,664
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**236,964**	115,495
Attributable to:			
Owners of the Company	10	**226,493**	103,749
Non-controlling interests		**10,471**	11,746
		236,964	115,495

Consolidated Statement of Financial Position

31 December 2010

	Notes	2010 HK$'000	2009 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	13	**957,035**	822,303
Prepaid land lease payments	15	**30,968**	30,995
Investment properties	14	**46,977**	50,230
Goodwill	16	**22,751**	22,751
Available-for-sale investment	19	**8,061**	—
Prepayments	20	**56,354**	56,401
Interests in associates	18	**34,408**	35,543
Long term deposits	21	**17,482**	11,412
Deferred tax assets	28	**3,703**	3,833
Total non-current assets		**1,177,739**	1,033,468
CURRENT ASSETS			
Inventories	22	**472,249**	369,242
Trade and bills receivables	23	**1,019,725**	630,636
Prepayments, deposits and other receivables		**112,745**	75,498
Tax recoverable		**6,057**	4,574
Pledged deposits	24	**39,109**	20,242
Restricted bank balances	24	**5,199**	—
Cash and cash equivalents	24	**183,698**	225,808
Total current assets		**1,838,782**	1,326,000
CURRENT LIABILITIES			
Trade and bills payables	25	**655,883**	411,305
Accrued liabilities and other payables		**92,079**	81,105
Due to non-controlling shareholders of subsidiaries	26	**189**	665
Due to related companies	26	**1,862**	9,993
Tax payable		**124,436**	112,245
Interest-bearing bank borrowings	27	**282,392**	248,226
Total current liabilities		**1,156,841**	863,539
NET CURRENT ASSETS		**681,941**	462,461

Consolidated Statement of Financial Position

31 December 2010

	Notes	2010 HK$'000	2009 HK$'000
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,859,680**	1,495,929
NON-CURRENT LIABILITIES			
Interest-bearing bank borrowings	27	**169,750**	99,094
Loan from a non-controlling shareholder of a subsidiary	26	**7,331**	—
Deferred tax liabilities	28	**20,066**	16,025
Total non-current liabilities		**197,147**	115,119
Net assets		**1,662,533**	1,380,810
EQUITY			
EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY			
Issued capital	29	**46,049**	43,058
Reserves	31(a)	**1,569,947**	1,290,465
		1,615,996	1,333,523
NON-CONTROLLING INTERESTS		**46,537**	47,287
Total equity		**1,662,533**	1,380,810

Wang Ya Nan
Director

Wang Ya Hua
Director

Consolidated Statement of Changes in Equity

Year ended 31 December 2010

	Notes	Attributable to owners of the Company												
		Issued capital	Share premium account	Share option reserve	Warrant reserve	Capital reserve (Note 31(a))	Asset revaluation reserve	Statutory reserve (Note 31(a))	Capital redemption reserve	Exchange fluctuation reserve	Retained profits	Total	Non-controlling interests	Total equity
		HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
At 1 January 2010		43,058	535,759	15,431	–	993	12,160	5,078	287	81,664	639,093	1,333,523	47,287	1,380,810
Total comprehensive income for the year		–	–	–	–	–	5,452	–	–	20,110	200,931	226,493	10,471	236,964
Transfer to statutory reserve		–	–	–	–	–	–	17,619	–	–	(17,619)	–	–	–
Acquisition of non-controlling interests	17(a)	–	–	–	–	(615)	–	–	–	163	–	(452)	(10,679)	(11,131)
Partial disposal of a subsidiary	17(e)	–	–	–	–	15,714	–	–	–	–	–	15,714	(664)	15,050
Capital contribution from non-controlling shareholders of subsidiaries		–	–	–	–	–	–	–	–	–	–	–	122	122
Shares issued	29(iii), 31(b)	1,600	36,800	–	–	–	–	–	–	–	–	38,400	–	38,400
Share issue expenses		–	(425)	–	–	–	–	–	–	–	–	(425)	–	(425)
Issue of warrants	29, 31(b)	–	–	–	2,270	–	–	–	–	–	–	2,270	–	2,270
Exercise of warrants	29(v), 31(b)	1,376	40,994	–	(1,090)	–	–	–	–	–	–	41,280	–	41,280
Equity-settled share option arrangements	30	–	–	7,897	–	–	–	–	–	–	–	7,897	–	7,897
Shares issued upon exercise of share options	29(iv), 31(b)	15	521	(116)	–	–	–	–	–	–	–	420	–	420
Final 2009 dividend	11	–	–	–	–	–	–	–	–	–	(22,329)	(22,329)	–	(22,329)
Interim 2010 dividend	11	–	–	–	–	–	–	–	–	–	(26,795)	(26,795)	–	(26,795)
At 31 December 2010		46,049	613,649*	23,212*	1,180*	16,092*	17,612*	22,697*	287*	101,937*	773,281*	1,615,996	46,537	1,662,533
At 1 January 2009		39,898	473,527	9,666	–	993	10,391	49	287	81,769	565,087	1,181,667	33,665	1,215,332
Total comprehensive income for the year		–	–	–	–	–	1,769	–	–	(105)	102,085	103,749	11,746	115,495
Transfer to statutory reserve		–	–	–	–	–	–	5,029	–	–	(5,029)	–	–	–
Partial disposal of a subsidiary	17(b)	–	–	–	–	–	–	–	–	–	–	–	(2,053)	(2,053)
Acquisition of non-controlling interests	17(c)	–	–	–	–	–	–	–	–	–	–	–	(1,152)	(1,152)
Capital contribution from a non-controlling shareholder of a subsidiary		–	–	–	–	–	–	–	–	–	–	–	7,930	7,930
Shares issued for acquisition of a subsidiary	29(ii)	2,960	61,272	–	–	–	–	–	–	–	–	64,232	–	64,232
Equity-settled share option arrangements	30	–	–	5,865	–	–	–	–	–	–	–	5,865	–	5,865
Shares issued upon exercise of share options	29, 31(b)	200	960	(100)	–	–	–	–	–	–	–	1,060	–	1,060
Final 2008 dividend	11	–	–	–	–	–	–	–	–	–	(7,980)	(7,980)	–	(7,980)
Interim 2009 dividend	11	–	–	–	–	–	–	–	–	–	(15,070)	(15,070)	–	(15,070)
Dividend paid to a non-controlling shareholder		–	–	–	–	–	–	–	–	–	–	–	(2,849)	(2,849)
At 31 December 2009		43,058	535,759*	15,431*	–	993*	12,160*	5,078*	287*	81,664*	639,093*	1,333,523	47,287	1,380,810

* These reserve accounts comprise the consolidated reserves of HK$1,569,947,000 (2009: HK$1,290,465,000) in the consolidated statement of financial position.

Consolidated Statement of Cash Flows

Year ended 31 December 2010

	Notes	2010 HK$'000	2009 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**244,486**	138,059
Adjustments for:			
Finance costs	6	**20,254**	16,685
Share of profits and losses of associates		**(2,607)**	(3,110)
Depreciation	7	**96,496**	79,682
Amortisation of prepaid land lease payments	7	**748**	673
Impairment of goodwill for an associate	7	**1,061**	—
Impairment of goodwill for a subsidiary	7	**—**	9,058
Gain on bargain purchase	5	**—**	(403)
Bank interest income	5	**(1,155)**	(2,122)
Gain on partial disposal of a subsidiary	7	**—**	(2,223)
Loss/(gain) on disposal of items of property, plant and equipment	7	**(303)**	44
Changes in fair value of an investment property	5	**—**	(500)
Gain on disposal of an investment property	5	**(453)**	—
Amortisation of prepayments	7	**1,361**	1,286
Impairment of trade receivables	7	**1,212**	5,808
Write-back of impairment of trade receivables	7	**(2,608)**	(2,115)
Write-off of trade receivables	7	**5,439**	3,252
Write-down of inventories to net realisable value	7	**1,452**	1,875
Equity-settled share option expense	30	**7,897**	5,865
		373,280	251,814
Increase in inventories		**(104,459)**	(65,245)
Increase in trade and bills receivables		**(392,897)**	(37,429)
Decrease/(increase) in prepayments, deposits and other receivables		**(37,230)**	14,718
Decrease in derivative financial assets		**—**	2,894
Decrease in amounts due from associates	37	**4,550**	1,876
Increase in trade and bills payables		**244,578**	149,005
Increase/(decrease) in accrued liabilities and other payables		**10,974**	(20,846)
Decrease in derivative financial liabilities		**—**	(2,273)
Increase/(decrease) in amount due to related companies		**(8,131)**	3,843
Increase/(decrease) in amount due to non-controlling shareholders of subsidiaries		**(476)**	56
Cash generated from operations		**90,189**	298,413
Interest paid		**(20,254)**	(16,685)
Hong Kong profits tax paid		**(1,607)**	(5,505)
Overseas taxes paid		**(19,042)**	(16,392)
Net cash flows from operating activities		**49,286**	259,831

Consolidated Statement of Cash Flows

Year ended 31 December 2010

	Notes	2010 HK$'000	2009 HK$'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		1,155	2,122
Dividend received from an associate	18	4,500	1,500
Purchases of items of property, plant and equipment	13, 37	(200,811)	(149,111)
Proceeds from disposal of items of property, plant and equipment		769	—
Acquisition of subsidiaries	32	—	293
Acquisition of non-controlling interests		(11,131)	(749)
Acquisition of an available-for-sale investment		(8,061)	—
Proceeds from partial disposal of a subsidiary		15,050	170
Proceeds from disposal of investment property	14	4,803	—
Increase in prepaid land lease payments		—	(3,858)
Increase in long term deposits	37	(17,482)	(4,060)
Decrease/(increase) in pledged bank deposits		(18,867)	23,496
Increase in restricted bank balances		(5,199)	—
Net cash flows used in investing activities		(235,274)	(130,197)
CASH FLOWS FROM FINANCING ACTIVITIES			
New bank loans		355,622	210,396
Repayment of bank loans		(250,800)	(245,188)
Proceeds from issue of warrants	29	2,270	—
Proceeds from issue of shares, net of related expense	29	37,975	—
Proceeds from exercise of warrants	29	41,280	—
Proceeds from exercise of share options	29	420	1,060
Loan from a non-controlling shareholder of a subsidiary		7,331	—
Dividend paid to a non-controlling shareholder		—	(2,849)
Capital contribution from non-controlling shareholders		122	7,930
Dividends paid		(49,124)	(23,050)
Net cash flows from/(used in) financing activities		145,096	(51,701)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		(40,892)	77,933
Cash and cash equivalents at beginning of year		225,808	147,875
Effect of foreign exchange rate changes, net		(1,218)	—
CASH AND CASH EQUIVALENTS AT END OF YEAR		183,698	225,808
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS	24		
Cash and bank balances		183,698	225,317
Non-pledged time deposits with original maturity of less than three months when acquired		—	491
Cash and cash equivalents as stated in the consolidated statement of financial position		183,698	225,808

Statement of Financial Position

31 December 2010

	Notes	2010 HK$'000	2009 HK$'000
NON-CURRENT ASSETS			
Investments in subsidiaries	17	**120,690**	127,871
CURRENT ASSETS			
Due from subsidiaries	17	**953,644**	951,544
Prepayments, deposits and other receivables		**628**	557
Cash and cash equivalents	24	**19,437**	70
Total current assets		**973,709**	952,171
CURRENT LIABILITIES			
Due to a subsidiary	17	**–**	54,992
Accrued liabilities and other payables		**673**	528
Interest-bearing bank borrowings	27	**98,944**	197,825
Total current liabilities		**99,617**	253,345
NET CURRENT ASSETS		**874,092**	698,826
TOTAL ASSETS LESS CURRENT LIABILITIES		**994,782**	826,697
NON-CURRENT LIABILITIES			
Interest-bearing bank borrowings	27	**169,750**	99,094
Net assets		**825,032**	727,603
EQUITY			
Issued capital	29	**46,049**	43,058
Reserves	31(b)	**778,983**	684,545
Total equity		**825,032**	727,603

Wang Ya Nan
Director

Wang Ya Hua
Director

Notes to Financial Statements

1. Corporate Information

Tongda Group Holdings Limited (the "Company") is a limited liability company incorporated in the Cayman Islands.

The registered office of the Company is located at Century Yard, Cricket Square, Hutchins Drive, P.O. Box 2681GT, George Town, Grand Cayman, Cayman Islands.

The principal activity of the Company consists of investment holding. The principal activities of the Company's subsidiaries are set out in note 17 to the financial statements. There were no significant changes in the nature of the subsidiaries' principal activities during the year.

2.1 Basis of Preparation

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for a leasehold building in Hong Kong and the investment properties, which have been measured at fair value. These financial statements are presented in Hong Kong dollars ("HK$") and all values are rounded to the nearest thousand except when otherwise indicated.

Basis of consolidation

Basis of consolidation from 1 January 2010

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

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

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

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

2.1 Basis of Preparation *(continued)*

Basis of consolidation *(continued)*

Basis of consolidation prior 1 January 2010

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

- Losses incurred by the Group were attributed to the non-controlling interest until the balance was reduced to nil. Any further excess losses were attributable to the parent, unless the non-controlling interest had a binding obligation to cover these. Losses prior to 1 January 2010 were not reallocated between non-controlling interest and the parent shareholders.

- Upon loss of control, the Group accounted for the investment retained at its proportionate share of net asset value at the date control was lost. The carrying amount of such investment at 1 January 2010 has not been restated.

