大同機械企業有限公司

COSMOS MACHINERY ENTERPRISES LIMITED

股份代號：118

Stock Code : 118

COSMOS

年報

Annual Report 2005

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Corporate Information

DIRECTORS

Executive Directors

Tang To *(Chairman)*
Zhao Zhuoying
Wong Yiu Ming
Yan Wing Fai Richard
Li Tin Loi

Non-Executive Directors

Tang Kwan *(Honorary Chairman)*
He Zhiqi *(Vice Chairman)*
Kan Wai Wah

Independent Non-Executive Directors and Audit Committee Members

Liang Shangli
Yip Jeffery
Yeung Shuk Fan

Remuneration Committee

Liang Shangli
Yip Jeffery
Yeung Shuk Fan
Tang To

Committee of Executive Directors

Tang To
Zhao Zhuoying
Wong Yiu Ming
Yan Wing Fai Richard
Li Tin Loi

CHIEF EXECUTIVE OFFICER

Wong Yiu Ming

QUALIFIED ACCOUNTANT

Ho Kwong Sang

JOINT COMPANY SECRETARY

Ho Kwong Sang
Tsang Shu Kei

REGISTERED OFFICE

8th Floor, Tai Tung Industrial Building
29-33 Tsing Yi Road
Tsing Yi Island
New Territories
Hong Kong
Tel: 2376-6188
Fax: 2375-9626/2433-0130
Website: www.cosmel.com
E-mail: cmel@cosmel.com

PRINCIPAL BANKERS

Bank of China (Hong Kong) Limited
The Hongkong & Shanghai Banking Corporation Limited

SOLICITORS

Woo, Kwan, Lee & Lo

AUDITORS

Ting Ho Kwan & Chan

SHARE REGISTRAR

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

LISTING INFORMATION

The Stock Exchange of Hong Kong Limited
Stock Code: 118

Chairman's Statement

I am pleased to present to shareholders the annual report of Cosmos Machinery Enterprises Limited (the "Company") and its subsidiaries (the "Group") for the year ended 31st December, 2005.

RESULTS

The Group's consolidated turnover for the year 2005 was in the region of approximately HK$1,650,729,000, representing a decrease of about 1% over the approximate figure of HK$1,665,687,000 for 2004. Our profit before taxation stood at about HK$80,300,000, or some 23% higher than the approximate figure of HK$65,482,000 for the previous year. For the year ended 31st December, 2005, the profit attributable to shareholders was about HK$54,222,000, increasing by 31% when compared with last year.

CHAIRMAN'S STATEMENT

Subsequent to the adverse market condition of 2004, prices of raw materials remained high throughout the year under review. Although taxed and challenged by the price pressure, consolidated profit managed to keep growing at a reasonable pace, thanks to the hard work of our staff.

Adhering to our management principles and development guidelines of "industry-based, people-oriented, pragmatically aggressive, and continuous learning" during the year under review, our business continued to evolve around machinery manufacture and technological development. Our pursuits for product differentiation and quality perfection have gained for the Group a strong footing in the market. In 2005, hi-tech products catering to the needs of customers were successively launched and were well received by the market. The additional business thus generated not only compensated the ebbing sales of standard series as impacted by unregulated price wars but also served to reaffirm the technology-led strategy we have been pursuing for product development. With apt market strategies

CNC High Speed Hydraulic Turret Punch Press

Chairman's Statement

and good service, it is believed that these new products will become a new source of profit for the Group. The year 2005 was also a year of honour for the Group since our member company Dong Hua Machinery Limited was ranked by the Government as among China's Top 500 Machine Manufacturers and China's Top 10 Plastic Rubber Machine Manufacturers. The professional recognition thus given to our unswerving endeavours serves to reassure us that we have all along been striving forward on the right track. Our research and development collaborations with Mainland and overseas tertiary institutes have also produced fruitful results, adding to our technological reserve for developing new products.

To consolidate our position in the East China market and to provide timely and better service to our customers, the Company successfully assumed in mid-2005 interests previously held by our Chinese partner so that Wuxi Grand Plastic Machine Manufacture Co., Ltd. and Wuxi Grand Tech Machinery Group Ltd. have now come under the Group's umbrella as wholly owned enterprises. This has resulted in better coordination of production resources for our machinery manufacturing business and also better integration in our market network. Based on development needs, the Group will enlarge our engagement in East China as and when required to secure a fair market share for our machinery in the fast emerging Yangtze Delta region.

As for our other manufacturing businesses like plastic injection moulding and circuit board processing, we will continue to adhere to the same guiding principles and investment visions in updating our technologies, renewing our products and optimizing our management in a pragmatic and forward-looking manner to tie in with the latest needs of the market.

Double-station 20T Blow Moulding Machine

Chairman's Statement

Looking ahead, the coming year will again be marked by tests and challenges to which our Management will continue to rise realistically and pragmatically. It being also the inception year of the State's 11th Five-year Plan when technological advancement and originality are greatly prized for industrial development, mainland enterprises are likely to shift their investment preference from quantity to quality and new technologies. This means a golden opportunity is awaiting technology-based enterprises like ours to prove ourselves and to provide even better return to our shareholders and stakeholders.

To reflect more truly our vitality and perseverance as well as our emphases on people and plurality, the Group renewed its logo in September 2005 in the firm belief that, standing together as a team, we will surely make our future even brighter.

APPRECIATION

The favourable results achieved by the Group despite market adversities were largely attributable to our enterprising and hardworking staff, as well as our supportive shareholders and Board Members. I would like to take this opportunity to express my heartfelt thanks to all of them.

TANG To
Chairman

Hong Kong, 24th April, 2006

Management Discussion and Analysis

BUSINESS REVIEW

Manufacturing Business

Machinery

Battered by unfavourable factors like spiraling raw material prices, macro-economic adjustments on the Mainland and oversupply of general purpose plastic injection moulding machines, turnover for the 2005 amounted to approximately HK$573,929,000, decreasing by 8% when compared with that of last year. Profit correspondingly dropped by 20% to about HK$29,011,000.

The wildly fluctuating plastic resins prices during the year have put investors of plastic processing and sheet-metal working machines on the sidelines, immediately slackening demand for general purpose machinery on the Mainland. Having taken note of the increasing demand for precision and large plastic injection moulding machines and reinforced our relevant production lines accordingly, we achieved substantial growth in the sales of such series, compensating for the downturn in general purpose machines. As for the new products, development of CNC sheet-metal working machines and blow-moulding machines aiming at improving our products' value for money have accelerated. Initial response from the market has been encouraging so far.

Fc Precision, Supreme Energy Efficiency Injection Moulding Machine

F2R High Pecision, High Efficiency Injection Moulding Machine

Double Strand Extrusion Line

Management Discussion and Analysis

To oversee the Group's industrial machinery-related businesses for more effective deployment of resources, a machinery holding company was set up in 2005. One of the measures taken was revamping the makeup of production bases in a bid to align production with their respective target markets. Prompt response to increasingly individualized market needs is now possible following the general takeover of a joint venture in Wuxi to improve the scale and commitment of our business in East China. In terms of marketing, to facilitate the launch of new products, sales networks and marketing drives both on the Mainland and overseas have been improved to ensure for our key products a greater market share within a shorter period of time. Success has been more evident in our overseas markets to which exports have grown satisfactorily thanks to our preliminary efforts in laying down a sustainable foundation for future development.

As for prospects in 2006, the Mainland, as the world's factory and a vibrant economy, is expected to witness rise in both investment and domestic spending. Intentions to invest in plastics processing and sheet-metal working machinery will improve when prices of plastic resins and steel stabilize. In anticipation of the likely accelerated growth of the Mainland market for medium to up-market injection moulding machines, we will scale up the production of these series at our plants in Wuxi, China, in collaboration with Japan UBE Industries Ltd to meet market needs. Turning to our other products, fully closed-loop plastic injection moulding machines, high speed CNC turret punch and high productivity multi-layer blow-moulding machines are expected to sell significantly better than in 2005. All in all, although competition will remain fierce, the Group is cautiously optimistic about the outlook of its machinery business.

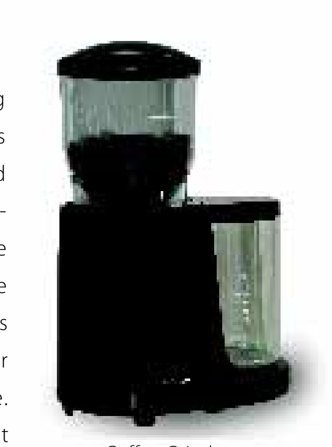
CMSX Series Computerize Four-Column Hydraulic Press

Moulding Press

Management Discussion and Analysis

Plastic Products and Processing

Turnover for the Group's plastic products and processing business rose by approximately HK$64,468,000, or about 23%, to reach approximately HK$349,707,000 for the year under review, bringing profit to the region of approximately HK$22,157,000, or a decrease of about 6% when compared to that of last year.



Coffee Grinder

Our plastic product and processing business was adversely affected in cost by soaring plastic resins prices, which were pushed up by those of oil. Thanks to the efforts made by our staff, efficiency was enhanced through optimizing management and reducing wastage. Also, the Group's ancillary processes such as high quality spray-painting and silk-screening have given us an edge so that profitability could be maintained. Nevertheless, since market competition is expected to remain fierce while high material prices cannot be immediately transferred to the customers, the Group's profitability in the plastic products and processing business will still come under considerable pressure. Led by our export markets, manufacture of moulds registered substantial growth during the year under review. When quality and delivery are further improved, manufacture of moulds will become our new area of growth.

Injection Workshop

Equipped with a fully enclosed clean room built in accordance with international standards and complete with injection, printing, packaging and mould making facilities so that the entire process from product design to batch production can be carried out in-house, our factory in Zhuhai specializes in plastic injection products like sanitary plastic tableware and food packaging. Disadvantaged by high plastics prices, the factory failed to record satisfactory return despite achieving significant growth in turnover. The Group, however, remains optimistic about the business. In early 2006, to enhance profitability, the Group began tapping the more ludicrous overseas markets and planning the production of medicine packaging with more stringent sanitary requirements while better controlling and reducing wastage.

Credit Card Size illuminated fresnel magnifier
2x 4x, with LED

Management Discussion and Analysis

During the year under review, thanks largely to the Management's proper cost control, profit for optic plastic products was comparable to that of last year although the business was plagued by sagging selling prices and inflating raw material cost. Our focus for 2006 will be on expanding our distribution channels and reaching out to small and medium-sized overseas customers through electronic business solutions. On the product front, there will be more new products like aspheric lens and Fresnel lens in the hope of gaining a bigger market share for our magnifiers.

Audio and Electronic Products

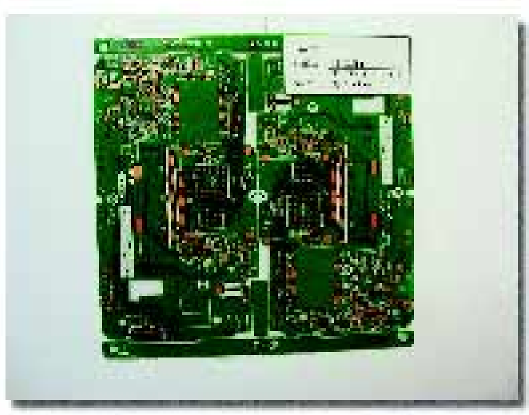
Overall turnover for audio products in 2005 totaled approximately HK$84,535,000, down by about 40% when compared with that of 2004. This was mainly attributable to overstocking by our customers which had a lagged effect on our delivery cycles. With raw material prices inflating our cost and labour and power shortages on the Mainland causing us enormous difficulties, a balanced account was not possible and loss was again registered for the year. Unless there is substantial improvement, the Group will review the business further in order to minimize loss in 2006.

Printed Circuit Board

Sales of circuit boards were quite satisfactory for the year 2005, with turnover rising by approximately HK$25,409,000, or 7%, to stand at approximately HK$374,271,000. With material costs for circuit boards beginning to stabilize in 2005 and selling prices adjusted slightly upward, a profit of about HK$18,762,000 was recorded at the end of the year.

The key factor for satisfactory performance during the year under review lied in the substantial increase in the production of multi-layer circuit boards, the volume of which was twice that of 2004. Since multi-layer circuit boards have a bigger profit margin than single-layer ones, overall profit for the year was remarkably boosted as a result. Another factor was that lamination process is now carried out internally rather than entirely outsourced as was previously the case. This had the benefit of not only achieving certain savings but also assuring quality and delivery to the satisfaction of our customers. To reduce costs further, the Management has put in a lot of efforts to streamline work flow, economize the use of materials, identify cheaper substitutes, and minimize substandard products. The results have so far been more encouraging than expected.

Worksite Audio



Printed Circuit Board

Management Discussion and Analysis

Profit for the coming year is likely to suffer since prices of raw materials for circuit boards have began to soar in the third quarter of 2005 while basic salary and overtime pay for workers and staff are expected to rise in 2006. Under the circumstances, the Group has plans to acquire state-of-the-art CNC drilling machines to meet our customers' stringent demands as well as to save on outsourcing expenses.

Trading Business

Industrial Consumables

Turnover for the trading business rose by about 1% over that of last year to reach the region of approximately HK$268,287,000, yielding a profit of approximately HK$18,475,000.

During the year, the processing and manufacturing industries were hard hit by soaring costs as a result of consistently high prices of raw materials like metal and plastic. As our customers readjusted their production and procurement plans, the performance of our trading business experienced a sharp fall in the first quarter. Furthermore, climbing production costs also ate into our profit. Faced with intense competition in the market, the Group remained adamant with our strategic plan to secure for our selective products a bigger share in our target markets. Performance began to improve in the second quarter, to be followed by a more significant growth in the latter half of the year as the high material prices were gradually absorbed by the market and breakthroughs were made for some of our new products.

CP Nut Runner

Management Discussion and Analysis

With the further opening up of the Mainland market, there will be a golden opportunity for us to expand our business although competition would be more fierce as the market draws in more and more players. In response to these challenges, the Group will continue to look out for new market needs for possible expansion, enhance our logistics and supply mechanism, provide our staff with continuous learning for better overall profitability, and satisfy our customers with quality products and service for mutual benefit.

Other Businesses

Other businesses refer primarily to the Group's investment in a Shenzhen enterprise that produces and sells electronic watt-hour meters. Taking advantage of China's need for electricity re-networking, the enterprise has been providing mainland electricity departments with multi-purpose electronic watt-hour meters for industrial and domestic use in recent years. Technologically advanced and all-encompassing in features, the meters have been well-received by customers, bringing in significant return for both the enterprise and the Group. During the year under review, new hi-tech products that can meet Mainland's needs for electricity management were launched. These include remote self-reading meters and systems for better management of electricity capacity /loading and distribution monitoring based on 2.5G-3G GPRS frequency bands, and electricity bill payment through pre-paid RF-smart card. It is believed that these new products will gradually take over as the major growth area for the enterprise in the coming year.

PROSPECTS

Looking into the year 2006, as the world's factory and a vibrant economy, China is expected to witness rise in both investment and domestic spending. As such, market condition will compare favourably with that of 2005. Nevertheless, unfavourable factors like persistently high prices of raw materials, a strong RMB and escalating interest rates are expected to intensify competition especially for general purpose injection moulding machines. Under the circumstances, the Group will seek to consolidate our market share with hi-tech and moulding machines with special application while actively striving to open up overseas markets for these products. Parallel to this, efforts will be made to improve the market penetration of our new products like high productivity multi-layer blow-moulding machines, CNC turret punches and rubber injection machinery, reinforce our collaboration with Japan UBE Industries Ltd., and familiarize manufacturers of up-market automobile parts with our injection moulding machines.

To maintain our profitability, management of the plastic products and processing business will be optimized to reduce loss and wastage. In particular, Enterprises Resources Planning, the latest management software system with special application in plastic processing, has been used to reinforce and upgrade our management.

Nurturing of talents, especially at the middle and senior levels, is also a priority for the Group. Although 2006 is not expected to be entirely rosy, we strongly believe that with the devotion of our staff, our business will continue to progress steadily so that reasonable return can be achieved for our stakeholders.

Management Discussion and Analysis

Financial Statistical Highlights	2005 HK$'000	2004 (As restated) HK$'000
Operating results		
Turnover	**1,650,729**	1,665,687
Profit from operations	**51,629**	47,698
Profit before taxation	**80,300**	65,482
Profit attributable to equity holders of the Company	**54,222**	41,460
Earning per share – Basic *(cents)*	**7.67**	5.87
Earning per share – Diluted *(cent)*	**N/A**	N/A
Dividend per share *(cent)*	**1.5**	1
Dividend payout	**20%**	17%
Financial position at year end		
Total assets	**1,876,786**	1,812,175
Fixed assets	**418,449**	448,920
Quick assets	**742,511**	695,335
Net current assets	**286,608**	240,719
Shareholders' Funds	**725,295**	662,622
Net assets value per share (cents)	**103**	94
Financial statistics		
Current ratio	**1.30**	1.26
Quick asset ratio	**0.76**	0.74
Gearing ratio	**0.06**	0.09
Total debt ratio	**1.39**	1.50

Directors and Senior Management

EXECUTIVE DIRECTORS

Mr. Tang To, aged 57, Chairman and Executive Director of the Company, has served on the Board since the listing of the Company in 1988 and was appointed as Chairman and Executive Director of the Company in September, 1997. Mr. Tang has over 32 years of experience in manufacturing and trading businesses in Hong Kong and the PRC. Mr. Tang is responsible for the overall policy making and significant investments of the Group. Mr. Tang is the son of Mr. Tang Kwan, Honorary Chairman and Non-Executive Director of the Company. Mr. Tang is a director of certain companies which are members of the Group and related to certain substantial shareholders of the Company within the meaning of Part XV of the SFO.

Mr. Zhao Zhuoying, aged 40, Executive Director of the Company, holds a Master's degree in Economics from Zhongshan University in China. Mr. Zhao joined the Company in March, 2004. He joined China Resources (Holdings) Co., Ltd. in 1986. He has over 10 years' experience in financial management. He had been the Manager of Finance Department of Teck Soon Hong Ltd. He is the Director and Deputy General Manager of China Resources Machinery & Minmetals (Holdings) Co., Ltd., a subsidiary of China Resources (Holdings) Co., Ltd., the substantial shareholder of the Company within the meaning of Part XV of the SFO.

Mr. Wong Yiu Ming, aged 52, Executive Director and Chief Executive Officer of the Company, has 28 years of experience in sales, marketing and general management. Mr. Wong joined the Group in 1978. He holds a Bachelor of Science degree in Engineering and a Master degree in Business Administration. Mr. Wong was appointed as the General Manager of the Company on 1st February, 1999 and has been re-designated as Chief Executive Officer of the Company with effect from 12th September, 2005. He is responsible for the strategic planning and general management of the Group.

Mr. Yan Wing Fai Richard, aged 45, Executive Director of the Company, graduated from the University of Hong Kong in Social Sciences. He has over 20 years of experience in production and sales management of machines related business in the PRC. He joined the Group in April, 2002 as the Deputy General Manager and is responsible for the general management of machines related business.

Mr. Li Tin Loi, aged 42, Executive Director of the Company, graduated from the Hong Kong Polytechnic University in Electrical Engineering. He also holds a Diploma in Management Studies and a Master degree in Business Administration. He has 19 years of experience in marketing and management. Mr. Li joined the Group in 1992 and is currently responsible for the general management of subsidiary companies, which are engaged in trading of industrial consumables, machinery components and machineries.

Directors and Senior Management

NON-EXECUTIVE DIRECTORS

Mr. Tang Kwan, aged 82, Honorary Chairman and Non-Executive Director of the Company, is one of the founders of the Company. He has over 46 years of experience in machinery trading in Hong Kong and the PRC. Mr. Tang was appointed as the Honorary Chairman and Non-Executive Director on 18th September, 1997. Mr. Tang is the father of Mr. Tang To, Chairman and executive director of the Company. Mr. Tang is an administrator of a member company of the Group and a director of certain companies related to certain substantial shareholders of the Company within the meaning of Part XV of the SFO.

Mr. He Zhiqi, aged 48, the Vice-Chairman and Non-Executive Director of the Company, holds a Master's degree in Business Administration from University of San Francisco in USA. Mr. He joined China Resources (Holdings) Co., Ltd. in 1985. He has over 10 years' experience in corporate financial management. He had been the Deputy Manager of Finance Department of China Resources (Holdings) Co., Ltd. He is the Director and General Manager of China Resources Machinery & Minmetals (Holdings) Co., Ltd, a subsidiary of China Resources (Holdings) Co., Ltd., the substantial shareholder of the Company within the meaning of Part XV of the SFO.

Mr. Kan Wai Wah, aged 48, Non-Executive Director of the Company, is a Managing Director of 綽餘飲食顧問有限公司. He has over 24 years of experience in the management of restaurant operations. Mr. Kan holds a Higher Diploma in Accountancy. He joined the Company in May, 1998. Mr. Kan is the son of Ms. Law Kit Fong, a substantial shareholder of the Company. Mr. Kan is a director of certain companies which are related to certain substantial shareholders of the Company within the meaning of Part XV of the SFO.

Mr. Liang Shangli, aged 86, Independent Non-Executive Director of the Company, had studied in the University of Canton. He joined the Company in 1988. Mr. Liang is the Honorary Vice-Chairman of both the All China Federation of Industry & Commerce and the Guangzhou Trust & Investment Corporation as well as an ex-member of CPPCC All China Standing Committee. He is also the Honorary President of both the Guangdong Federation of Industry and Commerce and the Guangzhou Federation of Industry and Commerce.

Mr. Yip Jeffery, aged 72, Independent Non-Executive Director of the Company, is a registered optometrist in Hong Kong. Mr. Yip is the President of the Hong Kong Eye Foundation Limited, the Past President of the Hong Kong Optometric Association Limited, the Past President and the Honorary Life President of the Hong Kong Contact Lens Research Association Limited. Mr. Yip joined the Company in August 1994.

