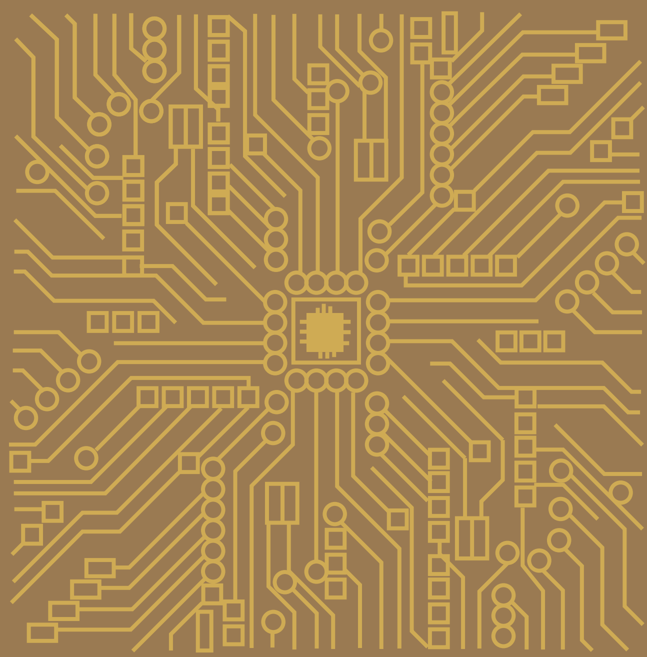
GRANDE

THE GRANDE HOLDINGS LIMITED



ANNUAL REPORT 2009

(Stock code no. 186)

THE GRANDE HOLDINGS LIMITED

ANNUAL REPORT 2009

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CORPORATE INFORMATION

FOUNDING CHAIRMAN

Dr. Stanley Ho

BOARD OF DIRECTORS

Executive Directors

Mr. Christopher W. Ho
Chairman
Mr. Adrian C. C. Ma
Group Managing Director and
Chief Executive Officer
Mrs. Christine L. S. Asprey
Mr. Paul K. F. Law

Non-executive Director

Mr. Michael A. B. Binney

Independent Non-executive Directors

Mr. Henry C. S. Chong
Mr. Herbert H. K. Tsoi
Mr. Martin I. Wright

INDEPENDENT AUDITORS

Moore Stephens

COMPANY SECRETARY

Mr. Christopher T. O. Chiang

ASSISTANT COMPANY SECRETARY

Ms. Linda Longworth
International Managers Bermuda Ltd.

CORPORATE OFFICE IN HONG KONG

12th Floor, The Grande Building,
398 Kwun Tong Road,
Kowloon, Hong Kong

CORPORATE OFFICE IN SINGAPORE

456 Alexandra Road,
#12-01 NOL Building,
Singapore 119962

REGISTERED OFFICE

#2 Reid Street,
Hamilton HM 11, Bermuda

SHARE REGISTRAR

Tricor Tengis Limited
Level 25, Three Pacific Place,
1 Queen's Road East,
Hong Kong

SHARE TRANSFER OFFICE

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

COMPANY'S WEBSITE

http://www.grandeholdings.com

CHAIRMAN'S STATEMENT

For the financial year of 2009, the Group reported a consolidated loss attributable to shareholders of HK$1,266 million which included a settlement compensation of HK$969 million in respect of certain court proceedings as detailed in note 33 to the consolidated financial statements and a recognition of aggregate impairment loss of HK$165 million in respect of certain trademarks and goodwill consequent upon the contraction of global consumer electronics markets during the year.

The Directors do not recommend the payment of a final dividend for the year ended 31 December 2009 (2008: nil).

Despite the financial tsunami in 2008 which has protracted consequences in 2009 and continued to bring challenges to the Group, the operating results of both the Group's Branded Distribution Division ("BD") and the Electronics Manufacturing Services Division ("EMS") had achieved certain improvements over the year. The EMS reduced its operating loss from HK$11 million for 2008 to HK$6 million for 2009 while the BD improved its operating profits from HK$8 million for 2008 to HK$96 million for 2009.

After the drastic contraction in the past two years, the worldwide economy is anticipated to be in a better shape in the coming year. While the Group will continue to implement cost control measures to improve further its overall operational efficiency, it will also seize expansion opportunities arising from the market turnaround with a view to enhancing its profitability. In addition to expanding the portfolio of Emerson branded products and their distribution networks in the North America, the BD will vigorously explore and develop the licensing opportunities worldwide for its Nakamichi brand based on the success of the existing business models for the Akai and Sansui brands. The EMS will continue to solicit top-tier customers, both in the PRC and overseas, for the provision of its OEM manufacturing services including the high precision engineering contract services with the state-of-the-art Surface Mount Technology machines. The Group expects to make continuous improvement in its operating and financial results in consequence of these measures.

I would like to extend my appreciation to the management and staff of the Group for their dedication, loyalty and commitment. I would also like to thank our shareholders, customers, suppliers and business associates for their continuing support and confidence in the Group.

Christopher W. Ho
Chairman

Hong Kong, 30 April 2010

REVIEW OF OPERATIONS AND PROSPECTS

For the year 2009, the Group's loss attributable to shareholders was HK$1,266 million as compared to a loss of HK$240 million for the year 2008. The loss for 2009 included a settlement compensation of HK$969 million in respect of certain court proceedings as detailed in note 33 to the consolidated financial statements and a recognition of aggregate impairment loss of HK$165 million in respect of certain trademarks and goodwill consequent upon the contraction of global consumer electronics markets during the year.

The revenue was HK$2,361 million for the year as compared to HK$2,432 million for 2008. The gross profit from operating activities was HK$362 million as compared to HK$352 million for 2008.

The core business segments of the Group comprise the Branded Distribution Division and the Electronics Manufacturing Services Division.

THE BRANDED DISTRIBUTION DIVISION

The Division comprises the Emerson operations and the Distribution and Licensing operations for Akai, Sansui and Nakamichi brands.

Emerson

Emerson is a popular brand in the North America focusing on various entry level and moderately priced audio and video products and household appliances. The trade name "Emerson Radio" dates back to 1912 and is one of the oldest and well respected brands in the consumer electronics industry.

Emerson's revenue for 2009 was HK$1,565 million as compared to HK$1,545 million for 2008. It recorded an operating profit of HK$45 million for 2009 as compared to a loss of HK$62 million in 2008. The improvement in the operating results was mainly attributable to the implementation of effective cost control measures and prudent operational strategies of leveraging Emerson's core competencies to offer a broader variety of electronic products to customers; and the entering into of licenses with third parties for the use of the Emerson trade name and trademark.

Exports for the first half of 2009 was hit hard by the financial tsunami spreading across the globe. In the second half of 2009, a series of economic stimulus policies and measures were implemented by the government of the United States, which started to bear fruit and stabilize the consumers' sentiment. The Group is cautiously optimistic of the business performance of Emerson in 2010.

Distribution and Licensing

This segment has the responsibility of managing the global licensing operations of Akai, Sansui and Nakamichi brands. The Group's strategy is to qualify and appoint exclusive licensees for each brand in different geographical regions, granting them the rights to source, market, promote and distribute the approved branded products with their own resources, expertise and knowledge in the domestic markets.

The revenue of this segment was HK$152 million for 2009 as compared to HK$253 million for 2008. The operating profit for 2009 was HK$51 million as compared to HK$70 million for 2008. The decrease in revenue and operating profit was attributable to the continuing negative sentiment over the consumer markets in Europe and Asia during 2009 consequent upon the financial tsunami in late 2008.

There have been some signs of recovery in the global consumer markets since the second half of 2009. The Group will continue to focus on expanding its licensing operations for the Akai, Sansui and Nakamichi brands and improving their competitive edge and market awareness.

THE ELECTRONICS MANUFACTURING SERVICES DIVISION

The Electronics Manufacturing Services Division ("EMS") provides OEM manufacturing services including high precision engineering contract services with the state-of-the-art Surface Mount Technology machines in its PRC plants to both the overseas and domestic customers.

The EMS revenue for 2009 was HK$644 million as compared to HK$634 million for 2008. The EMS operating loss for 2009 was HK$6 million as compared to a loss of HK$11 million in 2008. The improvement in the operating result was attributable to the reduction of operating costs through cost-efficient rationalization programmes implemented during the year.

In view of the shrinkage of the overseas consumer electronics markets, the EMS operation will continue to vigorously develop its OEM customer base in the PRC. The Group will also continue to put effort to increase production efficiency in order to enhance its competitiveness.

Looking ahead, the overall market sentiment is gradually improving. The Group will endeavor to maintain steady business growth and maximize the return for its shareholders.

Adrian C. C. Ma
Group Managing Director
and Chief Executive Officer

Hong Kong, 30 April 2010

The board of directors (the "Board") of the Company is pleased to present this Corporate Governance Report in the Group's annual report for the year ended 31 December 2009.

CORPORATE GOVERNANCE PRACTICES

The Company wishes to emphasize the importance of its Board in introducing and maintaining high standards of corporate governance and transparency and accountability of Company operations.

The Company has applied the principles as set out in the Code on Corporate Governance Practices (the "CG Code") contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

In the opinion of the directors, the Company has complied with all the code provisions set out in the CG Code throughout the year under review, except for the deviation in respect of the service term under code provision A.4.1 of the Listing Rules.

Under code provision A.4.1, non-executive directors should be appointed for a specific term and subject to re-election. Currently, independent non-executive directors are not appointed for a specific term. However, all directors are subject to retirement by rotation at least once every three years at each annual general meeting pursuant to the Bye-laws of the Company. As such, the Company considers that sufficient measures have been taken to ensure that the Company's corporate governance practices are no less exacting than those in the CG Code.

The Company will continue to enhance its corporate governance practices appropriate to the conduct and growth of its business and to review its corporate governance practices from time to time to ensure they comply with the statutory and the CG Code and align with the latest developments.

THE BOARD

Responsibilities

The Board is responsible for the leadership and control of the Company and oversees the Group's businesses, strategic decisions and performances. The senior management is delegated the authority and responsibilities by the Board for the day-to-day management and operations of the Group. In addition, the Board has also established Board committees and has delegated to these Board committees various responsibilities set out in their terms of reference respectively.

Every director shall ensure that he carries out his duty in good faith and in compliance with the standards of applicable laws and regulations, and acts in the interests of the Company and its shareholders at all times.

BOARD COMPOSITION

The Board currently comprises eight members, consisting of four executive directors, one non-executive director and three independent non-executive directors.

The Board of the Company comprises the following directors:

Executive directors:

Mr. Christopher W. Ho *(Chairman)*
Mr. Adrian C. C. Ma *(Group Managing Director and Chief Executive Officer)*
Mrs. Christine L. S. Asprey
Mr. Paul K. F. Law

Non-executive director:

Mr. Michael A. B. Binney

Independent non-executive directors:

Mr. Henry C. S. Chong
Mr. Herbert H. K. Tsoi
Mr. Martin I. Wright

The list of directors (by category) is also disclosed in all corporate communications issued by the Company pursuant to the Listing Rules from time to time. The independent non-executive directors are expressly identified in all corporate communications pursuant to the Listing Rules.

The relationships among the members of the Board are disclosed under "Brief Biographical Details in respect of Directors" on page 23.

During the year ended 31 December 2009, the Board at all times met the requirements of the Listing Rules relating to the appointment of at least three independent non-executive directors with at least one independent non-executive director possessing appropriate professional qualifications, or accounting or related financial management expertise.

The Company has received written annual confirmation from each independent non-executive director of his independence pursuant to the requirements of the Listing Rules. The Company considers all independent non-executive directors to be independent in accordance with the independence guidelines set out in the Listing Rules.

All directors, including non-executive director and independent non-executive directors, have brought a wide spectrum of valuable business experience, knowledge and professionalism to the Board for its efficient and effective functioning. Independent non-executive directors are invited to serve on the Audit, Remuneration and Nomination Committees of the Company.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The Chairman of the Board is Mr. Christopher W. Ho and the Chief Executive Officer is Mr. Adrian C. C. Ma. The positions of the Chairman and Chief Executive Officer are held by separate persons in order to preserve independence and a balanced judgment of views. The Chairman provides leadership and is responsible for the effective functioning of the Board in accordance with good corporate governance practices. The Chief Executive Officer focuses on implementing objectives, policies and strategies approved and delegated by the Board.

APPOINTMENT AND RE-ELECTION OF DIRECTORS

Each of the executive directors and non-executive director of the Company is engaged on a service contract and each of the independent non-executive directors is subject to retirement by rotation pursuant to the Company's Bye-laws. The appointment may be terminated by not less than one month's written notice.

In accordance with the Company's Bye-laws, all directors of the Company are subject to retirement by rotation at least once every three years and any new director appointed to fill a causal vacancy or as an addition to the Board shall submit himself/herself for re-election by shareholders at the first general meeting after appointment.

The procedures and process of appointment, re-election and removal of directors are laid down in the Company's Bye-laws. The Nomination Committee is responsible for reviewing the Board composition, monitoring the appointment and succession planning of directors and assessing the independence of independent non-executive directors.

Nomination Committee

The Nomination Committee comprises three members, namely Mr. Henry C. S. Chong (Chairman), Mr. Christopher W. Ho and Mr. Herbert H. K. Tsoi, the majority of them are independent non-executive directors.

The principal duties of the Nomination Committee include reviewing the Board composition, developing and formulating relevant procedures for nomination and appointment of directors, making recommendations to the Board on the appointment and succession planning of directors, and assessment of the independence of the independent non-executive directors. An external recruitment agency may be engaged to carry out the recruitment and selection process when necessary.

The Nomination Committee met once during the year ended 31 December 2009 and reviewed the structure, size and composition of the Board to ensure that it has a balance of expertise, skills and experience appropriate for the requirements of the business of the Company.

In accordance with the Company's Bye-laws, Mr. Christopher W. Ho, Mrs. Christine L. S. Asprey and Mr. Michael A. B. Binney shall retire by rotation and being eligible, offer themselves for re-election at the forthcoming annual general meeting.

The Nomination Committee recommended the re-appointment of the directors standing for re-election at the forthcoming annual general meeting of the Company.

The Company's circular dated 30 April 2010 contains detailed information of the directors standing for re-election.

There was one meeting held by the Nomination Committee during the year ended 31 December 2009 and the attendance records are set out below:

Name of Directors	Attendance/Number of Meetings
Mr. Henry C. S. Chong	1/1
Mr. Christopher W. Ho	1/1
Mr. Herbert H. K. Tsoi	0/1

INDUCTION AND CONTINUING DEVELOPMENT FOR DIRECTORS

There was no new director appointed during the year ended 31 December 2009. In case there is any newly appointed directors, he/she shall receive induction on the first occasion of his/her appointment, so as to ensure that he/she has appropriate understanding of the business and operations of the Company and that he/she is fully aware of his/her responsibilities and obligations under the Listing Rules and relevant regulatory requirements.

The directors are continually updated with legal and regulatory developments, and the business and market changes to facilitate the discharge of their responsibilities. Continuing briefings and professional development to directors will be arranged whenever necessary.

BOARD MEETINGS

Board Practices and Conduct of Meetings

Annual meeting schedules and draft agenda of each meeting are normally made available to directors in advance.

Notices of regular Board meetings are served to all directors at least 14 days before the meetings. For other Board and committee meetings, reasonable notice is generally given.

Board papers together with all appropriate, complete and reliable information are sent to all directors at least 3 days before each Board meeting or committee meeting to keep the directors apprised of the latest developments and financial position of the Company and to enable them to make informed decisions. The Board and each director also have separate and independent access to the senior management whenever necessary.

The Chairman, Chief Executive Officer and Company Secretary attend the regular Board meetings and when necessary, other Board and committee meetings to advise on business developments, financial and accounting matters, statutory compliance, corporate governance and other major aspects of the Company.

The Company Secretary is responsible to take and keep minutes of all Board meetings and committee meetings. Draft minutes are normally circulated to directors for comment within a reasonable time after each meeting and the final version is open for directors' inspection.

