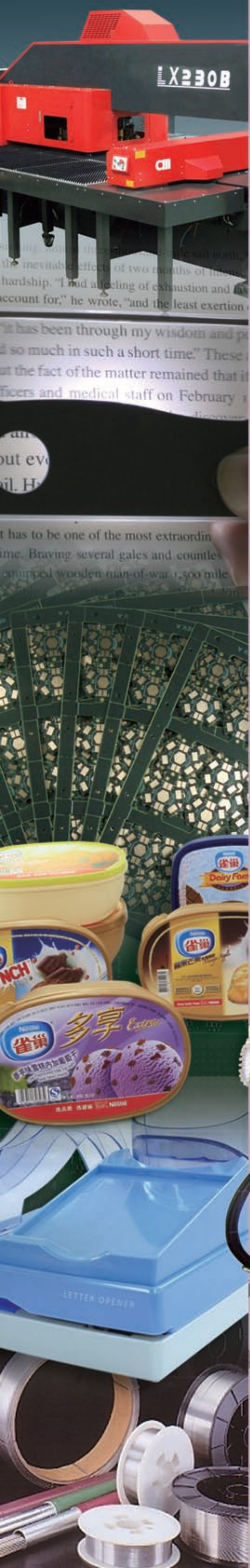


大同機械企業有限公司

COSMOS MACHINERY ENTERPRISES LIMITED

Stock Code 股份代號 : 118

Annual Report 2006

二零零六年年報

Contents

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
Qu Jinping

Independent Non-Executive Directors and Audit Committee Members

Yip Jeffery
Yeung Shuk Fan
Cheng Tak Yin

Remuneration Committee

Yip Jeffery
Yeung Shuk Fan
Cheng Tak Yin
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
Tam Pui Ling

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, 2006.

RESULTS

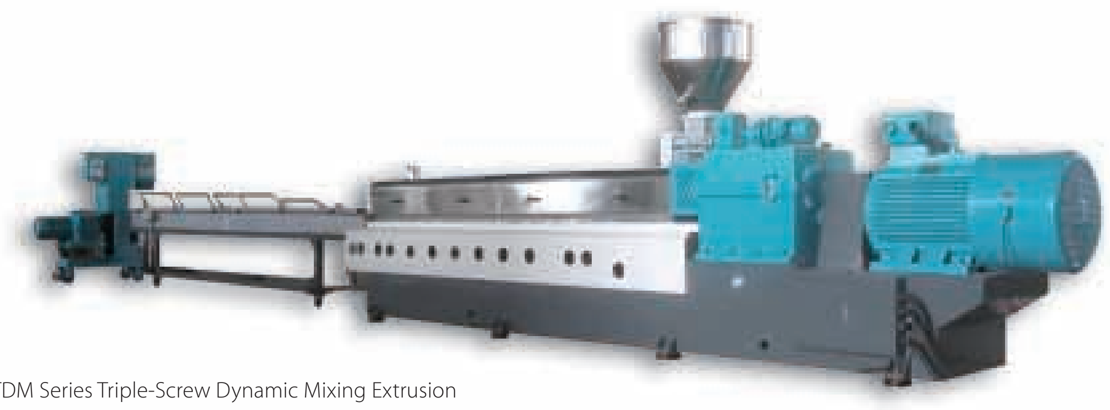
The Group's consolidated turnover for the year 2006 was in the region of approximately HK$2,022,632,000, representing an increase of about 23% over the approximate figure of HK$1,650,729,000 for 2005. Our profit after taxation stood at about HK$88,616,000, or some 21% higher than the approximate figure of HK$73,102,000 for the previous year. For the year ended 31st December, 2006, the profit attributable to shareholders was about HK$65,143,000, increasing by 20% when compared with last year.

CHAIRMAN'S STATEMENT

Driven by the Eleventh Five-Year Plan of China, high-performance, hi-tech and professional products in China's domestic market have attracted much attention during the year under review. In open overseas markets with keen competition, better quality products with a higher performance-price ratio are having more room for expansion. Despite of such a booming market environment, the consistently high raw material prices and pressure for wage increase on the Mainland remain as challenges to all businesses to different extents.

The Group's business strategy is always to, based on a suitable production scale, give emphasis on resources for technology research and development capability, as well as introduce high quality, hi-tech products to meet the changes in market demand, so as to counterbalance the pressure for higher costs, free itself from the unregulated price competition, and strive for better returns in the fields of technology and service provision.

During the period, the high-performance, professional plastic injection moulding machine series in the machinery manufacturing business recorded satisfactory sales. The growth in sales of other new products, such as rubber injection machines and CNC sheet-metal working machines, was also remarkable, making them the new impetus for growth in sales and gains of the business.



TDM Series Triple-Screw Dynamic Mixing Extrusion

Chairman's Statement

As quality control was improved, injection moulding products and the processing business recorded desirable results during the period. The business expanded into markets with more stringent requirements and developed a series of new products with innovative injection moulding technology, which have received positive feedback from existing and new customers and driven the business toward a new milestone.

In the past year, the printed circuit board processing business underwent improvement in its production process. It also deployed new, state-of-the-art equipment for higher competency in markets that emphasizes quality products. With optimisation measures implemented on various aspects, the results for the period were again record-breaking and drove the business even further.

As for the trading business, the Group continued to consolidate its foundation on a customer market stressing quality and performance, and achieved satisfactory results.

To encounter challenges in a complex, rigid environment, it is essential that the Group gather resources for its core businesses. After careful analysis and consideration, last year the Group's management decided to sell out the audio and electronic products business, which consistently incurred losses in recent years, so as to prevent its impact on our overall earnings performance.