2.2 Change in Accounting Policy and Disclosures

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

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

Other than as further explained below regarding the impact of HKFRS 3 (Revised), HKAS 27 (Revised), amendments to HKAS 7 and HKAS 17 included in *Improvements to HKFRSs 2009* and HK Interpretation 4 (Revised in December 2009), the adoption of these new and revised HKFRSs has had no significant financial effect on these financial statements.

2.2 Change in Accounting Policy and Disclosures *(continued)*

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

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

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

HKAS 27 (Revised) requires that a change in the ownership interest of a subsidiary without loss of control is accounted for as an equity transaction. Therefore, such a change will have no impact on goodwill, nor will it give rise to a gain or loss. Furthermore, the revised HKAS 27 changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. Other consequential amendments were made to HKAS 7 *Statement of Cash Flows*, HKAS 12 *Income Taxes*, HKAS 21 *The Effects of Changes in Foreign Exchange Rates*, HKAS 28 *Investments in Associates* and HKAS 31 *Interests in Joint Ventures*.

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

(b) *Improvements to HKFRSs 2009* issued in May 2009 sets out amendments to a number of HKFRSs. There are separate transitional provisions for each standard. While the adoption of some of the amendments results in changes in accounting policies, none of these amendments has had a significant financial impact on the Group. Details of the key amendments most applicable to the Group are as follows:

- HKAS 7 *Statement of Cash Flows*: Requires that only expenditures that result in a recognised asset in the statement of financial position can be classified as a cash flow from investing activities.

- HKAS 17 *Leases*: Removes the specific guidance on classifying land as a lease. As a result, leases of land should be classified as either operating or finance leases in accordance with the general guidance in HKAS 17.

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

The Group has reassessed its leases in Mainland China, previously classified as operating leases, upon the adoption of the amendments. The classification of the Group's leases in Mainland China remained as operating leases.

2.3 Issued But Not Yet Effective Hong Kong Financial Reporting Standards

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

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

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

1 Effective for annual periods beginning on or after 1 February 2010
2 Effective for annual periods beginning on or after 1 July 2010
3 Effective for annual periods beginning on or after 1 January 2011
4 Effective for annual periods beginning on or after 1 July 2011
5 Effective for annual periods beginning on or after 1 January 2012
6 Effective for annual periods beginning on or after 1 January 2013

2.3 Issued But Not Yet Effective Hong Kong Financial Reporting Standards *(continued)*

Further information about those changes that are expected to be relevant to the Group is as follows:

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

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

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

HKAS 24 (Revised) clarifies and simplifies the definition of related parties. It also provides for a partial exemption of related party disclosure to government-related entities for transactions with the same government or entities that are controlled, jointly controlled or significantly influenced by the same government. The Group expects to adopt HKAS 24 (Revised) from 1 January 2011 and the comparative related party disclosures will be amended accordingly.

While the adoption of the revised standard will result in changes in the accounting policy, the revised standard is unlikely to have any impact on the related party disclosures as the Group currently does not have any significant transactions with government-related entities.

2.3 Issued But Not Yet Effective Hong Kong Financial Reporting Standards *(continued)*

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

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

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

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

(b) HKAS 1 *Presentation of Financial Statements*: Clarifies that an analysis of other comprehensive income for each component of equity can be presented either in the statement of changes in equity or in the notes to the financial statements.

(c) HKAS 27 *Consolidated and Separate Financial Statements*: Clarifies that the consequential amendments from HKAS 27 (as revised in 2008) made to HKAS 21, HKAS 28 and HKAS 31 shall be applied prospectively for annual periods beginning on or after 1 July 2009 or earlier if HKAS 27 is applied earlier.

2.4 Summary of Significant Accounting Policies

Subsidiaries

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

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

2.4 Summary of Significant Accounting Policies *(continued)*

Joint ventures

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

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

A joint venture is treated as:

(a) a subsidiary, if the Group, has unilateral control, directly or indirectly, over the joint venture;

(b) a jointly-controlled entity, if the Group/Company does not have unilateral control, but has joint control, directly or indirectly, over the joint venture;

(c) an associate, if the Group/Company does not have unilateral or joint control, but holds, directly or indirectly, generally not less than 20% of the joint venture's registered capital and is in a position to exercise significant influence over the joint venture; or

(d) an equity investment accounted for in accordance with HKAS 39, if the Group/Company holds, directly or indirectly, less than 20% of the joint venture's registered capital and has neither joint control of, nor is in a position to exercise significant influence over, the joint venture.

Associates

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

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

2.4 Summary of Significant Accounting Policies *(continued)*

Business combinations and goodwill

Business combinations from 1 January 2010

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

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

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

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

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

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

2.4 Summary of Significant Accounting Policies *(continued)*

Business combinations and goodwill *(continued)*

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

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

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

Impairment of non-financial assets

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

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the income statement in the period in which it arises, unless the asset is carried at a revalued amount, in which case the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

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

2.4 Summary of Significant Accounting Policies *(continued)*

Related parties

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

(a) the party, directly or indirectly through one or more intermediaries, (i) controls, is controlled by, or is under common control with, the Group; (ii) has an interest in the Group that gives it significant influence over the Group; or (iii) has joint control over the Group;

(b) the party is an associate;

(c) the party is a member of the key management personnel of the Group or its holding company;

(d) the party is a close member of the family of any individual referred to in (a) or (c);

(e) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (c) or (d); or

(f) the party is a post-employment benefit plan for the benefit of the employees of the Group, or of any entity that is a related party of the Group.

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost or valuation less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the income statement in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciation.

Valuations are performed frequently enough to ensure that the fair value of a revalued asset does not differ materially from its carrying amount. Changes in the values of property, plant and equipment are dealt with as movements in the asset revaluation reserve. If the total of this reserve is insufficient to cover a deficit, on an individual asset basis, the excess of the deficit is charged to the income statement. Any subsequent revaluation surplus is credited to the income statement to the extent of the deficit previously charged. An annual transfer from the asset revaluation reserve to retained profits is made for the difference between the depreciation based on the revalued carrying amount of an asset and the depreciation based on the asset's original cost. On disposal of a revalued asset, the relevant portion of the asset revaluation reserve realised in respect of previous valuations is transferred to retained profits as a movement in reserves.

2.4 Summary of Significant Accounting Policies *(continued)*

Property, plant and equipment and depreciation *(continued)*

Depreciation is calculated on the straight-line basis to write off the cost or valuation of each item of property, plant and equipment to its residual value, over the following estimated useful lives:

Leasehold buildings in Hong Kong	Over the lease terms
Leasehold buildings in Mainland China	Over the lease terms
Leasehold improvements	Over the lease terms or 5 years, whichever is shorter
Plant and machinery	10–12 years
Furniture, fixtures and office equipment	3–10 years
Motor vehicles	5–10 years

Estimated residual values are determined as 5% to 10% of the original purchase cost of each individual underlying asset.

Where parts of an item of property, plant and equipment have different useful life, the cost or valuation of that item is allocated on a reasonable basis among the parts and each part is depreciated separately.

Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

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

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

Investment properties

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

2.4 Summary of Significant Accounting Policies *(continued)*

Investment properties *(continued)*

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

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

Inventories

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

Operating leases

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

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

Investments and other financial assets

Initial recognition and measurement

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

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

2.4 Summary of Significant Accounting Policies *(continued)*

Investments and other financial assets *(continued)*

Initial recognition and measurement *(continued)*

The Group's financial assets include cash and bank balances, restricted bank balances, pledged deposits, trade and bills receivables, other receivables and unquoted financial instruments.

Subsequent measurement

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

Loans and receivables

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

Available-for-sale financial investments

Available-for-sale financial investments are non-derivative financial assets in listed and unlisted equity and debt securities. Equity investments classified as available for sale are those which are neither classified as held for trading nor designated at fair value through profit or loss. Debt securities in this category are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in market conditions.

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

2.4 Summary of Significant Accounting Policies *(continued)*

Investments and other financial assets *(continued)*

Available-for-sale financial investments *(continued)*

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

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

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

Derecognition of financial assets

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

- the rights to receive cash flows from the asset have expired; or

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

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

2.4 Summary of Significant Accounting Policies *(continued)*

Derecognition of financial assets *(continued)*

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

Impairment of financial assets

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

Financial assets carried at amortised cost

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

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

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

2.4 Summary of Significant Accounting Policies *(continued)*

Impairment of financial assets *(continued)*

Financial assets carried at amortised cost *(continued)*

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

Assets carried at cost

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

Available-for-sale financial investments

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

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

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

Financial liabilities

Initial recognition and measurement

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

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

2.4 Summary of Significant Accounting Policies *(continued)*

Financial liabilities *(continued)*

Initial recognition and measurement *(continued)*

The Group's financial liabilities include trade and bill payables, other payables and interest-bearing bank borrowings, amounts due to non-controlling shareholders of subsidiaries and related companies, and a loan from a non-controlling shareholder of a subsidiary.

Subsequent measurement

The measurement of loans and borrowings is as follows:

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

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

Derecognition of financial liabilities

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

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

Offsetting of financial instruments

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

2.4 Summary of Significant Accounting Policies *(continued)*

Income tax

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

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

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

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

- where the deferred tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries and associates, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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

- where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries and associates, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

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

2.4 Summary of Significant Accounting Policies *(continued)*

Income tax *(continued)*

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

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

Research and development costs

All research costs are charged to the income statement as incurred.

Expenditure incurred on projects to develop new products is capitalised and deferred only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the project and the ability to measure reliably the expenditure during the development. Product development expenditure which does not meet these criteria is expensed when incurred.

Cash and cash equivalents

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

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

Foreign currencies

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

2.4 Summary of Significant Accounting Policies *(continued)*

Foreign currencies *(continued)*

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

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

Revenue recognition

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

(a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;

(b) interest income, on an accrual basis using the effective interest method by applying the rate that discounts the estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset;

(c) rental income, on a time proportion basis over the lease terms; and

(d) dividend income, when the shareholder's right to receive payment has been established.

Employee benefits

Share-based payment transactions

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

2.4 Summary of Significant Accounting Policies *(continued)*

Employee benefits *(continued)*

Share-based payment transactions *(continued)*

The cost of equity-settled transactions with employees for grants after 7 November 2002 is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using a binomial option pricing model, further details of which are given in note 30 to the financial statements.

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

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

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

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

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

Retirement benefit schemes

The Group operates a defined contribution Mandatory Provident Fund retirement benefit scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance, for those employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees' basic salaries and are charged to the income statement as they become payable in accordance with the rules of the MPF Scheme. The assets of the

2.4 Summary of Significant Accounting Policies *(continued)*

Employee benefits *(continued)*

Retirement benefit schemes *(continued)*

MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme, except for the Group's employer voluntary contributions, which are refunded to the Group when the employee leaves employment prior to the contributions vesting fully, in accordance with the rules of the MPF Scheme.

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

3. Significant Accounting Estimates

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

Estimation uncertainty

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

Provision for inventories

The management of the Group reviews an aged analysis at the end of each reporting period, and makes allowance for obsolete and slow-moving inventory items identified that are no longer suitable for use in production. 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.

Impairment of trade receivables and other receivables

Impairment of trade receivables and other receivables is made based on assessment of the recoverability of trade receivables and other receivables. The identification of doubtful debts requires management judgement and estimates. Where the actual outcome or expectation in future is different from the original estimate, such differences will impact the carrying value of the receivables as well as doubtful debt expenses or write-back of doubtful debt in the period in which such estimate has been changed.

3. Significant Accounting Estimates *(continued)*

Estimation uncertainty *(continued)*

Estimation of fair value of a leasehold building in Hong Kong and the investment properties

As described in notes 13 and 14 to the financial statements, the leasehold building located in Hong Kong and the investment properties located in Mainland China were revalued at the end of the reporting period on an open market, existing use basis by independent professional valuers. Such valuations were based on certain assumptions, which are subject to uncertainty and might materially differ from the actual results. In making the judgement, the Group considers information from current prices in an active market for similar properties and uses assumptions that are mainly based on market conditions existing at the end of each reporting period.

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating units and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at 31 December 2010 was HK$22,751,000 (2009: HK$22,751,000). More details are given in note 16.

Valuation of share options

The fair value of options granted under the share option scheme is determined using the binomial option pricing model. The significant inputs into the model were share price at the grant date, exercise price, risk-free interest rate, dividend yield, expected volatility and expected life of options. When the actual results of the inputs differ from the management's estimate, it will have impact on share option expense and the related share option reserve of the Company. More details are given in note 30.

4. Operating Segment Information

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

(a) the electrical fittings segment produces accessories for electrical appliance products;

(b) the ironware parts segment is a supplier of metallic casings and other ironware parts for electrical and electronic appliances; and

(c) the communication facilities and others segment comprises a supply of electronic components and the trading of electrical appliances, the Group's management services business and the corporate income and expense items.

4. Operating Segment Information *(continued)*

Management monitors the results of its operating segments separately for the purpose of making decisions about resources allocation and performance assessment. Segment performance is evaluated based on reportable segment profit/(loss), which is a measure of adjusted profit before tax. The adjusted profit before tax is measured consistently with the Group's profit before tax except that other income, corporate and other unallocated expenses, finance costs, and share of profits and losses of associates, are excluded from such measurement.

Segment assets exclude an available-for-sale investment, investments in associates, goodwill, deferred tax assets, tax recoverable, pledged deposits, restricted bank balances and cash and cash equivalents as these assets are managed on a group basis.

Segment liabilities exclude interest-bearing bank borrowings, tax payable, deferred tax liabilities as these liabilities are managed on a group basis.

Intersegment sales and transfers are transacted with reference to the selling prices used for sales made to third parties at the then prevailing market prices.

