中昱科技集團有限公司

# Sunrise (China) Technology Group Limited

(Incorporated in the Cayman Islands with limited liability)

Stock Code : 8226

# Annual Report 2010

**CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET ("GEM") OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE "STOCK EXCHANGE")**

**GEM has been positioned as a market designed to accommodate companies to which a high investment risk may be attached than other companies listed on the Stock Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.**

**Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board of the Stock Exchange and no assurance is given that there will be a liquid market in the securities traded on GEM.**

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*This report, for which the directors (the "Directors") of Sunrise (China) Technology Group Limited (the "Company") collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the GEM of the Stock Exchange (the "GEM Listing Rules") for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this report is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this report misleading.*

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# CORPORATE INFORMATION

## *DIRECTORS*

**Executive Directors**

Mr. Shan Xiaochang *(Board Chairman and Chief Executive Officer)*
Ms. Shan Zhuojun
Mr. Ma Arthur On-hing
Mr. Yang Ching Yau

**Independent Non-executive Directors**

Mr. Lee Kam Fan, Andrew
Mr. Wang Jialian
Mr. Wang Zhihua

## *COMPANY SECRETARY*

Mr. Chan Chi Hung

## *AUDIT COMMITTEE*

Mr. Lee Kam Fan, Andrew *(Committee's Chairman)*
Mr. Wang Jialian
Mr. Wang Zhihua

## *NOMINATION COMMITTEE*

Mr. Shan Xiaochang *(Committee's Chairman)*
Mr. Lee Kam Fan, Andrew
Mr. Wang Jialian

## *REMUNERATION COMMITTEE*

Mr. Shan Xiaochang *(Committee's Chairman)*
Mr. Lee Kam Fan, Andrew
Mr. Wang Zhihua

## *AUTHORISED REPRESENTATIVES*

Mr. Shan Xiaochang
Mr. Chan Chi Hung

## *REGISTERED OFFICE*

Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman, KY1-1111
Cayman Islands

## *HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS*

Units 01-03, 28th Floor
Shui On Centre
6-8 Harbour Road
Wan Chai, Hong Kong

## *COMPLIANCE OFFICER*

Mr. Shan Xiaochang

## *PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE*

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

## *HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE*

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

## *AUDITOR*

BDO Limited

## *PRINCIPAL BANKERS*

Hang Seng Bank Limited
Bank of China (Hong Kong) Limited

## *LISTING INFORMATION*

The Growth Enterprise Market of the Stock of Exchange of Hong Kong Limited
Stock code: 8226

## *COMPANY'S WEBSITE*

www.sunrisechina-tech.com

# FIVE YEARS FINANCIAL SUMMARY

The following is a summary of the published consolidated statement of comprehensive income and consolidated statement of financial position of the Group:

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

| | 2006<br>HK$'000 | 2007<br>HK$'000 | 2008<br>HK$'000 | 2009<br>HK$'000 | **2010**<br>**HK$'000** |
|---|---|---|---|---|---|
| Turnover | 369,302 | 429,972 | 389,131 | 434,766 | **653,722** |
| Cost of sales | (306,103) | (353,702) | (328,764) | (336,876) | **(490,797)** |
| Gross profit | 63,199 | 76,270 | 60,367 | 97,890 | **162,925** |
| Other revenue, gains and losses | 4,805 | 2,695 | 10,104 | (433) | **(63,703)** |
| Selling and marketing costs | (15,403) | (16,434) | (13,721) | (13,051) | **(18,185)** |
| Administrative expenses | (34,024) | (50,929) | (64,186) | (60,337) | **(115,809)** |
| Finance costs | (6,711) | (11,100) | (11,808) | (10,178) | **(10,182)** |
| Profit/(loss) before income tax expense | 11,866 | 502 | (19,244) | 13,891 | **(44,954)** |
| Income tax expense | (3,156) | 1,704 | (1,549) | (947) | **(10,207)** |
| Profit/(loss) after income tax expense | 8,710 | 2,206 | (20,793) | 12,944 | **(55,161)** |
| Non-controlling interests | (5,108) | (3,940) | 6,373 | (16,157) | **(22,746)** |
| Profit/(loss) attributable to owners of the Company | 3,602 | (1,734) | (14,420) | (3,213) | **(77,907)** |

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

| | 2006<br>HK$'000 | 2007<br>HK$'000 | 2008<br>HK$'000 | 2009<br>HK$'000 | **2010**<br>**HK$'000** |
|---|---|---|---|---|---|
| Total assets | 362,940 | 424,974 | 421,659 | 534,066 | **639,741** |
| Total liabilities | (214,726) | (258,037) | (260,304) | (352,754) | **(361,463)** |
| Total assets less total liabilities | 148,214 | 166,937 | 161,355 | 181,312 | **278,278** |
| Non-controlling interests | (63,358) | (74,671) | (80,769) | (98,817) | **(127,108)** |
| Equity attributable to owners of the Company | 84,856 | 92,266 | 80,586 | 82,495 | **151,170** |

# CHAIRMAN'S STATEMENT

During the year of 2010, Sunrise (China) Technology Group Limited (together with its subsidiaries, the "Group") has actively sought new opportunities to respond to challenges arising from the global economic conditions. The Company has responded favourably to the increasing difficulties and pressure to realise sustainable profit growth and return for shareholder. On behalf of the board (the "Board") of the Directors, I am pleased to present the annual report of the Group for the year ended 31 December 2010.

## *THE YEAR UNDER REVIEW*

For the past year, the Chinese economy has continued to rise on the huge lending spur from the Chinese government, helping it to recover rapidly from the global financial crisis. At the same time, the spurt in lending gave rise to spiking commodity and raw material prices, exerting cost pressure on downstream industries, such as manufacturing industries. The Group has benefited from its historically prudent financial cost system, marking an increase in overall gross margin to 24.9% from 22.5%. Sentiment continued to favour consumer sectors in China, with the full year GDP growing to 10.3% in the year 2010, and with retail sales growth reaching 19.1% in December 2010. The revival in the global economy and robust economic conditions in China enabled the Group to boost revenue by 50.3% to approximately HK$653.7 million in 2010 from HK$434.8 million in 2009. Improved turnover in 2010 can mainly be attributable to the Group's adherence to quality products, enhanced distribution channels and wider geographic coverage in China. As at the end of the 2010 financial year, operations in Mainland China have contributed to the lion's share of the Group's turnover, of approximately 89.9%.

In efforts to further streamline costs and its business operations, the Company disposed of its Canadian-based subsidiaries (the "Indigo Group"), which has been loss-making for the past two financial years. The Indigo Group is principally engaged in the provision of design, development and marketing of home and automobile audio products in the North American, European and Asian markets. In view of the unsatisfactory results of operation in the past, the decision to dispose of the Indigo Group ensued. The Board believes that the aforementioned transaction will enable the Company to cease inefficient operations and realign its resources to its core business.

The Company incurred a net loss for the financial year ended 31 December 2010. The loss was primarily attributable to the loss recognition of fair value change of convertible bonds embedded derivatives and issuance of share options at their respective fair values. The expenses were non-cash in nature and did not have any impact on the operating cash flows of the Group.

## *LOOKING AHEAD*

The Chinese government has issued initiatives in the guidelines to the 12th Five Year Plan, with an economic development model focusing on environmental protection. Looking ahead, the Chinese government will continue to work towards establishing a low carbon, low energy consumption, and low pollution society, and has guided to nurture energy conservation and environmental protection industries.

In light of the increasingly sanguine market conditions for environmental protection industry and the Company's strategy to seek sustainable business opportunities, the Company announced acquisitions of Confident Echo Holdings Limited and its subsidiaries (the "Shengyi Environmental Group") and Time Pro International Company Limited ("Time Pro"), two groups of companies respectively engaged in environmental protection businesses in China and Thailand. The Board believes that such new businesses will be earnings accreditive and be in the best interests of shareholders of the Company.

Looking forward to 2011, I believe there will be substantial opportunities in the new business segments. The Company will continue to commit to a prudent business approach while seeking rewards for the shareholders of the Company. The Group will ride on the accelerating support from the governments worldwide in the environmental protection sector and strive to build a solid foundation with green businesses as its core.

# CHAIRMAN'S STATEMENT

Firstly, through entering the sale and purchase agreement to acquire the Shengyi Environmental Group, the Group will embark on its initial venture in the desulphurisation business. The Group intends to seek continual geographic expansion of the environmental protection business in China, leveraging on the existing networks and proven technology of the Shengyi Environmental Group. The Shengyi Environmental Group excels in the areas of desulphurisation, which are of particular emphasis for toxin-emitting industries, such as coal chemical processing. There have been marked efforts by governments worldwide to address air pollution problems of late, with China making new headway by plans to adopt a stricter emission standard level in line with developed countries. For energy sectors, the issue is ever pressing, given large global energy demand. The Company expects to realise huge potential by tapping sub-standard energy generation units in China.

Secondly, the Group's strength in environmental protection technologies and services will be further fortified by the sale and purchase agreement to acquire Time Pro, which would be mainly involved in sustainable heat generation in Thailand. The Group expects that the completion and consolidation of the two groups will provide synergistic benefits to the long term development of the Group in China and Thailand, such as through any technology transfers.

Last but not least, the Group will maintain its persistent pursuit of high quality and standards of its products and services to provide for a better environment globally. The Group believes that there are substantial opportunities to be realised in the global market for environmental protection, and seeks to further roll out projects overseas upon solidifying its base in domestic markets.

The Group will continue to monitor, assess and actively procure suitable opportunities that are a strategic fit with the Company's core business. In the meantime, the Group will continue to streamline core business operations, prudently manage risks arising from internal and macroeconomic conditions, and focus its resources in its principal businesses.

## *APPRECIATION*

On behalf of the Board and management, I would like to express gratitude to the Group's staff for their unwavering dedication and hard work during the year. I would also like to extend my thanks to shareholders, investors, and business partners who have supported the Company throughout its ups and downs.

**Shan Xiaochang**
*Chairman*

Hong Kong, 23 March 2011

# MANAGEMENT DISCUSSION AND ANALYSIS

## *FINANCIAL REVIEW*

During the year under review, businesses of the Group continued to record healthy growth in its sales and gross profit ratio. However, a loss was recorded for the Group due to the effect of one-time non-cash items.

Sales of loudspeaker systems from continuing operations increased by 58.4% to approximately HK$587.6 million for the year ended 31 December 2010 (2009: HK$370.9 million). The increase in overall sales is primarily attributable to the continual growth of the automobile market. Sales of loudspeaker systems for automobiles increased by 59.6% to approximately HK$565.2 million (2009: HK$354.2 million), while sales of loudspeakers systems for home theatres increased by 34.1% to approximately HK$22.4 million (2009: HK$16.7 million).

Improving performance of the Group was also marked by an increase in the gross profit ratio from continuing operations to 25.9% for the year ended 31 December 2010, from 24.7% in the previous financial year. The margin expansion was a result of increased sales and prudent cost control amidst volatility in raw material costs.

The Group recorded a loss of HK$55.2 million for the financial year ended 31 December 2010, compared with a profit of HK$12.9 million for the previous financial year. The loss primarily arose from the loss recognition of fair value change of convertible bonds embedded derivatives and the issuance of share options at their respective fair values in accordance with the Hong Kong Accounting Standard 39 – "Financial Instruments: Recognition and Measurement" and the Hong Kong Financial Reporting Standard 2 – "Share-based Payment" respectively by the Company during the year ended 31 December 2010, which resulted in non-cash expenses of HK$83.1 million and HK$11.2 million respectively. The Group continues to maintain sufficient working capital to meet its operating needs. During the year, all convertible bonds were converted by the bondholder into 96,875,000 new ordinary shares of the Company in total at a conversion price of HK$0.40 per ordinary share.

## *BUSINESS REVIEW*

During the year under review, the Group continued to strengthen its core business and streamline group operations in the manufacturing and sale of quality and high performance loudspeaker systems to consumer electronics companies and leading global automobiles, including Ford Motor Company, Volkswagen and Audi.

On the back of improving economic conditions and global consumer appetite, the Group recorded an improvement in turnover of 58.4% from continuing operations to approximately HK$587.6 million for the year ended 31 December 2010 (2009: HK$370.9 million).

Mainland China remains the dominant market for the Group's turnover, contributing to 46% of the Group's turnover from continuing operations for the year ended 31 December 2010 (2009: 50%). The Group has secured a position as a leading loudspeaker manufacturer in China with its steadfast business relationships with leading automobile players, including Shanghai General Motors and Shanghai Volkswagen.

While maintaining its leading position in loudspeaker manufacturing in China, the Group has disposed of the Indigo Group, in efforts to streamline its operations and improve operational efficiency. The Indigo Group is primarily engaged in the provision of design, development and marketing of home and automobile audio products in the North American, European and Asian markets, and has been loss-making for the past two years. The mentioned transaction will enable the Group to cease inefficient operations and allocate resources to other operations.

# MANAGEMENT DISCUSSION AND ANALYSIS

## *PROSPECTS*

2010 has been a year fraught with opportunities and risks. Riding on the rapidly recuperating global economy and improving sentiment in consumer spending, the Group is positive on the prospects of the loudspeaker business and the environmental protection business.

### Acquisition of environmental protection business

To strengthen and diversify the Group's revenue base, and in light of the arising opportunities in environmental protection infrastructure in Asia Pacific, the Group announced acquisitions of the Shengyi Environmental Group and Time Pro, two groups of companies primarily involved in desulphurisation and sustainable heat generation in China and Thailand respectively in January 2011.

The Board believes that the environmental protection sector carries immense growth potential and it is sanguine about the future prospects of the businesses and that the businesses will be value accretive to the Group. The Shengyi Environmental Group has established operations in desulphurisation in China with a reputation for quality equipment and services. The Company would use Time Pro to conduct negotiations with regards to investments in certain heat generation projects in Thailand. It is anticipated that with the insight and experience of the acquired companies, the Group will be able to build a dedicated platform in environmental protection in the Asia Pacific and emerge as a key player.

### Loudspeaker business

For the coming year, the Group looks to prudently expand and solidify its leading position in the loudspeaker manufacturing space in China to ensure quality products and ride on the sustained growth of automobile sales in China.

The Board believes that sustained demand in automobiles will continue to support demand for the Group's products. Automobile sales in China heightened to a record high of approximately 18 million units in 2010. Given the government's support in the sector, rising income levels, and low car ownership in inland regions, the Group is expected to continue to benefit from buoyant car sales. However, the Board anticipates more modest growth in the coming year as inflation and rising fuel prices erode consumer sentiment in the sector.

In view of the favourable environment, the Group will continue to strengthen its management team, commit to developing new products to diversify the product portfolio, and continue to rationalise costs and improve efficiency.

## *LIQUIDITY, FINANCIAL RESOURCES AND TREASURY POLICIES*

For the year ended 31 December 2010, the Group's major business operations took place in China and Canada, financed mainly by the cash revenue generated from operating activities and by corporate borrowings. As at 31 December 2010, the Group had cash and bank balances together with restricted and pledged bank deposits of approximately HK$86,788,000 (2009: HK$64,794,000). The Group's current ratio stood at 1.15 at 31 December 2010 (2009: 0.99). The increase in cash and bank deposits was primarily attributable to the profit generated from operating activities and net proceeds from disposal of the Indigo Group and Taraki Services Company Limited ("Taraki Services"), subsidiaries of the Company during the year under review. As at 31 December 2010, the Group had short-term bank loans of approximately HK$80,287,000 (2009: HK$83,635,000) bearing interest rates ranging from 5.31% to 6.12% per annum with repayment within a year, while did not have any bank overdrafts (2009: HK$9,622,000).

The Group adopts conservative treasury policies in managing its cash and financial matters, with all the Group's treasury activities carried out in Mainland China and Hong Kong. Currently, cash and bank deposits are placed in interest-bearing bank accounts denominated in Hong Kong dollars ("HKD"), Renminbi ("RMB") and U.S. dollars ("USD"). The Group's liquidity and financial arrangements are reviewed regularly by the Board and senior management.

# MANAGEMENT DISCUSSION AND ANALYSIS

## *CAPITAL COMMITMENT AND CONTINGENT LIABILITIES*

As at 31 December 2010, the Group has a capital commitment of approximately HK$74,285,000 (2009: HK$10,284,000) in respect of the acquisition of property, plant and equipment and non-cancellable operating lease commitments of approximately HK$4,285,000 (2009: HK$2,654,000).

As at 31 December 2010, the Group did not have any significant contingent liabilities.

## *FOREIGN EXCHANGE RISK*

The Group's bank borrowings were principally denominated in RMB and USD, whilst receipts and expenditures of the Group were principally denominated in RMB, USD, HKD and Euro ("EUR") during the year. The Group is subject to foreign exchange exposure in USD and EUR.

However, the Group was able to partially mitigate the foreign exchange impact by entering sales transactions with overseas customers denominated in RMB and entering purchase contracts with overseas suppliers in USD. The Directors and senior management will continue to closely monitor the exchange risks and engage in appropriate hedging solutions when necessary.

## *BANKING FACILITIES AND PLEDGE OF ASSETS*

The Group had aggregate banking facilities of approximately HK$112,167,000 for loan financing as at 31 December 2010. Unused bank facilities as at the same date amounted to approximately HK$22,628,000 (2009: HK$9,806,000). These facilities were secured by pledges over prepaid lease payments, buildings and investment properties of the Group.

## *DIVIDENDS*

The Directors do not recommend the payment of a final dividend for the year ended 31 December 2010.

## *EMPLOYEES*

### Number of employees

A breakdown of the number of employees of the Group by function as at 31 December 2010 and 2009 is set out below:

| | **2010** | 2009 |
|---|---|---|
| Management and administration | **114** | 98 |
| Sales and marketing | **82** | 63 |
| Manufacturing and operations | **1,695** | 1,509 |
| Research and development | **44** | 55 |
| Quality assurance and quality control | **160** | 132 |
| Finance and accounting | **12** | 13 |
| Total | **2,107** | 1,870 |

# MANAGEMENT DISCUSSION AND ANALYSIS

**Remuneration of employees and policies**

The Group believes that its staff is one of the Group's most important assets. Aiming at providing competitive salary packages, the Group adjusts employees' salary level in close association with the performance, qualifications and experience of individual staff as well as labour market conditions. In addition to the regular remuneration, discretionary bonus and share options may be awarded to eligible employees with reference to individual performance and the Group's business performance.

The Group enjoys good relations with staff and has not experienced any disruption of operations due to major labour disputes. In addition to the remuneration as mentioned above, the Group also provides fringe benefits which comply with the relevant laws and regulations of the Mainland China, Hong Kong and Canada in relation thereto including contributions to society security scheme of the Mainland China, the Mandatory Provident Fund Scheme of Hong Kong and the Canadian Pension Plan of Canada.

Total employee benefit expense incurred for the year ended 31 December 2010 amounted to approximately HK$118,829,000 (2009: HK$75,870,000). The Directors had received remuneration of approximately HK$1,086,000 (2009: HK$613,000) during the year ended 31 December 2010.

**Training schemes**

The Group is committed to providing on-going training to staff members to equip them for future career development. For technical and marketing staff, the Group provided various training programmes for its employees to keep them abreast of the latest market trends and new technologies of loudspeaker systems, and also to enhance their knowledge on the latest international quality standards. For management staff, the group offered various training programmes aimed at enhancing their management skill set and marketing capabilities.

# DIRECTORS AND SENIOR MANAGEMENT PROFILES

## *EXECUTIVE DIRECTORS*

**Mr. Shan Xiaochang**, aged 46, is the executive Director, the chairman (the "Chairman") and the chief executive officer (the "Chief Executive Officer") of the Company. He is an entrepreneur in the People's Republic of China (the "PRC") with over 15 years of experience in corporate finance, operation and cashflow management and research and development. He also held senior positions in various private companies engaged in agriculture, environmental protection and chemical fertilizers in the PRC.

**Ms. Shan Zhuojun**, aged 34, is the executive Director. She has obtained her bachelor degree in North China University of Technology with a major at Accounting and Audit. She has 15 years of experience in accounting and financial management. She is currently a financial controller of a PRC private company principally engaged in environmental protection and chemical fertilizers business.

**Mr. Ma Arthur On-hing**, aged 42, is the executive Director. He has over 16 years of experience in investment, fund management and financial management. He is a member of the American Institute of Certified Public Accountants and is a US Certified Public Accountant. He obtained his bachelor degree in Accounting and Finance from San Francisco of State University, a master degree in Finance from Golden Gate University, and a master degree in Linguistics from Chinese University of Hong Kong.

**Mr. Yang Ching Yau**, aged 41, is the executive Director. He has over 19 years of experience in the sales, engineering, marketing and manufacturing of louderspeaker systems. He is responsible for the sales and marketing, as well as operations of the loudspeaker business of the Group.

## *INDEPENDENT NON-EXECUTIVE DIRECTORS*

**Mr. Lee Kam Fan**, **Andrew**, aged 49, is the independent non-executive Director. He has an experience of over 28 years in account and finance, and is an associate member of Tax Institute of Hong Kong, Certified Public Accountant (Practising) of Hong Kong Institute of Certified Public Accountants (the "HKICPA") and associate member of Association of International Accountants. He obtained his bachelor degree of Business Administration in the Open University of Hong Kong and his master degree of Professional Accounting in Hong Kong Polytechnic University.