The Group's established development policy was also deployed last year. With a strong foundation on collaboration and through active and practical discussions, the Group signed an agreement with South China University of Technology, Guangdong Province, on 14th December, 2006 for the establishment of a strategic partnership for closer co-operation on three aspects, namely "manufacture, learning and research". On 23rd March this year, a contract was signed between the Group and UBE Machinery (Shanghai) Ltd., a subsidiary of Japan UBE Machinery Corporation Ltd. in Shanghai for the set-up of a joint venture for producing UBE ST and PZIII plastic injection moulding machines series. It is anticipated that the joint venture, named 無錫宇部大同機械有限公司 (Wuxi UBE Cosmos Machinery Ltd.), will commence its operations in May this year. At the same time, the Group co-operated with REP International S.A. in February this year on the development of high-performance rubber injection machines. Such collaboration with the above companies has enabled the Group to establish a strategic platform for technology development and human resources investment, thus fortifying the Group's operating conditions for technology research and development, talents training, blending of the best people, further expansion into overseas and local markets, management enhancement, and so on. We believe that all businesses will be able to benefit from synergy within the Group.

RC-750Y High Speed Injection Moulding Machine

Chairman's Statement

Looking forward to the coming year, the political environment in the PRC will remain stable and political and economic reforms dense and meticulous, accompanied by the ongoing implementation of new policies and greater incentives for innovative technologies. Meanwhile, driven by internal demands, the market is believed to continue to boom and flourish. Nevertheless, the persistently high raw material prices, the gradual increase in labour wage on the Mainland, as well as the impact of other market changes triggered by concerns over the emerging uncertainties in the US market, are presenting huge challenges to the Group's ability to cope with changes. Despite the above, in view of our pragmatic operational strategy, adequate deployment of human resources, and devotion to technology research and development, we believe that our management can be enhanced, more advanced products with higher performance/price ratios produced, as well as better quality services offered to meet the market demands for products and services.

In the coming year, we will implement and consolidate our strategic co-operation project which was established in the previous year. Under the synergy effect, it is expected that the Group's results will achieve even higher returns for our shareholders and stakeholders.

On behalf of the Group, I would like to extend my deepest gratitude to all staff members for their devoted efforts. I would also like to express my acknowledgement of their improved performance, and am looking forward to even better achievements in the coming year.

TANG To

Chairman

Hong Kong, 24th April 2007

CNC Brake Press

Management Discussion and Analysis

BUSINESS REVIEW

Manufacturing Business

Machinery

Although affected by the continued macro-economic control policy on the Mainland and oversupply of general purpose plastic injection moulding machines in 2006, the Group benefited from such favourable factors as the continually stable, booming economy on the Mainland and the increasing overseas demand for domestic equipment, with turnover rising by 19% as compared to that of last year to reach approximately HK$685,684,000, which amounted to 34% of the Group's consolidated turnover. During the year, like other manufacturers who have established facilities in China, the Group's machinery business was consistently impacted by such unfavourable factors as the increase in minimum wage and surge in the cost of raw materials, which together resulted in a higher cost of production. In addition, the release and sale of a series of new machinery equipment in the year, whose operational cost was relatively high at the initial stage of development, offset part of the profit. In spite of that, the operating profit for the year was approximately HK$33,134,000, up by 14% as compared to that of the previous financial year.

The overall turnover improved during the year under review. This was attributable to the upward trend of the economy on the Mainland, a stronger intention of customers to invest in plastic and rubber machineries, and the Group's strategic control of its core injection moulding machine product portfolio, which together resulted in an increase in overall sales. Sales of general purpose plastic injection moulding machines were comparable to last year, with high performance and export-oriented plastic injection moulding machines being the main source of sales growth.

ST3150 Injection Moulding Machine

Double Conical Twin-Screw Extruder

Management Discussion and Analysis

The consistent optimisation of the multi-product and multi-region production operation mode further consolidated the development trend of product individualization. In terms of new products, sales of CNC sheet-metal working machines, rubber injection machines and plastic pipe extrusion lines recorded a healthy growth of 80% as compared to that of last year. On 14th December, 2006, the Group signed a strategic alliance agreement with South China University of Technology, a research partner for years, to fully collaborate on research development and talent training; to strengthen the optimal design of machinery, mould design and analysis, alongside new product research and development; whilst in line with talent training on plastic processing, control engineering as well as machine manufacturing.

As for prospects in 2007, in view of the stable political and economic environments on the Mainland, and emphasis has been put on industrial transformation, particularly on technology improvement in the Eleventh Five-Year Plan of China, it is anticipated that the growth in investments and domestic demand will continue, together with a higher gross demand for high performance plastic processing machinery. As China has become the third largest automobile producer and distributor, a relatively higher growth in demand for large-scale, high performance plastic injection moulding machines is expected from certain industries, for example, the auto-parts industry. This year the Group will further collaborate with world renowned rubber and plastics machinery plants, including the set-up of a joint venture with UBE Machinery (Shanghai) Ltd. in the first half of 2007 for producing and distributing high-end plastic injection moulding machines, as well as co-operating with REP International S. A. in the production of high-end rubber injection machines on the Mainland. In terms of export business, with the Group's adamant efforts in establishing foundation for sustainable development, together with the increasing recognition of domestic machinery by overseas customers, it is anticipated that the rapid growth of sales from export-oriented plastic injection moulding machines will continue. To complement the change in product portfolio as mentioned above, last year the Group integrated the production bases in South China and East China, producing synergy in the use of resources for both regions. At the same time, the sales system on the Mainland was adjusted and strengthened to meet market needs. In conclusion, with the launched products entering the growth stage and overseas markets the maturity stage, the Group remains cautiously optimistic about the sales of and growth in the machine manufacturing business.