4. Operating Segment Information *(continued)*

The following tables present revenue, profit and certain assets and liabilities information for the Group's operating segments for the years ended 31 December 2010 and 2009.

Group

	Electrical fittings		Ironware parts		Communication facilities and others		Eliminations		Consolidated	
	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009
	HK$‘000	HK$‘000	HK$‘000	HK$‘000	HK$‘000	HK$‘000	HK$’000	HK$’000	HK$’000	HK$’000
Segment revenue:										
Sales to external customers	1,874,656	1,305,676	330,169	338,124	143,439	156,454	–	—	2,348,264	1,800,254
Intersegment sales	24,594	8,089	20,256	2,563	18,326	33	(63,176)	(10,685)	–	—
Total	1,899,250	1,313,765	350,425	340,687	161,765	156,487	(63,176)	(10,685)	2,348,264	1,800,254
Segment results before depreciation and amortisation	334,818	211,037	39,744	36,894	(8,699)	1,306	–	—	365,863	249,237
Depreciation	(82,415)	(65,266)	(11,487)	(10,622)	(2,594)	(3,794)	–	—	(96,496)	(79,682)
Amortisation	(672)	(599)	(1,361)	(1,286)	(76)	(74)	–	—	(2,109)	(1,959)
Segment results	251,731	145,172	26,896	24,986	(11,369)	(2,562)	–	—	267,258	167,596
Unallocated income									36,475	25,003
Corporate and other unallocated expenses									(41,600)	(40,965)
Finance costs									(20,254)	(16,685)
Share of profits and losses of associates									2,607	3,110
Profit before tax									244,486	138,059
Income tax expense									(34,241)	(24,228)
Profit for the year									210,245	113,831
Other segment information:										
Impairment losses recognised in the income statement*	(4,585)	(8,602)	(2,841)	(529)	(677)	(1,804)	–	—	(8,103)	(10,935)
Impairment losses reversed in the income statement**	2,556	25	–	—	52	2,090	–	—	2,608	2,115
Segment assets	2,593,128	2,066,744	364,415	406,043	594,644	853,324	(838,652)	(1,279,394)	2,713,535	2,046,717
Unallocated assets									302,986	312,751
Total assets									3,016,521	2,359,468
Segment liabilities	1,634,427	1,564,918	173,344	245,259	208,346	364,573	(1,258,773)	(1,671,682)	757,344	503,068
Unallocated liabilities									596,644	475,590
Total liabilities									1,353,988	978,658

* Included impairment of trade receivables, write-off of trade receivables and write-down of inventories to net realisable value.

** Included write-back of impairment of trade receivables.

4. Operating Segment Information *(continued)*

Geographical Information

(a) Revenue from customers

Group

	Mainland China		Southeast Asia		Middle East		Others		Consolidated	
	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Segment revenue:										
Sales to external customers	2,040,413	1,420,887	62,027	133,454	96,733	115,868	149,091	130,045	2,348,264	1,800,254
(b) Non-current assets	1,075,729	939,650	–	—	–	—	33,087	31,691	1,108,816	971,341

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

The non-current assets information above is based on the location of assets and excludes investments in associates, available-for-sale investment, goodwill and deferred tax assets.

Information about a major customer

During the year ended 31 December 2009, revenue of approximately HK$200,270,000, representing 11.1% of the Group's revenue, was derived from sales by the electrical fittings segment and the ironware segment to a single customer, including sales to a group of entities which are known to be under common control of that customer. None of the customers accounted for more than 10% of the Group's revenue during the year ended 31 December 2010.

5. Revenue, Other Income and Gains, Net

Revenue, which is also the Group's turnover, represents the net invoiced value of goods sold, after allowances for returns and trade discounts. All significant intra-group transactions have been eliminated on consolidation.

	2010 HK$'000	2009 HK$'000
Revenue		
Manufacture and sale of:		
Electrical fittings	1,874,656	1,305,676
Ironware parts	330,169	338,124
Communication facilities and others	143,439	156,454
	2,348,264	1,800,254
Other income and gains, net		
Bank interest income	1,155	2,122
Gross rental income with nil outgoings	3,746	733
Sales of scrap materials	5,530	6,626
Gain on disposal of an investment property	453	—
Changes in fair value of investment properties	—	500
Gain on bargain purchases (note 17(c))	—	403
Foreign exchange differences, net	9,124	3,085
Sales of mould and tooling income	11,652	4,216
Others	4,815	7,318
	36,475	25,003

6. Finance Costs

	Group	
	2010 HK$'000	2009 HK$'000
Interest expenses on bank loans and overdrafts wholly repayable within five years	20,254	16,685

Notes to
Financial Statements

7. Profit Before Tax

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

	2010 HK$'000	2009 HK$'000
Cost of inventories sold	**1,940,690**	1,497,875
Depreciation	**96,496**	79,682
Amortisation of prepaid land lease payments	**748**	673
Amortisation of prepayments	**1,361**	1,286
Research and development costs**	**48,771**	36,850
Minimum lease payments under operating leases of leasehold land and buildings	**12,287**	11,316
Employee benefit expense (excluding directors' remuneration—note 8):		
Salaries and wages	**345,377**	238,092
Equity-settled share option expense	**928**	—
Pension scheme contributions	**5,449**	4,626
Less: Amounts included in research and development costs	**(9,511)**	(2,245)
	342,243	240,473
Impairment of goodwill for an associate* (note 18)	**1,061**	—
Impairment of goodwill for a subsidiary* (note 16)	**—**	9,058
Auditors' remuneration	**2,160**	1,750
Impairment of trade receivables*	**1,212**	5,808
Write-back of impairment of trade receivables*	**(2,608)**	(2,115)
Write-off of trade receivables*	**5,439**	3,252
Write-down of inventories to net realisable value*	**1,452**	1,875
Net fair value losses on foreign exchange derivative financial instruments	**—**	662
Gain on partial disposal of a subsidiary*	**—**	(2,223)
Loss/(gain) on disposal of items of property, plant and equipment*	**(303)**	44

7. Profit Before Tax *(continued)*

* Impairment of goodwill for an associate, impairment of goodwill for a subsidiary, impairment/(write-back of impairment) of trade receivables, write-off of trade receivables, write-down of inventories to net realisable value, gain on partial disposal of a subsidiary, and loss/(gain) on disposal of items of property, plant and equipment are included in "Other expenses, net" on the face of the consolidated income statement.

** Included in the research and development costs are items of plant and equipment amounted to HK$16,281,000 (2009: HK$14,351,000) which are capitalised under property, plant and equipment in the consolidated statement of financial position and are depreciated over their estimated useful lives.

Cost of inventories sold includes HK$399,868,000 (2009: HK$283,020,000) relating to staff costs, operating lease rentals on land and buildings, amortisation of prepayments and depreciation of the manufacturing activities, which are also included in the respective total amounts disclosed above for each of these types of expenses.

8. Directors' Remuneration and Five Highest Paid Employees

Directors' remuneration

Directors' remuneration for the year, disclosed pursuant to the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") and Section 161 of the Hong Kong Companies Ordinance, was as follows:

	Group	
	2010 HK$'000	2009 HK$'000
Fees	**3,930**	4,424
Other emoluments:		
Salaries, allowances and benefits in kind	**1,940**	1,080
Equity-settled share option expense	**6,969**	5,865
Pension scheme contributions	**174**	174
	9,083	7,119
	13,013	11,543

8. Directors' Remuneration and Five Highest Paid Employees *(continued)*

Directors' remuneration *(continued)*

(a) Independent non-executive directors

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

	2010 HK$'000	2009 HK$'000
Mr. Ting Leung Huel, Stephen	165	150
Mr. Cheung Wah Fung, Christopher, *JP*	135	120
Dr. Yu Sun Say, *GBS, SBS, JP*	150	150
	450	420

Except for the above fee of HK$450,000 (2009: HK$420,000) and equity-settled share option expense of HK$453,000 (2009: HK$483,000), there were no other emoluments payable to the independent non-executive directors during the year (2009: Nil).

(b) Executive directors

	Fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Equity-settled share option expense HK$'000	Pension scheme contributions HK$'000	Total remuneration HK$'000
2010					
Executive directors:					
Mr. Wang Ya Nan	870	360	1,377	54	2,661
Mr. Wang Ya Hua	630	360	1,377	30	2,397
Mr. Wong Ah Yu	630	360	1,377	30	2,397
Mr. Wong Ah Yeung	630	360	1,377	30	2,397
Mr. Choi Wai Sang	360	260	389	30	1,039
Mr. Wang Ming Che	360	240	619	–	1,219
	3,480	1,940	6,516	174	12,110

8. Directors' Remuneration and Five Highest Paid Employees *(continued)*

Directors' remuneration *(continued)*

(b) Executive directors *(continued)*

	Fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Equity-settled share option expense HK$'000	Pension scheme contributions HK$'000	Total remuneration HK$'000
2009					
Executive directors:					
Mr. Wang Ya Nan	1,230	—	1,160	54	2,444
Mr. Wang Ya Hua	630	360	1,160	30	2,180
Mr. Wong Ah Yu	630	360	1,160	30	2,180
Mr. Wong Ah Yeung	630	360	1,160	30	2,180
Mr. Choi Wai Sang	620	—	226	30	876
Mr. Wang Ming Che	264	—	516	—	780
	4,004	1,080	5,382	174	10,640

There was no arrangement under which a director waived or agreed to waive any remuneration during the year.

Five highest paid employees

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

	Group 2010 HK$'000	2009 HK$'000
Salaries, allowances and benefits in kind	**1,141**	1,020
Employee share option expense	**387**	—
Pension scheme contributions	**12**	12
	1,540	1,032

8. Directors' Remuneration and Five Highest Paid Employees *(continued)*

Five highest paid employees *(continued)*

During the year, share options were granted to directors in respect of their services to the Group, further details of which are included in note 30 to the financial statements. The fair value of such options, which has been recognised to the income statement over the vesting period, was determined as at the date of grant and the amount included in the financial statements for the current year is included in the above directors' remuneration disclosures.

The above remuneration of the non-director, highest paid employee fell within the band of HK$1,500,001 to HK$2,000,000 (2009: HK$1,000,001 to HK$1,500,000).

9. Income Tax

Hong Kong profits tax has been provided at the rate of 16.5% (2009: 16.5%) on the estimated assessable profits arising in Hong Kong during the year. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries/jurisdictions in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

	2010 HK$'000	2009 HK$'000
Group:		
Current — Hong Kong		
Charge for the year	43	44
Overprovision in prior years	—	(60)
	43	(16)
Current — Elsewhere		
Charge for the year	40,159	28,727
Overprovision in prior years	(8,845)	(7,733)
	31,314	20,994
Deferred (note 28)	2,884	3,250
Total tax charge for the year	34,241	24,228

9. Income Tax *(continued)*

A reconciliation of the tax expense/(credit) applicable to profit before tax using the statutory rates for the countries/jurisdictions in which the Company and the majority of its subsidiaries are operated to the tax expense at the effective tax rate are as follows:

	Group 2010 HK$'000	2009 HK$'000
Profit before tax	**244,486**	138,059
Tax at the applicable tax rate	**61,967**	34,358
Lower applicable tax rates enjoyed by the Group	**(25,187)**	(5,960)
Estimated tax effect of net income that are not taxable in determining taxable profit	**3,858**	657
Profit attributable to associates	**(652)**	(667)
Adjustments in respect of current tax of prior years	**(8,845)**	(7,793)
Effect of withholding tax at 5% on the distributable profits of the Group's PRC subsidiaries	**3,100**	3,633
Tax charge at the Group's effective rate	**34,241**	24,228

Under the relevant laws and regulations in the PRC, certain subsidiaries of the Group operating in Mainland China are exempted from Corporate Income Tax ("CIT") for two years from their respective first profit-making years and are eligible for a 50% reduction in CIT for the following three years. In addition, a reduced tax rate of 20% could be enjoyed by a subsidiary in the year 2010 as it is located in the Special Economic Zone of the PRC (2009: 20%).

福建省石獅市通達電子有限公司 (Tongda Electronic Company Limited, Shishi, Fujian) is the Group's subsidiary operating in Mainland China and is subject to CIT at 25% (2009: 25%). The assessable profits of another subsidiary, 通達五金(深圳)有限公司 (Tongda Ironware (Shenzhen) Company Limited)) are subject to a preferential CIT rate of 22% (2009: 20%).

福建省石獅市通達電器有限公司 (Tongda Electrics Company Limited, Shishi City, Fujian) and 通達(厦門)科技有限公司 (Tongda (Xiamen) Technology Limited) ("Xiamen Technology") are awarded as High New Technology Enterprises during the year ended 31 December 2010 and subject to a preferential tax rate of 15%.

The share of tax attributable to associates amounting to HK$789,000 (2009: HK$88,000) is included in "Share of profits and losses of associates" on the face of the consolidated income statement.

10. Profit Attributable to Owners of the Company

The consolidated profit attributable to owners of the Company for the year ended 31 December 2010 includes a profit of HK$56,711,000 (2009: profit of HK$33,202,000) which has been dealt with in the financial statements of the Company (note 31(b)).