Miss Yeung Shuk Fan, aged 40, Independent Non-Executive Director of the Company, has over 16 years of experience in the finance sector and holds a Master degree in Business Administration. She is a member of the American Institute of Certified Public Accountants and an associate of The Institute of Chartered Secretaries and Administrators. During the past eleven years, Miss Yeung has served as financial controller and financial manager of various private groups of companies. She joined the Company with effect from June 2004.

Directors and Senior Management

SENIOR MANAGEMENT

Mr. Ho Kwong Sang, aged 50, joined the Group in 1981, is the Chief Financial Officer of the Group and the qualified accountant of the Company. He is responsible for the financial management of the Group. Mr. Ho holds a Bachelor of Arts degree in Business Administration and a Master of Arts degree in Management. He is a Certified Public Accountant, a Chartered Certified Accountant and a Chartered Secretary of the Hong Kong Institute of Certified Public Accountants, the Association of Chartered Certified Accountants and the Institute of Chartered Secretaries and Administrators respectively. He is also a Fellow member of the Hong Kong Institute of Chartered Secretaries and a Member of the Chartered Institute of Arbitrators.

Mr. Wan Ming Sang, aged 61, has more than 31 years of experience in the plastic processing industry. Mr. Wan joined Ming Sun Enterprises Limited in 1987 and is currently its Managing Director.

Mr. Yip Kar Shun, aged 59, has over 26 years of experience in electronic production and management. He joined the Group in 1994. Mr. Yip is the Managing Director of the subsidiaries which are engaged in the manufacture of printed circuit boards.

Mr. Man Wai Hong Bernard, aged 43, joined the Group in 2000. He has 19 years of experience in manufacturing, marketing and general administrative management. He graduated from the Hong Kong Polytechnic University in Electrical Engineering. He also holds a Diploma in Computer Programming, a Diploma in Management Studies and a Master degree in Business Administration. He is currently the General Manager of a subsidiary which is engaged in the trading of industrial consumables and machinery components.

Mr. John, Mak Chun Yeung aged 42 has over 18 years of hands-on industrial experience of plastic injection mold fabrication and molding. Mr. Mak graduated in the University of Hong Kong at 1985 as an Industrial Engineer specialized in the area of CNC machining, CAD/CAM and production information system. Mr. Mak started up his career as a CNC Machine Operator and promoting gradually to General Manager. Having over 10 years of management experience of mold and molding factory, Mr. Mak had been the General Manager of a subsidiary under a machinery manufacturing group listed in Hong Kong, supervised the fabrication of the first 48 cavities PET perform mold in China. September 2005, invited by Cosmos group to be the General Manager of the Karmay Plastic Products (Zhuhai) Co. Ltd.

Mr. Andreas Brenner, aged 39, German nationality, graduated from the RWTH Aaachen University (Institute for Plastic Processing – IKV) in Mechanical Engineering. He has more than 9 years experience in the research and development of extrusion systems for plastic and rubber machines and in the development of high-precision moulds for the injection moulding process. He joined the Group in April 2005 as the Technical Director with focus on research & development in Plastic Processing Technology and the related applications.

Mr. Karl-Heinz Roesing, aged 62, German nationality, graduated from the Hamburg University of Applied Science in Mechanical Engineering. He has more than 31 years industrial experience in project management, production and service for blow moulding machinery and blow moulds. Mr. Roesing worked for more than 3 years in the management of a Sino German joint venture for the production of blow moulding machines. He joined the Group in year 2003, and is currently the Technical Chief Consultant of a subsidiary DEKUMA, which is engaged in manufacture of Blow Moulding Machines, Rubber Injection Machines and Extrusion Lines.

Report of the Directors

The directors of the Company (the "Directors") have pleasure in presenting their annual report and the audited financial statements of the Company for the year ended 31st December, 2005.

PRINCIPAL ACTIVITIES

The Company acts as an investment holding company. The principal activities of its principal subsidiaries are set out in note 39 to the financial statements.

RESULTS

The results of the Group for the year ended 31st December, 2005 are set out in the consolidated income statement on page 38 of the annual report.

FINAL DIVIDEND

The Board recommends the payment of a final dividend for the year ended 31st December, 2005 of HK1.5 cents per share (2004: 1 HK cent per share) to shareholders of the Company whose names appear on the register of members of the Company as at the date of the 2006 Annual General Meeting.

FINANCIAL REVIEW

Liquidity and Financial Resources

As at 31st December, 2005, the Group's shareholders' funds were approximately HK$725,295,239, compared with approximately HK$662,621,846 (restated) as at 31st December, 2004.

The Group finances its operations with internally generated cash flow and banking facilities provided by its bankers in Hong Kong and China. The Group's gearing ratio as at 31st December, 2005 was approximately 5.6% (2004: 8.7%), and the liquidity ratio was approximately 1.30 (2004: 1.26), both were maintained at a healthy level. As at 31st December, 2005, cash, bank balances and time deposits amounted to approximately HK$116,815,000. All these reflect that the Group is in sound financial position.

Foreign Currencies and Treasury Policy

Most of the Group's business transactions, assets and liabilities are denominated in Hong Kong Dollars, Renminbi or United States Dollars. It is the Group's treasury policy to manage its foreign currency exposure whenever its financial impact is material to the Group. During the year, the Group had no fixed interest rate borrowings and had not engaged in any financial instruments for hedging or speculative activities.

FINANCIAL SUMMARY

A summary of the results, the assets and liabilities of the Group for the past five financial years is set out on page 110 of the annual report.

Report of the Directors

INVESTMENT PROPERTIES, LEASEHOLD BUILDINGS AND PLANT AND EQUIPMENT

The investment properties and leasehold buildings of the Group were revalued on 31st December, 2005. The resulting surplus arising on revaluation of investment properties attributable to the Group has been credited to the consolidated income statement. The resulting surplus and deficit arising on revaluation of leasehold buildings attributable to the Group has been credited or charged to the buildings revaluation reserve or consolidated income statement as appropriate.

During the year, the Group spent, in aggregate, approximately HK$64,869,000 on the acquisition of property, plant and equipment for the purpose of expanding business.

Details of these and other movements in investment properties, plant and equipment of the Group and of the Company during the year are set out in notes 16 and 15 to the financial statements respectively.

SHARE CAPITAL

Details of the share capital of the Company are set out in note 27 to the financial statements.

RESERVES

Details of the movements in the reserves of the Company during the year under review are set out in note 28 to the financial statements.

MAJOR CUSTOMERS AND SUPPLIERS

The aggregate turnover attributable to the Group's five largest customers and the aggregate purchases attributable to the Group's five largest suppliers were less than 30% of the Group's turnover and purchases for the year respectively.

DIRECTORS

The Directors during the year were:

Executive Directors:
Tang To, Chairman
Wong Yiu Ming
Zhao Zhuoying
Yan Wing Fai Richard
Li Tin Loi

Non-Executive Directors:
Tang Kwan, Honorary Chairman
He Zhiqi, Vice Chairman
Kan Wai Wah

Independent Non-Executive Directors:
Liang Shangli
Yip Jeffery
Yeung Shuk Fan

Report of the Directors

DIRECTORS *(Continued)*

In accordance with Articles 103 of the Company's Articles of Association, Mr. Zhao Zhuoying, Mr. Tang Kwan, Mr. He Zhiqi and Mr. Kan Wai Wah, will retire from office and, being eligible, will offer themselves for re-election at the forthcoming Annual General Meeting.

No director proposed for re-election at the fortcoming Annual General Meeting has a service contract with the Company or any of its subsidiaries, which is not terminable within one year without payment of compensation (other than statutory compensation).

TERM OF OFFICE OF NON-EXECUTIVE DIRECTORS AND INDEPENDENT NON-EXECUTIVE DIRECTORS

The Non-Executive Directors and the Independent Non-Executive Directors were appointed for a specific term of three years commencing from 1st January, 2005. To be consistent with the Code Provision A.4.2 in Appendix 14 of the Listing Rules, Article 103(A) of the Company's Articles of Association will be amended in the forthcoming Annual General Meeting so that every director including those appointed for a specific term shall be subject to retirement by rotation and re-appointment at least once every three years.

DIRECTOR'S AND CHIEF EXECUTIVE'S INTERESTS IN SECURITIES

During the year under review, the interests and short positions of the Directors and the chief executive of the Company (the "Chief Executive") in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of the Part XV of the Securities and Futures Ordinance, Chapter 571 under the Laws of Hong Kong (the "SFO")) as recorded in the register of directors' and chief executive's interests and short positions required to be maintained under section 352 of the SFO or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") (the "Listing Rules"), to be notified to the Company and the Stock Exchange are as follows:

Interests in the Shares

Name of Director	Number of shares held Personal interests	Family Interests	Corporate Interests	Others Interests	Total	Approximate % of total issued Shares of the Company
Tang To	2,970,000	2,000 *(Note 2)*	300,617,458 *(Note 1)*	224,000 *(Note 3)*	303,813,458	42.94
Wong Yiu Ming	9,696,072	–	–	–	9,696,072	1.37
Tang Kwan	–	297,157,052 *(Note 4)*	–	–	297,157,052	42
Kan Wai Wah	136,400	–	–	–	136,400	0.02

Report of the Directors

DIRECTOR'S AND CHIEF EXECUTIVE'S INTERESTS IN SECURITIES *(Continued)*

Notes:

1. As at 31st December, 2005, 3,460,406 Shares of those 300,617,458 Shares were held by Ginta Company Limited ("Ginta") which is wholly owned by a company which in turn is owned as to 50% by Mr. Tang and 50% by his spouse. Mr. Tang was deemed to be interested in the remaining 297,157,052 Shares of those 300,617,458 Shares under the SFO through his deemed interests in Codo Development Limited ("Codo").

   As at 31st December, 2005, Codo through its wholly owned subsidiaries, Cosmos Machinery (Holdings) Limited ("Cosmos Holdings") and Tai Shing Agencies Limited ("Tai Shing"), was deemed to be interested in 297,157,052 Shares. Codo is incorporated in Hong Kong and is owned as to (i) 25.06% by Keepsound Investments Limited, a Hong Kong company controlled by Saniwell Holdings Inc., a trustee of The Saniwell Trust, (ii) 8.37% by Elegant Power Enterprises Limited ("Elegant Power"); (iii) 30.25% by Friendchain Investments Limited ("Friendchain"), a Hong Kong company controlled as to 40% by Elegant Power, as to 57.42% by Saniwell Holdings Inc. and as to 2.58% by Fullwin Limited; (iv) 16.09% by Yik Wan Company Limited; and (v) 20.23% by 7 individuals.

2. As at 31st December, 2005, 2,000 Shares were held by the spouse of Mr. Tang.

3. As at 31st December, 2005, 224,000 Shares were jointly held by Mr. Tang and his spouse.

4. As at 31st December, 2005, Mr. Tang Kwan was deemed to be interested in the block of 297,157,052 Shares under the SFO through his deemed interests in Codo Development Limited ("Codo"). As at 31st December, 2005, Codo through its wholly owned subsidiaries, Cosmos Holdings and Tai Shing, was deemed to be interested in 297,157,052 shares. Codo is incorporated in Hong Kong and is owned as to (i) 25.06% by Keepsound Investments Limited, a Hong Kong company controlled by The Saniwell Trust, a trust established for the benefit of Mr. Tang Kwan's family, of which the spouse of Mr. Tang Kwan is one of the beneficiaries; (ii) 8.37% by Elegant Power; (iii) 30.25% by Friendchain, a Hong Kong company controlled as to 40% by Elegant Power, as to 57.42% by The Saniwell Trust and as to 2.58% by Fullwin Limited; (iv) 16.09% by Yik Wan Company Limited; and (v) 20.23% by 7 individuals.

The percentage shown was calculated based on the number of issued shares of the Company as at 31st December, 2005.

As at 31st December, 2005, other than as disclosed above and certain nominee shares held in trust for the Group, none of the Directors or Chief Executive or their associates had any interests and short positions in the shares, underlying shares of the Company and its associated corporations (within the meaning of the SFO) to be notified to the Company and the Stock Exchange pursuant to Section 352 of the SFO, to be entered in the register referred to therein.

Save as disclosed herein, none of the Directors is materially interested in any contract or arrangement subsisting as at 31st December, 2005 which is significant in relation to the business of the Company and its subsidiaries.

As at 31st December, 2005, none of the Directors had any direct interests or indirect interests in any asset which had been acquired, or disposed of by, or leased to any member of the Group, or was proposed to be acquired, or disposed of by, or leased to any member of the Group.

Report of the Directors

SUBSTANTIAL SHAREHOLDERS

As at 31st December, 2005, the following interests in 5% or more in the shares and underlying shares of the Company have been notified to the Company and recorded in the register of substantial shareholders' interests and short positions required to be kept under Section 336 of Part XV of the SFO:

Interests in the Shares

Name of Substantial Shareholder	Number of shares held Direct Interests	Deemed Interests	Total	Approximate % of total issued shares of the Company
Law Kit Fong	–	297,157,052 *(Note 1)*	297,157,052	42
Codo	–	297,157,052 *(Note 2)*	297,157,052	42
Cosmos Holdings	127,052,600	170,104,452 *(Note 3)*	297,157,052	42
Tai Shing	170,104,452	–	170,104,452	24.04
Saniwell Holdings Inc.	–	297,157,052 *(Note 4)*	297,157,052	42
China Resources (Holdings) Company Limited	169,649,046 *(Note 5)*	–	169,649,046	23.98

Report of the Directors

SUBSTANTIAL SHAREHOLDERS *(Continued)*

Notes:

1. Ms. Law Kit Fong is deemed to be interested in the block of 297,157,052 Shares through her direct and indirect interests in Elegant Power and Codo. As at 31st December, 2005, Codo through its wholly owned subsidiaries, Cosmos Holdings and Tai Shing, was deemed to be interested in 297,157,052 Shares. As at 31st December, 2005, Codo is owned as to 30.25% by Friendchain (which is owned as to 40% by Elegant Power) and 8.37% by Elegant Power (which is wholly owned by Ms. Law Kit Fong).

2. As at 31st December, 2005, Codo is interested in 297,157,052 Shares through its wholly owned subsidiaries, Cosmos Holdings and Tai Shing. As at 31st December, 2005, Codo is owned as to (i) 25.06% by Keepsound Investments Limited, a Hong Kong company controlled by Saniwell Holdings Inc., a trustee of The Saniwell Trust; (ii) 8.37% by Elegant Power, which is wholly-owned by Ms. Law Kit Fong; (iii) 30.25% by Friendchain, which is owned as to 40% by Elegant Power, as to 57.42% by Saniwell Holdings Inc. and as to 2.58% by Fullwin Limited; (iv) 16.09% by Yik Wan Company Limited; and (v) 20.23% by 7 individuals.

3. Cosmos Holdings was deemed to be interested in 170,104,452 Shares through its subsidiary, Tai Shing.

4. As at 31st December, 2005, Saniwell Holdings Inc. was deemed to be interested in the block of 297,157,052 Shares under the SFO through its deemed interests in Codo. Codo is owned as to (i) 25.06% by Keepsound Investments Limited, a Hong Kong company controlled by Saniwell Holdings Inc., a trustee of The Saniwell Trust; (ii) 8.37% by Elegant Power; (iii) 30.25% by Friendchain which is owned as to 40% by Elegant Power, as to 57.42% by Saniwell Holdings Inc. and as to 2.58% by Fullwin Limited; (iv) 16.09% by Yik Wan Company Limited; and (v) 20.23% by 7 individuals.

5 As shown by the latest interest disclosure information maintained pursuant to Part XV of the SFO provided to the Company by China Resources Corporation, China Resources Co., Limited and CRC Bluesky Limited, the above three companies were deemed to be interested in the Shares owned by China Resources (Holdings) Company Limited.

The percentage shown was calculated based on the number of issued shares of the Company as at 31st December, 2005.

Save as disclosed above, as at 31st December, 2005, the Directors are not aware of any other persons who have interests or short positions in the shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which would be required to be disclosed to the Company and the Stock Exchange pursuant to Part XV of the SFO.

Report of the Directors

CONNECTED TRANSACTIONS

On 3rd May, 2005, Grand Technology Products Limited ("GTPL") entered into an agreement with Wuxi Plastic Machinery Factory ("WX Factory"), pursuant to which, GTPL agreed to acquire from WX Factory its 24% equity interest in Wuxi Grand Plastic Machine Manufacture Co., Ltd. ("Grand Plastic Machine") representing registered capital of Grand Plastic Machine in the amount of USD684,000 (equivalent to approximately HKD5,321,520) at the consideration of RMB4,418,700 (equivalent to approximately HKD4,168,585).

As the Group envisaged that there would be satisfactory growth of the plastic injection moulding business in the PRC market, the Board considered that the acquisition of the equity interest in Grand Plastic Machine was in line with the Group's business strategy and that it was enhance the profitability of the Company by further implementing the Group's strategic development of its plastic injection moulding business.

As Grand Plastic Machine is a non-wholly owned subsidiary of the Company, WX Factory being a substantial shareholder of Grand Plastic Machine, is a connected person of the Company within the meaning of the Listing Rules and the entering into of such agreement by GTPL and WX Factory constituted a connected transaction of the Company under the Listing Rules.

On 29th June, 2005, GTPL has entered into an agreement with WX Factory, pursuant to which, GTPL agreed to acquire from WX Factory its 49% equity interest in Wuxi Grand Tech Machinery Group Ltd. ("Grand Group") representing registered capital of Grand Group in the amount of USD3,227,140 (equivalent to approximately HKD25,107,149) at the consideration of USD1 (equivalent to approximately HKD7.78).

As the Group envisaged that there would be satisfactory growth of the plastic injection moulding business in the PRC market, the Board considered that the acquisition of the equity interest in Grand Group would be in line with the Group's business strategy and that it would enhance the profitability of the Company by further implementing the Group's strategic development of its plastic injection moulding business.

As Grand Group is a non-wholly owned subsidiary of the Company, WX Factory, being a substantial shareholder of Grand Group, is a connected person of the Company within the meaning of the Listing Rules and the entering into of such agreement by GTPL and WX Factory constituted a connected transaction of the Company under the Listing Rules.

On 12th September, 2005, GTPL entered into the Agreement with Wuxi City Xinqu Yunchang Electronics Trading Ministry ("Yunchang Ministry") whereby GTPL agreed to acquire and Yunchang Ministry agreed to dispose of its 39% equity interest in Wuxi GL Precision Plastic Products Co., Ltd. ("GL Precision Plastic Products") at a consideration of USD305,800 (equivalent to approximately HKD2,379,000).

Report of the Directors

CONNECTED TRANSACTIONS *(Continued)*

As the Group envisaged that there would be satisfactory growth of the manufacturing and sale of plastic products in the PRC market, the Board considered that the acquisition of the equity interest in GL Precision Plastic Products would be in line with the Group's business strategy and that it would enhance the profitability of the Company by further implementing the Group's strategic development of its manufacturing and sale of plastic products.

As GL Precision Plastic Products, a subsidiary of the Company, is currently owned by GTPL and Yunchang Ministry as to 51% and 49% respectively, Yunchang Ministry is a substantial shareholder of a subsidiary of the Company and thereby is a connected person of the Company within the meaning of the Listing Rules and the entering into of such agreement by GTPL and Yunchang Ministry constituted a connected transaction of the Company under the Listing Rules.

DIRECTOR'S AND CHIEF EXECUTIVE'S RIGHTS TO ACQUIRE SHARES OR DEBT SECURITIES

Other than as disclosed above, at no time during the year under review was the Company or any of its holding companies, subsidiaries or fellow subsidiaries a party to any arrangements to enable the Directors and Chief Executive to acquire benefits by means of the acquisition of shares or any underlying shares or debentures of the Company or any associated corporations (within the meaning of Part XV of SFO); and none of the Directors, their spouses or children under the age of 18, had any right to subscribe for the shares of the Company, or had exercised any such rights.

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

No contracts of significance to which the Company or any of its controlling shareholders, subsidiaries or fellow subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, that subsisted at the end of the year under review or at any time during the year under review.

SCRIP DIVIDEND

The Company has approved for the payment of a final dividend for the year ended 31st December, 2004 of 1 HK cent per share to shareholders of the Company whose names appear on the register of members of the Company as at the date of the 2005 Annual General Meeting. Such final dividend was satisfied by way of a scrip dividend with an alternative to the Shareholders to elect to receive such final dividend (or part thereof) in cash in lieu of such scrip dividend. The Company has issued a scrip dividend of 1,293,835 ordinary shares at a price of HKD517,534 to certain Shareholders of the Company on 7th July, 2005.

Report of the Directors

SHARE OPTION SCHEME

In order to provide the Company with a flexible means of giving incentive to, rewarding, remunerating, compensating and/or providing benefits to the Participants for their contributions and/or potential contributions to the Group and for such other purposes as the Board may approve from time to time, the Company has adopted the share option scheme at the Annual General Meeting of the Company held on 30th May, 2005. No option were granted, exercised, cancelled or lapsed during the year under review.

AUDIT COMMITTEE

The audit committee of the Company comprises the three Independent Non-Executive Directors. It has adopted terms of reference which are in line with the code provisions of the Code on Corporate Governance in Appendix 14 of the Listing Rules. The audited financial statements of the Company for the year ended 31st December, 2005 have been reviewed by the audit committee who is of the opinion that such statements comply with the applicable accounting standards, legal requirements and the Listing Rules, and that adequate disclosures have been made.

REMUNERATION COMMITTEE

The remuneration committee comprises three Independent Non-Executive Directors and the Chairman of the Board of the Company. It has adopted terms of reference which are in line with the code provisions of the Code on Corporate Governance in Appendix 14 of the Listing Rules. The duties of the remuneration committee include reviewing and evaluating the remuneration packages of Executive Directors and senior management and making recommendations to the Board as regards the remuneration packages from time to time.