**Mr. Wang Jialian**, aged 59, is the independent non-executive Director. Mr. Wang Jialian has worked in Tiajian Academy of Environmental Sciences for more than 30 years and mainly focused on researches relating to environmental protection and technical treatment for water pollution. He has been appointed as a consultant by various governmental authorities in the PRC focusing on environmental protection. He has obtained his bachelor degree of Chemistry in Nankai University in the PRC.

**Mr. Wang Zhihua**, aged 66, is the independent non-executive Director. Mr. Wang Zhihua graduated from Beijing University of Chemical Technology (previously named as Beijing College of Chemical Technology (北京化工學院)) with a major in Inorganic Chemistry, and has solid experience and expertise in device installation of chemical fertilizers.

# DIRECTORS AND SENIOR MANAGEMENT PROFILES

## *SENIOR MANAGEMENT*

**Mr. Zhou Jian Ming**, aged 53, is the general manager of subsidiaries in Mainland China. He is responsible for the general administration of all subsidiaries in Mainland China. He obtained a master's degree in business administration from Nanjing University in Mainland China. He has extensive experience in enterprise management and has over 18 years of experience in the production management of loudspeaker systems. Mr. Zhou had worked for Wuxian Radio Components First Factory (吳縣無綫電元件一廠) and was responsible for corporate administration works. Currently, he is also involved in the sales and marketing activities in Mainland China and overseas.

**Mr. Pan Hui Hua**, aged 55, is the production manager and assistant general manager of subsidiaries in Mainland China. Mr. Pan joined the Group in 1994 and is responsible for the production of loudspeaker systems. He has over 21 years of experience in the development and production of loudspeaker systems. Mr. Pan had worked for Likou Town Government Industrial Co. ("LTGIC") (蠡口鎮政府工業總公司) as manager and was responsible for monitoring the operations of factories under the control of LTGIC.

**Mr. Chan Chi Hung**, aged 35, is the chief financial officer and the company secretary of the Group. Mr. Chan is responsible for the overall financial and accounting management of the Group. Mr. Chan holds a bachelor degree in Business Administration in Accounting from The Hong Kong University of Science and Technology in 1997. He is a member of the HKICPA and a fellow member of the Association of Chartered Certified Accountants. Mr. Chan has over 13 years of experience in auditing and accounting areas and worked for a private and a listed company at management level before joining the Group.

# CORPORATE GOVERNANCE REPORT

## *INTRODUCTION*

The Board and senior management are committed to maintaining a high standard of corporate governance practices with a view to enhancing the management efficiency of the Company as well as preserving the interests of the shareholders. The Board believes that high standards of corporate governance provide a framework and solid foundation for achieving, attracting and retaining the high standard and quality of the Group's management, promoting high standards of accountability and transparency and meeting the expectations of all of the Group's various stakeholders.

The Board is of the view that the Company has complied with all the code provisions as set out in the Code on Corporate Governance Practices (the "CG Code") to the Appendix 15 of the GEM Listing Rules throughout the year ended 31 December 2010, except for certain deviations as explained below. The Board will review the current practices at least annually, and make appropriate changes if considered necessary.

## *DIRECTORS' SECURITIES TRANSACTIONS*

The Company has adopted a code of conduct regarding securities transactions by the Directors on terms no less exacting than the required standard of dealing as set out in rules 5.48 to 5.67 of the GEM Listing Rules throughout the year ended 31 December 2010. Having made specific enquiry of all Directors, the Directors have complied such code of conduct and the required standard of dealings concerning securities transactions by the Directors throughout the year ended 31 December 2010.

## *BOARD OF DIRECTORS*

The Board is collectively responsible for the oversight of the management of the Company's business and affairs of the organisation with the objective of enhancing shareholder value. The Board approves and monitors the Group's business strategies and policies. The Board is also responsible to the shareholders of the Company for overseeing the Group's overall business, strategic decisions and directions, annual budget, and other major corporate matters. Besides, the Board delegated the management team with the authority and responsibility for the daily operations and administration of the Group.

As at 31 December 2010, the Board comprised four executive Directors namely Mr. Shan Xiaochang, Ms. Shan Zhuojun, Mr. Ma Arthur On-hing and Mr. Yang Ching Yau; and three independent non-executive Directors namely Mr. Lee Kam Fan, Andrew, Mr. Wang Jialian and Mr. Wang Zhihua. Biographical details of the Directors referred to page 10 of this annual report.

Board meeting is held at least four times a year and as when required by the Chairman and the Chief Executive Officer. In addition, the Directors have full access to information on the Group and independent professional advice whenever deemed necessary by the Directors.

# CORPORATE GOVERNANCE REPORT

The Board held 17 meetings during the year ended 31 December 2010. The attendance record of each Director is as follows:

| | Number of meetings attended/eligible to attend |
|---|---|
| **Executive Directors:** | |
| Mr. Shan Xiaochang[1] | 7/7 |
| Ms. Shan Zhuojun[1] | 1/7 |
| Mr. Ma Arthur On-hing[1] | 7/7 |
| Mr. Yang Ching Yau | 11/17 |
| Mr. Yang Tsu Ying[2] | 10/10 |
| **Independent non-executive Directors:** | |
| Mr. Lee Kam Fan, Andrew[1] | 1/7 |
| Mr. Wang Jialian[1] | 1/7 |
| Mr. Wang Zhihua[1] | 1/7 |
| Mr. Yiu Chi Wah[2] | 9/10 |
| Mr. Fan Chi Fai, Paul[2] | 7/10 |
| Mr. Lee Fang Yu[2] | 9/10 |

1. Appointed on 11 September 2010
2. Resigned on 11 September 2010

The Chairman is responsible for providing leadership to, and overseeing, the functioning of the Board to ensure that the Board acts in the best interests of the Group so that Board meetings are planned and conducted effectively. The Chairman is primarily responsible for approving the agenda for each Board meeting, taking into account, where appropriate, matters proposed by other Directors for inclusion in the agenda. With the company secretary of the Company, the Chairman seeks to ensure that all Directors are properly briefed on issues arising at the Board meetings and receive adequate and reliable information in a timely manner. The Chairman also encourages Directors to be fully engaged in the Board's affairs and make contribution to the Board's functions. The Board have adopted good corporate governance practices and procedures and taken appropriate steps to provide effective communication with shareholders.

Save for the Chairman, all Directors are subject to re-election by shareholders at the annual general meeting following their appointment. At each annual general meeting one-third of the Directors for the time being, or, if their number is not three or a multiple of three, then the number nearest to but not less than one-third, shall retire from office by rotation provided that every Director, including those appointed for a specific term, shall be subject to retirement by rotation at least once every three years. A retiring Director shall be eligible for re-election. The Company at the general meeting at which a Director retires may fill the vacated office. The Directors to retire by rotation shall include (so far as necessary to obtain the number required) any Director who wishes to retire and not to offer himself for re-election. Any further Directors so to retire shall be those who have been longest in office since their last re-election or appointment and so that as between persons who became or were last re-elected Directors on the same day those to retire shall (unless they otherwise agree among themselves) be determined by lot.

In compliance with rules 5.05(1) and (2) of the GEM Listing Rules, the Company has appointed three independent non-executive Directors, at least one of whom has appropriate professional qualifications or accounting or related financial management expertise. For a Director to be considered independent, the Board must determine that the Director does not have any direct or indirect material relationship with the Group. In determining the independence of Directors, the Board follows the requirements set out in the GEM Listing Rules.

# CORPORATE GOVERNANCE REPORT

## *CHAIRMAN AND CHIEF EXECUTIVE OFFICER*

The Board is led by the Chairman and the Chief Executive Officer, Mr. Shan Xiaochang, who is responsible for corporate planning, business development strategy and overall direction of the Group. The senior management is responsible for the day-to-day operations of the Group under the leadership of Mr. Shan Xiaochang.

Under Code Provision A.2.1. of the CG Code, the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. Mr. Shan Xiaochang, an executive Director, has served both roles as the Chairman and the Chief Executive Officer since September 2010. In view of the scale and operations of the Company and the fact that daily operations of the Group's business is delegated to the senior executives, the Board is of the view that this has not compromised accountability and independent decision-making. In addition, the audit committee of the Company composed exclusively of independent non-executive Directors and the independent non-executive Directors have free and direct access to the Company's external auditor and independent professional advisors when considered necessary.

## *REMUNERATION OF DIRECTORS*

The remuneration committee of the Company currently comprises one executive Director, namely Mr. Shan Xiaochang, and two independent non-executive Directors, namely Mr. Lee Kam Fan, Andrew and Mr. Wang Jialian. Mr. Shan Xiaochang is the chairman of the remuneration committee. The principal responsibilities of the remuneration committee include the formulation of the Company's remuneration policy, the approval or recommendation of remuneration packages for the Directors and senior management, and the review and approval of remuneration by reference to the performance of the individual and the Company as well as market practice and conditions.

One meeting of the remuneration committee has been held during the year. All members of the remuneration committee attended the meeting.

## *NOMINATION OF DIRECTORS*

The nomination committee of the Company currently comprises one executive Director, namely Mr. Shan Xiaochang and two independent non-executive Directors, namely Mr. Lee Kam Fan, Andrew and Mr. Wang Zhihua. Mr. Shan Xiaochang is the chairman of the nomination committee. The works carried out by the nomination committee members are set out below:

The works carried out by the nomination committee members are set out below:

(a) to review the structure, size and composition (including the skills, knowledge and experience) and to make recommendations to the Board after such review;

(b) to assess the suitability and qualification of candidates put forward by the CEO and to become new board members and to report to the Board on their assessment;

(c) to assess the independence of independent non-executive Directors, having regard to the requirements under the GEM Listing Rules; and

(d) to make recommendations to the Board on relevant matters relating to the appointment of Directors and succession planning for Directors, in particular, the Chairman and the Chief Executive Officer.

One meeting of the nomination committee has been held during the year. All members of the nomination committee attended the meeting.

# CORPORATE GOVERNANCE REPORT

## AUDIT COMMITTEE

The audit committee of the Company comprises three independent non-executive Directors, namely, Mr. Lee Kam Fan, Andrew, Mr. Wang Jialian and Mr. Wang Zhihua with Mr. Lee as the chairman.

The primary duties of the audit committee of the Company are to oversee the relationship with the external auditors, to review the Group's preliminary results, interim results and annual financial statements and to monitor compliance with statutory and listing requirements, to engage independent legal or other advisers as it determines is necessary and to perform any investigations.

During the year ended 31 December 2010, 4 meetings of the audit committee have been held for the purpose of reviewing the Company's reports and accounts, and providing advice and recommendations to the Board, with the following attendances:

| | Number of meetings attended/eligible to attend |
|---|---|
| Mr. Lee Kam Fan, Andrew[1] | 1/1 |
| Mr. Wang Jialian[1] | 1/1 |
| Mr. Wang Zhihua[1] | 1/1 |
| Mr. Yiu Chi Wah[2] | 3/3 |
| Mr. Fan Chi Fai, Paul[2] | 2/3 |
| Mr. Lee Fang Yu[2] | 3/3 |

1. Appointed on 11 September 2010
2. Resigned on 11 September 2010

## ACCOUNTABILITY AND AUDIT

The Board acknowledged their responsibility for preparing the financial statements of the Group and ensured the financial statements have adopted the accounting principles generally accepted in Hong Kong and complied with the requirements of Hong Kong Financial Reporting Standards issued by the HKICPA and the disclosure requirements of the Hong Kong Companies Ordinance and the GEM Listing Rules.

The statement of the auditor of the Company about their responsibilities on the financial statement of the Group is set out in the independent auditor's report.

## INTERNAL CONTROL

The Board has overall responsibilities for the internal control system of the Group and for reviewing its effectiveness. The Board is also responsible for maintaining sound and effective internal control system to safeguard the interests of the shareholders and the assets of the Company. The Board will from time to time conduct a review of the Group's internal control systems. During the year under review, the Board has conducted a review of the effectiveness of the internal control system of the Group, covering financial, operational, compliance and risk management aspects of the Group.

## AUDITOR'S REMUNERATION

For the year ended 31 December 2010, auditor's remuneration of HK$430,000 is payable to BDO Limited for annual audit services. No other non-audit related services were performed by BDO Limited.

# REPORT OF THE DIRECTORS

The Directors present their annual report together with the audited consolidated financial statements of the Group for the year ended 31 December 2010.

## *CHANGE OF THE COMPANY NAME*

Pursuant to a special resolution passed by the shareholders of the Company in the extraordinary general meeting held on 4 January 2011, the Company had changed its name from "Sonavox International Holdings Limited" and "上聲國際控股有限公司" to "Sunrise (China) Technology Group Limited" and "中昱科技集團有限公司" to provide the Company with a fresh new corporate image and identity. The Certificate of Incorporation on Change of Name issued by the Registrar of Companies in the Cayman Islands and the Certificate of Registration of Change of Corporate Name of Non-Hong Kong Company issued by the Registrar of Companies in Hong Kong have certified that the Company's name was changed and registered with effect from 4 January 2011 and 9 February 2011 respectively.

## *PRINCIPAL ACTIVITIES*

The Company is an investment holding company. Details of the principal activities of the subsidiaries of the Company are set out in note 17 to the consolidated financial statements.

## *RESULTS AND DIVIDENDS*

Results of the Group for the year ended 31 December 2010 are set out in the consolidated statement of comprehensive income statement on page 25.

The Directors do not recommend the payment of any dividends in respect of the year (2009: HK$Nil).

## *FINANCIAL SUMMARY*

A summary of the results and assets and liabilities of the Group for the past five financial years is set out on page 3 of the annual report.

## *PROPERTY, PLANT AND EQUIPMENT*

Details of movements in the property, plant and equipment of the Group during the year are set out in note 16 to the consolidated financial statements.

## *INVESTMENT PROPERTIES*

The Group's investment properties with carrying values of approximately HK$30.2 million as at 31 December 2010 comprised five blocks of industrial buildings built on two parcels of land located at East of Jufeng Road, Beiquao Township, Xiangcheng District, Suzhou City, Jiangsu Province, the PRC. The land use rights of the two parcels of land are held for a term of 50 years for industrial use commencing from 14 September 2004 and 1 December 2006 respectively.

Details of movements in the investment properties of the Group are set out in note 18 to the consolidated financial statements.

## *SHARE CAPITAL*

Details of the movements in the share capital of the Company during the year are set out in note 32 to the consolidated financial statements.

## *RESERVES*

Details of the movements in reserves of the Group during the year are set out in the consolidated statement of changes in equity on page 29.

# REPORT OF THE DIRECTORS

## DISTRIBUTABLE RESERVES

Under the provisions of the Companies Law of the Cayman Islands, the share premium is distributable to the shareholders of the Company 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.

## DIRECTORS

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

**Executive directors:**

Mr. Shan Xiaochang[1]
Ms. Shan Zhuojun[1]
Mr. Ma Arthur On-hing[1]
Mr. Yang Ching Yau
Mr. Yang Tsu Ying[2]

**Independent non-executive directors:**

Mr. Lee Kam Fan, Andrew[1]
Mr. Wang Jialian[1]
Mr. Wang Zhihua[1]
Mr. Yiu Chi Wah[2]
Mr. Fan Chi Fai, Paul[2]
Mr. Lee Fang Yu[2]

1. Appointed on 11 September 2010
2. Resigned on 11 September 2010

In accordance with article 108(A) of the articles of association of the Company. Mr. Yang Ching Yau shall retire by rotation at the forthcoming annual general meeting and being eligible, offer himself for re-election.

In accordance with article 112 of the articles of association of the Company, Mr. Shan Xiaochang, Ms. Shan Zhuojun, Mr. Ma Arthur On-hing, Mr. Lee Kam Fan, Andrew, Mr. Wang Jialian and Mr. Wang Zhihua shall retire at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

## DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the Directors and the senior management of the Group are set out on pages 10 to 11 of this annual report.

## DIRECTORS' SERVICE CONTRACTS

Each of Mr. Shan Xiaochang, Ms. Shan Zhuojun and Mr. Ma Arthur On-hing entered into an appointment letter with the Company on 10 September 2010. They have no fixed term of service with the Company save that they are subject to retirement by rotation in accordance with the articles of association of the Company.

Mr. Yang Ching Yau has not entered into any service contract with the Company or any of its subsidiaries. He does not have a proposed length of service and is subject to retirement by rotation and re-election in accordance with the articles of association of the Company.

# REPORT OF THE DIRECTORS

Each of Mr. Lee Kam Fan, Andrew, Mr. Wang Jialian and Mr. Wang Zhihua entered into a 2-year service contract with the Company and they are subject to retirement by rotation in accordance with the articles of association of the Company.

Save as disclosed above, none of the Directors being proposed for re-election at the forthcoming annual general meeting has a service contract with the Company or any of its subsidiaries which is not terminable by the Group within one year without payment of compensation other than statutory compensation.

## CONFIRMATION OF INDEPENDENCE

The Company has received from each of its independent non-executive Directors the written confirmation of his independence pursuant to rule 5.09 of the GEM Listing Rules. The Company, based on such confirmation, considers all of the independent non-executive Directors are independent.

## DIRECTORS' INTEREST IN CONTRACTS

Save as disclosed under the section "Connected/Related Party Transactions" below and note 36 to the consolidated financial statements, none of the Directors had a significant beneficial interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party during the year.

## MATERIAL CONTRACTS WITH CONTROLLING SHAREHOLDERS

Save as disclosed under the section "Connected/Related Party Transactions" below, there is no material contract between the Group and the controlling shareholder or its subsidiaries during the year.

## DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS OR SHORT POSITIONS IN THE SHARES OR DEBENTURES

As at 31 December 2010, the interests and short positions of the Directors and chief executives of the Company in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register maintained by the Company pursuant to section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to rule 5.46 of the GEM Listing Rules, were as follows:

**Long positions in ordinary shares and underlying shares of the Company**

| Name | Capacity | Number of ordinary shares held | Number of underlying shares held | Total | Percentage of issued share capital of the Company |
|---|---|---|---|---|---|
| Mr. Shan Xiaochang | Interest of a controlled corporation | 239,556,536 | – | 239,556,536 | 56.77% |

*Note:* These shares are held by Zhongyu Group Holdings Limited (formerly known as Fame Global Enterprises Limited). The entire issued share capital of Zhongyu Group Holdings Limited is beneficially owned by Mr. Shan Xiaochang, the Chairman, the Chief Executive Officer and an executive Director, who is therefore deemed to be interested in the shares held by Zhongyu Group Holdings Limited.

Save as disclosed above, none of the Directors nor chief executives of the Company had interests or short positions in any shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as at 31 December 2010.

## *SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES*

As at 31 December 2010, the register of substantial shareholders maintained by the Company pursuant to section 336 of the SFO shows that the following shareholders had notified the Company of relevant interests and short positions in the issued share capital of the Company:

**Long positions in ordinary shares and underlying shares of the Company**

| Name | Capacity | Number of ordinary shares held | Number of underlying shares held | Total | Percentage of issued share capital of the Company |
|---|---|---|---|---|---|
| Zhongyu Group Holdings Limited *(Note 1)* | Beneficial owner | 239,556,536 | – | 239,556,536 | 56.77% |
| Mr. Shan Xiaochang *(Note 1)* | Interest of a controlled corporation | 239,556,536 | – | 239,556,536 | 56.77% |
| Ms. Wu Shuhua *(Note 2)* | Interest of spouse | 239,556,536 | – | 239,556,536 | 56.77% |
| Mr. Chan Ping Yee | Beneficial owner | 73,675,000 | – | 73,675,000 | 17.46% |
| Ms. Liu Sau Wan *(Note 3)* | Interest of spouse | 73,675,000 | – | 73,675,000 | 17.46% |

*Notes:*

1. The entire issued share capital of Zhongyu Group Holdings Limited was solely and beneficially owned by Mr. Shan Xiaochang, the Chairman and the Chief Executive Officer and an executive Director, who is therefore deemed to be interested in the shares held by Zhongyu Group Holdings Limited.

2. Ms. Wu Shuhua is the spouse of Mr. Shan Xiaochang and, under section 316 of the SFO, is therefore deemed to be interested in all 239,556,536 shares in which Mr. Shan Xiaochang is interested.

3. Ms. Liu Sau Wan is the spouse of Mr. Chan Ping Yee and, under section 316 of the SFO, is therefore deemed to be interested in all 73,675,000 shares in which Mr. Chan Ping Yee is interested.

Save as disclosed above, the Company has not been notified of any other interests or short positions in the issued share capital of the Company as at 31 December 2010.

# REPORT OF THE DIRECTORS

## SHARE OPTIONS

Particulars of the Company's share option scheme are set out in note 37 to the consolidated financial statements.

