South China Holdings Limited

Incorporated in the Cayman Islands with limited liability

Stock Code : 265

Annual Report **2010**

Contents

Corporate Information

BOARD OF DIRECTORS

Executive Directors

Mr. Ng Hung Sang (*Chairman*)
Mr. Richard Howard Gorges
Ms. Cheung Choi Ngor
Mr. Ng Yuk Fung, Peter

Non-executive Directors

Mr. David Michael Norman
Ms. Ng Yuk Mui, Jessica

Independent Non-executive Directors

Mr. David John Blackett
Mrs. Tse Wong Siu Yin, Elizabeth
Mr. Cheng Hong Kei

AUDIT COMMITTEE

Mr. Cheng Hong Kei (*Committee Chairman*)
Mr. David John Blackett
Mrs. Tse Wong Siu Yin, Elizabeth
Mr. David Michael Norman

REMUNERATION COMMITTEE

Mrs. Tse Wong Siu Yin, Elizabeth (*Committee Chairman*)
Mr. Cheng Hong Kei
Mr. David John Blackett
Mr. David Michael Norman

COMPANY SECRETARY

Mr. Zhu Ben Yu

AUDITORS

Ernst & Young
Certified Public Accountants

PRINCIPAL BANKERS

The Bank of East Asia, Limited
Chong Hing Bank Limited
Standard Chartered Bank (Hong Kong) Limited
DBS Bank (Hong Kong) Limited
Bank of Communications Co., Ltd.
Bank of China (Hong Kong) Limited

REGISTERED OFFICE

Scotia Centre
4th Floor, P.O. Box 2804
George Town, Grand Cayman
Cayman Islands

PRINCIPAL PLACE OF BUSINESS

28th Floor, Bank of China Tower
1 Garden Road, Central
Hong Kong

SHARE REGISTRAR AND TRANSFER OFFICE

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

STOCK CODE

265

WEBSITE

http://www.sctrade.com

Chairman's Statement and Management Discussion and Analysis

I am pleased to report the activities of South China Holdings Limited (the "Company") and its subsidiaries (collectively, the "Group") for the year ended 31 December 2010.

FINANCIAL SUMMARY

The Group recorded revenue of HK$281.6 million and a loss attributable to owners of the Company of HK$13.5 million for the year ended 31 December 2010. As compared to 2009, revenue increased by 30.5% while the annual results turned from profit to loss due to bigger fair value loss on financial assets at fair value through profit or loss.

The Group's principal businesses of travel and related services, information technology and trading and manufacturing remained profitable and fundamentally sound.

DIVIDEND

The board of directors of the Company (the "Board") does not recommend the payment of a final dividend for the year ended 31 December 2010 (2009: Nil).

BUSINESS REVIEW

The Group recorded revenue of HK$281.6 million and a net loss of HK$8.6 million for the year ended 31 December 2010. The principal businesses of the Group include travel and related services, information technology, trading and manufacturing and forestry.

Travel and Related Services

Hong Kong Four Seas Tours recorded a 27.8% increase in revenue to HK$91.0 million (2009: HK$71.2 million) and a 61.3% increase in profit from operations to HK$30.5 million (2009: HK$18.9 million) for the year ended 31 December 2010. The recovery in earnings was mainly attributable to the rebound of the global travel industry after the financial tsunami. Our revenue and profit margin were boosted by the increase in business travel as well as the increase in the number of flights in the second half of 2010. As corporate clients continue to seek high quality services, Hong Kong Four Seas Tours has been able to increase its market share in the past two years. The enlarged global corporate client base enabled us to expand our MICE (meeting, incentive, conference, event) operation in Hong Kong and Mainland China in the past year.

Information Technology

The IT segment reported a 25.3% increase in revenue to HK$158.4 million and more than an eight-fold increase in profit from operations to HK$14.0 million for the year ended 31 December 2010 after a major revamp in 2009. Our principal subsidiaries in this segment are mainly involved in system integration, software development and supply chain system development. Over past few years, Chongqing has evolved into an information technology development centre due to substantial government investment in the Xiyong District. One of our subsidiaries has generated strong revenue growth through its involvement in developing its electronic system.

Trading and Manufacturing

Our trading and manufacturing operation is located in Nanjing, the PRC and is engaged in producing jewellery from precious stones, jade, gold and silver. In addition to our flagship store in Nanjing, our products are also distributed and sold through counters in sizable department stores. Jewellery business recorded a 77.7% increase in revenue to HK$32.3 million (2009: HK$18.2 million) and 211.7% increase in profit from operations to HK$1.4 million (2009: HK$453,000).

Forestry

As at 31 December 2010, we occupied approximately 230,000 mu of woodland area for forest plantation in Chongqing and Wuhan, the PRC. On 11 January 2011, the Company announced the sale of its forestry operation to SCC for a consideration of HK$23.8 million. The disposal of the forestry business allows more management time and resources to be spent on its other businesses.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2010, the Group had a current ratio of 1.41 and a gearing ratio of 0% (31 December 2009: 1.29 and 0% respectively). The gearing ratio was computed by comparing the Group's total long-term bank borrowings to total equity. As at 31 December 2010 and 31 December 2009, the Group had no long-term bank borrowings. The Group's operations and investments continue to be financed by internal resources and bank borrowings.

EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES AND RELATED HEDGES

As at 31 December 2010, the Group had no significant exposure to fluctuations in foreign exchange rates and any related hedges.

CAPITAL STRUCTURE

The Group had no debt securities or other capital instruments as at 31 December 2010 and up to the date of this Annual Report. As compared to the 2009 Annual Report, there was no material change in the Group's capital structure. Details of the Group's debt maturity profile are set out in note 48 to the financial statements.

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES AND ASSOCIATES

During the year ended 31 December 2010, the Group did not make any material acquisition or disposal.

PLEDGES OF ASSETS, CONTINGENT LIABILITIES AND COMMITMENTS

As at 31 December 2010, a significant portion of the borrowings was for normal trading purposes with the level of borrowings depending on the level of trading and investing activities. Certain of the property, plant and equipment, inventories, trade receivables and bank deposits of the Group are pledged to secure the banking facilities.

Details of the Group's contingent liabilities and pledges of assets are set out in notes 41 and 42 of the financial statements.

The Group had no material capital commitment as at 31 December 2010.

INVESTMENTS

The Group held some remaining shares and warrants of South China (China) Limited ("SCC") after the distribution in specie of its shares to the Company's shareholders in June 2009. In July 2009, the Group exercised the SCC warrants held which were then converted to SCC shares. In August 2009, SCC paid a special dividend for its entire interest in South China Land Limited 南華置地有限公司 ("SCL") to its shareholders by means of distribution in specie. During the year, shares of SCL recorded a fair value loss of HK$23.3 million on financial assets at fair value through profit or loss in the Consolidated Income Statement and shares of SCC recorded a fair value loss of HK$4.5 million on available-for-sales financial assets in the Consolidated Statement of Comprehensive Income.

EMPLOYEES

As at 31 December 2010, the total number of employees of the Group was 702 (2009: 644). Employees' cost (including directors' emoluments) amounted to approximately HK$83.1 million for the year (2009: approximately HK$303 million).

In addition to salary, other fringe benefits such as medical subsidies, provident fund and subsidized training programs are offered to all employees of the Group. Performance of the employees is normally reviewed on an annual basis with adjustment compatible to the market. Individual employees may also receive a discretionary bonus at the end of each year based on performance. The Company has adopted a share option scheme that came into effect on 28 June 2002.

EVENTS AFTER THE REPORTING PERIOD

(i) In January 2011, the Group disposed of its entire interest in Thousand China Investments Limited ("Thousand China") to a direct wholly-owned subsidiary of SCC, which a director of the Company is the controlling shareholder for a consideration of HK$23.8 million. Thousand China and its subsidiaries are engaged in forest plantation in the PRC. Details of the transaction are disclosed in the announcement of the Company dated 11 January 2011.

(ii) As mentioned in our announcement dated 28 March 2011 and clarification announcement dated 29 March 2011, subsequent to the end of the reporting period ended 31 December 2010, senior executive (involved are the general manager (who is also a director of South China Zenith) and the assistant general manager) of Chongqing South China Zenith Information Technology Co., Ltd. ("South China Zenith"), a 60% owned subsidiary of the Company, were summoned by the local government authority in Mainland China to assist in an investigation (the "Investigation"). The accounting records, including the general ledger and relating supporting documents, were seized by the local government authority.

Analysis on financial information of South China Zenith attributable to the Company is as follows:

	Notes	**South China Zenith** HK$'000	**Group** HK$'000
Net assets		48,875	190,715
Net assets attributable to equity owners of the Company		29,325	149,756
Sales proceeds received and receivable	1	148,893	2,815,618
Profit for the year of operating subsidiaries	2	9,512	31,408
Profit for the year of operating subsidiaries attributable to equity owners of the Company	2	5,707	26,737

Note 1: Sales proceeds received and receivable of the Group are calculated on the basis of including the gross sales proceeds received and receivable in relation to travel and related services amounting to HK$2,625 million, which is demonstrated in reconciliation as below:

	HK$'000
Revenue in consolidated income statement	281,645
Less: Net sales proceeds received and receivable in relation to travel and related business	(90,974)
Add: Gross sales proceeds received and receivable in relation to travel and related business	2,624,947
Gross sales proceeds received and receivable	2,815,618

Note 2: Operating subsidiaries include subsidiaries engaged in travel and related services, information technology (including South China Zenith), trading and manufacturing of jewellery business and forestry business.

As mentioned in our announcement dated 28 March 2011 and clarification announcement dated 29 March 2011, so far as the Board is aware, the Investigation is still underway and that the daily operation of South China Zenith is carried on in the usual manner. The Board is currently not aware of any circumstances which would result in significant implications to South China Zenith's financial position. In any event, the Board does not consider that the Investigation would have a significant implication to the Group's financial position.

The unaudited income statement for the year ended 31 December 2010 and the statement of financial position as at 31 December 2010 of South China Zenith was set out in note 49 of the financial statements.

PROSPECTS

Hong Kong Four Seas Tours will continue to develop its online booking platform and enhance its computer system in order to complement its sales network and improve its efficiency and competitiveness. We expect steady growth of our MICE business in the coming year. The alliance with our global partner, Travel Solution International, will enable Hong Kong Four Seas Tours to expand its corporate client base.

In Mainland China, Hong Kong Four Seas Tours already has branches in Beijing, Shanghai, Chongqing, Guangzhou and Shenzhen. In the coming year, we will extend our MICE operation to Shanghai. Given the great potential in Mainland China, we will also expand our network to other major cities in 2011. Our operation in Mainland China has contributed more than 15% of Hong Kong Four Seas Tours' gross sales proceeds received and receivable in 2010 and we envisage that contribution from these branches will improve in the coming year.

Our IT operation is expected to maintain its growth momentum in the coming year. The electronic system developed by our subsidiary is powerful and well received by our customers. We will continue to expand our electronic system into other provinces in the coming year. Our software development outsourcing business is also growing. With the expansion of our major customers into various cities in Mainland China, our supply chain management software is in popular demand.

We will continue to expand the point of sales of our jewellery operation in Nanjing by opening more outlets in department stores to achieve revenue growth. We will also control cost by lowering our marketing budget and close down unprofitable outlets in the coming year.

APPRECIATION

On behalf of the Board, I wish to express my gratitude to our customers and shareholders for their continued support and all our staff members for their hard work and dedicated services.

Ng Hung Sang
Chairman

Hong Kong, 31 March 2011

Directors' Biographical Details

EXECUTIVE DIRECTORS

Mr. Ng Hung Sang, aged 61, is an Executive Director and the Chairman of the Company. Mr. Ng is actively involved in the overall corporate policies, strategic planning and business development of the Group. Mr. Ng is also an executive director and the Chairman of South China Financial Holdings Limited ("SCF"), South China (China) Limited ("SCC") and South China Land Limited南華置地有限公司("SCL"). He holds a Master degree in marketing from Lancaster University in the United Kingdom and is a fellow member of the Chartered Institute of Management Accountants. Mr. Ng was appointed as a Director of the Company on 24 June 1992. Mr. Ng is the father of Ms. Ng Yuk Mui, Jessica, a Non-executive Director of the Company and Mr. Ng Yuk Fung, Peter, an Executive Director of the Company.

Mr. Richard Howard Gorges, aged 67, is an Executive Director of the Company. He is also an executive director and the vice-chairman of the SCC and SCF and an executive director of SCL. He holds a Master degree in law from Cambridge University in the United Kingdom. Mr. Gorges was appointed as a Director of the Company on 24 June 1992.

Ms. Cheung Choi Ngor, aged 57, is an Executive Director of the Company. Ms. Cheung is also an executive director, the vice-chairman and chief executive officer of SCC, and an executive director and a vice-chairman of SCF and an executive director, the compliance officer and authorized representative of SCL. She holds a Master degree in business administration from University of Illinois in the United States of America. Ms. Cheung is a member of National Committee of the Chinese People's Political Consultative Conference. Ms. Cheung was appointed as a Director of the Company on 24 June 1992.

Mr. Ng Yuk Fung, Peter, aged 30, is an Executive Director of the Company. He is also an executive director of SCC and SCL. Mr. Ng holds a Bachelor degree in Law from King's College London, University of London in the United Kingdom and is an associate member of the Chartered Institute of Management Accountants. He is also a member of the Nanjing Municipal Committee of the Chinese People's Political Consultative Conference. He is the son of Mr. Ng Hung Sang, the Chairman of the Company, and the brother of Ms. Ng Yuk Mui, Jessica, a Non-executive director of the Company. Mr. Ng was appointed as an Executive Director of the Company on 15 September 2003.

NON-EXECUTIVE DIRECTORS

Mr. David Michael Norman, aged 54, is a Non-executive Director of the Company and a solicitor. He studied philosophy and psychology at Oxford University in the United Kingdom and was admitted as a solicitor in the United Kingdom in 1981 and in Hong Kong in 1984 respectively. He was appointed as an Independent Non-executive Director of the Company on 16 January 1995 and re-designated as Non-executive Director of the Company on 21 September 2004.

Ms. Ng Yuk Mui, Jessica, aged 32, is a Non-executive Director of the Company. She is also an non-executive director of SCC and SCL. She holds a Bachelor degree in Law from King's College London, University of London in the United Kingdom, and was admitted to the Hong Kong Bar in 2006. Ms. Ng is an associate member of the Chartered Institute of Management Accountants and a member of the Tianjin Municipal Committee of the Chinese People's Political Consultative Conference. She is the daughter of Mr. Ng Hung Sang, the Chairman of the Company, and the sister of Mr. Ng Yuk Fung, Peter, Executive Director of the Company. Ms. Ng was appointed as an Executive Director of the Company on 15 September 2003 and re-designated as Non-executive Director of the Company with effect from 1 July 2005.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. David John Blackett, aged 60, is an Independent Non-executive Director of the Company and was the Chairman for the Asia Pacific region of the CIT Group Inc. of the United States of America. He studied commerce at The University of Edinburgh and also become a member of the Institute of Chartered Accountants in Scotland. He has extensive experience in investment banking and finance, having previously been the Managing Director of NM Rothschild & Sons (Hong Kong) Limited. He was also a director of Shanghai Chlor-Alkali Chemical Company Limited which is listed on Shanghai Stock Exchange in The People's Republic of China and retired as a director on 12 December 2006. In 2008, he was appointed as a non-executive director of R.E.A. Holdings plc, a company listed in the UK, principally involved in oil palm plantations in Indonesia. Mr. Blackett was appointed as an Independent Non-executive Director of the Company on 25 May 2000.

Mrs. Tse Wong Siu Yin, Elizabeth, aged 53, is an Independent Non-executive Director of the Company. She is also an independent non-executive director of SCC and SCF. She is the Chairman of the Hong Kong Flower Retailers Association, a committee member of Skills Upgrading Scheme (Gardening and Floristry) of Labour and Welfare Bureau and the Convenor of Youth Skills Competition in Floristry of Vocational Training Council. Mrs. Tse holds a Bachelor degree of Science from the University of Western Ontario in Canada. Mrs. Tse was appointed as an Independent Non-executive Director of the Company on 21 September 2004.

Mr. Cheng Hong Kei, aged 56, is an Independent Non-executive Director of the Company. He is also an independent non-executive director of Waytung Global Group Limited (formerly known as Beauforte Investors Corporation Limited) and a co-founding director of Cheng & Cheng Limited, Certified Public Accountants, in Hong Kong. He was also an independent non-executive director of Sino Resources Group Limited from 7 June 2008 to 30 April 2009. He studied accountancy at Hong Kong Polytechnic (now known as The Hong Kong Polytechnic University) and was admitted as a Certified Public Accountant in Hong Kong in 1991. Mr. Cheng has over 30 years of experience in the accounting field. Prior to establishing of his own practice, he worked as an assessor for the Hong Kong Inland Revenue Department for 12 years. Mr. Cheng is a fellow member of each of the Chartered Association of Certified Accountants, the Taxation Institute of Hong Kong and the Hong Kong Institute of Certified Public Accountants (Practicing). He was appointed as an Independent Non-executive Director of the Company on 28 September 2004.

Directors' Report

The Directors of the Company submit their report and the audited consolidated financial statements for the year ended 31 December 2010.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. Its subsidiaries are principally engaged in sale of airline tickets and travel package, provision of hotel accommodation booking and travel related services, implementation and marketing of software and system development and other information technology related services, property investment and development, forestry business and trading and manufacturing of jewellery products.

RESULTS AND DIVIDENDS

The results of the Group for the year ended 31 December 2010 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 23 to 102 of this Annual Report.

The Board does not recommend the payment of a final dividend for the year ended 31 December 2010 (2009: Nil).