COMMITTEE OF EXECUTIVE DIRECTORS

The Company has established the Committee of Executive Directors which includes all the five Executive Directors and meets frequently as when necessary and is responsible for the management and day-to-day operations of the Group.

EMPLOYEES AND REMUNERATION POLICY

As at 31st December, 2005, the Group has approximately 6,000 employees (2004: approximately 6,000), remunerations were formulated in accordance with market trends and performance of employees. Benefits have included schemes of insurance, retirement, share option and so on.

The emoluments of the Directors are decided by the Remuneration Committee, having regard to the Company's operating results, individual performance and comparable market statistics.

The remuneration policy of the Company for non-executive directors is to ensure that they are sufficiently compensated for their efforts and time dedicated to the Company and that for the employees, including the executive directors and senior management is to ensure that the remuneration offered is appropriate for the duties and in line with market practice. The remuneration policy is to ensure that the pay levels are competitive and effective in attracting, retaining and motivating employees. No director, or any of his associates and executive, is involved in deciding his own remuneration.

Report of the Directors

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

During the year ended 31st December, 2005, there has been no purchase, sale or redemption by the Company or any of its subsidiaries of the Company's listed shares.

COMPLIANCE WITH THE CODE PROVISIONS SET OUT IN THE CODE ON CORPORATE GOVERNANCE PRACTICES

The directors consider that the Company has complied with the Code on Corporate Governance Practice (the "Code") as set out in Appendix 14 of the Listing Rules throughout the year ended 31st December, 2005 except for the following code provisions A.2.1, A.4.2 and E.2.1:

Code Provision A.2.1 – Pursuant to code provision A.2.1, roles of the Chairman and chief executive officer should be separate. In order to comply with this code, Mr. Wong Yiu Ming ("Mr. Wong"), the existing Executive Director and General Manager, has been re-designated as Executive Director and Chief Executive Officer of the Company with effect from 12th September, 2005. The date of appointment of Mr. Wong was slightly later than the six months ended 30th June, 2005.

Code Provision A.4.2 – Under the code provision A.4.2 of the Code, (a) All directors appointed to fill a casual vacancy should be subject to election by shareholders at the first general meeting after their appointment; and (b) Every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years. According to Article 94 of the Memorandum and New Articles of Association ("M&A") of the Company, "The Board shall have power from time to time and at any time to appoint any person as a Director either to fill a casual vacancy or as an addition to the Board. Any Directors so appointed shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election, but shall not be taken into account in determining the Directors who are to retire by rotation at such meeting." Accordingly, the existing Article 94 of the M&A of the Company constitutes a deviation from code provision A.4.2 of the Code and will be amended in the forthcoming annual general meeting as "The Board shall have power from time to time and at any time to appoint any person as a Director either to fill a casual vacancy or as an addition to the Board. Any Director so appointed shall hold office until the next following general meeting of the Company (in the case of filling a casual vacancy) or until the next following annual general meeting of the Company (in case of an addition to the existing Board), and shall then be eligible for re-election, but shall not be taken into account in determining the Directors who are to retire by rotation as such meeting."

Report of the Directors

COMPLIANCE WITH THE CODE PROVISIONS SET OUT IN THE CODE ON CORPORATE GOVERNANCE PRACTICES *(Continued)*

Besides, according to Article 103(A) of the M&A of the Company, "At each annual general meeting one-third of the Directors for the time being, or, if their number is not three or a multiple of three, then the number nearest one-third, shall retire from office. The Directors to retire in every year shall be those who have been longest in office since their last election but as between persons who became Directors on the same day those to retire shall (unless they otherwise agree between themselves) be determined by lot. The retiring Directors shall be eligible for re-election." Therefore in order to comply with code provision A.4.2 of the Code, the existing Article 103(A) of the M&A of the Company will be amended in the forthcoming annual general meeting as "At each annual general meeting one-third of the Directors for the time being, or, if their number is not three or a multiple of three, then the number nearest to but not less than one-third, shall retire from office by rotation provided that every Director, including those appointed for a specific term, shall be subject to retirement by rotation at least once every three years. The Directors to retire in every year shall be those who have been longest in office since their last election but as between persons who became Directors on the same day those to retire shall (unless they otherwise agree between themselves) be determined by lot. The retiring Directors shall be eligible for re-election."

Code Provision E.2.1 – under the Code Provision E.2.1 of the Code, "Directors who, individually or collectively, hold proxies in respect of shares representing 5% or more of the total voting rights at the meeting shall demand a poll in certain circumstances where, on a show of hands, a meeting votes in the opposite manner to that instructed in those proxies." In order to comply with Code Provision E.2.1 of the Code, the existing Article 74 of the M&A is proposed to be amended to add in Article 74(V) in the forthcoming Annual General Meeting to the effect that if required under the Listing Rules, the Chairman and/or any Director or Directors who, individually or collectively, hold proxies in respect of shares representing 5% or more of the total voting rights at the meeting shall demand a poll in certain circumstances where, on a show of hands, a meeting votes in the opposite manner to that instructed in those proxies. If a poll is required under such circumstances, the chairman of the meeting should disclose to the meeting the total number of votes represented by all proxies held by directors indicating an opposite vote to the votes cast at the meeting on a show of hands.

COMPLIANCE WITH MODEL CODE

Throughout the year ended 31st December, 2005, the Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules and all Directors have confirmed that they have fully complied with the required standard as set out in the Model Code based on the enquiry of all the directors of the Company.

CORPORATE GOVERNANCE

The Company has received from each of the Independent Non-executive Directors, an annual confirmation of his/her independence pursuant to Rule 3.13 of the Listing Rules and the Company still considers all of the Independent Non-executive Directors are independent.

Report of the Directors

PUBLIC FLOAT

The Company has maintained a sufficient public float throughout the year ended 31st December, 2005.

PUBLICATION OF THE ANNUAL RESULTS ANNOUNCEMENT AND ANNUAL REPORT

This annual results announcement is published on the Company's website at www.cosmel.com and the website of The Stock Exchange of Hong Kong Limited at www.hkex.com.hk. The annual report will be available at the Company's website and the website of The Stock Exchange of Hong Kong Limited and dispatched to shareholders of the Company in late April 2006.

On behalf of the Board
TANG To
Chairman

Hong Kong, 24th April, 2006

Corporate Governance Report

COMPLIANCE WITH CODE ON CORPORATE GOVERNANCE

The Company has always recognized the importance of the shareholders' transparency and accountability. It is the belief of the Board of Directors that shareholders can maximize their benefits from good corporate governance.

The Company has adopted the code provisions set out in the Code of Corporate Governance Practices (the "New 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"), which became effective on 1st January, 2005 and in replacement of the Code of Best Practice in the old Listing Rules, as its own code of corporate governance practices. The Directors consider that the Company has complied with the New CG Code during the financial year ended 31st December, 2005 except for the following code provision A.2.1 and A.4.2:

Code Provision A.2.1 – Pursuant to code provision A.2.1, roles of the Chairman and chief executive officer should be separate. In order to comply with this code, Mr. Wong Yiu Ming ("Mr. Wong"), the existing Executive Director and General Manager, has been re-designated as Executive Director and Chief Executive Officer of the Company with effect from 12th September, 2005. The date of appointment of Mr. Wong was slightly later than the six months ended 30th June, 2005.

Code Provision A.4.2 – Under the code provision A.4.2 of the New CG Code, (a) all directors appointed to fill a casual vacancy should be subject to election by shareholders at the first general meeting after their appointment; and (b) every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years. According to Article 94 of the Articles of Association of the Company, "The Board shall have power from time to time and at any time to appoint any person as a Director either to fill a casual vacancy or as an addition to the Board. Any Directors so appointed shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election, but shall not be taken into account in determining the Directors who are to retire by rotation at such meeting." According to code provision A.4.2, if there is an extraordinary general meeting held earlier than the first annual general meeting after the appointment, such election by shareholder should be arranged at that extraordinary general meeting, and not the next following annual general meeting. Accordingly, the existing Article 94 of the Articles of Association of the Company constitutes a deviation from code provision A.4.2 of the New CG Code and should be amended.

Besides, according to Article 103(A) of the Articles of Association of the Company, "At each annual general meeting one-third of the Directors for the time being, or, if their number is not three or a multiple of three, then the number nearest one-third, shall retire from office. The Directors to retire in every year shall be those who have been longest in office since their last election but as between persons who became Directors on the same day those to retire shall (unless they otherwise agree between themselves) be determined by lot. The retiring Directors shall be eligible for re-election." Therefore the wordings "nearest one-third" in Article 103(A) do not satisfy the requirements of code provision A.4.2 regarding the requirement that the Directors should retire by rotation at least once every three years. and should be amended as appropriate.

Corporate Governance Report

COMPLIANCE WITH CODE ON CORPORATE GOVERNANCE *(Continued)*

To ensure compliance with the New CG Code, the Board has undertaken to review and proposed the necessary amendments to the Articles of Association of the Company to bring the constitution of the Company in alignment with certain provisions of the New CG Code. An Annual General Meeting of the Company will be held on 29th May, 2006 to amend the Articles of Association of the Company so that (i) any director appointed to fill a casual vacancy shall be subject to re-election by Shareholders at the Company's first general meeting after the appointment rather than the Company's next following annual general meeting after the appointment; and (ii) every director including those appointed for a specific term shall be subject to retirement by rotation at least once every three years.

Accordingly, except for the above mentioned, the directors consider that the Company has complied with the code provisions set out in the Code on Corporate Governance Practices contained in Appendix 14 of the Listing Rules.

THE BOARD

The Board is responsible for the leadership and control of the Company and oversees the Group's businesses, strategic decisions and performances. The management was delegated the authority and responsibility by the Board for the management of the Group. In addition, the Board has also delegated various responsibilities to the Committee of Executive Directors, Audit Committee and Remuneration Committee. Further details of these committees are set out in this report.

The Board has four scheduled meetings a year at quarterly interval and meets as and when required. During the financial year ended 31st December, 2005, the Board held six meetings. The attendance of the Directors at the Board meetings are as follows:

Name of Directors	**Position**	**Number of attendance**
Executive Directors		
Tang To	Chairman	6/6
Zhao Zhuoying	Executive Director	3/6
Wong Yiu Ming	Executive Director and Chief Executive Officer	5/6
Yan Wing Fai, Richard	Executive Director	2/6
Li Tin Loi	Executive Director	3/6
Non-Executive Directors		
Tang Kwan	Honorary Chairman	4/6
He Zhiqi	Vice Chairman	3/6
Kan Wai Wah	Non-Executive Director	2/6
Independent Non-Executive Directors		
Liang Shangli	Independent Non-Executive Director	3/6
Yip Jeffery	Independent Non-Executive Director	4/6
Yeung Shuk Fan	Independent Non-Executive Director	4/6

Corporate Governance Report

THE BOARD *(Continued)*

Board Minutes are kept by the Company Secretary of the Company and are sent to the Directors for records and are open for inspection by the Directors.

The Directors are enabled, upon the reasonable request, to seek independent professional advice in appropriate circumstances, at the Company's expenses. The Board has resolved to provide separate appropriate independent professional advice to the Directors to assist the relevant Directors to discharge their duties to the Company.

Appropriate insurance cover has been arranged in respect of legal action against the Directors.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER ("CEO")

In order to preserve independence and to have balanced judgement of views, there is a clear separation of the roles and responsibilities of the Chairman and CEO and the two positions are held by two different members of the Board. The Board has appointed a Chairman, Mr. Tang To, who is an Executive Director and is responsible for the Company's overall strategic planning and provides leadership to the Board so that the Board works effectively and all important issues are discussed in a timely manner. The CEO, Mr. Wong Yiu Ming, is an Executive Director and is responsible for the daily operation and business directions of the Group.

BOARD COMPOSITION

The Board comprises five Executive Directors, being Tang To, Zhao Zhuoying, Wong Yiu Ming, Yan Wing Fai, Richard and Li Tin Loi, three Non-Executive Directors, being Tang Kwan, He Zhiqi and Kan Wai Wah and three Independent Non-Executive Directors, being Liang Shangli, Yip Jeffery and Yeung Shuk Fan.

Except Mr. Tang To, the Chairman and Executive Director, who is the son of Mr. Tang Kwan, the Honorary Chairman and Non-Executive Director, the other Board members have no financial, business, family or other material/relevant relationships with each other. Such balanced board composition is formed to ensure strong independence exists across the Board. The biographies of the Directors are set out in pages 13 to 14 to the annual report, which demonstrates a diversity of skills, expertise, experience and qualifications.

The Company has received annual confirmation of independence from the three Independent Non-Executive Directors in accordance with Rule 3.13 of the Listing Rules. The Board has assessed their independence and concluded that all the Independent Non-Executive Directors are independent within the definition of the Listing Rules.

Corporate Governance Report

APPOINTMENTS, RE-ELECTION AND REMOVAL

In order to comply with the New CG Code, the Company has taken steps to ensure the appointment of the Non-Executive Directors were appointed with specific terms and shall be subject to retirement and re-election at least once every three years. A special resolution will be proposed on 29th May, 2006 at the Annual General Meeting to be held on that date to amend the Articles of Association of the Company to provide that every Director (including those appointed for a specific term) shall be subject to retirement by rotation at least once every three years and that any Director appointed to fill a casual vacancy on the Board shall be subject to re-election by shareholders at the first general meeting after the appointment rather than at the next following annual general meeting after the appointment and any Director appointed as an addition to the board shall hold office until the next following annual general meeting of the Company.

Each of the Non-Executive Director has entered into an appointment letter with the Company pursuant to which each of them is appointed for service with the Company for a term of three years, subject to the rotational retirement provision of the Articles of Association of the Company.

Regarding the nomination of directors, the Board has review the structure, size and composition (including the skills, knowledge and experiences) of the Board on a regular basis and make recommendations regarding any proposed changes. The Directors identified suitable individual qualified to become board members and makes recommendation on relevant matters relating to the appointment or re-appointment of directors if necessary, in particular, candidates who can add value to the management through their contributions in the relevant strategic business areas and which appointments will result on the constitution of strong and diverse Board.

The meetings of the Board regarding the nomination of directors shall be held at least once a year or when necessary. One meeting was held in 2005. The attendance of the directors is set out as follows:

Directors	**Number of attendance**
Mr. Tang To	1/1
Mr. Wong Yiu Ming	1/1

The Board has reviewed and is of the opinion that the current size and composition of the Board is adequate to facilitate effective decision-making. The Board is also satisfied that it comprises directors, who as a group, provide the core competencies necessary to guide the Group.

RESPONSIBILITIES OF DIRECTORS

The Directors are continually updated with statute, common law, the Listing Rules, legal and regulatory developments, business and market changes and the strategic development of the Group to facilitate the discharge of their responsibilities.

The Independent Non-Executive Directors take an active role in board meetings, contribute to the development of strategies and policies and make sound judgement on issues of strategy, policy, performance, key appointments and standard of conduct. They will take lead where potential conflicts of interests arise. They are also members of various committees and examine the overall performance of the Group in achieving agreed corporate goals and objectives, and monitoring the reporting of performance.

Corporate Governance Report

DELEGATION BY THE BOARD

The day-to-day management of the Company is delegated to the senior management, with division heads responsible for different aspects of the business.

Major corporate matters that are specifically delegated by the Board to the senior management include execution of business strategies and initiatives adopted by the Board, implementation of adequate systems of internal controls and risk management procedures, and compliance with relevant statutory requirements and rules and regulations.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted a code of conduct (the "Model Code") regarding securities transactions by Directors on terms no less exacting than the required standard set out in the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 of the Listing Rules. Having made specific enquiry of all Directors, the Company confirms that all the Directors have complied with the Model Code and its code of conduct regarding directors' securities transactions.

SUPPLY OF AND ACCESS TO INFORMATION

All the Directors are supplied with board papers and relevant materials within a reasonable period of time in advance of the intended meeting date. All Directors have unrestricted access to the management for enquiries and are entitled to have unlimited access to the board papers and relevant materials when required. Such information is prepared to enable the Board to make an informed decision on matters placed before it.

REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT

The Company established a Remuneration Committee in June 2005. When determining the remuneration packages the Remuneration Committee will consider factors such as the salaries paid by comparable companies, time commitment of Directors and senior management, job responsibilities, performance of the individual and performance of the Company. The Remuneration Committee will also review and approve performance-based remuneration by reference to the corporate goals and objectives resolved by the Board from time to time. Its work during 2005 is summarized as follows:

(i) To determine the policy for remuneration of Directors and to make recommendations with respect to the remuneration of the Executive Directors and the senior management of the Company for approval by the Board;

(ii) To oversee performance of the Executive Directors;

(iii) To review the remuneration package and recommend salaries, bonuses, including the incentive awards for both Executive and Non-Executive Directors and the senior management; and

(iv) To administer and make determinations with regard to the Company's share option scheme.

Corporate Governance Report

REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT *(Continued)*

The chairman of the Remuneration Committee is an Independent Non-Executive Director, Mr. Yip Jeffery and the remaining members are Mr. Liang Shangli and Miss Yeung Shuk Fan, both being Independent Non-Executive Directors and the Chairman of the Board of the Company, Mr. Tang To. The attendance of each member is set out as follows:

Directors	**Number of attendance**
Mr. Yip Jeffery	1/1
Mr. Liang Shangli	0/1
Miss Yeung Shuk Fan	1/1
Mr. Tang To	1/1

The Remuneration Committee annually sets out its recommendation on the remuneration package of the Executive Directors. For the financial year ended 31st December, 2005, the Remuneration Committee has reviewed and recommended to the Board the salaries and bonuses of the Executive Directors and the senior management.

In order to attract, retain, and motivate executives and key employees serving for the Group, the Company has adopted a share option scheme in 2005. Such incentive scheme enable the eligible persons to obtain an ownership interest in the Company and thus to reward the participants who contribute to the success of the Group's business and operations.

Details of the amount of Directors emoluments are set out in note 10 to the accounts and details of the 2005 Share Option Scheme are set out in the Report of the Directors.

FINANCIAL REPORTING

The management provides such explanation and information to the Board so as to enable the Board to make an informed assessment of the financial and other information put before the approval by the Board.

The Directors acknowledge their responsibility to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Group and in presenting the interim and annual financial statement, and announcements to shareholders. The responsibilities of the directors in relation to the financial statement, should be read in conjunction with, but distinguished from, the Report of the Auditors on page 37 which acknowledges the reporting responsibilities of the Group's auditors. The Directors aim to present a balanced and understandable assessment of the Group's, position and prospects. The Board is not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Group's ability to continue as a going concern, the Board therefore continues to adopt the going concern approach in preparing the accounts.

The Board acknowledges its responsibility to present a balanced, clear and understandable assessment in the Company's annual and interim reports, other price-sensitive announcement and other financial disclosures required under the Listing Rules, and reports to the regulators.

Corporate Governance Report

INTERNAL CONTROLS

Through the Company's internal audit functions, the directors conduct a review of the effectiveness of the system of internal control of the Company which cover all material controls, including financial, operational and compliance controls and risks management functions.

The Board monitors its internal control systems through a programme of internal audits. The internal audit functions set up by the Company reviews the major operational and financial control of the Group on a continuing basis and aims to cover all major operations of the Group on a rotational basis. The internal audit function reports to the Chairman of the Audit Committee.

AUDIT COMMITTEE

The Audit Committee currently comprises all three Independent Non-Executive Directors namely, Miss Yeung Shuk Fan (being the chairman of the Audit Committee), Mr. Liang Shangli and Mr. Yip Jeffery, who among themselves possess a great deal of management experience in the accounting profession and commercial sectors.

Directors' attendance at Audit Committee meetings

Directors	Number of attendance
Miss Yeung Shuk Fan (chairman of the Audit Committee)	2/2
Mr. Liang Shangli	1/2
Mr. Yip Jeffery	2/2

Full minutes of Audit Committee meetings are kept by a duly appointed secretary of the meeting. Draft and final versions of minutes of the Audit Committee meetings are sent to all members of the Audit Committee for their comment and records respectively. First version should be sent out to all members for comment within approximately 30 days and final version will be used for minutes recording purpose.

The Audit Committee meets the external auditors at least once a year to discuss any areas of concerns during the audits. As considered necessary and requested by any one or more of the Independent Non-Executive Directors, the Audit Committee shall meet with the external auditors without the presence of the executive Board members. The Audit Committee reviews the quarterly results, interim and annual reports before submission to the Board. The Audit Committee focuses not only on the impact of the changes in accounting policies and practices but also on the compliance with accounting standards, the Listing Rules and the legal requirements in the review of the Company's quarterly results, interim and annual reports.

Corporate Governance Report

AUDITORS' REMUNERATION

During the year under review, the remuneration paid to the Company's auditors, Messrs. Ting Ho Kwan & Chan, is set out as follows:

	Fee paid/payable
	HK$'000
Services rendered	
Audit services	1,572
Non-audit services	–
	1,572

COMMITTEE OF EXECUTIVE DIRECTORS

The Company has established the Committee of Executive Directors which includes all the five Executive Directors of the Board and meets frequently as when necessary and is responsible for the management and day to day operations of the Group.

COMMUNICATIONS WITH SHAREHOLDERS

In respect of each substantially separate issue at a general meeting, a separate resolution has been proposed by the Chairman of that meeting.

The Chairman of the Board has attended at the annual general meeting to be available to answer questions at the meeting.