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

| Name or category of participant | Exercisable period | Exercise price per share of the Company | Outstanding at 1 January 2010 | Granted during the year | Exercised during the year | Lapsed during the year | Outstanding at 31 December 2010 |
|---|---|---|---|---|---|---|---|
| (a) Director | | | | | | | |
| Mr. Yang Tsu Ying (resigned on 11 September 2010) | 28 June 2006 to 27 June 2015 | 0.345 | 2,000,000 | – | – | (2,000,000) | – |
| Mr. Yang Ching Yau | 28 June 2006 to 27 June 2015 | 0.345 | 2,000,000 | – | – | (2,000,000) | – |
| (b) Others in aggregate | 28 June 2006 to 27 June 2015 | 0.345 | 6,000,000 | – | – | (6,000,000) | – |
| | 25 November 2010 to 24 November 2020 | 0.666 | – | 32,000,000 | – | – | 32,000,000 |
| | | | 10,000,000 | 32,000,000 | – | (10,000,000) | 32,000,000 |

## DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Saved as disclosed above and in note 37 to the consolidated financial statements, at no time during the year were the rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any Director or chief executive of the Company or their respective spouse or children under 18 years of age, or were any such rights exercised by them; or was the Company or its subsidiaries a party to any arrangement to enable the Directors to acquire such rights or benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

## CONNECTED/RELATED PARTY TRANSACTIONS

On 12 July 2010, the Company entered into conditional sale and purchase agreements (the "Agreements") with Newood Consultancy Limited ("Newood"), whereby the Company agreed to sell and Newood agreed to purchase the entire equity interests held by the Company in the Indigo Group and Taraki Services for considerations of HK$43,753,000 satisfied by cash of HK$25,000,000 and a waiver of payable due to Newood of HK$18,753,000 for the Indigo Group and HK$8,000,000 for Taraki Services respectively. Newood is wholly owned by Silver Way Limited, the entire issued share capital of which is in turn owned by Deutsche Bank International Trust Co. (Cayman) Limited as the trustee of The SEI Trust, and the discretionary objects of which are Mr. Yang Tsu Ying and Mr. Yang Ching Yau, the former and current Directors respectively. As at the date of the Agreements, Newood was interested in approximately 73.83% of the issued share capital of the Company. Accordingly, the disposals constituted connected transaction for the Company under Chapter 20 of the GEM Listing Rules, and have been approved by independent shareholders of the Company in an extraordinary general meeting of the Company held on 23 August 2010.

Save as disclosed above, the related party transactions are set out in note 36 to the consolidated financial statements. All the related party transactions did not constitute connected transactions or continuing connected transactions of the Company under Chapter 20 of the GEM Listing Rules which are required to comply with any of the reporting, announcement or independent shareholders' approval requirements under the GEM Listing Rules.

# REPORT OF THE DIRECTORS

## *DIRECTORS' INTEREST IN COMPETING BUSINESS*

Mr. Yang Ching Yau, executive Director, is engaged in the business of manufacturing and trading of various types of loudspeakers through Sonavox Electronics (Suzhou Industrial Park) Company Limited, Sonavox Electronics Inc., Sonavox Electronics Limited, Fortune Win Limited, Asian Elite International Company Limited and their respective subsidiaries and associated companies (collectively known as the "Private Group"). As the business of the Group is overlapping with that of the Private Group to the extent that the Private Group is engaged in the manufacture and sale of loudspeakers for automotive aftermarket, Mr. Yang Ching Yau and the Private Group have entered into the deed of undertaking on 15 July 2002 with the Company pursuant to which Mr. Yang Ching Yau and the Private Group have given to the Group certain non-compete and referral of business opportunities undertakings.

Save as disclosed above, none of the Directors or the management shareholders of the Company (as defined in the GEM Listing Rules) had an interest in a business, which competes or may compete with the business of the Group.

## *EMOLUMENTS OF DIRECTORS AND FIVE HIGHEST PAID INDIVIDUAL*

Details of the emoluments of the Directors and the five highest paid individuals of the Group are set out in note 15 to the consolidated financial statements.

## *EMOLUMENT POLICY*

The emolument policy of the employees of the Group is set out by the human resources department of the Group on the basis of their merits, qualifications and competence.

The emolument policy of the Directors is decided by the remuneration committee of the Company, having regard to the Company's operating results, individual duties and performance and comparable market statistics.

The Company has adopted a share options scheme as an incentive to the Directors and eligible employees. Details of the scheme are set out in note 37 to the consolidated financial statements.

## *MAJOR CUSTOMERS AND SUPPLIERS*

For the year ended 31 December 2010, the five largest customers accounted for approximately 47% (2009: approximately 47%) of the Group's total turnover and the five largest suppliers of the Group accounted for approximately 20% (2009: approximately 24%) of the Group's total purchases. The largest customer of the Group accounted for approximately 19% (2009: approximately 20%) of the Group's total turnover while the largest supplier accounted for approximately 5% (2009: approximately 14%) of the Group's total purchases.

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

## *PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY*

During the year, all convertible bonds of an aggregate principal amount of US$5,000,000 (equivalent to HK$38,750,000) were converted by a bondholder into 96,875,000 new ordinary shares of the Company in total at a conversion price of HK$0.40 per ordinary share.

Save as disclosed above, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the listed securities of the Company during the year.

# REPORT OF THE DIRECTORS

## *PRE-EMPTIVE RIGHTS*

There is no provision for pre-emptive rights under the articles of association of the Company, or laws of the Cayman Islands, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

## *SUFFICIENCY OF PUBLIC FLOAT*

Based on information publicly available to the Company and within the knowledge of the Directors as at the date of this annual report, the Company has maintained the prescribed public float under the GEM Listing Rules.

## *AUDITOR*

The accompanying financial statements have been audited by BDO Limited who will retire at the forthcoming annual general meeting of the Company and being eligible, offer themselves for reappointment.

On behalf of the Board

**Shan Xiaochang**
*Chairman*

23 March 2011

# INDEPENDENT AUDITOR'S REPORT

BDO

Tel : +852 2541 5041
Fax : +852 2815 2239
www.bdo.com.hk

25th Floor Wing On Centre
111 Connaught Road Central
Hong Kong

電話 : +852 2541 5041
傳真 : +852 2815 2239
www.bdo.com.hk

香港干諾道中111號
永安中心25樓

**TO THE SHAREHOLDERS OF**
**SUNRISE (CHINA) TECHNOLOGY GROUP LIMITED**
(formerly known as Sonavox International Holdings Limited)
*(incorporated in the Cayman Islands with limited liability)*

We have audited the consolidated financial statements of Sunrise (China) Technology Group Limited (the "Company") and its subsidiaries (together the "Group") set out on pages 25 to 92, which comprise the consolidated and company statements of financial position as at 31 December 2010, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

## *DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS*

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

## *AUDITOR'S RESPONSIBILITY*

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

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

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

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

# INDEPENDENT AUDITOR'S REPORT

## *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 loss 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.

**BDO Limited**
*Certified Public Accountants*
**Lee Ka Leung, Daniel**
Practising Certificate Number P01220

Hong Kong, 23 March 2011

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2010

| | Notes | 2010<br>HK$'000 | 2009<br>HK$'000<br>(Restated) |
|---|---|---|---|
| **Continuing operations** | | | |
| Turnover | 7 | **587,562** | 370,933 |
| Cost of sales | | **(435,318)** | (279,323) |
| Gross profit | | **152,244** | 91,610 |
| Other revenue, gains and losses | | **9,755** | 4,884 |
| Loss arising from fair value change of embedded derivatives | | **(74,290)** | – |
| Selling and marketing costs | | **(16,828)** | (11,438) |
| Administrative expenses | | **(105,845)** | (49,028) |
| Finance costs | 8 | **(6,673)** | (5,242) |
| (Loss)/profit before income tax expense | | **(41,637)** | 30,786 |
| Income tax expense | 11 | **(10,207)** | (947) |
| (Loss)/profit for the year from continuing operations | | **(51,844)** | 29,839 |
| **Discontinued operations** | | | |
| Loss for the year from discontinued operations | 10(b) | **(3,317)** | (16,895) |
| **(Loss)/profit for the year** | 10(a) | **(55,161)** | 12,944 |
| **Other comprehensive income** | | | |
| – gain on revaluation of properties | | **6,395** | 1,207 |
| – income tax relating to revaluation of properties | | **(1,130)** | (199) |
| – exchange differences on translating foreign operations | | **9,437** | 5,320 |
| – reclassification adjustment relating to disposal of subsidiaries | | **(2,358)** | – |
| **Other comprehensive income for the year, net of tax** | | **12,344** | 6,328 |
| **Total comprehensive income for the year** | | **(42,817)** | 19,272 |
| **(Loss)/profit attributable to:** | | | |
| – owners of the Company | | **(77,907)** | (3,213) |
| – non-controlling interests | | **22,746** | 16,157 |
| | | **(55,161)** | 12,944 |
| **Total comprehensive income attributable to:** | | | |
| – owners of the Company | | **(71,231)** | 1,909 |
| – non-controlling interests | | **28,414** | 17,363 |
| | | **(42,817)** | 19,272 |
| Loss per share from continuing and discontinued operations (HK cents) | | | |
| – basic and diluted | 13 | **(23.52)** | (0.99) |
| (Loss)/earnings per share from continuing operations (HK cents) | | | |
| – basic and diluted | 13 | **(22.52)** | 4.21 |

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2010

| | Notes | 2010 HK$'000 | 2009 HK$'000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Property, plant and equipment | 16 | 179,737 | 184,561 |
| Investment properties | 18 | 30,170 | 7,933 |
| Prepaid lease payments | 19 | 16,173 | 15,956 |
| Deferred tax assets | 20 | 233 | 7,251 |
| Intangible assets | 21 | – | 16,821 |
| Goodwill | 22 | – | 5,788 |
| Total non-current assets | | 226,313 | 238,310 |
| **Current assets** | | | |
| Inventories | 23 | 57,220 | 55,524 |
| Trade and note receivables | 24 | 234,999 | 153,103 |
| Prepayments, deposits and other receivables | 25 | 31,487 | 19,508 |
| Amount due from a non-controlling shareholder of a subsidiary | 26 | 2,934 | 2,827 |
| Restricted and pledged bank deposits | 27 | 12,000 | 15,766 |
| Cash and cash equivalents | | 74,788 | 49,028 |
| Total current assets | | 413,428 | 295,756 |
| **Total assets** | | 639,741 | 534,066 |
| **Current liabilities** | | | |
| Trade and note payables | 28 | 169,640 | 133,979 |
| Accruals and other payables | | 88,742 | 42,683 |
| Amount due to a director | 29 | 2,110 | – |
| Amount due to former ultimate holding company | | – | 13,353 |
| Amounts due to non-controlling shareholders of subsidiaries | 26 | 12,346 | 11,376 |
| Obligations under finance lease – due within one year | | – | 59 |
| Bank borrowings – due within one year | 30 | 80,287 | 93,361 |
| Current tax liabilities | | 5,354 | 3,876 |
| Total current liabilities | | 358,479 | 298,687 |
| **Net current assets/(liabilities)** | | 54,949 | (2,931) |
| **Total assets less current liabilities** | | 281,262 | 235,379 |

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2010

| | Notes | 2010 HK$'000 | 2009 HK$'000 |
|---|---|---|---|
| **Non-current liabilities** | | | |
| Deferred tax liabilities | 20 | **2,984** | 2,622 |
| Bank borrowings – due after one year | 30 | **–** | 2,161 |
| Embedded derivatives | 31 | **–** | 7,426 |
| Convertible bonds | 31 | **–** | 41,858 |
| Total non-current liabilities | | **2,984** | 54,067 |
| **NET ASSETS** | | **278,278** | 181,312 |
| **Capital and reserves attributable to owners of the Company** | | | |
| Share capital | 32 | **4,220** | 3,251 |
| Reserves | 33 | **146,950** | 79,244 |
| Equity attributable to owners of the Company | | **151,170** | 82,495 |
| **Non-controlling interests** | | **127,108** | 98,817 |
| **TOTAL EQUITY** | | **278,278** | 181,312 |

On behalf of the Board

**Shan Xiaochang**
*Chairman*

**Shan Zhuojun**
*Director*

# STATEMENT OF FINANCIAL POSITION

As at 31 December 2010

| | Notes | 2010 HK$'000 | 2009 HK$'000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Investments in subsidiaries | 17 | **14,650** | 16,204 |
| Property, plant and equipment | 16 | **3** | 4 |
| Total non-current assets | | **14,653** | 16,208 |
| **Current assets** | | | |
| Prepayments and deposits | | **100** | 104 |
| Amounts due from subsidiaries | 17 | **41,611** | 84,788 |
| Cash and bank balances | | **23,244** | 961 |
| Total current assets | | **64,955** | 85,853 |
| **Total assets** | | **79,608** | 102,061 |
| **Current liabilities** | | | |
| Accruals and other payables | | **1,690** | 641 |
| Amount due to former ultimate holding company | | **–** | 13,353 |
| Bank borrowings – due within one year | 30 | **–** | 104 |
| Total current liabilities | | **1,690** | 14,098 |
| **Net current assets** | | **63,265** | 71,755 |
| **Total assets less current liabilities** | | **77,918** | 87,963 |
| **Non-current liabilities** | | | |
| Bank borrowings – due after one year | 30 | **–** | 2,161 |
| Embedded derivatives | 31 | **–** | 7,426 |
| Convertible bonds | 31 | **–** | 41,858 |
| Total non-current liabilities | | **–** | 51,445 |
| **NET ASSETS** | | **77,918** | 36,518 |
| **Capital and reserves** | | | |
| Share capital | 32 | **4,220** | 3,251 |
| Reserves | 33 | **73,698** | 33,267 |
| **TOTAL EQUITY** | | **77,918** | 36,518 |

On behalf of the Board

**Shan Xiaochang**
*Chairman*

**Shan Zhuojun**
*Director*

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2010

| | Share capital | Share premium | Property revaluation reserve | Statutory reserves *(Note (a))* | Share–based payment reserve | Merger reserve *(Note (b))* | Cumulative translation adjustment reserve | (Accumulated losses)/ retained earnings | Equity attributable to owners of the Company | Non-controlling interests | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| At 1 January 2009 | 3,251 | 27,682 | 10,672 | 7,250 | 1,623 | 2,441 | 10,065 | 17,602 | 80,586 | 80,769 | 161,355 |
| (Loss)/profit for the year | – | – | – | – | – | – | – | (3,213) | (3,213) | 16,157 | 12,944 |
| Other comprehensive income for the year | | | | | | | | | | | |
| – gain on revaluation of properties | – | – | 1,207 | – | – | – | – | – | 1,207 | – | 1,207 |
| – income tax relating to revaluation of properties | – | – | (199) | – | – | – | – | – | (199) | – | (199) |
| – exchange difference on translating foreign operations | – | – | – | – | – | – | 4,114 | – | 4,114 | 1,206 | 5,320 |
| Total comprehensive income for the year | – | – | 1,008 | – | – | – | 4,114 | (3,213) | 1,909 | 17,363 | 19,272 |
| Release of reserve | – | – | – | (438) | – | – | – | 438 | – | – | – |
| Additional capital injected into a subsidiary | – | – | – | – | – | – | – | – | – | 685 | 685 |
| At 31 December 2009 and 1 January 2010 | 3,251 | 27,682 | 11,680 | 6,812 | 1,623 | 2,441 | 14,179 | 14,827 | 82,495 | 98,817 | 181,312 |
| (Loss)/profit for the year | – | – | – | – | – | – | – | (77,907) | (77,907) | 22,746 | (55,161) |
| Other comprehensive income for the year | | | | | | | | | | | |
| – gain on revaluation of properties | – | – | 4,172 | – | – | – | – | – | 4,172 | 2,223 | 6,395 |
| – income tax relating to revaluation of properties | – | – | (737) | – | – | – | – | – | (737) | (393) | (1,130) |
| – exchange difference on translating foreign operations | – | – | – | – | – | – | 5,599 | – | 5,599 | 3,838 | 9,437 |
| – reclassification adjustment relating to disposal of subsidiaries (Note 34) | – | – | – | – | – | – | (2,358) | – | (2,358) | – | (2,358) |
| Total comprehensive income for the year | – | – | 3,435 | – | – | – | 3,241 | (77,907) | (71,231) | 28,414 | (42,817) |
| Disposal of subsidiaries | – | – | (3,822) | – | – | – | – | 3,822 | – | – | – |
| Cancellation of share options previously granted | – | – | – | – | (1,623) | – | – | 1,623 | – | – | – |
| Transfer of reserve | – | – | – | 764 | – | – | – | (893) | (129) | (123) | (252) |
| Recognition of equity-settled share-based payment | – | – | – | – | 11,185 | – | – | – | 11,185 | – | 11,185 |
| Issuance of shares upon conversion of convertible bonds (Note 31) | 969 | 127,881 | – | – | – | – | – | – | 128,850 | – | 128,850 |
| At 31 December 2010 | 4,220 | 155,563 | 11,293 | 7,576 | 11,185 | 2,441 | 17,420 | (58,528) | 151,170 | 127,108 | 278,278 |

Notes:

**(a) Statutory reserves**

Pursuant to the articles of association of the group entities in the People's Republic of China (the "PRC"), appropriations are made from the retained earnings to certain statutory reserves, based on a percentage of profit in accordance with the rules and regulations in the PRC. Such appropriations to reserves would be made only with approval from the board of directors of those group entities.

**(b) Merger reserve**

Merger reserve of the Group represents the difference between the nominal value of the shares issued by the Company and the share capital and share premium of a subsidiary acquired through an exchange of shares.

# CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2010

| | Notes | 2010 HK$'000 | 2009 HK$'000 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| (Loss)/profit before income tax expense from: | | | |
| – continuing operations | | **(41,637)** | 30,786 |
| – discontinued operations | | **(3,317)** | (16,895) |
| | | **(44,954)** | 13,891 |
| Adjustments for: | | | |
| Interest income | | **(313)** | (533) |
| Finance costs | | **10,182** | 10,178 |
| Depreciation and amortisation | | **19,116** | 19,729 |
| Loss arising from fair value change of embedded derivatives | | **83,080** | 5,281 |
| Fair value gain on derivatives | | **–** | (27) |
| Impairment loss on trade receivables | | **3,426** | – |
| Loss/(gain) on disposal of property, plant and equipment | | **47** | (16) |
| Impairment loss on inventories | | **1,308** | 2,496 |
| Gain on disposal of subsidiaries | 34 | **(10,221)** | – |
| Gain on change in fair value of investment properties | | **(3,267)** | – |
| Share-based payment expenses | | **11,185** | – |
| **Operating profit before working capital changes** | | **69,589** | 50,999 |
| Increase in inventories | | **(9,969)** | (550) |
| Increase in trade and note receivables | | **(116,219)** | (64,744) |
| Increase in prepayments, deposits and other receivables | 43 | **(7,548)** | (9,966) |
| Increase in amount due to a director | | **2,110** | – |
| Increase in trade and notes payables | | **62,677** | 49,070 |
| Increase in accruals and other payables | | **29,419** | 11,285 |
| Cash generated from operations | | **30,059** | 36,094 |
| Income tax paid in the PRC | | **(8,469)** | – |
| **Net cash from operating activities** | | **21,590** | 36,094 |
| **Cash flows from investing activities** | | | |
| Payment of acquisition of property, plant and equipment | | **(28,510)** | (17,724) |
| Proceeds from disposal of property, plant and equipment | | **163** | 644 |
| Net proceeds from disposal of subsidiaries | 34,43 | **21,730** | – |
| Decrease/(increase) in pledged bank deposits | | **3,766** | (617) |
| Repayment from non-controlling shareholders of subsidiaries | | **–** | 673 |
| Interest received | | **313** | 533 |
| **Net cash used in investing activities** | | **(2,538)** | (16,491) |

# CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2010

| | Notes | 2010 HK$'000 | 2009 HK$'000 |
|---|---|---|---|
| **Cash flows from financing activities** | | | |
| Interest paid | | **(5,386)** | (5,524) |
| Convertible bond interest expense | | **(8,360)** | – |
| Proceeds from bank borrowings | | **90,417** | 86,963 |
| Repayment of bank borrowings | | **(85,926)** | (90,178) |
| Repayment of principal portion of obligations under finance lease | | **(52)** | (126) |
| Advance from a parent of a non-controlling shareholder of a subsidiary included in other payables | | **17,711** | – |
| Advance from non-controlling shareholders of a subsidiary | | **526** | 11,376 |
| Additional advance from former ultimate holding company | | **5,400** | 7,749 |
| **Net cash from financing activities** | | **14,330** | 10,260 |
| **Net increase in cash and cash equivalents** | | **33,382** | 29,863 |
| **Cash and cash equivalents at beginning of year** | | **39,406** | 8,422 |
| **Effect of exchange rate changes on cash and cash equivalents** | | **2,000** | 1,121 |
| **Cash and cash equivalents at end of year** | | **74,788** | 39,406 |
| **Analysis of the balances of cash and cash equivalents:** | | | |
| Cash and bank balances | | **74,788** | 49,028 |
| Bank overdrafts | 30 | **–** | (9,622) |
| **Cash and cash equivalents at end of year** | | **74,788** | 39,406 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

## 1. *GENERAL INFORMATION*

The principal activities of Sunrise (China) Technology Group Limited (formerly known as Sonavox International Holdings Limited) (the "Company") and its subsidiaries (collectively referred to as the "Group") are investment holding and manufacturing and sale of loudspeaker systems to customers in the PRC and overseas markets respectively.