Electric Punch

Plastic Food Containers

Plastic Products and Processing

During the year under review, sales of the Group's plastic products and processing business steadily rose by approximately 22% as compared to that of the previous year to reach HK$425,166,000, accounting for 21% of the Group's turnover. Operating profit for the year was approximately HK$28,590,000, up by 29% when compared to that of last year and making positive contributions to the Group.

Management Discussion and Analysis

The production cost of the plastic processing plant in Dongguan for the year under review continued to increase due to soaring prices of plastics, diesel and metalware, and the increase in labour wage. Fortunately, the desirable growth in sales for the year, which produced economies of scale, and the substantial efforts by the employees, together with optimised management, helped to reduce wastage and facilitate cost control for reasonable returns. The growth in turnover was mainly attributable to the increase in orders from core customers as well as the establishment of new customers.

The plant in Zhuhai, which specializes in plastic injection products such as professional sanitary plastic tableware and food packaging, was impaired by a lower negotiating power with customers and providers for the year under review. This was caused by the increase in oil and plastics prices, minimum wage in China and other operational costs, as well as the unregulated competition in the local plastic products market. As a result, operating profit of the business dropped and the results turned out not so satisfactory. In the coming year the Group will focus on producing manufacturing products with higher marginal profit, reducing costs and enhancing the efficiency in production and processing processes. Apart from the food industry, the Group will also expand its customer base whose sanitary demands are stringent, as an initiative to improve the performance of the plant.

The optic products business also encountered a severe problem of operational cost increase for the year under review. Despite that, the business adopted several measures to meet the challenges in the market: in terms of marketing and sales, increasing promotional channels for direct sales, e-commerce and exhibitions; in terms of products development, fully improving product design and diversifying product portfolio; and, in terms of management, improving production processes and reducing production costs. With such measures, the business yielded growth in both turnover and profit.

4" dia Illuminated Magnifier 2x 4x

Audio and Electronic Products

The audio and electronic products business has incurred losses for years. In view of the current economic environment, the Group decided to sell out the business so as to cease further losses and to transform resources to other core businesses. On 31st December, 2006, the Group sold out the business for HK$3. As at 31st December, 2006, the total loss of the business, including the related expenses involved in the write down of asset value to net realizable value and redundancy, was HK$7,943,000.

Management Discussion and Analysis

Printed Circuit Boards

Sales of printed circuit boards for the year rose by 22% as compared to that of last year to reach HK$456,175,000, accounting for 23% of the consolidated turnover of the Group. Operating profit stood at approximately HK$31,109,000, an increase of 66% when compared to that of last year.

Multi Layer Printed Circuit Board

During the year under review, the overall printed circuit board market, Japan and Europe in particular, was considerably active. An electroplating production line and advanced processing equipment were introduced to balance the production capacity of the overall production line, so as to satisfy the customers' demands in terms of quantity and quality. The prices of main materials and auxiliary materials rose several times during the year, with the greatest price increase in copper granules and Potassium-Dicyano Aurate (1). To reduce operational costs, several measures, such as improving technical processes and reducing substandard products, were adopted and remarkable results were achieved. With the addition of advanced processing equipment, processes originally outsourced were reverted to the Group for internal processing, which lowered expenses on outsourced processing. Thanks to our customers' understanding and support, part of the increased costs was compensated by adjusting selling prices.

Trading Business

Industrial Consumables

During the year under review, industrial consumables accounted for 17% of the Group's consolidated turnover. Sales in 2006, still mostly from steel wire, industrial machinery, machine accessories and fasteners, reached approximately HK$345,942,000, or an increase of 29% as compared to that of the previous financial year. Operating profit for the year was HK$27,708,000.

Hard Drawn Spring Steel Wire

The Mainland market was generally active during the year under review, with desirable operational conditions in the three major economic zones, namely Pearl River Delta, Yangtze River Delta and Bohai Bay. The performance of the manufacturing business in Pearl River Delta was in particular satisfactory, with such industries as auto, electronics, spring forming machines, electric cables and embroidery machines going steadily upward and facilitating a remarkable growth in the sales of the business as compared to that of last year. During the year, the business, in complementary to the successful strategies of market expansion, was able to reinforce the development of the industry and effectively expand into target industries with high gross profit, yielding growth in both profit and turnover of the business.

Management Discussion and Analysis

To meet new challenges in the future, an enterprises resources planning system suitable designed for the business is being deployed by the Group. Expected to be completed in the third quarter of 2007, the system will effectively improve operational efficiency to further upgrade service standards, strengthen management, and optimise resource distribution and sales capability. It is hoped that the system will strengthen the operation platform for greater competency in the stringent market as well as for gaining desirable results for the business.