Corporate Governance Report

VOTING BY POLL

During 2005, the Company had informed the shareholders (in its circulars convening a general meeting) the procedures for voting by poll and the rights of shareholders to demand a poll to ensure compliance with the requirements on the poll voting procedures. Pursuant to Article 74 of the Articles of Association of the Company, at any general meeting a resolution put to the vote of the meeting shall be decided on a show of hands unless a poll is taken as may from time to time be required under the Listing Rules or any other applicable laws, rules or regulations or unless a poll is (before or on the declaration of the result of the show of hands or on the withdrawal of any other demand for a poll) demanded:–

i) by the Chairman of the Meeting; or

ii) by at least three members present in person or by proxy for the time being entitled to vote at the meeting; or

iii) by any member or members present in person or by proxy and representing not less than one-tenth of the total voting rights of all the members having the right to vote at the meeting; or

iv) by a member or members present in person or by proxy and holding shares in the Company conferring a right to vote at the meeting being shares on which an aggregate sum has been paid up equal to not less than one-tenth of the total sum paid up on all the shares conferring that right.

Unless a poll is to taken as required under the Listing Rules or any other applicable laws, rules or regulations or unless a poll be so demanded and not withdrawn, a declaration by the Chairman that a resolution has on a show of hands been carried or carried unanimously, or by a particular majority, or lost, and an entry to that effect in the book containing the minutes of the proceedings of the Company shall be conclusive evidence of the fact without proof of the number or proportion of the votes recorded in favour or against such resolution.

The chairman of a general meeting had at the commencement of the meeting ensure that an explanation is provided of:

i) the procedure for demanding a poll by shareholders before putting a resolution to the vote on a show of hands; and

ii) the detailed procedures for conducting a poll and then answer any questions (if any) from shareholders whenever voting by way of a poll is required.

In addition to the proposed amendments to the Articles of Association of the Company as mentioned in the section "Compliance with Code on Corporate Governance" as mentioned above, it will also be proposed at the Annual General Meeting to be held on 29th May, 2006 to amend Article 74 to include the provision that the Chairman and/or any director or directors who, individually or collectively, hold proxies in respect of shares representing 5% or more of the total voting rights at the meeting shall demand a poll in certain circumstances where, on a show of hands, a meeting votes in the opposite manner to that instructed in those proxies, in order to be consistent with the requirement of code provision E.2.1 of the New CG Code.

Auditors' Report

TING HO KWAN & CHAN
Certified Public Accountants (practising)
9th Floor, Tung Ning Building
249-253 Des Voeux Road Central
Hong Kong

Hong Kong, 24th April, 2006

TO THE MEMBERS OF COSMOS MACHINERY ENTERPRISES LIMITED
大同機械企業有限公司
(incorporated in Hong Kong with limited liability)

We have audited the financial statements on pages 38 to 109 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Hong Kong Companies Ordinance requires the directors to prepare financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently, that judgements and estimates are made which are prudent and reasonable and that the reasons for any significant departure from applicable accounting standards are stated.

It is our responsibility to form an independent opinion, based on our audit, on those financial statements and to report our opinion solely to you, as a body, in accordance with section 141 of the Hong Kong Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

BASIS OF OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of the Company and of the Group, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

OPINION

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31st December, 2005 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the Hong Kong Companies Ordinance.

TING HO KWAN & CHAN
Certified Public Accountants (practising)

Consolidated Income Statement

For the year ended 31st December, 2005

	Notes	2005 HK$	(As restated) 2004 HK$
Turnover	6	**1,650,728,643**	1,665,686,691
Cost of sales		**(1,334,057,895)**	(1,328,939,190)
Gross profit		**316,670,748**	336,747,501
Other income and gains, net	6	**60,205,838**	23,469,894
Distribution costs		**(100,084,652)**	(100,086,383)
Administrative expenses		**(201,104,091)**	(197,460,058)
Other operating expenses		**(3,752,123)**	(2,470,792)
Impairment losses for bad and doubtful debts		**(20,306,525)**	(12,502,318)
Profit from operations		**51,629,195**	47,697,844
Finance costs	7	**(27,705,346)**	(19,967,833)
Investment income (deficit)	8	**1,156,065**	(606,339)
Gain on partial disposal of interests in subsidiaries		**–**	3,561,010
Loss on disposal of an associate		**(163,278)**	–
Share of results of associates		**55,383,405**	34,796,957
Profit before taxation	9	**80,300,041**	65,481,639
Taxation	11	**7,197,785**	8,933,910
Profit for the year		**73,102,256**	56,547,729
Attributable to:			
Equity holders of the Company	12	**54,221,555**	41,460,022
Minority interests		**18,880,701**	15,087,707
		73,102,256	56,547,729
Basic earnings per share for profit attributable to the equity holders of the Company during the year	13	**7.67 cents**	5.87 cents
Proposed dividend	14	**10,612,840**	7,062,289

The notes on pages 46 to 109 are an integral part of these consolidated financial statements.

Consolidated Balance Sheet

At 31st December, 2005

	Notes	2005 HK$	(As restated) 2004 HK$
Non-current Assets			
Property, plant and equipment	15	**352,185,601**	378,163,460
Investment properties	16	**29,030,000**	24,400,000
Leasehold land and land use rights	17	**37,233,586**	46,356,915
Goodwill	18	**–**	1,345,375
Negative goodwill	18	**–**	(1,175,170)
Interests in associates	20	**176,613,599**	164,785,287
Available-for-sale financial assets	21	**7,649,210**	–
Investment securities	22	**–**	7,589,720
Deferred tax assets	31	**16,482,936**	15,946,247
		619,194,932	637,411,834
Current Assets			
Inventories	23	**515,079,900**	479,427,789
Leasehold land and land use rights	17	**1,062,347**	1,271,319
Trade and other receivables	24	**587,082,280**	571,589,920
Bills receivable		**22,319,691**	10,114,025
Tax recoverable		**22,939**	863,056
Pledged bank deposits	37	**15,208,608**	9,097,384
Bank balances and cash	26	**116,814,933**	102,399,361
		1,257,590,698	1,174,762,854
Current Liabilities			
Trade and other payables	25	**498,407,603**	490,301,830
Bills payable		**95,802,239**	149,813,650
Amounts due to associates		**9,428,477**	13,577,507
Tax payable		**11,194,007**	12,981,901
Bank and other borrowings – due within one year	29	**351,254,487**	261,994,633
Obligations under finance leases – due within one year	30	**4,895,625**	5,373,852
		970,982,438	934,043,373
Net Current Assets		**286,608,260**	240,719,481
Total Assets less Current Liabilities		**905,803,192**	878,131,315

Consolidated Balance Sheet

At 31st December, 2005

	Notes	2005 HK$	(As restated) 2004 HK$
Non-current Liabilities			
Bank and other borrowings – due after one year	29	**21,264,955**	47,307,864
Obligations under finance leases – due after one year	30	**9,790,112**	1,035,295
Deferred tax liabilities	31	**9,536,005**	9,607,325
Total non-current liabilities		**40,591,072**	57,950,484
Net Assets		**865,212,120**	820,180,831
Equity			
Capital and reserves attributable to the Company's equity holders:			
Share capital	27	**283,009,077**	282,491,543
Share premium	28	**241,478,789**	241,478,789
Other reserves	28	**25,277,384**	28,945,707
Retained profits			
– Proposed dividend	14	**10,612,840**	7,062,289
– Others		**164,917,149**	102,643,518
		725,295,239	662,621,846
Minority Interests		**139,916,881**	157,558,985
Total Equity		**865,212,120**	820,180,831

The financial statements on pages 38 to 109 were approved and authorised for issue by the Board of Directors on 24th April, 2006 and are signed on its behalf by:

TANG TO	**WONG Yiu Ming**
DIRECTOR	*DIRECTOR*

The notes on pages 46 to 109 are an integral part of these consolidated financial statements.

Balance Sheet

At 31st December, 2005

	Notes	2005 HK$	2004 HK$
Non-current Assets			
Property, plant and equipment	15	**3,233,425**	3,612,661
Interests in subsidiaries	19	**620,322,692**	617,430,528
Interests in associates	20	**1,383,391**	2,003,003
Available-for-sale financial assets	21	**4,579,544**	–
Investment securities	22	**–**	4,579,544
		629,519,052	627,625,736
Current Assets			
Trade and other receivables		**1,027,784**	2,206,768
Bank balances and cash	26	**216,363**	691,524
		1,244,147	2,898,292
Current Liabilities			
Trade and other payables		**5,923,661**	4,571,723
Amounts due to subsidiaries		**47,653,863**	23,511,134
Amount due to an associate		**357,318**	357,318
Bank and other borrowings – due within one year	29	**28,213,732**	21,381,178
		82,148,574	49,821,353
Net Current Liabilities		**(80,904,427)**	(46,923,061)
Net Assets		**548,614,625**	580,702,675
Capital and Reserves			
Share capital	27	**283,009,077**	282,491,543
Share premium	28	**241,478,789**	241,478,789
Retained profits	28	**13,513,919**	49,670,054
Proposed dividend	14	**10,612,840**	7,062,289
Total Equity		**548,614,625**	580,702,675

TANG TO
DIRECTOR

WONG Yiu Ming
DIRECTOR

The notes on pages 46 to 109 are an integral part of these financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31st December, 2005

		Attributable to equity holders of the Company					
		Share capital	Share premium	Other reserves	Retained profits	Minority interests	Total
	Notes	HK$	HK$	HK$	HK$	HK$	HK$
Balance at 1st January, 2004, as previously reported as equity		256,810,494	267,159,838	39,472,809	68,360,052	–	631,803,193
Balance at 1st January, 2004, as previously separately reported as minority interests		–	–	–	–	170,482,119	170,482,119
Reversal of deferred taxation for leasehold land	*2(a)*	–	–	2,406,878	–	878,482	3,285,360
Reversal of revaluation reserve for leasehold land	*2(a)*	–	–	(13,753,589)	(114,267)	(5,019,897)	(18,887,753)
Deferred tax arising from the revaluation of investment properties	*2(a)*	–	–	(1,833,937)	–	–	(1,833,937)
Balance at 1st January, 2004, as restated		256,810,494	267,159,838	26,292,161	68,245,785	166,340,704	784,848,982
Fair value gains (net of tax):							
– Buildings	*28*	–	–	2,041,748	–	775,626	2,817,374
Realised on partial disposal of interests in subsidiaries	*28*	–	–	(280,369)	–	–	(280,369)
Acquisition of additional interests in subsidiaries		–	–	–	–	(21,178,816)	(21,178,816)
Capital contributed from minority shareholders		–	–	–	–	2,311,629	2,311,629
Dividend paid to minority shareholders		–	–	–	–	(6,184,041)	(6,184,041)
Share of translation reserves		–	–	–	–	408,676	408,676
Currency translation differences	*28*	–	–	892,167	–	(2,500)	889,667
Net income/(expense) recognised directly in equity		–	–	2,653,546	–	(23,869,426)	(21,215,880)
Profit for the year		–	–	–	41,460,022	15,087,707	56,547,729
Total recognised income for 2004		–	–	2,653,546	41,460,022	(8,781,719)	35,331,849
Bonus issue of shares		25,681,049	(25,681,049)	–	–	–	–
Balance at 31st December, 2004		282,491,543	241,478,789	28,945,707	109,705,807	157,558,985	820,180,831

Consolidated Statement of Changes in Equity

For the year ended 31st December, 2005

		Attributable to equity holders of the Company					
		Share capital	**Share premium**	**Other reserves**	**Retained profits**	**Minority interests**	**Total**
	Notes	HK$	HK$	HK$	HK$	HK$	HK$
Balance at 1st January, 2005, as per above		282,491,543	241,478,789	28,945,707	109,705,807	157,558,985	820,180,831
Opening adjustment for the adoption of HKAS 40	*2(a)*	–	–	(6,772,784)	6,772,784	–	–
Opening adjustment for the adoption of HKFRS 3	*2(a)*	–	–	–	1,175,170	–	1,175,170
Balance at 1st January, 2005, as restated		282,491,543	241,478,789	22,172,923	117,653,761	157,558,985	821,356,001
Fair value gains:							
– Available-for-sale financial assets	*28*	–	–	59,490	–	–	59,490
– Buildings	*28*	–	–	4,947,148	–	(1,385)	4,945,763
Realised on disposal of properties	*28*	–	–	(10,716,962)	10,716,962	–	–
Realised on disposal of interest in an associate	*28*	–	–	(6,721)	–	–	(6,721)
Share of changes in equity of associates	*28*	–	–	1,737,749	–	1,066,902	2,804,651
Currency translation differences	*28*	–	–	7,083,757	–	1,662,350	8,746,107
Net income recognised directly in equity		–	–	3,104,461	10,716,962	2,727,867	16,549,290
Profit for the year		–	–	–	54,221,555	18,880,701	73,102,256
Total recognised income for 2005		–	–	3,104,461	64,938,517	21,608,568	89,651,546
Issue of shares		517,534	–	–	–	–	517,534
Acquisition of additional interests in subsidiaries		–	–	–	–	(22,309,903)	(22,309,903)
Dividend paid to minority shareholders		–	–	–	–	(16,940,769)	(16,940,769)
Dividend relating to 2004		–	–	–	(7,062,289)	–	(7,062,289)
Balance at 31st December, 2005		283,009,077	241,478,789	25,277,384	175,529,989	139,916,881	865,212,120

The notes on pages 46 to 109 are an integral part of these consolidated financial statements.

Consolidated Cash Flow Statement

For the year ended 31st December, 2005

	Notes	2005 HK$	(As restated) 2004 HK$
OPERATING ACTIVITIES			
Profit from operations		**51,629,195**	47,697,844
Adjustments for:			
Depreciation and amortisation of property, plant and equipment	*15*	**59,409,128**	56,404,390
Amortisation of leasehold land and land use rights	*17*	**1,062,347**	1,271,319
Amortisation of goodwill		**–**	1,838,758
Impairment losses on goodwill	*18*	**2,455,958**	–
Release of negative goodwill		**(16,449,454)**	(6,755,992)
Loss on disposal of property, plant and equipment	*9*	**4,597,514**	444,501
Deficit arising on revaluation of leasehold land and buildings	*9*	**186,250**	632,034
Fair value gains on investment properties	*6*	**(3,503)**	–
Impairment losses for bad and doubtful debts	*9*	**20,306,525**	12,502,318
Write-down of obsolete inventories	*9*	**7,753,318**	1,397,903
Operating cash flows before movements in working capital		**130,947,278**	115,433,075
Increase in inventories		**(36,436,325)**	(66,001,275)
Increase in trade and other receivables		**(29,478,819)**	(27,823,844)
Increase in bills receivable		**(12,000,801)**	(8,942)
Increase in trade and other payables		**3,188,988**	8,637,250
(Decrease) Increase in bills payable		**(55,105,607)**	51,278,216
Cash generated from operations		**1,114,714**	81,514,480
Tax outside Hong Kong paid		**(9,118,654)**	(5,069,888)
Hong Kong Profits Tax refunded (paid)		**156,654**	(716,655)
NET CASH (USED IN) FROM OPERATING ACTIVITIES		**(7,847,286)**	75,727,937

Consolidated Cash Flow Statement

For the year ended 31st December, 2005

	Notes	2005 HK$	(As restated) 2004 HK$
INVESTING ACTIVITIES			
Amounts repaid from (advanced to) associates		**4,480,856**	(476,246)
Acquisition of associates		**–**	(4,929,570)
(Increase) Decrease in pledged bank deposits		**(6,111,224)**	4,871,720
Acquisition of additional shareholding in subsidiaries from minority shareholders		**(6,971,031)**	(23,370,501)
Disposal of partial interests in subsidiaries		**–**	11,845,628
Purchase of property, plant and equipment		**(51,710,803)**	(90,607,839)
Proceeds from disposal of an associate		**1**	–
Proceeds from disposal of property, plant and equipment		**41,169,054**	9,259,720
Proceeds from disposal of investment securities		**–**	1,631,343
Interest received	*8*	**1,009,617**	760,803
Dividends received from investment securities	*8*	**146,448**	110,266
Dividends received from associates		**39,425,489**	3,562,439
NET CASH GENERATED FROM (USED IN) INVESTING ACTIVITIES		**21,438,407**	(87,342,237)
FINANCING ACTIVITIES			
Repayment of bank loans		**(187,635,194)**	(237,748,238)
Interest paid	*7*	**(27,705,346)**	(19,967,833)
Repayment of obligations under finance leases		**(4,882,156)**	(6,294,230)
Dividends paid to minority shareholders of subsidiaries		**(16,940,769)**	(6,184,041)
Dividends paid to Company shareholders		**(7,062,289)**	–
Repayment of other loans		**(262,254)**	(8,747,269)
Bank loans raised		**228,620,864**	294,578,979
Capital contributed by minority shareholders of subsidiaries		**–**	2,311,629
Amounts advanced (to) from associates		**(4,149,030)**	12,136,923
Proceeds from issue of shares		**517,534**	–
NET CASH (USED IN) FROM FINANCING ACTIVITIES		**(19,498,640)**	30,085,920
(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS		**(5,907,519)**	18,471,620
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		**83,867,372**	65,128,652
EFFECT OF FOREIGN EXCHANGE RATE CHANGES		**1,850,049**	267,100
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	*26*	**79,809,902**	83,867,372

The notes on pages 46 to 109 are an integral part of these consolidated financial statements.

Notes to the Financial Statements

For the year ended 31st December, 2005

1. GENERAL

The Company is a public limited company domiciled and incorporated in Hong Kong and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The Company is an investment holding company. The address of its registered office is 8/F., Tai Tung Industrial Building, 29-33 Tsing Yi Road, Tsing Yi Island, New Territories, Hong Kong. The principal activities of its principal subsidiaries are set out in note 39.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

(a) Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS"), which also include Hong Kong Accounting Standards ("HKAS") and Interpretations ("Int") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the Hong Kong Companies Ordinance. The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of buildings, certain financial assets and financial liabilities and investment properties, which are carried at fair value.

The preparation of financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in Note 4.

Notes to the Financial Statements
For the year ended 31st December, 2005

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(a) Basis of preparation *(continued)*

The adoption of new / revised HKFRS

In 2005, the Group adopted the new / revised standards and interpretations of HKFRS below, which are relevant to its operations. The 2004 comparatives have been amended as required, in accordance with the relevant requirements.

HKAS 1	Presentation of Financial Statements
HKAS 2	Inventories
HKAS 7	Cash Flow Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 10	Events after the Balance Sheet Date
HKAS 16	Property, Plant and equipment
HKAS 17	Leases
HKAS 18	Revenue
HKAS 21	The Effects of Changes in Foreign Exchange Rates
HKAS 23	Borrowing Costs
HKAS 24	Related Party Disclosures
HKAS 27	Consolidated and Separate Financial Statements
HKAS 28	Investments in Associates
HKAS 32	Financial Instruments: Disclosures and Presentation
HKAS 33	Earnings Per Share
HKAS 36	Impairment of Assets
HKAS 38	Intangible Assets
HKAS 39	Financial Instruments: Recognition and Measurement
HKAS 40	Investment Property
HK(SIC) – Int 12	Scope of HK(SIC) – Int 12 Consolidation – Special Purpose Entities
HK(SIC) – Int 15	Operating Leases – Incentives
HK(SIC) – Int 21	Income Taxes – Recovery of Revalued Non-Depreciated Assets
HKFRS 2	Share-based Payments
HKFRS 3	Business Combinations

Notes to the Financial Statements

For the year ended 31st December, 2005

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(a) Basis of preparation *(continued)*

The adoption of new / revised HKFRS (continued)

The adoption of new / revised HKASs 1, 2, 7, 8, 10, 16, 18, 21, 23, 24, 27, 28, 33 and HK(SIC)-Ints 12 and 15 and HKFRS 2 did not result in substantial changes to the Group's accounting policies. In summary:

– HKAS 1 affects certain presentation in these financial statements, including the following:

  • minority interests are now presented in the consolidated income statement and within the equity in the consolidated balance sheet separately from results/equity attributable to equity holders of the Company;
  • taxes of associates attributable to the Group, which were previously included in tax charge in the consolidated income statement, are now included in the Group's share of profits and losses of associates; and
  • the Group is no longer permitted to not disclose comparative information for movements in property, plant and equipment.

– HKASs 2, 7, 8, 10, 16, 18, 23, 27, 28, 33 and HK(SIC) – Ints 12 and 15 and HKFRS 2 had no material effect on the Group's policies.

– HKAS 21 had no material effect on the Group's policy. The functional currency of each of the consolidated entities has been re-evaluated based on the guidance to the revised standard. All the Group entities have the same functional currency as the presentation currency for respective entity financial statements.

– HKAS 24 has affected the identification of related parties and some other related party disclosures.

The adoption of revised HKAS 17 has resulted in a change in the accounting policy relating to the reclassification of leasehold land and land use rights from property, plant and equipment to operating leases. In accordance with the provisions of HKAS 17, a lease of land and building should be split into a lease of land and a lease of building in proportion to the relative fair values of the leasehold interests in the land element and the building element of the lease at the inception of the lease. The up-front prepayments made for the leasehold land and land use rights are expensed in the income statement on a straight-line basis over the period of the lease or when there is impairment, the impairment is expensed in the income statement. In case, the two elements cannot be allocated reliably, the entire lease is classified as a finance lease and carried at cost less accumulated depreciation and any accumulated impairment losses. In prior years, the leasehold land and land use rights were accounted for at fair value or cost less accumulated depreciation and any accumulated impairment. The new accounting policy has been applied retrospectively to the extent that results in the reclassification of certain leasehold interest in land and land use rights previously included in "Property, plant and equipment" as "Leasehold land and land use rights" with comparatives restated to conform to the current year's presentation.

Notes to the Financial Statements
For the year ended 31st December, 2005

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(a) Basis of preparation *(continued)*

The adoption of new / revised HKFRS (continued)

The adoption of HKASs 32 and 39 has resulted in a change in the accounting policy for recognition, measurement, derecognition and disclosure of financial instruments.

