Summaries and potential impacts

A high level overview of the changes to HKFRSs which are effective for the financial year ended 31 December 2008 (section 1.1) and the new and revised standards, amendments and interpretations that are issued but not yet effective for the financial year ended 31 December 2008 (section 1.2) are provided below. Changes and potential impacts highlighted are not exhaustive. A detailed review of the new, revised and amended HKFRSs is recommended in order to identify changes specific to a particular reporting entity.

1.1 Amendments and interpretations that are or have become effective for the financial year ended 31 December 2008

1.1.1 Amendments to HKAS 39 Financial Instruments: Recognition and Measurement and HKFRS 7 Financial Instruments: Disclosures - Reclassification of Financial Assets
(effective immediately on issuance)

- permit reclassification of certain non-derivative held for trading financial assets (debt and equity financial assets) which the entity no longer intends to hold for trading purpose out of the fair value through profit or loss (FVTPL) category subject to specified criteria,
  (a) a debt instrument that would have met the definition of loans and receivables (if it had not been required to be classified as held for trading at initial recognition) may be reclassified out of FVTPL if the entity has the intention and ability to hold the asset for the foreseeable future or until maturity; and
  (b) any instruments other than (a) above may be reclassified out of FVTPL only in 'rare' circumstances.
- financial liabilities, derivatives and financial assets that are designated as at FVTPL on initial recognition under the 'fair value option' cannot be reclassified;
- do not permit reclassification back into FVTPL;
- at the date of reclassification of financial assets out of FVTPL,
  - ➢ all reclassifications must be made at the fair value of the financial asset at that date;
  - ➢ any previously recognised gains or losses cannot be reversed;
  - ➢ the fair value at the date of reclassification becomes the new cost or amortised cost of the financial asset; and
  - ➢ a new effective interest rate will be determined for financial assets measured at amortised cost.
- permit reclassification of a debt instrument that would have met the definition of loans and receivable (if it had not been designated as an available-for-sale investment) from the available-for-sale category to the loans and receivables category if the entity has the intention and ability to hold the financial asset for the foreseeable future or until maturity;
- after the reclassification of financial assets out of the available-for-sale category, the amounts previously recognised directly in equity will be reclassified to profit or loss through the effective interest rate;
- subsequent to the reclassification of a financial asset, any increases in estimates of future cash receipts as a result of increased recoverability should be recognised as an adjustment to the effective interest rate of the financial asset from the date of change in estimate rather than as an adjustment to the carrying amount of the financial asset at the date of change in estimate;
- effective dates and transition requirements:
  - ➢ for reclassifications made before 1 November 2008, an entity can reclassify a financial asset (which must be identified and documented before 1 November) with effect from 1 July 2008 (but not before), or any date thereafter until 31 October 2008; and
  - ➢ any reclassification made on or after 1 November 2008 (irrespective of when the accounting period started) is effective from the date of reclassification i.e. reclassifications are made on a real-time basis.
- additional disclosure requirements are introduced in HKFRS 7 to illustrate the financial impact of the reclassifications.

The amendments are a response to calls from constituents to create a 'level playing field' with US GAAP which allows the reclassification of certain financial assets. The IASB has published the amendments to IAS 39 on 13 October 2008 which permits the reclassification of certain held for trading financial assets in limited circumstances. Most importantly, it allows the reclassification of an instrument (not meeting the definition of loans and receivables) out of the FVTPL category if the financial asset is no longer held for trading purpose in 'rare' circumstances. In its press release, the IASB acknowledged that market conditions in the third quarter of 2008 are a possible example of a 'rare' circumstance. The HKICPA adopted the same amendments to HKAS 39 and HKFRS 7 on 15 October 2008.

1.1.2 HK (IFRIC) - Int 11 HKFRS 2 - Group and Treasury Share Transactions
(effective for annual periods beginning on or after 1 March 2007)

- when an entity receives goods or services as consideration for rights to its own equity instruments, the transaction should be accounted for as equity-settled. This is regardless of whether:
  - ➢ the entity chooses or is required to purchase equity instruments to satisfy its obligation;
  - ➢ the entity or its shareholder(s) grants the right; or
  - ➢ the transaction is settled by the entity or by its shareholder(s).
- where a parent grants rights to its equity instruments to employees of its subsidiary, assuming the transaction is accounted for as an equity-settled share-based payment transaction in the consolidated financial statements, the subsidiary should measure the goods or services received using the requirements for equity-settled transactions in HKFRS 2, and should recognise a corresponding increase in equity as a contribution from the parent;
- where a subsidiary grants rights to equity instruments of its parent to its employees:
  - ➢ the subsidiary:
    (a) has incurred a liability to transfer cash or other assets of the entity to its employees (being a liability to transfer equity instruments of its parent); and
    (b) accounts for the transaction as a cash-settled share-based payment transaction.
  - ➢ in the parent's consolidated financial statements, the transaction is accounted for as equity-settled share-based payment.

The interpretation clarifies the application of *HKFRS 2 Share-based Payment* to certain share-based payment arrangements involving the entity's own equity instruments and to arrangements involving equity instruments of the entity's parent. Although this interpretation focuses on transactions with employees, it also applies to similar share-based payment transactions with suppliers of goods or services other than employees. The interpretation is expected to affect the separate financial statements of the parent and its subsidiary if such arrangements were not accounted for in accordance with the requirements of this interpretation set out above.