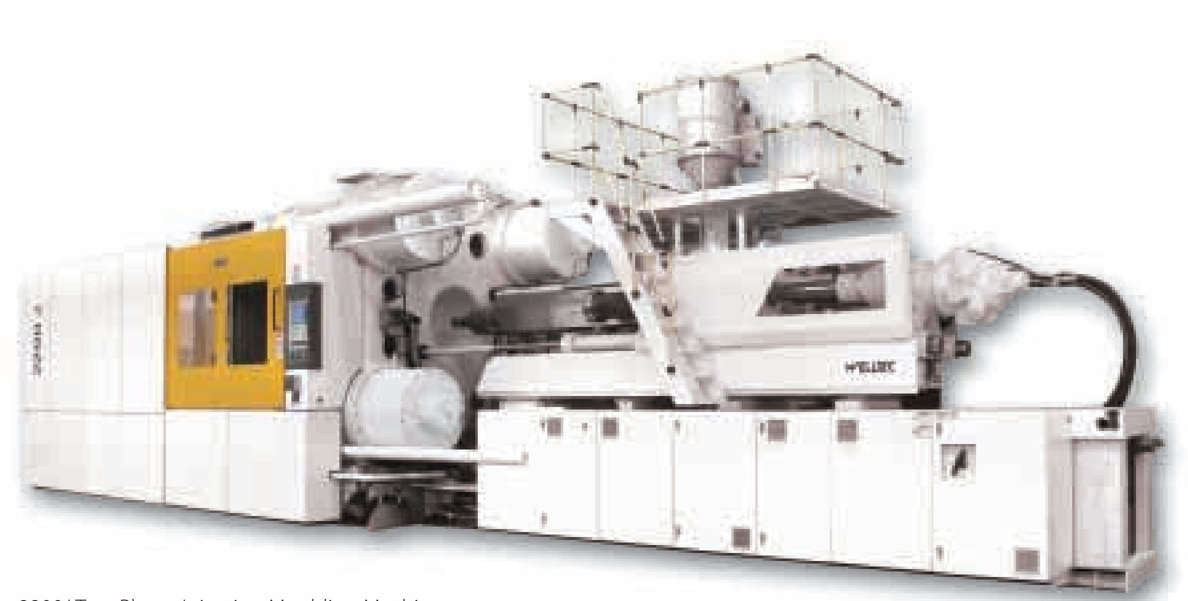
Other Businesses

Electronic Watt-Hour Meters and Related Businesses

During the year under review, new hi-tech products such as remote self-reading meters and systems for better management of electricity capacity/loading based on 2.5G-3G GPRS frequency bands were successively introduced into the market. The overall business retained its stability and yielded reasonable returns.

PROSPECTS

Looking into the coming year, the machinery market will continue to witness growth and a certain demand for advanced domestic machines is expected. Nevertheless, under such unfavourable circumstances as the persistently high prices of materials, gradual increase in wage and appreciation of RMB, the biggest challenge to the Group in the coming year will be the control of production cost through optimised management. With the devotion of our staff, growing acceptance of new machine products from customers and expansion of the export market, the Group is cautiously optimistic about the machinery business in the year ahead.



2200J Two Platen Injection Moulding Machine

Management Discussion and Analysis

Other manufacturing businesses are expected to maintain a steady growth. To control cost more effectively and provide customers with better products and processing services, the Group will improve the management including the deployment of an advanced management software system named "Enterprises Resources Planning", employ more advanced technologies as well as streamline the organisational structure. Besides, it is believed that the transfer of the loss-making consumer electronic products business will have a positive impact on the overall profit of the manufacturing business in the coming year.

Electric Stapler

The trading business is expected to gradually gain market share as the management team of each sales company matures. Together with the addition of new products, the Group reveals confidence in the development of the industrial materials and consumables business.

Zoom Illuminated Microscope w/stand 60x – 80x – 100x

In the coming year, the Group will again dedicate its efforts in nurturing staff and looks forward to an increased competitiveness through continuous learning, so that higher returns can be achieved for our stakeholders.

RT180 Rubber Injection Machine

Management Discussion and Analysis

Financial Statistical Highlights

	2006 HK$'000	2005 HK$'000
Operating results		
Turnover	**2,022,632**	1,650,729
Profit from operations	**94,498**	51,629
Profit before taxation	**100,161**	80,300
Profit attributable to equity holders of the Company	**65,143**	54,222
Earning per share – Basic (cents)	**9.21**	7.67
Earning per share – Diluted (cents)	**N/A**	N/A
Dividend per share (cent)	**2.0**	1.5
Dividend payout	**22%**	20%
Financial position at year end		
Total assets	**2,107,425**	1,876,786
Fixed assets	**420,123**	418,449
Quick assets	**842,640**	742,511
Net current assets	**329,014**	286,608
Shareholders' Funds	**791,644**	725,295
Net asset value per share (cents)	**112**	103
Financial statistics		
Current ratio	**1.30**	1.30
Quick asset ratio	**0.76**	0.76
Gearing ratio	**0.05**	0.06
Total debt ratio	**0.55**	0.54

Directors and Senior Management

EXECUTIVE DIRECTORS

Mr. Tang To, aged 58, 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 33 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 41, 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 had been the Director and Deputy General Manager of China Resources Machinery & Minmetals (Holdings) Co., Ltd. He is the Financial Controller of China Resources Textiles (Holdings) Limited, 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 53, Executive Director and Chief Executive Officer of the Company, has 29 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 46, Executive Director of the Company, graduated from the University of Hong Kong in Social Sciences. He has over 21 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 43, 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 20 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 83, Honorary Chairman and Non-Executive Director of the Company, is one of the founders of the Company. He has over 47 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 49, 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 49, Non-Executive Director of the Company, is a Managing Director of 綽餘飲食顧問有限公司. He has over 25 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. Qu Jinping, aged 50, Non-Executive Director of the Company, was granted a Bachelor's degree in Engineering in 1982 by South China Institute of Technology (currently South China University of Technology), a Master's degree in Engineering in 1987 by South China University of Technology and a Doctoral degree in Engineering in 1999 by Sichuan University and was promoted to professor in 1992. He was recognized as a tutor of doctoral candidates in macromolecular material processing and light industry machinery in 1996. Since 1998, he has been serving as the chief officer of the National Engineering Research Center of Novel Equipment for Polymer Processing in South China University of Technology. He was appointed as the Vice President of South China University of Technology in December 1998. In March 1999, he was appointed as the special-term professor in Material Processing of the South China University of Technology by the Ministry of Education of the People's Republic of China under the Changjiang Scholars Award Program. He also served as the chief officer of the Key Laboratory of Polymer Processing Engineering of the Ministry of Education of the People's Republic of China in South China University of Technology since 2000. He is concurrently a standing council member of Chinese Material Research Society, council member of Plastic Processing Association of China, council member of China Plastic Machine Association, deputy chairman of China Altered-Properties Plastics Association, academic committee member of State Key Laboratory of Macromolecular Materials, Deputy Chairman of Guangdong Material Research Society, council member of Guangdong Inventor Association, Deputy Chief Editor of certain publications namely the World Plastics and Plastics Machinery, member of editorial committee of the Journal of South China University of Technology, the China Plastics, the Plastic Industry, the Plastics, the Engineering Plastics Application. Mr. Qu was appointed as non-executive director of the Company on 8th September, 2006.