Pursuant to a special resolution passed on 4 January 2011 and approved by the Registrar of Companies in the Cayman Islands, the name of the Company was changed from Sonavox International Holdings Limited (上聲國際控股有限公司) to Sunrise (China) Technology Group Limited (中昱科技集團有限公司).

The Company is a limited liability company incorporated in the Cayman Islands. The addresses of the registered office and principal place of business of the Company are disclosed in the Corporate Information section. The directors regard Zhongyu Group Holdings Limited (formerly known as Fame Global Enterprises Limited), a company incorporated in the British Virgin Islands ("BVI"), as the ultimate holding company.

The shares of the Company have been listed on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") since 19 July 2002.

During the year, the Group disposed of its operations and the relevant subsidiaries in North America, details of which are set out in notes 10(b) and 34 to the consolidated financial statements.

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

## 2. *ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")*

### (a) Adoption of new/revised HKFRSs

The Group has adopted the following new/revised HKFRSs issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") that are effective for the current accounting period.

| | |
|---|---|
| HKFRSs (Amendments) | Improvements to HKFRSs |
| Amendments to HKAS 39 | Eligible Hedged Items |
| Amendments to HKFRS 2 | Share-based Payment – Group Cash-settled Share-based Payment Transactions |
| HKAS 27 (Revised) | Consolidated and Separate Financial Statements |
| HKFRS 3 (Revised) | Business Combinations |
| HK(IFRIC) – Interpretation 17 | Distributions of Non-cash Assets to Owners |
| HK-Interpretation 5 | Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause |

Except as explained below, the adoption of these new/revised standards and interpretations has no significant impact on the Group's financial statements.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

## 2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (CONTINUED)

### (a) Adoption of new/revised HKFRSs (continued)

*Amendments to HKAS 17 "Leases"*

The amendment to HKAS 17, mandatory for accounting periods beginning on or after 1 January 2010, removes the specific guidance which stated that land held under a lease should be classified as an operating lease unless title to the land is expected to pass at the end of the lease term. It provides new guidance which indicates that entity should use judgment to decide whether the lease transfers the significant risks and rewards of ownership of the land in accordance with the criteria set out in HKAS 17. The Group has concluded that the classification of such lease as operating leases continues to be appropriate and therefore the application of the amendments to HKAS 17 has had no impact on the consolidated financial statements.

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

The revised accounting policies are described in note 4 to the consolidated financial statements, which are effective prospectively for business combinations effected in financial periods beginning on or after 1 July 2009. Changes in HKFRS 3 include the valuation of non-controlling interest, the accounting for transaction costs, the initial recognition and subsequent measurement of a contingent consideration and business combinations achieved in stages. These changes impact the amount of goodwill and the results in the period that an acquisition occurs and future results. The adoption of revised HKFRS 3 has had no impact to the consolidated financial statements as there has been no business combination transaction during the year.

The revised HKAS 27 requires that a change in the ownership interest of a subsidiary (without loss of control) is accounted for as a transaction with owners in their capacity as owners, accordingly, such transactions are recognised within equity. When control is lost and any remaining interest in the entity is re-measured to fair value, and a gain or loss is recognised in profit or loss. The adoption of revised HKAS 27 has had no impact on the current year.

*HK-Interpretation 5 – "Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause"*

The Interpretation is a clarification of an existing standard, HKAS 1 – "Presentation of Financial Statements". It sets out the conclusion reached by the HKICPA that a term loan which contains a clause which gives the lender the unconditional right to demand repayment at any time shall be classified as a current liability in accordance with paragraph 69(d) of HKAS 1 irrespective of the probability that the lender will invoke the clause without cause.

The application of HK-Interpretation 5 has had no material impact on the financial position of the Group for the current and prior years.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

## 2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (CONTINUED)

### (b) New/revised HKFRSs that have been issued but are not yet effective

The following new/revised HKFRSs, potentially relevant to the Group's financial statements, have been issued but have not been early adopted by the Group.

| | |
|---|---|
| HKFRSs (Amendments) | Improvements to HKFRSs 2010 [2&3] |
| Amendments to HKAS 32 | Classification of Rights Issues[1] |
| Amendments to HK(IFRIC) – Interpretation 14 | Prepayments of a Minimum Funding Requirement[3] |
| HK(IFRIC) – Interpretation 19 | Extinguishing Financial Liabilities with Equity Instruments[2] |
| HKAS 24 (Revised) | Related Party Disclosures[3] |
| Amendments to HKFRS 7 | Disclosure – Transfers of Financial Assets[4] |
| Amendments to HKAS 12 | Deferred Tax – Recovery of Underlying Assets[5] |
| HKFRS 9 | Financial Instruments[6] |

[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

The Group is in the process of making an assessment of the potential impact of these new/revised HKFRSs and the directors so far concluded that the application of these new/revised HKFRSs will have no material impact on the Group's financial statements except for the below.

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 amendments to HKFRS 7 improve the derecognition disclosure requirements for transfer transactions of financial assets and allow users of financial statements to better understand the possible effects of any risks that may remain with the entity on transferred assets. The amendments also require additional disclosures if a disproportionate amount of transfer transactions are undertaken around the end of a reporting period.

The amendments to HKAS 12 introduce a rebuttable presumption that an investment property is recovered entirely through sale. This presumption is rebutted if the investment property is depreciable and is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale. The amendments will be applied retrospectively.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

## 2. *ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (CONTINUED)*

### (b) New/revised HKFRSs that have been issued but are not yet effective (continued)

Under HKFRS 9, financial assets are classified into financial assets measured at fair value or at amortised cost depending on the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. Fair value gains or losses will be recognised in profit or loss except for those non-trade equity investments, which the entity will have a choice to recognise the gains and losses in other comprehensive income. HKFRS 9 carries forward the recognition and measurement requirements for financial liabilities from HKAS 39, except for financial liabilities that are designated at fair value through profit or loss, where the amount of change in fair value attributable to change in credit risk of that liability is recognised in other comprehensive income unless that would create or enlarge accounting mismatch. In addition, HKFRS 9 retains the requirements in HKAS 39 for derecognition of financial assets and financial liabilities.

## 3. *BASIS OF PREPARATION*

### (a) Statement of compliance

The financial statements have been prepared in accordance with all applicable HKFRSs, Hong Kong Accounting Standards ("HKASs") and Interpretations (hereinafter collectively referred to as the "HKFRSs") and the disclosure requirements of the Hong Kong Companies Ordinance. In addition, the financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Growth Enterprise Market (the "GEM Listing Rules") of the Stock Exchange.

### (b) Basis of measurement

The financial statements have been prepared under the historical cost basis except for land and buildings and investment properties, which are measured at revalued amounts or fair values as appropriate and explained in the accounting policies set out below.

## 4. *SIGNIFICANT ACCOUNTING POLICIES*

### (a) Business combination and basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries. Inter-company transactions and balances between group companies together with unrealised profits are eliminated in full in preparing the consolidated financial statements. Unrealised losses are also eliminated unless the transaction provides evidence of impairment on the asset transferred, in which case the loss is recognised in profit or loss.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the effective dates of acquisition or up to the effective dates of disposal, as appropriate. Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

## 4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (a) Business combination and basis of consolidation (continued)

*Business Combination from 1 January 2010*

Acquisition of subsidiaries or businesses is accounted for using the acquisition method. The cost of an acquisition is measured at the aggregate of the acquisition-date fair value of assets transferred, liabilities incurred and equity interests issued by the Group, as the acquirer. The identifiable assets acquired and liabilities assumed are principally measured at acquisition-date fair value. The Group's previously held equity interest in the acquiree is re-measured at acquisition-date fair value and recognises the resulting gains or losses in profit or loss. The Group may elect, on a transaction-by-transaction basis, to measure the non-controlling interest either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs incurred are expensed.

Any contingent consideration to be transferred by the acquirer is recognised at acquisition-date fair value. Subsequent adjustments to consideration are recognised against goodwill only to the extent that they arise from new information obtained within the measurement period (a maximum of 12 months from the acquisition date) about the fair value at the acquisition date. All other subsequent adjustments to contingent consideration classified as an asset or a liability are recognised in profit or loss.

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

When the Group loses control of a subsidiary, the profit or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interest. Amounts previously recognised in other comprehensive income in relation to the subsidiary are accounted for in the same manner as would be required if the relevant assets or liabilities were disposed of.

Subsequent to acquisition, the carrying amount of non-controlling interest is the amount of those interests at initial recognition plus the non-controlling interest's share of subsequent changes in equity. Total comprehensive income is attributed to non-controlling interests even if this results in the non-controlling interest having a deficit balance.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

## 4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (a) Business combination and basis of consolidation (continued)

*Business Combination prior to 1 January 2010*

On acquisition, the assets and liabilities of the relevant subsidiaries are measured at their fair values at the date of acquisition. The interest of minority shareholders is stated at the minority's proportion of the fair values of the assets and liabilities recognised.

Transaction costs, other than those associated with the issue of debt or equity securities, that the Group incurred in connection with business combinations are capitalised as part of the cost of the acquisition.

Where losses applicable to the minority exceed the minority's interest in the equity of a subsidiary, the excess, and any further losses applicable to the minority, are charged against the group's interest except to the extent that the minority has a binding obligation to, and is able to, make additional investment to cover the losses. If the subsidiary subsequently reports profits, the group's interest is allocated all such profits until the minority's share of losses previously absorbed by the Group has been recovered.

### (b) Subsidiaries

A subsidiary is an entity over which the Company is able to exercise control. Control is achieved where the Company, directly or indirectly, has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that are presently exercisable are taken into account.

In the Company's statement of financial position, investments in subsidiaries are stated at cost less impairment loss, if any. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

### (c) Goodwill

Goodwill is initially recognised at cost being the excess of the aggregate of consideration transferred and the amount recognised for non-controlling interests over the fair values of identifiable assets, liabilities and contingent liabilities acquired.

Where the fair value of identifiable assets, liabilities and contingent liabilities exceed the fair value of consideration paid, the excess is recognised in profit or loss on the acquisition date, after re-assessment.

Goodwill is carried at cost less impairment losses. For the purpose of impairment testing, goodwill arising from an acquisition is allocated to each of the relevant cash-generating units that are expected to benefit from the synergies of the acquisition. A cash-generating unit to which goodwill has been allocated is tested for impairment annually, and whenever there is an indication that the unit may be impaired.

For goodwill arising on an acquisition in a financial year, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that financial year. When the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated to reduce the carrying amount of any goodwill allocated to the unit first, and then to the other assets of the unit pro-rata on the basis of the carrying amount to each asset in the unit. Any impairment loss for goodwill is recognised in profit or loss and is not reversed in subsequent periods.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

## 4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (d) Property, plant and equipment

Leasehold land and buildings of owner-occupied properties are stated at revalued amount, being their fair values at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations are performed with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair values at the end of the reporting period. Increases in value arising on revaluation are recognised in other comprehensive income and accumulated in equity under the property revaluation reserve. Decreases in value arising on revaluation are first offset against increases on earlier valuations in respect of the same property and thereafter recognised in profit or loss. Any subsequent increases are recognised in profit or loss up to the amount previously charged and thereafter to the property revaluation reserve.

Upon disposal, the relevant portion of the revaluation reserve realised in respect of previous valuations is released from the property revaluation reserve to retained earnings.

Other property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and accumulated impairment losses.

The cost of property, plant and equipment includes its purchase price and the costs directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are recognised as an expense in profit or loss during the financial period in which they are incurred.

Property, plant and equipment, other than construction in progress, are depreciated so as to write off their cost or valuation net of expected residual value over their estimated useful lives on a straight-line basis. The useful lives, residual value and depreciation method are reviewed, and adjusted if appropriate, at the end of each reporting period. The useful lives are as follows:

| | |
|---|---|
| Land and buildings | Over terms of leasehold land, or 40 years whichever is shorter |
| Leasehold improvements | 5 – 10 years |
| Machinery, furniture and equipment | 5 – 20 years |
| Motor vehicles | 5 years |

Construction in progress is stated at cost less impairment losses. Cost comprises direct costs of construction as well as borrowing costs capitalised during the periods of construction and installation. Capitalisation of these costs ceases and the construction in progress is transferred to the appropriate class of property, plant and equipment when substantially all the activities necessary to prepare the assets for their intended use are completed. No depreciation is provided for in respect of construction in progress until it is completed and ready for its intended use.

An asset is written down immediately to its recoverable amount if its carrying amount is higher than the asset's estimated recoverable amount.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

## 4. *SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)*

### (d) Property, plant and equipment (continued)

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets, or where shorter, the term of the relevant lease.

The gain or loss on disposal of an item of property, plant and equipment is the difference between the net sale proceeds and its carrying amount, and is recognised in profit or loss on disposal.

### (e) Investment property

Investment property is property held either to earn rentals or for capital appreciation or for both, but not held for sale in the ordinary course of business, use in the production or supply of goods or services or for administrative purposes. Investment property is measured at cost on initial recognition and subsequently at fair value with any change therein recognised in profit or loss.

### (f) Prepaid lease payments

Payments for leasehold land held for own use under operating leases represent up-front payments to acquire long-term interests in lessee-occupied properties. These payments are stated at cost and are amortised over the period of the lease on a straight-line basis as an expense.

### (g) Leasing

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

*The Group as lessor*

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

*The Group as lessee*

Assets held under finance leases are initially recognised as assets at their fair value or, if lower, the present value of the minimum lease payments. The corresponding lease commitment is shown as a liability. Lease payments are analysed between capital and interest. The interest element is charged to profit or loss over the period of the lease and is calculated so that it represents a constant proportion of the lease liability. The capital element reduces the balance owed to the lessor.

The total rentals payable under the operating leases are recognised in profit or loss on a straight-line basis over the lease term. Lease incentives received are recognised as an integrated part of the total rental expense, over the term of the lease.

The land and building elements of property leases are considered separately for the purpose of lease classification. When the lease payments cannot be allocated reliably between the land and buildings elements, the entire lease payments are included in the cost of land and buildings as a finance lease in property, plant and equipment.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

## 4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (h) Discontinued operation

A discontinued operation is a component of the Group's business that represents a separate major line of business or geographical area of operations, which has been disposed of or is held for sale, or is a subsidiary acquired excessively with a view to resale. Classification as a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held for sale, if earlier. When an operation is classified as a discontinued operation, the comparative statement of comprehensive income is re-presented as if the operation had been discontinued from the start of the comparative period.

### (i) Intangible assets

*(i) Acquired intangible assets*

Intangible assets acquired separately are initially at cost. The cost of intangible assets acquired in a business combination is fair value at the date of acquisition. Subsequently, intangible assets with finite useful lives are carried at cost less accumulated amortisation and any accumulated impairment losses. Amortisation is provided on a straight-line basis over their estimated useful lives. Intangible assets with indefinite useful lives are carried at cost less any accumulated impairment losses. The amortisation expense is recognised in profit or loss and included in cost of sales.

*(ii) Impairment*

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment annually by comparing their carrying amounts with their recoverable amounts, irrespective of whether there is any indication that they may be impaired. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount.

An impairment loss is recognised as an expense immediately.

When an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years.

Intangible assets with finite lives are tested for impairment when there is an indication that an asset may be impaired.

## 4. *SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)*

### (j) Financial instruments

*(i) Financial assets*

The Group classifies its financial assets at initial recognition, depending on the purpose for which the asset was acquired. Financial assets at fair value through profit or loss are initially measured at fair value and all other financial assets are initially measured at fair value plus transaction costs that are directly attributable to the acquisition of the financial assets.

*Financial assets at fair value through profit or loss*

These assets include financial assets held for trading. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments or financial guarantee contracts.

Where a contract contains one or more embedded derivatives, the entire hybrid contract may be designated as a financial asset at fair value through profit or loss, except where the embedded derivative does not significantly modify the cash flows or it is clear that separation of the embedded derivative is prohibited.

Subsequent to initial recognition, financial assets at fair value through profit or loss are measured at fair value, with changes in fair value recognised in profit or loss in the period in which they arise.

*Loans and receivables*

These assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise principally through the provision of goods and services to customers (trade debtors), and also incorporate other types of contractual monetary asset. Subsequent to initial recognition, they are carried at amortised cost using the effective interest method, less any identified impairment losses.

*(ii) Impairment loss on financial assets*

The Group assesses, at the end of each reporting period, whether there is any objective evidence that financial asset is impaired. Financial asset is impaired 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 and that event has an impact on the estimated future cash flows of the financial asset that can be reliably estimated. Evidence of impairment may include:

– significant financial difficulty of the debtor;

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

– granting concession to a debtor because of debtors' financial difficulty;

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

## 4. *SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)*

### (j) Financial instruments (continued)

*(ii) Impairment loss on financial assets (continued)*

An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. The carrying amount of financial asset is reduced through the use of an allowance account. When any part of financial asset is determined as uncollectible, it is written off against the allowance account for the relevant financial asset.

Impairment losses are reversed in subsequent periods when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to a restriction that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

*(iii) Financial liabilities*

The Group classifies its financial liabilities, depending on the purpose for which the liabilities were incurred. Financial liabilities at fair value through profit or loss are initially measured at fair value and financial liabilities at amortised costs are initially measured at fair value, net of directly attributable costs incurred.

*Financial liabilities at fair value through profit or loss*

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are acquired for the purpose of sale in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognised in profit or loss.

Where a contract contains one or more embedded derivatives, the entire hybrid contract may be designated as a financial liability at fair value through profit or loss, except where the embedded derivative does not significantly modify the cash flows or it is clear that separation of the embedded derivative is prohibited.

Financial liabilities may be designated upon initial recognition as at fair value through profit or loss if the following criteria are met: (i) the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the liabilities or recognising gains or losses on them on a different basis; (ii) the liabilities are part of a group of financial liabilities which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management strategy; or (iii) the financial liability contains an embedded derivative that would need to be separately recorded.

Subsequent to initial recognition, financial liabilities at fair value through profit or loss are measured at fair value, with changes in fair value recognised in profit or loss in the period in which they arise.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

## 4. *SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)*

### (j) Financial instruments (continued)

*(iii) Financial liabilities (continued)*

*Financial liabilities at amortised cost*

Financial liabilities at amortised cost, including trade and note payables, accruals and other payables, amount due to a director, amount due to former ultimate holding company, amounts due to non-controlling shareholders of subsidiaries, bank borrowings and the debt element of convertible bonds issued by the Group, are subsequently measured at amortised cost, using the effective interest method. The related interest expense is recognised in profit or loss.

Gains or losses are recognised in profit or loss when the liabilities are derecognised as well as through the amortisation process.

*(iv) Convertible bonds*

Convertible bonds issued by the Group that contain both liability and conversion option components are classified separately into their respective items on initial recognition. Conversion option that will be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Company's own equity instruments is a conversion option derivative. At the date of issue, the conversion derivative is recognised at fair value, any excess of proceeds over the amount initially recognised as the derivative component is recognised as liability.

In subsequent periods, the liability component of the convertible bonds is carried at amortised cost using the effective interest method, until extinguished on conversion or maturity. The conversion option derivative is measured at fair value with changes in fair value recognised in profit or loss.

When the convertible bonds are converted, the carrying amount of the liability portion together with the fair value of the conversion derivative at the time of conversion are transferred to share capital and share premium as consideration for the shares issued. When the convertible bonds are redeemed, and difference between the redemption amount and the carrying amounts of both components is recognised in profit or loss.

Transaction costs that relate to the issue of the convertible bonds are allocated to the liability and conversion option components in proportion to the allocation of the proceeds. Transaction costs relating to the conversion option derivative is recognised in profit or loss immediately. Transaction costs relating to the liability component are included in the carrying amount of the liability portion and amortised over the period of the convertible bonds using the effective interest method.

*(v) Effective interest method*

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial asset or liability, or where appropriate, a shorter period.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

## 4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (j) Financial instruments (continued)

*(vi) Equity instruments*

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

*(vii) Financial guarantee contracts*

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument. A financial guarantee contract issued by the Group and not designated as at fair value through profit or loss is recognised initially at its fair value less transaction costs that are directly attributable to the issue of the financial guarantee contract. Subsequent to initial recognition, the Group measures the financial guarantee contract at the higher of: (i) the amount determined in accordance with HKAS 37 – "Provisions, Contingent Liabilities and Contingent Assets"; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with HKAS 18 – "Revenue".

*(viii) Derecognition*

The Group derecognises a financial asset when the contractual rights to the future cash flows in relation to the financial asset expire or when the financial asset has been transferred and the transfer meets the criteria for derecognition in accordance with HKAS 39.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires.

### (k) Inventories

Inventories are initially recognised at cost, and subsequently at the lower of cost and net realisable value. Cost comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. Cost is calculated using the first-in first-out method. Net realisable value represents the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

### (l) Revenue recognition

Revenue from sales of goods, moulds and scrap materials is recognised on transfer of risks and rewards of ownership, which is at the time of delivery and the title is passed to customer.

Service fee income represents royalties which is recognised on an accrual basis in accordance with the substance of the relevant agreement.

Rental income under operating leases is recognised in a straight-line basis over the term of the relevant lease.