SUMMARY OF FINANCIAL INFORMATION

A summary of the results and of the assets, liabilities and non-controlling interests of the Group for the last five financial years, as extracted from the audited financial statements and restated/reclassified as appropriate, is set out on page 103 of this Annual Report. The summary does not form part of the audited financial statements.

PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTIES

Details of movements in the property, plant and equipment, and investment properties of the Group during the year are set out in notes 16 and 17 to the financial statements respectively. Further details of the Group's investment property are set out on page 104 of this Annual Report.

SHARE CAPITAL AND SHARE OPTIONS

There was no change in either the authorized capital or the issued capital of the Company during the year. Details of the movement in share capital and share options of the Company during the year are set out in notes 37 and 38 to the financial statements respectively.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Articles of Association of the Company or the laws of the Cayman Islands.

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

During the year ended 31 December 2010, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the listed securities of the Company.

RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 39 to the financial statements and in the consolidated statement of changes in equity respectively.

DISTRIBUTABLE RESERVES

As at 31 December 2010, the Company's reserves available for distribution, calculated in accordance with the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands, amounted to HK$136,095,000.

DIRECTORS

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

Executive Directors:

Mr. Ng Hung Sang (*Chairman*)
Mr. Richard Howard Gorges
Ms. Cheung Choi Ngor
Mr. Ng Yuk Fung, Peter

Non-executive Directors:

Mr. David Michael Norman
Ms. Ng Yuk Mui, Jessica

Independent Non-executive Directors:

Mr. David John Blackett
Mrs. Tse Wong Siu Yin, Elizabeth
Mr. Cheng Hong Kei

In accordance with Article 116 of the articles of association of the Company, Ms. Cheung Choi Ngor, Mr. Cheng Hong Kei and Mrs. Tse Wong Siu Yin, Elizabeth will retire from office at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

CONFIRMATION OF INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received an annual confirmation of his/her independence pursuant to Rule 3.13 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") from each of the Independent Non-executive Directors, namely Mr. David John Blackett, Mrs. Tse Wong Siu Yin, Elizabeth and Mr. Cheng Hong Kei for the year ended 31 December 2010 and as at the date of this report, the Company still considers the Independent Non-executive Directors to be independent.

DIRECTORS' BIOGRAPHIES

Biographical details of the Directors are set out on pages 7 and 8 of this Annual Report.

DIRECTORS' SERVICE CONTRACTS

None of the Directors being proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable by the Company within one year without payment of compensation (other than statutory compensation).

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ANY ASSOCIATED CORPORATION

As at 31 December 2010, the interests and short positions of the Directors and Chief Executives of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register required to be kept under Section 352 of the SFO, or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers, were as follows:

The Company

(i) *Long positions in shares*

Name of Director	Capacity	Number of ordinary shares	Total number of ordinary shares	Approximate percentage of shareholding
Mr. Ng Hung Sang ("Mr. Ng")	Beneficial owner Interest of controlled corporations	71,652,200 1,272,529,612 (Note a)	1,344,181,812	73.72%
Mr. Richard Howard Gorges ("Mr. Gorges")	Interest of controlled corporations	487,949,760 (Note a)	487,949,760	26.76%
Ms. Cheung Choi Ngor ("Ms. Cheung")	Interest of controlled corporations	487,949,760 (Note a)	487,949,760	26.76%

(ii) *Long positions in underlying shares*

Name of Director	Capacity	Number of underlying shares	Approximate percentage of shareholding
Mr. Gorges	Beneficial owner	18,000,000 (Note b)	0.99%
Ms. Cheung	Beneficial owner	18,000,000 (Note b)	0.99%
Mr. Ng Yuk Fung, Peter	Beneficial owner	18,000,000 (Note b)	0.99%
Ms. Ng Yuk Mui, Jessica	Beneficial owner	18,000,000 (Note b)	0.99%

Notes:

(a) The 1,272,529,612 shares of the Company held by Mr. Ng through controlled corporations include 371,864,000 shares held by Parkfield Holdings Limited ("Parkfield"), 396,050,252 shares held by Fung Shing Group Limited ("Fung Shing"), 16,665,600 shares held by Ronastar Investments Limited ("Ronastar"), 237,303,360 shares held by Bannock Investment Limited ("Bannock") and 250,646,400 shares held by Earntrade Investments Limited ("Earntrade"). Parkfield, Fung Shing and Ronastar are all wholly owned by Mr. Ng. Bannock is a wholly-owned subsidiary of Earntrade which is owned as to 60% by Mr. Ng, 20% by Mr. Gorges and 20% by Ms. Cheung, all of whom are considered as parties to an agreement to which Section 317 of the SFO applies. As such, Mr. Ng, Mr. Gorges and Ms. Cheung were deemed to have an interest in 487,949,760 shares held by Bannock and Earntrade.

(b) Please refer to details set out in note 38 to the financial statements under the section "Share Option Scheme".

Save as disclosed above, as at 31 December 2010, none of the Directors or Chief Executives of the Company had registered any interest or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meeting of Part XV of the SFO) as recorded in the register which was required to be kept under Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers.

SHARE OPTION SCHEME

The Directors and employees of the Group are entitled to participate in the share options scheme of the Company. Particulars of the share option scheme of the Company together with the details of the options granted were set out in note 38 to the financial statements. Details of the options granted by the Company to the Directors were set out under the section "Directors' and Chief Executives' Interests and Short Position in Shares, Underlying Shares and Debentures of the Company or any Associated Corporation" of this Annual Report.

DIRECTORS' RIGHT TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed under the section "Share Option Scheme", at no time during the year was the Company, or any of its holding companies, fellow subsidiaries or subsidiaries, a party to any arrangement to enable the Directors to acquire benefits by means of acquisition of shares in, or debentures of, the Company or any other body corporate, and none of the Directors, the Chief Executives or any of their spouses or children under the age of 18, was granted any right to subscribe for the equity or debt securities of the Company or any other body corporate nor had exercised any such right.

PENSION SCHEMES

Details of the pension schemes of the Group are set out in note 2.4 to the financial statements.

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

Details of transactions during the year ended 31 December 2010 and up to the date of this Annual Report (where applicable) between the Group and other companies in which a Director of the Company has beneficial interest are set out in note 45 to the financial statements and the sections "Connected Transaction and "Continuing Connected Transactions" of this Annual Report.

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

MANAGEMENT CONTRACTS

No contract for the management and administration of the whole or any substantial part of the business of the Company was entered into or subsisted during the year.

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 31 December 2010, the following persons, other than the Directors and Chief Executives of the Company, had interests and short positions in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO:

Long positions

Name of Shareholder	Capacity	Number of ordinary shares	Approximate percentage of shareholding
Earntrade	Beneficial owner and interest of a controlled corporation	487,949,760 (Note)	26.76%
Bannock	Beneficial owner	237,303,360 (Note)	13.01%
Parkfield	Beneficial owner	371,864,000	20.39%
Fung Shing	Beneficial owner	396,050,252	21.72%

Note: Bannock is a wholly-owned subsidiary of Earntrade. The 487,949,760 shares in the Company held by Earntrade include 237,303,360 shares held by Bannock directly.

Save as disclosed above, as at 31 December 2010, no person, other than the Directors or Chief Executives of the Company whose interests are set out in the section "Directors' and Chief Executives' Interests and Short Positions in Shares, Underlying Shares and Debentures of the Company or any Associated Corporation", had registered any interests or short positions in the shares or underlying shares of the Company that was required to be kept by the Company under Section 336 of the SFO.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

Mr. Ng Hung Sang is an Executive Director and the controlling shareholder of South China (China) Limited ("SCC") and South China Land Limited ("SCL").

Mr. Ng Yuk Fung, Peter, Ms. Cheung Choi Ngor and Mr. Richard Howard Gorges are the executive directors of both SCC and SCL while Ms. Ng Yuk Mui, Jessica is a non-executive director of SCC and SCL. Ms. Cheung Choi Ngor and Mr. Richard Howard Gorges also hold certain corporate interests in SCC and SCL jointly with Mr. Ng Hung Sang.

Certain subsidiaries of SCC and SCL engage in property investment and development business which are considered as competing businesses of the Group.

Mr. Ng Hung Sang and Mr. Ng Yuk Fung, Peter are the directors and shareholders of Anwell Profits Limited ("Anwell") which engages in the information technology business.

Accordingly, each of Mr. Ng Hung Sang, Mr. Ng Yuk Fung, Peter, Ms. Ng Yuk Mui, Jessica, Ms. Cheung Choi Ngor and Mr. Richard Howard Gorges is regarded as interested in such competing business of the Group.

The Directors are of the view that the Group can carry on its property investment and development business independently of and at arm's length from the business of SCC and SCL as there is no direct competition amongst the three listed group. For information technology business, the Group has its own target markets which are different from Anwell.

Save as disclosed above, as at 31 December 2010, none of the Directors or any of their respective associates had any interest in any business which causes or may cause any competition with the business of the Group or any conflicts with the interests of the Group.

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the Directors, the Company has maintained the amount of public float as required under the Listing Rules as at the date of this Annual Report.

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

Details of the compliance by the Company with the Code on Corporate Governance Practices are set out on pages 17 to 20 of this Annual Report.

MODEL CODE FOR SECURITIES TRANSACTIONS

Details of the compliance by the Company with the Model Code for Securities Transactions are set out on page 18 of this Annual Report.

CONNECTED AND CONTINUING CONNECTED TRANSACTIONS

Details of the significant related party transactions undertaken by the Group during the year in the ordinary course of business are set out in note 45 to the financial statements.

CONNECTED TRANSACTION

On 11 January 2011, the Group had the following connected transaction, details of which were disclosed in compliance with the requirements of Chapter 14A of the Listing Rules.

A share purchase agreement dated 11 January 2011 entered into between Tek Lee Finance And Investment Corporation Limited, an indirect wholly-owned subsidiary of the Company, as vendor with South China Industries (BVI) Limited, a direct wholly-owned subsidiary of SCC, as purchaser in relation to the sale and purchase of 1 share in Thousand China Investments Limited, which together with its subsidiaries are engaged in forestry business for a consideration of HK$23.8 million. Details of the transaction are disclosed in the announcement of the Company dated 11 January 2011.

As at 11 January 2011, Mr. Ng Hung Sang, the Chairman, an executive director and a substantial shareholder of SCC and the Company, through interests in controlled corporations was interested in 63.01% in SCC and 73.72% in the Company. Hence, Mr. Ng was considered as a connected person of SCC and the Company.

CONTINUING CONNECTION TRANSACTIONS

During the year, the Group had the following continuing connected transactions, details of which were disclosed in compliance with the requirements of Chapter 14A of the Listing Rules.

(1) A renewal of tenancy agreement dated 15 December 2009 entered into between First City Limited as landlord, an indirect wholly-owned subsidiary of SCC, and Hong Kong Four Seas Tours Limited ("Four Seas"), an indirect wholly-owned subsidiary of the Company, as tenant for the premises at 1/F, On Lok Yuen Building, 25-27 Des Voeux Road Central, Hong Kong at a monthly rental of HK$110,120 for a period from 1 January 2010 to 31 December 2011.

(2) A renewal of tenancy agreement dated 15 December 2009 entered into between Glorious Dragon Investments Limited as landlord, an indirect wholly-owned subsidiary of SCC, and Four Seas as tenant for the premises at 2/F, On Lok Yuen Building, 25-27 Des Voeux Road Central, Hong Kong at a monthly rental of HK$101,460 for a period from 1 January 2010 to 31 December 2011.

(3) A renewal of tenancy agreement dated 15 December 2009 entered into between Kingstep Limited as landlord, an indirect wholly-owned subsidiary of SCC, and Four Seas as tenant for the premises at Units B & C, 9/F., Century House, 3-4 Hanoi Road, Tsim Sha Tsui, Kowloon, Hong Kong at a monthly rental of HK$32,982 for a period from 1 January 2010 to 31 December 2011.

(4) A renewal of tenancy agreement dated 15 December 2009 entered into between Tamon Development Limited as landlord, an indirect wholly-owned subsidiary of SCC, and Four Seas as tenant for the premises at Rooms 301-312, 2/F, Four Seas Jade Centre, 530-536 Canton Road, Yau Ma Tei, Kowloon, Hong Kong at a monthly rental of HK$12,500 for a period from 1 January 2010 to 31 December 2011.

As at 31 December 2010, Mr. Ng Hung Sang, the Chairman, an executive director and a substantial shareholder of SCC and the Company, through interest in controlled corporations was interested in 63.01% in SCC and 73.72% in the Company. Hence Mr. Ng was considered a connected person of SCC and the Company.

One of the principal activities of the Group is engaged in sale of airlines tickets and the provision of other travel related services and the above rental agreements allowed Four Seas to continue its business operation in the aforesaid premises.

The above continuing connected transactions have been reviewed by the Independent Non-executive Directors of the Company who have confirmed that the transactions have been entered into:

(1) in the ordinary and usual course of business of the Company;
(2) on normal commercial terms; and
(3) in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interest of the shareholders of the Company as a whole.

The Company's auditor was engaged to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The auditor has issued an unqualified letter containing the findings and conclusions in respect of the continuing connected transactions disclosed above by the Group in accordance with Rule 14A.38 of the Listing Rules. A copy of the auditor's letter has been provided by the Company to the Stock Exchange.

AUDIT COMMITTEE

The Company has established an Audit Committee with written terms of reference in compliance with the Listing Rules. The Audit Committee comprises three Independent Non-executive Directors and one Non-executive Director, namely Mr. Cheng Hong Kei (chairman of the audit committee), Mr. David John Blackett, Mrs. Tse Wong Siu Yin, Elizabeth and Mr. David Michael Norman.

The Audit Committee is satisfied with its review of the audit fees, the independence of the Auditors and recommended to the Board the re-appointment of the Auditors in 2011 at the forthcoming annual general meeting.

The Group's annual results for the year ended 31 December 2010 have been reviewed by the Audit Committee, which was of the opinion that the preparation of such annual results complied with the applicable accounting standards and requirements and that adequate disclosures were made.

MAJOR CUSTOMERS AND SUPPLIERS

During the year ended 31 December 2010, the revenue from the Group's five largest customers accounted for 20% of the total revenue and the revenue from the largest customer included therein amounted to 7%. Purchases from the Group's five largest suppliers accounted for 26% of the total purchases and purchases from the largest supplier included therein accounted for 12% of the total purchases.

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

AUDITORS

Messrs. Ernst & Young will retire and, being eligible, will offer themselves for re-appointment at the forthcoming annual general meeting of the Company.

On behalf of the Board

Ng Hung Sang
Chairman

Hong Kong, 31 March 2011

Corporate Governance Report

The Company is committed to the establishment of good corporate governance practices and procedures. The corporate governance principles of the Company emphasize accountability and transparency to the shareholders. Periodic review will be made to the corporate governance practices to comply with the regulatory requirements.

CODE ON CORPORATE GOVERNANCE PRACTICES

The Company has complied with all the code provisions 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") throughout the year ended 31 December 2010 with exception to code provision E1.2 that the Chairman of the Board did not attend the annual general meeting of the Company.

According to code provision E1.2 of the CG Code, the Chairman of the Board shall attend the annual general meeting to answer questions. The Chairman of the Board was unable to attend the annual general meeting of the Company held on 18 May 2010. There were Executive Directors of the Company attending the annual general meeting in the absence of the Chairman to answer questions on the Group's businesses at the meeting. The Directors believe that this was an exceptional incident and the Company will ensure future compliance with code provision E1.2.

BOARD COMPOSITION AND BOARD PRACTICES

As at 31 December 2010, the Board composed of 9 directors, including the Chairman who is an Executive Director, three additional Executive Directors, two Non-executive Directors and three Independent Non-executive Directors. One-third of the Board is Independent Non-executive Directors. Their biographies and relevant relationships amongst them are set out in the Directors' Biographical Details on pages 7 to 8 of this Annual Report.

Review will be made regularly on the Board composition to ensure that it has a balance of skills and experience appropriate for the requirement of the business of the Group. Also, a balanced composition of Executive Directors and Non-executive Directors is maintained to ensure independence and effective management. The Company has satisfied the relevant provision of the Listing Rules in having one of the Independent Non-executive Directors with appropriate accounting qualifications and expertise to chair the Audit Committee.

Each of the Independent Non-executive Directors has made an annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules. The Company is of the view that all Independent Non-executive Directors meet the independence guidelines set out in Rule 3.13 of the Listing Rules and are independent in accordance with the terms of the guidelines.

The Board has adopted a formal written procedure and policy for the appointment of new directors. When selecting potential candidates for directors, their skills, experience, expertise, devotion of time and conflicts of interests are the key factors for consideration. No nomination committee has been set up, and hence, the nomination and selection process are performed by the Board. The Board meets at least once a year in discussing whether the composition, size and structure of the Board is adequate. The Board met once in 2010 for the said purpose with a majority of the Directors present.

All Directors (including Non-executive Directors) of the Company are subject to retirement by rotation at least once every three years in accordance with the Company's Articles of Association.

The Board is collectively responsible for the formulation of the Group's strategy, overseeing the management of the business and affairs of the Group.

Daily operation and management of the business of the Group, *inter alia*, the implementation of strategies are delegated to the Executive Committee, comprising all Executive Directors. They report periodically to the Board their work and business decisions.

There are defined roles in relation to the responsibilities of the Chairman and the chief executive officer of the Company. Their roles are exercised by separate individuals with a view to reinforcing their independence and accountability. Mr. Richard Howard Gorges and Ms. Cheung Choi Ngor had been identified as the Chief Executives of the Company who are jointly responsible for the daily operations of the Company. Key and important decisions are fully discussed at the board meetings. All Directors have been fully consulted about any matters proposed for inclusion in the agenda of regular meetings. The Chairman has delegated the responsibility for drawing up the agenda for each board meeting to the Company Secretary. With the assistance of the Executive Directors and the Company Secretary, the Chairman seeks to ensure that all Directors are properly briefed on issues arising at board meetings and have received adequate and reliable information in a timely manner.