Mr. Yip Jeffery, aged 73, 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.

Directors and Senior Management

Miss Yeung Shuk Fan, aged 41, Independent Non-Executive Director of the Company, has over 17 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 twelve years, Miss Yeung has served as financial controller and financial manager of various private groups of companies. She was appointed as Independent Non-Executive Director of the Company with effect from June 2004.

Mr. Cheng Tak Yin, aged 68, Independent Non-Executive Director of the Company, has over 35 years of experience in business management. Currently, he is the Vice-Chairman and director of Hong Kong and Kowloon Machinery and Instrument Merchants Association Limited. He was appointed as Independent Non-Executive Director of the Company with effect from 30th January, 2007.

SENIOR MANAGEMENT

Mr. Ho Kwong Sang, aged 51, 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 62, has more than 32 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 60, has over 27 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 44, joined the Group in 2000. He has 20 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 of the Group which is engaged in the trading of industrial consumables and machinery components.

John, Mak Chun Yeung, aged 43, has over 19 years of hands-on industrial experience of plastic injection mould fabrication and moulding. 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 11 years of management experience of mould and moulding 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 mould in China. Mr. Mak was invited by the Group to be the General Manager of Karmay Plastic Products (Zhuhai) Co. Ltd. in September 2005.

Mr. Andreas Brenner, aged 40, German nationality, graduated from the RWTH Aaachen University (Institute for Plastic Processing – IKV) in Mechanical Engineering. He has more than 10 years experience in the development/research of process technology for plastic and rubber machines and in the development of high precision moulds for the injection moulding process. Furthermore he has experience in developing plastic packaging articles and medical articles for the pharmaceutical industry. He joined the Group in April 2005 as the Technical Director and is the Deputy General Manager of a subsidiary of the Group, Dongguan Dekuma Welltec Machinery Co. Ltd. since October 2006.

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, 2006.

PRINCIPAL ACTIVITIES

The Company acts as an investment holding company. The principal activities of its principal subsidiaries are set out in note 40 to the financial statements.

RESULTS

The results of the Group for the year ended 31st December, 2006 are set out in the consolidated income statement on page 33 of the annual report.

FINAL DIVIDEND

The Board recommends the payment of a final dividend for the year ended 31st December, 2006 of 1.5 HK cents per share (2005: 1.5 HK cents per share) to shareholders of the Company whose names appear on the register of members of the Company as at the date of the 2007 Annual General Meeting.

FINANCIAL REVIEW

Liquidity and Financial Resources

As at 31st December, 2006, the Group's shareholders' funds were approximately HK$791,644,000, compared with approximately HK$725,295,000 as at 31st December, 2005.

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 debt ratio as at 31st December, 2006 was approximately 0.55 (2005: 0.54), and the liquidity ratio was approximately 1.30 (2005: 1.30), both were maintained at a healthy level. As at 31st December, 2006, cash, bank balances and time deposits amounted to approximately HK$106,962,000. 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 96 of the annual report.

INVESTMENT PROPERTIES, LEASEHOLD BUILDINGS AND PLANT AND EQUIPMENT

The investment properties and leasehold buildings of the Group were revalued on 31st December, 2006. 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$56,136,000 on the acquisition of property, plant and equipment for the purpose of expanding business.

Report of the Directors

INVESTMENT PROPERTIES, LEASEHOLD BUILDINGS AND PLANT AND EQUIPMENT (Continued)

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 17 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 and up to the date of this report were:

Executive Directors

Tang To, *Chairman*
Wong Yiu Ming
Zhao Zhuoying
Yan Wing Fai, Richard
Lin Tin Loi

Non-Executive Directors

Tang Kwan, Honorary *Chairman*	
He Zhiqi, *Vice Chairman*	
Kan Wai Wah	
Qu Jinping	(appointed on 8th September, 2006)

Independent Non-Executive Directors

Yip Jeffery	
Yeung Shuk Fan	
Cheng Tak Yin	(appointed on 30th January, 2007)
Liang Shangli	(resigned on 30th January, 2007)

In accordance with Articles 94 and 103 of the Company's Articles of Association, Mr. Tang To, Mr. Yip Jeffery, Mr. Yan Wing Fai Richard, Mr. Li Tin Loi, Mr. Qu Jinping and Mr. Cheng Tak Yin, 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 forthcoming 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).

Report of the Directors

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, 8th September, 2006 and 30th January, 2007 respectively. Every director including those appointed for a specific term is 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

	Number of shares held					Approximate % of total Issued
Name of Director	Personal Interest	Family Interest	Corporate Interest	Others Interests	Total	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, 2006, 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, 2006, 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 5 individuals and 2 limited companies.