Interest income is accrued on a time basis on the principal outstanding at the applicable interest rate.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

## 4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (m) Income taxes

Income taxes for the year comprise current tax and deferred tax.

Current tax is based on the profit or loss from ordinary activities adjusted for items that are non-assessable or disallowable for income tax purposes and is calculated using tax rates that have been enacted or substantively enacted at the end of reporting period.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the corresponding amounts used for tax purposes. Except for goodwill and recognised assets and liabilities that affect neither accounting nor taxable profits, deferred tax liabilities are recognised for all temporary differences. Deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Deferred tax is measured at the tax rates expected to apply in the period when the liability is settled or the asset is realised based on tax rates that have been enacted or substantively enacted at the end of reporting period.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

Income taxes are recognised in profit or loss except when they relate to items recognised in other comprehensive income in which case the taxes are also recognised in other comprehensive income.

### (n) Foreign currency

Transactions entered into by group entities in currencies other than the currency of the primary economic environment in which they operate (the "functional currency") are recorded at the rates ruling when the transactions occur. Foreign currency monetary assets and liabilities are translated at the rates ruling at the end of reporting period. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised in other comprehensive income, in which case, the exchange differences are also recognised in other comprehensive income.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

## 4. *SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)*

### (n) Foreign currency (continued)

On consolidation, income and expense items of foreign operations are translated into the presentation currency of the Group (i.e. Hong Kong dollars) at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the rates approximating to those ruling when the transactions took place are used. All assets and liabilities of foreign operations are translated at the rate ruling at the end of reporting period. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity as cumulative translation adjustment reserve (attributable to non-controlling interests as appropriate). Exchange differences recognised in profit or loss of group entities' separate financial statements on the translation of long-term monetary items forming part of the Group's net investment in the foreign operation concerned are reclassified to other comprehensive income and accumulated in equity as cumulative translation adjustment reserve (attributable to non-controlling interests as appropriate).

On disposal of a foreign operation, the cumulative exchange differences recognised in the cumulative translation adjustment reserve relating to that operation up to the date of disposal are reclassified to profit or loss as part of the profit or loss on disposal.

Goodwill and fair value adjustments on identifiable assets acquired arising on an acquisition of a foreign operation on or after 1 January 2005 are treated as assets and liabilities of that foreign operation and translated at the rate of exchange prevailing at the end of reporting period. Exchange differences arising are recognised in the cumulative translation adjustment reserve.

### (o) Employee benefits

*(i) Defined contribution retirement plans*

The group entities incorporated in Hong Kong make monthly contributions to a Mandatory Provident Fund Scheme (the "MPF Scheme"), which is a defined contribution scheme managed by an independent trustee for those employees who are eligible to participate in the MPF Scheme. The Group makes contributions based on a percentage of the eligible employees' salaries funded by the Group and charges to profit or loss as they become payable in accordance with the rules of the MPF scheme.

In addition, the group entities incorporated in the PRC make monthly contributions to a stated-sponsored defined contribution scheme for the local staff. The contributions are made at a specific percentage on the standard salary pursuant to relevant laws and regulations in the PRC issued by local social security authorities.

*(ii) Employee leave entitlements*

Employee entitlements to annual leave and long service leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave and long service leave as a result of services rendered by employees up to the end of reporting period. Employee entitlements to non-accounting compensated absences are not recognised until the time of leave.

*(iii) Termination benefits*

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

## 4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (p) Share based payments

Where share options are awarded to employees and others providing similar services, the fair value of the options at the date of grant is recognised in profit or loss over the vesting period with a corresponding increase in the share-based payment reserve within equity. Non-market vesting conditions are taken into account by adjusting the number of equity instruments expected to vest at the end of each reporting period so that, ultimately, the cumulative amount recognised over the vesting period is based on the number of options that eventually vest. Market vesting conditions are factored into the fair value of the options granted. As long as all other vesting conditions are satisfied, a charge is made irrespective of whether the market vesting conditions are satisfied. The cumulative expense is not adjusted for failure to achieve a market vesting condition.

Where the terms and conditions of options are modified before they vest, the increase in the fair value of the options, measured immediately before and after the modification, is also recognised in profit or loss over the remaining vesting period.

Where equity instruments are granted to persons other than employees and others providing similar services, the fair value of goods or services received is recognised in profit or loss unless the goods or services qualify for recognition as assets. If the fair value of goods and services received cannot be measured reliably, the fair value of the options granted is recognised in profit or loss instead. A corresponding increase in equity is recognised. For cash-settled share based payments, a liability is recognised at the fair value of the goods or services received.

The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised. At the time when the share options are exercised, the amount previously recognised in share-based payment reserve will be transferred to share premium. When the share options are cancelled after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share-based payment reserve will be transferred to retained earnings.

### (q) Impairment of non-financial assets

At the end of each reporting period, the Group reviews the carrying amounts of the following assets to determine whether there is any indication that those assets have suffered an impairment loss or an impairment loss previously recognised no longer exists or may have decreased:

– property, plant and equipment;

– prepaid lease payments; and

– investments in subsidiaries

If the recoverable amount (i.e. the greater of the fair value less costs to sell and value in use) of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately, unless the relevant asset is carried at a revalued amount under another HKFRS, in which case the impairment loss is treated as a revaluation decrease under that HKFRS.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

## 4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (q) Impairment of non-financial assets (continued)

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, to the extent that the increased in carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately, unless the relevant asset is carried at a revalued amount under another HKFRS, in which case the reversal of the impairment loss is treated as a revaluation increase under that other HKFRS.

### (r) Capitalisation of borrowing costs

Borrowing costs attributable directly to the acquisition, construction or production of qualifying assets which require a substantial period of time to be ready for their intended use or sale, are capitalised as part of the cost of those assets. Income earned on temporary investments of specific borrowings pending their expenditure on those assets is deducted from borrowing costs capitalised. All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

### (s) Government grants

Government grants are recognised when there is reasonable assurance that they will be received and that the Group will comply with the conditions attaching to them. Grants that compensate the Group for expenses incurred are recognised as revenue in profit or loss on a systematic basis in the same periods in which the expenses are incurred. Grants that compensate the Group for the cost of an asset are deducted from the carrying amount of the asset and consequently are effectively recognised in profit or loss over the useful life of the asset by way of reduced depreciation expense.

### (t) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group has a legal or constructive obligation arising as a result of a past event, which will probably result in an outflow of economic benefits that can be reasonably estimated.

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

## 5. *CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY*

In the application of the Group's accounting policies, the directors are required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results differ from these estimates.

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

**Key sources of estimation uncertainty**

In addition to information disclosed elsewhere in these financial statements, other key sources of estimation uncertainty that have a significant risk of resulting a material adjustment to the carrying amounts of assets and liabilities within next financial year are as follows:

*Impairment of non-financial assets*

The Group assesses whether there are any indicators of impairment for all non-financial assets at the end of each reporting period. Non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. When value in use calculations are undertaken, management estimates the expected future cash flows from the asset or cash-generating unit and chooses a suitable discount rate in order to calculate the present value of those cash flows.

*Useful life and residual value of property, plant and equipment*

The Group determines the depreciation amount of property, plant and equipment based on the estimated useful life and residual value, which are reviewed at each reporting period end. The principal assumptions for the Group's estimation of the useful life and residual value include those related to the mode of operations, government regulations and scrap value of property, plant and equipment in future.

## 6. *SEGMENT REPORTING*

The Group determines its operating segments based on the reports reviewed by the chief operating decision-maker that are used to make strategic decisions.

During the year, the Group had two reportable segments, namely the Mainland China and North America. They were managed separately based on their geographical locations. Both segments are engaged in manufacturing and sale of loudspeaker systems. On 25 August 2010, the North America segment was disposed of and was presented as a discontinued operation.

The segment information provided to the chief operating decision-maker for reportable segments and reconciliation of the segments total to the amounts reported by the Group in the consolidated financial statements are as follows:

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

## 6. *SEGMENT REPORTING (CONTINUED)*

**Year ended 31 December 2010**

| | Continuing operations Mainland China HK$'000 | Discontinued operations North America HK$'000 | Unallocated *(Note (c))* HK$'000 | Consolidated HK$'000 |
|---|---|---|---|---|
| Revenue from external customers *(Note (a))* | 587,562 | 66,160 | – | 653,722 |
| Reportable segment profit/(loss) *(Note (b)(i))* | 51,357 | (3,317) | (92,994) | (44,954) |
| Depreciation and amortisation | 16,965 | 1,953 | 198 | 19,116 |
| Interest income | 309 | 4 | – | 313 |
| Interest expense | 4,915 | 3,509 | 1,758 | 10,182 |
| Impairment loss on inventories | 1,308 | – | – | 1,308 |
| Impairment loss on trade receivables | 3,426 | – | – | 3,426 |
| Loss arising from fair value change of embedded derivatives | – | 8,790 | 74,290 | 83,080 |
| Gain arising from fair value change of investment properties | 3,267 | – | – | 3,267 |
| Income tax expense | 10,207 | – | – | 10,207 |
| Reportable segment assets *(Note (b)(ii))* | 612,425 | – | 27,316 | 639,741 |
| Reportable segment liabilities *(Note (b)(iii))* | 357,159 | – | 4,304 | 361,463 |
| Addition to non-current assets: – property, plant and equipment | 27,586 | 43 | 881 | 28,510 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

## 6. *SEGMENT REPORTING (CONTINUED)*

**Year ended 31 December 2009**

| | Continuing operations Mainland China HK$'000 | Discontinued operations North America HK$'000 | Unallocated *(Note (c))* HK$'000 | Consolidated HK$'000 |
|---|---|---|---|---|
| Revenue from external customers | 370,933 | 63,833 | – | 434,766 |
| Reportable segment profit/(loss) | 33,921 | (16,895) | (3,135) | 13,891 |
| Depreciation and amortisation | 16,825 | 2,686 | 218 | 19,729 |
| Interest income | 512 | 2 | 19 | 533 |
| Interest expense | 5,164 | 4,936 | 78 | 10,178 |
| Impairment loss on inventories | 2,496 | – | – | 2,496 |
| Loss arising from fair value change of embedded derivatives | – | 5,281 | – | 5,281 |
| Income tax expense | 947 | – | – | 947 |
| Reportable segment assets | 465,974 | 60,285 | 7,807 | 534,066 |
| Reportable segment liabilities | 260,116 | 75,904 | 16,734 | 352,754 |
| Addition to non-current assets: – property, plant and equipment | 17,126 | 593 | 5 | 17,724 |

*Notes:*

(a) The following is an analysis of Group's revenue from its major customers during the year and is attributable to the reportable segment of "Mainland China":

| | **2010 HK$'000** | 2009 HK$'000 |
|---|---|---|
| Customer A | **123,089** | 87,195 |
| Customer B | **73,225** | N/A |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

## 6. *SEGMENT REPORTING (CONTINUED)*

*Notes: (continued)*

(b) The differences in respect of the measurements of the reportable segments' profit or loss, segment assets and liabilities to the Group's profit or loss before income tax expense, assets and liabilities, respectively, are as follows:

(i) The amount mainly represents loss arising from fair value change of embedded derivatives subsequent to disposal of Indigo Group as defined in note 10(b).

(ii) The amount mainly represents cash and bank balances in Hong Kong.

(iii) The amount mainly represents other payables and accruals of the Group.

(c) Reconciliation represents unallocated corporate income and expenses, assets and liabilities as follows:

| | **2010 HK$'000** | 2009 HK$'000 (Restated) |
|---|---|---|
| **(Loss)/profit before income tax expense and discontinued operations** | | |
| Reportable segment profit | **48,040** | 17,026 |
| Segment loss from discontinued operations | **3,317** | 16,895 |
| Depreciation and amortisation | **(198)** | (218) |
| Directors' emoluments *(Note 15(a))* | **(1,086)** | (613) |
| Others | **(91,710)** | (2,304) |
| (Loss)/profit before income tax expense from continuing operations | **(41,637)** | 30,786 |
| **Assets** | | |
| Reportable segment assets | **612,425** | 526,259 |
| Unallocated corporate assets | **27,316** | 7,807 |
| Consolidated total assets | **639,741** | 534,066 |
| **Liabilities** | | |
| Reportable segment liabilities | **357,159** | 336,020 |
| Unallocated corporate liabilities | **4,304** | 16,734 |
| Consolidated total liabilities | **361,463** | 352,754 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

## 7. *TURNOVER*

Turnover, which is also the revenue, represents the net invoiced value of goods sold, net of discounts and sales related taxes.

| | Continuing operations | | Discontinued operations | | Consolidated | |
|---|---|---|---|---|---|---|
| | **2010 HK$'000** | 2009 HK$'000 | **2010 HK$'000** | 2009 HK$'000 | **2010 HK$'000** | 2009 HK$'000 |
| Turnover | **587,562** | 370,933 | **66,160** | 63,833 | **653,722** | 434,766 |

## 8. *FINANCE COSTS*

| | Continuing operations | | Discontinued operations | | Consolidated | |
|---|---|---|---|---|---|---|
| | **2010 HK$'000** | 2009 HK$'000 | **2010 HK$'000** | 2009 HK$'000 | **2010 HK$'000** | 2009 HK$'000 |
| Interest on: | | | | | | |
| – bank and other borrowings wholly repayable within five years *(Note)* | **4,915** | 5,184 | **359** | 259 | **5,274** | 5,443 |
| – mortgage loan repayable over five years | **41** | 58 | **–** | – | **41** | 58 |
| – convertible bonds *(Note 31)* | **1,717** | – | **3,140** | 4,654 | **4,857** | 4,654 |
| – finance lease | **–** | – | **3** | 23 | **3** | 23 |
| – other | **–** | – | **7** | – | **7** | – |
| | **6,673** | 5,242 | **3,509** | 4,936 | **10,182** | 10,178 |

*Note:*

Included in interest on other borrowings is an amount of HK$806,000 (2009:HK$78,000) charged by a non-controlling shareholder of a group entity in the PRC.

## 9. *STAFF COSTS*

| | Continuing operations | | Discontinued operations | | Consolidated | |
|---|---|---|---|---|---|---|
| | **2010 HK$'000** | 2009 HK$'000 | **2010 HK$'000** | 2009 HK$'000 | **2010 HK$'000** | 2009 HK$'000 |
| Staff costs (including directors' emoluments *(Note 15(a)))* comprise: | | | | | | |
| – salaries and welfare expenses and other benefits | **97,408** | 60,233 | **8,714** | 9,409 | **106,122** | 69,642 |
| – contributions on defined contribution retirement plan | **10,833** | 5,766 | **476** | 462 | **11,309** | 6,228 |
| – share-based payment | **1,398** | – | **–** | – | **1,398** | – |
| | **109,639** | 65,999 | **9,190** | 9,871 | **118,829** | 75,870 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

## 10. (LOSS)/PROFIT FOR THE YEAR

### (a) (Loss)/profit for the year is arrived at after charging/(crediting):

| | Continuing operations | | Discontinued operations | | Consolidated | |
|---|---|---|---|---|---|---|
| | **2010 HK$'000** | 2009 HK$'000 | **2010 HK$'000** | 2009 HK$'000 | **2010 HK$'000** | 2009 HK$'000 |
| Inventories recognised as an expense | **434,010** | 276,827 | **55,479** | 57,553 | **489,489** | 334,380 |
| Depreciation of property, plant and equipment | **16,777** | 16,662 | **918** | 1,274 | **17,695** | 17,936 |
| Amortisation of intangible assets | **–** | – | **1,035** | 1,412 | **1,035** | 1,412 |
| Amortisation of prepaid lease payments | **386** | 381 | **–** | – | **386** | 381 |
| Auditor's remuneration | **430** | 285 | **–** | 135 | **430** | 420 |
| Research and development costs | **20,667** | 9,509 | **5,005** | 4,680 | **25,672** | 14,189 |
| Minimum lease payments under operating leases | **524** | 469 | **610** | 832 | **1,134** | 1,301 |
| Loss/(gain) on disposal of property, plant and equipment | **47** | (3) | **–** | (13) | **47** | (16) |
| Gain on change in fair value of investment properties | **(3,267)** | – | **–** | – | **(3,267)** | – |
| Gain on disposal of subsidiaries | **(445)** | – | **(9,776)** | – | **(10,221)** | – |
| Exchange loss, net | **4,763** | 117 | **157** | 39 | **4,920** | 156 |
| Write-down of inventories | **1,308** | 2,496 | **–** | – | **1,308** | 2,496 |
| Loss arising from fair value change of embedded derivatives | **74,290** | – | **8,790** | 5,281 | **83,080** | 5,281 |
| Impairment loss on trade receivables | **3,426** | – | **–** | – | **3,426** | – |
| Rental income | **(2,120)** | (758) | **–** | – | **(2,120)** | (758) |
| Interest income | **(309)** | (531) | **(4)** | (2) | **(313)** | (533) |
| Mould income | **(1,222)** | (778) | **–** | – | **(1,222)** | (778) |
| Net income from sales of scrap materials | **(289)** | (221) | **–** | – | **(289)** | (221) |
| Royalty income | **–** | – | **(5,909)** | (1,900) | **(5,909)** | (1,900) |
| Subsidy income *(Note)* | **(1,283)** | (1,318) | **–** | – | **(1,283)** | (1,318) |

*Note:*

Subsidy income represents local government subsidies paid to the Group based on the pre-determined level of expenditures spent on certain advanced technology projects by the Group during the year.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

## 10. (LOSS)/PROFIT FOR THE YEAR (CONTINUED)

### (b) Discontinued operations

On 12 July 2010, the Company entered into conditional sale and purchase agreements with Newood Consultancy Limited ("Newood"), whereby the Company agreed to sell and Newood agreed to purchase the entire equity interests held by the Company in Indigo Enterprises Inc. and its subsidiary, Sonavox Canada Inc. ("SCI") (collectively referred to as the "Indigo Group") and Taraki Services Company Limited ("Taraki Services") for considerations of HK$43,753,000 satisfied by cash of HK$25,000,000 and a waiver of payable due to Newood of HK$18,753,000 for the Indigo Group and HK$8,000,000 for Taraki Services respectively.

The Indigo Group is based in the North America and is principally engaged in manufacturing and sale of loudspeaker systems in the North American, European and Asian markets. The disposal and cessation of the loss-making Indigo Group is aimed to spare more resources for other business operations of the Group.

On 25 August 2010, the transactions were completed and the Group retained no interest in the Indigo Group and Taraki Services following the disposals. The carrying amounts of assets and liabilities disposed of for the Indigo Group and Taraki Services at the date of disposal are disclosed in note 34.

The disposal of the Indigo Group constitutes a discontinued operation under HKFRS 5 - "Non-current Assets Held for Sale and Discontinued Operations" and the financial information of the Indigo Group is disclosed as follows:

*(i) Analysis of the results of discontinued operations*

| | Notes | **8 months to 25 August 2010 HK$'000** | 12 months to 31 December 2009 HK$'000 |
|---|---|---|---|
| Turnover | 7 | **66,160** | 63,833 |
| Cost of sales | | **(55,479)** | (57,553) |
| Gross profit | | **10,681** | 6,280 |
| Other revenue, gains and losses | | **(154)** | (36) |
| Loss arising from fair value change of embedded derivatives | | **(8,790)** | (5,281) |
| Selling and marketing costs | | **(1,357)** | (1,613) |
| Administrative expenses | | **(9,964)** | (11,309) |
| Finance costs | 8 | **(3,509)** | (4,936) |
| Loss before income tax expense | | **(13,093)** | (16,895) |
| Income tax expense | 11 | **–** | – |
| Gain on disposal of discontinued operations, net of tax | 34 | **9,776** | – |
| Loss for the period/year from discontinued operations | | **(3,317)** | (16,895) |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

## 10. *(LOSS)/PROFIT FOR THE YEAR (CONTINUED)*

### (b) Discontinued operation (continued)

*(ii) Analysis of the cash flows of discontinued operations*

| | 2010<br>HK$'000 | 2009<br>HK$'000 |
|---|---|---|
| Operating cash flows | **5,179** | 1,470 |
| Investing cash flows | **21,687** | (291) |
| Financing cash flows | **(369)** | (282) |
| Net cash inflows | **26,497** | 897 |

A profit of HK$9,776,000 arose on the disposal of the Indigo Group, being the proceeds of disposal less the carrying amount of the subsidiaries' net assets and attributable goodwill. No tax charge or credit arose from the disposal.

For the purpose of presenting discontinued operations, the comparative consolidated statement of comprehensive income and the related notes have been re-presented as if the operations discontinued during the year had been discontinued at the beginning of the comparative period.

## 11. *INCOME TAX EXPENSE*

No provision for Hong Kong Profits Tax has been made as there is no assessable profits for the group entities operate in Hong Kong during the year ended 31 December 2010.

With effect from 1 January 2008, the PRC Enterprise Income Tax ("EIT") rate is 25%, subject to preferential tax treatments.

Suzhou Shangsheng Electrics Co., Ltd. ("Shangsheng Electrics") enjoys a preferential EIT rate of 15% (2009:15%) as it has been granted the status of an Advanced and New Technology Enterprise.