1.1.3 HK (IFRIC) - Int 12 Service Concession Arrangements
(effective for annual periods beginning on or after 1 January 2008)

- addresses the accounting by private sector operators involved in the provision of public sector infrastructure assets and services, such as toll roads, tunnels, bridges, etc.;
- does not address the accounting for the government (grantor) side of such arrangements;
- for arrangements falling within its scope (essentially those where the infrastructure assets are not controlled by the operator), the infrastructure assets are not recognised as property, plant and equipment of the operator. Depending on the terms of the arrangement, the operator will recognise:
  - ➢ a financial asset (where the operator has an unconditional right to receive a specified amount of cash or other financial asset over the life of the arrangement); or
  - ➢ an intangible asset (where the operator's future cash flows are not fixed – e.g. where they will vary according to usage of the infrastructure asset); or
  - ➢ both a financial asset and an intangible asset where the operator's return is provided partially by a financial asset and partially by an intangible asset.

Standard	Subject of amendment	Detail
HKAS 19 Employee Benefits	Curtailments and negative past service	Clarifies that: • when a plan amendment reduces benefits, the effect of the reduction for future service is a curtailment and the effect of any reduction for past service is a negative past service cost; • negative past service cost arises when a change in the benefits attributable to past service results in a reduction in the present value of the defined benefit obligation; and • a curtailment may arise from a reduction in the extent to which future salary increases are linked to the benefits payable for past service.
HKAS 19 Employee Benefits	Plan administration costs	Amends the definition of 'return on plan assets' to require the deduction of plan administration costs only to the extent that such costs have not been reflected in the actuarial assumptions used to measure the defined benefit obligation.
HKAS 19 Employee Benefits	Guidance on contingent liabilities	Removes the reference to 'recognition' in relation to contingent liabilities as it is inconsistent with *HKAS 37 Provisions, Contingent Liabilities and Contingent Assets*, which states that an entity should not recognise a contingent liability.
HKAS 19 Employee Benefits	Replacement of term 'fall due'	Amends the definitions of 'short-term employee benefits' and 'other long-term employee benefits' to refer to when the benefits are 'due to be settled', rather than when they 'fall due'.
HKAS 20 Accounting For Government Grants and Disclosure of Government Assistance	Government loans with a below-market rate of interest	Amends the standard to require the benefit of such loans be accounted for as a government grant – measured as the difference between the initial carrying amount of the loan determined in accordance with *HKAS 39 Financial Instruments: Recognition and Measurement* and the proceeds received.
HKAS 23 Borrowing Costs	Components of borrowing costs	Provides description of specific components to replace the reference to the guidance in *HKAS 39 Financial Instruments: Recognition and Measurement* on effective interest rate.
HKAS 27 Consolidated and Separate Financial Statements	Measurement in separate financial statements of investments in subsidiaries, jointly controlled entities and associates held for sale	Amends the standard to require investments in subsidiaries, jointly controlled entities and associates accounted for in accordance with *HKAS 39 Financial Instruments: Recognition and Measurement* in the parent's separate financial statements should continue to be measured in accordance with HKAS 39 when classified as held for sale (or included in a disposal group classified as held for sale).
HKAS 28 Investments in Associates / HKAS 32 Financial Instruments: Presentation / HKFRS 7 Financial Instruments: Disclosure	Required disclosures when investments in associates are accounted for at fair value through profit or loss	Clarifies that disclosures are required for investments in associates accounted for at fair value in accordance with *HKAS 39 Financial Instruments: Recognition and Measurement* (i.e. only certain disclosures of HKAS 28 are required in addition to those required by HKFRS 7).

Standard	Subject of amendment	Detail
HKAS 28 Investments in Associates	Impairment of investments in associates	Clarifies that an investment in an associate is treated as a single asset for impairment testing. Therefore, an impairment loss recorded by an investor after applying the equity method is not allocated against any goodwill included in the equity accounted investment balance. Such an impairment loss should be reversed in a subsequent period to the extent that the recoverable amount of the associate increases.
HKAS 29 Financial Reporting in Hyperinflationary Economies	Description of historical cost financial statements	Amends the standard to reflect the fact that in historical cost financial statements, some assets and liabilities may be measured at current values (e.g. property, plant and equipment measured at fair value).
HKAS 31 Interests in Joint Ventures / HKAS 32 Financial Instruments: Presentation / HKFRS 7 Financial Instruments: Disclosure	Required disclosures when interests in jointly controlled entities are accounted for at fair value through profit or loss	Clarifies that disclosures are required for interests in jointly controlled entities accounted for at fair value in accordance with *HKAS 39 Financial Instruments: Recognition and Measurement* (i.e. only certain of HKAS 31's disclosures are required in addition to those required by HKFRS 7).
HKAS 36 Impairment of Assets	Disclosure of estimates used to determine recoverable amount of cash-generating units containing goodwill or intangible assets with indefinite useful lives	Amends the standard to extend the disclosures required when discounted cash flows are used to estimate fair value less costs to sell, to include: • the period over which management has projected cash flows; • the growth rate used to extrapolate cash flow projections; and • the discount rate(s) applied to the cash flow projections.
HKAS 38 Intangible Assets	Advertising and promotional activities	Clarifies the circumstances in which an entity can recognise a prepayment asset for advertising or promotional expenditure. Recognition of an asset would be permitted up to the point at which the entity has the right to access the goods purchased or up to the point of receipt of services. Mail order catalogues specifically identified as a form of advertising and promotional activities.
HKAS 38 Intangible Assets	Unit of production method of amortisation	Removes the wording perceived as prohibiting the use of the unit of production method if it results in a lower amount of accumulated amortisation than under the straight-line method. Entities may use the unit of production method when the resulting amortisation charge reflects the expected pattern of consumption of the expected future economic benefits embodied in an intangible asset.
HKAS 39 Financial Instruments: Recognition and Measurement	Reclassifying instruments into and out of the classification of at fair value through profit or loss	HKAS 39 prohibits the classification of financial instruments into or out of the fair value through profit or loss (FVTPL) category after initial recognition. Amendments set out a number of changes in circumstances that are not considered to be reclassifications for this purpose.
HKAS 39 Financial Instruments: Recognition and Measurement	Designating and documenting hedges at the segment level	Removes the references to the designation of hedging instruments at the segment level.