The Board held four meetings in 2010:

	Attendance
Executive Directors	
Mr. Ng Hung Sang (*Chairman*)	1/4
Mr. Richard Howard Gorges	4/4
Ms. Cheung Choi Ngor	4/4
Mr. Ng Yuk Fung, Peter	3/4
Non-executive Directors	
Mr. David Michael Norman	3/4
Ms. Ng Yuk Mui, Jessica	3/4
Independent Non-executive Directors	
Mr. David John Blackett	4/4
Mrs. Tse Wong Siu Yin, Elizabeth	4/4
Mr. Cheng Hong Kei	3/4

Notices of at least fourteen days are given to the Directors for meetings, while Board papers are sent to the Directors not less than three days before the intended date of a board or board committee meeting. With respect to other meetings, Directors are given as much notice as is reasonable and practicable in the circumstances. The Directors can attend meetings in person or through other means of electronic communication in accordance with the Articles of Association of the Company. The Company Secretary ensures that the procedures and all applicable rules and regulations are complied with. Minutes of board meetings and meetings of board committees are kept by the Company Secretary and are available for inspection at any time on reasonable notice by any Director.

Directors shall have full access to information on the Group and are able to obtain independent professional advice whenever they deem necessary. Memos are issued to Directors from time to time to update them with legal and regulatory changes and matters of relevance to Directors in the discharge of their duties.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 of the Listing Rules. In addition, the Board has established similar guidelines for relevant employees who are likely in possession of unpublished price sensitive information in relation to the Group or its securities.

All Directors have confirmed, following specific enquiry by the Company, their compliance with the required standard of dealings and its code of conduct regarding securities transactions by Directors throughout the year ended 31 December 2010.

INTERNAL CONTROL

Recognising that a well-designed and effective system of internal control is crucial for safeguarding the assets of the Company and the shareholders' investment and for ensuring the reliability of financial reporting as well as compliance with the relevant requirement of the Listing Rules, the Directors also acknowledge that they have overall responsibility for the Company's internal control, financial control and risk management and shall monitor its effectiveness from time to time. Therefore, a team, comprising qualified accountants, has been organised to carry out the internal audit function of the Company ("IA Team").

Based on the assessment of risk exposure, the IA Team formulates audit plans quarterly and ensures that the audit programs will cover key internal control areas of key operating subsidiaries on a rotational basis for the review by the Audit Committee on a regular interval. The scopes and timing of audit review is usually determined according to risk assessment.

Special reviews may also be performed on areas of concern identified by management or the Audit Committee from time to time. Communication channel has been established between the IA Team and the Audit Committee members.

The IA Team monitors the internal control procedures and systems of the Group, reports findings and makes recommendations, if any, to the Audit Committee on a regular interval. During the year, the internal control of cash receipt cycle of travel business and expenditure cycle of information technology business of the Group were reviewed and addressed in the internal control report which was presented by the IA Team to the Audit Committee and the Board for review.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The Directors acknowledge their responsibility for preparing the financial statements of the Group. The Directors ensure that the preparation of the financial statements of the Group is in accordance with statutory requirements and applicable accounting standards.

The statement of the Auditors of the Company about their reporting responsibilities on the financial statements of the Group is set out in the Independent Auditors' Report on page 21 of this Annual Report.

AUDITORS' REMUNERATION

For the year ended 31 December 2010, the Auditors of the Company received approximately HK$680,000 for audit services and HK$6,000 for non-audit services provided to the Company.

REMUNERATION COMMITTEE

The Remuneration Committee was set up on 21 April 2005 and it comprises all the Independent Non-executive Directors, Mrs. Tse Wong Siu Yin, Elizabeth (Chairman of the Remuneration Committee), Mr. Cheng Hong Kei and Mr. David John Blackett and one Non-executive Director, Mr. David Michael Norman.

The Remuneration Committee met once in 2010 and it was attended by all Committee members. The policies on the remuneration of Executive Directors were reviewed by the Remuneration Committee. Remuneration, including basic salaries, discretionary performance bonus and other emolument, of the Executive Directors is based on skills, knowledge, involvement in the Company's affairs and performance of the individual Executive Directors with reference to the Company's performance and profitability, as well as industry practice. Granting share options is considered as one of the means for giving long-term incentive for retaining staff.

The directors' fees for all Directors are subject to shareholders' approval at general meeting. Reimbursement packages of the Executive Directors are reviewed by the Remuneration Committee. Reimbursement is allowed for out-of-pocket expenses incurred in connection with the performance of their duties including attendance at board meetings and committee meetings.

AUDIT COMMITTEE

The Audit Committee comprises all Independent Non-executive Directors, Mr. Cheng Hong Kei (Chairman of the Audit Committee), Mr. David John Blackett, Mrs. Tse Wong Siu Yin, Elizabeth and one Non-executive Director, Mr. David Michael Norman. The principal duties of the Audit Committee in accordance with its terms of reference, are substantially the same as the CG Code, which include the review of the Group's financial reporting system and internal control procedures, review of financial information of the Group and review of the relationship with the Auditors of the Group.

The Audit Committee Members held two meetings in 2010 in which representatives of the management were present to review the interim and final results, the interim report and annual report and other financial and internal control matters. The Group's Auditors were also present in one of the meetings.

	Attendance
Mr. Cheng Hong Kei	2/2
Mr. David John Blackett	2/2
Mrs. Tse Wong Siu Yin, Elizabeth	1/2
Mr. David Michael Norman	1/2

The Audit Committee is satisfied with their review of the audit fees, the independence of the Auditors and recommended to the Board the re-appointment of the Auditors in 2011 at the forthcoming annual general meeting.

The Group's annual results for the year ended 31 December 2010 were reviewed by the Audit Committee.

Independent Auditors' Report

ERNST & YOUNG
安 永

To the shareholders of South China Holdings Limited
(Incorporated in the Cayman Islands with limited liability)

We were engaged to audit the consolidated financial statements of South China Holdings Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 23 to 102, which comprise the consolidated and company statements of financial position as at 31 December 2010, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

AUDITORS' RESPONSIBILITY

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

Except for the inability to obtain sufficient appropriate audit evidence as explained below, 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. Because of the matter described in the "Basis for disclaimer of opinion" paragraph, however, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

BASIS FOR DISCLAIMER OF OPINION

As further explained in note 49 to the financial statements, subsequent to the end of the reporting period, the accounting records of the Group's subsidiary, Chongqing South China Zenith Information Technology Co. Ltd. ("South China Zenith"), were seized by the local government authority in Mainland China for investigation (the "Investigation"). We were unable to obtain sufficient evidence or perform alternative procedures to verify the net assets of HK$48,875,000 as at 31 December 2010 and net profit of HK$9,512,000 for the year then ended of South China Zenith which were consolidated in the Group's consolidated financial statements for the year ended 31 December 2010. Details of the financial information of South China Zenith are disclosed in note 49 to financial statements. As a result, we were unable to determine whether any adjustments were necessary in respect of the Group's consolidated statement of financial position as at 31 December 2010, the consolidated income statement, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and the disclosures to the financial statements.

To the shareholders of South China Holdings Limited
(Incorporated in the Cayman Islands with limited liability)

DISCLAIMER OF OPINION

Because of the significance of the matter described in the "Basis for disclaimer of opinion" paragraph, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, we do not express an opinion on financial statements.

Ernst & Young
Certified Public Accountants
18th Floor, Two International Finance Centre
8 Finance Street, Central
Hong Kong
31 March 2011

Consolidated Income Statement

Year ended 31 December 2010

	Notes	2010 HK$'000	2009 HK$'000
CONTINUING OPERATIONS			
REVENUE	5	**281,645**	215,792
Cost of sales		**(147,195)**	(114,374)
Gross profit		**134,450**	101,418
Other income	5	**8,588**	87,417
Fair value gain on an investment property		**200**	–
Fair value loss on financial assets at fair value through profit or loss		**(23,048)**	(5,734)
Selling and distribution costs		**(7,923)**	(7,740)
Administrative expenses		**(100,906)**	(86,842)
Equity-settled share option expense		**(4,069)**	(12,214)
Other operating expenses, net		**(3,182)**	(1,857)
		4,110	74,448
Finance costs	7	**(6,919)**	(3,846)
Share of profits and losses of associates		**(43)**	82
PROFIT/(LOSS) BEFORE TAX FROM CONTINUING OPERATIONS	6	**(2,852)**	70,684
Income tax expense	10	**(5,741)**	(4,116)
PROFIT/(LOSS) FOR THE YEAR FROM CONTINUING OPERATIONS		**(8,593)**	66,568
DISCONTINUED OPERATIONS			
Profit for the year from discontinued operations	12	**–**	10,564
PROFIT/(LOSS) FOR THE YEAR		**(8,593)**	77,132
Attributable to:			
Owners of the Company	11	**(13,532)**	83,746
Non-controlling interests		**4,939**	(6,614)
		(8,593)	77,132

Consolidated Income Statement

Year ended 31 December 2010

	Note	**2010**	2009
EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY	14		
Basic			
– For profit/(loss) for the year		**HK(0.7) cent**	HK4.6 cents
– For profit/(loss) from continuing operations		**HK(0.7) cent**	HK3.6 cents
Diluted			
– For profit/(loss) for the year		**HK(0.7) cent**	HK4.6 cents
– For profit/(loss) from continuing operations		**HK(0.7) cent**	HK3.6 cents

Details of the dividends payable and proposed for the year are disclosed in note 13 to the financial statements.

Consolidated Statement of Comprehensive Income

Year ended 31 December 2010

	2010 HK$'000	2009 HK$'000
PROFIT/(LOSS) FOR THE YEAR	**(8,593)**	77,132
OTHER COMPREHENSIVE INCOME/(LOSS)		
Changes in fair value of available-for-sale financial assets	**(4,489)**	22,781
Exchange differences on translation of foreign operations	**3,698**	132
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR	**(791)**	22,913
TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR	**(9,384)**	100,045
Attributable to:		
Owners of the Company	**(15,628)**	106,714
Non-controlling interests	**6,244**	(6,669)
	(9,384)	100,045

Consolidated Statement of Financial Position

31 December 2010

	Notes	2010 HK$'000	2009 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	16	**18,227**	17,892
Investment property	17	**25,200**	25,000
Prepaid land lease payments	18	**17,726**	10,337
Interests in associates	21	**702**	720
Biological assets	15	**1,264**	–
Available-for-sale financial assets	23	**33,166**	37,655
Other non-current assets	24	**27,345**	26,616
Goodwill	22	**5,500**	5,568
Total non-current assets		**129,130**	123,788
CURRENT ASSETS			
Inventories	26	**48,720**	40,775
Trade and other receivables	27	**257,241**	180,287
Financial assets at fair value through profit or loss	28	**43,950**	67,977
Due from affiliates	34	**2,037**	–
Advances to non-controlling shareholders of subsidiaries	33	**1,694**	1,635
Pledged bank deposits	29	**16,885**	14,625
Cash and cash equivalents	29	**65,998**	58,007
Total current assets		**436,525**	363,306
CURRENT LIABILITIES			
Trade and other payables	30	**197,466**	170,780
Interest-bearing bank and other borrowings	31	**109,765**	105,187
Advances from non-controlling shareholders of subsidiaries	33	**404**	408
Due to affiliates	34	**–**	4,478
Tax payable		**2,060**	763
Total current liabilities		**309,695**	281,616
NET CURRENT ASSETS		**126,830**	81,690
TOTAL ASSETS LESS CURRENT LIABILITIES		**255,960**	205,478

Consolidated Statement of Financial Position

31 December 2010

	Notes	2010 HK$'000	2009 HK$'000
TOTAL ASSETS LESS CURRENT LIABILITIES		**255,960**	205,478
NON-CURRENT LIABILITIES			
Advances from shareholders	32	**62,860**	6,029
Deferred tax liabilities	36	**2,385**	2,499
Total non-current liabilities		**65,245**	8,528
Net assets		**190,715**	196,950
EQUITY			
Equity attributable to owners of the Company			
Issued capital	37	**45,584**	45,584
Reserves	39(a)	**104,172**	115,731
		149,756	161,315
Non-controlling interests		**40,959**	35,635
Total equity		**190,715**	196,950

Ng Hung Sang	**Richard Howard Gorges**
Chairman	*Director*

Consolidated Statement of Changes In Equity

Year ended 31 December 2010

		Attributable to owners of the Company														
	Note	Issued capital HK$'000	Share premium account HK$'000	Capital redemption reserve HK$'000	Capital reserve HK$'000	Merger reserve HK$'000	Share option reserve HK$'000	Asset revaluation reserve HK$'000	Available-for-sale financial asset revaluation reserve HK$'000	PRC statutory reserves HK$'000	Exchange fluctuation reserve HK$'000	Retained profits HK$'000	Proposed final dividend HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total equity HK$'000
At 1 January 2009		45,584	253,234	56	1,927	72,441	63,836	36,354	34,969	7,086	68,580	792,158	2,006	1,378,231	602,255	1,980,486
Profit for the year		–	–	–	–	–	–	–	–	–	–	83,746	–	83,746	(6,614)	77,132
Other comprehensive income for the year:																
Changes in fair value of available-for-sale financial assets		–	–	–	–	–	–	–	22,781	–	–	–	–	22,781	–	22,781
Exchange differences on translation of foreign operations		–	–	–	–	–	–	–	–	–	187	–	–	187	(55)	132
Total comprehensive income for the year		–	–	–	–	–	–	–	22,781	–	187	83,746	–	106,714	(6,669)	100,045
Acquisition of non-controlling interests		–	–	–	–	–	–	–	–	–	–	–	–	–	(254)	(254)
Capital contribution from non-controlling shareholders of subsidiaries		–	–	–	–	–	–	–	–	–	–	–	–	–	5,903	5,903
Transfer from retained profits		–	–	–	–	–	–	–	–	731	–	(731)	–	–	–	–
Equity-settled share option arrangements		–	–	–	–	–	15,506	–	–	–	–	–	–	15,506	1,198	16,704
2008 final dividend paid		–	–	–	–	–	–	–	–	–	–	–	(2,006)	(2,006)	–	(2,006)
Dividends paid to non-controlling shareholders of subsidiaries		–	–	–	–	–	–	–	–	–	–	–	–	–	(9,822)	(9,822)
Transfer from/(to) retained profits		–	(198,818)	(56)	–	50,612	(51,192)	–	–	–	–	199,454	–	–	–	–
Effect on distribution in specie	40	–	–	–	(1,927)	(123,053)	(28,150)	(36,354)	(34,603)	(6,956)	(59,534)	(1,046,553)	–	(1,337,130)	(556,976)	(1,894,106)
At 31 December 2009		45,584	54,416*	–*	–*	–*	–*	–*	23,147*	861*	9,233*	28,074*	–	161,315	35,635	196,950

	Attributable to owners of the Company									
	Issued capital HK$'000	Share premium account HK$'000	Share option reserve HK$'000	Available-for-sale financial asset revaluation reserve HK$'000	PRC statutory reserve HK$'000	Exchange fluctuation reserve HK$'000	Retained profits HK$'000	Total HK$'000	Non–controlling interests HK$'000	Total equity HK$'000
At 1 January 2010	45,584	54,416	–	23,147	861	9,233	28,074	161,315	35,635	196,950
Loss for the year	–	–	–	–	–	–	(13,532)	(13,532)	4,939	(8,593)
Other comprehensive loss for the year:										
Change in fair value of available-for-sale financial assets	–	–	–	(4,489)	–	–	–	(4,489)	–	(4,489)
Exchange differences on translation of foreign operations	–	–	–	–	–	2,393	–	2,393	1,305	3,698
Total comprehensive loss for the year	–	–	–	(4,489)	–	2,393	(13,532)	(15,628)	6,244	(9,384)
Equity-settled share option arrangements	–	–	4,069	–	–	–	–	4,069	–	4,069
Dividends paid to non-controlling shareholders of subsidiaries	–	–	–	–	–	–	–	–	(920)	(920)
At 31 December 2010	45,584	54,416*	4,069*	18,658*	861*	11,626*	14,542*	149,756	40,959	190,715

At 31 December 2009, the merger reserve represented the difference between the share capital and share premium account of a subsidiary and the nominal value of the Company's shares issued in exchange thereof at the time of the group reorganisation in 1992, less a transfer of HK$200,000,000 to retained profits in 2001.

The Group's PRC statutory reserve represents reserve required to be appropriated from profit after taxation of the Company's PRC subsidiaries under the PRC laws and regulations. The amount of the appropriation is at the discretion of the PRC subsidiaries' boards of directors.

The retained profits and exchange fluctuation reserve of the Group include of HK$54,000 (2009: a debit balance of HK$480,000) and HK$130,000 (2009: Nil), respectively, retained by the associates of the Group.

* These reserve accounts comprise the consolidated reserves of HK$104,172,000 (2009: HK$115,731,000) in the consolidated statement of financial position.