Until 31st December 2004 investments of the Group were classified into long term investments and/or short term investments, which were stated in the balance sheet at cost less any accumulated impairment losses and at fair value, respectively, and any impairment losses on long term investments and changes in fair value of the short term investments were recognised in the income statement in the period in which they arise.

In accordance with the provisions of HKAS 39, the investments have been classified into available-for-sale financial assets and financial assets at fair value through profit or loss. The classification depends on the purpose for which the investments were held. As a result of the adoption of HKAS 39, all the investments are now stated at fair value in the balance sheet, except for certain available-for-sale financial assets that do not have a quoted market price in an active market and whose fair value cannot be reliably measured, when they are measured at cost less any accumulated impairment losses. In addition, all the investments as at 31st December 2004 that should be measured at fair value on adoption of HKAS 39 should be remeasured at 1st January 2005 and any adjustment of the previous carrying amount should be recognised as an adjustment of the balance of retained profits at 1st January 2005. However the adoption of HKAS 39 has had no material effect on the Group's results and equity.

The effect of the changes in accounting policies on these financial statements as a result of the adoption of HKAS 32 and HKAS 39 is summarised as follows:

All investment securities of the Group and the Company as at 31st December 2004 were redesignated into available-for-sale financial assets on 1st January 2005. The aggregate differences between the respective carrying value of each investment as at 31st December 2004 and the respective fair value at 1st January 2005 is insignificant and hence, no adjustment has been made against the retained profits at 1st January 2005.

The adoption of revised HKAS 40 has resulted in a change in the accounting policy of which the changes in fair values are recorded in the income statement as part of other income. In prior years, the increases in fair value were credited to the investment properties revaluation reserve. Decreases in fair value were first set off against increases on earlier valuations on a portfolio basis and thereafter expensed in the income statement. However, since the Group has continued to adopt the fair value model, there is no requirement for the Group to restate the comparative information, any adjustment should be made to the retained profits as at 1st January 2005, including the reclassification of any amount held in revaluation surplus for investment property.

Notes to the Financial Statements

For the year ended 31st December, 2005

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(a) Basis of preparation *(continued)*

The adoption of new / revised HKFRS (continued)

In addition, in prior years land (including leasehold land) which the Group held for an undetermined future purpose was accounted for under the valuation model in SSAP 17 "Property, plant and equipment", whereby the land was carried at fair value, with any movements in the fair value of the land being normally taken to the land and buildings revaluation reserve, net of deferred tax thereon.

Upon adoption of HKAS 40 as from 1st January 2005:

All changes in the fair value of investment properties are recognised directly in the income statement in accordance with the fair value model in HKAS 40; and land held for an undetermined future purpose is recognised as "investment property" if the property is freehold or, if the property is leasehold, the Group has chosen to recognise such land as investment property rather than as land held under an operating lease. As such, movements in the fair value of land held for an undetermined future purpose are also now recognised directly in the income statement as they arise in accordance with the fair value model.

These changes in accounting policy have been adopted prospectively by increasing the opening balance of retained profits as of 1st January 2005 by HK$6,772,784 to include all the Group's previous investment properties revaluation reserve and the accumulated surplus held in the Group's land and buildings revaluation reserve in respect of the leasehold land held for an undetermined future use.

This new policy has no significant effect on the Group's profit before taxation for the year ended 31st December 2005 and 2004.

The adoption of revised HK(SIC)-Int 21 has resulted in a change in the accounting policy relating to the measurement of deferred tax liabilities arising from the revaluation of investment properties. Such deferred tax liabilities are measured on the basis of tax consequences that would follow from recovery of the carrying amount of that asset through use. In prior years, the carrying amount of that asset was expected to be recovered through sale.

The adoption of HKFRS 3, HKAS 36 and HKAS 38 results in a change in the accounting policy for goodwill. Until 31st December 2004, goodwill was:

– Amortised on a straight line basis over a period ranging from 3 to 5 years; and

– Assessed for an indication of impairment at each balance sheet date.

Notes to the Financial Statements
For the year ended 31st December, 2005

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(a) Basis of preparation *(continued)*

The adoption of new / revised HKFRS (continued)

In accordance with the provisions of HKFRS 3 (Note 2 (i)):

- The Group ceased amortisation of goodwill from 1st January 2005;
- Accumulated amortisation as at 31st December 2004 has been eliminated with a corresponding decrease in the cost of goodwill;
- From the year ended 31st December 2005 onwards, goodwill is tested annually for impairment, as well as when there is indication of impairment;
- Any excess of the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities acquired as at the date of acquisition over the cost of business combination is recognised immediately in the consolidated income statement. In addition, following the transitional provisions of HKFRS 3, the carrying amounts of the negative goodwill recognised on the consolidated balance sheet or remained credited to the consolidated capital reserve as at 1st January 2005 were derecognised by way a corresponding adjustment to the opening retained profits as at 1st January 2005 (Note 18(i)); and
- On disposal of subsidiaries or associates, any attributable goodwill previously eliminated against the consolidated capital reserve at the time of acquisition is transferred to the consolidated retained profits as a movement in reserves and is not included in the calculation of the gain or loss on disposal.

The Group has reassessed the useful lives of its intangible assets in accordance with the provisions of HKAS 38. No adjustment resulted from this reassessment.

The adoption of revised HKAS 17 resulted in a decrease in opening reserves at 1st January 2004 by HK$11,460,978.

Notes to the Financial Statements

For the year ended 31st December, 2005

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(a) Basis of preparation *(continued)*

The adoption of new / revised HKFRS (continued)

The adoption of revised HKAS 17 also resulted in:

	2005	2004
	HK$	HK$
Decrease in property, plant and equipment	**(59,461,000)**	(72,450,000)
Increase in leasehold land and land use rights	**38,295,933**	47,628,234
Decrease in deferred tax liabilities	**2,929,311**	4,022,328
	(18,235,756)	(20,799,438)
Increase (Decrease) in retained profits	**3,796,465**	(503,604)
Decrease in building revaluation reserves	**(21,558,892)**	(15,424,632)
Decrease in translation reserves	**–**	(208,983)
Decrease in minority interests	**(473,329)**	(4,662,219)
	(18,235,756)	(20,799,438)
Decrease in administrative expenses	**(717,735)**	(963,418)
Increase in other operating expenses	**–**	1,190,075
Increase (Decrease) in basic earnings per share	**0.11 cents**	(0.06) cents

The adoption of HK(SIC)-Int 21 resulted in a decrease in opening reserves at 1st January 2004 by HK$1,833,937.

The adoption of HK(SIC)-Int 21 also resulted in:

	2005	2004
	HK$	HK$
Increase in deferred tax liabilities	**(1,833,937)**	(1,833,937)
Decrease in investment properties revaluation reserve	**(1,833,937)**	(1,833,937)

The adoption of revised HKFRS 3 resulted in an increase in opening reserves at 1st January 2005 by HK$1,175,170.

Notes to the Financial Statements
For the year ended 31st December, 2005

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(a) Basis of preparation *(continued)*

The adoption of new / revised HKFRS (continued)

The adoption of HKFRS 3 also resulted in:

	2005	2004
	HK$	HK$
Increase in retained profits	**1,175,170**	–
Increase in intangible assets	**1,175,170**	–

There was no impact on basic earnings per share from the adoption of HKAS 39.

(b) Basis of consolidation

The consolidated financial statements include the financial statements of the Company and all its subsidiaries made up to 31st December.

(i) Subsidiaries

Subsidiaries are those entities in which the Company, directly or indirectly, controls the composition of the board of directors, controls more than half the voting power or holds more than half of the issued share capital.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interests. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement (see Note 2(i)).

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Minority interests represent the interests of outside shareholders in the results and net assets of the Company's subsidiaries.

Notes to the Financial Statements

For the year ended 31st December, 2005

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(b) Basis of consolidation *(continued)*

(i) Subsidiaries (continued)

In the Company's balance sheet the investments in subsidiaries are stated at cost less any accumulated impairment losses. The results of subsidiaries are accounted by the Company on the basis of dividends received and receivable.

(ii) Associates

Associates are all entities, not being a subsidiary or a jointly controlled entity, over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for by the equity method of accounting and are initially recognised at cost. The Group's investments in associates include goodwill (net of any accumulated impairment loss) identified on acquisition (see Note 2(j)).

The Group's share of its associates' post-acquisition results is recognised in the income statement, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interests in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

In the Company's balance sheet the investments in associates are stated at cost less any accumulated impairment losses. The results of associates are accounted for by the Company on the basis of dividends received and receivable.

(c) Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and returns that are different from those of segment operating in other economic environments.

Notes to the Financial Statements
For the year ended 31st December, 2005

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(d) Foreign current translation

(i) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in HK dollars, which is the Company's functional and presentation currency.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except when deferred in equity as qualifying cash flow hedges or qualifying net investment hedges.

Translation differences on non-monetary items, such as equity instruments held at fair value through profit or loss, are reported as part of the fair value gain or loss. Translation differences on non-monetary items, such as equities classified as available-for-sale financial assets, are included in the fair value reserve in equity.

(iii) Group companies

The results and financial position of all the group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(i) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

(ii) income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and

(iii) all resulting exchange differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities, and of borrowings and other currency instruments designated as hedges of such investments, are taken to shareholders' equity. When a foreign operation is sold, such exchange differences are recognised in the income statement as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

Notes to the Financial Statements
For the year ended 31st December, 2005

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(e) Property, plant and equipment

Buildings comprise mainly factories and offices. Buildings are shown at fair value, based on annual valuations by external independent valuers, less subsequent depreciation. Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset.

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

Increases in the carrying amount arising on revaluation of buildings are credited to other reserves in shareholders' equity. Decreases that offset previous increases of the same asset are charged against fair value reserves directly in equity, all other decreases are expensed in the income statement.

Depreciation of property, plant and equipment is calculated using the straight-line method to allocate cost or revalued amounts to their residual values (if, there are any) over their estimated useful lives, as follows:

Buildings	40 years or unexpired term of the leases, if shorter
Furniture, fixtures and equipment	5 – 10 years
Plant and machinery	5 – 10 years
Motor vehicles	5 years

The assets' residual values (if any) and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date. An item of fixed asset is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. The gain or loss on derecognition of the asset, calculated as the difference between the net disposal proceeds and the carrying amount of the item, is included in the income statement in the period the item is derecognised.

Construction in progress represents buildings, structures, plant and machinery and other fixed assets under construction or installation and is stated at cost less any accumulated impairment losses, and is not depreciated. Cost comprises direct costs of construction, installation and testing as well as capitalised borrowing costs on related borrowed funds during the period of construction or installation. Construction in progress is reclassified to the appropriate category of fixed assets or investment properties when completed and ready for use.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2(j)).

Notes to the Financial Statements
For the year ended 31st December, 2005

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(f) Investment properties

Property that is held for long-term rental yields or for capital appreciation or both, and that is not occupied by the companies in the consolidated Group, is classified as investment property.

Investment property comprises land held under operating leases and buildings held under finance leases.

Land held under operating leases are classified and accounted for as investment property when the rest of the definition of investment property is met. The operating lease is accounted for as if it were a finance lease.

Investment property is measured initially at its cost, including related transaction costs.

After initial recognition, investment property is carried at fair value. Fair value is based on active market prices, adjusted, if necessary, for any difference in the nature, location or condition of the specific asset. If this information is not available, the Group uses alternative valuation methods such as recent prices on less active markets or discounted cash flow projections. These valuations are performed in accordance with the guidance issued by the international Valuation Standards Committee. These valuations are reviewed annually by external valuers. Investment property that is being redeveloped for continuing use as investment property, or for which the market has become less active, continues to be measured at fair value.

The fair value of investment property reflects, among other things, rental income from current leases and assumptions about rental income from future leases in the light of current market conditions.

The fair value also reflects, on a similar basis, any cash outflows that could be expected in respect of the property. Some of those outflows are recognised as a liability, including finance lease liabilities in respect of land classified as investment property, others, including contingent rent payments, are not recognised in the financial statements.

Subsequent expenditure is charged to the asset's carrying amount only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance costs are expensed in the income statement during the financial period in which they are incurred.

Changes in fair values are recognised in the income statement.

If an investment property becomes owner-occupied, it is reclassified as property, plant and equipment and its fair value at the date of reclassification becomes its cost for accounting purposes. Property that is being constructed or developed for future use as investment property is classified as property, plant and equipment and stated at cost until construction or development is complete, at which time it is reclassified and subsequently accounted for as investment property.

Notes to the Financial Statements
For the year ended 31st December, 2005

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(f) Investment properties *(continued)*

If an item of property, plant and equipment becomes an investment property because its use has changed, any difference resulting between the carrying amount and the fair value of this item at the date of transfer is recognised in equity as a revaluation of property, plant and equipment under HKAS 16. However, if a fair value gain reverses a previous impairment loss, the gain is recognised in the income statement.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposal. The gain or loss arising from the retirement or disposal of investment property, calculated as the difference between the net disposal proceeds and the carrying amount of the investment property, is recognised in the income statement in the period of the retirement or disposal.

(g) Leasehold land and land use rights

Leasehold land and land use rights are lump sum upfront payments to acquire long-term interest in lessee-occupied properties.

Leasehold land and land use rights relating to buildings of the group are stated at cost and are amortised over the period of the lease on the straight-line basis to the income statement. Leasehold land and land use rights relating to investment properties and properties developed for sale are not amortised and included as part of the cost of such properties.

(h) 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. 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.

(i) Intangible assets

Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary/associate/jointly controlled entity at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill on acquisitions of associates and jointly controlled entities is included in investments in associates and jointly controlled entities respectively. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing.

Notes to the Financial Statements

For the year ended 31st December, 2005

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(j) Impairment of assets

Assets that have an indefinite useful life are not subject to amortisation, which are at least tested annually for impairment and are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

(k) Investments

From 1st January 2004 to 31st December 2004:

The Group classified its investment in securities, other than subsidiaries and associates as investment securities.

Investment securities

Investment securities are stated at cost less any impairment losses.

The carrying amounts of individual investments are reviewed at each balance sheet date to assess whether the fair values have declined below the carrying amounts. When a decline other than temporary has occurred, the carrying amounts of such investments will be reduced to its fair value. The impairment loss is recognised as an expense in the profit and loss account. This impairment loss is written back to profit and loss when the circumstances and events that led to the write-downs or write-offs cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future.

From 1st January 2005 onwards:

The Group classified its investments in the following categories: financial assets at fair value through profit or loss, loans and receivables, and available-for-sale financial assets. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and re-evaluates this designation at every reporting date.

(i) Financial assets at fair value through profit or loss

This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if they are either held for trading or are expected to be realised within 12 months of the balance sheet date.

Notes to the Financial Statements

For the year ended 31st December, 2005

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(k) Investments *(continued)*

Investment securities (continued)

(ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of trading the receivable. They are included in current assets, except for maturities greater than 12 months after the balance sheet date which are classified as non-current assets. Loans and receivables are included in trade and other receivables in the balance sheet (Note 2(m)).

(iii) Available-for-sale financial assets

Available-for-sale financial assets are non derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date.

Purchases and sales of investments are recognised on trade-date – the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Investments are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables and held-to-maturity investments are carried at amortised cost using the effective interest method. Realised and unrealised gains and losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are included in the income statement in the period in which they arise. Unrealised gains and losses arising from changes in the fair value of non-monetary securities classified as available-for-sale are recognised in equity. When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments are included in the income statement as gains or losses from investment securities.

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models refined to reflect the issuer's specific circumstances.

Notes to the Financial Statements

For the year ended 31st December, 2005

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(k) Investments *(continued)*

Investment securities (continued)

(iii) Available-for-sale financial assets *(continued)*

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in the income statement – is removed from equity and recognised in the income statement even though such financial assets have not been derecognised. Impairment losses recognised in the income statement on such equity instruments are not reversed through the income statement. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in income statement, the impairment loss shall be reversed, with the amount of the reversal recognised in income statement.

(l) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average method. The cost of finished goods and work in progress comprises raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). It excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

(m) Trade and other receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the income statement.

(n) Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within bank and other borrowings in current liabilities on the balance sheet.

Notes to the Financial Statements

For the year ended 31st December, 2005

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(o) Share capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Where any Group company purchases the Company's equity share capital (Treasury shares), the consideration paid, including any directly attributable incremental costs (net of income taxes), is deducted from equity attributable to the Company's equity holders until the shares are cancelled, reissued or disposed of. Where such shares are subsequently sold or reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the Company's equity holders.

(p) Bank and other borrowings

Bank and other borrowings are recognised initially at fair value, net of transaction costs incurred. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability, including fees and commissions paid to agents, advisers, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Bank and other borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

Bank and other borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

(q) Income tax

Income tax comprises current and deferred tax. Income tax is recognised in the income statement or in equity if it relates to items that are recognised in the same or a different period, directly in equity.

Deferred tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, if the deferred tax arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss, it is not accounted for. Deferred tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred tax is provided on temporary differences arising on investments in subsidiaries, associates and jointly controlled entities, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Notes to the Financial Statements
For the year ended 31st December, 2005

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(r) Employee benefits

(i) Retirement benefit costs

Payments to defined contribution plans under the mandatory provident fund scheme the ORSO scheme and state-managed retirement benefits scheme are charged as expenses as they fall due.

(ii) Profit-sharing and bonus plans

The Group recognises a liability and an expense for bonuses and profit-sharing, based on a formula that takes into consideration the profit attributable to the Company's shareholders after certain adjustments. The Group recognises a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

(s) Provisions

Provisions for legal claims are recognised when: the Group has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

(t) Revenue recognition

Revenue comprises the fair value for the sale of goods and services, net of value-added tax, rebates and discounts and after eliminating sales within the Group. Revenue is recognised as follows:

(i) Sales of goods are recognised when a Group entity has delivered products to the customer, the customer has accepted the products and collectibility of the related receivables is reasonably assured.

(ii) Rental income, including rentals invoiced in advance from properties under operating leases, is recognised on a straight line basis over the period of the leases.

(iii) Commission income, handling and services income are recognised when services are provided.

(iv) Interest income is recognised on a time-proportion basis using the effective interest method. When a receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loans is recognised either as cash is collected or on a cost-recovery basis as conditions warrant.

(v) Dividend income is recognised when the right to receive payment is established prior to the balance sheet date.

Notes to the Financial Statements

For the year ended 31st December, 2005

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(u) Leases

(i) Operating lease (both as the lessee or the lessor)

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Where the Group is the lessee, payments made under operating leases (net of any incentives received from the lessor) are expensed in the income statement on a straight-line basis over the period of the lease. 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 in a straight line basis over the lease period.

(ii) Finance lease (as the lessee)

Leases of assets where the Group has substantially obtained all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's commencement at the lower of the fair value of the leased property and the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of finance charges, are included in current and non-current bank and other borrowings. The interest element of the finance cost is recognised in the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The investment properties acquired under finance leases are carried at their fair value, while the property, plant and equipment acquired under finance leases are depreciated over the shorter of the useful lives of the assets or the lease terms.

(v) Dividend distribution

Final dividends proposed by the directors are classified as a separate allocation of retained profits within the equity section of the balance sheet, 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.

(w) Related parties

A party is related to the Group if:

(i) directly, or indirectly through one or more intermediaries, the party:

(1) controls, is controlled by, or is under common control with, the Group;

(2) has an interest in the Group that gives its significant influence over the Group; or

(3) has joint control over the Group;

Notes to the Financial Statements

For the year ended 31st December, 2005

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(w) Related parties *(continued)*

(ii) the party is a jointly-controlled entity;

(iii) the party is an associate;

(iv) the party is a member of the key management personnel of the Company or its parent;

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

(vi) 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 (iv) or (v); or

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

3. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including currency risk and price risk), credit risk, liquidity risk and cash flow interest-rate risk. The Group's risk management objectives and policies mainly focus on minimizing the potential adverse effects of these risks on the Group by closely monitoring the individual exposure as follows:

(a) Market risk

(i) Foreign exchange risk

Foreign exchange risk is the risk of loss due to adverse movements in foreign exchange rates relating to investments denominated in foreign currencies. The Group's assets and liabilities are primarily denominated in Hong Kong dollars. When seeking to optimise the returns on its funds available for investment, the Group has certain investments in foreign operations, whose net assets are exposed to foreign currency translation risk.

(ii) Price risk

The Group is exposed to equity securities price risk because investments held by the Group are classified on the consolidated balance sheet either as available-for-sale financial assets or as financial assets at fair value through profit or loss. As the Group's policy is only to invest on such investments by its surplus funds, the exposure may not have significant impact on the Group's financial position. The Group is not exposed to commodity price risk.

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

Financial risk factors *(continued)*

(b) *Credit risk*

The Group has no significant concentrations of credit risk. It has policies in place to ensure that sales of products are made and services are provided to customers with an appropriate credit history. It also sets credit limit on each individual customer and prior approval is required for any transaction exceeding that limit. The customer with sound payment history would accumulate a higher credit limit.

(c) *Liquidity risk*

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. The Group aims to maintain flexibility in funding by keeping committed credit lines available and sufficient bank deposits to meet short term cash requirements.

(d) *Cash flow interest rate risk*

The Group's interest-rate risk arises from long-term borrowings, bank deposits and finance lease obligations. Borrowings obtained at variable rates expose the Group to cash flow interest-rate risk. The Group's borrowings are based on Prime or HIBOR interest rates. Details of the Group's borrowings are set out in note 29. Bank deposits are primarily short term in nature. In order to manage the cash flow interest rate risk, the Group will repay the corresponding borrowing when it has surplus funds.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

(a) Critical accounting estimates and assumptions

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal to the related actual results. The estimates and assumptions 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.

(i) *Estimated impairment of goodwill*

The Group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated in Note 2(j). The recoverable amounts of cash-generating units have been determined based on value-in use calculations. These calculations require the use of estimates (Note 18).