The amendments set out extensive criteria that need to be met in order to present certain instruments that impose an obligation on an entity to deliver to another party a pro-rata share of its net assets only on liquidation as equity. The objective of these amendments is to provide a "short term, limited scope amendment" to specific cases and shall not be cited by analogy.

1.2.6 *Amendment to HKAS 39 Financial Instruments: Recognition and Measurement – Eligible Hedged Items* **(effective for annual period beginning on or after 1 July 2009)**

The amendment clarifies that:

- inflation may only be hedged in the instance where changes in inflation are a contractually-specified portion of cash flows of a recognised financial instrument (e.g. an entity acquires or issues inflation-linked debt);
- an entity is not permitted to designate an inflation component of issued or acquired fixed-rate debt in a fair value hedge because such a component is not separately identifiable and reliably measurable;
- a risk-free or benchmark interest rate portion of the fair value of a fixed-rate financial instrument will normally be separately identifiable and reliably measurable and therefore may be hedged; and
- an entity may designate an option as a hedge of changes in the cash flows or fair value of a hedged item above or below a specified price or other variable (a one-sided risk), however, an option designated in its entirety cannot be perfectly effective because the intrinsic value, not the time value, of an option only reflects a one-sided risk.

The amendment provides clarification on the instances that inflation can be a hedged risk. In addition, it clarifies that designating the intrinsic value of an option to hedge a one-sided risk should provide a higher hedging effectiveness relative to designating the option in its entirety (which includes the time value of the option).

1.2.7 *HKFRS 3 (Revised) Business Combinations* **(effective for annual period beginning on or after 1 July 2009)**

- under the revised standard, acquisition-related costs (e.g. finder's fees, advisory, legal, accounting, valuation, and other professional or consulting fees; and general administrative costs, including the costs of maintaining an internal acquisitions department) are to be recognised as period expenses in accordance with the appropriate standards;
- acquisition accounting applies only at the point where control is achieved. The implications are:
  - ➢ pre-existing equity interest in the entity acquired may be accounted for as a financial instrument in accordance with *HKAS 39 Financial Instruments: Recognition and Measurement*, as an associate or a joint venture in accordance with *HKAS 28 Investments in Associates* or *HKAS 31 Interests in Joint Ventures*; and
  - ➢ for a 'business combination achieved in stages', previously-held equity interest in the acquiree should be re-measured at acquisition-date fair value and any resulting gain or loss recognised in profit or loss.
- goodwill should be recognised at the acquisition date, being measured as the difference between:

  (a) the aggregate of:

    - the acquisition-date fair value of the consideration transferred;
    - the amount of any non-controlling interest (NCI) in the entity acquired; and
    - in a business combination achieved in stages, the acquisition date fair value of the acquirer's previously-held equity interest in the entity acquired; and

  (b) the net amount of identifiable assets acquired and the liabilities assumed measured in accordance with this standard at the date of acquisition;
- an option available to measure any NCI either at fair value or at the NCI's proportionate share of the net identifiable assets of the entity acquired;
- contingent consideration should be measured at fair value at the acquisition date. Change to the contingent consideration is allowed only when additional information about facts and circumstances that existed at the acquisition date became available during the measurement period which should not exceed one year from the acquisition date. All other changes are recognised in profit or loss;
- where the acquirer and acquiree were parties to a pre-existing relationship (e.g. the acquirer had granted the acquiree a right to use its intellectual property), the standard provides specific guidance on how to account for those pre-existing relationships under different circumstances.

There are significant changes in the revised standard. The revised HKFRS 3 focuses on changes in control as a significant economic event. Under a step acquisition, obtaining control is the event which triggers remeasurement of goodwill. In addition, the acquirer's previously-held equity interest in the acquiree should also be remeasured.

The revised standard puts a greater emphasis on the use of fair value. If an entity chooses to early adopt this standard, it must adopt the revised *HKAS 27 Consolidated and Separate Financial Statements* concurrently.

1.2.8 *HKAS 1 (Revised) Presentation of Financial Statements* **(effective for annual periods beginning on or after 1 January 2009)**

- majority of the changes made are not substantive;
- textual changes including changes to the titles of the components of a complete set of financial statements (e.g. a 'balance sheet' will in future be referred to as a 'statement of financial position');
- requires to include a statement of financial position as at the beginning of the earliest comparative period whenever an entity retrospectively applies an accounting policy, or makes a retrospective restatement of items in its financial statements, or when it reclassifies items in its financial statements;
- all items of income and expense (including those accounted for directly in equity) must in future be presented either:
  - ➢ in a single statement (a 'statement of comprehensive income'); or
  - ➢ in two statements (a separate 'income statement' and 'statement of comprehensive income')
- no longer permits to present items of 'other comprehensive income' (e.g. gains and losses on revaluation of property, plant and equipment) separately in the statement of changes in equity. Such non-owner movements must be presented in a statement of comprehensive income and the total carried to the statement of changes in equity;
- no longer permits to present transactions with owners in their capacity as owners in the notes – the statement of changes in equity must be presented as a separate financial statement; and
- new detailed requirements regarding the presentation of items of other comprehensive income.

The main change relates to the presentation of 'non-owner changes' separately from the statement of changes in equity. Others are mainly textual changes only.