The Company's Bye-laws contains provisions requiring directors to abstain from voting and not to be counted in the quorum at meetings for approving transactions in which such directors or any of their associates have a material interest. According to current Board practice, any material transaction, which involves a conflict of interests for a substantial shareholder or a director, will be considered and dealt with by the Board at a duly convened Board meeting.

Directors' Attendance Records

During the year ended 31 December 2009, four regular Board meetings were held at approximately quarterly intervals for reviewing and approving the financial and operating performance, and considering and approving the overall strategies and policies of the Company.

The attendance records of each director at the Board meetings during the year ended 31 December 2009 are set out below:

Name of Directors	Attendance/Number of Meetings
Mr. Christopher W. Ho	4/4
Mr. Adrian C. C. Ma	4/4
Mrs. Christine L. S. Asprey	4/4
Mr. Paul K. F. Law	4/4
Mr. Michael A. B. Binney	4/4
Mr. Henry C. S. Chong	4/4
Mr. Herbert H. K. Tsoi	3/4
Mr. Martin I. Wright	3/4

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules.

Specific enquiry has been made of all the directors and the directors have confirmed that they have complied with the Model Code throughout the year ended 31 December 2009.

The Company also has established written guidelines on no less exacting terms than the Model Code (the "Employees Written Guidelines") for securities transactions by employees who are likely to be in possession of unpublished price-sensitive information of the Company.

No incident of non-compliance of the Employees Written Guidelines by the employees was noted by the Company.

DELEGATION BY THE BOARD

The Board undertakes responsibility for decision making in major company matters, including the approval and monitoring of all policy matters, overall strategies and budgets, internal control and risk management systems, material transactions (in particular those may involve conflict of interests), financial information, appointment of directors and other significant financial and operational matters.

All directors have full and timely access to all relevant information as well as the advice and services of the Company Secretary, with a view to ensuring that Board procedures and all applicable rules and regulations are followed. Each director is normally able to seek independent professional advice in appropriate circumstances at the Company's expense, upon making request to the Board.

The day-to-day management, administration and operation of the Company are delegated to the Chief Executive Officer and the senior management. The delegated functions and work tasks are periodically reviewed. Approval has to be obtained from the Board prior to any significant transactions entered into by the abovementioned officers.

The Board has established three committees, namely, the Nomination Committee, Remuneration Committee and Audit Committee, for overseeing particular aspects of the Company's affairs. All Board committees of the Company are established with defined written terms of reference which are posted on the Company's website and are available to shareholders upon request.

REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT

The Company has established a formal and transparent procedure for formulating policies on remuneration of directors and senior management of the Group. Details of the remuneration of each of the directors of the Company for the year ended 31 December 2009 are set out on page 62 in note 10 to the consolidated financial statements.

REMUNERATION COMMITTEE

The Remuneration Committee comprises three members, namely Mr. Herbert H. K. Tsoi (Chairman), Mr. Christopher W. Ho and Mr. Henry C. S. Chong, the majority of them are independent non-executive directors.

The primary objectives of the Remuneration Committee include making recommendations on and approving the remuneration policy and structure and remuneration packages of the executive directors and the senior management. The Remuneration Committee is also responsible for establishing transparent procedures for developing such remuneration policy and structure to ensure that no director or any of his/her associates will participate in deciding his/her own remuneration, which remuneration will be determined by reference to the performance of the individual and the Company as well as market practice and conditions.

The Remuneration Committee has reviewed the remuneration policy and structure of the Company, and the remuneration packages of the executive directors and the senior management for the year under review.

There was one meeting held by the Remuneration Committee during the year ended 31 December 2009 and the attendance records are set out below:

Name of Directors	Attendance/Number of Meetings
Mr. Herbert H. K. Tsoi	0/1
Mr. Christopher W. Ho	1/1
Mr. Henry C. S. Chong	1/1

ACCOUNTABILITY AND AUDIT

Directors' Responsibilities for Financial Reporting

The directors acknowledge their responsibilities for preparing the financial statements of the Company for the year ended 31 December 2009.

The Board is responsible for presenting a balanced, clear and understandable assessment of annual and interim reports, price-sensitive announcements and other disclosures required under the Listing Rules and other regulatory requirements.

The management provides such explanation and information to the Board so as to enable the Board to make an informed assessment of the financial information and position of the Company put to the Board for approval.

INTERNAL CONTROLS

During the year under review, the Board has conducted a review of the effectiveness of the internal control system of the Company.

The Board is responsible for maintaining an adequate internal control system to safeguard shareholder investments and Company assets and reviewing the effectiveness of such system on an annual basis.

The internal control system of the Group is designed to facilitate effective and efficient operations, to ensure reliability of financial reporting and compliance with applicable laws and regulations, to identify and manage potential risks and to safeguard assets of the Group. The internal auditor shall review and evaluate the control process and monitor any risk factors on a regular basis and report to the Audit Committee on any findings and measures to address the variances and identified risks.

AUDIT COMMITTEE

The Audit Committee comprises three independent non-executive directors, namely Mr. Martin I. Wright (Chairman), Mr. Henry C. S. Chong and Mr. Herbert H. K. Tsoi. All of them possess the appropriate professional qualifications or accounting or related financial management expertise. None of the members of the Audit Committee is a former partner of the Company's existing external auditors.

The main duties of the Audit Committee include the following:

- To review the financial statements and reports and consider any significant or unusual items raised by the internal auditor or external auditors before submission to the Board.

- To review the relationship with the external auditors by reference to the work performed by the auditors, their fees and terms of engagement, and make recommendation to the Board on the appointment, re-appointment and removal of external auditors.

- To review the adequacy and effectiveness of the Company's financial reporting system, internal control system and risk management system and associated procedures.

The Audit Committee provides supervision on the internal control system of the Group and reports to the Board on any material issues and makes recommendations to the Board.

During the year under review, the Audit Committee has reviewed the Group's annual results and annual report for the year ended 31 December 2008 and interim results and interim report for the six months ended 30 June 2009, the financial reporting and compliance procedures, the report of Internal Auditor on the Company's internal control and risk management review and processes and the re-appointment of the external auditors.

There were two meetings held by the Audit Committee during the year ended 31 December 2009 and the attendance records are set out below:

Name of Directors	**Attendance/Number of Meetings**
Mr. Martin I. Wright	2/2
Mr. Henry C. S. Chong	2/2
Mr. Herbert H. K. Tsoi	1/2

EXTERNAL AUDITORS AND AUDITORS' REMUNERATION

The statement of the external auditors of the Company about their reporting responsibilities on the consolidated financial statements is set out in the "Independent Auditors' Report" on pages 28 and 29.

During the year under review, the remuneration paid to the Company's external auditors is set out below:

Category of services	**Fee paid/payable** HK$ million
Audit service	8.2
Non-audit service	
– Tax and consulting services	1.8
Total	10.0

COMMUNICATIONS WITH SHAREHOLDERS AND INVESTORS

The Company believes that effective communication with shareholders is essential for enhancing investor relations and investors' understanding of the Group's business performance and strategies. The Group also recognises the importance of transparency and timely disclosure of corporate information which enables shareholders and investors to make the best investment decision.

The general meetings of the Company provide an important channel for communication between the Board and the shareholders. The Chairman of the Board as well as chairmen of the Nomination Committee, Remuneration Committee and Audit Committee or, in their absence, other members of the respective committees and, where applicable, the independent Board committee, are available to answer questions at the shareholders' meetings.

To promote effective communication, the Company maintains a website at www.grandeholdings.com, where up-to-date information and updates on the Company's business developments and operations, financial information, corporate governance practices and other information are posted. Investors may write directly to the Company at its corporate office in Hong Kong for any inquiries.

SHAREHOLDER RIGHTS

To safeguard the shareholders' interests and rights, separate resolutions are proposed at shareholders' meetings on each substantial issue, including the election of individual directors.

Pursuant to Rule 13.39(4) of the Listing Rules, any vote of shareholders at a general meeting must be taken by poll. Therefore, all the resolutions set out in the notice of the Annual General Meeting (the "AGM") will be voted by poll accordingly.

An announcement on the poll vote results will be made by the Company after the AGM in the manner prescribed under Rule 13.39(5) of the Listing Rules.

On behalf of the Board

Christopher W. Ho
Chairman

Hong Kong, 30 April 2010

The directors herein present their report and the audited consolidated financial statements of the Group for the year ended 31 December 2009.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The principal activities of the subsidiaries consist of the manufacture and sale of electronic products and components, trading of audio and video products and licensing of trademarks.

SEGMENTED INFORMATION

Details of revenue and segmented information are set out in notes 8 and 42 to the consolidated financial statements.

RESULTS AND DIVIDENDS

The Group's results for the year ended 31 December 2009 and the state of affairs of the Group at that date are set out in the consolidated financial statements on pages 30 to 88.

The directors do not recommend the payment of a final dividend for the year ended 31 December 2009.

SUMMARY FINANCIAL INFORMATION

A summary of the published results and of the assets and liabilities of the Group for the last five financial years, as extracted from the published audited consolidated financial statements is set out below:

RESULTS

	Year ended 31 December				
	2009 HK$ million	2008 HK$ million	2007 HK$ million	2006 HK$ million	2005 HK$ million
CONTINUING OPERATIONS – REVENUE	**2,361**	2,432	7,187	8,755	5,469
(LOSS)/PROFIT BEFORE TAX	**(1,250)**	(298)	(1,002)	280	270
Tax	**(7)**	(3)	(19)	(32)	(11)
(LOSS)/PROFIT BEFORE MINORITY INTERESTS	**(1,257)**	(301)	(1,021)	248	259
Minority interests	**(9)**	61	55	28	20
	(1,266)	(240)	(966)	276	279
DISCONTINUED OPERATIONS	**–**	–	371	84	23
(LOSS)/PROFIT ATTRIBUTABLE TO SHAREHOLDERS	**(1,266)**	(240)	(595)	360	302

SUMMARY FINANCIAL INFORMATION (continued)

ASSETS AND LIABILITIES

	31 December				
	2009	2008	2007	2006	2005
	HK$ million	HK$ million	HK$ million	HK$ million	HK$ million
NON-CURRENT ASSETS	**2,600**	2,838	3,086	4,379	3,067
CURRENT ASSETS	**1,100**	1,226	4,123	3,608	3,635
TOTAL ASSETS	**3,700**	4,064	7,209	7,987	6,702
CURRENT LIABILITIES	**2,085**	1,200	3,530	3,198	3,113
NON-CURRENT LIABILITIES	**733**	736	432	833	423
TOTAL LIABILITIES	**2,818**	1,936	3,962	4,031	3,536
NET ASSETS	**882**	2,128	3,247	3,956	3,166
SHARE CAPITAL AND RESERVES	**104**	1,357	2,388	2,993	2,708
MINORITY INTERESTS	**778**	771	859	963	458
TOTAL EQUITY	**882**	2,128	3,247	3,956	3,166

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group are set out in note 14 to the consolidated financial statements.

INVESTMENT PROPERTIES

Details of movements in the investment properties of the Group are set out in note 15 to the consolidated financial statements.

SUBSIDIARIES AND ASSOCIATES

Particulars of the Company's principal subsidiaries and associates are set out in notes 43 and 16 to the consolidated financial statements respectively.

SHARE CAPITAL AND SHARE PREMIUM

Details of the Company's share capital and share premium are set out in note 36 to the consolidated financial statements.

DISTRIBUTABLE RESERVES

As at 31 December 2009, the Company did not maintain any reserve available for distribution to shareholders, calculated under the provisions of the Companies Act 1981 of Bermuda.

The Company's share premium account may be distributed in the form of fully paid bonus shares.

MAJOR CUSTOMERS AND MAJOR SUPPLIERS

In the year under review, sales to the Group's largest customer and five largest customers accounted for approximately 33% and 78% respectively of the Group's total revenue for the year.

Purchases from the Group's largest supplier and five largest suppliers accounted for approximately 45% and 87% respectively of the Group's total purchases for the year.

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

DIRECTORS' REMUNERATION

Details of the directors' remuneration are set out in note 10 to the consolidated financial statements.

DIRECTORS

The directors of the Company during the year were:

Mrs. Christine L. S. Asprey
Mr. Michael A. B. Binney
Mr. Henry C. S. Chong
Mr. Christopher W. Ho
Mr. Paul K. F. Law
Mr. Adrian C. C. Ma
Mr. Herbert H. K. Tsoi
Mr. Martin I. Wright

In accordance with the provisions of the Company's Bye-laws, Mrs. Christine L. S. Asprey, Mr. Michael A. B. Binney and Mr. Christopher W. Ho. will retire and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting. The directors who are proposed for re-election do not have any unexpired service contract with the Company.

DIRECTORS' INTERESTS IN CONTRACTS

No director had a beneficial interest, either direct or indirect, in any significant contract to which the Company or any of its subsidiaries was a party at the reporting date or at any time during the year.

There were no unexpired service contracts which are not determinable by the Company within one year without compensation, other than statutory payments, in respect of any director proposed for re-election at the forthcoming annual general meeting.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

At no time during the year was the Company or any of its subsidiaries a party to any arrangement to enable the Company's directors, their respective spouse or children under 18 years of age, to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

DIRECTORS' INTERESTS IN SHARE CAPITAL

As at 31 December 2009, the interests of the directors and chief executives of the Company in the shares and underlying shares of the Company or its associated corporations, if any, within the meaning of Part XV of the Securities and Futures Ordinance ("SFO") which were required to be notified to the Company and The Stock Exchange of Hong Kong Limited ("HKSE") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were deemed or taken to have under such provisions of the SFO) or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to the Model Code, to be notified to the Company and HKSE were as follows:

Long positions in shares:

Directors	Capacity	Number of issued ordinary shares of HK$0.10 each in the Company held	% of the issued share capital
Mr. Christopher W. Ho	Beneficiary of a discretionary trust	321,599,822*	69.87%
Mr. Adrian C. C. Ma	Beneficial owner	78,000	0.02%

* *Mr. Christopher W. Ho is deemed to have interests in these shares as he is one of the beneficiaries of a discretionary trust which owns the entire issued share capital of The Ho Family Trust Limited that owns the entire issued share capital of Airwave Capital Limited, which in turn through its wholly owned subsidiary Barrican Investments Corporation, indirectly owns 321,599,822 ordinary shares in the Company.*

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2009, the following persons (other than the directors or chief executives of the Company) had, or was deemed or taken to have interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company and HKSE under the provisions of Division 2 and 3 of Part XV of the SFO or, who was directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group or had any option in respect of such capital:

Name of substantial shareholders	Capacity	Number of issued ordinary shares of HK$0.10 each in the Company held	% of the issued share capital
Ms. Rosy L. S. Yu	Interest as Mr. Ho's spouse	321,599,822*	69.87%
Barrican Investments Corporation	Beneficial owner	321,599,822#	69.87%
Accolade Inc.	Trustee	321,599,822#	69.87%

* *Ms. Rosy L. S. Yu is deemed to have interests in these shares by virtue of being the spouse to Mr. Christopher W. Ho.*

\# *Accolade Inc. is deemed to have interests in these shares as the trustee to the discretionary trust which owns the entire issued share capital of The Ho Family Trust Limited that owns the entire issued share capital of Airwave Capital Limited, which in turn through its wholly owned subsidiary, Barrican Investments Corporation, indirectly owns 321,599,822 ordinary shares in the Company.*

SUBSTANTIAL SHAREHOLDERS (continued)

Save as disclosed above, as at 31 December 2009, none of the directors knew of any person (other than the directors or chief executives of the Company) who had, or was deemed or taken to have interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company and HKSE under the provisions of Division 2 and 3 of Part XV of the SFO or, who were, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group or had any option in respect of such capital.