Consolidated Statement of Cash Flows

Year ended 31 December 2010

	Notes	2010 HK$'000	2009 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit/(loss) before tax:			
From continuing operations		**(2,852)**	70,684
From discontinued operations	12	**–**	15,249
		(2,852)	85,933
Adjustments for:			
Impairment of trade and other receivables, net	6, 12	**3,105**	3,687
Write off of trade payables	5, 12	**(577)**	(5,654)
Provision against obsolete inventories	6, 12	**–**	16,061
Depreciation	6, 12	**3,116**	23,623
Dividend income from listed investments	5, 12	**(735)**	(82,156)
Finance costs	7, 12	**6,919**	11,754
Interest income	5, 12	**(111)**	(194)
Fair value gain on investment properties	6, 12	**(200)**	(44,500)
Gain on disposal of investment properties	12	**–**	(4,372)
Amortisation of prepaid land lease payments	6, 12	**822**	2,385
Fair value losses of financial assets at fair value through profit or loss	6,12	**23,048**	3,231
Loss/(gain) on disposal of items of property, plant and equipment, net	6, 12	**77**	(44)
Equity-settled share option expense	6, 12	**4,069**	16,706
Share of profits and losses of associates		**43**	(14,667)
Impairment of advances to an associate, net	12	**–**	416
		36,724	12,209
Increase in properties under development		**–**	(60,142)
Increase in inventories		**(7,945)**	(61,110)
Increase in trade and other receivables		**(79,815)**	(78,817)
Decrease in financial assets at fair value through profit or loss		**979**	3,503
Decrease/(increase) in balances with affiliates, net		**(6,515)**	6,371
Increase in trade and other payables		**27,263**	104,666
Cash used in operations		**(29,309)**	(73,320)
Hong Kong profits tax paid		**(3,578)**	(5,644)
Mainland China tax paid		**(980)**	(2,664)
Net cash flows used in operating activities		**(33,867)**	(81,628)

Consolidated Statement of Cash Flows

Year ended 31 December 2010

	Notes	2010 HK$'000	2009 HK$'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment	16	**(3,117)**	(13,695)
Purchase of available-for-sale financial assets		**–**	(5,491)
Additions to biological assets		**(1,264)**	–
Additions to prepaid land lease payments	18	**(7,954)**	(11,615)
Additions to construction in progress	19	**–**	(520)
Advances to associates, net		**–**	(15,133)
Acquisition of non-controlling interests		**–**	(254)
Cash disposed of from the disposal of subsidiaries, net	40	**–**	(36,753)
Interest received		**111**	194
Proceeds from disposal of items of property, plant and equipment		**119**	392
Dividends received from listed investments		**735**	–
Acquisition of other non-current assets		**–**	(134,710)
Proceeds from disposal of an investment property		**–**	42,572
Dividend received from an associate		**–**	9,000
Net cash flows used in investing activities		**(11,370)**	(166,013)
CASH FLOWS FROM FINANCING ACTIVITIES			
Repayment of bank loans		**(24,775)**	(124,631)
Increase in trust receipt loans		**–**	1,057
Advance from/(repayment to) shareholders		**56,831**	(1,847)
Repayment to non-controlling shareholders of subsidiaries		**(63)**	(3,778)
Interest paid		**(6,919)**	(14,251)
Dividends paid to non-controlling shareholders of subsidiaries		**(920)**	(9,822)
Dividends paid		**–**	(2,006)
Capital element of finance lease rental payments		**–**	(1,172)
New bank loans		**56,074**	244,542
Capital contribution from non-controlling shareholders of subsidiaries		**–**	5,903
Decrease in other non-current liabilities		**–**	(234)
Net cash flows from financing activities		**80,228**	93,761
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**34,991**	(153,880)
Cash and cash equivalents at beginning of year		**37,535**	191,441
Effect of foreign exchange rate changes, net		**1,981**	(26)
CASH AND CASH EQUIVALENTS AT END OF YEAR		**74,507**	37,535
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances as stated in the statement of financial position	29	**65,998**	58,007
Time deposits with original maturity of less than three months when acquired, pledged as security for banking facilities	29	**16,885**	14,625
Bank overdrafts	31	**(8,376)**	(35,097)
Cash and cash equivalents as stated in the statement of cash flows		**74,507**	37,535

Statement of Financial Position

31 December 2010

	Notes	2010 HK$'000	2009 HK$'000
NON-CURRENT ASSETS			
Interests in subsidiaries	20	**181,712**	181,712
CURRENT ASSETS			
Cash and bank balances	29	**113**	116
CURRENT LIABILITIES			
Other payables	30	**63**	63
NET CURRENT ASSETS		**50**	53
TOTAL ASSETS LESS CURRENT LIABILITIES		**181,762**	181,765
NON-CURRENT LIABILITY			
Due to a subsidiary	20	**83**	–
Net assets		**181,679**	181,765
EQUITY			
Issued capital	37	**45,584**	45,584
Reserves	39(b)	**136,095**	136,181
Total equity		**181,679**	181,765

Ng Hung Sang
Chairman

Richard Howard Gorges
Director

Notes to the Financial Statements

31 December 2010

1. CORPORATE INFORMATION

South China Holdings Limited is incorporated in the Cayman Islands as an exempted limited company. The registered office address of the Company is Scotia Centre, 4th Floor, P.O. Box 2804, George Town, Grand Cayman, the Cayman Islands. Its shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the ''Stock Exchange'').

The Company is an investment holding company. Its subsidiaries are principally engaged in sale of airline tickets and travel package, provision of hotel accommodation booking and travel related services, implementation and marketing of software and system development and other information technology related services, forestry business and trading and manufacturing of jewellery products.

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and interpretations) issued by the HKICPA, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for investment property, available-for-sale financial assets and financial assets at fair value through profit or loss, which have been measured at fair value. These financial statements are presented in Hong Kong dollars and all values are rounded to the nearest thousand ("HK$'000") except when otherwise indicated.

Basis of consolidation

Basis of consolidation from 1 January 2010

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

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

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

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

2.1 BASIS OF PREPARATION *(continued)*

Basis of consolidation *(continued)*

Basis of consolidation prior to 1 January 2010

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

- Acquisition of non-controlling interests (formerly known as minority interests), prior to 1 January 2010, were accounted for using the parent entity extension method, whereby the difference between the consideration and the book value of the share of the net assets acquired were recognised in goodwill.

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

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

2.2 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES

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

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

The adoption of these new and revised HKFRSs has had no significant financial effect on these financial statements.

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

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

HKFRS 1 Amendment	Amendment to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards – Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters*[2]
HKFRS 7 Amendments	Amendments to HKFRS 7 *Financial Instruments: Disclosures – Transfers of Financial Assets*[4]
HKFRS 9	*Financial Instruments*[5]
HKAS 24 (Revised)	*Related Party Disclosures*[3]
HKAS 32 Amendment	Amendment to HKAS 32 *Financial Instruments: Presentation – Classification of Rights Issues*[1]
HK(IFRIC)-Int 14 Amendments	Amendments to HK(IFRIC)-Int 14 *Prepayments of a Minimum Funding Requirement*[3]
HK(IFRIC)-Int 19	*Extinguishing Financial Liabilities with Equity Instruments*[2]

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

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

The Group is in the process of making an assessment of the impact of these new and revised HKFRSs upon initial application. So far, the Group considers that these new and revised HKFRSs are unlikely to have a significant impact on the Group's results of operations and financial position.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

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

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

Joint ventures

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

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

A joint venture is treated as:

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

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

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

Associates

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

The Group's share of the post-acquisition results and reserves of associates is included in the consolidated income statement and consolidated reserves, respectively. The Group's investments in associates are stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses. Unrealised gains and losses resulting from transactions between the Group and its associates are eliminated to the extent of the Group's investments in the associates, except where unrealised losses provide evidence of an impairment of the asset transferred. Adjustments are made to bring into line any dissimilar accounting policies that may exist.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Business combinations and goodwill

Business combinations from 1 January 2010

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

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

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

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

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Business combinations and goodwill *(continued)*

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

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

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

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

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

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

Impairment of non-financial assets

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Related parties

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

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

(b) the party is an associate;

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

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

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

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

Property, plant and equipment and depreciation

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

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

Leasehold land and buildings	2% to 10%, not exceeding the lease terms
Furniture and leasehold improvements	10% to 25%, not exceeding the lease terms
Machinery and equipment	10% to 25%
Motor vehicles and vessels	20% to 33.3%

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Investment properties

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

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

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

Leases

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

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

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

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

Biological assets

Biological assets are forestry plantation and are measured on initial recognition and at its initial financial year end at their cost less accumulated depreciation and impairment loss.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Investments and other financial assets

Initial recognition and measurement

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

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

The Group's financial assets include cash and bank balances, trade and other receivables and quoted and unquoted financial instruments.

Subsequent measurement

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

Financial assets at fair value through profit or loss

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

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

Loans and receivables

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Investments and other financial assets *(continued)*

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets in listed and unlisted equity securities that are designated as available for sale or are not classified in any of the other two categories (financial assets at fair value through profit or loss and loans and receivables). After initial recognition, available-for-sale financial assets are measured at fair value, with gains or losses recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is included in the income statement. Interest and dividends earned are reported as interest income and dividend income, respectively and are recognised in the income statement as "Other income" in accordance with the policies set out for "Revenue recognition" below. Losses arising from the impairment of such investments are recognised in the income statement as "Impairment losses on available-for-sale financial assets" and are transferred from the available-for-sale financial asset revaluation reserve.

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Impairment of financial assets

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

Financial assets carried at amortised cost

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

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced either directly or through the use of an allowance account. The amount of the impairment loss is recognised in the income statement. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed by adjusting the allowance account. Any subsequent reversal of an impairment loss is recognised in the income statement, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

In relation to trade and other receivables, a provision for impairment is made when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor and significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor) that the Group will not be able to collect all of the amounts due under the original terms of an invoice. The carrying amount of the receivables is reduced through the use of an allowance account. Impaired debts are derecognised when they are assessed as uncollectable.

Assets carried at cost

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Impairment of financial assets *(continued)*

Available-for-sale financial assets

If an available-for-sale financial asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in the income statement, is transferred from equity to the income statement. A provision for impairment is made for available-for-sale equity investments when there has been a significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists. The determination of what is "significant" or "prolonged" requires judgement. In addition, the Group evaluates other factors, such as the share price volatility. Impairment losses on equity instruments classified as available for sale are not reversed through the income statement.

Impairment losses on debt instruments are reversed through the income statement, if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognised in the income statement.

Derecognition of financial assets

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

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

- the Group retains the rights to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; or

- the Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

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

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

Financial liabilities

Initial recognition and measurement

Financial liabilities within the scope of HKAS 39 are classified as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial liabilities at initial recognition.

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial liabilities *(continued)*

Subsequent measurement

The measurement of financial liabilities depends on their classification as follows:

Loans and borrowings

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

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

Financial guarantee contracts

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

Derecognition of financial liabilities

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

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

Offsetting of financial instruments

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

Fair value of financial instruments

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Construction contracts

Contract revenue comprises the agreed contract amount and appropriate amounts from variation orders, claims and incentive payments. Contract costs incurred comprise direct materials, the costs of subcontracting, direct labour and an appropriate proportion of variable and fixed construction overheads.

Revenue from fixed price construction contracts is recognised on the percentage of completion method, measured by reference to the proportion of costs incurred to date to the estimated total cost of the relevant contract.

Revenue from cost plus construction contracts is recognised on the percentage of completion method, by reference to the recoverable costs incurred during the period plus the related fee earned, measured by the proportion of costs incurred to date to the estimated total cost of the relevant contract.

Provision is made for foreseeable losses as soon as they are anticipated by management. Where contract costs incurred to date plus recognised profits less recognised losses exceed progress billings, the surplus is treated as an amount due from contract customers. Where progress billings exceed contract costs incurred to date plus recognised profits less recognised losses, the surplus is treated as an amount due to contract customers.

Inventories

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

Cash and cash equivalents

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

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

Provisions

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Income tax

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

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

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

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

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

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

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

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

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Revenue recognition

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

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

(b) commission income are recognised upon the sale of goods;

(c) service income, when the services have been rendered;

(d) dividend income, when the shareholders' right to receive payment has been established; and

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

Government grants

Government grants are recognised at their fair values where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income over the periods necessary to match the grant on a systematic basis to the costs that it is intended to compensate.

Employee benefits

Pension schemes

The Group operates a defined contribution staff retirement scheme registered under the Occupational Retirement Scheme Ordinance (the "ORSO Scheme") for its employees (including certain directors), the assets of which are held separately from those of the Group in an independently administered fund. Contributions are made based on a percentage of the eligible employees' basic salaries and are charged to the income statement as they become payable in accordance with the rules of the ORSO Scheme. When an employee leaves the ORSO Scheme prior to his/her interest in the Group's employer contributions vesting fully, the ongoing contributions payable by the Group may be reduced by the relevant amount of forfeited contributions.

The Group also operates another defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance. Contributions to the MPF Scheme are made based on a percentage of the employees' basic salaries and are charged to the income statement as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

Employees who joined the Group before 1 December 2000 had the option to join either one of the schemes. Employees who joined the Group on or after 1 December 2000 are only eligible to join the MPF Scheme.

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Employee benefits *(continued)*

Share-based payment transactions

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

The cost of equity-settled transactions with employees for grants after 7 November 2002 is measured by reference to the fair value at the date at which they are granted. The fair value is determined by using a trinomial model, further details of which are given in note 38 to the financial statements.

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

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

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

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

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

Borrowing costs

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Dividends

Final dividends proposed by the directors are classified as a separate allocation of retained profits within the equity section of the statement of financial position, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognised as a liability.

Foreign currencies

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

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

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

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

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

Estimation uncertainty

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

Impairment of non-financial assets (other than goodwill)

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

Impairment of available-for-sale financial assets

The Group classifies certain assets as available-for-sale financial assets and recognises movements of their fair values in equity. When the fair value declines, management makes assumptions about the decline in value to determine whether there is an impairment that should be recognised in the income statement. At 31 December 2010, no impairment losses have been recognised for available-for-sale assets (2009: Nil).

Impairment of trade receivables

The Group maintains an allowance for estimated loss arising from the inability of its customers to make the required payments. The Group makes its estimates based on the ageing of its trade receivable balances, customers' creditworthiness, and historical write-off experience. If the financial condition of its customers was to deteriorate so that the actual impairment loss might be higher than expected, the Group would be required to revise the basis of making the allowance and its future results would be affected.

Income taxes

Significant management judgements on the future tax treatment of certain transactions are required in determining income tax provisions. The Group carefully evaluates tax implications of transactions and tax provisions are set up accordingly. The tax treatment of such transactions is reconsidered periodically to take into account all changes in tax legislation.

4. OPERATING SEGMENT INFORMATION

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

(a) the travel and related services segment involves in the sale of airline tickets and travel-related services;

(b) the information technology segment involves in the information technology related business;

(c) the trading and manufacturing jewellery segment involves the trading and manufacturing of jewellery products;

(d) the forestry segment involves in the forestation related business; and

(e) the investment holding segment comprises the Group's management services and other investment holding.

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

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

Year ended 31 December 2010

	Travel and related services HK$'000	Information technology HK$'000	Trading and manufacturing of jewellery HK$'000	Forestry HK$'000	Investment holding HK$'000	Total HK$'000
Segment revenue:						
Sales to external customers and revenue from continuing operations	90,974	158,414	32,257	–	–	281,645
Segment results	30,449	13,985	1,412	(4,359)	(37,377)	4,110
Reconciliation:						
Finance costs						(6,919)
Share of profits and losses of associates						(43)
Loss before tax from continuing operations						(2,852)
Segment assets and total assets	233,953	128,990	28,722	30,523	143,467	565,655
Segment liabilities	136,260	51,886	2,988	1,050	68,546	260,730
Reconciliation:						
Corporate and other unallocated liabilities						114,210
Total liabilities						374,940
Other segment information:						
Impairment of trade and other receivables, net	46	–	–	–	3,059	3,105
Depreciation and amortisation	1,279	1,022	174	1,463	–	3,938
Capital expenditure*	1,851	1,049	176	9,259	–	12,335

4. OPERATING SEGMENT INFORMATION *(continued)*

Year ended 31 December 2009

	Travel and related services HK$'000	Information technology HK$'000	Trading and manufacturing of jewellery HK$'000	Forestry HK$'000	Investment holding HK$'000	Total HK$'000
Segment revenue:						
Sales to external customers and revenue from continuing operations	71,171	126,465	18,156	–	–	215,792
Segment results	18,879	1,459	453	–	53,657	74,448
Reconciliation:						
Finance costs						(3,846)
Share of profits and losses of associates						82
Profit before tax from continuing operations						70,684
Segment assets and total assets	185,278	97,292	20,091	14,954	169,479	487,094
Segment liabilities	111,213	52,343	3,103	6,454	8,582	181,695
Reconciliation:						
Corporate and other unallocated liabilities						108,449
Total liabilities						290,144
Other segment information:						
Impairment of trade and other receivables, net	4	–	–	–	1,611	1,615
Depreciation and amortisation	1,472	2,419	154	–	–	4,045
Capital expenditure*	813	1,075	66	–	–	1,954

* Capital expenditure consists of additions to property, plant and equipment, prepaid land lease payments and biological assets.

Geographical segments

(a) Revenue from external customers

	2010 HK$'000	2009 HK$'000
Hong Kong	**81,684**	67,424
Mainland China	**199,961**	148,368
	281,645	215,792

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

4. OPERATING SEGMENT INFORMATION *(continued)*

Geographical segments *(continued)*

(b) Non-current assets

	2010 HK$'000	2009 HK$'000
Hong Kong	**32,488**	26,388
Mainland China	**62,774**	59,025
	95,262	85,413

The non-current assets information above is based on the location of assets and excludes interests in associates and available-for-sale financial assets.

5. REVENUE AND OTHER INCOME

Revenue, which is also the Group's turnover, represents the net invoiced value of goods sold, after allowances for returns and trade discounts; the value of services rendered and commission income during the year.