1.2.9 *HKAS 23 (Revised) Borrowing Costs* **(effective for annual periods beginning on or after 1 January 2009)**

- eliminates the option available under the previous version of the standard to recognise all borrowing costs immediately as an expense;
- to the extent that borrowing costs relate to the acquisition, construction or production of a qualifying asset, the revised standard requires that they be capitalised as part of the cost of that asset;
- all other borrowing costs should be expensed as incurred; and
- generally to be applied prospectively to borrowing costs relating to qualifying assets for which the commencement date for capitalisation is on or after the effective date of the revised standard. Therefore, if an entity has previously followed an accounting policy of immediately recognising all borrowing costs as an expense:
  - ➢ it is not required to retrospectively restate its financial statements for borrowing costs incurred on qualifying assets before the effective date of the standard;
  - ➢ nor is it required to apply the capitalisation policy to borrowing costs incurred subsequent to the effective date on projects that had commenced (i.e. that had met HKAS 23's criteria for commencement of capitalisation) before the effective date.

This standard eliminates the option to recognise all borrowing costs immediately as an expense which will only impact entities which are currently applying such accounting policy. Reporting entities have the choice to either apply this standard prospectively or retrospectively from a specified designated date.

2.2 *Disclosure of valuation techniques and inputs*

IFRS/HKFRS 7.27 sets out the disclosure requirements about financial instruments whose fair values are determined by valuation techniques. If the fair value is determined by valuation techniques, it requires the disclosure of the methods and the assumptions applied and whether the fair values determined by valuation techniques are based on assumptions that are, or are not, supported by observable market inputs.

Description of the valuation techniques and inputs are most helpful to users of financial statements if they are specific rather than generic. For financial instruments that are not quoted in an active market, fair values are determined by valuation techniques using market-based and/or non-market-based inputs. In view of the current adverse financial market conditions, disclosures about valuation techniques and inputs become more important, particularly if the financial instruments which are the subject of valuations are complex and risky instruments such as accumulators, equity-linked notes and credit-linked notes.

The following is an example for disclosures about valuation techniques and inputs extracted from the Report.

UBS AG
Q2 2008 Financial Reporting
Extract from note 10b – Valuation Techniques and Inputs

Where possible, financial instruments are marked at prices quoted in active markets. In the current market environment, such price information is typically not available for all instruments linked to the US residential mortgage market, and UBS applies valuation techniques to measure such instruments. Valuation techniques use "market observable inputs", where available, derived from similar assets in similar and active markets, from recent transaction prices for comparable items or from other observable market data. For positions where observable reference data are not available for some or all parameters, UBS estimates the non-market observable inputs used in its valuation models.

For the period ended 30 June 2008, UBS used valuation models primarily for super senior RMBS [residential mortgage backed securities] CDO [collateralised debt obligation] tranches referenced to sub-prime RMBSs. The model used to value some of these positions projects losses on the underlying mortgage pools and applies the implications of these projected lifetime losses through to the RMBS and then to the CDO structure. The primary inputs to the model are monthly statistical data on delinquency rates, foreclosure rates and actual losses that describe the current performance of the underlying mortgage pools. These are received near the end of each month and relate to the preceding month's cash flows on the mortgages underlying each RMBS. The other key factor input to the model is an estimate of loss given default, which is a non-market observable input.

In fourth quarter 2007 and first half 2008, UBS used relevant ABX market indices to calibrate its loss projections to ensure that the super senior RMBS CDO model is consistent with observed levels of the indices in the market. Despite the various limitations in the comparability of these indices to UBS's own positions, it was felt that this was the best approach in view of the further deterioration in liquidity and resultant lack of observed transactions to which the model could be calibrated.

The valuation model also considers the impact of variability in projected lifetime loss levels and applies a discount rate for expected cash flows derived from relevant market index prices to value expected cash flows. The external ratings of the RMBSs underlying the CDO tranches or the CDO tranches themselves are inputs to the valuation model only to the extent that they indicate the likely timing of potential "events of default".

The valuation model incorporates the potential timing and impact of such default events based on an analysis of the contractual rights of various parties to the transaction and the estimated performance of the underlying collateral. There is no single market standard for valuation models in this area, such models have inherent limitations, and different assumptions and inputs would generate different results. The super senior RMBS CDO valuation model is used to value a portion of UBS's net long exposures to super senior RMBS CDOs and in cases where UBS holds a gross long position in a super senior RMBS CDO hedged one-to-one with an offsetting short position (since this valuation is necessary to calculate any related credit valuation adjustments).

In cases where liquidation of the RMBS CDO is deemed imminent, and where it is possible to obtain reliable pricing of the underlying instruments, the super senior RMBS CDO valuation model is superseded. Instead, valuation in these cases is based on the estimated aggregate proceeds of the liquidation (using current fair value estimates of the underlying instruments) less any estimated expenses associated with the liquidation.

II. Regulatory Updates

Listing Rules

During 2008, the Stock Exchange of Hong Kong Limited (the 'Stock Exchange') made a number of amendments to the Rules Governing the Listing of Securities on the GEM (GEM Listing Rules) and the Rules Governing the Listing of Securities on the SEHK (Main Board Listing Rules) after the completion of the respective consultation period. It has also published three consultation papers, of which two of them are still under assessment on 31 December 2008.