11. Dividends

	2010 HK$'000	2009 HK$'000
Dividends paid during the year:		
Final in respect of the financial year ended 31 December 2009 — HK0.5 cent per ordinary share (2009: final dividend of HK0.2 cent per ordinary share, in respect of the financial year ended 31 December 2008)	**22,329**	7,980
Interim — HK0.6 cent (2009: HK0.35 cent) per ordinary share	**26,795**	15,070
	49,124	23,050
Proposed dividend:		
Final dividend — HK1 cent (2009: HK0.5 cent) per ordinary share	**46,723**	22,329
Special dividend — HK0.2 cent (2009: Nil) per ordinary share	**9,345**	—

The proposed final dividend of HK1 cent per ordinary share (2009: HK0.5 cent) and a special dividend of HK0.2 cent per ordinary share (2009: Nil) for the year is subject to the approval of the Company's shareholders at the forthcoming annual meeting.

12. Earnings Per Share Attributable to Owners of the Company

The calculation of basic earnings per share amounts is based on the profit for the year attributable to owners of the Company, and the weighted average number of ordinary shares of 4,469,943,000 (2009: 4,058,260,000) in issue during the year, as adjusted to reflect the new shares issued during the year.

The calculation of diluted earnings per share amounts is based on the profit for the year attributable to owners of the Company. The weighted average number of ordinary shares used in the calculation is the number of ordinary shares in issue during the year, as used in the basic earnings per share calculation and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise or conversion of all dilutive potential ordinary shares into ordinary shares.

12. Earnings Per Share Attributable to Owners of the Company *(continued)*

The calculations of basic and diluted earnings per share are based on:

	2010 HK$'000	2009 HK$'000
Earnings:		
Profit for the year attributable to owners of the Company	**200,931**	102,085

	'000	'000
Number of shares:		
Weighted average number of ordinary shares for the purpose of calculating basic earnings per share	**4,469,943**	4,058,260
Effect of dilutive potential ordinary shares:		
Share options	**42,664**	9,771
Warrants	**21,677**	—
Weighted average number of ordinary shares for the purpose of calculating diluted earnings per share	**4,534,284**	4,068,031

Notes to Financial Statements

13. Property, Plant and Equipment

Group

	Leasehold buildings in Hong Kong HK$'000	Leasehold buildings in Mainland China HK$'000	Leasehold improvements HK$'000	Plant and machinery HK$'000	Furniture, fixtures and office equipment HK$'000	Motor vehicles HK$'000	Construction in progress HK$'000	Total HK$'000
31 December 2010								
Cost or valuation:								
At 1 January 2010	26,030	269,244	17,150	715,543	23,048	25,003	268	1,076,286
Additions	–	–	3,970	162,000	4,568	2,976	32,709	206,223
Disposals	–	–	–	(535)	(47)	–	–	(582)
Surplus on revaluation	5,970	–	–	–	–	–	–	5,970
Exchange realignment	–	6,257	371	17,211	485	553	11	24,888
At 31 December 2010	32,000	275,501	21,491	894,219	28,054	28,532	32,988	1,312,785
Accumulated depreciation:								
At 1 January 2010	–	44,947	6,892	180,609	10,059	11,476	–	253,983
Provided for the year	559	12,875	2,219	75,347	2,436	3,060	–	96,496
Disposals	–	–	–	(72)	(44)	–	–	(116)
Reversal upon revaluation	(559)	–	–	–	–	–	–	(559)
Exchange realignment	–	1,045	133	4,316	201	251	–	5,946
At 31 December 2010	–	58,867	9,244	260,200	12,652	14,787	–	355,750
Net book value:								
At 31 December 2010	32,000	216,634	12,247	634,019	15,402	13,745	32,988	957,035

An analysis of the cost or valuation of the property, plant and equipment of the Group is as follows:

At cost	–	275,501	21,491	894,219	28,054	28,532	32,988	1,280,785
At 31 December 2010 valuation	32,000	–	–	–	–	–	–	32,000
At 31 December 2010	32,000	275,501	21,491	894,219	28,054	28,532	32,988	1,312,785

13. Property, Plant and Equipment *(continued)*

Group

	Leasehold buildings in Hong Kong HK$'000	Leasehold buildings in Mainland China HK$'000	Leasehold improvements HK$'000	Plant and machinery HK$'000	Furniture, fixtures and office equipment HK$'000	Motor vehicles HK$'000	Construction in progress HK$'000	Total HK$'000
31 December 2009								
Cost or valuation:								
At 1 January 2009	24,400	266,789	15,175	578,118	19,239	21,891	2,066	927,678
Additions	—	2,455	1,975	136,670	3,962	3,005	1,044	149,111
Disposals	—	—	—	(21)	(153)	—	—	(174)
Acquisition of subsidiaries	—	—	—	172	—	107	—	279
Transfers	—	—	—	604	—	—	(604)	—
Transfer to prepayments (note 20)	—	—	—	—	—	—	(2,238)	(2,238)
Surplus on revaluation	1,630	—	—	—	—	—	—	1,630
At 31 December 2009	26,030	269,244	17,150	715,543	23,048	25,003	268	1,076,286
Accumulated depreciation:								
At 1 January 2009	—	33,632	5,188	119,358	8,041	8,701	—	174,920
Provided for the year	489	11,315	1,704	61,252	2,147	2,775	—	79,682
Disposals	—	—	—	(1)	(129)	—	—	(130)
Reversal upon revaluation	(489)	—	—	—	—	—	—	(489)
At 31 December 2009	—	44,947	6,892	180,609	10,059	11,476	—	253,983
Net book value:								
At 31 December 2009	26,030	224,297	10,258	534,934	12,989	13,527	268	822,303

An analysis of the cost or valuation of the property, plant and equipment of the Group is as follows:

At cost	—	269,244	17,150	715,543	23,048	25,003	268	1,050,256
At 31 December 2009 valuation	26,030	—	—	—	—	—	—	26,030
At 31 December 2009	26,030	269,244	17,150	715,543	23,048	25,003	268	1,076,286

13. Property, Plant and Equipment *(continued)*

The Group's leasehold buildings situated in Hong Kong were revalued at the end of the reporting period by Asset Appraisal Ltd., an independent firm of professionally qualified valuers, at an open market value of HK$32,000,000 (2009: HK$26,030,000). A revaluation surplus of HK$6,529,000 (2009: HK$2,119,000), resulting from the above valuation, has been credited to other comprehensive income.

The Group's leasehold buildings situated in Hong Kong at valuation of HK$32,000,000 (2009: HK$26,030,000) are held under long term leases. The Group's leasehold buildings situated in Mainland China are held under medium term leases.

Had all of the Group's leasehold buildings situated in Hong Kong been carried at historical cost less accumulated depreciation, their carrying amounts would have been approximately HK$11,910,000 (2009: HK$12,165,000).

As at 31 December 2010, certain of the Group's buildings with a net carrying amount of HK$32,000,000 were pledged to secure bank loan granted to the Group (note 27).

As at 31 December 2010, the Group had not yet obtained the title ownership certificates for certain of its buildings situated in Xiamen city and Shishi city, Fujian, the PRC with a net book value of HK$7,380,000 (2009: HK$7,551,000) and HK$31,586,000 (2009: HK$32,481,000) respectively, and the respective title ownership certificates are currently under application. The Company's directors confirmed that there is no legal barrier or otherwise for the Group to obtain the relevant title ownership certificates for these buildings from the relevant PRC authority.

14. Investment Properties

	2010 HK$'000	2009 HK$'000
Carrying amount at 1 January	**50,230**	3,850
Acquisition of a subsidiary	**—**	45,880
Disposal	**(4,350)**	—
Exchange realignment	**1,097**	500
Carrying amount at 31 December	**46,977**	50,230

During the year, the investment property located in Hong Kong was disposed of to an independent third party at a net consideration of HK$4,803,000, resulting into a gain on disposal of HK$453,000. In addition, the pledge of that investment property against the Group's banking facilities (note 27 (iii)) was released upon disposal during the year.

14. Investment Properties *(continued)*

The Group's investment property in Shanghai (2009: Shanghai and Hong Kong) was revaluated on 31 December 2010 by Asset Appraisal Ltd., an independent firm of professionally qualified valuers, on an open market, existing use basis at HK$46,977,000 (2009: HK$50,230,000). The investment property in Shanghai is leased to a related company controlled by a director of the Company under operating leases, further details of which are included in note 34 to the financial statements.

As at 31 December 2010, the Group has not yet obtained the title ownership certificates for certain of its buildings situated in Shanghai and currently applying for the title ownership certificate. The Company's directors confirmed that, as the Group has properly obtained the land use right certificates in respect of certain land on which the buildings are located, there is no legal barrier or otherwise for the Group to obtain the relevant title ownership certificates for these buildings from the relevant PRC authority.

The land of the investment properties located in Shanghai is held under medium-term lease.

15. Prepaid Land Lease Payments

	Group	
	2010	2009
	HK$'000	HK$'000
Carrying amount at 1 January	31,726	28,541
Additions	—	3,858
Recognised during the year	(748)	(673)
Exchange realignment	738	—
Carrying amount at 31 December	31,716	31,726
Current portion included in prepayments, deposits and other receivables	(748)	(731)
Non-current portion	30,968	30,995

The leasehold land is held under a medium term lease and is situated in Mainland China.

16. Goodwill

	2010 HK$'000	2009 HK$'000
Cost		
Balance at beginning of year	**31,809**	–
Acquisition of a subsidiary (note 32)	**–**	31,809
Balance at the end of year	**31,809**	31,809
Accumulated impairment losses		
Balance at beginning of year	**9,058**	–
Impairment losses recognised in the year	**–**	9,058
Balance at the end of year	**9,058**	9,058
Carrying amount		
Balance at 31 December	**22,751**	22,751

Impairment testing of goodwill

Goodwill acquired through business combinations has been allocated to the cash-generating unit of the subsidiary acquired in the year ended 31 December 2009 (note 32) for impairment testing.

The recoverable amount of this cash-generating unit has been determined based on a value in use calculation using cash flow projections covering 5-year (2009: 15-year) period approved by senior management. The discount rate applied to the cash flow projections is 10% (2009: 9%) and cash flows beyond the 5-year period are extrapolated using a growth rate of 5% (2009: 3%).

The key assumptions for the above cash flow projections are the budgeted operating profits made with reference to the operating profits achieved in the year immediately before the projection period, increases for expected market development, and the pre-tax discount rate of 10% (2009: 9%), which are before tax and reflect specific risks relating to the cash-generating unit.

17. Investments in Subsidiaries

	Company 2010 HK$'000	 2009 HK$'000
Unlisted investments, at cost	**79,379**	79,379
Loans to subsidiaries	**41,311**	48,492
	120,690	127,871

17. Investments in Subsidiaries *(continued)*

The balances with subsidiaries are unsecured, interest-free and are repayable on demand. The amounts advanced to the subsidiaries included in the investment in subsidiaries above were unsecured, interest-free and have no fixed terms of repayments. In the opinion of the Company's directors, these advances are considered as quasi-equity loans to the subsidiaries.

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

Particulars of the principal subsidiaries are as follows:

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary share/ registered capital	Percentage of equity attributable to the Company 2010	2009	Principal activities
Directly held					
Tong Da Holdings (BVI) Limited	British Virgin Islands ("BVI")	Ordinary US$10,000	100	100	Investment holding
Indirectly held					
Tong Da General Holdings (H.K.) Limited	Hong Kong	Ordinary HK$880,000	100	100	Investment holding and raw materials sourcing
Ever Target Limited	Hong Kong	Ordinary HK$4	100	100	Investment holding
Tongda Group International Limited	Hong Kong	Ordinary HK$2	100	100	Investment holding
福建省石獅市通達電器有限公司 (Tongda Electrics Company Limited, Shishi City, Fujian)*	PRC/Mainland China	Registered HK$120,000,000	100	100	Manufacture and sale of accessories for electrical appliance products

17. Investments in Subsidiaries *(continued)*

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary/ registered capital	Percentage of equity attributable to the Company 2010	2009	Principal activities
Indirectly held *(continued)*					
福建省石獅通達電子有限公司 (Tongda Electronic Company Limited, Shishi, Fujian)*	PRC/Mainland China	Registered Renminbi ("RMB") RMB32,000,000	**100**	100	Manufacture and sale of resistors and other electronic products
廈門通達光纜有限公司 (Xiamen Optic Conduct Cable Company Limited) (Note a)*	PRC/Mainland China	Registered US$8,903,723	**100**	81	Manufacture and sale of fibre optic cables
通達五金(深圳)有限公司 (Tongda Ironware (Shenzhen) Company Limited)*	PRC/Mainland China	Registered HK$30,000,000	**100**	100	Manufacture and sale of ironware products
Tongda (Shenzhen) Company Limited	Hong Kong	Ordinary HK$10,000	**100**	100	Investment holding
Tongda Overseas Macao Commercial Offshore Limited	Macau	Ordinary MOP100,000	**100**	100	Trading of electrical appliance products
Tongda (Xiamen) Company Limited	Hong Kong	Ordinary HK$100,000	**100**	100	Investment holding
Tongda General (H.K.) Limited	Hong Kong	Ordinary HK$100,000	**100**	100	Investment holding and machinery sourcing

17. Investments in Subsidiaries *(continued)*

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary/ registered capital	Percentage of equity attributable to the Company 2010	2009	Principal activities
Indirectly held *(continued)*					
通達(廈門)電器有限公司 (Tongda (Xiamen) Electric Company Limited)*	PRC/Mainland China	Registered HK$10,000,000	**100**	100	Manufacture and sale of accessories for electrical appliance products
通達精密組件(深圳)有限公司 (Tongda Precision Component (Shenzhen) Company Limited)*	PRC/Mainland China	Registered HK$10,000,000	**100**	100	Manufacture and sale of ironware products
石獅市通達光電科技有限公司 (Tongda Light Electricity Technology Company Limited, Shishi)*	PRC/Mainland China	Registered HK$18,000,000	**100**	100	Manufacture of accessories of electrical appliance products
石獅市通達通訊器材有限公司 (Tongda Communications Equipment Company Limited, Shishi)*	PRC/Mainland China	Registered HK$28,000,000	**100**	100	Manufacture of accessories of electrical appliance products
Tongda Optical Fiber Technology Limited	Hong Kong	Ordinary HK$100,000	**100**	100	Investment holding
Evertarget (Hong Kong) Limited (Note b)	Hong Kong	Ordinary HK$500,000	**51**	51	Trading of lifestyle consumer products