Notes to the Financial Statements
For the year ended 31st December, 2005

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS *(continued)*

(a) Critical accounting estimates and assumptions *(continued)*

(ii) Estimate of fair value of unlisted securities

Certain unlisted securities included in available-for-sale financial assets are stated at cost at the balance sheet date as the Group determines the fair value of such assets closely approximates to the cost. For the unlisted securities valued at fair value, the Group uses the discounted cashflows valuation method and makes assumptions that are based on market conditions existing at each balance sheet date for the determination of the fair value.

(iii) Estimate of fair value of investment properties

The best evidence of fair value is current prices in an active market for similar lease and other contracts. In the absence of such information, the Group determines the amount within a range of reasonable fair value estimates. In making its judgement, the Group considers information from a variety of sources including:

(i) current prices in an active market for properties of different nature, condition or location (or subject to different lease or other contracts), adjusted to reflect those differences.

(ii) recent prices of similar properties in less active markets, with adjustments to reflect any changes in economic conditions since the date of the transactions that occurred at those prices.

(b) Critical judgements in applying the entity's accounting policies

Distinction between investment properties and owner-occupied properties

The Group determines whether a property qualifies as investment property. In making its judgement, the Group considers whether the property generates cash flows largely independently of the other assets held by an entity. Owner-occupied properties generate cash flows that are attributable not only to property but also to other assets used in the production or supply process.

5. BUSINESS AND GEOGRAPHICAL SEGMENTS

Primary reporting format – Business segments

At 31st December, 2005, the Group is organised on a product basis into five main business segments.

(1) trading of industrial consumables
(2) manufacturing of plastic processing products
(3) manufacturing of machinery
(4) manufacturing of audio and electronic products
(5) manufacturing of printed circuit boards.

Notes to the Financial Statements
For the year ended 31st December, 2005

5. BUSINESS AND GEOGRAPHICAL SEGMENTS *(continued)*

Primary reporting format – Business segments *(continued)*

The segment results for the year ended 31st December, 2005 are as follows:

	Industrial consumables HK$	Plastic processing products HK$	Machinery HK$	Audio and electronic products HK$	Printed circuit boards HK$	Other operations HK$	Eliminations HK$	Consolidated HK$
TURNOVER								
External sales	268,286,842	349,706,556	573,929,106	84,535,186	374,270,953	–	–	1,650,728,643
Inter-segment sales	6,997,496	14,702,249	11,054,992	–	–	–	(32,754,737)	–
Total revenue	275,284,338	364,408,805	584,984,098	84,535,186	374,270,953	–	(32,754,737)	1,650,728,643

Inter-segment sales are charged at prevailing market rates.

	Industrial consumables HK$	Plastic processing products HK$	Machinery HK$	Audio and electronic products HK$	Printed circuit boards HK$	Other operations HK$	Eliminations HK$	Consolidated HK$
RESULTS								
Segment results	18,475,049	22,156,951	29,010,580	(17,817,187)	18,762,027	(612,342)	1,274,768	71,249,846
Unallocated corporate expenses								(19,620,651)
Profit from operations								51,629,195
Finance costs								(27,705,346)
Investment income								1,156,065
Loss on disposal of an associate								(163,278)
Share of results of associates		(379,623)	4,906,841			50,856,187		55,383,405
Profit before taxation								80,300,041
Taxation								7,197,785
Profit before minority interests								73,102,256

Notes to the Financial Statements

For the year ended 31st December, 2005

5. BUSINESS AND GEOGRAPHICAL SEGMENTS *(continued)*

Primary reporting format – Business segments *(continued)*

	Industrial consumables	Plastic processing products	Machinery	Audio and electronic products	Printed circuit boards	Other operations	Consolidated
	HK$	HK$	HK$	HK$	HK$	HK$	HK$
ASSETS							
Segment assets	144,959,427	285,992,387	924,272,566	48,200,525	218,698,044	41,645,619	1,663,768,568
Interests in associates							176,613,599
Available-for-sale financial assets							7,649,210
Unallocated corporate assets							28,754,253
Consolidated total assets							1,876,785,630
LIABILITIES							
Segment liabilities	58,998,310	67,826,339	301,926,269	15,028,239	137,317,793	16,277,726	597,374,676
Tax payable							11,194,007
Borrowings							387,205,179
Unallocated corporate liabilities							15,799,648
Consolidated total liabilities							1,011,573,510
OTHER INFORMATION							
Addition of goodwill	–	–	767,222	343,361	–	–	1,110,583
Capital additions	247,512	15,483,790	33,504,440	1,417,256	13,534,486	681,693	64,869,177
Depreciation and amortisation	1,024,817	19,701,530	21,270,744	3,329,708	13,588,304	1,556,372	60,471,475
Other non-cash expenses	97,702	348,506	17,546,312	6,026,079	240,000	3,489,119	27,747,718

Notes to the Financial Statements

For the year ended 31st December, 2005

5. BUSINESS AND GEOGRAPHICAL SEGMENTS *(continued)*

Primary reporting format – Business segments *(continued)*

The segment results for the year ended 31st December, 2004 are as follows:

	Industrial consumables	Plastic processing products	Machinery	Audio and electronic products	Printed circuit boards	Other operations	Eliminations	(As restated) Consolidated
	HK$	HK$	HK$	HK$	HK$	HK$	HK$	HK$
TURNOVER								
External sales	266,707,052	285,238,625	624,674,472	140,204,253	348,862,289	–	–	1,665,686,691
Inter-segment sales	5,145,693	20,407,404	16,691,400	6,523	–	–	(42,251,020)	–
Total revenue	271,852,745	305,646,029	641,365,872	140,210,776	348,862,289	–	(42,251,020)	1,665,686,691

Inter-segment sales are charged at prevailing market rates.

	Industrial consumables	Plastic processing products	Machinery	Audio and electronic products	Printed circuit boards	Other operations	Eliminations	(As restated) Consolidated
RESULTS								
Segment results	14,058,419	23,560,476	36,308,543	(7,408,578)	(2,963,750)	(1,311,593)	(2,023,417)	60,220,100
Unallocated corporate expenses								(12,522,256)
Profit from operations								47,697,844
Finance costs								(19,967,833)
Investment income								(606,339)
Gain on partial disposal of interests in subsidiaries			3,561,010					3,561,010
Share of results of associates		(277,147)	7,668,397			27,405,707		34,796,957
Profit before taxation								65,481,639
Taxation								8,933,910
Profit before minority interests								56,547,729

Notes to the Financial Statements

For the year ended 31st December, 2005

5. BUSINESS AND GEOGRAPHICAL SEGMENTS *(continued)*

Primary reporting format – Business segments *(continued)*

	Industrial consumables	Plastic processing products	Machinery	Audio and electronic products	Printed circuit boards	Other operations	(As restated) Consolidated
	HK$	HK$	HK$	HK$	HK$	HK$	HK$
ASSETS							
Segment assets	136,790,702	268,414,322	848,669,065	103,654,187	213,349,527	45,681,139	1,616,558,942
Interests in associates							164,785,287
Investment securities							7,589,720
Unallocated corporate assets							23,240,739
Consolidated total assets							1,812,174,688
LIABILITIES							
Segment liabilities	57,833,504	52,443,152	316,933,985	49,398,567	141,347,130	30,790,272	648,746,610
Tax payable							12,981,901
Borrowings							315,711,644
Unallocated corporate liabilities							14,553,702
Consolidated total liabilities							991,993,857
OTHER INFORMATION							
Addition of goodwill	–	–	1,137,323	399,132	–	–	1,536,455
Capital additions	1,310,278	29,870,355	31,660,590	649,886	32,515,903	656,627	96,663,639
Depreciation and amortisation	994,754	18,631,360	20,632,389	7,009,097	10,752,664	1,494,203	59,514,467
Other non-cash expenses	1,373,692	3,883,186	8,767,469	–	360,000	592,689	14,977,036

Secondary reporting format – Geographical segments

The Group's operations are located in Hong Kong, other regions in the People's Republic of China (the "PRC"), other Asia-Pacific countries, Europe and North America. The Group's trading of industrial consumables division is located in Hong Kong and the PRC. The manufacturing of plastic processing products, machinery, audio and electronic products and printed circuit boards divisions are located in the PRC.

Notes to the Financial Statements

For the year ended 31st December, 2005

5. BUSINESS AND GEOGRAPHICAL SEGMENTS *(continued)*

Secondary reporting format – Geographical segments *(continued)*

The following table provides an analysis of the Group's sales by geographical market, irrespective of the origin of the goods/services:

	Sales revenue by geographical market	
		(As restated)
	2005	2004
	HK$	HK$
Hong Kong	**651,796,290**	643,730,354
PRC	**786,634,856**	758,890,886
Other Asia-Pacific countries	**81,149,644**	85,293,226
Europe	**69,774,156**	40,686,874
North America	**61,373,697**	137,085,351
	1,650,728,643	1,665,686,691

The following is an analysis of the carrying amount of segment assets, and additions to property, plant and equipment and intangible assets, analysed by the geographical area in which the assets are located:

	Carrying amount of segment assets		Additions to property, plant and equipment and intangible assets	
		(As restated)		(As restated)
	2005	2004	**2005**	2004
	HK$	HK$	**HK$**	HK$
Hong Kong	**522,870,510**	343,291,612	**729,375**	1,191,192
PRC	**1,296,921,735**	1,413,613,041	**65,250,385**	97,008,902
Other Asia-Pacific countries	**14,632,737**	25,974,996	**–**	–
North America	**19,105,144**	19,277,377	**–**	–
Europe	**23,255,504**	10,017,662	**–**	–
	1,876,785,630	1,812,174,688	**65,979,760**	98,200,094

Notes to the Financial Statements

For the year ended 31st December, 2005

6. TURNOVER, OTHER INCOME AND GAINS, NET

Turnover represents the amounts received and receivable for goods sold to customers, less returns and discounts, during the year. An analysis of the Group's turnover, other income and gains, net is as follows:

	2005	(As restated) 2004
	HK$	HK$
Turnover		
Sales of goods	**1,650,728,643**	1,665,686,691
Other income		
Commission income	**700,317**	483,060
Gross rental income from investment properties	**3,188,709**	3,376,649
Handling and services income	**730,957**	854,329
Release of negative goodwill to income	**16,449,454**	6,755,992
Compensation for disposal of land use rights, net	**21,124,419**	–
Sundry income	**16,970,217**	10,915,096
	59,164,073	22,385,126
Gains, net		
Exchange gain	**1,038,262**	1,084,768
Fair value gains on investment properties	**3,503**	–
	1,041,765	1,084,768
	60,205,838	23,469,894

7. FINANCE COSTS

	2005	2004
	HK$	HK$
Interest on:		
Borrowings wholly repayable within five years		
– bank loans and overdrafts	**24,485,808**	17,569,865
– other loans	**2,233,998**	2,277,832
Finance leases	**985,540**	120,136
	27,705,346	19,967,833

Notes to the Financial Statements

For the year ended 31st December, 2005

8. INVESTMENT INCOME (DEFICIT)

	2005	2004
	HK$	HK$
Interest income	**1,009,617**	760,803
Dividends received and receivable from unlisted investments	**146,448**	110,266
Loss on disposal of investment securities	**–**	(1,477,408)
	1,156,065	(606,339)

9. PROFIT BEFORE TAXATION

Profit before taxation has been arrived at after charging and crediting the following:

		(As restated)
	2005	2004
	HK$	HK$
Charging:		
Staff costs		
Directors' remuneration *(note 10)*	**12,181,425**	9,169,158
Salaries and other benefits	**198,928,570**	188,729,246
Retirement benefits scheme contributions	**7,847,566**	7,271,625
	218,957,561	205,170,029
Depreciation and amortisation on:		
– Owned assets	**53,910,101**	52,683,780
– Assets held under finance leases	**5,499,027**	3,720,610
– Leasehold land and land use rights *(note 17)*	**1,062,347**	1,271,319
Amortisation of goodwill (included in share of results of associates)	**–**	78,181
Amortisation of goodwill (included in other operating expenses)	**–**	1,760,577
Impairment losses on goodwill (included in other operating expenses)	**2,455,958**	–
Auditors' remuneration		
– Current year	**1,679,991**	1,714,827
– Overprovided in prior years	**(108,140)**	(204,000)
Loss on disposal of property, plant and equipment	**4,597,514**	444,501
Operating lease payments *(note 33)*	**12,381,500**	14,134,812
Impairment losses for bad and doubtful debts	**20,306,525**	12,502,318
Revaluation deficit on leasehold buildings	**186,250**	632,034
Write-down of inventories	**7,753,318**	1,397,903
Share of associates' taxation	**5,618,447**	4,573,682
and crediting:		
Rental income net of outgoings	**2,783,556**	2,869,478

Notes to the Financial Statements

For the year ended 31st December, 2005

10. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

(a) Directors' emoluments

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

Name of directors	Directors' fees HK$	Salaries and allowances HK$	Retirement benefits scheme contributions HK$	2005 Total HK$	2004 Total HK$
Mr. Tang To	2,497,481	1,092,000	146,812	**3,736,293**	2,940,099
Mr. Wong Yiu Ming	2,412,981	1,225,900	150,142	**3,789,023**	2,937,319
Mr. Zhao Zhuoying	40,000	–	–	**40,000**	40,000
Mr. Yan Wing Fai	1,268,074	800,000	12,000	**2,080,074**	1,196,188
Mr. Li Tin Loi	12,000	1,347,400	77,205	**1,436,605**	1,026,122
Mr. Zhou Junqing#	–	–	–	**–**	–
Mr. Tang Kwan	40,000	680,400	51,030	**771,430**	771,430
Mr. Kan Wai Wah	40,000	–	–	**40,000**	40,000
Mr. He Zhiqi	40,000	–	–	**40,000**	40,000
Mr. Shi Shanbo#	–	–	–	**–**	–
Mr. Liang Shangli *	40,000	–	–	**40,000**	40,000
Mr. Yip Jeffery *	40,000	–	–	**40,000**	40,000
Miss. Yeung Shuk Fan *	168,000	–	–	**168,000**	98,000
Total 2005	6,598,536	5,145,700	437,189	**12,181,425**	9,169,158
Total 2004	338,000	8,439,675	391,483		

* Independent Non-executive Directors

\# Resigned on 22nd March 2004

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

Notes to the Financial Statements

For the year ended 31st December, 2005

10. DIRECTORS' AND EMPLOYEES' EMOLUMENTS *(continued)*

(b) Employees' emoluments

The five highest paid individuals included four (2004: four) directors, details of whose emoluments are set out above. The emoluments of the remaining one (2004: one) individual are as follows:

	2005 HK$	2004 HK$
Salaries and other benefits	**2,396,360**	2,224,300
Retirement benefits schemes contributions	**45,900**	36,750
	2,442,260	2,261,050

11. TAXATION

Hong Kong profits tax has been provided at the rate of 17.5% (2004: 17.5%) on the estimated assessable profits for the year. Taxation on overseas profits has been calculated on the estimated assessable profits for the year at the rates of taxation prevailing in the countries in which the Group operates.

	2005 HK$	(As restated) 2004 HK$
Hong Kong Profits Tax		
Current year	**1,494,083**	1,432,913
Underprovision in prior years	**1,003,805**	62,867
	2,497,888	1,495,780
Taxation outside Hong Kong	**5,295,076**	7,852,446
Deferred taxation relating to the origination and reversal of temporary differences *(note 31)*	**(595,179)**	(414,316)
Taxation charge	**7,197,785**	8,933,910

In accordance with the presentation requirements of HKAS 1 adopted by the Group during the year as detailed in note 2(a) to the financial statements, taxes of associates attributable to the Group, which were previously included in taxation charge on the consolidated income statement, are now included in the share of profits and losses of associates. The comparative amounts for the year ended 31st December 2004 have been restated to conform to the current year's presentation.

Notes to the Financial Statements
For the year ended 31st December, 2005

11. TAXATION *(continued)*

The taxation on the Group's profit before taxation differs from the theoretical amount that would arise using the domestic taxation rates applicable to profits of the consolidated companies as follows:

	2005 HK$	(As restated) 2004 HK$
Profit before taxation	**80,300,041**	65,481,639
Tax at the domestic income tax rate of 17.5% (2004: 17.5%)	**14,052,507**	11,459,287
Tax effect of expenses that are not deductible in determining taxable profit	**28,778,782**	11,378,755
Tax effect of income that is not taxable in determining taxable profit	**(37,767,091)**	(11,256,339)
Underprovision of Hong Kong Profits Tax in prior years	**1,003,801**	62,867
Underprovision of overseas tax in prior years	**–**	83,254
Tax effect of tax losses not recognised	**8,945,518**	5,577,135
Tax effect of temporary differences not recognised	**733,235**	–
Tax effect of utilisation of tax losses not previously recognised	**(2,926,536)**	(1,793,230)
Effect of different tax rates of subsidiaries operating in other jurisdictions	**(5,622,431)**	(6,577,819)
Taxation charge	**7,197,785**	8,933,910

12. PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The profit attributable to equity holders of the Company is dealt with in the financial statements of the Company to the extent of loss of HK$25,543,295 (2004: Loss of HK$17,987,691).

13. EARNINGS PER SHARE

The calculation of the basic earnings per share for the year is based on the profit for the year attributable to the equity holders of the Company of HK$54,221,555 (2004: HK$41,460,022, as restated) and on the weighted average number of shares in issue during the year of 706,856,278 (2004: 706,228,857).

The adjustment to the comparative basic earnings per share, arising from the adoption of HKAS 17 and HK(SIC)-Int 21 is as follows:

	HK cents
Reconciliation of 2004 earnings per share:	
Reported figure before adjustments	5.93
Adjustments arising from adoption of HKAS 17 and HK(SIC)-Int 21	(0.06)
As restated	5.87

Notes to the Financial Statements

For the year ended 31st December, 2005

14. DIVIDENDS

	2005 HK$	2004 HK$
Dividend proposed after the balance sheet date of HK$0.015 (2004: HK$0.01) per share	**10,612,840**	7,062,289

15. PROPERTY, PLANT AND EQUIPMENT

	Leasehold buildings HK$	Furniture, fixtures and equipment HK$	Plant and machinery HK$	Motor vehicles HK$	Properties under construction HK$	Total HK$
THE GROUP						
COST OR VALUATION						
At 1st January, 2004						
As previously reported	180,530,000	127,116,422	421,437,690	38,491,712	28,124,629	795,700,453
Effect of adopting HKAS 17	(64,030,000)	–	–	–	(3,726,445)	(67,756,445)
As restated	116,500,000	127,116,422	421,437,690	38,491,712	24,398,184	727,944,008
Currency realignment	138,122	156,227	615,457	75,056	(113,781)	871,081
Reclassifications	17,216,383	5,629,856	5,488,493	5,717	(28,340,449)	–
Additions, as restated	1,391,516	14,686,332	41,834,449	6,689,593	32,061,749	96,663,639
Disposals, as restated	(601,907)	(1,911,457)	(12,065,317)	(4,374,308)	(2,314,834)	(21,267,823)
Adjustment on revaluation	(2,304,114)	–	–	–	–	(2,304,114)
At 31st December, 2004	132,340,000	145,677,380	457,310,772	40,887,770	25,690,869	801,906,791
As 1st January, 2005	132,340,000	145,677,380	457,310,772	40,887,770	25,690,869	801,906,791
Currency realignment	1,629,842	1,624,513	4,880,621	647,142	521,908	9,304,026
Reclassifications	19,098,601	473,174	10,434,006	100,865	(30,886,646)	(780,000)
Additions	2,029,007	9,883,016	30,504,785	3,989,417	18,462,952	64,869,177
Disposals	(27,792,171)	(16,409,308)	(66,391,526)	(5,593,051)	(2,158,501)	(118,344,557)
Adjustment on revaluation	(506,279)	–	–	–	–	(506,279)
At 31st December, 2005	126,799,000	141,248,775	436,738,658	40,032,143	11,630,582	756,449,158
Analysis of cost or valuation:						
At 31st December, 2005						
At cost	–	141,248,775	436,738,658	40,032,143	11,630,582	629,650,158
At valuation – 2005	126,799,000	–	–	–	–	126,799,000
	126,799,000	141,248,775	436,738,658	40,032,143	11,630,582	756,449,158
At 31st December, 2004						
At cost	–	145,677,380	457,310,772	40,887,770	25,690,869	669,566,791
At valuation – 2004	132,340,000	–	–	–	–	132,340,000
	132,340,000	145,677,380	457,310,772	40,887,770	25,690,869	801,906,791

Notes to the Financial Statements
For the year ended 31st December, 2005

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

	Leasehold buildings	Furniture, fixtures and equipment	Plant and machinery	Motor vehicles	Properties under construction	Total
	HK$	HK$	HK$	HK$	HK$	HK$
THE GROUP						
DEPRECIATION AND AMORTISATION						
At 1st January, 2004	–	78,652,503	280,449,993	23,940,305	–	383,042,801
Currency realignment	(3,775)	62,036	257,229	33,706	–	349,196
Depreciation provided for the year, as restated	4,768,089	11,954,001	35,293,051	4,389,249	–	56,404,390
Reclassifications	–	36,575	(37,037)	462	–	–
Disposals, as restated	(274,860)	(1,150,857)	(6,774,411)	(3,363,474)	–	(11,563,602)
Eliminated on revaluation	(4,489,454)	–	–	–	–	(4,489,454)
At 31st December, 2004	–	89,554,258	309,188,825	25,000,248	–	423,743,331
As 1st January, 2005	–	89,554,258	309,188,825	25,000,248	–	423,743,331
Currency realignment	51,513	555,384	2,715,826	380,857	–	3,703,580
Depreciation provided for the year	5,226,450	13,518,571	35,594,675	5,069,432	–	59,409,128
Reclassifications	–	92,912	(92,912)	–	–	–
Disposals	(12,171)	(13,852,465)	(59,240,639)	(4,221,415)	–	(77,326,690)
Eliminated on revaluation	(5,265,792)	–	–	–	–	(5,265,792)
At 31st December, 2005	–	89,868,660	288,165,775	26,229,122	–	404,263,557
NET BOOK VALUES						
At 31st December, 2005	126,799,000	51,380,115	148,572,883	13,803,021	11,630,582	352,185,601
At 31st December, 2004, as restated	132,340,000	56,123,122	148,121,947	15,887,522	25,690,869	378,163,460

Notes to the Financial Statements
For the year ended 31st December, 2005

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

The net book value of leasehold buildings held by the Group comprises:

	2005	2004
	HK$	HK$
In Hong Kong:		
– under medium-term leases	**2,429,000**	2,620,000
Outside Hong Kong:		
– under long leases	**31,330,000**	30,790,000
– under medium-term leases	**93,040,000**	98,930,000
	126,799,000	132,340,000

The leasehold buildings of the Group were revalued as at 31st December, 2004 and 31st December, 2005 on the open market existing use basis by Messrs. Knight Frank, an independent firm of professional valuers. The (surplus) deficit arising on revaluation attributable to the Group have been (credited) charged to the buildings revaluation reserve and the consolidated income statement respectively.