Consultation Conclusions on the Growth Enterprise Market published in May 2008

- GEM is repositioned as a second board, and as a stepping stone towards the Main Board.
- Listing Rules amendments are introduced to reflect the new role of the market but GEM will largely retain its existing structure.
- Under the GEM Listing Rules amendments, continuing obligations of GEM listed issuers are brought closer to the requirements applicable to the Main Board requirements.
- The revised rules became effective on 1 July 2008 and transitional arrangements are available to certain applications received by the Stock Exchange.
- Key changes are summarised in the following tables:

Key GEM admission arrangements

Requirements	*Previous*	*Revised*
Financial Credentials	"Business of substance and potential"	Operating cash flow ≥ $20 million in aggregate for latest two full financial years
Operating History and Management	24 months active business pursuits (may be reduced to 12 months)	Latest two financial years under substantially the same management
Market Capitalisation	Effectively ≥ $46 million (≥ $500 million for companies with 12 months active business pursuits)	≥ $100 million
Focused Line of Business	Required	Not required
Approval By	GEM Listing Committee	Listing Division

Key changes in GEM to Main Board transfer arrangements

Requirements	*Previous*	*Revised*
Process	Two steps: Delisting on GEM and new listing on Main Board	One step: New method of listing on the Main Board, "Transfer of Listing from GEM"
Cost	Standard initial listing fee for Main Board	Main Board initial listing fee reduced by 50% for GEM transfer applicants
Sponsor(s) or Financial Advisor(s)	Required	Not required
Prospectus	Required	Prospectus replaced by announcements

Source	Hong Kong GAAP Limited

App 16.12
GR 18.39

Profiles of directors and senior management

Executive directors

Gary D.K. Wong, Chairman and Managing Director

Mr. Gary D.K. Wong, 53, is a design engineer. He has been with the Group since its formation, holding a number of Board positions before becoming Managing Director in 1998. He has been with the Group for more than 15 years.

Daniel D.D. Lee, Finance Director

Mr. Daniel D.D. Lee, 49, is a chartered accountant and holds a business degree from the University of Ontario. He joined the Board as Finance Director in 2002, having previously held senior positions in a number of manufacturing entities. He has been with the Group for 6 years.

Derek S.Y. Wong

Mr. Derek S.Y. Wong, 44, is an executive director with special responsibility for product development. He is an electronic engineer with previous experience with multi-national conglomerates in the electronics industry. He joined the Board in 2005 and has over 5 year experiences in product development. Derek S.Y. Wong is a brother of Gary D.K. Wong.

Senior management

GR 18.44

Bruno Gimeli

Mr. Bruno Gimeli, 46, is the chief executive. He is primarily responsible for sales and marketing. He held senior marketing positions with a number of Hong Kong companies before joining the Company in 2003.

Independent non-executive directors

Tiara Cheung

Ms. Tiara Cheung, 41, was appointed as a non-executive director in March 2000 and serves on the Audit Committee of the Company. She worked for a number of years in marketing and public relations positions with Secor Toys Limited before establishing a consultancy practice in 1999.

Florence K.Y. Tang

Ms. Florence K.Y. Tang, 54, is one of Hong Kong's leading residents with a distinguished record in the business community. She joined the Board as a non-executive director in 2006 and serves on the Audit Committee of the Company. She is a member of the Hong Kong Development Corporation and of the Community Development Project.

John Banks

Mr. John Banks, 45, was appointed as a non-executive director in April 2007 and serves on the Audit Committee of the Company. He is a chartered accountant and has many years of experience in corporate finance. Mr. Banks holds directorships in a number of public companies in Hong Kong.

Mr. William Y.S. Lee

William Y.S. Lee, 42, is the chief financial controller and the qualified accountant responsible for the financial reporting procedures and internal controls. He also acts as the company secretary, and as the compliance officer responsible for liaison with The Stock Exchange of Hong Kong Limited. He joined the Company in 2002. He is an associate of the Hong Kong Institute of Certified Public Accountants and the Hong Kong Institute of Company Secretaries.

Source	Hong Kong GAAP Limited

Directors' report

s129D(1)

The directors present their annual report and the audited consolidated financial statements for the year ended 31 December 2008.

s129D(3)(a)

Principal activities

The Company acts as an investment holding company and provides corporate management services. The activities of its principal subsidiaries, associates and jointly controlled entities are set out in notes 58, 24 and 25 respectively to the consolidated financial statements.

In prior years, the Group was also engaged in the manufacture of bicycle and the construction businesses. These operations were discontinued in the current year (see note 11).

s129D(3)(b)
s129D(3)(c)

Results and appropriations

The results of the Group for the year ended 31 December 2008 are set out in the consolidated income statement on page 43.

The directors now recommend the payment of a final dividend of HK26.31 cents per share to the shareholders on the register of members on 25 May, 2009, amounting to approximately HK$4.688 million, and the retention of the remaining profit for the year of approximately HK$22.688 million.

s129D(3)(f)

Fixed assets

Details of the movements during the year in the fixed assets of the Group are set out in note 18 to the consolidated financial statements.

s129D(3)(g)
App 16.10(4)
GR 18.14
LR 10.06(4)(b)
GR 13.13(2)

Share capital

Details of the movements during the year in the share capital of the Company are set out in note 42 to the consolidated financial statements.

During the year, the Company repurchased certain of its own shares through The Stock Exchange of Hong Kong Limited, details of which are set out in note 42 to the consolidated financial statements. The directors considered that, as the Company's shares were trading at a discount to the net asset value per share, the repurchases would increase the net asset value per share of the Company.

App 16.29
GR 18.37
GR 24.21
GR 25.33

Distributable reserves of the Company

The Company's reserves available for distribution to shareholders as at 31 December 2008 amounted to approximately HK$99 million (2007: HK$87 million).

Source	Hong Kong GAAP Limited

Directors' report - continued

SFOs 308
GR 18.45

(b) Share options

Name	Capacity	Number of options held	Number of underlying shares
Directors			
Mr. Gary D.K. Wong	Beneficial owner	60,000	60,000
Mr. Daniel D.D. Lee	Held by spouse	60,000	60,000
		120,000	120,000
Chief executive			
Mr. Bruno Gimeli	Beneficial owner	60,000	60,000

Notes:

1. Mr. Gary D.K. Wong is deemed to be interested in 10,570,000 ordinary shares of the Company through his beneficial interests in the following corporations:

	Percentage of the issued share capital of the corporation	Number of shares held
ABC Inc.	35%	55,000
XYE Company Limited	35%	106,000
Group Holdings Limited	60%	10,409,000
		10,570,000

2. Mr. Daniel D.D. Lee beneficially owns 10,000 shares of HK$1 each in AAA Co. Ltd., representing approximately 40% of the issued share capital of that company. AAA Co. Ltd. beneficially owns 249,000 ordinary shares of the Company.