Notes to Financial Statements

17. Investments in Subsidiaries *(continued)*

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary/ registered capital	Percentage of equity attributable to the Company 2010	2009	Principal activities
Indirectly held *(continued)*					
通達 (廈門) 科技有限公司 (Tongda (Xiamen) Technology Limited)**	PRC/Mainland China	Registered RMB53,776,300	**75**	75	Manufacture and sale of plastic injection and printing parts
深圳通達電子有限公司 (Shenzhen Tongda Electronic Company Limited) (Note c)**	PRC/Mainland China	Registered HK$45,000,000	**75**	75	Manufacture and sale of plastic injection and printing parts
Tongda (Shanghai) Company Limited	Hong Kong	Ordinary HK$100,000	**100**	100	Investment holding
通達(上海)電器裝飾件有限公司 (Note d)*	PRC/Mainland China	Registered HK$10,000,000	**100**	100	Property holding
通達光電有限公司 (Tongda Optical Company Limited) (Note e)	Hong Kong	Ordinary HK$800,000	**55**	N/A	Investment holding
通達(廈門)光電科技有限公司 (Tong Da (Xiamen) Optical Technology Company Limited) (Note e)*	PRC/Mainland China	Registered HK$50,000,000	**55**	N/A	Manufacture and sale of accessories for electrical appliance products
通達宏泰科技(蘇州)有限公司 (Tongda HT Technology (Suzhou) Company Limited)**	PRC/Mainland China	Registered HK$80,000,000	**100**	N/A	Manufacture and sale of accessories for electrical appliance products

17. Investments in Subsidiaries *(continued)*

* Registered as wholly-foreign-owned enterprise under PRC law

** Registered as foreign invested enterprise under PRC law

Notes:

a. Pursuant to a sale and purchase agreement entered into between the Group and a non-controlling shareholder on 25 January 2010, the remaining 19% equity interests in Xiamen Optic Conduct Cable Company Limited ("Xiamen Optic") was acquired by the Group from the non-controlling shareholder at a cash consideration of approximately HK$11,131,000 and the difference of HK$615,000 between the consideration and the non-controlling interests share of assets and liabilities at the date of acquisition was debited to the Group's capital reserve.

b. During the year ended 31 December 2009, the Group entered into two sale and purchase agreements with the minority shareholder of Evertarget (Hong Kong) Limited, to dispose of an aggregate of 34% equity interest in Evertarget (Hong Kong) Limited at a consideration of the par value of the share disposed of. A gain on disposal of HK$2,223,000 was resulted and recognised in the income statement for the year ended 31 December 2009.

c. On 11 November 2008, an agreement was entered into between the Group and the former shareholder of Shenzhen Tongda Electronic Company Limited ("Shenzhen Tongda Electronic"), to acquire 5% equity interest in Shenzhen Tongda Electronic at a cash consideration of RMB698,000 (equivalent to HK$749,000). This acquisition was completed on 15 January 2009. A gain on bargain purchase of HK$403,000 was recognised in the income statement for the year ended 31 December 2009.

d. On 11 August 2009, the Group entered into a sale and purchase agreement to acquire the entire equity interest of Tongda (Shanghai) Company Limited ("Tongda (Shanghai)"), its subsidiary, 通達(上海)電器裝飾件有限公司("通達電器裝飾件"), and its associates, Tongda Fuso (HK) Company Limited and Tongda Fuso Printing (Shanghai) Company Limited and the shareholder's loan of HK$7,005,000 from E-Growth Resources Limited ("E-Growth"), a company incorporated in Hong Kong and wholly and beneficially owned by Mr. Wang Ya Nan, an executive director and a substantial shareholder of the Company, at a total consideration satisfied by the issuance of the Company's new ordinary shares of 296,000,000. Details of this acquisition are disclosed in notes 32 to the financial statements.

e. Tongda (Xiamen) Optical Technology Company Limited is a wholly-owned subsidiary of Tongda Optical Company Limited ("Tongda Optical") (collectively "Tongda Optical Subgroup"). The Company owned 85.1% equity interest in Tongda Optical upon its incorporation/establishment. On 24 February 2010, the Group entered into an agreement with Matsushitu Shokai Co., Ltd. ("Matsushitu Shokai"), the non-controlling shareholder of Tongda Optical, and agreed to grant to Matsushitu Shokai an option to acquire 240,800 shares (the "Option") of Tongda Optical from the Group, which represented 30.1% of the issued share capital of Tongda Optical, at HK$15,050,000. The exercise price of the Option was HK$1 which shall be payable upon the exercise of the option. On 15 November 2010, the Option was exercised by Matsushitu Shokai. After the exercise of the Option, the Group owned 55% equity interest in Tongda Optical. The difference of HK$15,714,000 between the consideration and the non-controlling interests share of assets and liabilities at the date of disposal was credited to the Group's capital reserve.

As Matsushitu Shokai is the then beneficial owner of 14.9% of the issued share capital of Tongda Optical, Matsushitu Shokai is a connected person to the Company and the grant of the Option constitutes a connected transaction of the Group under the Listing Rules. Further details are set out in the Company's announcements dated 24 February 2010, 5 March 2010 and 15 November 2010.

18. Investments in Associates

	2010 HK$'000	2009 HK$'000
Share of net assets	25,764	22,870
Goodwill on acquisition (Note a)	1,061	—
Provision for impairment (Note a)	(1,061)	—
Due from associates	8,644	12,673
	34,408	35,543

Particulars of the associates are as follows:

Name	Place of incorporation/ registration and operations	Particulars of issued shares held	Percentage of ownership interest indirectly attributable to the Group 2010	2009	Principal activities
Meijitsu Tongda (HK) Company Limited ("Meijitsu")	Hong Kong/ Mainland China	Ordinary HK$10,000	50	50	Manufacture and sale of silk-screen printing products
Meijitsu Tongda (Vietnam) Company Limited	Vietnam	Registered Vietnamese Dong ("VND") 9,600,000,000	50	50	Manufacture and sale of label/seal for automation office products
通達名科技 (深圳) 有限公司	PRC/Mainland China	Registered RMB11,000,000	50	50	Manufacture and sale of silk-screen printing products
Tongda Fuso (HK) Company Limited ("Fuso (HK)") (Note b)	Hong Kong	Ordinary HK$7,625,630	70	70	Investment holding
Tongda Fuso Printing (Shanghai) Company Limited ("Fuso (Shanghai)") (Note b)	PRC/Mainland China	Registered US$1,300,000	70	70	Manufacture and sale of silk-screen printing products
東莞市康祥電子有限公司 ("Kangxiang") (note a)	PRC/Mainland China	Registered RMB13,500,000	34.9	N/A	Manufacture and sale of electronic components

18. Investments in Associates *(continued)*

Notes:

a. During the year, the Group acquired 34.9% equity interest in Kangxiang at a consideration of RMB4,712,000 (equivalent to HK$5,479,000). A goodwill of HK$1,061,000 was recognised and the full amount has been impaired and charged to the consolidated income statement during the year.

b. During the year ended 31 December 2009, the Group acquired 40% equity interest in Fuso (HK) and Fuso (Shanghai) through the acquisition of Tongda (Shanghai). Details of this acquisition are disclosed in note 32 to the financial statements. Together with the 30% equity interest in Fuso (HK) and Fuso (Shanghai) held by the Company's associate, Meijitsu, a total of 70% equity interest was indirectly attributable to the Group. Management considered that Fuso (HK) and Fuso (Shanghai) are the associates of the Company as at 31 December 2010 and 2009 because the Company did not have unilateral or joint control over Fuso (HK) and Fuso (Shanghai) and is in a position to exercise significant influence over Fuso (HK) and Fuso (Shanghai).

The Group received dividend income of HK$4,500,000 (2009: HK$1,500,000) from an associate during the year.

The balances with associates are unsecured, interest-free and have no fixed terms of repayment.

The directors of the Company do not intend to demand settlement of the amounts due until the associates have surplus funds available to those necessary to provide adequate working capital for financing their operations. Accordingly, the amounts are classified as long term receivables.

All the above associates have been accounted for using the equity method in these financial statements. The following table illustrates the summarised financial information of the Group's associates extracted from their management accounts:

	2010 HK$'000	2009 HK$'000
Assets	**157,371**	80,447
Liabilities	**81,750**	40,869
Revenue	**97,378**	50,307
Profits	**5,833**	6,582

19. AVAILABLE-FOR-SALE INVESTMENT

	2010 HK$'000	2009 HK$'000
Unlisted equity investment, at cost	**8,061**	—

As at 31 December 2010, the above unlisted equity investments with a carrying amount of HK$8,061,000 was stated at cost less impairment because the range of reasonable fair value estimates is so significant that the directors are of the opinion that their fair value cannot be measured reliably. The Group does not intend to dispose of it in the near future.

20. Prepayments

Group

	Prepaid rental HK$'000	Prepaid premises cost HK$'000	Total HK$'000
31 December 2010			
Cost:			
At 1 January 2010	**2,148**	**60,945**	**63,093**
Exchange realignment	**50**	**1,419**	**1,469**
At 31 December 2010	**2,198**	**62,364**	**64,562**
Amortisation:			
At 1 January 2010	**318**	**6,374**	**6,692**
Amortised during the year	**48**	**1,313**	**1,361**
Exchange realignment	**8**	**147**	**155**
At 31 December 2010	**374**	**7,834**	**8,208**
Net book value:			
At 31 December 2010	**1,824**	**54,530**	**56,354**
31 December 2009			
Cost:			
At beginning of year	2,148	58,707	60,855
Transfer from construction in progress (note 13)	—	2,238	2,238
At 31 December 2009	2,148	60,945	63,093
Amortisation:			
At beginning of year	270	5,136	5,406
Amortised during the year	48	1,238	1,286
At 31 December 2009	318	6,374	6,692
Net book value:			
At 31 December 2009	1,830	54,571	56,401

The prepaid rental represents rental of a piece of land located in Mainland China (the "Land"). The Group has been granted the right to use the land for a period of 50 years. The prepaid premises cost represents the cost for the construction of certain premises erected on the Land. The Group has been granted the right to use these premises within the rental period of the Land. As confirmed by legal opinions issued by the PRC lawyers, the lessor of the Land has the right to lease the Land and the leasing agreement entered into by the Group with the lessor is legally enforceable under PRC law.

The prepaid rental is amortised on the straight-line basis over the lease term of 50 years. The prepaid premises cost is amortised on the straight-line basis over the remaining lease term of the Land.

21. Long Term Deposits

	Group 2010 HK$'000	2009 HK$'000
Deposit for acquisition of property, plant and equipment	**16,422**	5,412
Deposit for acquisition of land use right	**1,060**	—
Deposit for acquisition of an associate*	**—**	6,000
	17,482	11,412

* On 26 September 2009, the Group entered into an agreement to acquire 33% equity interest in Kangxiang at a consideration of RMB5,280,000 (equivalent to HK$6,000,000) and the amount paid has been included in the "long term deposit" as at 31 December 2009. Pursuant to an agreement entered amongst the Group the former shareholder of Kangxiang and Kangxiang on 26 September 2010, the consideration of the acquisition was revised to RMB4,712,000 (or equivalent to HK$5,479,000) for the acquisition of 34.9% equity interest in Kangxiang. The acquisition was completed in current year. Further details are set out in note 18 above.

22. Inventories

	Group 2010 HK$'000	2009 HK$'000
Raw materials	**179,630**	134,309
Work in progress	**86,989**	63,553
Finished goods	**205,630**	171,380
	472,249	369,242

23. Trade and Bills Receivables

	Group 2010 HK$'000	2009 HK$'000
Trade receivables	**888,559**	635,060
Impairment allowances	**(22,174)**	(23,335)
	866,385	611,725
Bills receivables	**153,340**	18,911
	1,019,725	630,636

23. Trade and Bills Receivables *(continued)*

It is the general policy of the Group to allow a credit period of three to six months. In addition, for certain customers with long-established relationships and good past repayment histories, a longer credit period may be granted in order to maintain a good relationship. The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by management. In view of the aforementioned and the fact that the Group's trade receivables relate to a number of diversified customers, there is no significant concentration of credit risk. Trade receivables are non-interest-bearing.

An aged analysis of the Group's trade and bills receivables as at 31 December 2010, based on the invoice date, is as follows:

	Group	
	2010	**2009**
	HK$'000	**HK$'000**
Within 3 months	**906,218**	544,142
4 to 6 months, inclusive	**100,410**	70,177
7 to 9 months, inclusive	**10,446**	6,876
10 to 12 months, inclusive	**1,433**	6,358
More than 1 year	**23,392**	26,418
	1,041,899	653,971
Impairment allowances	**(22,174)**	(23,335)
	1,019,725	630,636

The movements in impairment allowance for trade receivables are as follows:

	Group	
	2010	**2009**
	HK$'000	**HK$'000**
At 1 January	**23,335**	19,642
Impairment of trade receivables (note 7)	**1,212**	5,808
Write-back of impairment of trade receivables (note 7)	**(2,608)**	(2,115)
Exchange realignment	**235**	—
At 31 December	**22,174**	23,335

The above impairment allowance for trade receivables is an allowance for individually impaired trade receivables with a carrying amount of HK$32,749,000 (2009: HK$30,511,000). The individually impaired trade receivables relate to customers that have been overdue for a long time and only a portion of the receivables is expected to be recovered. The Group does not hold any collateral or other credit enhancements over these balances.