An analysis of revenue and other income from continuing operations is as follows:

	Notes	2010 HK$'000	2009 HK$'000
Revenue			
Commission and service income from travel related business	(i)	**90,974**	71,171
Service income from information technology related business		**158,414**	126,465
Trading and manufacturing of jewellery		**28,756**	13,338
Commission income from sale of jewellery		**3,501**	4,818
		281,645	215,792
Other income			
Dividend income from listed investments	(ii)	**735**	82,075
Handling charge		**1,034**	1,815
Advertising income		**448**	922
Provision of information technology training and consultation		**751**	819
Government grants	(iii)	**2,552**	531
Bank interest income		**111**	107
Bad debts recovery		**845**	–
Exchange gain		**1,325**	9
Write off of trade payables		**577**	203
Others		**210**	936
		8,588	87,417

5. REVENUE AND OTHER INCOME *(continued)*

Notes:

(i) The HKICPA issued some improvements to the HKFRSs in May 2009. Of this, an amendment to HKAS 18 was made for recognition of revenue. Under the new definition, the Group's travel and related services operation in relating to the sales of airline tickets is treated as cash collected on behalf of the principal as an agent, and thus its revenue shall be recorded on net basis. In all the prior years, the Group has been recognising the revenue from the sales of air-tickets in gross amount. This policy was revised during the year ended 31 December 2009 and only the commission had been recognised as revenue.

The gross proceeds received and receivable from the sale of airline tickets and the provision of other related services are as follows:–

	2010 **HK$'000**	2009 HK$'000
Gross proceeds received and receivable	**2,624,947**	1,911,687

(ii) During the year ended 31 December 2009, the Group held some remaining shares and warrants of South China (China) Limited ("SCC") after the distribution in specie of its shares to Company's shareholders in June 2009. In July 2009, the Group exercised SCC warrants held which were then converted to SCC shares. In August 2009, SCC paid a special dividend for its entire interest in South China Land Limited ("SCL") to its shareholders by means of distribution in specie. The dividend income was the value of SCL shares the Group entitled to receive from the special distribution on the date of receipt.

(iii) The amounts mainly represent various government grants have been received for the Group's business in an enterprise zone within Chongqing, Mainland China, to cope with the increasing demand for upgrading and computerisation of operating system of the government and local enterprises. The government grants released have been recognised in other income. Government grants received for which related expenditure has not yet been undertaken are included in deferred income in the statement of financial position. There are no unfulfilled conditions or contingencies relating to these grants.

6. PROFIT/(LOSS) BEFORE TAX FROM CONTINUING OPERATIONS

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

	Notes	2010 HK$'000	2009 HK$'000
Cost of inventories sold		**135,099**	94,930
Depreciation	16	**3,116**	4,045
Amortisation of prepaid land lease payments	18	**822**	–
Auditors' remuneration		**680**	800
Employee benefit expense (including directors' remuneration):	8		
Wages and salaries and other benefits		**73,718**	54,728
Equity-settled share option expense		**4,069**	12,214
Pension scheme contributions**		**5,325**	3,620
Total employee benefit expense		**83,112**	70,562
Minimum lease payments under operating leases in respect of land and buildings		**11,310**	8,279
Fair value loss on financial assets at fair value through profit or loss		**23,048**	5,734
Impairment of trade and other receivables, net*		**3,105**	1,615
Provision against obsolete inventories		**–**	1,375
Fair value gain on an investment property	17	**(200)**	–
Loss on disposal of items of property, plant and equipment, net*		**77**	242
Foreign exchange differences, net		**(469)**	10

* These balances are included in "other operating expenses, net" in the consolidated income statement.

** At 31 December 2010, the Group had not forfeited contributions available to reduce its contributions to the pension schemes in future years (2009: Nil).

7. FINANCE COSTS

An analysis of finance costs from continuing operations is as follows:

	Group	
	2010 **HK$'000**	2009 HK$'000
Interest on bank loans, overdrafts and other loans wholly repayable within five years	**4,306**	2,749
Interest on advances from a related company	**188**	792
Interest on advances from directors	**2,425**	305
	6,919	3,846

8. DIRECTORS' REMUNERATION

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

	Group	
	2010	2009
	HK$'000	HK$'000
Fees	**460**	410
Other emoluments:		
Salaries, allowances and benefits in kind	**1,242**	1,114
Equity-settled share option expense	**3,684**	14,458
Pension scheme contributions	**62**	49
	4,988	15,621
	5,448	16,031

(a) Independent non-executive directors

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

	2010	2009
	HK$'000	HK$'000
Mr. David John Blackett	**100**	100
Mr. Cheng Hong Kei	**75**	50
Ms. Tse Wong Siu Yin, Elizabeth	**75**	50
	250	200

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

8. DIRECTORS' REMUNERATION *(continued)*

(b) Executive directors and non-executive directors

	Fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Equity-settled share option expense HK$'000	Pension scheme contributions HK$'000
2010				
Executive directors:				
Mr. Ng Hung Sang	**10**	**1,242**	**–**	**62**
Ms. Cheung Choi Ngor	**10**	**–**	**921**	**–**
Mr. Richard Howard Gorges	**10**	**–**	**921**	**–**
Mr. Ng Yuk Fung, Peter	**10**	**–**	**921**	**–**
	40	**1,242**	**2,763**	**62**
Non-executive directors:				
Mr. David Michael Norman	**120**	**–**	**–**	**–**
Ms. Ng Yuk Mui, Jessica	**50**	**–**	**921**	**–**
	170	**–**	**921**	**–**
	210	**1,242**	**3,684**	**62**

	Fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Equity-settled share option expense HK$'000	Pension scheme contributions HK$'000
2009				
Executive directors:				
Mr. Ng Hung Sang	10	288	–	14
Ms. Cheung Choi Ngor	10	288	4,598	14
Mr. Richard Howard Gorges	10	294	2,595	15
Mr. Ng Yuk Fung, Peter	10	244	4,670	6
	40	1,114	11,863	49
Non-executive directors:				
Mr. David Michael Norman	120	–	–	–
Ms. Ng Yuk Mui, Jessica	50	–	2,595	–
	170	–	2,595	–
	210	1,114	14,458	49

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

9. FIVE HIGHEST PAID EMPLOYEES

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

	Group	
	2010	2009
	HK$'000	HK$'000
Salaries, allowances and benefits in kind	**2,746**	795
Discretionary bonuses	**1,645**	500
Pension scheme contributions	**48**	12
	4,439	1,307

The number of non-director, highest paid employees whose remuneration fell within the following bands is as follows:

	Number of employees	
	2010	2009
HK$500,001 to HK$1,000,000	**2**	–
HK$1,000,001 to HK$1,500,000	**1**	1
HK$1,500,001 to HK$2,000,000	**1**	–
	4	1

10. INCOME TAX

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

	Group	
	2010	2009
	HK$'000	HK$'000
Current – Hong Kong		
Charge for the year	**4,833**	3,861
Current – Mainland China		
Charge for the year	**1,211**	255
Over-provision in prior years	**(189)**	–
Deferred tax (note 36)	**(114)**	–
Total tax charge for the year	**5,741**	4,116

A reconciliation of the tax expense on the Group's profit/(loss) before tax from continuing operations at the Hong Kong profits tax rate to the tax expense at the effective tax rate is as follows:

	Group	
	2010	2009
	HK$'000	HK$'000
Profit/(loss) before tax from continuing operations	**(2,852)**	70,684
Tax at the Hong Kong profits tax rate of 16.5% (2009: 16.5%)	**(471)**	11,663
Effect of different tax rates of subsidiaries operating in Mainland China	**412**	69
Expenses not deductible for tax	**6,441**	5,643
Income not subject to tax	**(2,824)**	(13,560)
Tax losses utilised from previous periods	**(19)**	(24)
Tax losses not recognised	**2,535**	325
Over-provision in prior years	**(333)**	–
Total tax charge for the year	**5,741**	4,116

The share of tax charge attributable to associates amounting to HK$2,000 (2009: share of tax credit of HK$8,000) is included in "Share of profits and losses of associates" on the face of the consolidated income statement.

11. PROFIT/(LOSS) ATTRIBUTABLE TO OWNERS OF THE COMPANY

The consolidated profit/(loss) attributable to owners of the Company for the year ended 31 December 2010 includes a loss of HK$4,155,000 (2009: a profit of HK$261,230,000) which has been dealt with in the financial statements of the Company (note 39(b)).

12. DISCONTINUED OPERATIONS

On 22 May 2009, the Company announced a proposal to declare a special interim distribution to be satisfied by way of a distribution in specie (the "2009 Distribution") comprising substantially the Company's beneficial shareholding in SCC of 1,983,206,785 shares and 396,641,357 warrants, representing approximately 74.78% of the issued share capital and 74.83% of the outstanding warrants of SCC held by the Company. SCC is a company engaged in the trading and manufacturing of toys, shoes, electronics toys products, leather products, motors and capacitors, property investment and development, and agriculture and woods, with its shares are listed on the Main Board of the Stock Exchange (stock code: 413).

On 19 June 2009, the Company announced the Company's shareholders passed the resolution to declare the 2009 Distribution in the proportion of 106 shares ("SCC Shares") and 21 warrants ("SCC Warrants") of SCC for every 100 shares held by the Company's shareholders based on the market price of SCC at HK$0.74 per share and HK$0.32 per warrant on 19 June 2009. The Company distributed 1,932,805,449 shares of SCC and 382,914,277 warrants of SCC to the Company's shareholders at the 2009 Distribution. Details of which are disclosed in the announcement and circular of the Company dated 22 May 2009 and 3 June 2009, respectively.

Immediately prior to the completion of the 2009 Distribution, the Company's investment in SCC was approximately HK$765 million. Following the 2009 Distribution, SCC and its subsidiaries (the "SCC Group") ceased to be subsidiaries of the Company and the business of trading and manufacturing of toys, shoes, electronics toys products, leather products, motors and capacitors, and property investment which were solely carried out by the SCC Group became discontinued operations. Results of the SCC Group then ceased to be accounted for in the consolidated financial statements of the Group.

(a) The results from the SCC Group (the "Discontinued Operations") are presented below:

	2009 HK$'000
Revenue	633,472
Cost of sales	(538,533)
Other income and gains	10,277
Other operating expenses, net	(82,059)
Finance costs	(10,647)
Less: Finance costs capitalised in properties under development	2,739
Profit before tax from Discontinued Operations	15,249
Tax	(4,685)
Profit for the year from Discontinued Operations	10,564
	HK cent
Earnings per share:	
Basic, from Discontinued Operations	1.0
Diluted, from Discontinued Operations	1.0

12. DISCONTINUED OPERATIONS *(continued)*

(b) The net cash flows incurred by the Discontinued Operations are presented below:

	2009 HK$'000
Operating activities	(116,648)
Investing activities	(107,776)
Financing activities	111,553
Net cash outflow	(112,871)

(c) The Group's profit before tax from the Discontinued Operations is arrived at after charging/(crediting):

	Note	2009 HK$'000
Cost of inventories sold		538,533
Depreciation	16	19,590
Less: Depreciation capitalised in properties under development		(12)
Depreciation charged to the consolidated income statement		19,578
Employee benefit expense (including directors' remuneration):		
Wages and salaries and other benefits		210,857
Less: Wages and salaries capitalised in properties under development/construction in progress		(877)
		209,980
Equity-settled share option expense		4,492
Pension scheme contributions*		17,627
Total employee benefit expense		232,099
Minimum lease payments under operating lease in respect of land and buildings		8,001
Gross rental income		(22,687)
Less: Direct operating expenses		1,833
Rental income on investment properties less direct operating expenses		(20,854)

* At 31 December 2009, the Group had not forfeited contributions available to reduce its contributions to the pension schemes in futures years.

12. DISCONTINUED OPERATIONS *(continued)*

(c) The Group's profit before tax from the Discontinued Operations is arrived at after charging/(crediting): (continued)

	Notes	2009 HK$'000
Fair value gain of financial assets at fair value through profit or loss		(2,503)
Impairment of trade and other receivables, net		2,072
Amortisation of prepaid land lease payments	18	2,385
Provision against obsolete inventories (included in cost of sales)		14,686
Write off of trade payables		(5,451)
Gains on disposal of items of property, plant and equipment, net		(286)
Fair value gains on investment properties	17	(44,500)
Gains on disposal of investment properties		(4,372)
Bank interest income		(79)
Interest income from an associate		(8)
Reversal of provision for a financial guarantee in respect of an associate		(14,700)
Impairment of advances to an associate		15,116
Share of profits and losses of associates		(14,585)
Dividend income from listed investments		(81)

13. DIVIDENDS AND DISTRIBUTION

	2010 HK$'000	2009 HK$'000
Special interim distribution – Nil (2009: Declared and paid of SCC Shares and SCC Warrants per 100 ordinary shares (note 12))	–	1,552,809
Proposed final – Nil (2009: Nil)	–	–
	–	1,552,809

14. EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY

The calculation of the basic earnings/(loss) per share for the year is based on the loss for the year attributable to owners of the Company of HK$13,532,000 (2009: a profit of HK$83,746,000) and the weighted average number of ordinary shares of 1,823,401,000 (2009: 1,823,401,000) in issue during the year.

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

The calculations of basic and diluted earnings/(loss) per share are based on:

	2010	2009
	HK$'000	HK$'000
Earnings/(loss)		
Profit/(loss) attributable to owners of the Company, used in the basic earnings/(loss) per share calculation	**(13,532)**	83,746
Profit/(loss) attributable to owners of the Company, used in the diluted earnings/(loss) per share calculation:		
From continuing operations	**(13,532)**	66,540
From Discontinued Operations	**–**	17,206
	(13,532)	83,746

	Number of shares	
	2010	2009
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic and diluted earnings/(loss) per share calculations	**1,823,401,000**	1,823,401,000

The Company's share options have no dilutive effect for the two years ended 31 December 2010 and 2009 because the exercise price of the Company's share options was higher than the average market price for share for the two years ended 31 December 2010 and 2009.

15. BIOLOGICAL ASSETS

	Group	
	2010	2009
	HK$'000	HK$'000
Lychee fruit trees:		
Carrying amount at 1 January	–	49,950
Disposal of subsidiaries (note 40)	–	(49,950)
Carrying amount at 31 December	–	–
Longan fruit trees:		
Carrying amount at 1 January	–	16,452
Disposal of subsidiaries (note 40)	–	(16,452)
Carrying amount at 31 December	–	–
Winter date fruit trees:		
Carrying amount at 1 January	–	18,502
Disposal of subsidiaries (note 40)	–	(18,502)
Carrying amount at 31 December	–	–
Forestry plantation:		
Carrying amount at 1 January	–	–
Additions	**1,264**	–
Carrying amount at 31 December	**1,264**	–
Total carrying amount at 31 December	**1,264**	–
Cost of forestry plantation	**1,264**	–

16. PROPERTY, PLANT AND EQUIPMENT

Group

	Leasehold land and buildings HK$'000	Furniture and leasehold improvements HK$'000	Machinery and equipment HK$'000	Motor vehicles and vessels HK$'000	Total HK$'000
31 December 2010					
At 31 December 2009 and at 1 January 2010:					
Cost	12,767	17,097	14,881	6,973	51,718
Accumulated depreciation and impairment	(2,760)	(14,592)	(11,306)	(5,168)	(33,826)
Net carrying amount	10,007	2,505	3,575	1,805	17,892
At 1 January 2010, net of accumulated depreciation and impairment	10,007	2,505	3,575	1,805	17,892
Additions	–	1,073	1,847	197	3,117
Disposals	–	(1)	(64)	(129)	(194)
Depreciation provided during the year (note 6)	(336)	(783)	(1,506)	(491)	(3,116)
Exchange realignment	357	63	44	64	528
At 31 December 2010, net of accumulated depreciation and impairment	10,028	2,857	3,896	1,446	18,227
At 31 December 2010:					
Cost	13,233	18,304	16,385	6,750	54,672
Accumulated depreciation and impairment	(3,205)	(15,447)	(12,489)	(5,304)	(36,445)
Net carrying amount	10,028	2,857	3,896	1,446	18,227

16. PROPERTY, PLANT AND EQUIPMENT *(continued)*

Group

	Leasehold land and buildings HK$'000	Furniture and leasehold improvements HK$'000	Machinery and equipment HK$'000	Moulds and tools HK$'000	Motor vehicles and vessels HK$'000	Total HK$'000
31 December 2009						
At 1 January 2009:						
Cost or valuation	272,147	233,056	260,993	10,548	30,097	806,841
Accumulated depreciation and impairment	(73,179)	(200,149)	(206,921)	(7,705)	(21,949)	(509,903)
Net carrying amount	198,968	32,907	54,072	2,843	8,148	296,938
At 1 January 2009, net of accumulated depreciation and impairment	198,968	32,907	54,072	2,843	8,148	296,938
Additions	–	5,590	4,333	191	3,581	13,695
Disposals	–	(177)	(171)	–	–	(348)
Disposal of subsidiaries (note 40)	(182,511)	(30,094)	(45,803)	(2,542)	(8,411)	(269,361)
Depreciation provided during the year (note 6,12)	(6,450)	(6,320)	(8,860)	(492)	(1,513)	(23,635)
Transfer from construction in progress (note 19)	–	595	–	–	–	595
Exchange realignment	–	4	4	–	–	8
At 31 December 2009, net of accumulated depreciation and impairment	10,007	2,505	3,575	–	1,805	17,892
At 31 December 2009:						
Cost	12,767	17,097	14,881	–	6,973	51,718
Accumulated depreciation and impairment	(2,760)	(14,592)	(11,306)	–	(5,168)	(33,826)
Net carrying amount	10,007	2,505	3,575	–	1,805	17,892

The Group's land and buildings are situated in Mainland China and are held under the following lease terms:

	Group	
	2010	2009
	HK$'000	HK$'000
Mainland China:		
Medium term land use rights	**10,028**	10,007

At 31 December 2010, certain of the Group's leasehold land and buildings with a net book value of approximately HK$10,028,000 (2009: HK$10,007,000), were pledged to secure banking facilities granted to the Group (note 31).