App 16.13(1),(2)
GR 18.15(1),(2)

Other than the holdings disclosed above and nominee shares in certain subsidiaries held in trust for the Group, none of the directors, chief executive and their associates, had any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations as at 31 December 2008.

Source	Hong Kong GAAP Limited

Directors' report - continued

Share options

The Company

LR 17.09
GR 23.09

Particulars of the Company's share option scheme are set out in note 55 to the consolidated financial statements.

LR 17.07
GR 23.07

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

PN 5(3.3)(1) Note 3
GR 18.17A(1)
Note 3
GR 18.28(7)

PN 5(3.4)(1) Note 4
GR 18.17B(1)
Note 3

	Option type	Outstanding at beginning of year	Granted during year	Exercised during year	Forfeited during year	Expired during year	Outstanding at end of year
Category 1: Directors and chief executive							
Mr. Gary D.K. Wong	2007A	80,000	-	(80,000)	-	-	-
	2007B	75,000	-	(75,000)	-	-	-
	2008	-	60,000	-	-	-	60,000
Mr. Daniel D.D. Lee	2007A	30,000	-	(30,000)	-	-	-
	2008	-	60,000	-	-	-	60,000
Mr. Bruno Gimeli	2008	-	60,000	-	-	-	60,000
Total directors and chief executive		185,000	180,000	(185,000)	-	-	180,000
Category 2: Substantial shareholders							
Mr. Francis F.G. Chan		-	-	-	-	-	-
YZ Limited		-	-	-	-	-	-
Total substantial shareholders		-	-	-	-	-	-
Category 3: Employees							
	2007A	15,000	-	(15,000)	-	-	-
	2007B	75,000	-	(75,000)	-	-	-
	2008	-	40,000	(39,000)	-	-	1,000
Total employees		90,000	40,000	(129,000)	-	-	1,000
Total all categories		275,000	220,000	(314,000)	-	-	181,000

LR 17.07(2)
GR 23.07(2)

The closing price of the Company's shares immediately before 31 March 2008, the date of grant of the 2008 options, was HK$3.15.

LR 17.07(3)
GR 23.07(3)

The weighted average closing price of the Company's shares immediately before the dates on which the share options were exercised was HK$2.83.

Source	Hong Kong GAAP Limited			
HKAS 1.8(b) HKAS 1.46(b),(c)	**Consolidated income statement for the year ended 31 December 2008**			**[Alt 2]**
HKAS 1.104 HKAS 1.46(d),(e)		**NOTES**	**2008 HK$'000**	**2007 HK$'000**
	Continuing operations			
HKAS 1.81(a)	Revenue	5	140,918	151,840
HKAS 1.83	Investment and other income	7	4,339	3,330
HKAS 1.83	Other gains and losses	8	1,462	446
HKAS 1.88	Changes in inventories of finished goods and work in progress		1,270	2,118
HKAS 1.88	Raw materials and consumables used		(78,785)	(85,406)
HKAS 1.88	Employee benefits expense		(9,803)	(11,697)
HKAS 1.88	Depreciation and amortisation expense		(12,412)	(13,878)
HKAS 1.81(c)	Share of profits of associates		1,186	1,589
HKAS 1.81(b)	Finance costs	9	(5,034)	(6,023)
HKAS 1.88	Other expenses		(12,425)	(10,181)
HKAS 1.83	Profit before tax		30,716	32,138
HKAS 1.81(e)	Income tax expense	10	(11,650)	(11,801)
HKAS 1.83	Profit for the year from continuing operations		19,066	20,337
	Discontinued operations			
HKAS 1.81(d) HKFRS 5.33(a)	Profit for the year from discontinued operations	11	8,310	9,995
HKAS 1.81(f)	**Profit for the year**	13	27,376	30,332
	Attributable to:			
HKAS 1.82(b)	Equity holders of the Company		23,376	27,569
HKAS 1.82(a) HKAS 27.33	Minority interests		4,000	2,763
			27,376	30,332
	Earnings per share	17		
HKAS 33.66&67 App 16.4(1)(g) GR 18.50B(1)(m)	From continuing and discontinued operations			
	Basic (HK cents per share)		104.12	119.84
	Diluted (HK cents per share)		98.10	119.12
	From continuing operations			
	Basic (HK cents per share)		67.11	76.39
	Diluted (HK cents per share)		63.25	75.85

Note: The format outlined above aggregates expenses according to their nature.