Depreciation expense of HK$44,535,041 (2004: HK$39,890,223) has been expensed in cost of goods sold, HK$2,828,847 (2004: HK$1,652,315) in selling and distribution costs and HK$12,045,240 (2004: HK$14,861,852) in administrative expenses.

Had leasehold buildings been carried at cost less accumulated depreciation and amortisation, the carrying value of leasehold buildings would have been approximately HK$93,695,887 (2004: HK$93,899,910, as restated).

Notes to the Financial Statements
For the year ended 31st December, 2005

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

The net book value of the Group's plant and machinery includes an amount of HK$18,269,901 (2004: HK$11,490,321) in respect of assets held under finance leases.

	Furniture, fixtures and equipment	Motor vehicles	Total
	HK$	HK$	HK$
THE COMPANY			
COST			
At 1st January, 2004	9,153,727	417,111	9,570,838
Additions	118,806	537,821	656,627
Disposals	–	(417,111)	(417,111)
At 31st December, 2004	9,272,533	537,821	9,810,354
At 1st January, 2005	9,272,533	537,821	9,810,354
Additions	681,693	–	681,693
At 31st December, 2005	9,954,226	537,821	10,492,047
ACCUMULATED DEPRECIATION			
At 1st January, 2004	5,204,934	417,110	5,622,044
Depreciation provided for the year	885,195	107,564	992,759
Disposals	–	(417,110)	(417,110)
At 31st December, 2004	6,090,129	107,564	6,197,693
At 1st January, 2005	6,090,129	107,564	6,197,693
Depreciation provided for the year	953,364	107,565	1,060,929
At 31st December, 2005	7,043,493	215,129	7,258,622
NET BOOK VALUES			
At 31st December, 2005	2,910,733	322,692	3,233,425
At 31st December, 2004	3,182,404	430,257	3,612,661

Notes to the Financial Statements

For the year ended 31st December, 2005

16. INVESTMENT PROPERTIES

	THE GROUP	
	2005	2004
	HK$	HK$
Beginning of the year	**24,400,000**	24,400,000
Reclassified from leasehold land	**3,846,497**	–
Reclassified from buildings	**780,000**	–
Fair value gains	**3,503**	–
End of the year	**29,030,000**	24,400,000

The investment properties of the Group are situated in Hong Kong and also the People's Republic of China and held under medium-term leases. They are held for rental purposes under operating leases. The investment properties of the Group were revalued as at 31st December, 2005 on the open market existing use basis by Messrs. Knight Frank, an independent firm of professional valuers.

Certain of the Group's investment properties with an aggregate carrying value of HK$13,500,000 (2004: HK$13,500,000) were pledged to secure certain bank borrowings granted to the Group (Note 37).

Notes to the Financial Statements

For the year ended 31st December, 2005

17. LEASEHOLD LAND AND LAND USE RIGHTS

	THE GROUP	
	2005	2004
	HK$	HK$
Cost		
At beginning of the year as previously reported	**–**	–
Effect of adopting HKAS 17	**61,592,363**	61,553,079
As restated	**61,592,363**	61,553,079
Currency realignment	**412,139**	39,284
Reclassified to investment properties	**(4,877,861)**	–
Disposal	**(5,769,835)**	–
At end of the year	**51,356,806**	61,592,363
Accumulated amortisation		
At beginning of the year as previously reported	**–**	–
Effect of adopting HKAS 17	**13,964,129**	12,684,387
As restated	**13,964,129**	12,684,387
Currency realignment	**86,895**	8,423
Amortisation for the year	**1,062,347**	1,271,319
Reclassified to investment properties	**(1,031,364)**	–
Disposal	**(1,021,134)**	–
At end of the year	**13,060,873**	13,964,129
Net book value		
At end of the year	**38,295,933**	47,628,234
Portion classified as current assets	**1,062,347**	1,271,319
Long term portion	**37,233,586**	46,356,915
At beginning of the year (as restated)	**47,628,234**	48,868,692

Notes to the Financial Statements

For the year ended 31st December, 2005

17. LEASEHOLD LAND AND LAND USE RIGHTS *(continued)*

The Group's interests in leasehold land and land use rights represent prepaid operating lease payments and their net book values are analysed as follows:

	THE GROUP	
	2005	2004
	HK$	HK$
In Hong Kong held on:		
Leases of over 50 years	**–**	–
Leases of between 10 to 50 years	**14,867,304**	15,243,472
Outside Hong Kong held on:		
Leases of over 50 years	**7,894,919**	8,555,542
Leases of between 10 to 50 years	**15,533,710**	23,829,220
	38,295,933	47,628,234

Bank borrowings are secured on land for the carrying value of HK$12,266,025 (2004: HK$8,218,452) (Note 37).

Notes to the Financial Statements
For the year ended 31st December, 2005

18. INTANGIBLE ASSETS

	Goodwill	Negative goodwill	Total
	HK$	HK$	HK$
THE GROUP			
Cost			
At 1st January, 2004	23,352,393	(30,845,729)	(7,493,336)
Arising on acquisition of additional interests in subsidiaries during the year	1,145,550	(7,138,191)	(5,992,641)
At 31st December, 2004	24,497,943	(37,983,920)	(13,485,977)
At 1st January, 2005			
As previously reported per above	24,497,943	(37,983,920)	(13,485,977)
Effect of adopting HKFRS 3	(23,152,568)	37,983,920	14,831,352
As restated	1,345,375	–	1,345,375
Acquisition of minority interests	1,110,583	–	1,110,583
At 31st December, 2005	2,455,958	–	2,455,958
Accumulated amortisation/(recognition as income)			
At 1st January, 2004	21,391,991	(30,052,758)	(8,660,767)
Amortisation provided/(recognition as income) for the year	1,760,577	(6,755,992)	(4,995,415)
At 31st December, 2004	23,152,568	(36,808,750)	(13,656,182)
At 1st January, 2005			
As previously reported per above	23,152,568	(36,808,750)	(13,656,182)
Effect of adopting HKFRS 3	(23,152,568)	36,808,750	13,656,182
As restated	–	–	–
Impairment losses	2,455,958	–	2,455,958
At 31st December, 2005	2,455,958	–	2,455,958
Net book value			
At 31st December, 2005	–	–	–
At 31st December, 2004	1,345,375	(1,175,170)	170,205

Notes to the Financial Statements

For the year ended 31st December, 2005

18. INTANGIBLE ASSETS *(continued)*

(i) As detailed in note 2(a) to the financial statements, on the adoption of HKFRS 3 during the year:

- the Group ceased amortisation of goodwill from 1st January 2005;
- accumulated amortisation of goodwill arising on the acquisition of subsidiaries and minority interests of HK$23,152,568 as at 1st January 2005 has been eliminated with a corresponding decrease in the cost of goodwill as at 1st January 2005;
- from the year ended 31st December 2005 onwards, goodwill is tested annually for impairment, as well as when there are indications of impairment; and
- following the transitional provisions of HKFRS 3, the carrying amount of the negative goodwill recognised on the consolidated balance sheet of HK$1,175,170 as at 1st January 2005 were derecognised by way of an adjustment to the opening retained profits as at 1st January 2005 of HK$1,175,170.

(ii) Impairment tests for goodwill

Goodwill is allocated to the Group's cash-generating units (CGUs) identified according to country of operation and business segment.

The Group tests goodwill annually for impairment, or more frequently if there are indications that goodwill might be impaired.

The recoverable amounts of the CGUs are determined from value in use calculations. The key assumptions for the value in use calculations are those regarding the discount rates, growth rates and expected changes to selling prices and direct costs during the period. Management estimates discount rates using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the CGUs. The growth rates are based on industry growth forecasts. Changes in selling prices and direct costs are based on past practices and expectations of future changes in the market.

Notes to the Financial Statements
For the year ended 31st December, 2005

19. INTERESTS IN SUBSIDIARIES

	THE COMPANY	
	2005	2004
	HK$	HK$
Unlisted shares/capital contributions, at cost less impairment losses	**40,781,145**	40,781,145
Amounts due from subsidiaries less impairment losses	**579,541,547**	576,649,383
	620,322,692	617,430,528

Details of the Company's principal subsidiaries at 31st December, 2005 are set out in note 39.

Amounts due from subsidiaries are unsecured, interest free and have no fixed terms of repayment. In the opinion of the directors, the amounts will not be repayable within twelve months of the balance sheet date and are accordingly classified as non-current.

20. INTERESTS IN ASSOCIATES

	2005	2004
	HK$	HK$
THE GROUP		
Share of net assets	**166,380,613**	147,788,046
Amounts due from associates less impairment losses	**10,232,986**	16,997,241
	176,613,599	164,785,287
THE COMPANY		
Unlisted shares, at cost	**–**	–
Amounts due from associates less impairment losses	**1,383,391**	2,003,003
	1,383,391	2,003,003

(a) Amounts due from associates are unsecured, interest free and have no fixed terms of repayment. In the opinion of the directors, the amounts will not be repayable within twelve months of the balance sheet date and are accordingly classified as non-current.

(b) Interests in associates at 31st December, 2005 include goodwill of HK$312,724 (2004: HK$312,724).

Notes to the Financial Statements
For the year ended 31st December, 2005

20. INTERESTS IN ASSOCIATES *(continued)*

Details of the principal associates of the Group at 31st December, 2005 are as follows:

Name of associate	Place of incorporation/ registration and operation	Proportion of nominal value of issued share capital/registered capital attributable to the Group %	Principal activities
Dalian Huada Plastics Co Ltd	PRC	30.00	Plastic processing
Shenzhen Hao Ning Da Meters Manufacturing Company Limited	PRC	42.00	Manufacturing and trading of electronic meters
Suzhou Sanguang Science & Technology Co., Ltd.	PRC	30.00	Manufacturing of industrial machinery, equipment and supplies

The above table lists the associates of the Group which, in the opinion of the directors, principally affect the results of the Group for the year or form a substantial portion of the net assets of the Group at the end of the year. To give details of other associates would, in the opinion of the directors, result in particulars of excessive length.

Summarised financial information in respect of the Group's associates is set out below:

	2005 HK$	2004 HK$
Total assets	**465,132,490**	393,464,649
Total liabilities	**265,412,585**	208,977,783
Net assets	**199,719,905**	184,486,866
Group's share of associates' net assets	**166,380,613**	147,788,046
Revenue	**342,706,443**	331,565,541
Profit for the year	**87,391,039**	61,305,840
Group's share of associates' profit the year	**55,383,405**	34,796,957

Notes to the Financial Statements

For the year ended 31st December, 2005

21. AVAILABLE-FOR SALE FINANCIAL ASSETS

	THE GROUP 2005 HK$	THE COMPANY 2005 HK$
Beginning of the year	7,589,720	4,579,544
Revaluation surplus transfer to equity *(Note 28)*	59,490	–
End of the year	7,649,210	4,579,544
Less: non-current portion	7,649,210	4,579,544
Current portion	–	–

There were no impairment provisions on available-for-sale financial assets in 2005.

Available-for-sale financial assets include the following:

	THE GROUP 2005 HK$	THE COMPANY 2005 HK$
Unlisted securities, at cost	9,504,189	4,579,544
Impairment losses	(2,071,789)	–
	7,432,400	4,579,544
Listed securities, at market value		
Equity securities – Japan	216,810	–
	7,649,210	4,579,544

Unlisted securities of the Group are not stated at fair value but at cost less any accumulated impairment losses, because they do not have a quoted market price on active market, the range of reasonable fair value estimates is significant and the probabilities of the various estimates cannot be reasonably assessed.

Notes to the Financial Statements

For the year ended 31st December, 2005

22. INVESTMENT SECURITIES

	THE GROUP	THE COMPANY
	2004	2004
	HK$	HK$
Unlisted investment securities, at cost	9,504,189	4,579,544
Listed investment securities, at cost	157,320	–
Impairment losses	(2,071,789)	–
	7,589,720	4,579,544

23. INVENTORIES

	THE GROUP	
	2005	2004
	HK$	HK$
Trading inventories and finished goods	**178,713,068**	189,141,830
Work in progress	**97,196,190**	83,996,016
Raw materials	**239,170,642**	206,289,943
	515,079,900	479,427,789

At 31st December 2005 the carrying amount of inventories that were carried at fair value less costs to sell amounted to HK$440,377,649 (2004: HK$388,359,333).

24. TRADE AND OTHER RECEIVABLES

The carrying amounts of trade and other receivables are as follows:

	THE GROUP	
	2005	2004
	HK$	HK$
Trade receivables	**458,229,592**	476,722,571
Other receivables	**127,897,236**	81,841,342
Loans to related parties *(Note 38)*	**955,452**	13,026,007
	587,082,280	571,589,920

The Directors consider that the carrying amounts of trade and other receivables approximate to their fair values.

Notes to the Financial Statements
For the year ended 31st December, 2005

24. TRADE AND OTHER RECEIVABLES *(continued)*

The Group allows an average credit period of 90 days to 120 days for customers. As at 31st December 2005 and 31st December 2004, the ageing analysis of the trade receivables is as follows:

	THE GROUP	
	2005	2004
	HK$	HK$
0 to 3 months	**313,130,873**	327,431,607
4 to 6 months	**53,587,512**	50,976,608
7 to 9 months	**26,877,786**	29,665,864
Over 9 months	**64,633,421**	68,648,492
	458,229,592	476,722,571

There is no concentration of credit risk with respect to trade receivables, as the Group has a large number of customers, internationally dispersed.

Included in trade and other receivables are the following amounts denominated in a currency other than the functional currency of the entity to which they relate:

	THE GROUP		THE COMPANY	
	2005	2004	**2005**	2004
United States Dollars	**5,685,053**	7,715,403	**–**	–
Renminbi	**348,240,105**	338,983,716	**–**	–
Japanese Yen	**25,935,525**	18,802,041	**–**	–

25. TRADE AND OTHER PAYABLES

	THE GROUP	
	2005	2004
	HK$	HK$
Trade payables	**322,829,298**	323,783,270
Accruals and other payables	**163,503,784**	140,432,826
Amounts due to related parties (Note 38)	**12,074,521**	26,085,734
	498,407,603	490,301,830

Notes to the Financial Statements
For the year ended 31st December, 2005

25. TRADE AND OTHER PAYABLES *(continued)*

The aged analysis of the Group's trade payables at the balance sheet date is as follows:

	THE GROUP	
	2005	2004
	HK$	HK$
0 to 3 months	**254,577,445**	249,729,334
4 to 6 months	**38,127,124**	41,617,321
7 to 9 months	**11,699,548**	8,304,796
Over 9 months	**18,425,181**	24,131,819
	322,829,298	323,783,270

The directors consider that the carrying amount of trade payables approximates to their fair value.

Included in trade and other payables are the following amounts denominated in a currency other than the functional currency of the entity to which they relate:

	THE GROUP		THE COMPANY	
	2005	2004	**2005**	2004
United States Dollars	**1,465,732**	1,141,396	**–**	–
Renminbi	**294,121,320**	291,217,394	**–**	–
Japanese Yen	**121,141,903**	4,073,159	**–**	–

26. CASH AND CASH EQUIVALENTS

	THE GROUP		THE COMPANY	
	2005	2004	**2005**	2004
	HK$	HK$	**HK$**	HK$
Bank balances and cash	**116,814,933**	102,399,361	**216,363**	691,524

Notes to the Financial Statements
For the year ended 31st December, 2005

26. CASH AND CASH EQUIVALENTS *(continued)*

Included in cash and cash equivalent in the balance sheet are the following amounts denominated in a currency other than the functional currency of the entity to which they relate:

	THE GROUP		THE COMPANY	
	2005	2004	**2005**	2004
United States Dollars	**1,753,945**	943,528	**21,386**	58,042
Renminbi	**95,991,080**	88,071,417	**–**	–
Japanese Yen	**15,937,976**	16,588,952	**–**	–

Cash and cash equivalents include the following for the purposes of the cash flow statement.

	THE GROUP	
	2005	2004
	HK$	HK$
Bank balances and cash per above	**116,814,933**	102,399,361
Bank overdrafts *(Note 29)*	**(37,005,031)**	(18,531,989)
	79,809,902	83,867,372

27. SHARE CAPITAL

	Number of ordinary shares	**Value**
		HK$
Ordinary shares of HK$0.40 each		
Authorised:		
At 1st January, 2004, 31st December, 2004 and 31st December, 2005	1,000,000,000	400,000,000
Issued and fully paid:		
At 1st January, 2004	642,026,234	256,810,494
Bonus issue of shares	64,202,623	25,681,049
At 31st December, 2004	706,228,857	282,491,543
Issue of shares	1,293,835	517,534
At 31st December, 2005	707,522,692	283,009,077

Notes to the Financial Statements
For the year ended 31st December, 2005

27. SHARE CAPITAL *(continued)*

On 7th July, 2005, 1,293,835 shares of HK$0.4 each were allotted and issued to shareholders who had not submitted the forms of election or had submitted the forms of election to receive part only of the final dividend in cash for the 2004 final dividends pursuant to the scrip dividend scheme announced by the Company on 14th June, 2005. These shares rank pari passu in all respects with other shares in issue.

None of the Company's subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year.

28. OTHER RESERVES

THE GROUP

	Buildings revaluation HK$	Investment properties revaluation HK$	Translation HK$	Other HK$	Total HK$
Balance at 1st January, 2004, as previously reported	32,299,586	8,606,721	(1,433,498)	–	39,472,809
Reversal of deferred taxation for leasehold land	2,406,878	–	–	–	2,406,878
Reversal of revaluation reserve for leasehold land	(13,753,589)	–	–	–	(13,753,589)
Deferred tax arising from revaluation of investment properties	–	(1,833,937)	–	–	(1,833,937)
Balance at 1st January 2004, as restated	20,952,875	6,772,784	(1,433,498)	–	26,292,161
Revaluation surplus	2,041,748	–	–	–	2,041,748
Realised on partial disposal of interests in subsidiaries	–	–	(280,369)	–	(280,369)
Currency translation differences	–	–	892,167	–	892,167
Balance at 31st December, 2004	22,994,623	6,772,784	(821,700)	–	28,945,707
Opening adjustment for the adoption of HKAS 40	–	(6,772,784)	–	–	(6,772,784)
Balance at 1st January, 2005, as restated	22,994,623	–	(821,700)	–	22,172,923
Fair value gains:					
– Available-for-sale financial assets	–	–	–	59,490	59,490
Revaluation surplus	4,947,148	–	–	–	4,947,148
Realised on disposal of properties	(10,716,962)	–	–	–	(10,716,962)
Realised on disposal of interest in an associate	–	–	(6,721)	–	(6,721)
Share of changes in equity of associates	–	–	1,737,749	–	1,737,749
Currency translation differences	–	–	7,083,757	–	7,083,757
Balance at 31st December, 2005	17,224,809	–	7,993,085	59,490	25,277,384

Notes to the Financial Statements

For the year ended 31st December, 2005

28. OTHER RESERVES *(continued)*

THE GROUP AND THE COMPANY

	Share premium
	HK$
At 1st January, 2004	267,159,838
Bonus issue of shares	(25,681,049)
At 31st December, 2004 and 31st December, 2005	241,478,789

THE COMPANY

	Retained profits	**Proposed dividend**	**Total**
	HK$	HK$	HK$
At 1st January, 2004	74,720,034	–	74,720,034
Loss for the year	(17,987,691)	–	(17,987,691)
Proposed dividend	(7,062,289)	7,062,289	–
At 31st December, 2004	49,670,054	7,062,289	56,732,343
Loss for the year	(25,543,295)	–	(25,543,295)
Dividend relating to 2004	–	(7,062,289)	(7,062,289)
Proposed dividend	(10,612,840)	10,612,840	–
At 31st December, 2005	13,513,919	10,612,840	24,126,759

Notes to the Financial Statements

For the year ended 31st December, 2005

29. BANK AND OTHER BORROWINGS

	THE GROUP		THE COMPANY	
	2005	2004	**2005**	2004
	HK$	HK$	**HK$**	HK$
Non-current				
Bank borrowings				
– secured	**18,319,894**	40,598,134	**–**	–
– unsecured	**2,820,181**	6,489,418	**–**	–
	21,140,075	47,087,552	**–**	–
Other loans				
– secured	**–**	98,132	**–**	–
– unsecured	**124,880**	122,180	**–**	–
	124,880	220,312	**–**	–
	21,264,955	47,307,864	**–**	–
Current				
Bank borrowings				
– secured	**113,503,985**	107,220,893	**–**	–
– unsecured	**200,654,880**	135,987,038	**10,000,000**	10,000,000
Bank overdrafts *(note 26)*				
– secured	**21,599,148**	8,793,200	**13,239,518**	6,472,524
– unsecured	**15,405,883**	9,738,789	**4,974,214**	4,908,654
	351,163,896	261,739,920	**28,213,732**	21,381,178
Other loans				
– secured	**90,591**	254,713	**–**	–
	351,254,487	261,994,633	**28,213,732**	21,381,178
Total borrowings	**372,519,442**	309,302,497	**28,213,732**	21,381,178

Bank borrowings and overdrafts are secured by the leasehold land and land use rights, leasehold buildings and investment properties of the Group (Notes 15, 16 and 17). Other loans are secured by plant and machinery.