17. INVESTMENT PROPERTY

	Group 2010 HK$'000	Group 2009 HK$'000
Carrying amount at 1 January	**25,000**	1,605,674
Disposals	–	(38,200)
Disposal of subsidiaries (note 40)	–	(1,586,757)
Net profit from a fair value adjustment	**200**	44,500
Exchange realignment	–	(217)
Carrying amount at 31 December	**25,200**	25,000

The Group's investment property is situated in Hong Kong and is held under the following lease terms:

	Group 2010 HK$'000	Group 2009 HK$'000
Hong Kong:		
Medium term leases	**25,200**	25,000

The Group's investment property was revalued on 31 December 2010 by BMI Appraisals Limited, independent professionally qualified valuers, at HK$25,200,000 (2009: HK$25,000,000) on an open market, existing use basis.

Further particulars of the Group's investment property are included on pages 104.

18. PREPAID LAND LEASE PAYMENTS

	Group 2010 HK$'000	Group 2009 HK$'000
Carrying amount at 1 January	**10,471**	49,808
Additions	**7,954**	11,615
Disposal of subsidiaries (note 40)	–	(48,567)
Amortised during the year (notes 6, 12)	**(822)**	(2,385)
Exchange realignment	**336**	–
Carrying amount at 31 December	**17,939**	10,471
Current portion included in other receivables	**(213)**	(134)
Non-current portion	**17,726**	10,337

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

19. CONSTRUCTION IN PROGRESS

	Group	
	2010	2009
	HK$'000	HK$'000
Carrying amount at 1 January	**–**	27,279
Disposal of subsidiaries (note 40)	**–**	(27,204)
Additions	**–**	520
Transfer to property, plant and equipment (note 16)	**–**	(595)
Carrying amount at 31 December	**–**	–

20. INTERESTS IN SUBSIDIARIES

	Company	
	2010	2009
	HK$'000	HK$'000
Unlisted shares, at cost#	**181,712**	181,712

For the year ended 31 December 2009, the Company's interest in certain subsidiaries were written down to their costs upon the 2009 Distribution (note 12).

The amount due to a subsidiary is unsecured, interest-free and has no fixed terms of repayment. In the opinion of the directors, the amount due to a subsidiary will not be repayable within 12 months from the end of the reporting period and is therefore shown in the statement of financial position as non-current.

Details of the Company's principal subsidiaries are set out in note 51 to the financial statements.

21. INTERESTS IN ASSOCIATES

	Group	
	2010	2009
	HK$'000	HK$'000
Share of net assets:		
Unlisted associates	**702**	720

The movement in the provision for impairment of advances to associates is as follows:

	Group	
	2010	2009
	HK$'000	HK$'000
At 1 January	**–**	25,436
Impairment losses recognised	**–**	15,116
Disposal of subsidiaries	**–**	(40,552)
At 31 December	**–**	–

The following table illustrates the summarised financial information of the Group's associates extracted from their management accounts.

	2010	2009
	HK$'000	HK$'000
Assets	**2,639**	2,605
Liabilities	**58**	31
Revenue	**3,293**	3,471
Profit/(loss)	**(86)**	159

22. GOODWILL

	Group	
	2010	2009
	HK$'000	HK$'000
At 1 January:		
Cost	**6,193**	12,666
Accumulated impairment	**(625)**	(625)
Net carrying amount	**5,568**	12,041
Carrying amount at 1 January	**5,568**	12,041
Disposal of subsidiaries (note 40)	**–**	(6,473)
Exchange realignment	**(68)**	–
Carrying amount at 31 December	**5,500**	5,568
At 31 December:		
Cost	**6,125**	6,193
Accumulated impairment	**(625)**	(625)
Net carrying amount	**5,500**	5,568

Impairment testing of goodwill

Goodwill acquired through business combinations have been allocated to the following cash-generating units, which are reportable segments, for impairment testing:

- Travel and related services business cash-generating unit; and
- Information technology business cash-generating unit.

Travel and related services business cash-generating unit

The recoverable amount of the travel and related services business cash-generating unit is determined based on a value in use calculation using cash flow projections based on financial budgets covering a five-year period approved by senior management. The discount rate applied to the cash flow projections is 9% (2009: 9%). The growth rate used to extrapolate the cash flows of the travel and related services business unit beyond the five-year period is 3% (2009: 3%) which is the same as the long term average growth rate of the travel and related services business industry.

Information technology business cash-generating unit

The recoverable amount of the information technology business cash-generating unit is determined based on a value in use calculation using cash flow projections based on financial budgets covering a five-year period approved by senior management. The discount rate applied to the cash flow projections is 11% (2009: 11%). The growth rate used to extrapolate the cash flows of the information technology business unit beyond the five-year period is 5% (2009: 5%) which is the same as the long term average growth rate of the information technology business industry.

22. GOODWILL *(continued)*

Impairment testing of goodwill *(continued)*

The carrying amount of goodwill allocated to each of the cash-generating units is as follows:

	2010	2009
	HK$'000	HK$'000
Cash-generating units:		
Travel and related services business	**2,994**	2,994
Information technology business	**2,506**	2,574
	5,500	5,568

Key assumptions were used in the value in use calculation of the travel and related services business and information technology business cash-generating units for 31 December 2010 and 2009. The following describes each key assumption on which management has based its cash flow projections to undertake impairment testing of goodwill:

Budgeted gross margins – The basis used to determine the value assigned to the budgeted gross margins is the average gross margins achieved in the year immediately before the budget year, increased for expected efficiency improvements, and expected market development.

Discount rates – The discount rates used are before tax and reflect specific risks relating to the relevant units.

23. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	Group	
	2010	2009
	HK$'000	HK$'000
Club debentures and membership	**461**	461
Listed equity investments, at market value	**32,705**	37,194
	33,166	37,655

During the year, the fair value loss in respect of the Group's listed equity investments recognised in other comprehensive income amounting to HK$4,489,000 (2009: a fair value gain of HK$22,781,000) and no amount (2009: Nil) was reclassified from other comprehensive income to the income statement and no impairment was recognised in the income statement (2009: Nil).

The above investments consist of investments in club debentures and memberships which have no fixed maturity date or coupon rate.

The fair values of listed equity investments are based on quoted market prices. The fair values of club debentures and membership have been estimated using a valuation technique based on assumptions that are not supported by observable market prices or rates. The valuation requires the directors to make estimates about the expected future cash flows including expected proceeds on subsequent disposal. The directors believe that the estimated fair values resulting from the valuation technique, which are recorded in the consolidated statement of financial position, and the related changes in fair values, which are recorded in other comprehensive income, are reasonable, and that they were the most appropriate values at the end of the reporting period.

24. OTHER NON-CURRENT ASSETS

	Group	
	2010	2009
	HK$'000	HK$'000
Land development costs	**20,723**	19,994
Deposit for acquisition of properties	**6,622**	6,622
	27,345	26,616

25. PROPERTIES UNDER DEVELOPMENT

	Group	
	2010	2009
	HK$'000	HK$'000
Carrying amount at 1 January	**–**	448,734
Additions	**–**	60,154
Interest capitalised in properties under development	**–**	2,497
Disposal of subsidiaries (note 40)	**–**	(511,385)
Carrying amount at 31 December	**–**	–
Portion classified as current assets	**–**	–
Non-current portion	**–**	–

26. INVENTORIES

	Group	
	2010	2009
	HK$'000	HK$'000
Raw materials	**2,123**	4,063
Work in progress	**25,459**	23,044
Finished goods	**21,266**	13,792
	48,848	40,899
Provision against obsolete inventories	**(128)**	(124)
	48,720	40,775

At 31 December 2010, the Group's inventories with a value of HK$20,920,000 (2009: HK$15,198,000) were pledged to secure banking facilities granted to the Group (note 31).

Included in work in progress is construction contracts amounted to HK$25,365,000 (2009: HK$22,905,000).

26. INVENTORIES *(continued)*

	Group 2010 HK$'000	Group 2009 HK$'000
Gross amount due from contract customers	**25,365**	33,190
Gross amount due to contract customers included in other payables	**–**	(10,285)
	25,365	22,905
Contract costs incurred plus recognised profits less recognised losses to date	**146,417**	33,190
Less: Progress billings	**(121,052)**	(10,285)
	25,365	22,905

27. TRADE AND OTHER RECEIVABLES

	Group 2010 HK$'000	Group 2009 HK$'000
Trade receivables	**192,405**	138,032
Impairment	**(4,610)**	(4,540)
	187,795	133,492

The Group's trading terms with its customers are on credit with credit periods ranging from one to three months (2009: one to three months), depends on a number of factors including trade practices, collection history and location of customers. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables and has a credit control department to minimise credit risk. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk.

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

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

	Group 2010 HK$'000	Group 2009 HK$'000
Within 90 days	**170,694**	125,218
91 to 180 days	**12,329**	8,049
181 to 365 days	**2,884**	225
Over 365 days	**1,888**	–
	187,795	133,492

27. TRADE AND OTHER RECEIVABLES *(continued)*

The movements in impairment of trade receivables are as follows:

	Group	
	2010	2009
	HK$'000	HK$'000
At 1 January	**4,540**	61,683
Impairment losses recognised	**46**	3,687
Amount written off as uncollectable	**(141)**	(1,195)
Disposal of subsidiaries	**–**	(59,635)
Exchange realignment	**165**	–
At 31 December	**4,610**	4,540

Included in the above provision for impairment of trade receivables is a provision for individually impaired trade receivables of HK$4,610,000 (2009: HK$4,540,000) with a carrying amount before provision of HK$4,610,000 (2009: HK$4,540,000). The individually impaired trade receivables relate to customers that were in financial difficulties and only a portion of the receivables is expected to be recovered.

The aged analysis of the trade receivables that are neither individually nor collectively considered to be impaired is as follows:

	Group	
	2010	2009
	HK$'000	HK$'000
Within 90 days	**175,272**	132,085
91 to 180 days	**7,915**	1,337
181 to 365 days	**4,608**	70
	187,795	133,492

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

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

At 31 December 2010, the Group's trade receivables with a value of HK$12,686,000 (2009: Nil) were pledged to secured its banking facilities (note 31).

28. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	Group	
	2010	2009
	HK$'000	HK$'000
Listed equity investments, at market value:		
Hong Kong	**43,950**	67,977

The above financial assets at 31 December 2010 were classified as held for trading. The market value of the Group's listed equity investments at the date of approval of these financial statements was approximately HK$42,749,000 (2009: HK$61,114,000).

29. CASH AND CASH EQUIVALENTS AND PLEDGED BANK DEPOSITS

		Group		Company	
		2010	2009	**2010**	2009
	Note	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Cash and bank balances		**65,998**	58,007	**113**	116
Time deposits		**16,885**	14,625	**–**	–
		82,883	72,632	**113**	116
Less: Pledged for banking facilities	31	**(16,885)**	(14,625)	**–**	–
Cash and cash equivalents		**65,998**	58,007	**113**	116

At the end of the reporting period, the cash and bank balances of the Group denominated in Renminbi ("RMB") amounted to HK$57,623,000 (2009: HK$38,386,000). RMB is not freely convertible into other currencies. However, under the PRC's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short term time deposits are made for varying periods of between one day and three months depending on the immediate cash requirements of the Group, and earn interest at the respective short term time deposit rates. The bank balances and pledged deposits are deposited with creditworthy banks with no recent history of default.

30. TRADE AND OTHER PAYABLES

Included in trade and other payables of the Group are trade payables of HK$138,539,000 (2009: HK$129,022,000) and their aged analysis based on the invoice date is as follows:

	Group	
	2010	2009
	HK$'000	HK$'000
Within 90 days	**135,926**	125,365
91 to 180 days	**773**	137
181 to 365 days	**295**	3,391
Over 365 days	**1,545**	129
	138,539	129,022

The trade payables are non-interest-bearing and are normally settled on 15 to 90 days' terms (2009: 15 to 90 days).

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

31. INTEREST-BEARING BANK AND OTHER BORROWINGS

Group

	2010			2009		
	Effective interest rate (%)	**Maturity**	**HK$'000**	Effective interest rate (%)	Maturity	HK$'000
Current						
Bank overdrafts – unsecured	**5.3**	**On demand**	**8,376**	4.8 – 5.5	On demand	35,097
Bank loans – unsecured	**3.8 – 8.8**	**2011**	**58,613**	3.8 – 9.6	2010	50,000
Bank loans – secured	**5.8 – 6.3**	**2011**	**40,000**	1.1 – 9.3	2010	20,090
Other borrowings	**6**	**On demand**	**2,776**	N/A	N/A	–
			109,765			105,187

	Group	
	2010	2009
	HK$'000	HK$'000
Analysed into:		
Bank loans and overdrafts repayable:		
Within one year or on demand	**106,989**	105,187
Other borrowings repayable on demand	**2,776**	–
	109,765	105,187

31. INTEREST-BEARING BANK AND OTHER BORROWINGS *(continued)*

Notes:

(a) At the end of the reporting period, the Group's bank loans facilities amounting to approximately HK$101,512,000 (2009: HK$76,991,000) are secured by:

(i) the pledge of certain of the Group's time deposits amounting to HK$16,885,000 (2009: HK$14,625,000) (note 29);

(ii) a charge over the Group's certain leasehold land and buildings which had an aggregate carrying value at the end of the reporting period of approximately HK$10,028,000 (2009: HK$10,007,000) (note 16);

(iii) the pledges over the Group's inventories which had an aggregate carrying value at the end of the reporting period of approximately HK$20,920,000 (2009: HK$15,198,000) (note 26); and

(iv) the pledge of the Group's trade receivables amounting to HK$12,686,000 (2009: Nil) at the end of the reporting period (note 27).

(b) Except for secured bank loans with an aggregate amount of HK$43,612,000 (2009: HK$20,090,000) which are denominated in Renminbi and other borrowings of HK$2,776,000 (2009: Nil) which are denominated in Renminbi, all other borrowings are in Hong Kong dollars.

The carrying amounts of the Group's bank and other borrowings approximate to their fair values. The fair values of the bank and other borrowings are the present values of future cash flows, discounted at prevailing interest rates at 31 December 2010.

32. ADVANCES FROM SHAREHOLDERS

Except for the amounts of HK$61,259,000 (2009: Nil) which are interest-bearing at the Hong Kong dollar prime rate per annum and will not be repayable within 12 months from the end of the reporting period, the remaining advances from shareholders are unsecured, interest-free and have no fixed terms of repayment. In the opinion of the directors, the amounts will not be repayable within 12 months from the end of the reporting period and are therefore shown in the statement of financial position as non-current.

33. ADVANCES FROM/TO NON-CONTROLLING SHAREHOLDERS OF SUBSIDIARIES

The advances from/to non-controlling shareholders of subsidiaries are unsecured, interest-free and have no fixed terms of repayment.

34. DUE FROM/TO AFFILIATES

Due from affiliates

	Group	
	2010	2009
	HK$'000	HK$'000
Due from related companies#	**2,037**	–

34. DUE FROM/TO AFFILIATES *(continued)*

Due to affiliates

	Group	
	2010	2009
	HK$'000	HK$'000
Due to related companies#	–	4,478

A substantial beneficial shareholder of the related companies are also a substantial shareholder of the Company.

At 31 December 2010, the amounts due from related companies arose from the trade receivables for the provision of information technology related services of the Group. The terms are mutually agreed by both parties.

At 31 December 2009, except for an amount due to a related company of HK$1,017,000 was interest-bearing at Hong Kong dollar prime rate per annum, the amounts due to related companies were unsecured, interest-free and had no fixed terms of repayment.

35. OTHER NON-CURRENT LIABILITIES

	Group	
	2010	2009
	HK$'000	HK$'000
Provision for severance payments	–	–

The movements in the provision for severance payments are as follows:

	Group	
	2010	2009
	HK$'000	HK$'000
At 1 January	–	76,866
Disposal of subsidiaries	–	(76,632)
Amounts utilised during the year	–	(234)
At 31 December	–	–
Portion classified as current liabilities	–	–
Non-current portion	–	–

The provision for severance payments arose from the acquisition of certain PRC subsidiaries under the relevant regulations in Mainland China.

36. DEFERRED TAX

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

Group

Deferred tax liabilities

	2010		
	Losses available for offsetting against future taxable profits HK$'000	**Revaluation of properties HK$'000**	**Total HK$'000**
At 1 January 2010	**(9)**	**2,508**	**2,499**
Deferred tax credited to the income statement during the year (note 10)	**(3)**	**(111)**	**(114)**
At 31 December 2010	**(12)**	**2,397**	**2,385**

	2009				
	Losses available for offsetting against future taxable profits HK$'000	Depreciation allowance in excess of related depreciation HK$'000	Revaluation of properties HK$'000	Withholding tax HK$'000	Total HK$'000
At 1 January 2009	324	9,001	222,754	–	232,079
Deferred tax charged to the income statement during the year	43	1,227	1,502	365	3,137
Disposal of a subsidiary (note 40)	(376)	(10,228)	(221,748)	(365)	(232,717)
At 31 December 2009	(9)	–	2,508	–	2,499

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

	Group		**Company**	
	2010 HK$'000	2009 HK$'000	**2010 HK$'000**	2009 HK$'000
Tax losses	**210,255**	190,632	**5,079**	5,621

36. DEFERRED TAX *(continued)*

The above tax losses are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose.

The Group also has tax losses arising in Mainland China of HK$37,965,000 (2009: HK$29,687,000) that will expire in one to five years for offsetting against future taxable profit. A deferred tax asset has not been recognised in respect of the above items as it is not considered probable that taxable profits will be available against which the above items can be utilised.