BRIEF BIOGRAPHICAL DETAILS IN RESPECT OF DIRECTORS

Name	Age	Position held	Number of years of service	Business experience
Board of Directors				
Executive Directors				
Mr. Christopher W. Ho	59	Chairman	19	Manufacturing, international trading and corporate finance
Mr. Adrian C. C. Ma	65	Group Managing Director and Chief Executive Officer	26	Consumer electronics industry
Mrs. Christine L. S. Asprey	61	Group Executive Director	12	International marketing, market research and industrial affairs
Mr. Paul K. F. Law	53	Group Executive Director	18	Consumer electronics industry
Non-executive Director				
Mr. Michael A. B. Binney	50	Non-executive Director	20	Finance, accounting and corporate restructuring
Independent Non-executive Directors				
Mr. Henry C. S. Chong	59	Non-executive Director	1	Import and export trading
Mr. Herbert H. K. Tsoi	59	Non-executive Director	12	Solicitor
Mr. Martin I. Wright	48	Non-executive Director	6	Finance and accounting

BRIEF BIOGRAPHICAL DETAILS IN RESPECT OF DIRECTORS (continued)

Directors with other directorships held in the last three years, as up to the date of this report, in public companies the securities of which are listed on any securities market in Hong Kong or overseas are set out below:

(i) Mr. Christopher W. Ho has been a director of (a) Sansui Electric Co., Ltd. ("SEC") (retired on 30 March 2010), a company listed on the First Section of the Tokyo Stock Exchange; (b) Emerson Radio Corp. ("Emerson"), a company listed on the NYSE Alternext US; and (c) Lafe Corporation Limited ("Lafe"), a company listed on the Singapore Exchange Securities Trading Limited.

(ii) Mr. Adrian C. C. Ma has been a director of (a) Ross Group Plc ("Ross") (resigned on 29 April 2009), a company listed on the London Stock Exchange; (b) Emerson; (c) Lafe; and (d) SEC.

(iii) Mr. Michael A. B. Binney has been a director of (a) Nakamichi Corporation Berhad (resigned on 31 December 2008), a company listed on the Kuala Lumpur Stock Exchange; (b) Emerson (resigned on 31 January 2009); (c) Ross (resigned on 29 April 2009); (d) Lafe; and (e) SEC.

The Company received the annual confirmation of year 2009 from each independent non-executive director and considers that they are independent.

Mr. Christopher W. Ho and Mrs. Christine L. S. Asprey are brother and sister.

BRIEF BIOGRAPHICAL DETAILS IN RESPECT OF SENIOR MANAGEMENT STAFF

Name	Age	Position held	Number of years of service	Business experience
Electronics Manufacturing Services Division				
Mr. H. C. Yeung	51	Deputy Managing Director	26	Consumer electronics industry
Branded Distribution Division				
Mr. Duncan T. K. Hon	49	Chief Executive Officer	3	Consumer electronics industry
Mr. Takeshi Nakamichi	60	Deputy Managing Director	38	Product research and development
Treasury and Corporate Finance				
Mrs. Eleanor Crosthwaite	56	Managing Director	24	Treasury
Mr. Tony W. M. Lam	45	Executive Director – Corporate finance and development	18	Banking and treasury
Legal				
Ms. Ruby Y. K. Lee	48	Group Legal Counsel	16	Solicitor

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2009, the Group had total assets of HK$3,700 million which were financed by total equity of HK$882 million including minority interests of HK$778 million and total liabilities of HK$2,818 million. The Group had a current ratio of approximately 0.53 as compared to that of approximately 1.02 at 31 December 2008.

As at 31 December 2009, the Group had HK$342 million cash and bank balances. The Group's working capital requirements were mainly financed by internal resources, borrowings from related companies and short-term borrowings which were charged by banks at fixed and floating interest rates as detailed in note 30 to the consolidated financial statements. As at 31 December 2009, the Group had HK$499 million short-term bank borrowings.

The Group had inventories of approximately HK$179 million as at 31 December 2009 representing a decrease of HK$135 million as compared to the previous year.

As at 31 December 2009, the Group's gearing ratio was 200% which is calculated based on the Group's net borrowings of HK$1,768 million (calculated as total interest-bearing borrowings less cash and bank balances) divided by the total equity of HK$882 million.

As at 31 December 2009, the Group had net current liabilities of HK$95 million, excluding the outstanding settlement obligations of HK$890 million in respect of certain court proceedings as detailed in note 33 to the consolidated financial statements. As set out in note 44 to the consolidated financial statements, on 23 April 2010, the Company's ultimate holding company, Accolade Inc. ("Accolade") has confirmed its commitment to assume the aforesaid outstanding settlement obligations from the Company.

Subject to any unforeseeable changes on market conditions, the directors have a reasonable expectation that the Group will be able to generate sufficient funds from its business to continue in operational existence for the foreseeable future based on the assessment of the individual business liquidity and cash flow requirements for the next twelve months. While the Company is in ongoing negotiation with certain creditors on refinancing or rescheduling the payment terms, Accolade has confirmed its intention to provide continuous financial support in funding the working capital requirements of the Company. The directors consider that Accolade has the financial capability to provide its financial support to the Company. Accordingly, the directors continue to adopt the going concern basis in preparing these consolidated financial statements. As at 31 December 2009, Accolade had through its subsidiary provided HK$545 million to the Group and out of which HK$535 million is subject to repayment only after one year from the reporting date.

CHARGES ON GROUP ASSETS

As at 31 December 2009, certain of the Group's assets with a total carrying value of approximately HK$1,633 million were pledged to banks to secure banking and other borrowing facilities granted to the Group. Details are set out in note 40 to the consolidated financial statements.

TREASURY POLICIES

The Group's major borrowings are in US dollars, Renminbi Yuan, Japanese Yen and HK dollars. All borrowings are based on fixed rates or best lending rates of the underlying currencies. The Group's revenues are mainly in US dollars and major borrowings and payments are in either US dollars, Renminbi Yuan or HK dollars. The Group is exposed to currency risk exposure resulted from the fluctuations of Renminbi Yuan against the US dollars and HK dollars. The Group has a strong treasury management function and will continue to manage its currency and interest rate exposures.

EMPLOYEES AND REMUNERATION POLICIES

The number of employees of the Group as at 31 December 2009 was approximately 2,000. The Group remunerated its employees mainly based on industry practice, individual's performance and experience. Apart from the basic remuneration, a discretionary bonus may be granted to eligible employees by reference to the Group's performance as well as to an individual's performance. Other benefits include medical and retirement schemes.

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

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

SIGNIFICANT INVESTMENTS

During 2007, the Group increased its shareholding interests in SEC from 30% at 31 December 2006 to 40% at 31 December 2007. Since the Group has gained control over SEC's financial and operating policies, the investment in SEC has since June 2007 been accounted for as a subsidiary. There was no movement in the Group's shareholding interests in SEC during the year.

LEGAL PROCEEDINGS

Details of the legal proceedings of the Group are set out in note 38 to the consolidated financial statements.

PRE-EMPTIVE RIGHTS

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

CONNECTED TRANSACTIONS

On 31 December 2008 and 22 April 2008, the Group entered into the framework lease agreement and the management services agreement respectively with Lafe. Lafe was a subsidiary of the Company before the distribution by way of dividend in specie of the shares of Lafe to the shareholders of the Company on 29 February 2008. Before the distribution, the members of the Group has been occupying various storeys and using various car parking spaces in the premises held by Lafe and the Group has been providing management services to Lafe and its subsidiaries. The entering into of these agreements would enable members of the Group to continue occupying and using the relevant premises and car parking spaces and to maintain the long-term relationship with Lafe. Mr. Christopher W. Ho, a director of the Company, is deemed to have interests in Lafe as he is one of the beneficiaries of a discretionary trust which owns the entire issued capital of Clarendon Investments Capital Ltd that owns approximately 53% of the issued capital of Lafe and therefore Lafe is a connected person of the Company under the Listing Rules. The transactions constituted continuing connected transactions of the Company.

Significant related party transactions entered by the Group during the year ended 31 December 2009, which constituted connected transactions under the Listing Rules are disclosed in note 7 to the consolidated financial statements.

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

The directors have received the auditors' confirmation as required under Rule 14A.38 of Chapter 14A of the Listing Rules.

AUDIT COMMITTEE

The principal activities of the Audit Committee include the review and supervision of the Group's financial reporting process and internal controls. The Audit Committee has reviewed the consolidated financial statements of the Group for the year ended 31 December 2009.

The Audit Committee comprises three independent non-executive directors, namely Mr. Henry C. S. Chong, Mr. Herbert H. K. Tsoi and Mr. Martin I. Wright.

CORPORATE GOVERNANCE

The Company's corporate governance principles and practices are set out in the Corporate Governance Report on pages 10 to 18 of this annual report.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules as its own code of conduct regarding securities transactions by the directors of the Company. Having made specific enquiry to the directors of the Company, all the directors confirmed that they had complied with the required standards as set out in the Model Code during the year ended 31 December 2009.

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the directors up to the date of this report, the Company has sufficient public float as required under the Listing Rules.

EVENTS AFTER THE REPORTING PERIOD

Details of events after the reporting period are set out in note 44 to the consolidated financial statements.

INDEPENDENT AUDITORS

Messrs. Moore Stephens retire and a resolution for their reappointment as independent auditors of the Company will be proposed at the forthcoming annual general meeting. The Company has not changed independent auditors in the past three years.

ON BEHALF OF THE BOARD

Christopher W. Ho
Chairman

Hong Kong
30 April 2010

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CERTIFIED PUBLIC ACCOUNTANTS

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馬施雲
會計師事務所

Independent Auditors' Report
to the Shareholders of
The Grande Holdings Limited
(Incorporated in Bermuda with limited liability)

We have audited the consolidated financial statements of The Grande Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 30 to 88 which comprise the consolidated statement of financial position as at 31 December 2009, 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 notes.

Directors' responsibility for the consolidated financial statements

The directors of the Company are responsible for the preparation and the true and fair presentation of these consolidated financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' responsibility

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

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

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

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

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Group as at 31 December 2009 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.

Emphasis of matter

Without qualifying our opinion, we draw attention to note 4(a) to the consolidated financial statements which indicates that the Group incurred a loss of HK$1,266 million during the year ended 31 December 2009 and, as of that date, the Group's current liabilities exceeded its current assets by HK$95 million excluding the outstanding settlement obligations of HK$890 million in respect of certain court proceedings as detailed in note 33 to the consolidated financial statements.

These conditions, along with other matters as set forth in note 4(a), indicate the existence of a material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern. The Group's ability to continue as a going concern is dependent on the financial support of its ultimate holding company, Accolade Inc. which has confirmed its intention to provide such assistance. The consolidated financial statements do not include the adjustments that would result if the Group were unable to continue as a going concern.

Moore Stephens
Certified Public Accountants

Hong Kong
30 April 2010

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2009

	Notes	2009 HK$ million	2008 HK$ million
REVENUE	8	**2,361**	2,432
Cost of sales		**(1,999)**	(2,080)
Gross profit		**362**	352
Other income		**144**	204
Gain on disposal of subsidiaries		**3**	29
Reversal of losses on disposal of subsidiaries		**–**	123
Distribution costs		**(47)**	(92)
Administrative expenses		**(349)**	(403)
Impairment loss recognised in respect of goodwill		**(55)**	(194)
Impairment loss recognised in respect of brands and trademarks		**(110)**	–
Other expenses		**(138)**	(270)
Finance costs	9	**(91)**	(44)
Share of loss of associates	16(b)	**–**	(3)
LOSS BEFORE SETTLEMENT OF COURT PROCEEDINGS AND TAX		**(281)**	(298)
Settlement of court proceedings	33	**(969)**	–
LOSS BEFORE TAX		**(1,250)**	(298)
Tax	11	**(7)**	(3)
LOSS FOR THE YEAR	9	**(1,257)**	(301)
OTHER COMPREHENSIVE INCOME/(LOSS), NET OF TAX –			
Exchange differences on translating foreign operations		**11**	(43)
TOTAL COMPREHENSIVE LOSS FOR THE YEAR		**(1,246)**	(344)
(LOSS)/PROFIT FOR THE YEAR ATTRIBUTABLE TO:			
Shareholders of the Company		**(1,266)**	(240)
Minority interests		**9**	(61)
		(1,257)	(301)
TOTAL COMPREHENSIVE (LOSS)/INCOME FOR THE YEAR ATTRIBUTABLE TO:			
Shareholders of the Company		**(1,253)**	(255)
Minority interests		**7**	(89)
		(1,246)	(344)
		HK$	HK$
LOSS PER SHARE	13		
Basic		**(2.75)**	(0.52)
Diluted		**N/A**	N/A

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2009

	Notes	2009 HK$ million	2008 HK$ million
NON-CURRENT ASSETS			
Property, plant and equipment	14	**213**	321
Investment properties	15	**40**	42
Interest in associates	16	**–**	–
Available-for-sale investments	17	**48**	56
Deferred tax assets	18	**84**	49
Brands and trademarks	19	**1,677**	1,774
Other assets	20	**8**	11
Goodwill	21	**530**	585
		2,600	2,838
CURRENT ASSETS			
Inventories	23	**179**	314
Accounts and bills receivables	24	**141**	176
Amounts due from associates	7 (a)	**–**	2
Amounts due from related companies	7 (a)	**2**	–
Prepayments, deposits and other receivables	25	**425**	452
Tax recoverable		**2**	7
Deferred tax assets	18	**–**	36
Held-for-trading investments	26	**9**	96
Derivative financial instruments	27	**–**	1
Pledged deposits with banks		**27**	10
Cash and bank balances		**315**	132
		1,100	1,226
CURRENT LIABILITIES			
Accounts and bills payable	28	**189**	145
Amounts due to associates	7(a)	**–**	3
Amounts due to related companies	7(a)	**23**	62
Accrued liabilities and other payables	29	**432**	193
Tax liabilities		**7**	7
Trust receipt loans		**264**	78
Current portion of secured bank loans	30, 40	**227**	303
Unsecured bank loans	30	**8**	31
Obligations under finance leases	31, 40	**15**	19
Derivative financial instruments	27	**30**	188
Exchangeable bonds issued by a subsidiary	32, 40	**–**	171
		1,195	1,200
Settlement obligations of court proceedings	33	**890**	–
		2,085	1,200
NET CURRENT (LIABILITIES)/ASSETS		**(985)**	26
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,615**	2,864

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2009

	Notes	**2009 HK$ million**	2008 HK$ million
NON-CURRENT LIABILITIES			
Non-current portion of secured bank loans	30, 40	**–**	54
Obligations under finance leases	31, 40	**–**	12
Debenture	34	**53**	214
Derivative financial instruments	27	**61**	78
Provision for retirement and long service payments	35	**–**	2
Amounts due to related companies	7(a)	**535**	270
Accrued liabilities and other payables	29	**84**	106
		733	736
NET ASSETS		**882**	2,128
CAPITAL AND RESERVES			
Share capital	36	**46**	46
Share premium	36	**1,173**	1,173
Reserves		**(1,115)**	138
EQUITY ATTRIBUTABLE TO THE COMPANY'S SHAREHOLDERS		**104**	1,357
MINORITY INTERESTS		**778**	771
TOTAL EQUITY		**882**	2,128

Christopher W. Ho
Chairman

Adrian C. C. Ma
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2009

	Share capital HK$ million	Share premium HK$ million	Contributed reserve HK$ million	Capital reserve HK$ million	Exchange fluctuation reserve HK$ million	Retained earnings/ (deficits) HK$ million	Equity attributable to the Company's shareholders HK$ million	Minority interests HK$ million	Total equity HK$ million
At 1 January 2008	46	1,173	961	34	(49)	223	2,388	859	3,247
Loss for the year	–	–	–	–	–	(240)	(240)	(61)	(301)
Other comprehensive income – Exchange loss on translating foreign operations	–	–	–	–	(15)	–	(15)	(28)	(43)
Total comprehensive loss for the year	–	–	–	–	(15)	(240)	(255)	(89)	(344)
Dividends	–	–	(768)	–	–	–	(768)	–	(768)
Derecognition of revalued properties arising from disposal	–	–	–	(11)	–	11	–	–	–
Acquisition of subsidiaries	–	–	–	–	–	–	–	1	1
Disposal of subsidiaries	–	–	–	–	(8)	–	(8)	–	(8)
At 31 December 2008 and 1 January 2009	46	1,173	193	23	(72)	(6)	1,357	771	2,128
(Loss)/income for the year	–	–	–	–	–	(1,266)	(1,266)	9	(1,257)
Other comprehensive income – Exchange gain/(loss) on translating foreign operations	–	–	–	–	13	–	13	(2)	11
Total comprehensive income/(loss) for the year	–	–	–	–	13	(1,266)	(1,253)	7	(1,246)
At 31 December 2009	46	1,173	193	23#	(59)	(1,272)	104	778	882

The balance of capital reserve represents property revaluation reserve.