2. As at 31st December, 2006, 2,000 Shares were held by the spouse of Mr. Tang.

3. As at 31st December, 2006, 224,000 Shares were jointly held by Mr. Tang and his spouse.

4. As at 31st December, 2006, 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, 2006, 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 5 individuals and 2 limited companies.

The percentage shown was calculated based on the number of issued shares of the Company as at 31st December, 2006.

As at 31st December, 2006, 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, 2006 which is significant in relation to the business of the Company and its subsidiaries.

As at 31st December, 2006, 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, 2006, 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 Shareholders	Number of shares held: Direct Interests	Number of shares held: 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

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, 2006, 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, 2006, 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, 2006, Codo is interested in 297,157,052 Shares through its wholly owned subsidiaries, Cosmos Holdings and Tai Shing. As at 31st December, 2006, 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 5 individuals and 2 limited companies.

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

Report of the Directors

SUBSTANTIAL SHAREHOLDERS (Continued)

4. As at 31st December, 2006, 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 5 individuals and 2 limited companies.

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, 2006.

Save as disclosed above, as at 31st December, 2006, 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.

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.

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 Practices in Appendix 14 of the Listing Rules. The audited financial statements of the Company for the year ended 31st December, 2006 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.

Report of the Directors

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 Practices 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, 2006, the Group has approximately 6,000 employees (2005: 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.

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

During the year ended 31st December, 2006, there has been no purchase, sale or redemption by the Company or any of its subsidiaries of the Company's listed shares.

Report of the Directors

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 Practices (the "Code") as set out in Appendix 14 of the Listing Rules throughout the year ended 31st December, 2006 except for the deviation of code provisions A.4.2 and E.2.1 of the Code prior to 29th May, 2006 as stated in the 2005 Annual Report of the Company.

To order to comply with the code provisions A.4.2 and E.2.1 of the Code, relevant articles of the Articles of Association of the Company were duly amended in the annual general meeting of the Company held on 29th May, 2006 with details listed in pages 24 of the Corporate Governance Report.

COMPLIANCE WITH MODEL CODE

Throughout the year ended 31st December, 2006, 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.

INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

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.

PUBLIC FLOAT

The Company has maintained a sufficient public float throughout the year ended 31st December, 2006.

PUBLICATION OF ANNUAL REPORT

This annual report 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.

On behalf of the Board
TANG To
Chairman

Hong Kong, 24th April, 2007

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 "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 as its own code of corporate governance practices. The Directors consider that the Company has complied with the CG Code during the financial year ended 31st December, 2006 except for some deviation from code provision A.4.2 before 29th May, 2006.

In order to comply with the code provision A.4.2 of the CG Code, relevant articles of the Articles of Association of the Company were duly amended in the annual general meeting of the Company held on 29th May, 2006 (the "2006 AGM") with details listed as follows:

The code provision A.4.2 of the CG Code stipulates that all directors appointed to fill a casual vacancy should be subject to election by shareholders at the first general meeting after their appointment. According to Article 94 of the Articles of Association of the company then in effect prior to 29th May, 2006, any director appointed either to fill a casual vacancy or as an addition to the Board shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election.

Article 94 of the Articles of Association was amended at the 2006 AGM to specify that all directors appointed to fill a casual vacancy should be subject to election by shareholders at the first general meeting after their appointment.

Besides, the code provision A.4.2 of the CG Code stipulates that 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 103(A) of the Articles of Association then in effect prior to 29th May, 2006, it only specified that 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.

Article 103(A) of the Articles of Association was amended at the 2006 AGM to specify that 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.

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.

Corporate Governance Report

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, 2006, the Board held five 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	5/5
Zhao Zhuoying	Executive Director	4/5
Wong Yiu Ming	Executive Director and Chief Executive Officer	5/5
Yan Wing Fai, Richard	Executive Director	5/5
Li Tin Loi	Executive Director	5/5
Non-Executive Directors		
Tang Kwan	Honorary Chairman	5/5
He Zhiqi	Vice Chairman	4/5
Kan Wai Wah	Non-Executive Director	5/5
Qu Jinping (appointed on 8th September, 2006)	Non-Executive Director	2/5
Independent Non-Executive Directors		
Liang Shangli	Independent Non-Executive Director	4/5
Yip Jeffery	Independent Non-Executive Director	5/5
Yeung Shuk Fan	Independent Non-Executive Director	5/5

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.

Corporate Governance Report

CHAIRMAN AND CHIEF EXECUTIVE OFFICER ("CEO")

In order to preserve independence and to have balanced judgment 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

As at the date of this report, the Board comprises five Executive Directors, being Tang To, Zhao Zhuoying, Wong Yiu Ming, Yan Wing Fai, Richard and Li Tin Loi, four Non-Executive Directors, being Tang Kwan, He Zhiqi, Kan Wai Wah and Qu Jinping and three Independent Non-Executive Directors, being Yip Jeffery, Yeung Shuk Fan and Cheng Tak Yin.

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 15 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.

APPOINTMENTS, RE-ELECTION, REMOVAL AND NOMINATION OF DIRECTORS

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 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 will 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, to those candidates who can add value to the management through their contributions in the relevant strategic business areas and which appointments will result in the constitution of strong and diverse Board.

Corporate Governance Report

APPOINTMENTS, RE-ELECTION, REMOVAL AND NOMINATION OF DIRECTORS (Continued)

Meeting of the Board regarding the nomination of directors shall be held when necessary. During the year of 2006, one meeting in relation to nomination of directors is held with the attendance of the directors setting out as follows:

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

The Board 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 the existing composition of Board, which as a group, provides 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 judgment 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.

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.

Corporate Governance Report

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 scope of work 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.