Suzhou Shangsheng Technology Co., Ltd. ("Shangsheng Technology"), Suzhou Sonavox Acoustics Co., Ltd. ("Sonavox Acoustics") and Suzhou Hesheng Industrial Co., Ltd. ("Suzhou Hesheng") are entitled to a 50% reduction in EIT for the year ended 31 December 2010 and for the next consecutive two years in accordance with the transitional preferential policies of the EIT law applicable to foreign enterprises in the PRC.

Taxation arising in other jurisdictions is calculated at the rates in the relevant jurisdictions.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

## 11. *INCOME TAX EXPENSE (CONTINUED)*

The amount of taxation in the consolidated statement of comprehensive income represents:

| | Continuing operations | | Discontinued operations | | Consolidated | |
|---|---|---|---|---|---|---|
| | **2010 HK$'000** | 2009 HK$'000 | **2010 HK$'000** | 2009 HK$'000 | **2010 HK$'000** | 2009 HK$'000 |
| Current tax | | | | | | |
| – PRC Enterprise Income Tax | **10,030** | 2,484 | **–** | – | **10,030** | 2,484 |
| – over provision of EIT in prior years | **–** | (1,455) | **–** | – | **–** | (1,455) |
| Deferred tax *(Note 20)* | | | | | | |
| – current year | **177** | (82) | **–** | – | **177** | (82) |
| Income tax expense | **10,207** | 947 | **–** | – | **10,207** | 947 |

The income tax expense for the year can be reconciled to the (loss)/profit per the consolidated statement of comprehensive income as follows:

| | **2010 HK$'000** | 2009 HK$'000 (Restated) |
|---|---|---|
| (Loss)/profit before income tax expense | | |
| – from continuing operations | **(41,637)** | 30,786 |
| – from discontinued operations | **(3,317)** | (16,895) |
| | **(44,954)** | 13,891 |
| Tax calculated at the domestic tax rate of 16.5% (2009: 16.5%) | **(7,417)** | 2,292 |
| Effect of different tax rates of subsidiaries in other jurisdictions | **5,194** | (256) |
| Tax effect of expenses not deductible for tax purposes | **22,068** | 5,282 |
| Tax effect of revenue not taxable for tax purposes | **(3,369)** | (271) |
| Utilisation of previously unrecognised tax losses | **(31)** | (507) |
| Tax loss not recognised | **1,036** | 2,149 |
| Effect of tax exemptions granted to PRC subsidiaries | **(7,274)** | (6,287) |
| Over provision in respect of prior years | **–** | (1,455) |
| Income tax expense | **10,207** | 947 |

## 12. *LOSS ATTRIBUTABLE TO SHAREHOLDERS*

Loss attributable to shareholders includes an amount of HK$98,635,000 (2009: HK$12,778,000) which has been dealt with in the financial statements of the Company.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

## 13. LOSS PER SHARE

### Continuing and discontinued operations

The calculation of the basic and diluted loss per share attributable to the owners of the Company is based on the following data:

| | 2010 | 2009 |
|---|---|---|
| Loss | HK$'000 | HK$'000 |
| Loss for the purposes of basic and diluted loss per share | **77,907** | 3,213 |
| Number of shares | **'000** | '000 |
| Weighted average number of ordinary shares for the purposes of basic loss per share and diluted loss per share | **331,224** | 325,090 |

### Continuing operations

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

| | 2010 | 2009 |
|---|---|---|
| (Loss)/earnings | HK$'000 | HK$'000 |
| (Loss)/earnings for the purposes of calculating basic and diluted (loss)/earnings per share | **(74,590)** | 13,682 |

The denominators used are the same as those detailed above for both basic and diluted loss per share for continuing and discontinued operations.

### Discontinued operations

Basic loss per share for the discontinued operations is 1.00 HK cent per share (2009: 5.20 HK cents per share) and diluted loss per share for the discontinued operations is 1.00 HK cent per share (2009: 5.20 HK cents per share), based on the loss for the year from the discontinued operations of HK$3,317,000 (2009: HK$16,895,000) and the denominators detailed above for both basic and diluted loss per share.

## 14. DIVIDENDS

The directors of the Company do not recommend the payment of a final dividend for the year ended 31 December 2010 (2009: HK$Nil).

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

## 15. EMOLUMENTS FOR DIRECTORS AND FIVE HIGHEST PAID INDIVIDUALS

### (a) Directors' emoluments

The remuneration of each director for the year ended 31 December 2010 is set out below:

| Name of directors | Directors' fees HK$'000 | Basic salaries, other allowance and benefits in kind HK$'000 | Contributions on defined contribution retirement plan HK$'000 | Total HK$'000 |
|---|---|---|---|---|
| *Executive:* | | | | |
| – Mr. Yang Tsu Ying* | – | 260 | – | 260 |
| – Mr. Yang Ching Yau | – | 45 | – | 45 |
| – Mr. Shan Xiaochang** | – | 159 | – | 159 |
| – Ms. Shan Zhuojun** | – | 159 | – | 159 |
| – Mr. Ma Arthur On-hing** | – | 159 | 4 | 163 |
| *Independent non-executive:* | | | | |
| – Mr. Fan Chi Fai, Paul* | 67 | – | – | 67 |
| – Mr. Yiu Chi Wah* | 67 | – | – | 67 |
| – Mr. Lee Fang Yu* | 67 | – | – | 67 |
| – Mr. Lee Kam Fan, Andrew** | 33 | – | – | 33 |
| – Mr. Wang Jialian** | 33 | – | – | 33 |
| – Mr. Wang Zhihua** | 33 | – | – | 33 |
| | 300 | 782 | 4 | 1,086 |

The remuneration of each director for the year ended 31 December 2009 is set out below:

| Name of directors | Directors' fees HK$'000 | Basic salaries, other allowance and benefits in kind HK$'000 | Total HK$'000 |
|---|---|---|---|
| *Executive:* | | | |
| – Mr. Yang Tsu Ying | – | 65 | 65 |
| – Mr. Yang Ching Yau | – | 260 | 260 |
| *Independent non-executive:* | | | |
| – Mr. Fan Chi Fai, Paul | 96 | – | 96 |
| – Mr. Yiu Chi Wah | 96 | – | 96 |
| – Mr. Lee Fang Yu | 96 | – | 96 |
| | 288 | 325 | 613 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

## 15. *EMOLUMENTS FOR DIRECTORS AND FIVE HIGHEST PAID INDIVIDUALS (CONTINUED)*

### (a) Directors' emoluments (continued)

*Notes:*

* Resigned on 11 September 2010

** Appointed on 11 September 2010

No director waived or agreed to waive any emoluments during the year ended 31 December 2010 (2009: Nil). No emoluments were paid to the director as inducement to join or upon joining the Group or as compensation for loss of office in 2010 and 2009.

The remuneration of directors is determined by the Remuneration Committee having regard to the performance of individuals and market trends.

### (b) Five highest paid individuals

Of the five individuals with the highest emoluments in the Group, none was director (2009: Nil). The emoluments of the five (2009: five) highest paid individuals are as follows:

| | **2010**<br>**HK$'000** | 2009<br>HK$'000 |
|---|---|---|
| Salaries, other allowance and other benefits | **4,062** | 4,276 |
| Contribution to pension scheme | **311** | 297 |
| Share-based payment | **1,225** | – |
| | **5,598** | 4,573 |

During the year, no emoluments were paid to the five highest paid individuals as inducement to join or upon joining the Group or as compensation for loss of office.

Their emoluments were within the following bands:

| | **2010**<br>**No. of individuals** | 2009<br>No. of individuals |
|---|---|---|
| Nil to HK$1,000,000 | **3** | 3 |
| HK$1,000,001 to HK$1,500,000 | **1** | 2 |
| >HK$1,500,000 | **1** | – |
| | **5** | 5 |

## 16. PROPERTY, PLANT AND EQUIPMENT

### The Group

| | Land and buildings (Note (a)) HK$'000 | Leasehold improvements HK$'000 | Machinery, furniture and equipment (Note (b)) HK$'000 | Motor vehicles HK$'000 | Construction in progress HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|---|
| **Cost or valuation** | | | | | | |
| At 1 January 2009 | 114,239 | 28,270 | 115,039 | 5,588 | 9,737 | 272,873 |
| Reclassification | (2,929) | (1,152) | 6,378 | (2,397) | (9,345) | (9,445) |
| Additions at cost | – | 2,320 | 2,505 | 219 | 12,680 | 17,724 |
| Disposals | – | – | (1,177) | (309) | – | (1,486) |
| Surplus on revaluation | (3,177) | – | – | – | – | (3,177) |
| Transfer to investment properties *(Note 18)* | (7,925) | – | – | – | – | (7,925) |
| Translation adjustments | 57 | 318 | 2,174 | 21 | 13 | 2,583 |
| At 31 December 2009 | 100,265 | 29,756 | 124,919 | 3,122 | 13,085 | 271,147 |
| Comprising: | | | | | | |
| At cost | – | 29,756 | 124,919 | 3,122 | 13,085 | 170,882 |
| At valuation | 100,265 | – | – | – | – | 100,265 |
| At 31 December 2009 and 1 January 2010 | **100,265** | **29,756** | **124,919** | **3,122** | **13,085** | **271,147** |
| Additions at cost | **–** | **2,855** | **10,646** | **234** | **14,775** | **28,510** |
| Transfer from construction in progress | **–** | **388** | **35** | **–** | **(423)** | **–** |
| Transfer to investment properties *(Note 18)* | **–** | **–** | **–** | **–** | **(18,088)** | **(18,088)** |
| Disposals | **–** | **–** | **(1,186)** | **(369)** | **–** | **(1,555)** |
| Disposal of subsidiaries *(Note 34)* | **(8,300)** | **(2,114)** | **(15,066)** | **(227)** | **–** | **(25,707)** |
| Surplus on revaluation | **1,959** | **–** | **–** | **–** | **–** | **1,959** |
| Translation adjustments | **3,557** | **1,120** | **4,409** | **89** | **394** | **9,569** |
| At 31 December 2010 | **97,481** | **32,005** | **123,757** | **2,849** | **9,743** | **265,835** |
| Comprising: | | | | | | |
| At cost | **–** | **32,005** | **123,757** | **2,849** | **9,743** | **168,354** |
| At valuation 2010 | **97,481** | **–** | **–** | **–** | **–** | **97,481** |
| | **97,481** | **32,005** | **123,757** | **2,849** | **9,743** | **265,835** |
| **Accumulated depreciation** | | | | | | |
| At 1 January 2009 | – | 15,856 | 61,924 | 3,546 | – | 81,326 |
| Reclassification | – | (8,698) | 1,173 | (1,920) | – | (9,445) |
| Charge for the year | 4,380 | 3,295 | 9,803 | 458 | – | 17,936 |
| Eliminated on disposals | – | – | (580) | (278) | – | (858) |
| Eliminated on revaluation | (4,384) | – | – | – | – | (4,384) |
| Translation adjustments | 4 | 118 | 1,886 | 3 | – | 2,011 |
| At 31 December 2009 and 1 January 2010 | **–** | **10,571** | **74,206** | **1,809** | **–** | **86,586** |
| Charge for the year | **4,436** | **4,512** | **8,296** | **451** | **–** | **17,695** |
| Eliminated on disposal of subsidiaries *(Note 34)* | **–** | **(1,253)** | **(14,100)** | **(57)** | **–** | **(15,410)** |
| Eliminated on disposals | **–** | **–** | **(1,068)** | **(277)** | **–** | **(1,345)** |
| Eliminated on revaluation | **(4,436)** | **–** | **–** | **–** | **–** | **(4,436)** |
| Translation adjustments | **–** | **474** | **2,471** | **63** | **–** | **3,008** |
| At 31 December 2010 | **–** | **14,304** | **69,805** | **1,989** | **–** | **86,098** |
| **Net book value** | | | | | | |
| At 31 December 2010 | **97,481** | **17,701** | **53,952** | **860** | **9,743** | **179,737** |
| At 31 December 2009 | 100,265 | 19,185 | 50,713 | 1,313 | 13,085 | 184,561 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

## 16. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

### The Group (continued)

*Notes:*

(a) Bank borrowings are secured by land and buildings with the carrying amount of approximately HK$97,481,000 (2009: HK$100,265,000) (Note 30).

Had the revalued land and buildings been measured on a historical cost basis, carrying values would have been HK$68,657,000 (2009: HK$74,288,000).

The Group's interests in the land and building situated in Hong Kong amounting to HK$Nil (2009: HK$6,620,000) are held under medium-term lease.

On 25 August 2010, the Company disposed of a subsidiary, Taraki Services, which holds the Group's only interests in the land and building situated in Hong Kong. For the purpose of the disposal, a revaluation has been carried out by BMI Appraisals Limited, an independent qualified valuer having appropriate qualifications and experience in respect of property valuation that is not connected with the Group and is a member of the Hong Kong Institute of Surveyors, on the basis of valuation on 30 June 2010. A resultant revaluation increase of HK$1,527,000 was recognised in other comprehensive income. In the opinion of the directors, the valuation at 30 June 2010 mentioned above did not differ materially from that at 25 August 2010. At the date of disposal, revaluation reserve of HK$3,822,000 relating to Taraki Services was transferred to retained earnings.

The revaluation of the Group's remaining buildings situated in the PRC as at 31 December 2010 has been arrived at on the basis of valuations on that date and was carried by Malcolm & Associates Limited ("Malcolm & Associates"), an independent qualified valuer having appropriate qualifications and experience in respect of property valuation that is not connected with the Group and is a member of the Hong Kong Institute of Surveyors. A revaluation increase of HK$4,868,000 (2009: HK$1,207,000) was recognised in other comprehensive income.

The valuation has been valued by the depreciated replacement cost approach arrived at the aggregate amount of the new replacement cost of the buildings and other site works, from which appropriate deductions may then be made to allow for the age, condition, economic or functional obsolescence and environmental factor.

(b) No machinery, furniture and equipment was held under finance lease at the end of reporting period (2009: HK$241,000).

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

## 16. *PROPERTY, PLANT AND EQUIPMENT (CONTINUED)*

**The Company**

| | **Office equipment** HK$'000 |
|---|---|
| **Cost** | |
| At 1 January 2009 | – |
| Addition | 5 |
| At 31 December 2009, 1 January 2010 and 31 December 2010 | 5 |
| **Depreciation** | |
| At 1 January 2009 | – |
| Charge for the year | 1 |
| At 31 December 2009 and 1 January 2010 | 1 |
| Charge for the year | 1 |
| At 31 December 2010 | 2 |
| **Net book value** | |
| At 31 December 2010 | 3 |
| At 31 December 2009 | 4 |

## 17. *INTERESTS IN SUBSIDIARIES*

| | **2010** **HK$'000** | 2009 HK$'000 |
|---|---|---|
| Unlisted shares/equity investments, at cost | **14,650** | 16,204 |

The amounts due from subsidiaries are unsecured, interest-free and repayable on demand.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

## 17. INTERESTS IN SUBSIDIARIES (CONTINUED)

Details of the subsidiaries are as follows:

| Name of subsidiary | Place of incorporation/ operation | Class of share held | Issued/paid up share capital | Proportion ownership interest held by the Company Directly | Indirectly | Principal activities |
|---|---|---|---|---|---|---|
| Taraki Inc. | BVI | Ordinary | USD2 | 100% | – | Investment holding |
| Ever Wealth Capital Holdings Limited[3] | BVI | Ordinary | USD2 | 100% | – | Investment holding |
| Online Investor Limited[3] | BVI | Ordinary | USD1 | 100% | – | Investment holding |
| Indigo Enterprises Inc.[2] | Samoa | Ordinary | USD1 | 100% | – | Investment holding |
| Goodwill Capital Enterprises Limited[3] | BVI | Ordinary | USD1 | – | 100% | Investment holding |
| Most Best Group Limited[3] | BVI | Ordinary | USD1 | – | 100% | Investment holding |
| Modern Excel Group Limited[3] | BVI | Ordinary | USD1 | – | 100% | Investment holding |
| Honest Smart Investment Limited[3] | Hong Kong | Ordinary | HK$1 | – | 100% | Provision of management services to the group companies |
| Taraki Services[2] | Hong Kong | Ordinary | HK$2 | – | 100% | Provision of management services to the group companies |
| Paradise Holdings Limited[3] | Hong Kong | Ordinary | HK$1 | – | 100% | Not yet commence business |
| Wise Point Holdings Limited | Hong Kong | Ordinary | HK$1 | – | 100% | Investment holding |
| Sonavox Electronics Company Limited | Samoa | Ordinary | USD1 | – | 100% | Dormant |
| SCI[2] | Canada | Common share | CAD504,103 | – | 100% | Design, development and marketing of home and automotive audio products |
| Shangsheng Electrics[1] (蘇州上聲電子有限公司) | PRC | Registered capital | USD5,000,000 | – | 51% | Manufacture and sales of loudspeaker systems for automobiles |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

## 17. INTERESTS IN SUBSIDIARIES (CONTINUED)

| Name of subsidiary | Place of incorporation/ operation | Class of share held | Issued/paid up share capital | Proportion ownership interest held by the Company Directly | Proportion ownership interest held by the Company Indirectly | Principal activities |
|---|---|---|---|---|---|---|
| Sonavox Acoustics[1] (蘇州上昇音響有限公司) | PRC | Registered capital | USD2,500,000 | – | 51% | Manufacture and sales of loudspeaker systems for home theatres |
| Shangsheng Technology[1] (蘇州上聲科技有限公司) | PRC | Registered capital | USD5,130,000 | – | 51% | Manufacture and sales of loudspeaker systems |
| Suzhou Hesheng[1] (蘇州和盛實業有限公司) | PRC | Registered capital | USD1,120,000 (2009: USD1,186,889) | – | 51% | Manufacture and sales of parts for loudspeaker systems |
| Detroit Sonavox Inc. | United States of America | Ordinary | USD200,000 | – | 51% | Provision of after-sales services |
| Sonavox Europe GmbH | Germany | Ordinary | EUR25,000 | – | 51% | Provision of after-sales services |

None of the subsidiaries had issued any debt securities subsisting at the end of the year or at any time during the year.

*Notes:*

1. These entities are registered as sino-foreign equity joint ventures under the PRC law. The English translation of these names is for reference only. The official names of these entities are in Chinese.

2. These entities were disposed of from the Group on 25 August 2010.

3. These entities were newly incorporated in 2010.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

## 18. INVESTMENT PROPERTIES

| | HK$'000 |
|---|---|
| Fair value | |
| At 1 January 2009 | – |
| Transfer from property, plant and equipment *(Note 16)* | 7,925 |
| Translation adjustments | 8 |
| At 31 December 2009 and 1 January 2010 | **7,933** |
| Change in fair value | **3,267** |
| Transfer from property, plant and equipment *(Note 16)* | **18,088** |
| Translation adjustments | **882** |
| At 31 December 2010 | **30,170** |

The Group's investment properties were revalued at 31 December 2010 on market value basis by Malcolm & Associates. The valuation has been valued by depreciated replacement cost approach.

Bank borrowings are secured by investment properties with carrying amount of approximately HK$8,020,000 (2009: HK$7,933,000) (Note 30).

## 19. PREPAID LEASE PAYMENTS

The prepaid lease payments represent land use rights and their carrying values are analysed as follows:

| | **2010**<br>**HK$'000** | 2009<br>HK$'000 |
|---|---|---|
| Leasehold land in the PRC, held under medium-term lease | **16,173** | 15,956 |

Bank borrowings are secured by land use rights with the carrying amounts of approximately HK$6,523,000 (2009: HK$6,379,000) (Note 30).

## 20. DEFERRED TAX

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

| | **2010**<br>**HK$'000** | 2009<br>HK$'000 |
|---|---|---|
| Deferred tax assets | **233** | 7,251 |
| Deferred tax liabilities | **(2,984)** | (2,622) |
| Deferred tax (liabilities)/assets, net | **(2,751)** | 4,629 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

## 20. DEFERRED TAX (CONTINUED)

**Deferred tax assets/(liabilities)**

The movement in deferred tax assets and liabilities during the year, without taking account of the offsetting of balances within the same tax jurisdiction, is as follows:

| | Accelerated depreciation allowance HK$'000 | Provisions and impairment losses HK$'000 | Revaluation of buildings HK$'000 | Tax losses HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|
| At 1 January 2009 | 3,025 | 5,854 | (5,480) | 391 | 3,790 |
| Credited to profit or loss | 82 | – | – | – | 82 |
| Charged to equity | – | – | (199) | – | (199) |
| Translation adjustments | 2 | 891 | (3) | 66 | 956 |
| At 31 December 2009 and 1 January 2010 | **3,109** | **6,745** | **(5,682)** | **457** | **4,629** |
| (Charged)/credited to profit or loss | **(787)** | **1,449** | **(839)** | **–** | **(177)** |
| Charged to equity | **–** | **–** | **(1,130)** | **–** | **(1,130)** |
| Disposal of subsidiaries *(Note 34)* | **–** | **(6,279)** | **755** | **(457)** | **(5,981)** |
| Translation adjustments | **96** | **56** | **(244)** | **–** | **(92)** |
| At 31 December 2010 | **2,418** | **1,971** | **(7,140)** | **–** | **(2,751)** |

At the end of reporting period, deferred tax has not been provided for in the consolidated financial statements in respect of taxable temporary differences attributable to the profits earned by the PRC subsidiaries amounting to HK$42,690,000 (2009: HK$36,658,000) as the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

At the end of reporting period, the Group has unused tax losses and other deductible temporary differences totalling approximately HK$5,549,000 (2009: HK$27,177,000) available for offset against future profits. No deferred tax asset has been recognised in respect of these deductible temporary differences for the year ended 31 December 2010 due to the unpredictability of future profit streams. Losses amounting to approximately HK$5,549,000 (2009: HK$23,604,000) will expire during 2011 to 2015.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

## 21. *INTANGIBLE ASSETS*

| | Trademark and patents HK$'000 |
|---|---|
| **Cost** | |
| At 1 January 2009 | 19,682 |
| Translation adjustments | 3,257 |
| At 31 December 2009 and 1 January 2010 | **22,939** |
| Disposal of subsidiaries *(Note 34)* | **(22,933)** |
| Translation adjustments | **(6)** |
| At 31 December 2010 | **–** |
| **Amortisation** | |
| At 1 January 2009 | 3,936 |
| Charge for the year | 1,412 |
| Translation adjustments | 770 |
| At 31 December 2009 and 1 January 2010 | **6,118** |
| Charge for the year | **1,035** |
| Eliminated on disposal of subsidiaries *(Note 34)* | **(7,135)** |
| Translation adjustments | **(18)** |
| At 31 December 2010 | **–** |
| **Net book value** | |
| At 31 December 2010 | **–** |
| At 31 December 2009 | 16,821 |

The trademark and patents were purchased as part of a business combination in 2006 and was eliminated upon disposal of the subsidiaries on 25 August 2010 following the disposal of the Indigo Group detailed in Note 10(b).