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2009

	2009 HK$ million	2008 HK$ million
OPERATING ACTIVITIES		
Loss before tax	**(1,250)**	(298)
Adjustments for:		
Interest income	**(9)**	(16)
Interest expense	**91**	44
Share of loss of associates	**–**	3
Depreciation	**67**	66
Change in fair value of exchangeable bonds and convertible debenture	**(1)**	77
Loss on financial derivatives	**92**	149
Settlement of court proceedings	**969**	–
Change in fair value of held-for-trading investments	**–**	13
Change in fair value of investment properties	**2**	–
Amortisation of other assets	**1**	1
Allowance for doubtful debts	**5**	8
Provision for obsolete inventories	**44**	42
Impairment loss recognised in respect of goodwill	**55**	194
Impairment loss recognised in respect of brands and trademarks	**110**	–
Impairment loss recognised in respect of property, plant and equipment	**14**	–
Impairment loss recognised in respect of available-for-sale investments	**2**	14
Reversal of losses on disposal of subsidiaries	**–**	(123)
Gain on disposal of property, plant and equipment	**(64)**	(55)
Gain on disposal of subsidiaries	**(3)**	(29)
Operating cash flows before working capital changes	**125**	90
Decrease in inventories	**89**	110
Decrease in accounts and bills receivables	**32**	319
Increase in amounts due from associates	**–**	(2)
Decrease in prepayments, deposits and other receivables	**20**	56
Decrease in held-for-trading investments	**74**	93
Increase/(decrease) in accounts and bills payable	**46**	(395)
Decrease in amounts due to associates	**–**	(1)
(Decrease)/increase in accrued liabilities and other payables	**(42)**	143
Cash generated from operations	**344**	413
Interest paid	**(28)**	(34)
Hong Kong profits tax paid	**–**	(1)
Overseas profits tax refunded	**1**	2
Net cash generated from operating activities	**317**	380

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2009

	Note	2009 HK$ million	2008 HK$ million
NET CASH GENERATED FROM OPERATING ACTIVITIES		**317**	380
INVESTING ACTIVITIES			
Purchase of property, plant and equipment		**(25)**	(67)
Purchase of brands and trademarks		**(12)**	–
Purchase of other assets		**–**	(5)
Purchase of available-for-sale investments		**–**	(117)
(Increase)/decrease in pledged deposits with banks		**(12)**	91
Interest received		**1**	16
Net payment to financial derivatives		**(84)**	(214)
Proceeds from disposal of property, plant and equipment		**113**	35
Proceeds from disposal of available-for-sale investments		**6**	48
Proceeds from disposal of investment properties		**–**	5
Disposal of subsidiaries	37 (b)	**–**	41
Net cash used in investing activities		**(13)**	(167)
FINANCING ACTIVITIES			
Dividends paid		**–**	(60)
Net decrease in capital element of finance leases		**(16)**	(9)
Redemption of exchangeable bonds		**(204)**	(22)
Redemption of debenture		**(161)**	–
Net increase in other borrowings		**226**	–
New secured bank loans		**151**	108
Repayment of secured bank loans		**(280)**	(166)
Repayment of unsecured bank loans		**(23)**	(16)
Increase/(decrease) in trust receipt loans		**186**	(76)
Net cash used in financing activities		**(121)**	(241)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**183**	(28)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		**132**	161
Effect of foreign exchange rate changes, net		**–**	(1)
CASH AND CASH EQUIVALENTS AT END OF YEAR		**315**	132
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances		**315**	132

1. GENERAL

The Company is incorporated in Bermuda as an exempted company with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited. The Company's immediate holding company is Barrican Investments Corporation, a company incorporated in the British Virgin Islands. In the opinion of the directors, the ultimate holding company is Accolade Inc. ("Accolade"), a company incorporated in the British Virgin Islands.

During the year, the Company acted as an investment holding company. The principal activities of the principal subsidiaries and associates are set out in notes 43 and 16 respectively.

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

The addresses of the registered office and principal place of business of the Company are disclosed in the corporate information on page 5 of the annual report.

2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS

In the current year, the Group has applied, for the first time, a number of new and revised Hong Kong Financial Reporting Standards (new "HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), which are effective for accounting periods beginning on or after 1 January 2009:

HKAS 1 (Revised)	Presentation of financial statements
HKAS 23 (Revised)	Borrowing costs
HKAS 32 & HKAS 1 (Amendments)	Puttable financial instruments and obligations arising on liquidation
HKFRS 1 & HKAS 27 (Amendments)	Cost of an investment in a subsidiary, jointly controlled entity or associate
HKFRS 2 (Amendment)	Vesting conditions and cancellations
HKFRS 7 (Amendment)	Financial instruments: Improving disclosures about financial instruments
HKFRS 8	Operating segments
HKFRSs (Amendments)	Improvements to HKFRSs (2008)
HK(IFRIC) – Int 9 & HKAS 39 (Amendments)	Embedded derivatives
HK(IFRIC) – Int 13	Customer loyalty programmes
HK(IFRIC) – Int 15	Agreements for the construction of real estate
HK(IFRIC) – Int 16	Hedges of a net investment in a foreign operation
HK(IFRIC) – Int 18	Transfers of assets from customers

2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS (continued)

The Group has assessed the impact of the adoption of the new HKFRSs above and considered that there was no significant impact on the Group's results and financial position nor any substantial changes in the Group's accounting policies, except for the application of the following new HKFRSs:

HKAS 1 (Revised) has introduced a number of terminology changes (including revised titles for the financial statements) and has resulted in a number of changes in presentation and disclosure. The revised standard prohibits the presentation of income and expenses directly in the statement of changes in equity. All income and expenses are required to be shown in either one statement of comprehensive income or two statements (the income statement and the statement of comprehensive income). The Group has elected to present all income and expenses in one statement of comprehensive income. However, the revised standard has no impact on the reported results or financial position of the Group. Comparative information has been represented to conform with the revised standard.

HKAS 27 (Amendment) has removed the requirement that dividends out of pre-acquisition profits should be recognised as a reduction in the carrying amount of the investment in investee, rather than as income. As a result, as from 1 January 2009, all dividends receivable from subsidiaries, associates and jointly controlled entities, whether out of pre- or post-acquisition profits, will be recognised in the profit or loss and the carrying amount of the investment in the investee will not be reduced unless that carrying amount is assessed to be impaired as a result of the investee declaring the dividend. In such cases, in addition to recognising dividend income in profit or loss, an impairment loss would be recognised. In accordance with the transitional provisions in the amendment, this new policy will be applied prospectively to any dividends receivable in the current or future periods and previous periods have not been restated.

HKFRS 7 (Amendment) requires additional disclosures for financial instruments which are measured at fair value in the statement of financial position. These fair value measurements are categorised into a three-level fair value hierarchy, which reflects the extent of observable market data used in making the measurements. The Group has taken advantage of the transitional provisions in the amendments, under which comparative information for the newly required disclosures about the fair value measurements of financial instruments has not been provided.

HKFRS 8 is a disclosure standard that requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker for the purpose of allocating resources to segments and assessing their performance. In contrast, HKAS 14 "Segment reporting", the predecessor standard, required an entity to identify two sets of segments (business and geographical), using a risks and returns approach. The adoption of HKFRS 8 has resulted in the presentation of segment information in a manner that is more consistent with internal reporting provided to the Group's most senior executive management. Corresponding amounts have also been provided on a basis consistent with the revised segment information.

2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS (continued)

The Group has not early applied the following new or revised HKFRSs that have been issued but are not yet effective for the financial year beginning on 1 January 2009, and is in the process of assessing their impact on future accounting periods:

HKAS 24 (Revised)	(vi)	Related party disclosures
HKAS 27 (Revised)	(i)	Consolidated and separate financial statements
HKAS 32 (Amendment)	(iv)	Classification of right issues
HKAS 39 (Amendment)	(i)	Eligible hedged items
HKFRS 1 (Revised)	(iii)	First-time adoption of Hong Kong Financial Reporting Standards
HKFRS 2 (Amendment)	(ii)	Group cash-settled share-based payment transactions
HKFRS 3 (Revised)	(i)	Business combinations
HKFRS 9	(vii)	Financial instruments
HKFRSs (Amendments)	(i)	Amendment to HKFRS 5 as part of Improvements to HKFRSs (2008)
HKFRSs (Amendments)	(iii)	Improvements to HKFRSs (2009)
HK(IFRIC) – Int 14 (Amendment)	(vi)	Prepayments of a minimum funding requirement
HK(IFRIC) – Int 17	(i)	Distributions of non-cash assets to owners
HK(IFRIC) – Int 19	(v)	Extinguishing financial liabilities with equity instruments

(i) Effective for annual periods beginning on or after 1 July 2009.
(ii) Effective for annual periods beginning on or after 1 January 2010.
(iii) Effective for annual periods beginning on or after 1 July 2009 or 1 January 2010, as appropriate.
(iv) Effective for annual periods beginning on or after 1 February 2010.
(v) Effective for annual periods beginning on or after 1 July 2010.
(vi) Effective for annual periods beginning on or after 1 January 2011.
(vii) Effective for annual periods beginning on or after 1 January 2013.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

The consolidated financial statements have been prepared under the historical cost basis except for certain properties and financial instruments, which are measured at revalued amounts or fair values, as explained in the accounting policies set out below. The consolidated financial statements have been prepared in accordance with HKFRS issued by HKICPA. In addition, the consolidated financial statements included applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and by the Hong Kong Companies Ordinance.

The preparation of consolidated financial statements in conformity with HKFRSs requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods. Judgments made by management in the application of HKFRSs that have significant effect in the consolidated financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 4.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and all its subsidiaries for the year ended 31 December 2009. Subsidiaries are considered to be controlled if the Company has the power, directly or indirectly, to govern the financial and operating policies, so as to obtain benefits from their activities. The results of subsidiaries acquired or disposed of during the year are consolidated from or to their respective dates of acquisition or disposal. All intercompany transactions and balances within the Group are eliminated on consolidation.

Minority interests in the net assets of consolidated subsidiaries are presented separately from the Group's equity therein. Minority interests in the net assets consist of the amount of those interests at the date of the original business combination and the minority's share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition

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

– on the sale of goods, when the goods are delivered and title, significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;

– on the rendering of services, based on the stage of completion of the transaction, provided that this and the costs incurred as well as the estimated costs to completion can be measured reliably. The stage of completion of a transaction associated with the rendering of services is established by reference to the costs incurred to date as compared to the total costs to be incurred under the transaction;

– interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount;

– income from sale of held-for-trading investments is recognised on a trade-date basis and the execution of a binding contract; and

– licensing income is recognised on cash or accrual basis in accordance with the substance of the relevant agreement.

Associates

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting. Under the equity method, investments in associates are carried in the consolidated statement of financial position at cost as adjusted for post-acquisition changes in the Group's share of the profit or loss and of changes in equity of the associate, less any identified impairment loss. When the Group's share of loss of an associate equals or exceeds its interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. An additional share of loss is provided for and a liability is recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Associates (continued)

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the associate recognised at the date of acquisition is recognised as goodwill. The goodwill is included within the carrying amount of the investment and is assessed for impairment as part of the investment. Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in consolidated statement of comprehensive income.

Where a group entity transacts with an associate of the Group, profits and losses are eliminated to the extent of the Group's interest in the relevant associate.

Goodwill

Goodwill arising on acquisitions represents the excess of the cost of acquisition over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the subsidiaries and associates recognised at the date of acquisition. Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses.

For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in a subsequent period.

On disposal of a subsidiary or an associate, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

Discount on acquisition

A discount on acquisition arising on an acquisition of a subsidiary or an associate represents the excess of the net fair value of an acquiree's identifiable assets, liabilities and contingent liabilities over the cost of the business combination. Discount on acquisition is recognised immediately in the profit or loss. A discount on acquisition arising on an acquisition of an associate is included as income in the determination of the investor's share of results of the associate in the period in which the investment is acquired.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker.

In accordance with the Group's internal management reporting, the Group has determined that business segments be presented as the primary reporting format and geographical as the secondary reporting format. Inter-segment transfer pricing is based on cost plus an appropriate margin.

Segment revenue, expenses, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to that segment. Segment revenue, expenses, assets and liabilities are determined before inter-segment balances and inter-segment transactions are eliminated as part of the consolidation.

Segment capital expenditure is the total cost incurred during the period to acquire segment assets that are expected to be used for more than one period.

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses, except for freehold land which is stated at cost less impairment loss and is not depreciated.

Depreciation is calculated on straight-line basis to write off the cost of each asset over its estimated useful life as set out below:

Freehold buildings outside Hong Kong	5 to 50 years
Long term leasehold building outside Hong Kong	Over the lease terms
Medium term leasehold buildings outside Hong Kong	Over the lease terms
Plant, equipment and other assets	2 to 15 years
Moulds	2 to 5 years

The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

An item of property, plant and equipment is derecognised upon disposal or when future economic benefits are not expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the profit or loss in the year in which the item is derecognised.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Land use rights

Land use rights represent the prepaid lease payments of leasehold interests in land under operating lease arrangements and are amortised on a straight-line basis over the lease terms.

Investment properties

On initial recognition, investment properties are measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are measured using the fair value model. Gains or losses arising from changes in the fair value of investment property are included in the profit or loss for the period in which they arise.

Leases

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

All other leases are classified as operating leases. The rentals applicable to such operating leases are charged to the profit or loss on straight-line basis over the lease terms.

Financial Instruments

(a) *Financial assets*

Financial assets are recognised and derecognised on a trade date basis where the purchase or disposal of an investment is under a contract whose terms require delivery of the investment within the time frame established by the market concerned, and are initially measured at fair value, plus directly attributable transaction costs.

(i) Investments in equity securities are classified as either held-for-trading investments or as available-for-sale investments, and are remeasured to fair value at the end of each reporting period. For investments in equity available-for-sale that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments, they are measured at cost less any identified impairment losses at each reporting date subsequent to initial recognition. Where securities are held for trading purposes, gains and losses arising from changes in fair value are included in profit or loss for the period. For available-for-sale investments, gains and losses arising from changes in fair value are recognised directly in equity, until the security is derecognised of or is determined to be impaired, at which time the cumulative gain or loss previously recognised in equity is included in the profit or loss for the period. Impairment losses recognised in profit or loss for equity investments classified as available-for-sale investments are not subsequently reversed through profit or loss.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial Instruments (continued)

(a) Financial assets (continued)

(ii) Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each reporting date subsequent to initial recognition, loans and receivables (including accounts and bills receivables, other receivables, deposits and cash and bank balances) are carried at amortised cost using the effective interest method, less any identified impairment losses. An impairment loss is recognised in the 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. 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.

(b) Financial liabilities and equity instruments

Financial liabilities and equity instruments issued by the Group are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. The accounting policies adopted in respect of financial liabilities and equity instruments are set out below:

– Financial liability at fair value through profit or loss ("FVTPL"):

Financial liability is designated as at FVTPL upon initial recognition if:

(i) such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or

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

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

At each reporting date subsequent to initial recognition, financial liabilities at FVTPL are measured at fair value, with changes in fair value recognised directly in profit or loss in the period in which they arise. The net gain or loss recognised in profit or loss includes any interest paid on the financial liabilities.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial Instruments (continued)

(b) Financial liabilities and equity instruments (continued)

– Other financial liabilities:

Other financial liabilities including bank borrowings, other borrowings, accounts and bills payable, amounts due to related companies and accrued liabilities and other payables are subsequently measured at amortised cost, using the effective interest rate method.