23. Trade and Bills Receivables *(continued)*

An aged analysis of the trade and bills receivables that are not considered to be impaired is as follows:

	Group	
	2010 HK$'000	2009 HK$'000
Neither past due nor impaired	**925,422**	522,264
Within 3 months	**63,260**	83,764
4 to 6 months, inclusive	**17,005**	8,132
7 to 9 months, inclusive	**1,951**	5,276
10 to 12 months, inclusive	**858**	1,335
More than 1 year	**654**	2,689
	1,009,150	623,460

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

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

24. Pledged Deposits, Restricted Bank Balances and Cash and Cash Equivalents

	Group		Company	
	2010 HK$'000	2009 HK$'000	2010 HK$'000	2009 HK$'000
Cash and bank balances	**188,897**	225,317	**19,437**	70
Time deposits	**39,109**	20,733	**—**	—
	228,006	246,050	**19,437**	70
Less: Pledged deposits (note 27)	**(39,109)**	(20,242)	**—**	—
Less: Restricted bank balances (note)	**(5,199)**	—	**—**	—
	183,698	225,808	**19,437**	70

Note: Pursuant to the requirement from the PRC Customs, the Group has to maintain certain cash balances in a designated bank account for the Group's import purchases. All these restricted bank balances have been released on 7 January 2011.

24. Pledged Deposits, Restricted Bank Balances and Cash and Cash Equivalents *(continued)*

At the end of the reporting period, the cash and bank balances of the Group denominated in RMB amounted to HK$137,479,000 (2009: HK$141,137,000). RMB is not freely convertible into other currencies, however, under PRC's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short term time deposits are made for approximately from one month to three months on average depending on the immediate cash requirements of the Group, and earn interest at the respective short term time deposit rates.

The bank balances and pledged deposits are deposited with creditworthy banks with no recent history of default.

25. Trade and Bills Payables

	Group	
	2010	2009
	HK$'000	HK$'000
Trade payables	491,534	338,120
Bills payables	164,349	73,185
	655,883	411,305

The trade payables are non-interest-bearing and are normally settled on 60 to 90 days terms. An aged analysis of the Group's trade and bills payables as at 31 December 2010, based on the invoice date, is as follows:

	Group	
	2010	2009
	HK$'000	HK$'000
Within 3 months	516,664	339,369
4 to 6 months, inclusive	114,499	56,646
7 to 9 months, inclusive	15,211	6,517
10 to 12 months, inclusive	2,949	2,670
More than 1 year	6,560	6,103
	655,883	411,305

26. Balances With Non-controlling Shareholders of Subsidiaries and Related Companies

As at 31 December 2009, the amounts due to related companies were unsecured, interest-free and fully settled during the year.

Except for a loan from a non-controlling shareholder of a subsidiary of HK$7,331,000 which was not expected to be repaid within the next twelve months from the end of the reporting period, the amounts due to other non-controlling shareholders were unsecured, interest-free and had no fixed terms of repayment.

27. Interest-Bearing Bank Borrowings

		Group		Company	
		2010	2009	2010	2009
	Maturity	HK$'000	HK$'000	HK$'000	HK$'000
Current					
Bank loans—unsecured	2011/2010	**282,392**	248,226	**98,944**	197,825
Non-current					
Bank loans—unsecured	2010	**—**	99,094	**—**	99,094
Bank loans—secured	2012–13	**169,750**	—	**169,750**	—
		452,142	347,320	**268,694**	296,919

	Group		Company	
	2010	2009	2010	2009
	HK$'000	HK$'000	HK$'000	HK$'000
Analysed into:				
Bank loans payable:				
Within one year	**282,392**	248,226	**98,944**	197,825
In the second year	**159,850**	99,094	**159,850**	99,094
In the third to fifth years, inclusive	**9,900**	—	**9,900**	—
	452,142	347,320	**268,694**	296,919
Analysed into:				
HK$	**270,803**	296,919	**268,694**	296,919
JPY	**1,774**	—	**—**	—
RMB	**152,543**	38,636	**—**	—
US$	**27,022**	11,765	**—**	—
	452,142	347,320	**268,694**	296,919

27. Interest-Bearing Bank Borrowings *(continued)*

Notes:

(i) The Company's bank loans are with annual effective interest rates of Hong Kong Interbank Offered rate ("HIBOR") plus 1.1% and 1.15%. Other than the Company's bank loans, the effective interest rates of the other bank loans range from 4.95% to 6.12% and board rate or HIBOR plus 2.5% per annum, respectively.

(ii) At the end of the reporting period, the Group's banking facilities were supported by:

(a) the pledge of bank deposits of approximately HK$39,109,000 (2009: HK$20,242,000) (note 24) to secure the issuance of bills payables;

(b) corporate guarantees from the Company and certain of its subsidiaries;

(c) corporate guarantees from a related company controlled by directors of the Company (note 36(b));

(d) corporate guarantees from a third party customer to the extent of RMB10,000,000 (approximately HK$11,628,000); and

(e) mortgages over the Group's leasehold building in Hong Kong with a carrying amount of approximately HK$32,000,000 to secure certain of the Group's bank loans.

(iii) As at 31 December 2009, the banking facilities were supported by an investment property in Hong Kong owned by the Group. Upon disposal of the investment property, the pledge was released during the year.

28. Deferred Tax

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

Deferred tax liabilities

Group

	Withholding taxes HK$'000	Revaluation of properties HK$'000	Total HK$'000
At 1 January 2009	843	2,914	3,757
Acquisition of a subsidiary	—	8,668	8,668
Debited/(credited) to the income statement during the year (note 9)	3,633	(383)	3,250
Deferred tax debited to equity during the year	—	350	350
At 31 December 2009 and 1 January 2010	4,476	11,549	16,025
Debited/(credited) to the income statement during the year (note 9)	3,100	(346)	2,754
Deferred tax debited to equity during the year	—	1,077	1,077
Exchange realignment	—	210	210
At 31 December 2010	7,576	12,490	20,066

Deferred tax assets

Group

	Depreciation allowance in excess of related depreciation HK$'000
At 1 January 2009, 31 December 2009 and 1 January 2010	3,833
Debited to the income statement (note 9)	(130)
At 31 December 2010	3,703

The Group and the Company have estimated tax losses arising in Hong Kong of HK$30,306,000 (2009: HK$18,573,000) and HK$8,323,000 (2009: HK$8,323,000) respectively that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognised in respect of these losses as they have arisen in the Company and subsidiaries that have been loss-making for some time and it is not considered probable that taxable profits will be available against which the tax losses can be utilised.

28. Deferred Tax *(continued)*

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

However, deferred tax has not been recognised for withholding taxes that would be payable on the unremitted earnings that are subject to withholding taxes of certain subsidiaries and associates of the Group established in Mainland China. In the opinion of the directors, it is not probable that these subsidiaries and associates will distribute such earnings in the foreseeable future.

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

29. Share Capital

	2010 HK$'000	2009 HK$'000
Authorised:		
20,000,000,000 ordinary shares of HK$0.01 each	**200,000**	200,000
Issued and fully paid:		
4,604,900,000 (2009: 4,305,800,000)		
ordinary shares of HK$0.01 each	**46,049**	43,058

29. Share Capital *(continued)*

The following changes in the Company's issued share capital took place during the current and last years:

	Notes	Number of ordinary shares in issue	Issued share capital HK$'000	Share premium account HK$'000	Total HK$'000
Issued:					
As at 1 January 2009		3,989,800,000	39,898	473,527	513,425
Shares issued upon exercise of share options	(i)	20,000,000	200	960	1,160
Issue of shares	(ii)	296,000,000	2,960	61,272	64,232
		316,000,000	3,160	62,232	65,392
As at 31 December 2009 and 1 January 2010		4,305,800,000	43,058	535,759	578,817
Issue of shares	(iii)	160,000,000	1,600	36,800	38,400
Share issue expense		—	—	(425)	(425)
Shares issued upon exercise of share options	(iv)	1,500,000	15	521	536
Shares issued upon exercise of warrants	(v)	137,600,000	1,376	40,994	42,370
		299,100,000	2,991	77,890	80,881
As at 31 December 2010		4,604,900,000	46,049	613,649	659,698

Notes:

(i) On 28 September 2009, a subscriber served the notice for subscription of 20,000,000 shares of the Company at an exercise price of HK$0.053 per share. 20,000,000 new shares were allotted and issued on 28 September 2009, and net proceeds of approximately HK$1,060,000 were raised by the Company. Fair value of these share options included in the share option reserve of HK$100,000 was transferred to the share premium account.

(ii) On 11 August 2009, the Group entered into a sale and purchase agreement to acquire the entire equity interest of Tongda Shanghai, and its subsidiary, 通達電器裝飾件, and its associates, Fuso (HK) and Fuso (Shanghai) and the shareholder's loan of HK$7,005,000 from E-Growth . This acquisition was completed on 15 October 2009 and a total of 296,000,000 shares were issued on that date at an issue price of HK$0.217 per share as the consideration for the acquisition. Details of this acquisition are set out in note 32 to the financial statements.

29. Share Capital *(continued)*

(iii) Pursuant to a placing and subscription agreement entered into on 15 January 2010, the Company allotted and issued 160,000,000 new ordinary shares of HK$0.01 each at the subscription price of HK$0.24 per share to E-Growth, a shareholder then holding 296,000,000 ordinary issued shares representing approximately 6.87% of the entire issued share capital (before the placement of 160,000,000 new ordinary shares) of the Company.

(iv) The subscription rights attaching to 1,500,000 share options were exercised at the subscription price of HK$0.28 per share, resulting in the issue of 1,500,000 shares of HK$0.01 each for a total cash consideration, before expenses, of HK$420,000. An amount of HK$116,000 was transferred from the share option reserve to the share premium account upon the exercise of the share options.

(v) 137,600,000 new ordinary shares of HK$0.01 each were issued for cash at a subscription price of HK$0.30 per share pursuant to the exercise of the Company's warrants for a total cash consideration, before expenses, of HK$41,280,000. An amount of HK$1,090,000 was transferred from the warrant reserve to the share premium account upon the exercise of the warrants.

All new ordinary shares issued in the current and last year's rank pari passu with the existing shares in all aspects.

Subsequent to the end of the reporting period, 54,400,000 outstanding Batch 1 Warrants (defined below) and 13,000,000 share options were exercised. Up to the date of approval of these financial statements, the Company's issued share capital was HK$46,723,000, representing 4,672,300,000 ordinary shares of HK$0.01 each.

Share option scheme

Details of the Company's share option scheme and the share options issued under the schemes are included in note 30 to the financial statements.

Warrants

On 28 January 2010, the Company issued 192,000,000 unlisted warrants ("Batch 1 Warrants") at price of HK$0.008 per warrant to four placees, all being independent third parties to the Group and each warrant entitles its holder to subscribe for one ordinary share of HK$0.01 each of the Company ("Subscription Share"), subject to adjustments, at the initial subscription price of HK$0.3 per Subscription Share at any time during the period of 12 months commencing from the date of issue of warrants. The net proceeds from the issue of warrants amounted to approximately HK$1,520,000 representing the fair value of the warrants at the date of issue. During the year ended 31 December 2010, 137,600,000 Batch 1 Warrants were exercised (note 29(v)). At 31 December 2010, 54,400,000 Batch 1 Warrants were outstanding and to be exercised on or before 27 January 2011. The exercise in full of such warrants would result in the issue of 54,400,000 additional ordinary shares of the Company of HK$0.01 each.

29. Share Capital *(continued)*

On 23 November 2010, the Company issued 150,000,000 unlisted warrants ("Batch 2 Warrants") at price of HK$0.005 per warrant to a shareholder who held approximately 0.43% of the issued share capital of the Company immediately before the warrant subscription, and each warrant entitles its holder to subscribe for one ordinary share of HK$0.01 each of the Company, subject to adjustments, at the initial subscription price of HK$0.345 per Subscription Share at any time during the period of 12 months commencing from the date of issue of warrants. The net proceeds from the issue of warrants amounted to approximately HK$750,000 representing the fair value of the warrants at the date of issue. At 31 December 2010, 150,000,000 Batch 2 Warrants were outstanding and to be exercised on or before 22 November 2011. The exercise in full of such warrants would result in the issue of 150,000,000 additional ordinary shares of the Company of HK$0.01 each.

The aggregate consideration received from the issuance of Batch 1 Warrants and Batch 2 Warrants (collectively "Warrants") of HK$2,270,000 are credited to the Group's warrant reserve under equity in current year.

During the year, upon the exercise of 137,600,000 Batch 1 Warrants, HK$1,090,000 has been transferred from warrant reserve to share premium accounts. Subsequent to the year end, 54,400,000 outstanding Batch 1 Warrants as at 31 December 2010 have been fully exercised.

Up to the date of the approval of these financial statements, all the Batch 2 Warrants remained outstanding. Where the Warrants remained unexercised upon expiry, the amount will be released to the retained profits.