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

## 22. GOODWILL

| | HK$'000 |
|---|---|
| **Cost** | |
| At 1 January 2009 | 4,966 |
| Translation adjustments | 822 |
| At 31 December 2009 and 1 January 2010 | **5,788** |
| Disposal of the subsidiaries | **(5,787)** |
| Translation adjustments | **(1)** |
| At 31 December 2010 | **–** |
| **Impairment** | |
| At 1 January 2009, 31 December 2009, 1 January 2010 and 31 December 2010 | **–** |
| **Carrying value** | |
| At 31 December 2010 | **–** |
| At 31 December 2009 | 5,788 |

The goodwill arose from acquisition of SCI on 12 April 2006 and is tested for impairment annually or whenever there is an indication of impairment.

SCI, being a subsidiary in the Indigo Group, was disposed of on 25 August 2010 and the attributable goodwill was derecognised accordingly (Note 34).

The directors of the Company are of the opinion that the recoverable amount of the goodwill at 25 August 2010 exceeded its carrying amount. No impairment loss is recognised.

## 23. INVENTORIES

| | **2010 HK$'000** | 2009 HK$'000 |
|---|---|---|
| Raw materials | **29,476** | 27,040 |
| Work-in-progress | **8,228** | 9,993 |
| Finished goods | **19,516** | 18,491 |
| | **57,220** | 55,524 |

At 31 December 2010, no inventory have been pledged as security for bank borrowings (2009: HK$7,929,000) (Note 30).

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

## 24. TRADE AND NOTE RECEIVABLES

| | 2010 HK$'000 | 2009 HK$'000 |
|---|---|---|
| Trade and note receivables | | |
| – third parties | **239,718** | 155,569 |
| – related parties *(Note 36(c))* | **10** | 214 |
| | **239,728** | 155,783 |
| Less: Accumulated impairment losses | **(4,729)** | (2,680) |
| | **234,999** | 153,103 |

The aging analysis of trade and note receivables, net of impairment losses, prepared based on delivery date is as follows:

| | 2010 HK$'000 | 2009 HK$'000 |
|---|---|---|
| Within 90 days | **182,897** | 134,584 |
| 91 – 180 days | **38,105** | 16,617 |
| 181 – 365 days | **12,740** | 1,329 |
| More than 365 days | **1,257** | 573 |
| | **234,999** | 153,103 |

The majority of the Group's sales are on open account in accordance with terms specified in the contracts governing relevant transactions. An average credit period is generally for 90 days. The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by senior management. At 31 December 2010, an aging analysis of the Group's trade and note receivables, that are past due but not impaired is as follows:

| | 2010 HK$'000 | 2009 HK$'000 |
|---|---|---|
| 91 – 180 days | **36,877** | 16,617 |
| 181 – 365 days | **12,740** | 1,329 |
| More than 365 days | **1,257** | 573 |
| | **50,874** | 18,519 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

## 24. TRADE AND NOTE RECEIVABLES (CONTINUED)

The Group reviews customer credit limit regularly based on historical repayment record. Trade receivables that were neither past due nor impaired related to a member of independent customers that were a good track record with the Group.

The below table reconciled the impairment loss of trade and note receivables for the year:

| | 2010<br>HK$'000 | 2009<br>HK$'000 |
|---|---|---|
| At 1 January | **2,680** | 2,571 |
| Impairment loss recognised | **3,426** | – |
| Disposal of subsidiaries | **(56)** | – |
| Amounts written off as uncollectible | **(1,403)** | – |
| Translation adjustments | **82** | 109 |
| At 31 December | **4,729** | 2,680 |

Included in the allowance for bad and doubtful debts are individually impaired trade receivables of approximately HK$4,729,000 (2009: HK$2,680,000). The Group does not hold any collateral over these balances. At 31 December 2010, none of the receivables have been pledged as security for bank borrowings (2009: HK$16,971,000).

## 25. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

Prepayments, deposits and other receivables include deposit of utilities and prepayment for raw material. Including in the balance is HK$17,711,000 (2009: HK$5,688,000) short term loan receivable from an independent third party, which is fully settled in March 2011. The loan carries an interests rate of 6.12% (2009: 5.57%) per annum and is repayable on demand.

Remaining prepayments, deposits and other receivables are expected be recovered within one year and their fair values approximate to their respective carrying amounts at the end of the reporting period due to their short-term maturity.

## 26. AMOUNT DUE FROM A NON-CONTROLLING SHAREHOLDER OF A SUBSIDIARY AND AMOUNTS DUE TO NON-CONTROLLING SHAREHOLDERS OF SUBSIDIARIES

The amount due from a non-controlling shareholder of a subsidiary is unsecured, interest free and repayable on demand.

The amounts due to non-controlling shareholders of subsidiaries amounted to HK$11,807,000 (2009: HK$11,376,000) is unsecured, interest bearing at a rate of 6.83% (2009: 6.83%) per annum and repayable within one year. The remaining balance is unsecured, interest free and repayable on demand.

## 27. RESTRICTED AND PLEDGED BANK DEPOSITS

Restricted bank balances represent deposits required and restricted by banks in respect of the issue of letter of credit to certain suppliers. The balances carried fixed interest rate of 0.40% (2009: 0.36%) per annum, and will be released upon the completion of the respective transactions. All the restricted bank balances are denominated in Renminbi.

There were no pledged bank deposits for the end of reporting period of 2010 (2009: HK$2,297,000).

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

## *28. TRADE AND NOTE PAYABLES*

| | 2010<br>HK$'000 | 2009<br>HK$'000 |
|---|---|---|
| Trade and note payables | | |
| – third parties | **169,636** | 133,975 |
| – related parties *(Note 36(c))* | **4** | 4 |
| | **169,640** | 133,979 |

In general, the credit terms granted by suppliers ranged from 30 to 180 days. An aging analysis of the Group's trade and note payables is as follows:

| | 2010<br>HK$'000 | 2009<br>HK$'000 |
|---|---|---|
| Within 30 days | **61,679** | 55,831 |
| 31 – 90 days | **78,616** | 62,757 |
| 91 – 180 days | **27,771** | 14,553 |
| 181 – 365 days | **1,187** | 354 |
| More than 365 days | **387** | 484 |
| | **169,640** | 133,979 |

## *29. AMOUNT DUE TO A DIRECTOR*

The amount due to a director is unsecured, interest free and repayable on demand.

## *30. BANK BORROWINGS*

At the end of reporting period, bank borrowings comprise:

| | The Group | | The Company | |
|---|---|---|---|---|
| | **2010<br>HK$'000** | 2009<br>HK$'000 | **2010<br>HK$'000** | 2009<br>HK$'000 |
| Interest bearing secured | | | | |
| – bank overdrafts | **–** | 9,622 | **–** | – |
| – short-term bank loans | **80,287** | 83,635 | **–** | – |
| – mortgage loan | **–** | 2,265 | **–** | 2,265 |
| | **80,287** | 95,522 | **–** | 2,265 |

## 30. BANK BORROWINGS (CONTINUED)

At 31 December 2010, total current and non-current bank loans and overdrafts were repayable as follows:

| | The Group | | The Company | |
|---|---|---|---|---|
| | **2010** | 2009 | **2010** | 2009 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| On demand or within one year | **80,287** | 93,361 | **–** | 104 |
| More than one year, but not exceeding two years | **–** | 108 | **–** | 108 |
| More than two years, but not exceeding five years | **–** | 338 | **–** | 338 |
| More than five years | **–** | 1,715 | **–** | 1,715 |
| | **80,287** | 95,522 | **–** | 2,265 |
| Less: Amount due within one year included in current liabilities | **(80,287)** | (93,361) | **–** | (104) |
| Amount due after one year | **–** | 2,161 | **–** | 2,161 |

Bank borrowings of HK$80,287,000 (2009: HK$95,522,000) are secured by land and buildings of HK$97,481,000 (2009: HK$100,265,000), prepaid lease payments of HK$6,523,000 (2009: HK$6,379,000) and investment properties of HK$8,020,000 (2009: HK$7,933,000) respectively.

## 31. CONVERTIBLE BONDS AND EMBEDDED DERIVATIVES

**The Group and the Company**

On 6 April 2006, the Company issued 8% convertible redeemable bonds ("Convertible Bonds") due 2011 at a principal amount of US$5,000,000 (equivalent to approximately HK$38,750,000). The Convertible Bonds can be converted up to an aggregate 96,875,000 ordinary shares of the Company at HK$0.40 each. The Company shall have the option to redeem the Convertible Bonds in whole or in part (i) at any time after the second anniversary of the date of issue of the Convertible Bonds until 30 days prior to the maturity date, provided that the average closing price of the shares stated in the daily quotation sheet of the Stock Exchange for 20 consecutive trading days exceed 130% of the prevailing conversion price; or (ii) at any time the outstanding Convertible Bonds is less than 20% of the total issued amount. The amount payable for any redemption shall be 100% of the relevant amount of the principal amount of the Convertible Bonds so redeemed together with interest accrued thereon up to the date of repayment. On the second, third and fourth anniversary of the date of issue of the Convertible Bonds and only on such date, each holder of the Convertible Bonds shall have the right at such holder's option to require the Company to redeem the Convertible Bonds held by such holder at 100% of the principal amount with respect to such Convertible Bonds together with interest accrued thereon up to the date of repayment.

The Convertible Bonds contain two components, a liability component and an embedded derivative. The fair value of the liability component, included in non-current liabilities, amounted to approximately HK$31,211,000, net of transaction costs, at the issuance date. The fair value of the embedded derivatives were estimated at the issuance date by reference to the Binomial Model. The effective interest rate of the liability component is 12.9%. The embedded derivatives are subsequently measured at fair value with change in fair value recognised in profit or loss. On 7 September 2010, a strategic investor acquired all the Convertible Bonds amounted to US$5,000,000 from former convertible bond holders and all the Convertible Bonds had been converted into ordinary shares in three lots before the end of the year.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

## 31. CONVERTIBLE BONDS AND EMBEDDED DERIVATIVES (CONTINUED)

The movement of the liability component and embedded derivatives is set out as follows:

**The Group and the Company**

| | Liability component HK$'000 | Embedded derivatives HK$'000 |
|---|---|---|
| At 1 January 2009 | 37,204 | 2,145 |
| Interest charge *(Note 8)* | 4,654 | – |
| Loss arising from fair value change | – | 5,281 |
| At 31 December 2009 and 1 January 2010 | **41,858** | **7,426** |
| Interest charge *(Note 8)* | **4,857** | **–** |
| Interest paid | **(8,360)** | **–** |
| Loss arising from fair value change | **–** | **83,080** |
| Translation adjustments | **(11)** | **–** |
| Conversion to shares | **(38,344)** | **(90,506)** |
| At 31 December 2010 | **–** | **–** |

## 32. SHARE CAPITAL

| | The Company | | | |
|---|---|---|---|---|
| **Authorised:** | **2010 '000** | 2010 HK$'000 | **2009 '000** | 2009 HK$'000 |
| Ordinary shares of HK$0.01 each | **20,000,000** | 200,000 | **20,000,000** | 200,000 |
| **Issued and fully paid:** | **2010 '000** | 2010 HK$'000 | **2009 '000** | 2009 HK$'000 |
| Ordinary shares of HK$0.01 each | | | | |
| At beginning of the year | **325,090** | 3,251 | **325,090** | 3,251 |
| Debt conversion rights exercised | **96,875** | 969 | **–** | – |
| At end of the year | **421,965** | 4,220 | **325,090** | 3,251 |

During the year, all Convertible Bonds of an aggregate principal amount of US$5,000,000 (equivalent to HK$38,750,000) (2009: HK$Nil) were converted by the bondholder into 96,875,000 (2009: Nil) new ordinary shares of the Company in total at a conversion price of HK$0.40 per ordinary share. A total difference of approximately HK$127,881,000 (2009: HK$Nil) between nominal value of the ordinary shares issued and the aggregate carrying amounts of the liability component and the embedded derivatives of the Convertible Bonds at each conversion date was transferred to share premium account of the Company.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

## 33. RESERVES

### The Group

| | Share premium HK$'000 | Property revaluation reserve HK$'000 | Statutory reserves HK$'000 | Share-based payment reserve HK$'000 | Merger reserve HK$'000 | Cumulative translation adjustment reserve HK$'000 | (Accumulated losses)/ Retained earnings HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|---|---|---|
| At 1 January 2009 | 27,682 | 10,672 | 7,250 | 1,623 | 2,441 | 10,065 | 17,602 | 77,335 |
| Loss for the year | – | – | – | – | – | – | (3,213) | (3,213) |
| Other comprehensive income for the year | | | | | | | | |
| – gain on revaluation of properties | – | 1,207 | – | – | – | – | – | 1,207 |
| – income tax relating to revaluation of properties | – | (199) | – | – | – | – | – | (199) |
| – exchange difference on translating foreign operations | – | – | – | – | – | 4,114 | – | 4,114 |
| Total comprehensive income for the year | – | 1,008 | – | – | – | 4,114 | (3,213) | 1,909 |
| Release of reserve | – | – | (438) | – | – | – | 438 | – |
| At 31 December 2009 and 1 January 2010 | 27,682 | 11,680 | 6,812 | 1,623 | 2,441 | 14,179 | 14,827 | 79,244 |
| Loss for the year | – | – | – | – | – | – | (77,907) | (77,907) |
| Other comprehensive income for the year | | | | | | | | |
| – gain on revaluation of properties | – | 4,172 | – | – | – | – | – | 4,172 |
| – income tax relating to revaluation of properties | – | (737) | – | – | – | – | – | (737) |
| – exchange difference on translating foreign operations | – | – | – | – | – | 5,599 | – | 5,599 |
| – reclassification adjustment relating to disposal of of subsidiaries *(Note 34)* | – | – | – | – | – | (2,358) | – | (2,358) |
| Total comprehensive income for the year | – | 3,435 | – | – | – | 3,241 | (77,907) | (71,231) |
| Disposal of subsidiaries | – | (3,822) | – | – | – | – | 3,822 | – |
| Cancellation of share options previously granted | – | – | – | (1,623) | – | – | 1,623 | – |
| Transfer of reserve | – | – | 764 | – | – | – | (893) | (129) |
| Recognition of equity-settled share-based payment | – | – | – | 11,185 | – | – | – | 11,185 |
| Issuance of shares upon conversion of convertible bonds *(Note 31)* | 127,881 | – | – | – | – | – | – | 127,881 |
| At 31 December 2010 | 155,563 | 11,293 | 7,576 | 11,185 | 2,441 | 17,420 | (58,528) | 146,950 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

## 33. *RESERVES (CONTINUED)*

**The Company**

| | Share premium HK$'000 | Share-based payment reserve HK$'000 | Merger reserve HK$'000 | Accumulated losses HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|
| At 1 January 2009 | 27,682 | 1,623 | 19,550 | (2,810) | 46,045 |
| Loss for the year | – | – | – | (12,778) | (12,778) |
| At 31 December 2009 and 1 January 2010 | 27,682 | 1,623 | 19,550 | (15,588) | 33,267 |
| Loss for the year | – | – | – | (98,635) | (98,635) |
| Cancellation of share options previously granted | – | (1,623) | – | 1,623 | – |
| Recognition of equity-settled share-based payment | – | 11,185 | – | – | 11,185 |
| Issuance of shares upon conversion of convertible bonds *(Note 31)* | 127,881 | – | – | – | 127,881 |
| At 31 December 2010 | 155,563 | 11,185 | 19,550 | (112,600) | 73,698 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

## 34. *DISPOSAL OF SUBSIDIARIES*

As referred to note 10(b) above, the carrying amounts of assets and liabilities disposed of for the Indigo Group and Taraki Services are as follows:

| | **Indigo Group** HK$'000 | **Taraki Services** HK$'000 | **Total** HK$'000 |
|---|---|---|---|
| Net assets disposed of: | | | |
| Property, plant and equipment *(Note 16)* | 1,987 | 8,310 | 10,297 |
| Deferred tax assets/(liabilities) *(Note 20)* | 6,736 | (755) | 5,981 |
| Intangible assets *(Note 21)* | 15,798 | – | 15,798 |
| Goodwill *(Note 22)* | 5,787 | – | 5,787 |
| Inventories | 6,965 | – | 6,965 |
| Trade and note receivables | 30,897 | – | 30,897 |
| Prepayments, deposits and other receivables | 805 | – | 805 |
| Cash and cash equivalents | 6,034 | – | 6,034 |
| Trade and note payables | (27,016) | – | (27,016) |
| Accruals and other payables | (1,271) | (5,236) | (6,507) |
| Obligations under finance lease – due within one year | (7) | – | (7) |
| Bank borrowings – due within one year | (10,380) | – | (10,380) |
| | 36,335 | 2,319 | 38,654 |
| Reclassification adjustment relating to disposal of subsidiaries | (2,358) | – | (2,358) |
| Assignment of receivable | – | 5,236 | 5,236 |
| Gain on disposal of subsidiaries | 9,776 | 445 | 10,221 |
| Total consideration | 43,753 | 8,000 | 51,753 |
| Satisfied by: | | | |
| – cash | 25,000 | 2,764 | 27,764 |
| – waiver of payable | 18,753 | – | 18,753 |
| – assignment of receivable | – | 5,236 | 5,236 |
| | 43,753 | 8,000 | 51,753 |
| Net cash inflow arising on disposal | | | |
| – cash consideration | 25,000 | 2,764 | 27,764 |
| – cash and bank balances disposed of | (6,034) | – | (6,034) |
| | 18,966 | 2,764 | 21,730 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

## 35. COMMITMENTS

### (a) Capital commitment

| | At 31 December 2010 HK$'000 | At 31 December 2009 HK$'000 |
|---|---|---|
| Capital expenditure in respect of the acquisition of property, plant and equipment contracted for but not provided in the consolidated financial statements | **74,285** | 10,284 |

### (b) Operating leases

*The Group as lessee*

At the end of reporting period, the Group had commitments for future minimum lease payments under non-cancellable operating lease which fall due as follows:

| | At 31 December 2010 HK$'000 | At 31 December 2009 HK$'000 |
|---|---|---|
| Within the first year | **524** | 1,217 |
| In the second to the fifth year inclusive | **3,761** | 1,437 |
| | **4,285** | 2,654 |

Operating lease payments represent rental payables by the Group for certain of its office premises. Leases and rentals are negotiated and fixed respectively for an average of three years.

*The Group as lessor*

The Group has certain investment properties leased to tenants with lease and rental negotiated for an average of five years. At the end of reporting period, the minimum rental receivables under non-cancellable operating leases are as follows:

| | At 31 December 2010 HK$'000 | At 31 December 2009 HK$'000 |
|---|---|---|
| Within the first year | **1,887** | 910 |
| In the second to the fifth year inclusive | **5,362** | 2,882 |
| | **7,249** | 3,792 |

### (c) Other commitment

During the year, a subsidiary of the Group entered into an agreement (the "agreement") with an independent third party for research & development services from 1 October 2010 to 30 September 2015. The agreement carries a termination clause for both parties with 90 days notification. At 31 December 2010, the Group has an operating commitment amounted to HK$1,250,000 (2009: HK$Nil).