– Equity instruments:

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

(c) Derivative financial instruments

Derivative financial instruments are initially recognised at fair value on the contract date, and are remeasured to fair value at the end of each reporting period. Changes in the fair value of derivative financial instruments that do not qualify for hedge accounting are recognised in the profit or loss as they arise.

(d) Embedded derivatives

Derivatives embedded in non-derivative host contracts are separated from the relevant host contracts and deemed as held-for-trading when the economic characteristics and risks of the embedded derivatives are not closely related to those of the host contracts, and the combined contracts are not measured at fair value through profit or loss. In all other circumstances, derivatives embedded are not separated and are accounted for together with the host contracts in accordance with appropriate standards. Where the Group needs to separate an embedded derivative but is unable to measure the embedded derivative, the entire combined contracts are treated as held-for-trading.

Brands and trademarks

The brands and trademarks with indefinite lives are not subject to amortisation, but are tested for impairment annually or more frequently when there are indications of impairment.

Gains or losses arising from derecognition of brands and trademarks are measured at the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the profit or loss when the asset is derecognised.

Research and deferred development costs

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from development expenditure is recognised only if it is anticipated that the development costs incurred on a clearly-defined project will be recovered through future commercial activity. The resultant asset is amortised on a straight-line basis over its useful life from 3 to 5 years, and carried at cost less subsequent accumulated amortisation and any accumulated impairment losses.

Where no internally-generated intangible asset can be recognised, development expenditure is charged to the profit or loss in the period in which it is incurred.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Inventories

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

Impairment of assets

– Tangible assets:

At the end of the reporting period, the Group reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If such an indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. Where it is not possible to estimate the recoverable amount of individual assets, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

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. Impairment loss is recognised as an expense immediately, unless the relevant asset is carried at a revalued amount under another accounting standard, in which case the impairment loss is treated as a revaluation decrease under that accounting standard.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, however, the increased carrying amount would not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) 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 accounting standard, in which case the reversal of the impairment loss is treated as a revaluation increase under that accounting standard.

– Intangible assets:

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, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as revaluation decrease.

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 useful lives are tested for impairment when there is an indication that an asset may be impaired.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in its functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the reporting date. 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 is 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, except for exchange differences arising on a monetary item that forms part of the Group's net investment in a foreign operation, in which case, such exchange differences are recognised in other comprehensive income and accumulated in equity (the exchange fluctuation reserve) in the consolidated financial statements. 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 directly in other comprehensive income, in which cases, the exchange differences are also recognised directly in equity (the exchange fluctuation reserve).

Goodwill and fair value adjustments arising on acquisitions of foreign operations prior to 1 January 2005 are treated as non-monetary foreign currency items of the Group and reported using the historical exchange rate prevailing at the date of the acquisition.

Retirement benefit costs

Payments to defined contribution retirement benefit plans and the Mandatory Provident Fund Scheme are charged as expenses as they fall due.

Provision for retirement and long service payments

The provision for retirement and long service payments is provided based on the employees' basic salaries and their respective length of service in accordance with the applicable rules and regulations in their respective countries of employment. The amounts credited in the profit or loss represent the reversal of previous provisions no longer necessary.

Borrowing costs

Borrowing costs are interest and other costs incurred in connection with the borrowing of funds. All borrowing costs are charged to the profit or loss in the year in which they are incurred.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Provisions

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

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

Tax

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

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

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences, and 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. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, except where the Group as the parent 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.

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

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited to the profit or loss, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short term highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition, less advances from banks repayable within three months from the date of the advance. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents.

Discontinued operations

A discontinued operation is a component of the Group's business, the operations and cash flows of which can be clearly distinguished from the rest of the Group and which represents a separate major line of business or geographical area of operations, or is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations, or is a subsidiary acquired exclusively 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 in accordance with HKFRS 5, if earlier. It also occurs when the operation is abandoned.

Where an operation is classified as discontinued, a single amount is presented on the face of the statement of comprehensive income, which comprises:

– the post-tax profit or loss of the discontinued operation; and

– the post-tax gain or loss recognised on the measurement to fair value less costs to sell, or on the disposal, of the assets or disposal group(s) constituting the discontinued operation.

Related parties

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

(i) the party has the ability, directly or indirectly through one or more intermediaries, to control the Group or exercise significant influence over the Group in making financial and operating decisions, or vice versa, or where the Group and the party are subject to common control or common significant influence;

(ii) the party is an associate of the Group;

(iii) the party is a member of the key management personnel of the Group;

(iv) the party is a close member of the family of any individual referred to in (i) or (iii);

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

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

4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the process of applying the Group's accounting policies which are described in note 3, management has made the following estimates that have most significant effect on the amounts recognised in the consolidated financial statements. The key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are also discussed below.

(a) Going concern:

The Group's business activities, together with the factors likely to affect its future development, performance and financial position are set out in the Review of Operations and Prospects on pages 8 and 9. In addition, note 5 includes details of the Group's financial instruments; its financial risk management objectives; and its exposure to currency risk, interest rate risks, credit risk, price risk, and liquidity risk while note 6 includes the Group's objectives, policies and processes for managing its capital.

As at 31 December 2009, the Group had net current liabilities of HK$95 million, excluding the outstanding settlement obligations of HK$890 million in respect of certain court proceedings as detailed in note 33. As set out in note 44, on 23 April 2010, Accolade has confirmed its commitment to assume the aforesaid outstanding settlement obligations from the Company.

Subject to any unforeseeable changes on market conditions, the directors have a reasonable expectation that the Group will be able to generate sufficient funds from its business to continue in operational existence for the foreseeable future based on the assessment of the individual business liquidity and cash flow requirements for the next twelve months. As detailed in notes 29 and 31, there were certain payables and obligations under finance leases due for payment prior to the end of the reporting period. While the Company is in ongoing negotiation with certain creditors on refinancing or rescheduling the payment terms, Accolade has confirmed its intention to provide continuous financial support in funding the working capital requirements of the Company. The directors consider that Accolade has the financial capability to provide its financial support to the Company. Accordingly, the directors continue to adopt the going concern basis in preparing these consolidated financial statements.

(b) Impairment review of investments in associates:

The Group applies the requirements of HKAS 36 to determine whether it is necessary to recognise any additional impairment loss with respect to the Group's investment in associates. This determination requires significant judgment. In making this judgment, the Group evaluates, among other factors, the duration and extent to which the market values of investments in listed associates is less than their respective carrying amounts; and the financial health of and near-term business outlook for the investees, including factors such as industry and sector performance, changes in technology and operational and financing cash flow.

4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (continued)

(c) Impairment of property, plant and equipment, interest in leasehold land held for own use under operating leases:

If the circumstances indicate that the carrying values of property, plant and equipment, interest in leasehold land held for own use under operating leases may not be recoverable, the assets may be considered "impaired", and an impairment loss may be recognised in accordance with HKAS 36 "Impairment of assets". Under HKAS 36, these assets are tested for impairment whenever events or changes in circumstances indicate that their recorded carrying amounts may not be recoverable. When such a decline has occurred, the carrying amount is reduced to recoverable amount. The recoverable amount is the greater of the net selling price and the value in use. In determining the value in use, expected cash flows generated by the asset are discounted to their present value, which requires significant judgment relating to level of sales volume, selling price and amount of operating costs. The Group uses all readily available information in determining an amount that is a reasonable approximation of recoverable amount, including estimates based on reasonable and supportable assumptions and projections of sales volume, selling price and amount of operating costs. However, actual sales volume, selling price and operating costs may be different from assumptions which may require a material adjustment to the carrying amount of the assets affected.

(d) Depreciation of property, plant and equipment:

Property, plant and equipment are depreciated on a straight-line basis over their estimated useful lives, after taking into account the estimated residual values, if any. The Group reviews the estimated useful lives and the estimated residual values, if any, of the assets regularly in order to determine the amount of depreciation expense to be recorded during any reporting period. The useful lives and residual values are based on the Group's historical experience with similar assets and taking into account anticipated technological changes. The depreciation expense for future periods is adjusted if there are significant changes from previous estimates.

(e) Impairment loss for bad and doubtful debts:

The Group maintains an impairment loss for bad and doubtful debts for estimated losses resulting from the inability of the debtors to make required payments. The Group bases the estimates of future cash flows on the ageing of the trade receivables balance, debtors' credit-worthiness, and historical write-off experience. If the financial condition of the debtors were to deteriorate, actual write-offs could be higher than estimated.

(f) Write down of inventories:

The Group performs regular review of the carrying amounts of inventories with reference to aged inventories analysis, expected future sales and management judgment. Based on this review, write down of inventories will be made when the carrying amount of inventories declines below the estimated net realisable value. However, actual sales may be different from estimation and profit or loss could be affected by differences in this estimation.

4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (continued)

(g) Estimated impairment of goodwill, brands and trademarks:

Determining whether goodwill, brands and trademarks are impaired requires an estimation of the value in use of the cash-generating units to which goodwill, brands and trademarks have been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. Where the actual future cash flows are less than expected, a material impairment loss may arise. As at 31 December 2009, the carrying amounts of goodwill, brands and trademarks are HK$530 million and HK$1,677 million respectively. Particulars of the impairment test are disclosed in note 22.

(h) Income taxes:

As at 31 December 2009, deferred tax assets of HK$84 million in relation to accelerated tax depreciation and unused tax losses has been recognised in the Group's consolidated statement of financial position. The releasability of the deferred tax assets mainly depends on whether sufficient future profits or taxable temporary differences will be available in the future. In cases where the actual future profits generated are less than expected, a material reversal of deferred tax assets may arise, which would be recognised in the profit or loss for the period in which such a reversal takes place.

(i) Basis of consolidation:

Sansui Electric Co., Ltd. ("SEC") is considered as a subsidiary because the Group has gained control over SEC's financial and operating policies.

5. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments:

	2009 HK$ million	2008 HK$ million
Financial assets:		
Available-for-sale financial assets	**48**	56
Held-for-trading financial assets	**9**	96
Loans and receivables (including cash and cash equivalents)	**908**	775
Derivative financial instruments at fair value	**–**	1
Financial liabilities:		
At amortised cost	**2,720**	1,661
Derivative financial instruments at fair value	**91**	266

(b) Financial risk management objectives and policies:

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

(i) Currency risk:

Several subsidiaries of the Group have foreign currency sales and purchases, which expose the Group to foreign currency risk. In order to mitigate the foreign currency risk, forward foreign exchange contracts (note 27) are entered into in respect of highly probable foreign currency forecast sales and purchases in accordance with the Group's risk management policies.

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

5. FINANCIAL INSTRUMENTS (continued)

(b) Financial risk management objectives and policies: (continued)

(i) Currency risk: (continued)

Foreign currency denominated financial assets/(liabilities) are as follows:

	United States Dollar HK$ million	Great British Pound HK$ million	Renminbi Yuan HK$ million	Singapore Dollar HK$ million	Japanese Yen HK$ million
As at 31 December 2009					
Available-for-sale investments	**47**	**–**	**–**	**–**	**–**
Accounts and bills receivables	**127**	**–**	**12**	**–**	**–**
Prepayments, deposits and other receivables	**26**	**5**	**385**	**1**	**2**
Held-for-trading investments	**9**	**–**	**–**	**–**	**–**
Cash and bank balances and pledged deposits	**324**	**–**	**11**	**1**	**5**
Accounts and bills payable	**(119)**	**–**	**(24)**	**(1)**	**–**
Amounts due to related companies	**(7)**	**–**	**–**	**–**	**(3)**
Settlement obligations of court proceedings	**(890)**	**–**	**–**	**–**	**–**
Accrued liabilities and other payables	**(220)**	**(3)**	**(40)**	**(2)**	**(69)**
Trust receipt loans	**(255)**	**–**	**(9)**	**–**	**–**
Bank loans	**(44)**	**–**	**(151)**	**–**	**(32)**
Obligations under finance leases	**–**	**–**	**–**	**–**	**(15)**
Debenture	**(53)**	**–**	**–**	**–**	**–**
Derivative financial instruments	**(91)**	**–**	**–**	**–**	**–**
	(1,146)	**2**	**184**	**(1)**	**(112)**
As at 31 December 2008					
Available-for-sale investments	55	–	–	–	–
Accounts and bills receivables	157	–	5	7	2
Amounts due from associates	–	2	–	–	–
Prepayments, deposits and other receivables	12	–	399	1	7
Held-for-trading investments	34	–	–	–	–
Cash and bank balances and pledged deposits	134	1	2	–	2
Accounts and bills payable	(88)	–	(20)	–	–
Amounts due to associates	–	(3)	–	–	–
Accrued liabilities and other payables	(123)	–	(55)	(5)	(80)
Trust receipt loans	(78)	–	–	–	–
Bank loans	(43)	–	(253)	(27)	(34)
Obligations under finance leases	(1)	–	–	–	(30)
Debenture	(214)	–	–	–	–
Exchangeable bonds issued by a subsidiary	(171)	–	–	–	–
Derivative financial instruments	(265)	–	–	–	–
	(591)	–	78	(24)	(133)

5. FINANCIAL INSTRUMENTS (continued)

(b) Financial risk management objectives and policies: (continued)

(ii) Sensitivity analysis:

The Group is mainly exposed to currency of the Renminbi Yuan and Japanese Yen. If the HK dollar strengths by 5% (2008: 5%) against the following currencies, with all other variables being held constant, the effect on loss after tax and retained deficits arising from the net financial liability/asset position will be as follows:

	2009 (Increase)/ decrease HK$ million	2008 (Increase)/ decrease HK$ million
Renminbi Yuan	**(9)**	(4)
Japanese Yen	**6**	7

A 5% weakening of the HK dollar against the above currencies would have an equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

(iii) Fair value interest rate risk:

The Group's fair value interest rate risk relates primarily to fixed-rate bank borrowings (note 30). In relation to these fixed-rate borrowings, the Group aims at keeping borrowings at variable rates. In order to achieve this result, the Group entered into interest rate swaps (note 27) to hedge against its exposures to changes in fair values of the borrowings. The critical terms of these interest rate swaps are similar to those of hedged borrowings.

(iv) Credit risk:

The Group's maximum exposure to credit risk in the event of the counterparties failure to perform their obligations as at 31 December 2009 in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated statement of financial position. In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at the end of the 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, with exposure spread over a number of counterparties and customers.

The credit risk for bank balances is considered minimal as such amounts are placed with banks with good credit ratings.

5. FINANCIAL INSTRUMENTS (continued)

(b) Financial risk management objectives and policies: (continued)

(v) Price risk:

The Group's available-for-sale investments and held-for-trading investments are measured at fair value at the end of the reporting period. Therefore, the Group is exposed to equity and debt security price risk. The management reviews the market situation and consults the professionals to monitor the exposure periodically.

(vi) Liquidity risk:

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to manage liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The Group's cash and short term deposits, operating cash flow and availability of banking facilities are actively managed to ensure that there is adequate working capital and that repayment and funding needs are met.

The maturity profile of the Group's financial liabilities based on the contractual undiscounted payments was as follows:

	Payable less than 1 year HK$ million	**Payable between 1 to 5 years** HK$ million	**Total contractual undiscounted cash flows** HK$ million	**Carrying amount** HK$ million
As at 31 December 2009				
Accounts and bills payable	**189**	**–**	**189**	**189**
Amounts due to related companies	**50**	**535**	**585**	**558**
Accrued liabilities and other payables	**440**	**84**	**524**	**516**
Settlement obligations of court proceedings	**905**	**–**	**905**	**890**
Trust receipt loans	**271**	**–**	**271**	**264**
Bank loans	**239**	**–**	**239**	**235**
Obligations under finance leases	**15**	**–**	**15**	**15**
Debenture	**–**	**63**	**63**	**53**
Derivative financial instruments	**30**	**61**	**91**	**91**
	2,139	**743**	**2,882**	**2,811**
As at 31 December 2008				
Accounts and bills payable	145	–	145	145
Amounts due to associates	3	–	3	3
Amounts due to related companies	78	270	348	332
Accrued liabilities and other payables	193	106	299	299
Trust receipt loans	80	–	80	78
Bank loans	342	57	399	388
Obligations under finance leases	21	12	33	31
Exchangeable bonds issued by a subsidiary	289	–	289	289
Debenture	–	240	240	214
Derivative financial instruments	70	78	148	148
	1,221	763	1,984	1,927

5. FINANCIAL INSTRUMENTS (continued)

(b) Financial risk management objectives and policies: (continued)

(vii) Fair value:

The carrying amounts of the Group's financial assets and financial liabilities as reflected in the consolidated statement of financial position approximate their respective fair values.