Source	Hong Kong GAAP Limited			
HKAS 1.8(a) HKAS 1.46(b),(c)	**Consolidated balance sheet at 31 December 2008**			
HKAS 1.104 HKAS 1.46(d),(e)		**NOTES**	**2008 HK$'000**	**2007 HK$'000**
HKAS 1.51	**Non-current Assets**			
HKAS 1.68(a)	Property, plant and equipment	18	108,235	131,461
HKAS 1.69	Prepaid lease payments	19	2,900	3,000
HKAS 1.68(b)	Investment properties	20	136	132
HKAS 1.69	Goodwill	21	20,253	24,060
HKAS 1.68(c)	Other intangible assets	23	9,739	11,325
HKAS 1.68(e)	Interests in associates	24	8,425	7,269
HKAS 1.68(d), 69	Held-to-maturity investments	26	2,059	1,658
HKAS 1.68(d), 69	Available-for-sale investments	27	8,140	7,858
HKAS 1.69	Finance lease receivables	28	830	717
HKAS 1.68(n), 70	Deferred tax assets	29	1,714	1,023
HKAS 1.68(d), 69	Other financial assets	30	212	140
			162,643	188,643
HKAS 1.51	**Current Assets**			
HKAS 1.68(g)	Inventories	31	18,884	21,794
HKAS 1.69	Finance lease receivables	28	198	188
HKAS 1.68(d), 69	Loan receivables	32	2,981	2,981
HKAS 1.69	Amounts due from directors	33	656	107
HKAS 1.68(h)	Trade and other receivables	34	18,350	16,062
HKAS 1.69	Amounts due from customers for contract work	35	240	230
HKAS 1.69	Tax recoverable		85	60
HKAS 1.68(d), 69	Held-to-maturity investments	26	4,804	3,604
HKAS 1.68(d), 69	Held-for-trading investments	36	12,480	8,448
HKAS 1.68(d), 69	Other financial assets	30	316	257
HKAS 1.69	Pledged bank deposits	37	2,000	2,000
HKAS 1.68(i)	Bank balances and cash	37	18,199	17,778
			79,193	73,509
HKAS 1.68A(a) HKFRS 5.38	Assets classified as held for sale	12	22,336	-
			101,529	73,509
HKAS 1.51	**Current Liabilities**			
HKAS 1.69	Amounts due to customers for contract work	35	36	15
HKAS 1.68(j)	Trade and other payables	38	16,366	21,223
HKAS 1.68(m)	Tax liabilities		5,133	5,868
HKAS 1.69	Borrowings	39	21,899	25,168
HKAS 1.69	Obligations under finance leases	40	9	54
HKAS 1.68(k)	Provisions	41	3,461	3,247
HKAS 1.68(l), 69	Other financial liabilities	30	104	18
HKAS 1.68(i), 69	Bank overdrafts	37	538	378
			47,546	55,971
HKAS 1.68A(b) HKFRS 5.38	Liabilities associated with assets classified as held for sale	12	3,684	-
			51,230	55,971
App 16.4(2)(d) GR 18.50B(2)(d)	**Net Current Assets**		50,299	17,538
App 16.4(2)(e) GR 18.50B(2)(e)	Total Assets less Current Liabilities		212,942	206,181

Source	Hong Kong GAAP Limited
HKAS 1.8(e) HKAS 1.46(b),(c) HKAS 1.103(b),(c)	**Notes to the consolidated financial statements** **for the year ended 31 December 2008** **1. General**
s129A(1) HKAS1.126(a),(c) HKAS 24.12	The Company is incorporated in Bermuda as an exempted company with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited. Its parent and ultimate holding company is Group Holdings Limited (incorporated in the British Virgin Islands). The addresses of the registered office and principal place of business of the Company are disclosed in the corporate information section of the annual report.
HKAS 21.53	The consolidated financial statements are presented in Hong Kong dollars, which is the same as the functional currency of the Company.
HKAS 1.126(b)	The principal activities of the Company and its subsidiaries (the "Group") are the manufacture and sale of widgets and toys. The Group was also engaged in the manufacture of bicycles and construction businesses, which were discontinued in the current year (see note 11).
HKAS 8.28 Sch 10: 17(6)(b) App 16 Note 2.2 GR 18.04 Note	**2. Application of new and revised Hong Kong Financial Reporting Standards ("HKFRSs")** In the current year, the Group has applied the following amendments and interpretations ("new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") which are or have become effective.

HKAS 39 & HKFRS 7 (Amendments)	Reclassification of Financial Assets
HK(IFRIC)-Int 11	HKFRS 2: Group and Treasury Share Transactions
HK(IFRIC)-Int 12	Service Concession Arrangements
HK(IFRIC)-Int 14	HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

The application of the new HKFRSs had no material effect on how the results and financial position for the current or prior accounting periods have been prepared and presented. Accordingly, no prior period adjustment has been required.

Source	Hong Kong GAAP Limited
	Notes to the consolidated financial statements **for the year ended 31 December 2008 - continued**
HKAS 8.30 HKAS 8.31	The Group has not early applied the following new and revised standards, amendments or interpretations that have been issued but are not yet effective.

HKFRSs (Amendments)	Improvements to HKFRSs[1]
HKAS 1 (Revised)	Presentation of Financial Statements[2]
HKAS 23 (Revised)	Borrowing Costs[2]
HKAS 27 (Revised)	Consolidated and Separate Financial Statements[3]
HKAS 32 & 1 (Amendments)	Puttable Financial Instruments and Obligations Arising on Liquidation[2]
HKAS 39 (Amendment)	Eligible hedged items[3]
HKFRS 1 & HKAS 27 (Amendments)	Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate[2]
HKFRS 2 (Amendment)	Vesting Conditions and Cancellations[2]
HKFRS 3 (Revised)	Business Combinations[3]
HKFRS 8	Operating Segments[2]
HK(IFRIC)-Int 13	Customer Loyalty Programmes[4]
HK(IFRIC)-Int 15	Agreements for the Construction of Real Estate[2]
HK(IFRIC)-Int 16	Hedges of a Net Investment in a Foreign Operation[5]
HK(IFRIC)-Int 17	Distribution of Non-cash Assets to Owners[3]

[1] Effective for annual periods beginning on or after 1 January 2009 except for the amendments to HKFRS 5, effective for annual periods beginning on or after 1 July 2009
[2] Effective for annual periods beginning on or after 1 January 2009
[3] Effective for annual periods beginning on or after 1 July 2009
[4] Effective for annual periods beginning on or after 1 July 2008
[5] Effective for annual periods beginning on or after 1 October 2008

The application of HKFRS 3 (Revised) may affect the accounting for business combination for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009. HKAS 27 (Revised) will affect the accounting treatment for changes in a parent's ownership interest in a subsidiary. The directors of the Company anticipate that the application of the other new and revised standards, amendments or interpretations will have no material impact on the results and the financial position of the Group.