30. Share Option Scheme

Pursuant to an ordinary resolution passed at the shareholders' meeting of the Company held on 10 June 2002, a new share option scheme of the Company (the "New Scheme") was adopted by the Company. The New Scheme replaced the share option scheme adopted on 7 December 2000 (the "Old Scheme"). After the adoption of the New Scheme, no further options can be granted under the Old Scheme. As at 31 December 2008 and 2009, there were no outstanding share options under the Old Scheme. The New Scheme became effective on 24 June 2002, and unless otherwise cancelled or amended, will remain in force for 10 years from that date.

The Company operates the New Scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants of the New Scheme include all directors and any full-time employees of the Company or any of its subsidiaries and any suppliers, consultants or advisers who will provide or have provided services to the Group.

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 may not exceed 10% of the shares of the Company in issue. The maximum number of shares issued and which may fall to be issued upon exercise of the options granted under the New Scheme and any other share option scheme of the Company (including exercised, cancelled and outstanding options) to each eligible participant in any 12-month period up to the date of grant shall not exceed 1% of the shares of the Company in issue as at the date of grant.

30. Share Option Scheme *(continued)*

Share options granted to a director, chief executive or substantial shareholder of the Company, or any of their associates, are subject to approval by the independent non-executive directors of the Company. In addition, any share options granted to a substantial shareholder or any independent non-executive director of the Company, or any of their associates, which would result in the shares issued and to be issued upon exercise of all share options already granted and to be granted (including share options exercised, cancelled and outstanding) to such person in the 12-month period up to and including the date of such grant (i) representing an aggregate value of over 0.1% of the shares of the Company in issue on that date; and (ii) having an aggregate value, based on the official, closing price of the Company's shares as stated in the daily quotation sheets of the Stock Exchange on the date of each grant, in excess of HK$5 million, are subject to shareholders' approval in a general meeting.

The period within which the options must be exercised will be determined by the board of directors of the Company at its absolute discretion. This period will expire no later than 10 years from the date of grant of the options. At the time of grant of the options, the Company may specify a minimum period for which an option must be held before it can be exercised. The offer of a grant of share options may be accepted within 21 days from the date of the offer, and the amount payable on acceptance of an offer is HK$1.

The subscription price for the shares of the Company to be issued upon exercise of the options shall be no less than the highest of (i) the closing price of the shares of the Company as stated in the daily quotation sheets issued by the Stock Exchange on the date of grant; (ii) the average closing price of the shares of the Company as stated in the daily quotation sheets issued by the Stock Exchange for the five business days immediately preceding the date of grant; and (iii) the nominal value of the share of the Company on the date of grant.

Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings.

The following share options were outstanding under the New Scheme during the year:

	2010		2009	
	Weighted average exercise price HK$ per share	Number of options '000	Weighted average exercise price HK$ per share	Number of options '000
At 1 January	**0.3322**	**228,000**	0.3580	157,000
Granted during the year	**0.2800**	**102,050**	0.2262	91,000
Exercised during the year	**0.2800**	**(1,500)**	0.0530	(20,000)
At 31 December	**0.3162**	**328,550**	0.3322	228,000

The weighted average share price at the date of exercise for share options exercised during the year was HK$0.322 per share.

30. Share Option Scheme *(continued)*

The exercise prices and exercise periods of the share options outstanding as at the end of the reporting period are as follows:

2010 Number of options '000	Exercise price* HK$ per share	Exercise period
10,000	**0.4850**	**10 March 2007 to 9 March 2017**
38,000	**0.5860**	**4 July 2007 to 3 July 2017**
89,000	**0.3150**	**16 February 2008 to 15 February 2018**
91,000	**0.2262**	**25 September 2009 to 24 September 2012**
100,550	**0.2800**	**31 May 2010 to 30 May 2013**
328,550		

2009 Number of options '000	Exercise price* HK$ per share	Exercise period
10,000	0.4850	10 March 2007 to 9 March 2017
38,000	0.5860	4 July 2007 to 3 July 2017
89,000	0.3150	16 February 2008 to 15 February 2018
91,000	0.2262	25 September 2009 to 24 September 2012
228,000		

* The exercise price of the share options is subject to adjustment in case of rights or bonus issues, or other similar changes in the Company's share capital.

The fair value of the share options granted during the year was HK$7,897,000 (HK$0.0774 each) (2009: HK$5,865,000 (HK$0.0645 each)) and was recognised as a share option expense of the Group during the year ended 31 December 2010.

The fair value of equity-settled share options granted during the year was estimated as at the date of grant, using the binomial option pricing model, taking into account the terms and conditions upon which the options were granted. The following table lists the inputs to the model used:

	2010	2009
Dividend yield (%)	**3.75**	2.69
Expected volatility (%)	**67.913**	68.475
Risk-free interest rate (%)	**0.999**	0.860
Expected life of options (year)	**3**	3

30. Share Option Scheme *(continued)*

The expected life of the options is based on the historical data and is not necessarily indicative of the exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome.

No other feature of the options granted was incorporated into the measurement of fair value.

At the end of the reporting period and up to the date of approval of these financial statements, the Company had 328,550,000 and 315,550,000 share options outstanding under the New Scheme, which represented approximately 7.13% and 6.75% of the Company's shares in issue as at those dates respectively. The exercise in full of the remaining share options would, under the present capital structure of the Company, result in the issue of 315,550,000 additional ordinary shares of the Company and additional share capital of HK$3,155,500 and share premium of HK$96,815,700 (before issue expenses).

31. Reserves

(a) Group

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity of the financial statements.

(i) Capital reserve

The capital reserve of the Group represents principally (1) the excess fair values ascribed to the net underlying assets of certain subsidiaries acquired prior to the Group's reorganisation completed on 7 December 2000 in preparation of the listing of the Company's shares, over the purchase consideration paid therefor; (2) the difference between the consideration and net assets acquired paid for the further acquisition of Xiamen Optic (note 17(a)) during the year; and (3) the difference between the consideration received and net liabilities disposed of for the partial disposal of Tongda Optical (note 17(e)).

(ii) Statutory reserve

In accordance with the Macau Commercial Codes, Tongda Overseas Macao Commercial Offshore Limited ("Tongda Macao"), a wholly-owned subsidiary of the Company, whose principal operation is conducted in Macau, is required to appropriate annually not less than 25% of its profit after tax to a statutory reserve, until the balance of the reserve reaches 50% of the entity's capital fund. The statutory reserve may be utilised by the entity for certain restricted purposes including the set off against accumulated losses, if any, arising under certain specified circumstances. As the reserve was reached 50% of Tongda Macao's capital fund, no transfer was made in the current year (2009: Nil).

In accordance with the relevant regulations applicable in the PRC, a subsidiary of the Company established in the PRC is required to transfer a certain percentage of its profit after tax, if any, to the enterprise expansion and statutory reserve funds, which are non-distributable, before profit distributions to shareholders. The amount of the transfer is subject to the approval of the board of directors of this subsidiary.

31. Reserves *(continued)*

(b) Company

	Share premium account HK$'000	Share option reserve HK$'000	Warrant reserve HK$'000	Contributed surplus HK$'000	Capital redemption reserve HK$'000	Retained profits HK$'000	Total HK$'000
At 1 January 2009	473,527	9,666	–	79,179	287	43,737	606,396
Profit for the year	–	–	–	–	–	33,202	33,202
Acquisition of a subsidiary (note 29(ii))	61,272	–	–	–	–	–	61,272
Shares issued upon exercise of share options (note 29(i))	960	(100)	–	–	–	–	860
Equity-settled share option arrangements (note 30)	–	5,865	–	–	–	–	5,865
Final 2008 dividend (note 11)	–	–	–	–	–	(7,980)	(7,980)
Interim 2009 dividend (note 11)	–	–	–	–	–	(15,070)	(15,070)
At 31 December 2009 and 1 January 2010	535,759	15,431	–	79,179	287	53,889	684,545
Profit for the year	–	–	–	–	–	56,711	56,711
Share issued (note 29(iii))	36,800	–	–	–	–	–	36,800
Share issue expenses	(425)	–	–	–	–	–	(425)
Issue of warrant (note 29)	–	–	2,270	–	–	–	2,270
Exercise of warrants (note 29(v))	40,994	–	(1,090)	–	–	–	39,904
Equity-settled share option arrangements (note 30)	–	7,897	–	–	–	–	7,897
Shares issued upon exercise of share options (note 29(iv))	521	(116)	–	–	–	–	405
Final 2009 dividend (note 11)	–	–	–	–	–	(22,329)	(22,329)
Interim 2010 dividend (note 11)	–	–	–	–	–	(26,795)	(26,795)
At 31 December 2010	613,649	23,212	1,180	79,179	287	61,476	778,983

31. Reserves *(continued)*

(b) Company *(continued)*

Notes:

(i) Under the Companies Law (2001 Revision) of the Cayman Islands, the share premium account of the Company is distributable to its shareholders provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as they fall due in the ordinary course of business.

(ii) As at 31 December 2010, in the opinion of the directors, the reserves of the Company available for distribution to shareholders amounted to HK$754,304,000 subject to the restriction stated in note (i) above.

(iii) The contributed surplus of the Company arose as a result of the Group's reorganisation completed on 7 December 2000 in preparation for the listing of the Company's shares, and represents the excess of the combined net assets of the subsidiaries then acquired by the Company, over the nominal value of the share capital of the Company issued in exchange thereof.

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

32. Business Combinations

On 11 August 2009, the Group entered into a sale and purchase agreement to acquire the entire equity interest of Tongda Shanghai, and its subsidiary, 通達電器裝飾件, and its associates, Fuso (HK) and Fuso (Shanghai) and the shareholder's loan of HK$7,005,000 from E-Growth, a company wholly and beneficially owned by Mr. Wang Ya Nan at an aggregate consideration of HK$71,188,000 to be settled in the form of issuance of 296,000,000 shares of the Company as determined with reference to the Company's share price of HK$0.2405 per share at the date of the agreement.

The fair values of the identifiable assets and liabilities of Tongda Shanghai Company Limited as at the date of acquisition and the corresponding carrying amounts immediately before the acquisition were as follows:

	Fair value recognised on acquisition HK$'000	Previous carrying amount HK$'000
Property, plant and equipment	279	279
Investment property	45,880	11,205
Interests in associates	4,688	4,688
Prepayments, deposits and other receivables	120	120
Cash and cash equivalents	293	293
Accrued liabilities and other payables	(3,910)	(3,910)
Due to a related company	(6,150)	(6,150)
Tax payable	(109)	(109)
Shareholder's loan	(7,005)	(7,005)
Deferred tax liabilities	(8,668)	—
Total net assets acquired	25,418	(589)
Goodwill on acquisition (note 16)	31,809	
Shareholder's loan	7,005	
Consideration	64,232	
Satisfied by:		
Issue of shares#	64,232	

Under HKFRS 3, the fair value of the Company's shares was measured at market price of HK$0.2170 per share at the date of exchange, i.e. the completion date of the acquisition on 15 October 2009. Such amount is different from the consideration set out in the agreement of HK$71,188,000, which was estimated based on the market price of the Company's shares of HK$0.2405 per share at the date of agreement on 11 August 2009.

32. Business Combinations *(continued)*

An analysis of the net inflow of cash and cash equivalents in respect of the acquisition of the above subsidiary is as follows:

	HK$'000
Cash consideration	—
Cash and cash equivalents acquired	293
Net inflow of cash and cash equivalents in respect of the acquisition of a subsidiary	293

Since the above acquisition, no material contribution to the Group's revenue and the consolidated profit for the year ended 31 December 2009 was resulted.

Had the combination taken place at the beginning of the year ended 31 December 2009, the revenue of the Group and the profit of the Group for the year ended 31 December 2009 would have been HK$1,800,254,000 and HK$115,053,000 respectively.

33. Contingent Liabilities

At 31 December 2010 the Company had contingent liabilities in respect of corporate guarantees provided for banking facilities for certain subsidiaries, which were utilised to the extent of approximately HK$82,499,000 (2009: HK$54,660,000) at the end of the reporting period.

Save as disclosed above, neither the Group, nor the Company, had any significant contingent liabilities at the end of the reporting period.

34. Operating Lease Arrangements

(a) As lessor

The Group leases its investment properties (note 14 to the financial statements) under operating lease arrangements, with leases negotiated for terms of one to ten years. The terms of the leases generally also require the tenants to pay security deposits and provide for periodic rent adjustments according to the then prevailing market conditions.

34. Operating Lease Arrangements *(continued)*

(a) As lessor *(continued)*

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

	2010 HK$'000	2009 HK$'000
Within one year	**4,279**	2,648
In the second to fifth years, inclusive	**15,741**	1,997
After five years	**24,817**	—
	44,837	4,645

(b) As lessee

The Group leases certain of its use of land under operating lease arrangements which are negotiated for a lease term of 50 years. In addition, the Group leases certain of its offices properties under operating lease arrangements for terms of over five years.

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

	Group	
	2010 HK$'000	2009 HK$'000
Within one year	**10,848**	10,889
In the second to fifth years, inclusive	**17,570**	8,492
After five years	**19,650**	10,230
	48,068	29,611

35. Commitments

In addition to the operating lease commitments set out in note 34(b) above, the Group had the following capital commitments contracted but not provided for at the end of the reporting period:

	Group 2010 HK$'000	Group 2009 HK$'000
Purchases of property, plant and equipment	**36,118**	6,318
Acquisition of an investment classified as available-for-sales investment	**7,800**	—
	43,918	6,318

The Company had no significant commitments at the end of the reporting period (2009: Nil).