HKFRS 7 "Financial instruments: Disclosures" requires disclosure for financial instruments that are measured at fair value by the level of the following fair value measurement hierarchy:

Level 1 – quoted prices (unadjusted) in active markets for identical financial instruments.

Level 2 – quoted prices in active markets for similar financial instruments, or using valuation techniques in which all significant inputs are directly or indirectly based on observable market data.

Level 3 – using valuation techniques in which any significant input is not based on observable market data.

The following table presents the financial instruments that are measured at fair value at 31 December 2009:

	Level 1 HK$ million	**Level 2** HK$ million	**Level 3** HK$ million	**Total** HK$ million
Available-for-sale investments	–	47	1	48
Derivative financial instruments	–	(91)	–	(91)

During the year, there are no significant transfers between Level 1 and Level 2.

5. FINANCIAL INSTRUMENTS (continued)

(b) Financial risk management objectives and policies: (continued)

(viii) Interest rate risk:

As at 31 December 2009, it is estimated that a general increase or decrease of one percentage point in interest rates, with all other variables held constant, would increase or decrease the Group's loss after tax by approximately HK$12 million (2008: HK$7 million) and HK$12 million (2008: HK$7 million) respectively.

6. CAPITAL RISK MANAGEMENT

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern and to maintain an optimal capital structure so as to maximise shareholder value. In order to maintain or achieve an optimal capital structure, the Group may adjust the amount of dividend payment, issue new shares or obtain new borrowings.

Management monitors capital with reference to gearing ratio. The Group strategies, which were unchanged from previous year, are to maintain a prudent balance between the advantage and flexibility afforded by a strong capital position and the higher return on equity that are possible with greater leverage.

The gearing ratio is calculated based on the Group's net borrowings (calculated as total interest-bearing borrowings less cash and bank balances) divided by the total equity.

	2009 HK$ million	2008 HK$ million
Net borrowings	**1,768**	893
Total equity	**882**	2,128
Gearing ratio	**200%**	42%

There are no externally imposed capital requirements for current and prior years.

7. RELATED PARTY TRANSACTIONS

(a) Transactions between the Company and its subsidiaries, which are related parties of the Company, have been eliminated on consolidation and are not disclosed in this note. Details of material transactions between the Group and other related parties are disclosed below:

	2009 HK$ million	2008 HK$ million
Associates:		
Rental expenses	**–**	7
Accounts and other receivables	**–**	2
Accounts and other payables	**–**	(3)

Rentals were negotiated by the associates with reference to the market rates. The amounts outstanding were unsecured, non-interest bearing and repayable on demand.

	2009 HK$ million	2008 HK$ million
Related companies:		
Sales of car parks	**1**	–
Services fee income	**16**	6
Rental expenses	**4**	3
Interest expenses	**32**	7
Other receivables	**2**	–
Other payables	**(558)**	(332)

The amounts due from related companies are unsecured, non-interest bearing and have no fixed terms of repayment. Included in the amounts due to related companies was an amount of HK$545 million (2008: HK$324 million) which is unsecured, bearing interest at the Hong Kong dollar prime rates and repayable on demand except for an amount of HK$535 million (2008: HK$270 million) which is subject to repayment only after one year from the reporting date. The remaining balance is unsecured, non-interest bearing and repayable on demand.

7. RELATED PARTY TRANSACTIONS (continued)

(b) Compensation of key management personnel:
The remuneration of directors and other members of key management during the year was as follows:

	2009 HK$ million	2008 HK$ million
Short-term employee benefits	**15**	9

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

(c) Guarantee
The Chairman has provided a personal guarantee of HK$60 million (2008: HK$60 million) and HK$204 million (2008: nil) for certain banking facilities granted to the Company and a subsidiary respectively.

8. REVENUE

Revenue represents the net invoiced value of goods sold after allowances for returns and trade discounts, sub-contracting service income, licensing income and realised gain on investments trading, but excludes intra-group transactions.

An analysis of the Group's revenue by principal activity for the year is as follows:

	2009 HK$ million	2008 HK$ million
By principal activity:		
Sales of goods and service income	**2,183**	2,263
Licensing income	**148**	141
Realised gain on investments trading	**30**	28
	2,361	2,432

9. LOSS FOR THE YEAR

The Group's loss for the year is arrived at after charging/(crediting):

	2009 HK$ million	2008 HK$ million
Depreciation of property, plant and equipment:		
Owned assets	**53**	54
Leased assets	**14**	12
	67	66
Operating lease rentals:		
Land and buildings	**29**	11
Property, plant and equipment	**4**	5
	33	16
Finance costs:		
Interest on bank overdrafts and loans wholly repayable within five years	**20**	32
Interest on bank loans wholly repayable beyond five years	**–**	2
Interest on obligations under finance leases	**1**	2
Interest on debenture	**14**	1
Interest on amounts due to related companies	**32**	7
Interest on settlement obligations of court proceedings	**6**	–
Others	**18**	–
	91	44
Auditors' remuneration:		
Current year	**10**	9
Over provision in prior year	**–**	(1)
	10	8
Staff costs:		
Salaries and other benefits	**118**	219
Retirement benefit costs	**17**	4
	135	223
Cost of inventories recognised as expenses	**1,881**	1,886
Amortisation of other assets included in other expenses	**1**	1
Allowance for doubtful debts	**5**	8
Research and development expenditure	**–**	1
Gain on disposal of property, plant and equipment	**(64)**	(55)
Impairment loss recognised in respect of property, plant and equipment	**14**	–
Impairment loss recognised in respect of available-for-sale investments	**2**	14
Change in fair value of held-for-trading investments	**–**	13
Change in fair value of investment properties	**2**	–
Change in fair value of exchangeable bonds and convertible debenture	**(1)**	77
Loss on financial derivatives	**92**	149
Net foreign exchange loss/(gain)	**15**	(18)
Interest income	**(9)**	(16)

10. DIRECTORS' REMUNERATION AND EMPLOYEE COSTS

Directors' Remuneration

	Fees HK$ million	Basic salaries, housing allowances and other benefits HK$ million	Discretionary bonuses HK$ million	Total emoluments HK$ million
2009				
Mr. Christopher W. Ho	**0.9**	**–**	**–**	**0.9**
Mr. Adrian C. C. Ma	**–**	**3.0**	**–**	**3.0**
Mrs. Christine L. S. Asprey	**–**	**0.6**	**–**	**0.6**
Mr. Michael A. B. Binney	**0.1**	**0.1**	**–**	**0.2**
Mr. Henry C. S. Chong	**0.2**	**–**	**–**	**0.2**
Mr. Paul K. F. Law	**–**	**0.3**	**–**	**0.3**
Mr. Herbert H. K. Tsoi	**0.3**	**–**	**–**	**0.3**
Mr. Martin I. Wright	**0.2**	**–**	**–**	**0.2**
	1.7	**4.0**	**–**	**5.7**
2008				
Mr. Christopher W. Ho	0.5	0.3	–	0.8
Mr. Adrian C. C. Ma	–	1.9	–	1.9
Mrs. Christine L. S. Asprey	–	0.6	–	0.6
Mr. Michael A. B. Binney	–	0.2	–	0.2
Mr. C. F. Lam (resigned on 31 December 2008)	–	0.4	–	0.4
Mr. Paul K. F. Law	–	1.1	–	1.1
Mr. Herbert H. K. Tsoi	0.3	–	–	0.3
Mr. Martin I. Wright	0.2	–	–	0.2
	1.0	4.5	–	5.5

The remuneration package of the directors are reviewed and approved by the Remuneration Committee. Details please see Corporate Governance Report on page 10.

Employee Costs

During the year, the five highest paid individuals included one (2008: two) director(s), detail of whose emoluments are set out above. The emoluments of the remaining highest paid individual were as follows:

	2009 HK$ million	2008 HK$ million
Basic salaries, housing, other allowances and benefits in kind	**9**	3
Bonuses paid and payable	**–**	–
	9	3

10. DIRECTORS' REMUNERATION AND EMPLOYEE COSTS (continued)

The number of non-directors whose remuneration fell within the bands set out below is as follows:

HK$	**2009 Number of non-directors**	2008 Number of non-directors
1,000,001 – 1,500,000	**2**	1
1,500,001 – 2,000,000	**1**	1
3,500,001 – 4,000,000	**–**	1
4,000,001 – 4,500,000	**1**	–

Staff are entitled to receive a basic salary according to their contracts which are reviewed annually by the Group. In addition, staff are entitled to receive a discretionary bonus which is decided by the Group at its absolute discretion having regard to his/her performance.

11. TAX

Hong Kong profits tax has been provided at the rate of 16.5% (2008: 16.5%) on the estimated assessable profits arising in Hong Kong during the year. Taxes on profits assessable elsewhere have been provided at the applicable rates of tax in the countries in which the subsidiaries operate, based on existing legislation, interpretations and practices in respect thereof.

	2009 HK$ million	2008 HK$ million
The tax charge/(credit) comprises:		
Current year provision		
Hong Kong	**1**	–
Overseas	**5**	47
Over provision in prior year		
Overseas	**(2)**	(45)
Deferred tax *(note 18)*		
Hong Kong	**–**	1
Overseas	**3**	–
	7	3

11. TAX (continued)

Reconciliation between tax charge and loss before tax at applicable tax rates is as follows:

	2009 HK$ million	2008 HK$ million
Loss before tax:	**(1,250)**	(298)
Notional tax calculated at Hong Kong profits tax rate of 16.5%	**(206)**	(49)
Effect of different tax rates in overseas jurisdictions	**(14)**	(24)
Income and expenses not subject to tax	**212**	98
Unused tax losses not recognised	**17**	31
Utilisation of unrecognised tax losses	**(3)**	(9)
Over provision in prior year	**(2)**	(45)
Others	**3**	1
	7	3

12. DIVIDENDS

	2009 HK$ million	2008 HK$ million
2008 interim dividend of HK5 cents per share on 460.2 million ordinary shares	**–**	23
2007 final dividend of HK8 cents per share on 460.2 million ordinary shares	**–**	37
2007 second interim dividend satisfied by way of a distribution in specie of seven ordinary shares of Lafe Corporation Limited ("Lafe shares") for every five ordinary shares of the Company (the fair value on distribution date of Lafe shares was HK$1.10 each which equates to a dividend of HK$1.54 per share on 460.2 million ordinary shares)	**–**	708
	–	768

The directors do not recommend the payment of a final dividend for the year ended 31 December 2009.

13. LOSS PER SHARE

The calculation of loss per share is based on loss attributable to shareholders of the Company of HK$1,266 million (2008: HK$240 million) and on the weighted average of approximately 460.2 million ordinary shares (2008: 460.2 million ordinary shares) in issue during the year.

Diluted loss per share has not been presented as the Company did not have any potential ordinary shares during the above two years.

14. PROPERTY, PLANT AND EQUIPMENT

	Buildings HK$ million	**Plant, equipment and other assets** HK$ million	**Moulds** HK$ million	**Total** HK$ million
Cost:				
At 1 January 2008	124	585	92	801
Foreign currency adjustment	10	13	(2)	21
Additions	–	66	1	67
Acquisition of subsidiaries	–	1	2	3
Transfer	–	(18)	18	–
Disposal of subsidiaries	–	(81)	–	(81)
Disposals	(18)	(69)	(82)	(169)
At 31 December 2008 and 1 January 2009	116	497	29	642
Foreign currency adjustment	(1)	1	–	–
Additions	20	4	1	25
Disposal of subsidiaries	–	(1)	(2)	(3)
Disposals	(42)	(27)	(3)	(72)
At 31 December 2009	93	474	25	592

14. PROPERTY, PLANT AND EQUIPMENT (continued)

	Buildings HK$ million	Plant, equipment and other assets HK$ million	Moulds HK$ million	Total HK$ million
Accumulated depreciation and impairment:				
At 1 January 2008	8	358	79	445
Foreign currency adjustment	–	(3)	–	(3)
Provided during the year	2	61	3	66
Transfer	–	(15)	15	–
Disposal of subsidiaries	–	(78)	–	(78)
Disposals	(5)	(33)	(71)	(109)
At 31 December 2008 and 1 January 2009	5	290	26	321
Foreign currency adjustment	–	1	–	1
Provided during the year	1	65	1	67
Impairment	–	14	–	14
Disposal of subsidiaries	–	–	(1)	(1)
Disposals	(5)	(17)	(1)	(23)
At 31 December 2009	1	353	25	379
Carrying values:				
At 31 December 2009	92	121	–	213
At 31 December 2008	111	207	3	321

During 2009, the Group has assessed the fair value of certain machinery and equipment in its PRC plants and as a result the carrying amount of these machinery and equipment was written down by HK$14 million.

The carrying values of plant and machinery held under finance leases at 31 December 2009 amounted to HK$23 million (2008: HK$37 million).

Buildings comprise:

	2009 HK$ million	2008 HK$ million
Freehold buildings outside Hong Kong	**92**	73
Long term leasehold building outside Hong Kong	**1**	–
Medium term leasehold buildings outside Hong Kong	**–**	43
Total cost	**93**	116

15. INVESTMENT PROPERTIES

	2009 HK$ million	2008 HK$ million
At fair value		
At beginning of year	**42**	44
Foreign currency adjustment	**–**	3
Change in fair value	**(2)**	–
Disposals	**–**	(5)
At end of year	**40**	42

The carrying amount of investment properties comprises land as follows:

	2009 HK$ million	2008 HK$ million
Medium term leasehold land:		
Outside Hong Kong	**39**	41
In Hong Kong	**1**	1
Carrying amount	**40**	42

The investment property in The People's Republic of China was valued at HK$39 million as at 31 December 2009 by Zhong Shan Kexing Assets & Land Assessment Co., Ltd., independent professional surveyors, on an open market, existing use basis as at 31 December 2009.

The investment property in Hong Kong was valued at HK$1 million as at 31 December 2009 by Dudley Surveyors Limited, independent professional surveyors, with reference to market evidence of transaction prices for similar properties.

All the Group's investment properties are held for earning rental income or for capital appreciation purposes and are measured using the fair value model.

16. INTEREST IN ASSOCIATES

	2009 HK$ million	2008 HK$ million
Cost of investment less impairment	–	3
Share of post-acquisition losses and reserves	–	(3)
	–	–
Listed investments, at market value	–	2

Particulars of the Group's principal associates are as follows:

Name	Note	**Place of incorporation/ registration and operation**	**Percentage of equity attributable to the Group 2009**	2008	**Principal activities**
Ross Group Plc +	(a)	United Kingdom	–	41%	Design and manufacture of engineering projects, and the sale and distribution of electronic products

\+ Listed on the London Stock Exchange.

Notes:

(a) In April 2009, the Group disposed of its entire shareholding interests in Ross Group Plc to independent third parties for a consideration of approximately HK$5 million.

(b) The summarised financial information in respect of the Group's associates is set out below:

	2009 HK$ million	2008 HK$ million
Total assets	–	7
Total liabilities	–	(79)
Net liabilities	–	(72)
Group's share of net assets of associates	–	–
Revenue	–	3
Loss for the year	–	(17)
Group's share of results of associates for the year	–	(3)

17. AVAILABLE – FOR – SALE INVESTMENTS

The amounts represent unlisted investments at cost less impairment losses.