Note: *The above list is complete as of 31 December 2008. The potential impact of any new or revised standards, amendments or interpretations released by the HKICPA after that date, but before the issue of the consolidated financial statements, should also be considered and disclosed.*

Source	Hong Kong GAAP Limited

Notes to the consolidated financial statements
for the year ended 31 December 2008 - continued

Intangible assets

Intangible assets acquired separately

HKAS 38.118(b)

Intangible assets acquired separately and with finite useful lives are carried at costs less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is provided on a straight-line basis over their estimated useful lives. Alternatively, intangible assets with indefinite useful lives are carried at cost less any subsequent accumulated impairment losses (see the accounting policy in respect of impairment losses on tangible and intangible assets below).

Gains or losses arising from derecognition of an intangible asset are measured at the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the consolidated income statement when the asset is derecognised.

Research and development expenditures

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

An internally-generated intangible asset arising from development expenditure is recognised only if it is anticipated that the development costs incurred on a clearly-defined project will be recovered through future commercial activity.

The amount initially recognised for internally-generated intangible asset is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria. Where no internally-generated intangible asset can be recognised, development expenditure is charged to profit or loss in the period in which it is incurred.

HKAS 38.118(b)

Subsequent to initial recognition, internally-generated intangible asset is reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets acquired separately.

Intangible assets acquired in a business combination

Intangible assets acquired in a business combination are identified and recognised separately from goodwill where they satisfy the definition of an intangible asset and their fair values can be measured reliably. The cost of such intangible assets is their fair value at the acquisition date.

HKAS 38.118(b)

Subsequent to initial recognition, intangible assets with finite useful lives are carried at cost less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is provided on a straight-line basis over their estimated useful lives. Alternatively, intangible assets with indefinite useful lives are carried at cost less any subsequent accumulated impairment losses (see the accounting policy in respect of impairment losses on tangible and intangible assets below).

Impairment of tangible and intangible assets other than goodwill (see the accounting policy in respect of goodwill above)

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. In addition, intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment annually, and whenever there is an indication that they may be impaired. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately, unless the relevant asset is carried at a revalued amount under another standard, in which case the impairment loss is treated as revaluation decrease under that standard.

Source	Hong Kong GAAP Limited

Notes to the consolidated financial statements
for the year ended 31 December 2008 - continued

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

HKAS 2.36(a)

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the first-in, first-out method.

HKFRS 7.21

Financial instruments

Financial assets and financial liabilities are recognised on the balance sheet when a group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

HKFRS 7.B5(c),(g)
HKFRS 7.28(a)

Financial assets

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

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period.

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

HKFRS 7.B5(a)

Financial assets at fair value through profit or loss

Financial assets at FVTPL has two subcategories, including financial assets held for trading and those designated as at FVTPL on initial recognition.

A financial asset is classified as held for trading if:

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

Source	Hong Kong GAAP Limited

Notes to the consolidated financial statements for the year ended 31 December 2008 - continued

Hedge accounting

The Group designates certain derivatives as either hedges of the fair value of fixed-rate bank borrowings (fair value hedges), hedges of highly probable forecast transactions for foreign currency exposure (cash flow hedges), or hedges of net investments in foreign operations.

At the inception of the hedge relationship the entity documents the relationship between the hedging instrument and hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Group documents whether the hedging instrument that is used in a hedging relationship is highly effective in offsetting changes in fair values or cash flows of the hedged item.

Fair value hedge

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in profit or loss immediately, together with any changes in the fair value of the hedged item that is attributable to the hedged risk. The adjustment to the carrying amount of the hedged item for which the effective interest is used is amortised to profit or loss as soon as an adjustment exists. The adjustment is based on a recalculated effective interest rate at the date the amortisation begins.

Hedge accounting is discontinued when the Group revokes the hedge relationship, the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting.

Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are deferred in equity. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss as other gains or losses.

Amounts deferred in equity are recycled in profit or loss in the periods when the hedged item is recognised in profit or loss. However, when the forecast transaction that is hedged results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the asset or liability.

Hedge accounting is discontinued when the Group revokes the hedge relationship, the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. Any cumulative gain or loss deferred in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in profit or loss. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was deferred in equity is recognised immediately in profit or loss.

Hedges of net investments in foreign operations

Hedges of net investments in foreign operations are accounted for similarly to cash flow hedges. Any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognised in equity in the translation reserve. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss as other gains or losses.

Gains and losses deferred in the translation reserve are recognised in profit or loss on disposal of the foreign operation.

Source	Hong Kong GAAP Limited

Notes to the consolidated financial statements for the year ended 31 December 2008 - continued

Financial guarantee contracts

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

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised directly in equity is recognised in profit or loss. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

<u>Provisions</u>

Provisions are recognised when the Group has a present obligation as a result of a past event, and it is probable that the Group will be required to settle that obligation. Provisions are measured at the directors' best estimate of the expenditure required to settle the obligation at the balance sheet date, and are discounted to present value where the effect is material.

<u>Contingent liabilities acquired in a business combination</u>

Contingent liabilities acquired in a business combination are initially measured at fair value at the date of acquisition. At subsequent balance sheet date, such contingent liabilities are measured at the higher of the amount that would be recognised in accordance with HKAS 37 *Provisions, Contingent Liabilities and Contingent Assets* and the amount initially recognised less cumulative amortisation (if appropriate).

<u>Contingent assets</u>

Contingent assets are not recognised. If, in subsequent periods, it has become virtually certain that an inflow of economic benefits will arise, the asset and income are recognised in the period in which the change occurs.