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

## 36. *RELATED PARTY TRANSACTIONS*

During the year, the Group entered into the following transactions with related parties:

### (a) Sales and purchases

| | 2010<br>HK$'000 | 2009<br>HK$'000 |
|---|---|---|
| Sonavox Electronics (Suzhou Industrial Park) Company Limited ("SSIP")（上聲電子（蘇州工業園區）有限公司）*(Note (i))* | | |
| – purchase of machineries | **4,084** | – |
| – sales of goods | **116** | 141 |

### (b) Key management personnel compensation

| | 2010<br>HK$'000 | 2009<br>HK$'000 |
|---|---|---|
| Salaries and other short-term employee benefits | **4,844** | 4,601 |
| Contribution to pension | **315** | 297 |
| Share-based payment | **1,225** | – |
| | **6,384** | 4,898 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

## 36. RELATED PARTY TRANSACTIONS

### (c) Amounts due from/(to) related parties

| | At 31 December | |
|---|---|---|
| | **2010** **HK$'000** | 2009 HK$'000 |
| Trade receivables from Asian Elite International Company Limited (美聲電子有限公司) *(Note 24)* | **–** | 184 |
| Amount due from Suzhou City Xiangchen District Yuanhe Town Collective Assets Operation Company, a non-controlling shareholder of a subsidiary (蘇州市相城區元和鎮集體資產經營公司) *(Note 26)* | **2,934** | 2,827 |
| Amount due to Suzhou City Xiangchen District Yuanhe Town Collective Assets Operation Company, a non-controlling shareholder of a subsidiary (蘇州市相城區元和鎮集體資產經營公司) *(Note 26)* | **(11,807)** | (11,376) |
| Amount due to Wuxian City Likou Town Collective Assets Operation Company a non-controlling shareholder of a subsidiary (蘇州市相城區無線電元一廠) *(Note 26)* | **(539)** | – |
| Trade receivables from SSIP (上聲電子(蘇州工業園區)有限公司) *(Note 24)* | **10** | 30 |
| Trade payables to Sonavox Electronics Inc. (上聲電子股份有限公司) *(Note 28)* | **4** | 4 |

The Group has not provided any impairment loss in respect of the receivables due from related parties nor has any guarantee been given to or received from any related parties.

*Note:*

(i) Mr. Yang Tsu Ying and Mr. Yang Ching Yau, the former and current directors of the Company respectively, have control over SSIP and in their opinion, the above transactions with the related company are carried out in the ordinary course of business on terms as agreed with the related company.

## 37. SHARE-BASED PAYMENT

The Group adopted a share option scheme (the "Scheme") which became effective on 8 July 2002. Under which, share options are granted to any employees, consultants or professional advisors, and suppliers or customers of the Group (the "Grantees").

The exercise price or the granted options is the highest of (i) the closing price of the Company's shares on the date of the offer of grant, which must be a business day; (ii) the average closing price of the Company's shares for the five trading days immediately preceding the date of the offer of grant; (iii) the nominal value of the share. The options are exercisable at the grant date and have a contractual option term of ten years. The Group has no legal or constructive obligation to repurchase or settle the options in cash.

The maximum number of shares of the Company which may be issued upon exercise of all options granted under the Scheme or any other share option scheme adopted by the Company must not in aggregate exceed 30% of its issued share capital of the Company from time to time. The total number of shares which may be issued upon exercise of all options to be granted under the Scheme and any other share option scheme of the Group must not in aggregate exceed 10% of the shares in issue as at the date of passing the relevant resolution adopting the Scheme unless it is approved by shareholders in a general meeting of the Company.

During the year ended 31 December 2010, share options for 10,000,000 ordinary shares of the Company were lapsed upon the refreshment of the scheme mandate limit attached to the Scheme. None of the mentioned share options scheme have ever been exercised. On 1 December 2010, the Company granted 32,000,000 of share options as share-based payment.

At 31 December 2010, the number of shares of the Company in respect of which options had remained outstanding under the share option scheme of the Company was 32,000,000 (2009: 10,000,000), representing 9.2% (2009: 3.1%) of the shares of the Company in issue at that date.

The offer of a grant of share options may be accepted within 21 business days from the date of the offer of grant of the option. The consideration for a grant of options of the Company is HK$1.00. The exercise period of the share options granted is determined by the Board of Directors.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

## 37. SHARE-BASED PAYMENT (CONTINUED)

Movements in the number of share options outstanding and their exercise prices are as follows:

| | **2010** | | | | | **2009** | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | **Weighted average exercise price** | | **Number of option** | | | Weighted average exercise price | | Number of option | | |
| | **HK$** | **Directors '000** | **Employees '000** | **Others '000** | **Total '000** | HK$ | Directors '000 | Employees '000 | Others '000 | Total '000 |
| Outstanding at the beginning of the year | **0.345** | **4,000** | **6,000** | **–** | **10,000** | 0.345 | 4,000 | 6,000 | – | 10,000 |
| Granted during the year | **0.666** | **–** | **4,000** | **28,000** | **32,000** | – | – | – | – | – |
| Lapsed during the year | **0.345** | **(4,000)** | **(6,000)** | **–** | **(10,000)** | 0.345 | – | – | – | – |
| Outstanding at the end of the year | **0.666** | **–** | **4,000** | **28,000** | **32,000** | 0.345 | 4,000 | 6,000 | – | 10,000 |
| Exercisable at the end of the year | **0.666** | **–** | **4,000** | **28,000** | **32,000** | 0.345 | 4,000 | 6,000 | – | 10,000 |

*Note:*

The validity period of the share options of the Company granted during the year is from 25 November 2010 to 24 November 2020 and there is no vesting condition for the share options. The Grantees are not directors, chief executive or substantial shareholder of the Company nor associate (as defined in the GEM Listing Rules) of any of them.

The fair values for the share options granted amounted to HK$11,185,000 and was calculated using the Binomial option pricing model by Malcolm & Associates.

The inputs into the model were as follows:

**The Group and the Company**

| | **As at 1 December 2010** |
|---|---|
| Weighted average share price | **0.700** |
| Weighted average exercise price | **0.666** |
| Expected volatility | **80.72%** |
| Expected life | **9.98 years** |
| Risk-free interest rate | **2.49%** |
| Early exercise behaviour | **220%** |
| Expected dividend yield | **Nil** |

The expected volatility percent was determined based on the historical volatility of the share prices of the Company, over 8 years.

The expected life used in the model was the remaining contractual life of the options.

The risk-free interest rate was determined with reference to the yield rate of the Hong Kong Exchange Fund Notes with duration similar to the expected life of the options.

The options were expected to be exercised when the share price of the underlying security of the options rises to 220% of the exercise price.

Without vesting conditions of share options, the fair value of the share-based payment, amounting to HK$11,185,000, was recognised in profit or loss of the year.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

## 38. *RETIREMENT PLANS*

The employees of the Group in Hong Kong participate in the MPF Scheme, a defined contribution scheme managed by an independent trustee. The Group and its employees each make monthly contributions to the scheme at 5% of the employees' earnings with the maximum contribution by each of the group entity and the employees limited to HK$1,000 per month and thereafter contributions are voluntary. During the year, the aggregate contributions made by the Group to the MPF Scheme amounted to approximately HK$40,000 (2009: HK$28,000).

As stipulated by the rules and regulations in Mainland China, the group entities in the PRC contribute to a state sponsored retirement plan for its employees in Mainland China at a rate of 20% of the basic salaries of its employees, and has no further obligations for the actual payment of pensions or post-retirement benefits. The state-sponsored retirement plans are responsible for the entire pension obligations payable to retired employees. For the year ended 31 December 2010, the aggregate amount of the Group's employer contributions was approximately HK$10,793,000 (2009: HK$5,738,000).

## 39. *CAPITAL RISK MANAGEMENT*

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from prior year.

The capital structure of the Group consists of cash and cash equivalents, bank borrowings and equity attributable to owners of the Company, comprising issued share capital, reserves and retained earnings.

The Group actively and regularly reviews and manages its capital structure to ensure optimal capital structure and shareholders' returns, taking consideration of future capital requirements of the Group and capital efficiency, prevailing and projected profitability, projected operating cash flows, projected capital expenditures and projected strategic investment opportunities. The Group currently does not adopt any formal dividend policy.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

## 40. *FINANCIAL RISK MANAGEMENT*

### (a) Financial risk management objectives and policies

The Group's major financial instruments include trade and note receivables, prepayments, deposits and other receivables, amount due from non-controlling shareholder of a subsidiary, restricted bank deposits, cash and bank balances, trade and note payables, accruals and other payables, amounts due to non-controlling shareholders of subsidiaries and bank borrowings. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (currency risk, interest rate risk and other price risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

*(i) Market risk*

– Currency risk

Foreign exchange risk arises when the group entities enter into transactions denominated in a currency other than their functional currency. The Group's monetary assets and liabilities are mainly denominated in Renminbi, Hong Kong dollars, US dollars, Canadian dollars and Euro. The exchanges rates among these currencies are not pegged except US dollars and HK dollars, and there is fluctuation of exchange rates among these currencies.

The Group currently does not have a foreign currency hedging policy. However, the management will closely monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arises.

The carrying amounts of the foreign currency denominated monetary assets and monetary liabilities at the reporting date are as follows:

**The Group**

| | Assets | | Liabilities | |
|---|---|---|---|---|
| | **2010** | 2009 | **2010** | 2009 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| US dollars | **74,616** | 45,212 | **5,656** | 58,897 |
| Euro | **34,325** | 15,932 | **1,862** | 233 |
| | **108,941** | 61,144 | **7,518** | 59,130 |

**The Company**

| | Assets | | Liabilities | |
|---|---|---|---|---|
| | **2010** | 2009 | **2010** | 2009 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| US dollars | **–** | 168 | **–** | 41,858 |

## 40. FINANCIAL RISK MANAGEMENT (CONTINUED)

### (a) Financial risk management objectives and policies (Continued)

*(i) Market risk (Continued)*

– Currency risk (Continued)

*Sensitivity analysis*

The following table indicates the approximate change in the Group's profit or loss after income tax expense in response to reasonably possible changes in the foreign exchange rates to which the Group has significant exposure at the end of reporting period. The sensitivity analysis includes balances of assets and liabilities of the group entities where the denomination of these balances is in a currency other than the functional currencies of these entities. A positive number below indicates an increase in profit where the Hong Kong dollars strengthens against the relevant currency. For a weakening of the Hong Kong dollars against the relevant currency, there would be an equal and opposite impact on the profit, and the balances below would be negative.

| | **2010** | | 2009 | |
|---|---|---|---|---|
| | **Increase in foreign exchange rate** | **Effect on profit or loss after income tax expense** | Increase in foreign exchange rate | Effect on profit or loss after income tax expense |
| | **%** | **HK$'000** | % | HK$'000 |
| Euro | **9%** | **2,440** | 9% | 1,180 |

– Interest rate risk

The Group currently does not have an interest rate hedging policy. However, the management monitors interest rate exposure and will consider hedging significant interest rate exposure should the need arises. The Group is exposed to interest rate risk as the group entities may borrow funds at both fixed interest rates and floating interest rates. The Group manages the risk by maintaining an appropriate mix between fixed and floating rate borrowings. Although the board of directors accepts that this policy neither protects the Group entirely from the risk of paying rates in excess of current market rates nor eliminates fully cash flow risk associated with interest payments, it considers that it achieves an appropriate balance of exposure to these risks.

The following table details interest rates analysis that the management of the Group evaluates their interest rate risk.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

## 40. *FINANCIAL RISK MANAGEMENT (CONTINUED)*

**(a) Financial risk management objectives and policies (Continued)**

*(i) Market risk (Continued)*

– Interest rate risk (Continued)

**The Group**

| | **2010** Effective interest rate % | **2010** Carrying amount HK$'000 | 2009 Effective interest rate % | 2009 Carrying amount HK$'000 |
|---|---|---|---|---|
| Floating rate borrowings | | | | |
| – bank overdrafts | – | – | 3.7% | 9,622 |
| – short-term bank loans | **5.6%** | **80,287** | 6.1% | 83,635 |
| – mortgage loans | – | – | 2.5% | 2,265 |
| – obligations under finance lease | – | – | 8.5% | 59 |
| – convertible bonds | – | – | 12.9% | 41,858 |

**The Company**

| | **2010** Effective interest rate % | **2010** Carrying amount HK$'000 | 2009 Effective interest rate % | 2009 Carrying amount HK$'000 |
|---|---|---|---|---|
| Floating rate borrowings | | | | |
| – mortgage loans | – | – | 2.5% | 2,265 |
| – convertible bonds | – | – | 12.9% | 41,858 |

*Sensitivity analysis*

The following table indicates the approximate change in the profit after income tax expense in response to reasonably possible changes in an interest rate to which the Group has significant exposure at the end of reporting period. In determining the effect on profit after income tax expense on the next accounting period, the management assumes that the change in interest rate had occurred at the end of reporting period and all other variables remain constant. There is no change in the methods and assumptions used in 2010 and 2009.

| | **2010** Effect on profit after income tax expense HK$'000 | 2009 Effect on profit after income tax expense HK$'000 |
|---|---|---|
| Increase by 200 basis points | **(1,341)** | (1,596) |
| Decrease by 200 basis points | **1,341** | 1,596 |

## 40. FINANCIAL RISK MANAGEMENT (CONTINUED)

### (a) Financial risk management objectives and policies (Continued)

*(ii) Credit risk*

The Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position.

In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at the end of each reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

The Group has no significant concentration of credit risk. The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies.

None of the Group's financial assets are secured by collateral or other credit enhancements. The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the statements of financial position of the Group and the Company after deducting any impairment losses.

*(iii) Liquidity risk*

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows.

The Group relies on bank borrowings as a significant source of liquidity. As at 31 December 2010, the Group has available unutilised short-term banking facilities of approximately HK$22,628,000 (2009: HK$9,806,000). In order to mitigate the liquidity risk, the Group has obtained sufficient banking facilities which enable the Group to continue its operations. There was net cash inflow from the operating activities and the liquidity of the Group can be maintained in the coming year taking into consideration of the positive cash flows generated from the Group's businesses.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

## 40. FINANCIAL RISK MANAGEMENT (CONTINUED)

### (a) Financial risk management objectives and policies (Continued)

*(iii) Liquidity risk (Continued)*

The following table details the Group's remaining contractual maturity for its financial liabilities. For non-derivative financial liabilities, the table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows.

**The Group**

| At 31 December 2010 | Weighted average interest rate | Within 1 year HK$'000 | More than 1 year but less than 5 years HK$'000 | More than 5 years HK$'000 | Total undiscounted cash flows HK$'000 | Carrying amount HK$'000 |
|---|---|---|---|---|---|---|
| Non-derivative financial liabilities | | | | | | |
| Trade and note payables | – | 169,640 | – | – | 169,640 | 169,640 |
| Accruals and other payables | – | 88,742 | – | – | 88,742 | 88,742 |
| Bank overdrafts and short-term bank loans | 5.6% | 82,406 | – | – | 82,406 | 80,287 |
| Convertible bonds | – | – | – | – | – | – |
| Amount due to a director | – | 2,110 | – | – | 2,110 | 2,110 |
| Amounts due to non-controlling shareholders of subsidiaries | – | 12,346 | – | – | 12,346 | 12,346 |
| | | 355,244 | – | – | 355,244 | 353,125 |

## 40. FINANCIAL RISK MANAGEMENT (CONTINUED)

### (a) Financial risk management objectives and policies (Continued)

*(iii) Liquidity risk (Continued)*

**The Group**

| At 31 December 2009 | Weighted average interest rate | Within 1 year HK$'000 | More than 1 year but less than 5 years HK$'000 | More than 5 years HK$'000 | Total undiscounted cash flows HK$'000 | Carrying amount HK$'000 |
|---|---|---|---|---|---|---|
| Non-derivative financial liabilities | | | | | | |
| Trade and note payables | – | 133,979 | – | – | 133,979 | 133,979 |
| Accruals and other payables | – | 42,683 | – | – | 42,683 | 42,683 |
| Bank overdrafts and short-term bank loans | 5.3% | 94,271 | – | – | 94,271 | 93,257 |
| Long-terms bank loans at variable rate | 2.3% | 160 | 640 | 1,999 | 2,799 | 2,265 |
| Obligations under finance lease | 8.5% | 62 | – | – | 62 | 59 |
| Convertible bonds | 12.9% | 3,120 | 42,120 | – | 45,240 | 41,858 |
| Amount due to former ultimate holding company | – | 13,353 | – | – | 13,353 | 13,353 |
| Amount due to non-controlling shareholders of subsidiaries | 6.8% | 12,153 | – | – | 12,153 | 11,376 |
| | | 299,781 | 42,760 | 1,999 | 344,540 | 338,830 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

## *40. FINANCIAL RISK MANAGEMENT (CONTINUED)*

### (a) Financial risk management objectives and policies (Continued)

*(iii) Liquidity risk (Continued)*

**The Company**

| At 31 December 2010 | Weighted average interest rate | Within 1 year HK$'000 | More than 1 year but less than 5 years HK$'000 | More than 5 years HK$'000 | Total undiscounted cash flows HK$'000 | Carrying amount HK$'000 |
|---|---|---|---|---|---|---|
| Non-derivative financial liabilities | | | | | | |
| Accruals and other payables | – | 1,690 | – | – | 1,690 | 1,690 |
| | | 1,690 | – | – | 1,690 | 1,690 |

| At 31 December 2009 | Weighted average interest rate | Within 1 year HK$'000 | More than 1 year but less than 5 years HK$'000 | More than 5 years HK$'000 | Total undiscounted cash flows HK$'000 | Carrying amount HK$'000 |
|---|---|---|---|---|---|---|
| Non-derivative financial liabilities | | | | | | |
| Accruals and other payables | – | 641 | – | – | 641 | 641 |
| Long-terms bank loans at variable rate | 2.3% | 160 | 640 | 1,999 | 2,799 | 2,265 |
| Convertible bonds | 12.9% | 3,120 | 42,120 | – | 45,240 | 41,858 |
| Amount due to former ultimate holding company | – | 13,353 | – | – | 13,353 | 13,353 |
| Financial guarantee contract | – | 12,382 | – | – | 12,382 | – |
| | | 29,656 | 42,760 | 1,999 | 74,415 | 58,117 |

### (b) Fair value

The directors of the Company consider that the carrying amounts of financial assets and financial liabilities carried at amortised cost approximate their fair values due to short-term maturities.

The Group's embedded derivatives of the Convertible Bonds (Note 31) was measured at fair value, which was determined by valuation techniques for which all inputs that have a significant effect on the recorded fair value are observable, either directly or indirectly (i.e Level 2 fair value hierarchy as defined by HKFRS 7 - "Financial Instruments: Disclosures"). All Convertible Bonds were converted into ordinary shares before the end of reporting period.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

## 41. CONTINGENT LIABILITIES

During the year of 2010, the Company had issued guarantee to a bank (the "bank") in respect of granting or giving credit facilities to one of the disposed subsidiaries.

Under the guarantee, the Company is liable to the amount due from that subsidiary to this bank in the event of any default related to the transactions up to the date of release and its liability share at no time exceed the sum stated on the letters of guarantee. The guarantee was released by the bank on 30 December 2010.

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

## 42. EVENTS AFTER THE REPORTING PERIOD

Acquisitions of businesses

(a) On 18 January 2011, the Group acquired 100% equity interest in Time Pro International Company Limited ("Time Pro"), a private limited company incorporated in Thailand, with cash consideration of HK$5,500,000. This acquisition aims to facilitate negotiation with regards to investment in certain heat generation projects in Thailand in the future.

The fair value of identifiable assets and liabilities of Time Pro arising from the acquisition, provisionally determined, as follows:

| | **Fair value** |
|---|---|
| | HK$'000 |
| Plant and equipment | 1 |
| Cash and bank balances | 3,916 |
| Other payables | (222) |
| Fair value of identifiable net assets acquired | 3,695 |
| Total consideration satisfied by cash | 5,500 |
| Fair value of identifiable net assets acquired | (3,695) |
| Goodwill arising on acquisition | 1,805 |

(b) On 5 January 2011, the Company entered into a sale and purchase agreement with an independent third party for the proposed acquisition of 51% of equity interest in Confident Echo Holdings Limited. Pursuant to the supplemental agreement dated on 28 January 2011 (the "Supplemental Agreement"), the consideration for the proposed acquisition is HK$25,000,000 in which HK$9,500,000 was paid by the Company and HK$15,500,000 is payable by the Company in cash on or before 30 June 2012 subject to terms and condition setting out in the Supplemental Agreement.

The acquisition has not been completed up to the date of approval of financial statements.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

## 43. NOTE SUPPORTING THE STATEMENT OF CASH FLOWS

| | *Note* | **HK$'000** |
|---|---|---|
| Significant non-cash transactions as follows: | | |
| Operating activities | | |
| Increase in prepayments, deposits and other receivables | (a) | 5,236 |
| Investing activities | | |
| Net proceeds from disposal of subsidiaries | (a),(b) | (23,989) |
| Financing activities | | |
| Repayment to ultimate holding company | (b) | 18,753 |
| | | – |

(a) During the year ended 31 December 2010, the Group disposed Taraki Services to Newood for a consideration of HK$8,000,000. At the same time, receivable from Taraki Services amounted to HK$5,236,000 was transferred to Newood in accordance with the relative sale and purchase agreement.

(b) Partial of the consideration for the disposal of the Indigo Group on 25 August 2010 was wavier on payable received from vendor.

## 44. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the Board of Directors on 23 March 2011.