18. DEFERRED TAX ASSETS

(a) Deferred tax assets recognised:

The major components of deferred tax assets recognised in the consolidated statement of financial position and the movements during the year are as follows:

	Accelerated tax depreciation HK$ million	**Tax losses** HK$ million	**Total** HK$ million
At 1 January 2008	–	98	98
Arising from disposal of subsidiaries *(note 37 (b))*	1	(12)	(11)
Foreign currency adjustment	–	(1)	(1)
Credited/(charged) to profit or loss *(note 11)*	6	(7)	(1)
At 31 December 2008 and 1 January 2009	7	78	85
Arising from disposal of subsidiaries *(note 37 (b))*	–	2	2
Credited/(charged) to profit or loss *(note 11)*	5	(8)	(3)
At 31 December 2009	12	72	84

(b) Deferred tax assets not recognised:

The deferred tax assets have not been recognised in respect of the following items:

	2009 **HK$** **million**	2008 HK$ million
Tax losses carried forward	**1,353**	9,988
Accelerated depreciation allowances	**957**	530
	2,310	10,518

The above tax losses are available indefinitely for offsetting against future taxable profits of the subsidiaries except for the losses in the amount of HK$911 million (2008: HK$8,670 million) which will be expired in the years from 2010 to 2015 (2008: from 2009 to 2014).

No deferred tax asset has been recognised in respect of the tax losses due to the unpredictability of future profit streams.

19. BRANDS AND TRADEMARKS

	2009 HK$ million	2008 HK$ million
Gross amount		
At 1 January	**2,002**	2,013
Foreign currency adjustment	**1**	(11)
Additions	**12**	–
Impairment	**(110)**	–
At 31 December	**1,905**	2,002
Accumulated amortisation at 31 December	**(228)**	(228)
Carrying amount at 31 December	**1,677**	1,774

Prior to 1 January 2005, brands and trademarks were amortised over their estimated useful lives but not more than 20 years and stated at their cost less accumulated amortisation and impairment losses. On 1 January 2005, the Group reassessed the useful lives of the brands and trademarks and concluded that all brands and trademarks have indefinite useful lives.

The various brands and trademarks held by the Group have been legally registered in the worldwide countries for certain years and the trademarks registration is renewable at minimal cost. The directors of the Company are of the opinion that the Group will renew these trademarks continuously and has the ability to do so. Various assessments including product life cycle studies, market, competitive and environmental trends, and brand extension opportunities have been performed by the management of the Group, which supports that the trademarks have no foreseeable limit to the period over which the trademarked products are expected to generate net cash flows for the Group.

As a result, the brands and trademarks are considered by the management of the Group as having indefinite useful lives because they are expected to contribute to net cash inflows indefinitely. The trademarks will not be amortised until their useful lives are determined to be finite. Instead they will be tested for impairment annually or more frequently when there are indications of impairment. Particulars of the impairment testing are disclosed in note 22.

20. OTHER ASSETS

	2009 HK$ million	2008 HK$ million
Deferred development costs:		
At beginning of year	**11**	69
Written off	**–**	(58)
At end of year	**11**	11
Accumulated amortisation and impairment:		
At beginning of year	**5**	62
Provided during the year	**1**	1
Written off	**–**	(58)
At end of year	**6**	5
Carrying amount of deferred development costs at end of year	**5**	6
Security deposits	**–**	5
Other receivables	**3**	–
Total other assets at end of year	**8**	11

21. GOODWILL

	2009 HK$ million	2008 HK$ million
At beginning of year	**585**	660
Addition	**–**	80
Impairment	**(55)**	(125)
Disposal of subsidiaries	**–**	(30)
Carrying amount at end of year	**530**	585

Included in the goodwill at 31 December 2009 was an amount of HK$516 million (2008: HK$571 million) attributable to the cash-generating unit comprising the Group's interest in SEC, Sansui's global licensing and distribution operations and the Sansui trademarks. These assets and operations form an integrated operating unit of the Group since the revenues and profits generated from them are heavily dependent upon each other.

22. IMPAIRMENT TESTING ON GOODWILL, BRANDS AND TRADEMARKS

Goodwill, brands and trademarks are allocated to the Group's cash-generating units ("CGU") identified according to business segment as follows:

	Goodwill		Brands and trademarks	
	2009 HK$ million	2008 HK$ million	**2009 HK$ million**	2008 HK$ million
Branded distribution				
Emerson	**14**	14	**476**	463
Distribution and licensing	**516**	571	**1,201**	1,311
	530	585	**1,677**	1,774
Electronics manufacturing services	**–**	–	**–**	–
	530	585	**1,677**	1,774

The recoverable amount of the CGU is determined based on value-in-use calculations. Cash flow projections are used in these calculations, which are based on financial projections approved by management. The brands and trademarks are considered by management as having indefinite useful lives. A ten-year financial budget, based on management's approved long-term plans of product development and business expansion, is used for testing the impairment of these brands and trademarks.

The discount rate used for value-in-use calculations is in a range of 10% to 13% (2008: 10% to 11%). Management determines the budgeted gross margin based on past performance and its expectation of market development.

23. INVENTORIES

	2009 HK$ million	2008 HK$ million
Raw materials	**28**	40
Work in progress	**10**	1
Finished goods	**141**	273
	179	314

Parts of the raw materials amounted to HK$28 million (2008: HK$38 million) and finished goods amounted to HK$141 million (2008: HK$272 million) were stated at net realisable values.

24. ACCOUNTS AND BILLS RECEIVABLES

The Group allows an average credit period of 30 to 90 days to its trade customers.

	2009 HK$ million	2008 HK$ million
Gross amount	**232**	262
Less: Allowance for doubtful debts	**(91)**	(86)
Net amount	**141**	176

The carrying amount of accounts and bills receivables approximates their fair value.

The movement of allowance for doubtful debts is as follows:

	2009 HK$ million	2008 HK$ million
At beginning of year	**86**	78
Impairment loss recognised	**5**	8
At end of year	**91**	86

The aged analysis of accounts and bills receivables (net of allowance for doubtful debts) is as follows:

	2009 HK$ million	2008 HK$ million
0 – 3 months	**138**	161
3 – 6 months	**1**	2
Over 6 months	**2**	13
	141	176

In addition, some of the unimpaired accounts receivables are past due as at the reporting date. Ageing analysis of accounts and bills receivables past due but not impaired is as follows:

	2009 HK$ million	2008 HK$ million
0 – 3 months	**37**	77
3 – 6 months	**2**	2
Over 6 months	**1**	12
	40	91

Before accepting any new customer, the management assesses the potential customer's credit quality with reference to the customer's reputation and market standing and defines the credit limits accordingly. Continuity of the credit limits to the customers is reviewed by management as and when necessary. Based on the aforesaid assessment, the above past due but not impaired accounts and bills receivables are still considered to be fully recoverable.

25. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2009 HK$ million	2008 HK$ million
Prepayments	**8**	12
Deposits	**18**	4
VAT receivables	**6**	24
Other receivables	**389**	411
Other assets	**4**	1
	425	452

Included in the other receivables was an amount of HK$378 million (2008: HK$370 million) due from former associates. The Group disposed of its entire shareholding interests in these associates in May 2008. Although the receivable is repayable on demand, the ultimate settlement of the amount due is dependent on the disposal of land held by the former associates in Zhongshan and, in the opinion of the directors, the balance may be recovered more than one year from the end of reporting period.

26. HELD-FOR-TRADING INVESTMENTS

	2009 HK$ million	2008 HK$ million
Listed investments in Hong Kong, at market value	**–**	62
Unlisted investments	**9**	34
	9	96

The unlisted investments included HK$9 million (2008: HK$21 million) of fine wines held by the Group for investment purpose.

27. DERIVATIVE FINANCIAL INSTRUMENTS

	2009		2008	
	Assets HK$ million	**Liabilities HK$ million**	Assets HK$ million	Liabilities HK$ million
Held for trading or not qualifying as hedges:				
Derivative instruments element of exchangeable bonds	**–**	**–**	–	(118)
Forward foreign exchange contracts	**–**	**–**	1	–
Interest rate swaps	**–**	**(91)**	–	(148)
	–	**(91)**	1	(266)
Less: Portion classified as current (liabilities)/assets	**–**	**(30)**	1	(188)
Portion classified as non-current liabilities	**–**	**(61)**	–	(78)

Interest rate swaps mature at 22 August 2012 with variable interest rates as at reporting date.

28. ACCOUNTS AND BILLS PAYABLE

The aged analysis of accounts and bills payable is as follows:

	2009 HK$ million	2008 HK$ million
0 – 3 months	**163**	113
3 – 6 months	**1**	4
Over 6 months	**25**	28
	189	145

29. ACCRUED LIABILITIES AND OTHER PAYABLES

	2009		2008	
	Current HK$ million	**Non-Current HK$ million**	Current HK$ million	Non-Current HK$ million
Accrued expenses and provisions	**170**	**35**	138	49
Other payables	**214**	**47**	46	52
Other borrowings	**41**	**–**	–	–
Deposits received	**7**	**2**	9	5
	432	**84**	193	106

Included in the other payables were amounts in aggregate of HK$121.1 million (2008: nil) which were due for payment prior to the end of the reporting period. Subsequent to the reporting date, HK$47.6 million was settled by the Group. The remaining balance of HK$73.5 million was fully secured by the Group's shareholding interest in SEC of which the attributable equity value shared by the Group was HK$225 million at the reporting date.

The above balance of the other borrowings (2008: nil) was due for payment prior to the end of the reporting period. Subsequent to the reporting date, HK$20 million was settled by the Group. The remaining balance of HK$21 million was fully secured by the Group's interest in certain brands and trademarks of which the carrying value was HK$602 million at the reporting date.

The Company is in ongoing negotiation with the creditors on rescheduling the payment terms of the outstanding balances with them. The directors of the Company are confident that the negotiations with these creditors will ultimately reach a successful conclusion. In any event, should any of these creditors call for immediate payment, the directors consider that the outstanding obligations can be adequately covered by the corresponding assets pledged by the Group. In addition, Accolade's confirmation of its intention to provide continuous financial support in funding the working capital requirements of the Company as set out in note 4(a) provides further assurance that the Group will be able to meet these outstanding obligations.

30. BANK LOANS

	2009 HK$ million	2008 HK$ million
Secured bank loans wholly repayable:		
Within one year	**227**	303
In the second year	**–**	38
In the third to fifth years, inclusive	**–**	15
Beyond five years	**–**	1
	227	357
Portion classified as current liabilities	**(227)**	(303)
Portion classified as non-current liabilities	**–**	54
Unsecured bank loans wholly repayable within one year	**8**	31

The carrying amounts of the borrowings are denominated in the following currencies:

	2009 HK$ million	2008 HK$ million
Hong Kong Dollar	**8**	31
Renminbi Yuan	**151**	253
United States Dollar	**44**	43
Singapore Dollar	**–**	27
Japanese Yen	**32**	34
	235	388

At the end of the reporting period, 78% (2008: 26%) of the Group's total borrowings were with interest rates fixed to maturity.

The ranges of effective interest rates on the Group's borrowings at the end of the reporting period were as follows:

	2009	2008
Effective interest rate:		
Fixed-rate borrowings	**3.17% to 5.35%**	3.17% to 8.22%
Variable-rate borrowings	**1.24% to 5.25%**	1.10% to 7.29%

31. OBLIGATIONS UNDER FINANCE LEASES

	Minimum lease payments		Present value of minimum lease payments	
	2009	2008	**2009**	2008
	HK$ million	HK$ million	**HK$ million**	HK$ million
Amounts payable under finance leases:				
Within one year	**15**	21	**15**	19
In the second year	**–**	12	**–**	12
Less: Future finance charges	**–**	(2)	**–**	–
Present value of lease obligations	**15**	31	**15**	31
Portion classified as current liabilities			**(15)**	(19)
Portion classified as non-current liabilities			**–**	12

Included in the obligations under finance leases was an amount of HK$3.2 million (2008: nil) due for payment prior to the end of the reporting period. The Company is in negotiation with the lessor on rescheduling the payment terms. The entire obligations were secured by certain plant and machineries of which the carrying value was HK$23 million at the reporting date.

32. EXCHANGEABLE BONDS ISSUED BY A SUBSIDIARY

On 22 February 2006, Hi-Tech Precision Products Ltd, a wholly-owned subsidiary of the Group, issued a principal amount of US$50 million (equivalent to HK$388 million) Zero Coupon Guaranteed Exchangeable Bonds ("Exchangeable Bonds") at par value to independent third parties. The Exchangeable Bonds had a maturity date on 8 February 2011 and were redeemable after 23 March 2006. The principal amount of the Exchangeable Bonds outstanding as at 31 December 2009 was nil (2008: US$33 million).

33. SETTLEMENT OF COURT PROCEEDINGS

On 3 October 2009, the Company and all other defendants of the court proceedings in HCCL No. 37 of 2005 and HCCL No. 40 of 2005 entered into a settlement agreement (the "Settlement Agreement") with the plaintiffs, whereby the Company, without admission of liability, took up an amount of HK$969 million plus interest as its maximum obligations payable to the plaintiffs within twelve months from the date of the Settlement Agreement. The entire settlement amount was accrued and expensed during the year. As at 31 December 2009, the outstanding balance of the settlement obligations was HK$890 million.

Pursuant to a letter of commitment dated 15 October 2009, Accolade is committed to assist in funding and financing the Company to meet its financial obligations under the Settlement Agreement by way of loans which are unsecured and bear annual interest at the US dollar prime rate published by The Hong Kong and Shanghai Banking Corporation Limited. Accolade will not call for repayment on such loans to be advanced to the Company unless the Company has arranged for alternative sources of funds and/or has generated sufficient funds to finance its continuing operations after repayment.

As set out in note 44, on 23 April 2010, Accolade has confirmed its commitment to assume the above outstanding settlement obligations as of 31 December 2009 from the Company.

34. DEBENTURE

On 10 December 2008, the Company issued a principal amount of US$27.6 million (equivalent to HK$214 million) Debenture ("Debenture") at par value to an independent third party. The Debenture shall be redeemed by the Company on or before the extended maturity date of 5 July 2011. For the period from the first anniversary of the issue date of the Debenture until the maturity date, interest shall be accrued on the outstanding principal amount under the Debenture at the rate of 12% per annum.

The principal outstanding at the end of the reporting period was approximately US$6.8 million (2008: US$27.6 million).

35. PROVISION FOR RETIREMENT AND LONG SERVICE PAYMENTS

	2009 HK$ million	2008 HK$ million
At beginning of year	**2**	9
Disposal of subsidiaries	**–**	(3)
Utilisation/reversal of provision	**(1)**	(4)
At end of year	**1**	2
Analysis of provision:		
Current liabilities	**1**	–
Non-current liabilities	**–**	2
	1	2

36. SHARE CAPITAL AND SHARE PREMIUM

	2009 HK$ million	2008 HK$ million
Authorised share capital:		
1,000,000,000 ordinary shares of HK$0.10 each	**100**	100
Issued and fully paid share capital:		
460,227,320 ordinary shares of HK$0.10 each	**46**	46
Share premium	**1,173**	1,173

37. NOTES TO CONSOLIDATED STATEMENT OF CASH FLOWS

(a) Purchase of subsidiaries

	2009 HK$ million	2008 HK$ million
Net assets acquired:		
Property, plant and equipment	**–**	3
Cash and bank balances	**–**	2
Bank loans	**–**	(2)
	–	3
Goodwill	**–**	80
	–	83
Represented by:		
Cash consideration paid	**–**	2
Available-for-sale investments	**–**	80
Minority interests	**–**	1
	–	83

The subsidiaries acquired during the year 2008 had no material effect on the operating loss and cash flow of the Group.