Notes to the Financial Statements

For the year ended 31st December, 2005

29. BANK AND OTHER BORROWINGS *(continued)*

The maturity of borrowings is as follows:

	THE GROUP		THE COMPANY	
	2005	2004	**2005**	2004
	HK$	HK$	**HK$**	HK$
Within one year	**351,254,487**	261,994,633	**28,213,732**	21,381,178
Between one and two years	**17,617,525**	39,452,191	**–**	–
Between two and five years	**3,522,550**	7,733,493	**–**	–
Wholly repayable with five years	**372,394,562**	309,180,317	**28,213,732**	21,381,178
Over five years	**124,880**	122,180	**–**	–

The effective interest rate as at 31st December 2005 for bank loans repayable within one year is 5.56% p.a. (2004: 5.17% p.a.).

Non-current other loans are not wholly repayable within 5 years and interest free. Current portion of other loan is interest bearing at the rate of 6.59% p.a. (2004: 2.94% p.a.).

The carrying amounts and fair value of the non-current borrowings are as follows:

	Carrying amounts		Fair values	
	2005	2004	**2005**	2004
	HK$	HK$	**HK$**	HK$
Bank borrowings	**21,140,075**	47,087,552	**18,804,839**	42,228,489
Other loans	**124,880**	220,312	**85,156**	195,287
	21,264,955	47,307,864	**18,889,995**	42,423,776

The carrying amounts of short-term borrowings approximate to their fair values.

Notes to the Financial Statements

For the year ended 31st December, 2005

29. BANK AND OTHER BORROWINGS *(continued)*

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

	THE GROUP		THE COMPANY	
	2005	2004	**2005**	2004
	HK$	HK$	**HK$**	HK$
Hong Kong dollar	**144,679,219**	130,507,838	**28,213,732**	21,381,178
Renminbi	**227,840,223**	178,794,659	**–**	–
	372,519,442	309,302,497	**28,213,732**	21,381,178

The Group has the following undrawn borrowing facilities:

	2005	2004
	HK$	HK$
Floating rate		
– expiring with one year	**140,406,181**	147,062,434

The facilities expiring within one year are annual facilities subject to review at various dates during 2006.

30. OBLIGATIONS UNDER FINANCE LEASES

THE GROUP

	Minimum lease payments		Present value of minimum lease payments	
	2005	2004	**2005**	2004
	HK$	HK$	**HK$**	HK$
Amounts payable under finance leases:				
Within one year	**5,716,170**	5,608,933	**4,895,625**	5,373,852
In the second to fifth year inclusive	**10,690,166**	1,069,263	**9,790,112**	1,035,295
	16,406,336	6,678,196	**14,685,737**	6,409,147
Less: Future finance charges	**1,720,599**	269,049	**N/A**	N/A
Present value of lease payments	**14,685,737**	6,409,147	**14,685,737**	6,409,147
Less: Amount due for settlement within one year shown under current liabilities			**4,895,625**	5,373,852
Amount due for settlement after one year			**9,790,112**	1,035,295

Notes to the Financial Statements
For the year ended 31st December, 2005

30. OBLIGATIONS UNDER FINANCE LEASES *(continued)*

It is the Group's policy to lease certain of its plant and machinery under finance leases. The average lease term is 4 years. For the year ended 31st December, 2005, the average effective borrowing rate was 6.61% (2004: 6.75%). Interest rates are fixed at the contract date. All leases are on a fixed repayment basis and no arrangement has been entered into for contingent rental payments.

The Group's obligations under finance leases are secured by the lessors' charges over the leased assets.

THE COMPANY

The Company has no obligations under finance leases for both of the year end dates.

31. DEFERRED TAXATION

THE GROUP

Deferred taxation is calculated in full on temporary difference under the liability method using a principal taxation rate of 17.5% (2004: 17.5%).

The following are the major components of deferred tax assets (liabilities) recognised by the Group and movements thereon during the current and prior years:

	Decelerated (accelerated) tax depreciation HK$	Revaluation of properties HK$	Tax losses HK$	Others HK$	Total HK$
At 1st January, 2004	(1,664,780)	(4,082,500)	–	10,214,844	4,467,564
Effect of change in accounting policies	–	1,451,423	–	–	1,451,423
At 1st January, 2004, as restated	(1,664,780)	(2,631,077)	–	10,214,844	5,918,987
Exchange differences	19,558	(13,939)	–	–	5,619
(Charged) credited to income statement	1,881,674	(1,712,569)	159,600	85,611	414,316
At 31st December, 2004 and 1st January, 2005	236,452	(4,357,585)	159,600	10,300,455	6,338,922
Exchange differences	138,658	(125,828)	–	–	12,830
Credited to income statement	404,655	–	135,394	55,130	595,179
At 31st December, 2005	**779,765**	**(4,483,413)**	**294,994**	**10,355,585**	**6,946,931**

Notes to the Financial Statements

For the year ended 31st December, 2005

31. DEFERRED TAXATION *(continued)*

For the purposes of balance sheet presentation, certain deferred tax assets (liabilities) have been offset in accordance with the conditions set out in HKAS 12. The following is the analysis of the deferred tax balances shown in the consolidated balance sheet:

	2005	As restated 2004
	HK$	HK$
Deferred tax liabilities	**(9,536,005)**	(9,607,325)
Deferred tax assets	**16,482,936**	15,946,247
	6,946,931	6,338,922

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

	2005	2004
	HK$	HK$
Unused tax losses	**254,173,388**	238,047,678

The tax losses do not expire under current tax legislation.

Temporary differences arising in connection with interests in associates are insignificant.

THE COMPANY

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

	2005	2004
	HK$	HK$
Unused tax losses	**92,557,774**	76,092,361

The tax losses do not expire under current tax legislation.

The Company has no significant unprovided deferred tax liabilities at both year end dates.

Notes to the Financial Statements

For the year ended 31st December, 2005

32. MAJOR NON-CASH TRANSACTIONS

During the year, the Group entered into finance leases in respect of the acquisition of property, plant and equipment with a total capital value at the inception of the leases of HK$18,269,901 (2004: HK$6,055,800).

33. OPERATING LEASE COMMITMENTS

The Group as lessee

	THE GROUP	
	2005	2004
	HK$	HK$
Minimum lease payments made during the year under operating leases in respect of:		
Land and buildings	**11,042,916**	12,414,167
Plant and machinery	**1,338,584**	1,720,645
	12,381,500	14,134,812

At the balance sheet date, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	THE GROUP	
	2005	2004
	HK$	HK$
Within one year	**12,212,098**	11,716,345
In the second to fifth year inclusive	**39,496,695**	36,057,655
Over five years	**65,751,687**	71,861,550
	117,460,480	119,635,550

Operating lease payments represent rentals payable by the Group for certain of its office properties, factories and plant and machinery. Leases are negotiated for an average term of 2 -10 years and rentals are fixed for an average of 2 -10 years.

Notes to the Financial Statements

For the year ended 31st December, 2005

33. OPERATING LEASE COMMITMENTS *(continued)*

The Group as lessor

Property rental income earned during the year net of outgoings of HK$405,153 (2004: HK$507,171), was HK$2,783,556 (2004: HK$2,869,478). The remaining properties are expected to generate rental yields of 8.5% (2004: 9.4%) on an ongoing basis. All of the properties held have committed tenants for the next 1 – 3 years.

At the balance sheet date, the Group had contracted with tenants for the following future minimum lease receipts under non-cancellable operating leases:

	THE GROUP	
	2005	2004
	HK$	HK$
Within one year	**2,512,880**	1,629,634
In the second to fifth year inclusive	**2,202,038**	196,692
After five years	**38,084**	–
	4,753,002	1,826,326

THE COMPANY

The Company had no operating lease commitments at both year end dates.

34. OTHER COMMITMENTS

	THE GROUP	
	2005	2004
	HK$	HK$
Capital expenditure contracted for but not provided in the financial statements in respect of:		
Acquisition of property, plant and equipment	**–**	9,284,097
Acquisition of leasehold land and buildings	**2,791,862**	–
Investments	**6,256,121**	18,841,191
	9,047,983	28,125,288
Capital expenditure authorised but not contracted for in respect of the acquisition of property, plant and equipment	**–**	–

The Company had no capital commitments at both year end dates.

Notes to the Financial Statements
For the year ended 31st December, 2005

35. CONTINGENT LIABILITIES

	THE GROUP		THE COMPANY	
	2005	2004	**2005**	2004
	HK$	HK$	**HK$**	HK$
Guarantees given to financial institutions in respect of credit facilities utilised by:				
Subsidiaries	**–**	–	**708,161,811**	511,049,811
Outsiders	**–**	6,109,023	**–**	–
	–	6,109,023	**708,161,811**	511,049,811

36. RETIREMENT BENEFITS SCHEMES

The Group participates in both a defined contribution scheme which is registered under the Occupational Retirement Scheme Ordinance (the "ORSO Scheme") and a Mandatory Provident Fund Scheme (the "MPF Scheme") established under the Mandatory Provident Fund Ordinance in December 2000. The assets of the schemes are held separately from those of the Group, in funds under the control of trustees. Employees who were members of the ORSO Scheme prior to the establishment of the MPF Scheme were offered a choice of staying within the ORSO Scheme or switching to the MPF Scheme, whereas all new employees joining the Group on or after 1st December, 2000 are required to join the MPF Scheme.

For members of the MPF Scheme, the Group contributes 5% of relevant payroll costs to the Scheme, which contribution is matched by the employee.

The ORSO Scheme is funded by monthly contributions from both employees and the Group at rates ranging from 5% to 7.5% of the employee's basic salary, depending on the length of service with the Group.

Employees who are employed by subsidiaries in the PRC are members of the state-managed pension scheme operated by the PRC government. These subsidiaries are required to contribute 10% – 15% of payroll costs to the pension scheme to fund the benefits. The only obligation of the Group with respect to the pension scheme is to make the required contributions under the scheme.

The total cost charged to the consolidated income statement of HK$8,284,755 (2004: HK$7,663,108) represents contributions payable to these schemes by the Group in respect of the current accounting period. As at 31st December, 2005, contributions of approximately HK$104,285 (2004: HK$59,491) due in respect of the reporting period had not been paid over to the schemes.

Notes to the Financial Statements

For the year ended 31st December, 2005

37. PLEDGE OF ASSETS

At the balance sheet date, the following assets were pledged by the Group to secure general banking facilities:

	Net book value	
		As restated
	2005	2004
	HK$	HK$
Investment properties	**13,500,000**	13,500,000
Leasehold buildings	**42,036,000**	44,980,000
Leasehold land and land use rights	**12,266,025**	8,218,452
Plant and machinery	**66,372,394**	67,050,540
Bank deposits	**15,208,608**	9,097,384
	149,383,027	142,846,376

Note: The bank deposits have been pledged to secure short-term bank borrowings and are therefore classified as current assets.

38. TRANSACTIONS AND BALANCES WITH RELATED PARTIES

During the year, the Group had significant transactions with the following related parties, together with balances with them as at the balance sheet date, details of which are as follows:

		2005	2004
	Notes	**HK$**	HK$
Substantial shareholders and its subsidiaries:			
EDP charges received *(note i)*		**183,600**	183,600
Management fee paid *(note i)*		**2,999,389**	3,470,766
Balances due from the Group as at the balance sheet date *(note iii)*	*25*	**5,216,812**	5,061,751
Balances due to the Group as at the balance sheet date *(note iii)*	*24*	**260,417**	56,922
Company controlled by certain directors:			
Management fee paid *(note i)*		**996,000**	996,000
Minority shareholders:			
Purchases of finished goods *(note i)*		**21,558,904**	22,150,864
Rental paid *(note i)*		**2,631,492**	2,200,106
Interest paid *(note ii)*		**2,051,728**	1,865,207
Balances due from the Group as at the balance sheet date *(note iv)*	*25*	**6,857,709**	21,023,983
Balances due to the Group as at the balance sheet date *(note iii)*	*24*	**695,035**	12,969,085

Notes to the Financial Statements
For the year ended 31st December, 2005

38. TRANSACTIONS AND BALANCES WITH RELATED PARTIES *(continued)*

	2005 HK$	2004 HK$
Associates:		
Sales of finished goods *(note i)*	**12,478**	10,467
Balances due from the Group as at the balance sheet date *(note iii)*	**9,428,477**	13,577,507
Balances due to the Group as at the balance sheet date *(note iii)*	**10,232,986**	16,997,241
Key management compensation of the Group:		
Salaries and other short-term employee benefits	**12,181,425**	9,169,158

Notes:

(i) The prices of the transactions were determined by the directors with reference to prices for similar transactions with unrelated third parties.

(ii) The interest was charged at 10% (2004: 10%) per annum on the outstanding balances.

(iii) The balances are unsecured, interest free and have no fixed repayment terms.

(iv) The balances are unsecured and have no fixed repayment terms. In 2005, all balances are interest free. In 2004, other than an amount of HK$16,694,624 which bore interest at 10% per annum, the remaining balances were interest free.

Save as disclosed above, there were no other significant transactions with related parties during the year or significant balances with them at the end of the year.

Notes to the Financial Statements
For the year ended 31st December, 2005

39. PARTICULARS OF PRINCIPAL SUBSIDIARIES

Details of the Company's principal subsidiaries at 31st December, 2005 are as follows:

Name of subsidiary	Place of incorporation/ registration	Place of operation	Issued and fully paid share capital/ registered capital	Proportion of nominal value of issued share capital/ registered capital held by the Company*/ subsidiaries	Proportion of nominal value of issued share capital/ registered capital attributable to the Group	Principal activities
				%	%	
Cosmos Machinery Limited	Hong Kong	Hong Kong	HK$10,000,000	100.00	100.00	Investment holding
Cosmos Machinery International Limited	Hong Kong	Hong Kong	HK$32,000,000	100.00*	100.00	Trading in industrial machinery, equipment and supplies and investment holding
Dongguan Cosmos Machinery Limited *(note b)*	PRC	PRC	HK$30,000,000	75.56	75.56	Manufacturing of industrial machinery
Dongguan Great Wall Optical Plastic Works Limited *(note a)*	PRC	PRC	HK$16,126,800	100.00	100.00	Manufacturing of microscopes and magnifiers with acrylic lenses
Dong Hua Machinery Limited *(note b)*	PRC	PRC	Rmb40,800,000	75.56	75.56	Assembling and trading of machinery
Dongguan Welltec Machinery Limited *(note b)*	PRC	PRC	HK$55,920,000	75.56	75.56	Manufacturing and trading of machinery
Gainbase Industrial Limited	Hong Kong	Hong Kong	HK$10,000	100.00	52.00	Trading in printed circuit boards
Glory Horse Industries Limited	Hong Kong	PRC	HK$46,765,174	99.29	99.29	Manufacturing, assembling and designing of electronic products
Grand Technology Products Limited	Hong Kong	Hong Kong	HK$9,500,000	100.00	100.00	Trading of machinery and investment holding

Notes to the Financial Statements

For the year ended 31st December, 2005

39. PARTICULARS OF PRINCIPAL SUBSIDIARIES *(continued)*

Name of subsidiary	Place of incorporation/ registration	Place of operation	Issued and fully paid share capital/ registered capital	Proportion of nominal value of issued share capital/ registered capital held by the Company*/ subsidiaries %	Proportion of nominal value of issued share capital/ registered capital attributable to the Group %	Principal activities
Great Wall (Holding) Company Limited	Hong Kong	Hong Kong	HK$9,900,000	100.00	100.00	Investment holding
Jackson Equities Incorporated	British Virgin Islands	Hong Kong	US$2	100.00	100.00	Investment holding
Karmay Industrial Limited	Hong Kong	Hong Kong	HK$14,979,444	100.00	100.00	General trading and investment holding
Karmay Plastic Products (Zhuhai) Co., Ltd. *(note a)*	PRC	PRC	HK$16,800,000	100.00	100.00	Manufacturing of plastic products
Melco Trading Company Limited	Hong Kong	Hong Kong	HK$1,500,000	100.00	100.00	Trading in industrial equipment and screws
Ming Sun Enterprises Limited	Hong Kong	Hong Kong	HK$3,000,000	100.00	100.00	Investment holding
Ming Sun Enterprises (China) Limited	Hong Kong	Hong Kong	HK$1,000,000	100.00	100.00	Manufacturing of moulds and trading of plasticwares
Shenzhen Gainbase Printed Circuit Board Co., Limited *(note b)*	PRC	PRC	HK$29,500,000	100.00	52.00	Manufacturing of printed circuit boards
Welltec Machinery Limited	Hong Kong	Hong Kong	HK$10,000,000	100.00	100.00	Manufacturing and trading of machinery and investment holding
Wu Xi Grand Tech Machinery Group Co. Ltd. *(note b)*	PRC	PRC	US$9,586,000	100.00	100.00	Manufacturing and trading of machinery and investment holding
Wu Xi Grand Plastic Machine Manufacture Co., Ltd. *(note b)*	PRC	PRC	US$2,850,000	100.00	100.00	Manufacturing and trading of machinery

Notes to the Financial Statements
For the year ended 31st December, 2005

39. PARTICULARS OF PRINCIPAL SUBSIDIARIES *(continued)*

Notes:

(a) The companies are registered in the form of wholly-owned foreign investment enterprises.

(b) The companies are registered in the term of sino-foreign cooperative enterprises.

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

None of the subsidiaries had any debt capital in issue at the end of the year or at any time during the year.

40. COMPARATIVE AMOUNTS

As further explained in note 2(a) to the financial statements, due to the adoption of HKFRS during the current year, the accounting treatment and the presentation of certain items and balances in the financial statements have been revised to comply with the new requirements. Accordingly, certain prior year adjustments have been made and certain comparative amounts have been restated. In addition, certain comparative amounts have been reclassified to conform to the current year's presentation.

41. HONG KONG FINANCIAL REPORTING STANDARDS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR

The HKICPA has issued the following amendments, new standards and interpretations which are not yet effective as of the date of these financial statements:

	Effective for accounting periods beginning on or after
Amendments, as a consequence of the Hong Kong Companies (Amendment) Ordinance 2005, to:	
– HKAS 1 "Presentation of Financial Statements"	1st January, 2006
– HKAS 27 "Consolidated and Separate Financial Statements"	1st January, 2006
– HKFRS 3 "Business Combinations"	1st January, 2006
Amendments to HKAS 39 "Financial Instruments: Recognition and Measurement":	
– The fair value option	1st January, 2006
– Financial guarantee contracts	1st January, 2006
Amendments to HKAS 19 "Actuarial gains and losses, group plans and disclosures"	1st January, 2006
Amendments to HKAS 21 "Net investment in a foreign operation"	1st January, 2006
HKFRS-Int 4 "Determining whether an Arrangement contains a Lease"	1st January, 2006
HKFRS 7 "Financial Instruments: Disclosures"	1st January, 2007
Amendments to HKAS 1 "Presentation of Financial Statements: Capital Disclosures"	1st January, 2007

The Group has not early adopted the above standards, interpretations and amendments in the financial statements for the year ended 31st December 2005. The Group has already commenced an assessment of the related impact to the Group but is not yet in a position to state whether substantial changes to Group's accounting policies and presentation of the financial statements will be resulted.

Financial Summary

INCOME STATEMENT

	For the year ended 31st December,				
				As restated	
	2001	2002	2003	2004	**2005**
	HK$'000	HK$'000	HK$'000	HK$'000	**HK$'000**
Turnover	1,294,747	1,313,484	1,393,628	1,665,687	**1,650,729**
Profit (Loss) before taxation	(79,438)	56,350	52,167	65,482	**80,300**
Taxation	7,751	16,377	13,379	8,934	**7,198**
Profit (Loss) for the year	(87,189)	39,973	38,788	56,548	**73,102**
Minority interests	1,939	17,512	18,260	15,088	**18,881**
Profit (Loss) attributable to equity holders of the Company	(89,128)	22,461	20,528	41,460	**54,221**

BALANCE SHEET

	At 31st December,				
				As restated	
	2001	2002	2003	2004	**2005**
	HK$'000	HK$'000	HK$'000	HK$'000	**HK$'000**
Total assets	1,395,069	1,586,135	1,691,715	1,812,175	**1,876,786**
Total liabilities	673,188	820,522	889,430	991,994	**1,011,574**
Total equity	721,881	765,613	802,285	820,181	**865,212**
Minority interests	142,027	164,436	170,482	157,559	**139,917**

Certain comparative figures for the year ended 31st December 2004 have been restated to reflect the adoption of new/revised Hong Kong Financial Reporting Standards. The comparative figures for the three years ended 31st December 2001, 2002 and 2003 have not been restated as the Directors consider that this would involve undue delay and expense.

REGISTERED OFFICE

8th Floor, Tai Tung Industrial Building
29-33 Tsing Yi Road
Tsing Yi Island
New Territories
Hong Kong
Tel : 2376-6188
Fax : 2375-9626/2433-0130
Website : www.cosmel.com
E-mail : cmel@cosmel.com

註冊辦事處

香港新界
青衣島青衣路29-33號
大同工業大廈8字樓
電話：2376-6188
傳真：2375-9626/2433-0130
網址：www.cosmel.com
電郵：cmel@cosmel.com