During the year under review and up to date of this report, the chairman of the Remuneration Committee is an Independent Non-Executive Director, Mr. Yip Jeffery and the remaining members are Miss Yeung Shuk Fan, Mr. Cheng Tak Yin (appointed on 30th January, 2007) and Mr. Liang Shangli (resigned on 30th January, 2007), being Independent Non-Executive Directors and the Chairman of the Board of the Company, Mr. Tang To.

The Remuneration Committee annually sets out its recommendation on the remuneration package of the Executive Directors. For the financial year ended 31st December, 2006, the Remuneration Committee has reviewed and recommended to the Board the salaries and bonuses of the Executive Directors and the senior management of the Company.

The Remuneration Committee held one meeting during the financial year ended 31st December, 2006 and the attendance of each member's attendance at this meeting is set out as follows:

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

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.

Corporate Governance Report

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 32 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.

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 covers 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

During the year under review and up to the date of this report, the Audit Committee comprises all three Independent Non-Executive Directors namely, Miss Yeung Shuk Fan (being the chairman of the Audit Committee), Mr. Yip Jeffery, Mr. Cheng Tak Yin (appointed on 30th January, 2007) and Mr. Liang Shangli (resigned on 30th January, 2007), who among themselves possess a great deal of management experience in the accounting profession and commercial sectors.

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 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 interim and annual reports.

Corporate Governance Report

AUDIT COMMITTEE (Continued)

For the financial year ended 31st December, 2006, the Audit Committee has performed the following duties:

1. reviewed with the management the accounting principles and practices adopted by the Group;

2. reviewed the audited financial statement for the year ended 31st December, 2005 and the unaudited interim financial statement for the six months ended 30th June, 2006 with recommendation to the Board for approval; and

3. reviewed principles and procedures on internal control system covering financial, operational and risk management functions

The Audit Committee held two meetings during the financial year ended 31st December, 2006. The attendance of each member's attendance at such meetings is set out as follows:

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.

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	2,032
Non-audit services	–
	2,032

Corporate Governance Report

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.

VOTING BY POLL

During 2006, 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 ensures that an explanation is provided of:

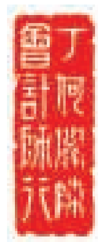
(i) the procedure for demanding a poll by shareholders before putting a resolution to the vote on a show of hands; and

(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 amendments to the Articles of Association of the Company as mentioned in the section "Compliance with Code on Corporate Governance", a special resolution had been passed in the 2006 AGM to amend Article 74 of the Articles of Association of the Company 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 CG Code.

Independent Auditor's 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, 2007

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 of Cosmos Machinery Enterprises Limited (the "Company") set out on pages 33 to 95, which comprise the consolidated and company balance sheets as at 31st December, 2006, and the consolidated income statement the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

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

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audit. This report is made 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. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurances as to whether the financial statements are free from material misstatement.

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

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

OPINION

In our opinion, the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31st December, 2006 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the Hong Kong Companies Ordinance.

TING HO KWAN & CHAN
Certified Public Accountants (practising)

Consolidated Income Statement

For the year ended 31st December, 2006

	Notes	2006 HK$	(As restated) 2005 HK$
Continuing operations:			
Turnover	6	**1,912,967,085**	1,566,193,457
Cost of sales		**(1,522,181,575)**	(1,243,302,150)
Gross profit		**390,785,510**	322,891,307
Other income and gains, net	6	**35,163,740**	59,934,850
Distribution costs		**(106,347,483)**	(98,571,286)
Administrative expenses		**(201,179,002)**	(191,615,902)
Other operating expenses		**(1,575,689)**	(3,752,123)
Impairment losses for bad and doubtful debts		**(15,110,606)**	(20,280,446)
Profit from operations		**101,736,470**	68,606,400
Finance costs	7	**(27,927,482)**	(24,881,347)
Investment income	8	**4,777,545**	1,146,382
Gain on disposal of a subsidiary		**10,561**	–
Gain on disposal of discontinued operation		**60,629**	–
Loss on disposal of an associate		**–**	(163,278)
Share of results of associates		**29,445,850**	55,383,405
Profit before taxation	9	**108,103,573**	100,091,562
Taxation	11	**11,544,167**	7,197,785
Profit for the year from continuing operations		**96,559,406**	92,893,777
Discontinued operation:			
Loss for the year from discontinued operation	12	**(7,943,071)**	(19,791,521)
Profit for the year		**88,616,335**	73,102,256
Attributable to:			
Equity holders of the Company	13	**65,143,015**	54,221,555
Minority interests		**23,473,320**	18,880,701
		88,616,335	73,102,256
Basic earnings (loss) per share for profit (loss) attributable to the equity holders of the Company during the year	14		
– from continuing operations		**10.33 cents**	10.47 cents
– from discontinued operation		**(1.12) cents**	(2.80) cents
		9.21 cents	7.67 cents
Dividends	15	**14,150,454**	10,612,840

The notes on pages 40 to 95 are an integral part of these consolidated financial statements.