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

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

37. SHARE CAPITAL

Shares

	2010 HK$'000	2009 HK$'000
Authorised:		
4,000,000,000 (2009: 4,000,000,000) ordinary shares of HK$0.025 (2009: HK$0.025) each	**100,000**	100,000
Issued and fully paid:		
1,823,401,376 (2009: 1,823,401,376) ordinary shares of HK$0.025 (2009: HK$0.025) each	**45,584**	45,584

Share options

Details of the Company's share option scheme and the share options issued under the schemes are included in note 38 to the financial statements.

38. SHARE OPTION SCHEME

The directors and employees of the Group are entitled to participate in share option scheme operated by the Company (the "Share Option Scheme"). Details of the Share Option Scheme are as follows:

(a) Purpose of the Share Option Scheme

In order to provide incentives or rewards to the participants for their contribution to the Group and to enable the Group to attract and retain employees of appropriate qualifications and with necessary experience to work for the Group and any entity in which any member of the Group holds equity interests (the "Invested Entity"), the shareholders of the Company approved the adoption of the Share Option Scheme at the annual general meeting held on 31 May 2002.

(b) Participants of the Share Option Scheme

According to the Share Option Scheme, the board may, at its discretion, grant options to any person belonging to any of the following classes of participants to subscribe for shares:–

(i) any executive director, employee or proposed employee (whether full time or part time) of any member of the Group or any Invested Entity or substantial shareholder;

(ii) any non-executive director (including any independent non-executive director) of any member of the Group or any Invested Entity or substantial shareholder;

(iii) any individual for the time being seconded to work for any member of the Group or any Invested Entity or substantial shareholder;

(iv) any shareholder of any member of the Group or any Invested Entity or substantial shareholder or any holder of any securities issued by any member of the Group or any Invested Entity or substantial shareholder;

(v) any business partner, consultant or contractor of any member of the Group or any Invested Entity or substantial shareholder;

(vi) any supplier of goods or services to any member of the Group or any Invested Entity or substantial shareholder;

(vii) any customer of the Group or any Invested Entity or substantial shareholder;

(viii) any person or entity that provides research, development or other technological support or any advisory, consultancy, professional or other services to any member of the Group or any Invested Entity or substantial shareholder; and

(ix) any person wholly-owned by one or more persons belonging to any of the above classes of participants.

38. SHARE OPTION SCHEME *(continued)*

(c) Total number of shares available for issue under the Share Option Scheme

The maximum number of shares in respect of which share options may be granted shall not exceed 10% of the shares in issue as at the date of approval of the Share Option Scheme, i.e. a total of 182,340,137.

As at 31 December 2010, the total number of shares available for issue pursuant to the grant of further share options under the Share Option Scheme is 90,140,137, representing approximately 4.94% of the issued share capital of the Company as at the date of this Annual Report.

(d) Maximum entitlement of each participant

No participant shall be granted an option if the total number of shares issued and to be issued upon exercise of the options granted and to be granted (including both exercised, cancelled and outstanding options) in any 12 month period up to and including the date of grant to such participant would exceed in aggregate 1% of the shares for the time being in issue unless the proposed grant has been approved by the shareholders of the Company in general meeting with the proposed grantee and his associates (as defined in the Listing Rules) abstaining from voting.

(e) Period within which the shares must be taken up under an option

The Board may at its absolute discretion determine the period during which a share option may be exercised, such period should expire no later than 10 years from the date of grant. The Board may also impose restrictions on the exercise of a share option during the period a share option may be exercised.

(f) Minimum period, if any, for which an option must be held before it can be exercised

There is no specific requirement under the Share Option Scheme that an option must be held for any minimum period before it can be exercised, but the terms of the Share Option Scheme provide that the board of the Company has the discretion to impose a minimum period at the time of grant of any particular option.

(g) Amount payable upon acceptance of the option and the period within which payment must be made

An amount of HK$1 for each lot of share options granted is payable upon acceptance of the options within 5 business days from the date of offer of the option.

(h) Basis of determining the exercise price options

The exercise price is determined by the board of the Company, and shall be at least the higher of: (i) the closing price of the Company's shares as stated in the Stock Exchange's daily quotations sheet on the date of offer of grant; (ii) the average closing price of the Company's shares as stated in the Stock Exchange's daily quotations sheets for the five trading days immediately preceding the date of offer of grant; and (iii) the nominal value of the Company's shares.

38. SHARE OPTION SCHEME *(continued)*

(i) Remaining life of the Share Option Scheme

Subject to early termination of the Share Option Scheme pursuant to the terms thereof, the Share Option Scheme will be valid and effective for a period of 10 years commencing on the date on which it became unconditional on 28 June 2002.

The following share options were outstanding under the Share Option Scheme of the Company during the year:

	2010 Weighted average exercise price HK$ per share	**2010** Number of options '000	2009 Weighted average exercise price HK$ per share	2009 Number of options '000
At 1 January	**2**	**100,800**	2	101,800
Lapsed during the year	**2**	**(8,600)**	2	(1,000)
At 31 December	**2**	**92,200**	2	100,800

The following share options were outstanding under the Share Option Scheme of the Company during the year:

Name or category of participants	Number of share options: Outstanding as at 1 January 2010	Granted during he year	Exercised during the year	Lapsed during the year	Cancelled during the year	Re-classified (Note 1)	Outstanding as at 31 December 2010	Date of grant of share options (DD/MM/YYYY) (Note 2)	Exercise period of share options (DD/MM/YYYY)	Exercise price per share HK$ (Note 3)
Directors										
Cheung Choi Ngor	6,000,000	–	–	–	–	–	6,000,000	18/09/2007	18/09/2008 – 17/09/2017	2.00
	6,000,000	–	–	–	–	–	6,000,000	18/09/2007	18/09/2009 – 17/09/2017	2.00
	6,000,000	–	–	–	–	–	6,000,000	18/09/2007	18/09/2010 – 17/09/2017	2.00
Richard Howard Gorges	6,000,000	–	–	–	–	–	6,000,000	18/09/2007	18/09/2008 – 17/09/2017	2.00
	6,000,000	–	–	–	–	–	6,000,000	18/09/2007	18/09/2009 – 17/09/2017	2.00
	6,000,000	–	–	–	–	–	6,000,000	18/09/2007	18/09/2010 – 17/09/2017	2.00
Ng Yuk Mui, Jessica	6,000,000	–	–	–	–	–	6,000,000	18/09/2007	18/09/2008 – 17/09/2017	2.00
	6,000,000	–	–	–	–	–	6,000,000	18/09/2007	18/09/2009 – 17/09/2017	2.00
	6,000,000	–	–	–	–	–	6,000,000	18/09/2007	18/09/2010 – 17/09/2017	2.00
Ng Yuk Fung, Peter	6,000,000	–	–	–	–	–	6,000,000	18/09/2007	18/09/2008 – 17/09/2017	2.00
	6,000,000	–	–	–	–	–	6,000,000	18/09/2007	18/09/2009 – 17/09/2017	2.00
	6,000,000	–	–	–	–	–	6,000,000	18/09/2007	18/09/2010 – 17/09/2017	2.00
Sub-total:	72,000,000	–	–	–	–	–	72,000,000			

38. SHARE OPTION SCHEME *(continued)*

The following share options were outstanding under the Share Option Scheme of the Company during the year: *(continued)*

Name or category of participants	Outstanding as at 1 January 2010	Granted during the year	Exercised during the year	Lapsed during the year	Cancelled during the year	Re-classified (Note 1)	Outstanding as at 31 December 2010	Date of grant of share options (DD/MM/YYYY) (Note 2)	Exercise period of share options (DD/MM/YYYY)	Exercise price per share HK$ (Note 3)
	Number of share options									
Employees										
In aggregate	6,000,000	–	–	–	–	(5,800,000)	200,000	18/09/2007	18/09/2008 – 17/09/2017	2.00
	6,000,000	–	–	–	–	(5,800,000)	200,000	18/09/2007	18/09/2009 – 17/09/2017	2.00
	6,000,000	–	–	–	–	(5,800,000)	200,000	18/09/2007	18/09/2010 – 17/09/2017	2.00
Sub-total:	18,000,000	–	–	–	–	(17,400,000)	600,000			
Others										
In aggregate	3,599,999	–	–	(2,866,666)	–	5,800,000	6,533,333	18/09/2007	18/09/2008 – 17/09/2017	2.00
	3,600,000	–	–	(2,866,667)	–	5,800,000	6,533,333	18/09/2007	18/09/2009 – 17/09/2017	2.00
	3,600,001	–	–	(2,866,667)	–	5,800,000	6,533,334	18/09/2007	18/09/2010 – 17/09/2017	2.00
Sub-total:	10,800,000	–	–	(8,600,000)	–	17,400,000	19,600,000			
Total	100,800,000	–	–	(8,600,000)	–	–	92,200,000			

Notes:

(1) Due to internal re-organisation, certain employees and other participants holding options under the Share Option Scheme had been re-classified. Consequently, 18,000,000 options were re-classified from "Employees" to "Others" and 600,000 options from "Others" to "Employees".

(2) All share options granted are subject to a vesting period and become exercisable in whole or in part in the following manner:

From the date of grant of share options	Exercisable percentage %
Within 12 months	Nil
13th month – 24th month	not more than $33^1/_3$
25th month – 36th month	not more than $66^2/_3$
37th month – 120th month	100

(3) The subscription price of the share options is subject to adjustment in the case of rights or bonus issues, or other alteration in the capital structure of the Company.

No share options have been granted, exercised or cancelled during the year ended 31 December 2010. The Company recognised a share option expense of HK$4,069,000 (2009: HK$12,214,000) during the year ended 31 December 2010.

At the end of the reporting period the Company had 92,200,000 share options outstanding under the scheme. The exercise in full of the remaining share options would, under the present capital structure of the Company, result in the issue of 92,200,000 additional ordinary shares of the Company with additional share capital of HK$2,305,000 and share premium of HK$182,095,000 (before issue expenses).

38. SHARE OPTION SCHEME *(continued)*

The fair value of equity-settled share options granted during the year ended 31 December 2007 was estimated as at the date of grant using a trinomial model, taking into account the terms and conditions upon which the options were granted. The following table lists the inputs to the model used:

	2007
Dividend yield (%)	0.00
Average expected volatility (%)	68.57
Average historical volatility (%)	68.57
Average risk-free interest rate (%)	3.96
Expected life of options (year)	3 – 5
Weighted average share price (HK$)	1.374

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

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

No share option was exercised during the year.

39. RESERVES

(a) Group

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on pages 28 to 29 of the financial statements.

(b) Company

	Share premium account HK$'000	Capital redemption reserve HK$'000	Contributed surplus HK$'000	Share option reserve HK$'000	Retained profits HK$'000	Total HK$'000
At 1 January 2009	253,234	56	286,429	38,978	49,250	627,947
Equity-settled share option arrangements	–	–	–	12,214	–	12,214
Total comprehensive income for the year	–	–	–	–	261,230	261,230
Effect in distribution of specie	–	–	–	–	(765,210)	(765,210)
Transfer to retained earnings	(198,818)	(56)	(286,429)	(51,192)	536,495	–
At 31 December 2009 and 1 January 2010	54,416	–	–	–	81,765	136,181
Equity-settled share option arrangements	–	–	–	4,069	–	4,069
Total comprehensive loss for the year	–	–	–	–	(4,155)	(4,155)
At 31 December 2010	54,416	–	–	4,069	77,610	136,095

39. RESERVES *(continued)*

(b) Company *(continued)*

The contributed surplus represents the difference between the consolidated shareholders' funds of the subsidiaries at the date on which they were acquired by the Company and the nominal value of the Company's shares issued for the acquisition at the time of the group reorganisation in 1992.

The Company's reserves available for distribution represent the share premium account, capital redemption reserve, contributed surplus, share option reserve and retained profits. Under the Companies Law (Revised) Chapter 22 of the Cayman Islands, the share premium of the Company is available for paying distributions or dividends to shareholders subject to the provisions of its Memorandum or Articles of Association and provided that immediately following the distribution or dividend, the Company is able to pay its debts as they fall due in the ordinary course of business. Accordingly, the Company's reserves available for distribution to shareholders as at 31 December 2010 amounted to approximately HK$136,095,000 (2009: HK$136,181,000).

40. DISPOSAL OF INTERESTS IN SUBSIDIARIES

Further to note 12 to the financial statements, the Group disposed of its interest in SCC after the 2009 Distribution in June 2009.

	2009 HK$'000
Net assets disposed of:	
Property, plant and equipment (note 16)	269,361
Investment properties (note 17)	1,586,757
Prepaid land lease payments (note 18)	48,567
Construction in progress (note 19)	27,204
Interest in associates	318,113
Biological assets (note 15)	84,904
Available-for-sale financial assets	44,280
Other non-current asset	156,259
Goodwill (note 22)	6,473
Properties under development (note 25)	511,385
Inventories	326,752
Trade and other receivables	304,442
Financial assets at fair value through profit or loss	9,834
Advances to non-controlling shareholders of subsidiaries	28,229
Tax recoverable	5,393
Cash and bank balances	111,352
Trade and other payables	(573,092)
Interest-bearing bank and other borrowings	(877,784)
Advances from non-controlling shareholders of subsidiaries	(49,472)
Due to affiliates	(3,616)
Tax payable	(26,254)
Other non-current liabilities	(85,185)
Promissory notes	(97,079)
Deferred tax liabilities (note 36)	(232,717)
Non-controlling interests	(556,976)
Release of capital reserve	(1,927)
Release of merger reserve	(123,053)
Release of available-for-sale financial asset revaluation reserve	(34,603)
Release of share option reserve	(28,150)
Release of asset revaluation reserve	(36,354)
Release of PRC statutory reserve	(6,956)
Release of exchange fluctuation reserve	(59,534)
	1,046,553
Excess of the net assets value over the fair value of SCC	506,256
	1,552,809

40. DISPOSAL OF INTERESTS IN SUBSIDIARIES *(continued)*

	2009 HK$'000
Satisfied by:	
Special interim distribution (note 13)	1,552,809

An analysis of the net outflow of cash and cash equivalents in respect of the disposal of interests in SCC is as follows:

	2009 HK$'000
Cash and bank balances disposed of	(111,352)
Bank overdraft of SCC Group	74,599
Net outflow of cash and cash equivalents in respect of the disposal of SCC	(36,753)

Prior to the disposal, SCC contributed a profit of HK$10,564,000 to the Group's consolidated profit for the year ended 31 December 2009.

41. CONTINGENT LIABILITIES

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

	Group		Company	
	2010 HK$'000	2009 HK$'000	**2010 HK$'000**	2009 HK$'000
Guarantees given to banks in connection with banking facilities granted to:				
Subsidiaries	**–**	–	**161,450**	166,450

At 31 December 2010, the banking facilities granted to the subsidiaries subject to guarantees given to the banks by the Company were utilised to the extent of approximately HK$63,377,000 (2009: HK$85,097,000).

42. PLEDGES OF ASSETS

At the end of the reporting period, certain of the Group's assets were pledged to secure the banking facilities granted to the Group and are analysed as follows:

	Group	
	2010	2009
	HK$'000	HK$'000
Net book values of the pledged assets:		
Property, plant and equipment	**10,028**	10,007
Inventories	**20,920**	15,198
Trade receivables	**12,686**	–
Bank deposits	**16,885**	14,625
	60,519	39,830

43. OPERATING LEASE ARRANGEMENTS

As lessee

The Group leases certain of its shopping stores and office properties under operating lease arrangements. Leases for these shopping stores are negotiated for terms ranging from four to eight years, and those for office properties are for terms ranging from one to two years.

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

	Group	
	2010	2009
	HK$'000	HK$'000
Within one year	**8,059**	6,727
In second to fifth years, inclusive	**7,727**	2,352
After five years	**3,449**	–
	19,235	9,079

44. CAPITAL COMMITMENTS

At the end of the reporting period, the Group and the Company did not have any significant capital commitments (2009: Nil).

45. RELATED PARTY TRANSACTIONS

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

Name of related party	Nature of transaction	Notes	2010 HK$'000	2009 HK$'000
Associate	Interest income	(i)	–	(8)
Associate	Rental income	(ii)	–	(1,534)
Directors and companies in which certain directors have beneficial interests*/**	Photo processing income	(i)	–	88
Directors and companies in which certain directors have beneficial interests*/**	Information technology related services income	(i)	(967)	–
Directors and companies in which certain directors have beneficial interests*/**	Rental income	(ii)	–	(1,931)
Directors and companies in which certain directors have beneficial interests*/**	Rental expenses	(iii)	3,084	1,542
Directors and companies in which certain directors have beneficial interests*/**	Interest expense	(iv)	188	792
Directors	Interest expenses	(v)	2,425	305

* The directors of the Company are also the directors of the related companies.

** The related party transactions also constitute connected transactions or continuing connected transactions as defined in Chapter 14A of the Listing Rules. Further details of the transactions are disclosed in the section headed "Connected Transactions and Continuing Connected Transactions" in the Report of the Directors.

Notes:

(i) These transactions were carried out on terms determined and agreed by both parties.

(ii) The rental income arose from the letting of properties of the Group to an associate and a related company in accordance with the tenancy agreements.

(iii) These transactions were charged at prevailing market rates.

(iv) The interest expense was charged at the Hong Kong dollar prime rate per annum. The terms offered to the Group are at similar terms offered to clients with similar characteristics.

(v) The interest expenses were charged at the Hong Kong dollar prime rate per annum.

45. RELATED PARTY TRANSACTIONS *(continued)*

(b) Outstanding balances with related parties:

Details of the balances with related parties at the end of the reporting period are included in notes 21, 32, 33 and 34 to the financial statements.