The analysis of net inflow of cash and cash equivalents in respect of the purchase of subsidiaries is as follows:

	2009 HK$ million	2008 HK$ million
Cash consideration paid	**–**	(2)
Cash and bank balances of acquired subsidiaries	**–**	2
	–	–

37. NOTES TO CONSOLIDATED STATEMENT OF CASH FLOWS (continued)

(b) Disposal of subsidiaries

Summary of the effects on disposal of subsidiaries

	2009 HK$ million	2008 HK$ million
Net assets disposed of:		
Property, plant and equipment	**2**	3
Available-for-sale investments	**–**	58
Cash and bank balances	**–**	10
Accounts and bills receivables	**–**	36
Inventories	**3**	2
Prepayments, deposits and other receivables	**–**	22
Tax recoverable	**–**	29
Accounts and bills payable	**–**	(22)
Accrued liabilities and other payables	**(2)**	(14)
Amounts due to associates	**(1)**	–
Deferred tax assets	**–**	11
	2	135
Gain on disposal of subsidiaries	**3**	29
	5	164
Represented by:		
Cash consideration received	**–**	51
Other receivables	**6**	76
Interest in associates	**–**	59
Deferred tax assets	**2**	–
Other payables	**(3)**	–
Release of reserves	**–**	8
Release of goodwill	**–**	(30)
	5	164

The subsidiaries disposed of during the year had no material effect on the operating loss and cash flow of the Group.

The analysis of net inflow of cash and cash equivalents in respect of the disposal of subsidiaries is as follows:

	2009 HK$ million	2008 HK$ million
Cash consideration received	**–**	51
Cash and bank balances of disposed subsidiaries	**–**	(10)
	–	41

37. NOTES TO CONSOLIDATED STATEMENT OF CASH FLOWS (continued)

(c) Major non-cash transactions

(i) 2007 second interim dividend of HK$708 million was dealt with by way of a distribution in specie of seven ordinary shares of Lafe Corporation Limited for every five ordinary shares of the Company during the year 2008.

(ii) During the year 2008, a consideration of HK$80 million on disposal of property, plant and equipment was satisfied by Hong Kong listed securities at market value.

(iii) During the year 2008, a consideration on disposal of available-for-sale investments of HK$13 million was satisfied by unlisted investment at fair value.

(iv) During the year 2008, a consideration on disposal of a subsidiary of HK$59 million was satisfied by unlisted investment at fair value.

(v) The Convertible Debenture of US$26 million was redeemed on the due date of 5 December 2008. New Debenture of US$27.6 million was issued on 10 December 2008.

38. LEGAL PROCEEDINGS

In 2005, certain plaintiffs obtained a default judgment against a defunct entity, GrandeTel Technologies, Inc., for approximately US$37 million in the United States of America. In December 2006, an action was filed by these plaintiffs claiming that the Company should be responsible for the amount of the default judgment. The case has been pending since December 2006. There has been and will continue to be significant written and deposition discovery. Trial is set for late July 2010. The Company is aggressively defending this action. The Group's legal advisers advise that it is difficult to forecast the probable outcome at this time.

39. COMMITMENTS

	2009 HK$ million	2008 HK$ million
(a) Capital commitments:		
Contracted for	**–**	–
Authorised, but not contracted for	**–**	–
	–	–

(b) The future minimum lease payments under non-cancellable operating leases for each of the following periods:

	2009 HK$ million	2008 HK$ million
Land and buildings:		
Not later than one year	**23**	23
Later than one year and not later than five years	**43**	54
Later than five years	**1**	34
	67	111

39. COMMITMENTS (continued)

Operating lease payments represent rentals payable by the Group for certain of its office properties. Leases are negotiated for an average term of 3 years (2008: 3 years) and rentals are fixed for an average of 4 years (2008: 4 years).

	2009 HK$ million	2008 HK$ million
Others:		
Not later than one year	**1**	8
Later than one year and not later than five years	**–**	4
	1	12

40. BANKING AND OTHER BORROWING FACILITIES

Certain banking and other borrowing facilities available to the Group were secured by assets for which the aggregate carrying values were as follows:

		2009 HK$ million	2008 HK$ million
(a)	Legal charges over brands and trademarks, account receivables, inventories and bank balances	**572**	547
(b)	Legal charges over available-for-sale investments	**47**	55
(c)	Legal charges over plant and machineries	**30**	37
(d)	Legal charges over freehold buildings outside Hong Kong	**20**	–
(e)	Pledge of brands and trademarks	**602**	–
(f)	Pledge of freehold buildings outside Hong Kong	**71**	73
(g)	Pledge of investment properties	**39**	41
(h)	Pledge of medium term buildings outside Hong Kong	**–**	36
(i)	Pledge of marketable securities	**225**	235
(j)	Pledge of bank deposits	**27**	10
		1,633	1,034

41. PROVIDENT FUND SCHEMES

From 1 December 2000 onwards, all the staff of the Group in Hong Kong were offered the opportunity to join the Mandatory Provident Fund Scheme (the “MPF Scheme”), introduced by the Government of the Hong Kong Special Administrative Region. Under the MPF Scheme, the employees are required to contribute 5% of their monthly salaries up to a maximum of HK$1,000 per employee and they can choose to make additional contributions. The employer’s monthly contributions are calculated at 5% of each employee’s monthly salaries up to a maximum of HK$1,000. The employees are entitled to 100% of the employer’s mandatory contributions upon their retirement at the age of 65 years old, death or total incapacity.

The PRC employees of the subsidiaries in the PRC are members of the pension scheme operated by the PRC local government. The subsidiaries are required to contribute a certain percentage of the relevant payroll of these employees to the pension scheme to fund the benefits. The only obligation for the Group with respect of the pension scheme is the required contribution under the pension scheme.

41. PROVIDENT FUND SCHEMES (continued)

The staff in United States of America who wish to participate in the plan may contribute up to the legal limits, to which a specified percentage is matched by the subsidiaries in accordance with their plans.

The Group also operates various retirement benefit schemes for qualifying employees of its overseas subsidiaries, including subsidiaries in Singapore and Japan. The assets of the retirement benefit schemes are held separately from those of the Group, in funds under control of trustees. The Group contributes a certain percentage of the relevant payroll costs to the schemes, which contribution is matched by employees.

42. SEGMENT REPORTING

The Group has adopted HKFRS 8 "Operating segments" with effect from 1 January 2009 as explained in note 2. The Group identifies operating segments and prepares segment information based on the regular internal financial information reported to the executive directors, a group of the chief operating decision maker, for their decisions about resources allocation to the Group's business components and for their review of the performance of those components. The business components in the internal financial information reported to the executive directors are determined following the Group's major product and service lines.

The Group currently organises its operations into the following reportable operating segments:

Operating segments	**Principal activities**
Branded distribution	Trading of audio and video products, licensing business and investments trading
Emerson	– Comprising a group listed on the NYSE Alternext US
Distribution and licensing	– Comprising the brands and trademarks, namely, Akai, Sansui and Nakamichi
Electronics manufacturing services	Manufacture and trading of electronic products and subcontracting service

In contrast, HKAS 14 "Segment reporting", the predecessor standard, required an entity to identify two sets of segments (business and geographical) using a risks and returns approach, with the entity's "system of internal financial reporting to key management personnel" serving only as the starting point for the identification of such segments.

42. SEGMENT REPORTING (continued)

(a) Segment information

2009	Emerson HK$ million	Branded distribution: Distribution and licensing HK$ million	Branded distribution: Sub-total HK$ million	Electronics manufacturing services HK$ million	Inter-segment elimination HK$ million	Unallocated HK$ million	Consolidated HK$ million
Revenue:							
Sales of goods and provision of services to external customers	1,514	25	1,539	644	–		2,183
Licensing income from external customers	51	97	148	–	–		148
Realised gain on investments trading	–	30	30	–	–		30
Inter-segment sales	–	10	10	2	(12)		–
Total	1,565	162	1,727	646	(12)		2,361
Results:							
Segment results	45	51	96	(6)	–		90
Unallocated corporate expenses						(77)	(77)
						(77)	13
(Loss)/gain on disposal of property, plant and equipment	(1)	64	63	–	–	1	64
Change in fair value of investment properties	–	–	–	(2)	–	–	(2)
Impairment loss recognised in respect of –							
Property, plant and equipment	–	–	–	(14)	–	–	(14)
Brands and trademarks	–	(110)	(110)	–	–	–	(110)
Goodwill						(55)	(55)
Available-for-sale investments						(2)	(2)
Gain on disposal of subsidiaries						3	3
Allowance for doubtful debts						(5)	(5)
Change in fair value of exchangeable bonds						1	1
Loss on financial derivatives						(92)	(92)
Settlement of court proceedings						(969)	(969)
Interest income						9	9
Interest expense						(91)	(91)
Tax						(7)	(7)
Loss for the year						(1,284)	(1,257)
Assets:							
Segment assets	1,147	3,135	4,282	4,233	(4,907)	92	3,700
Liabilities:							
Segment liabilities	799	3,620	4,419	2,927	(5,766)	1,238	2,818
Other information:							
Depreciation and amortisation	6	5	11	53		4	68
Capital expenditure	35	1	36	1		–	37

42. SEGMENT REPORTING (continued)

(a) Segment information (continued)

The segment information reported for the prior period have been represented to conform with the current year requirements of HKFRS 8:

2008 (represented)	Emerson HK$ million	Branded distribution: Distribution and licensing HK$ million	Sub-total HK$ million	Electronics manufacturing services HK$ million	Inter-segment elimination HK$ million	Unallocated HK$ million	Consolidated HK$ million
Revenue:							
Sales of goods and provision of services to external customers	1,490	139	1,629	634	–		2,263
Licensing income from external customers	55	86	141	–	–		141
Realised gain on investments trading	–	28	28	–	–		28
Total	1,545	253	1,798	634	–		2,432
Results:							
Segment results	(62)	70	8	(11)	–		(3)
Unallocated corporate expenses						(29)	(29)
						(29)	(32)
Gain on disposal of property, plant and equipment	–	46	46	7	–	2	55
Share of loss of associates	–	(3)	(3)	–	–	–	(3)
Gain on disposal of subsidiaries						29	29
Impairment loss recognised in respect of –							
Goodwill						(194)	(194)
Available-for-sale investments						(14)	(14)
Allowance for doubtful debts						(8)	(8)
Change in fair value of exchangeable bonds and convertible debenture						(77)	(77)
Loss on financial derivatives						(149)	(149)
Reversal of losses on disposal of subsidiaries						123	123
Interest income						16	16
Interest expense						(44)	(44)
Tax						(3)	(3)
Loss for the year						(348)	(301)
Assets:							
Segment assets	1,066	3,762	4,828	4,799	(5,665)	102	4,064
Liabilities:							
Segment liabilities	762	3,501	4,263	3,156	(5,894)	411	1,936
Other information:							
Depreciation and amortisation	7	6	13	49		5	67
Capital expenditure	4	10	14	53		–	67

42. SEGMENT REPORTING (continued)

(b) Geographical information

	Revenue		Carrying amount of segment assets		Capital expenditure incurred during the year	
	2009 HK$ million	2008 HK$ million	**2009 HK$ million**	2008 HK$ million	**2009 HK$ million**	2008 HK$ million
Asia	**784**	789	**1,512**	2,094	**4**	66
North America	**1,569**	1,586	**418**	93	**21**	1
Europe	**8**	57	**1**	1	**–**	–
Unallocated	**–**	–	**1,677**	1,774	**12**	–
	2,361	2,432	**3,608**	3,962	**37**	67

43. PARTICULARS OF PRINCIPAL SUBSIDIARIES

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

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary share/ registered capital	Percentage of equity attributable to the Group 2009	2008	Principal activities
Directly held:					
Broadland Investments Limited	British Virgin Islands	US$106	**100%**	100%	Investment holding
The Grande (Nominees) Limited	British Virgin Islands	US$1	**100%**	100%	Investment holding
Grande N.A.K.S. Ltd	British Virgin Islands	US$10,000	**100%**	100%	Investment holding
Indirectly held:					
The Capetronic Group Limited	Cayman Islands	HK$62,844,690	**100%**	100%	Investment holding
Tomei Kawa Electronics International Limited	British Virgin Islands	US$1	**100%**	100%	Brands and trademarks holding
Innovative Capital Ltd	British Virgin Islands	US$100	**100%**	100%	Corporate finance and investment holding
The Alpha Capital Services Ltd	British Virgin Islands	US$100	**100%**	100%	Corporate finance
Capetronic Technology Limited	Hong Kong	HK$2,184,060	**100%**	100%	Trading of audio and video products

43. PARTICULARS OF PRINCIPAL SUBSIDIARIES (continued)

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary share/ registered capital	Percentage of equity attributable to the Group 2009	2008	Principal activities
Indirectly held: (continued)					
The Grande Group (Hong Kong) Limited	Hong Kong	HK$20	**100%**	100%	Provision of administration services
Sansui Enterprises Limited	British Virgin Islands	US$1	**100%**	100%	Trading of audio and video products
TWD Industrial Company Limited	British Virgin Islands	US$1	**100%**	100%	Brands and trademarks holding
Sansui Acoustics Research Corporation	British Virgin Islands	US$2	**100%**	100%	Brands and trademarks holding
Nakamichi Designs Limited	British Virgin Islands	US$50,000	**100%**	100%	Brands and trademarks holding
Nakamichi Corporation Limited	Singapore	S$2	**100%**	100%	Trading of audio and video products
Capetronic Display Devices Holdings Limited	British Virgin Islands	US$100	**100%**	100%	Investment holding
Akai Electric Co., Ltd.	Japan	JPY4,684,650,000	**88%**	88%	Trading of audio and video products
Phenomenon Agents Limited	British Virgin Islands	US$50,000	**88%**	88%	Brands and trademarks holding
Akai Sales Pte. Ltd.	Singapore	S$2	**88%**	88%	Trading of audio and video products
Nakamichi Corporation	Japan	JPY209,640,000	**100%**	100%	Trading of audio and video products
S&T International Distribution Limited	British Virgin Islands	US$1	**100%**	100%	Investment holding
Emerson Radio Corp. *(i)*	United States of America	US$529,000	**58%**	58%	Engaged in the consumer electronics industry
Hi-Tech Precision Products Ltd	British Virgin Islands	US$1	**100%**	100%	Investment holding
Sansui Electric Co., Ltd. *(ii)*	Japan	JPY5,794,263,000	**40%**	40%	Sale of audio, visual and other electronic products

43. PARTICULARS OF PRINCIPAL SUBSIDIARIES (continued)

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary share/ registered capital	Percentage of equity attributable to the Group 2009	2008	Principal activities
Indirectly held: (continued)					
Capetronic Group Ltd	British Virgin Islands	US$10,000	**100%**	85%	Investment holding
Sansui Electric (China) Co. Ltd *(iii)*	The People's Republic of China	RMB50,000,000	**100%**	85%	Manufacture and sale of electronic subassembly
Akai Electric (China) Co. Ltd *(iii)*	The People's Republic of China	RMB130,000,000	**100%**	85%	Manufacture and sale of printed circuit board assembly
Zhongshan Tomei Audio & Video Products Co. Ltd *(iv)*	The People's Republic of China	HK$103,589,875	**88%**	75%	Manufacture of mechadecks and video products

Notes:

(i) Listed on the NYSE Alternext US

(ii) Listed on the First Section of the Tokyo Stock Exchange

(iii) Wholly foreign-owned enterprises

(iv) Equity joint venture

44. EVENTS AFTER THE REPORTING PERIOD

Subsequent to the end of the reporting period, 391,199 shares (approximately 1.45% equity interests) in Emerson Radio Corp. ("Emerson") were sold in the open market for approximately US$1.15 million which was applied as partial repayment of certain financial obligations owing to a bank. In addition, there were 3,389,401 Emerson shares (approximately 12.55% equity interests) pledged to the bank as security for outstanding obligations not exceeding US$4.95 million.

On 2 March 2010, Emerson declared an extraordinary cash dividend of US$1.1 per common share payable on 24 March 2010 to the shareholders of Emerson at the close of trading on 15 March 2010.

On 23 April 2010, Accolade has confirmed its commitment to assume the outstanding settlement obligations as of 31 December 2009 in respect of the court proceedings as detailed in note 33.

45. COMPARATIVE AMOUNTS

Certain comparative amounts have been represented to conform with the revised standards, as explained in note 2, applied in current year.

46. APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements were approved and authorised for issue by the Board of Directors on 30 April 2010.