36. Related Party Transactions

(a) In addition to the transactions detailed elsewhere in these financial statements, the Group had the following material transactions with related parties during the year:

	Notes	Group 2010 HK$'000	Group 2009 HK$'000
Associates:			
Sales of products	(i)	**3,700**	5,171
Purchases of raw materials and finished goods	(ii)	**456**	1,112
Technology consultancy fee	(iii)	**600**	600
Rental income	(iv)	**867**	1,272
Related companies controlled by directors of the Company:			
Sales of machineries	(v)	**2,318**	—
Rental income	(vi)	**2,791**	568

Notes:

(i) The sales to associates were made according to the terms similar to those offered to the Group's non-related customers.

(ii) The purchases from associates were made according to the terms similar to those offered by the Group's non-related suppliers.

(iii) The technology consultancy fee charged at HK$50,000 (2009: HK$50,000) per month was received from an associate for the provision of technology support provided by the Group.

36. Related Party Transactions *(continued)*

(a) *(continued)*

Notes: *(continued)*

(iv) The rental income received from an associate represented the subleasing of factory premises and staff quarters of the Group located at Shenzhen, the PRC.

(v) The sales of machineries to a related company controlled by directors of the Company were made at cost.

(vi) The rental income which were received from a related company controlled by a director of the Company were charged at a monthly rental of RMB200,000.

The related party transactions in respect of item (vi) above also constitute continuing connected transaction as defined in Chapter 14A or the Listing Rules.

(b) A banking facility of a subsidiary of the Company has been guaranteed to the extent of RMB50,000,000 (equivalent to HK$58,140,000) by a related company controlled by directors of the Company at nil consideration. The banking facility remained unutilised as at 31 December 2010.

(c) On 19 April 2010, an acquisition agreement (the "Agreement") was entered into by the Group with 廈門市國土資源與房產管理局 ("Xiamen Land Bureau") for the acquisition of a piece of land located in Xiamen City, Fujian Province, the PRC (the "Land") at a total cash consideration of RMB63,200,000 (approximately HK$73,488,000),

On 7 May 2010, a joint venture agreement was entered into by the Group with Cloud Ace Limited ("Cloud Ace"), a company incorporated in Hong Kong with limited liability which was wholly and beneficially owned by Mr. Wang Ya Nan, Mr. Wang Ya Hua, Mr. Wong Ah Yu and Mr. Wong Ah Yeung (collectively the "Wong Brothers"), the directors and substantial shareholders of the Company, to form a joint venture company namely Lungta Limited ("Lungta"), with 95% of its equity interests owned by Cloud Ace and the remaining 5% equity interests owned by the Group for the purpose of future development of the Land.

Lungta was established on 29 April 2010; and the Land was transferred to Lungta on 10 December 2010, after the consideration of the Land fully paid and the ownership certificate of the Land obtained on 27 October 2010.

On 24 December 2010, the Group's 5% equity interest in Lungta was disposed of to Cloud Ace at a total consideration of approximately HK$3,892,000, which was determined based on the share of the then carrying value of the Land, resulting in no material gain or loss on disposal.

As Cloud Ace was owned as to 100% by the Wong Brothers, Cloud Ace was a connected person to the Company. Accordingly, the above transactions constituted connected transactions of the Group under the Listing Rules. Further details are set out in the Company's announcement dated 7 May 2010.

36. Related Party Transactions *(continued)*

(d) Outstanding balances with related parties

Details of the Group's balances with its associates, non-controlling shareholders of subsidiaries and the related companies as at the end of the reporting period are disclosed in notes 18 and 26 to the financial statements, respectively.

(e) Compensation of key management personnel of the Group.

	2010 HK$'000	2009 HK$'000
Short term employee benefits	**6,971**	7,296
Post-employment benefits	**213**	198
Share-based payments	**7,290**	5,865
Total compensation paid to key management personnel	**14,474**	13,359

Further details of directors' emoluments are included in note 8 to the financial statements.

37. Notes to Consolidated Statement of Cash Flows

Major non-cash transactions

During the year ended 31 December 2010, the Group has the following major non-cash transactions:

(a) On 26 September 2009, the Group entered into a capital injection agreement to acquire 33% equity interest in Kangxiang at a consideration of approximately HK$6,000,000 and the amount paid has been included as a "long term deposit" as at 31 December 2009. As further disclosed in notes 18 and 21, pursuant to an agreement entered amongst the Group, the former shareholder of Kangxiang and Kangxiang on 26 October 2010, the consideration of the acquisition was revised to approximately HK$5,479,000 for the acquisition of 34.9% equity interest in Kangxiang and the remaining balance of approximately HK$521,000 was transferred to offset against the payable to Kangxiang.

(b) During the year, deposits for the acquisition of property, plant and equipment of HK$5,412,000 were transferred to property, plant and equipment upon acceptance by and delivery to the Group (note 21).

38. Financial Instruments By Category

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

2010

Group

Financial assets

	Available-for-sale financial asset HK$'000	Loans and receivables HK$'000	Total HK$'000
Available-for-sale investment	8,061	—	8,061
Due from associates (note 18)	—	8,644	8,644
Trade and bills receivables	—	1,019,725	1,019,725
Financial assets included in prepayments, deposits and other receivables	—	53,747	53,747
Pledged deposits	—	39,109	39,109
Restricted bank balances	—	5,199	5,199
Cash and cash equivalents	—	183,698	183,698
	8,061	1,310,122	1,318,183

Financial liabilities

	Financial liabilities at amortised cost HK$'000
Trade and bills payables	655,883
Financial liabilities included in accrued liabilities and other payables	87,502
Interest-bearing bank borrowings	452,142
Amounts due to non-controlling shareholders of subsidiaries	189
Due to related companies	1,862
Loan from a non-controlling shareholder of a subsidiary	7,331
	1,204,909

38. Financial Instruments By Category *(continued)*

2009

Group

Financial assets

	Loans and receivables HK$'000
Due from associates (note 18)	12,673
Trade and bills receivables	630,636
Financial assets included in prepayments, deposits and other receivables	42,192
Pledged deposits	20,242
Cash and cash equivalents	225,808
	931,551

Financial liabilities

	Financial liabilities at amortised cost HK$'000
Trade and bills payables	411,305
Financial liabilities included in accrued liabilities and other payables	83,170
Interest-bearing bank borrowings	347,320
Due to non-controlling shareholders of subsidiaries	665
Due to related companies	9,993
	852,453

38. Financial Instruments By Category *(continued)*

2009 *(continued)*

Company

Financial assets

	2010 Loans and receivables HK$'000	2009 Loans and receivables HK$'000
Due from subsidiaries	**878,644**	951,544
Financial assets included in prepayments, deposits and other receivables	**628**	557
Cash and cash equivalents	**19,437**	70
	898,709	952,171

Financial liabilities

	2010 Financial liabilities at amortised cost HK$'000	2009 Financial liabilities at amortised cost HK$'000
Due to a subsidiary	**–**	54,992
Interest-bearing bank borrowings	**268,694**	296,919
	268,694	351,911

39. Financial Risk Management Objectives and Policies

The Group's principal financial instruments, comprise interest-bearing bank loans and cash and short term deposits. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations.

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

The main risks arising from the Group's financial instruments are interest rate risk, commodity price risk, foreign currency risk, credit risk and liquidity risk. The board of directors reviews and agrees policies for managing each of these risks and they are summarised below.

39. Financial Risk Management Objectives and Policies *(continued)*

Interest rate risk

The interest rates of the interest-bearing bank borrowings of the Group are disclosed in note 27 to the financial statements.

The following table demonstrates the sensitivity to a reasonably possible change in Hong Kong dollar interest rates, with all other variables held constant, of the Group's profit after tax and equity through the impact on floating rate borrowings and the Group's and the Company's equity.

	Group		Company
	Increase/ (decrease) in percentage points	Increase/ (decrease) in profit after tax and equity HK$'000	Increase/ (decrease) in profit after tax in equity HK$'000
2010			
Hong Kong dollar	**0.5%**	**(1,899)**	**(1,122)**
Hong Kong dollar	**(0.5%)**	**1,899**	**1,122**
2009			
Hong Kong dollar	0.5%	(1,454)	(1,240)
Hong Kong dollar	(0.5%)	1,454	1,240

Commodity price risk

The major raw materials used in the production of the Group's products included plastic materials and aluminium. The Group is exposed to fluctuations in the prices of these raw materials which are influenced by global as well as regional supply and demand conditions. Fluctuations in the prices of raw materials could adversely affect the Group's financial performance. The Group has not historically entered into any commodity derivative instruments to hedge the potential commodity price changes.

Foreign currency risk

The Group carries on its trading transactions mainly in Hong Kong dollar, United States dollar and RMB. As the foreign currency risks generated from the sales and purchases can be set off with each other, the foreign currency risk is minimal for the Group. It is the policy of the Group to continue maintaining the balance of its sales and purchases in the same currency.

39. Financial Risk Management Objectives and Policies *(continued)*

Foreign currency risk *(continued)*

Given that the Hong Kong dollar is pegged to the United States dollar, the Group does not have a foreign currency hedging policy on it. Considering the appreciation of RMB, the Group will maintain a comparatively higher level of Hong Kong dollar borrowings than that of RMB borrowings to minimise the possible currency risk arising therefrom.

The Group has entered into foreign exchange derivative transactions to manage the foreign currency risk arising from the Group's operations. Moreover, the majority of the Group's operating assets are located in the Mainland China and denominated in RMB. As the Group's net profit is reported in Hong Kong dollars, there will be a translation gain as a result of the RMB appreciation.

The following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in the Hong Kong dollar and RMB exchange rate, with all other variables held constant, of the Group's net profit.

	Increase/ (decrease) in RMB rate %	Increase/ (decrease) in the Group's net profit HK$'000
2010		
If Hong Kong dollar weakens against RMB	**5**	**33,794**
If Hong Kong dollar strengthens against RMB	**(5)**	**(33,794)**
2009		
If Hong Kong dollar weakens against RMB	5	46,062
If Hong Kong dollar strengthens against RMB	(5)	(46,062)

Credit risk

The credit risk of the Group's other financial assets, which comprise pledged deposits, restricted bank balances, cash and cash equivalents, amounts due from associates and other receivables, arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments.

The Group trades only with recognised and creditworthy customers. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and on an individual basis. Each of the customers has been attached with a trading limit and any excess to the limit must be approved by the general manager of the operation unit.

39. Financial Risk Management Objectives and Policies *(continued)*

Liquidity risk

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of banking loans and other banking facilities such as trust receipt loans.

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

Group

	2010				
	On demand HK$'000	Less than 3 months HK$'000	3 to less than 12 months HK$'000	1 to 5 years HK$'000	Total HK$'000
Trade and bills payables	—	655,883	—	—	655,883
Other payables	87,502	—	—	—	87,502
Interest-bearing bank borrowings	—	123,099	162,752	174,094	459,945
Loan and amount due to a non-controlling shareholder of a subsidiary	—	—	—	7,331	7,331
Due to non-controlling shareholders of subsidiaries	189	—	—	—	189
Due to related companies	1,862	—	—	—	1,862
	89,553	778,982	162,752	181,425	1,212,712

	2009				
	On demand HK$'000	Less than 3 months HK$'000	3 to less than 12 months HK$'000	1 to 5 years HK$'000	Total HK$'000
Trade and bills payables	—	386,884	24,421	—	411,305
Other payables	83,170	—	—	—	83,170
Interest-bearing bank borrowings	—	61,221	187,005	99,094	347,320
Due to non-controlling shareholders of subsidiaries	665	—	—	—	665
Due to related companies	9,993	—	—	—	9,993
	93,828	448,105	211,426	99,094	852,453

39. Financial Risk Management Objectives and Policies *(continued)*

Liquidity risk *(continued)*

Company

	2010				
	On demand HK$'000	Less than 3 months HK$'000	3 to less than 12 months HK$'000	1 to 5 years HK$'000	Total HK$'000
Interest-bearing bank borrowings	—	49,561	49,892	174,094	273,547
Guarantees given to banks in connection with facilities granted to subsidiaries	—	46,543	35,956	—	82,499
	—	96,104	85,848	174,094	356,046

	2009				
	On demand HK$'000	Less than 3 months HK$'000	3 to less than 12 months HK$'000	1 to 5 years HK$'000	Total HK$'000
Interest-bearing bank borrowings	—	49,456	148,369	99,094	296,919
Due to a subsidiary	54,992	—	—	—	54,992
Guarantees given to banks in connection with facilities granted to subsidiaries	—	53,513	1,147	—	54,660
	54,992	102,969	149,516	99,094	406,571

Capital management

The Group manages its capital to ensure that the Group will be able to continue as a going concern while maximising the return to the equity holders through the optimisation of the debt and equity balance.

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

39. Financial Risk Management Objectives and Policies *(continued)*

Capital management *(continued)*

The gearing ratios defined as the net debt over equity plus net debt as at the ends of the reporting periods were as follows:

	Group 2010 HK$'000	2009 HK$'000
Trade and bills payables	**655,883**	411,305
Accrued liabilities and other payables	**92,079**	81,105
Interest-bearing bank borrowings	**452,142**	347,320
Due to related companies	**1,862**	9,993
Amounts due to non-controlling shareholders of subsidiaries	**189**	665
Loan from a non-controlling shareholder of a subsidiary	**7,331**	—
Less: Cash and cash equivalents	**(183,698)**	(225,808)
Net debt	**1,025,788**	624,580
Equity attributable to owners of the Company	**1,615,996**	1,333,523
Equity plus net debt	**2,641,784**	1,958,103
Gearing ratio	**39%**	32%

40. Comparative Amounts

Certain comparative amounts have been reclassified to conform with the current year's presentation.

41. Approval of the Financial Statements

The financial statements were approved and authorised for issue by the board of directors on 16 March 2011.