(c) Compensation of key management personnel of the Group:

The executive directors and the non-executive directors are the key management personnel of the Group. Details of their remuneration are disclosed in note 8 to the financial statements.

46. FINANCIAL INSTRUMENTS BY CATEGORY

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

2010 **Group**

Financial assets

	Financial assets at fair value through profit or loss-held for trading HK$'000	Loans and receivables HK$'000	Available-for-sale financial assets HK$'000	Total HK$'000
Available-for-sale financial assets	–	–	33,166	33,166
Trade and other receivables	–	257,241	–	257,241
Financial assets at fair value through profit or loss	43,950	–	–	43,950
Due from affiliates	–	2,037	–	2,037
Advances to non-controlling shareholders of subsidiaries	–	1,694	–	1,694
Pledged bank deposits	–	16,885	–	16,885
Cash and cash equivalents	–	65,998	–	65,998
	43,950	343,855	33,166	420,971

Financial liabilities

	Financial liabilities at amortised cost HK$'000
Trade and other payables	197,466
Interest-bearing bank and other borrowings	109,765
Advances from shareholders	62,860
Advances from non-controlling shareholders of subsidiaries	404
	370,495

46. FINANCIAL INSTRUMENTS BY CATEGORY *(continued)*

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

2009 Group

Financial assets

	Financial assets at fair value through profit or loss-held for trading HK$'000	Loans and receivables HK$'000	Available-for-sale financial assets HK$'000	Total HK$'000
Available-for-sale financial assets	–	–	37,655	37,655
Trade and other receivables	–	180,287	–	180,287
Financial assets at fair value through profit or loss	67,977	–	–	67,977
Advances to non-controlling shareholders of subsidiaries	–	1,635	–	1,635
Pledged bank deposits	–	14,625	–	14,625
Cash and cash equivalents	–	58,007	–	58,007
	67,977	254,554	37,655	360,186

Financial liabilities

	Financial liabilities at amortised cost HK$'000
Trade and other payables	170,780
Interest-bearing bank and other borrowings	105,187
Advances from shareholders	6,029
Advances from non-controlling shareholders of subsidiaries	408
Due to affiliates	4,478
	286,882

46. FINANCIAL INSTRUMENTS BY CATEGORY *(continued)*

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

Company

Financial assets

	Loans and receivables	
	2010	2009
	HK$'000	HK$'000
Cash and bank balances	**113**	116

Financial liabilities

	Financial liabilities at amortised cost	
	2010	2009
	HK$'000	HK$'000
Other payables	**63**	63
Due to a subsidiary	**83**	–
	146	63

47. FAIR VALUE AND FAIR VALUE HIERARCHY

Fair value

The carry amounts of the Group and the Company's financial assets and financial liabilities as at 31 December 2010 and 31 December 2009 approximate to their fair value.

Fair value hierarchy

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

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

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

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

At the end of each reporting period, the financial instruments measured at fair value held by the Group were classified as level 1.

48. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

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

Interest rate risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's debt obligations with a floating interest rate. The majority of the bank borrowings bear interest at interest rates with reference to the HIBOR whereas loans to customers bear interest at interest rates with reference to the prime rate. As the prime rate in Hong Kong basically changes in line with the HIBOR, the Group's exposure to the risk of changes in market interest rates is minimal.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's profit/(loss) before tax (through the impact on floating rate borrowings).

If there would be a general increase in the interest rate of debts obligations with floating interest rates by fifty basis points (2009: fifty basis points), with all other variables held constant, the Group's profit before tax and retained profits would be decreased by approximately HK$736,000 (2009: HK$476,000) for the year ended 31 December 2010.

Foreign currency risk

The Group operates in Hong Kong and Mainland China and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to Renminbi and United States dollar. Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities and net investments in operations in Mainland China. The directors consider that the exchange rates of the Hong Kong dollar against Renminbi and the United States dollar in the foreseeable future are expected to be relatively stable and the appreciation in Renminbi against the Hong Kong dollar is expected to be mild. There is no significant exposure to fluctuations in foreign exchange rates and any related hedges.

48. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

Foreign currency risk *(continued)*

The Group has certain investments in operations in Mainland China, whose net assets are exposed to translation risk. Management does not expect any material adverse impact on the foreign exchange fluctuation, as expected and mild appreciation in Renminbi will further benefit the Group's net assets position in Mainland China.

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

	Group	
	Change in foreign currency rate	**Decrease/ (increase) in loss before tax**
	%	HK$'000
2010		
If Hong Kong dollar weakens against:		
RMB	**5**	**3,047**
If Hong Kong dollar strengthens against:		
RMB	**5**	**(3,047)**

	Change in foreign currency rate	Increase/ (decrease) in profit before tax
	%	HK$'000
2009		
If Hong Kong dollar weakens against:		
RMB	5	220
If Hong Kong dollar strengthens against:		
RMB	5	(220)

Credit risk

The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant. For transactions that are not denominated in the functional currency of the relevant operating unit, the Group does not offer credit terms without the specific approval of the Head of Credit Control.

The credit risk of the Group's other financial assets, which comprise cash and cash equivalents, available-for-sale financial assets, equity investments at fair value through profit or loss and other receivables, arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments.

48. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

Credit risk *(continued)*

The Group's concentration of credit risk is mainly in Hong Kong and Mainland China by geographical location. The Group's credit risk exposure is spread over a number of counterparties and customers. Hence, it has no significant concentration of credit risk by a single debtor.

Further quantitative data in respect of the Group's exposure to credit risk arising from trade receivables are disclosed in note 27 to the financial statements.

Liquidity risk

The Group monitors its risk to a shortage of funds using a recurring liquidity planning tool. This tool considers the maturity of both its financial instruments and financial assets (e.g. trade receivables) and projected cash flows from operations. The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank overdrafts, bank loans, finance leases and other interest-bearing loans.

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

Group

			2010		
	On demand	**Less than 3 months**	**3 to less than 12 months**	**Over 1 year**	**Total**
	HK$'000	**HK$'000**	**HK$'000**	**HK$'000**	**HK$'000**
Trade and other payables	**15,561**	**178,402**	**3,503**	**–**	**197,466**
Interest-bearing bank and other borrowings	**11,152**	**55,730**	**42,883**	**–**	**109,765**
Advances from shareholders	**–**	**–**	**–**	**62,860**	**62,860**
Advances from non-controlling shareholders of subsidiaries	**404**	**–**	**–**	**–**	**404**
	27,117	**234,132**	**46,386**	**62,860**	**370,495**

			2009		
	On demand	Less than 3 months	3 to less than 12 months	Over 1 year	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Trade and other payables	11,066	159,112	602	–	170,780
Interest-bearing bank and other borrowings	35,097	50,000	20,090	–	105,187
Advances from shareholders	–	–	–	6,029	6,029
Advances from non-controlling shareholders of subsidiaries	390	–	–	18	408
Due to affiliates	1,240	3,238	–	–	4,478
	47,793	212,350	20,692	6,047	286,882

48. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

Liquidity risk *(continued)*

Company

	2010			
	On demand HK$'000	**Less than 3 months HK$'000**	**Over 1 year HK$'000**	**Total HK$'000**
Other payables	–	**63**	–	**63**
Due to a subsidiary	–	–	**83**	**83**
Guarantees given to banks in connection with facilities granted to subsidiaries	**63,377**	–	–	**63,377**
	63,377	**63**	**83**	**63,523**

	2009			
	On demand HK$'000	Less than 3 months HK$'000	Over 1 year HK$'000	Total HK$'000
Other payables	–	63	–	63
Guarantees given to banks in connection with facilities granted to subsidiaries	85,097	–	–	85,097
	85,097	63	–	85,160

Equity price risk

The market equity indices for the following stock exchanges, at the close of business of the nearest trading day in the year to the end of the reporting period, and their respective highest and lowest points during the year were as follows:

	31 December 2010	**High/low 2010**	31 December 2009	High/low 2009
Hong Kong – Hang Seng Index	**23,035**	**24,964/ 18,986**	21,873	22,944/ 11,345

The following table demonstrates the sensitivity to every 10% change in the fair values of the equity investments, with all other variables held constant and before any impact on tax, based on their carrying amounts at the end of the reporting period. For the purpose of this analysis, for the available-for-sale equity investments, the impact is deemed to be on the available-for-sale investment revaluation reserve and no account is given for factors such as impairment which might impact the income statement.

48. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

Equity price risk *(continued)*

	Carrying amount of equity investments HK$'000	Change in profit/(loss) before tax HK$'000	Change in equity* HK$'000
2010			
Investments listed in:			
Hong Kong – Held-for-trading	**43,950**	**4,395**	**–**
– Available-for-sale	**32,705**	**–**	**3,271**
2009			
Investments listed in:			
Hong Kong – Held-for-trading	67,977	6,798	–
– Available-for-sale	37,194	–	3,719

* Excluding retained earnings

Capital management

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

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. The Group is not subject to any externally imposed capital requirements. No changes were made in the objectives, policies or processes for managing capital during the two years ended 31 December 2010 and 2009.

The Group monitors capital using a gearing ratio, which is net debt divided by capital plus net debt. The Group's policy is to maintain the gearing ratio below 50%. Net debt includes interest-bearing bank and other borrowings less cash and cash equivalents. Capital includes total equity. The gearing ratios as at the end of the reporting period were as follows:

Group

	2010 HK$'000	2009 HK$'000
Interest-bearing bank and other borrowings	**109,765**	105,187
Less: Cash and cash equivalents	**(65,998)**	(58,007)
Net debt	**43,767**	47,180
Capital	**190,715**	196,950
Capital and net debt	**234,482**	244,130
Gearing ratio	**18.7%**	19.3%

49. EVENTS AFTER THE REPORTING PERIOD

(a) In January 2011, the Group disposed of its entire interest in Thousand China Investments Limited ("Thousand China") to a direct wholly-owned subsidiary of SCC, which a director of the Company is the controlling shareholder for a consideration of HK$23.8 million. Thousand China and its subsidiaries are engaged in forest plantation in the PRC. Details of which are disclosed in the announcement of the Company dated 11 January 2011.

(b) Subsequent to the end of reporting period, several senior executives of Chongqing South China Zenith Information Technology Co., Ltd. ("South China Zenith"), a 60% owned subsidiary of the Group, were summoned by the local government authority in Mainland China to assist in an investigation (the "Investigation"). The accounting records, including the general ledger and relating supporting documents, were seized by the local government authority. The Group's consolidated financial statements have consolidated the results of South China Zenith based on the unaudited management accounts for the year ended 31 December 2010.

The following table summaries the unaudited financial information of South China Zenith extracted from the management accounts.

Income statement for the year ended 31 December 2010

	2010
	HK$'000
Revenue	148,893
Cost of sales	(122,876)
Gross profit	26,017
Other income	2,119
Selling and distribution costs	(1,822)
Administrative expenses	(14,330)
Finance costs	(1,466)
Profit before tax	10,518
Income tax expense	(1,006)
Profit for the year	9,512

49. EVENTS AFTER THE REPORTING PERIOD *(continued)*

(b) (continued)

Statement of financial position as at 31 December 2010

	2010
	HK$'000
Non-current assets	
Property, plant and equipment	11,208
Interests in a subsidiary	3,530
Interests in a fellow subsidiary	706
Interests in an associate	588
Total non-current assets	16,032
Current assets	
Inventories	26,202
Trade and other receivables	57,412
Due from immediate holding company	9,176
Due from fellow subsidiary	24
Due from related companies	1,474
Cash and cash equivalents	19,588
Total current assets	113,876
Current liabilities	
Trade and other payables	48,730
Due to a subsidiary	1,546
Due to a fellow subsidiary	882
Interest-bearing bank and other borrowings	29,495
Advances from non-controlling shareholders of subsidiaries	380
Total current liabilities	81,033
Net current assets	32,843
Net assets	48,875

At the date of approval of these financial statements, the Investigation is still underway and the directors have not been informed by the local government authority as to the reason for the Investigation. In the absence of further information about the Investigation, the directors are currently not aware of any circumstances which will lead them to believe the Investigation would result in significant adverse implications to the Group's financial position.

50. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors of the Company on 31 March 2011.

51. PARTICULARS OF THE PRINCIPAL SUBSIDIARIES

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

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company	Principal activities
Chongqing Fortuna Information Technology Co., Ltd. (note c)	The PRC/ Mainland China	RMB3,330,000	80.80%	Information technology related business
Chongqing South China Zenith Information Technology Co., Ltd. (note c)	The PRC/ Mainland China	RMB20,000,000	60%	Information technology related business
Eagle Bonus Investments Limited*	British Virgin Islands	US$1	100%	Investment holding
Four Seas Travel (BVI) Limited	British Virgin Islands	US$100	100%	Investment holding
Four Seas Travel Group Limited	Cayman Islands	HK$1	100%	Investment holding
Glad Light Investment Limited	Hong Kong	HK$10,000	100%	Property investment
Greenearn Investments Limited	Hong Kong	HK$2	100%	Investment holding
Hong Kong Four Seas Tours Limited	Hong Kong	HK$20,800,000 Ordinary HK$1,200,000 Non-voting deferred (note b)	100%	Sale of airline tickets and provision of travel related services
Jadeland Investment Limited	Hong Kong	HK$2	100%	Property investment
King Link Investments Limited	Hong Kong	HK$2	100%	Investment holding
South China (BVI) Limited	British Virgin Islands	US$10,000	100%	Investment holding

51. PARTICULARS OF THE PRINCIPAL SUBSIDIARIES *(continued)*

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company	Principal activities
Southchinanet.com (BVI) Limited	British Virgin Islands	US$1	100%	Investment holding
Splendid Enterprises Limited	British Virgin Islands	US$1	100%	Investment holding
Super Giant Limited	British Virgin Islands	US$1	100%	Investment holding
Tek Lee Finance and Investment Corporation Limited	Hong Kong	HK$287,498,818	100%	Investment holding
Thousand China Investments Limited*	British Virgin Islands	US$1	100%	Investment holding
Winfound Investments Limited	Hong Kong	HK$2	100%	Property investment
Worldunity Investments Limited	Hong Kong	HK$10,000	100%	Investment holding
重慶華慶農林發展有限公司(note d)*	The PRC/ Mainland China	RMB20,000,000	100%	Forestry
Wuhan Huafeng Agricultural Development Company Limited (note d)*	The PRC/ Mainland China	RMB6,000,000	100%	Forestry

* The above subsidiaries were disposed to a direct wholly-owned subsidiary of SCC in January 2011, details of which set out in note 49 (a) of the financial statements.

Notes:

(a) The above principal subsidiaries, except Four Seas Travel Group Limited and South China (BVI) Limited, are all held indirectly by the Company.

(b) The non-voting deferred shares have no voting rights and practically no entitlement to dividend of profit or distribution on winding up.

(c) These are Sino-foreign equity joint ventures established in the PRC.

(d) These are wholly-foreign-owned enterprises established in the PRC.

The above summary lists only the subsidiaries of the Group which, in the opinion of the Company's directors, principally affected the results for the year or assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

Save as aforesaid, none of the subsidiaries had any debt securities in issue at any time during the year or at the end of the year.

52. PARTICULARS OF AN PRINCIPAL ASSOCIATE

Particulars of the Group's principal associate at 31 December 2010 are as follows:

Name of associate	Place of registration and operations	Class of shares held	Percentage of equity interest indirectly held by the Group	Principal activities
重慶金通泰信息技術有限公司*	The PRC/ Mainland China	Ordinary	30%	Information technology related business

The Group's shareholding in the associate comprises equity shares held through a non-wholly-owned subsidiary of the Company.

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

Five Year Financial Summary

A summary of the results and of the assets, liabilities and non-controlling interests of the Group for the last five financial years, as extracted from the published audited financial statements, is set out below.

RESULTS

	Year ended 31 December				
	2010	2009	2008	2007	2006
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
REVENUE	**281,645**	849,264	2,179,830	2,797,246	2,582,085
PROFIT/(LOSS) BEFORE TAX	**(2,852)**	85,933	(90,569)	591,990	306,744
TAX	**(5,741)**	(8,801)	(17,657)	(13,758)	(24,648)
PROFIT/(LOSS) FOR THE YEAR	**(8,593)**	77,132	(108,226)	578,232	282,096
ATTRIBUTABLE TO:					
OWNERS OF THE COMPANY	**(13,532)**	83,746	(65,129)	416,809	205,318
NON-CONTROLLING INTERESTS	**4,939**	(6,614)	(43,097)	161,423	76,778
	(8,593)	77,132	(108,226)	578,232	282,096

ASSETS AND LIABILITIES

	At 31 December				
	2010	2009	2008	2007	2006
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
TOTAL ASSETS	**565,655**	487,094	3,899,988	4,794,018	4,126,475
TOTAL LIABILITIES	**(374,940)**	(290,144)	(1,919,502)	(2,534,976)	(2,391,111)
TOTAL EQUITY	**190,715**	196,950	1,980,486	2,259,042	1,735,364
ATTRIBUTABLE TO:					
OWNERS OF THE COMPANY	**149,756**	161,315	1,378,231	1,574,348	1,193,894
NON-CONTROLLING INTERESTS	**40,959**	35,635	602,255	684,694	541,470
	190,715	196,950	1,980,486	2,259,042	1,735,364

Particulars of the Property

INVESTMENT PROPERTY

Location	Group's interest	Existing use
Hong Kong		
Lot Nos. 116-121 123-126, 127A 127R.P., 129-135 136A, 136R.P. 137, 140, 141A 141B, 141C, 143 144, 145, 146A 146R.P., 148 in Demarcation District No. 236 Tai Wan Tau Clear Water Bay New Territories Hong Kong	100%	Vacant