Consolidated Balance Sheet

At 31st December, 2006

	Notes	2006 HK$	2005 HK$
Non-current Assets			
Property, plant and equipment	*16*	**353,916,700**	352,185,601
Investment properties	*17*	**29,830,000**	29,030,000
Leasehold land and land use rights	*18*	**36,376,732**	37,233,586
Goodwill	*19*	**–**	–
Interests in associates	*21*	**218,320,863**	176,613,599
Available-for-sale financial assets	*22*	**7,656,695**	7,649,210
Deferred tax assets	*31*	**17,838,652**	16,482,936
		663,939,642	619,194,932
Current Assets			
Inventories	*23*	**600,845,124**	515,079,900
Leasehold land and land use rights	*18*	**1,233,702**	1,062,347
Trade and other receivables	*24*	**673,017,034**	587,082,280
Bills receivable		**28,986,546**	22,319,691
Tax recoverable		**476,885**	22,939
Pledged bank deposits	*38*	**31,963,316**	15,208,608
Bank balances and cash	*26*	**106,962,393**	116,814,933
		1,443,485,000	1,257,590,698
Current Liabilities			
Trade and other payables	*25*	**628,412,929**	498,407,603
Bills payable		**131,487,379**	95,802,239
Amounts due to associates		**34,349,684**	9,428,477
Tax payable		**5,327,039**	11,194,007
Bank and other borrowings			
– due within one year	*29*	**310,337,523**	351,254,487
Obligations under finance leases			
– due within one year	*30*	**4,556,173**	4,895,625
		1,114,470,727	970,982,438
Net Current Assets		**329,014,273**	286,608,260
Total Assets less Current Liabilities		**992,953,915**	905,803,192

Consolidated Balance Sheet

At 31st December, 2006

	Notes	2006 HK$	2005 HK$
Non-current Liabilities			
Bank and other borrowings – due after one year	29	**19,315,727**	21,264,955
Obligations under finance leases – due after one year	30	**6,356,003**	9,790,112
Deferred tax liabilities	31	**11,324,318**	9,536,005
Total non-current liabilities		**36,996,048**	40,591,072
Net Assets		**955,957,867**	865,212,120
Equity			
Capital and reserves attributable to the Company's equity holders:			
Share capital	27	**283,009,077**	283,009,077
Share premium	28	**241,478,789**	241,478,789
Other reserves	28	**40,633,709**	25,277,384
Retained profits			
– Proposed dividend	15	**10,612,840**	10,612,840
– Others		**215,909,710**	164,917,149
		791,644,125	725,295,239
Minority Interests		**164,313,742**	139,916,881
Total Equity		**955,957,867**	865,212,120

The financial statements on pages 33 to 95 were approved and authorised for issue by the Board of Directors on 24th April, 2007 and are signed on its behalf by:

TANG TO	**WONG Yiu Ming**
Director	*Director*

The notes on pages 40 to 95 are an integral part of these consolidated financial statements.

Balance Sheet

At 31st December, 2006

	Notes	2006 HK$	2005 HK$
Non-current Assets			
Property, plant and equipment	*16*	**2,543,652**	3,233,425
Interests in subsidiaries	*20*	**632,050,980**	620,322,692
Interests in associates	*21*	**822,802**	1,383,391
Available-for-sale financial assets	*22*	**–**	4,579,544
		635,417,434	629,519,052
Current Assets			
Trade and other receivables		**1,420,547**	1,027,784
Bank balances and cash	*26*	**152,071**	216,363
		1,572,618	1,244,147
Current Liabilities			
Trade and other payables		**5,533,430**	5,923,661
Amounts due to subsidiaries		**31,314,668**	47,653,863
Amounts due to associates		**33,266,418**	357,318
Bank and other borrowings – due within one year	*29*	**29,284,406**	28,213,732
		99,398,922	82,148,574
Net Current Liabilities		**(97,826,304)**	(80,904,427)
Net Assets		**537,591,130**	548,614,625
Capital and Reserves			
Share capital	*27*	**283,009,077**	283,009,077
Share premium	*28*	**241,478,789**	241,478,789
Retained profits	*28*	**2,490,424**	13,513,919
Proposed dividend	*15*	**10,612,840**	10,612,840
Total Equity		**537,591,130**	548,614,625

TANG TO
Director

WONG Yiu Ming
Director

The notes on pages 40 to 95 are an integral part of these financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31st December, 2006

		Attributable to equity holders of the Company					
	Notes	Share capital HK$	Share premium HK$	Other reserves HK$	Retained profits HK$	Minority interests HK$	Total HK$
Balance at 1st January, 2005		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
Revaluation surplus on 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 and 1st January, 2006		283,009,077	241,478,789	25,277,384	175,529,989	139,916,881	865,212,120
Fair value gains:							
– Available-for-sale financial assets	*28*	–	–	(97,964)	–	–	(97,964)
Revaluation surplus on buildings	*28*	–	–	895,235	–	207,834	1,103,069
Deferred taxation adjustment	*28*	–	–	(36,188)	–	–	(36,188)
Realised on disposal of interest in a subsidiary	*28*	–	–	(14,600)	–	(75,697)	(90,297)
Realised on disposal of discontinued operation	*28*	–	–	(60,626)	–	–	(60,626)
Currency translation differences	*28*	–	–	14,670,468	–	2,183,228	16,853,696
Net income recognised directly in equity		–	–	15,356,325	–	2,315,365	17,671,690
Profit for the year		–	–	–	65,143,015	23,473,320	88,616,335
Total recognised income for 2006		–	–	15,356,325	65,143,015	25,788,685	106,288,025
Acquisition of additional interests in a subsidiary		–	–	–	–	524,123	524,123
Capital contribution in a subsidiary by minority shareholders		–	–	–	–	636,295	636,295
Dilution of minority interests in a subsidiary		–	–	–	–	(94,901)	(94,901)
Dividend paid to minority shareholders		–	–	–	–	(2,457,341)	(2,457,341)
Interim dividend		–	–	–	(3,537,614)	–	(3,537,614)
Dividend relating to 2005		–	–	–	(10,612,840)	–	(10,612,840)
Balance at 31st December, 2006		**283,009,077**	**241,478,789**	**40,633,709**	**226,522,550**	**164,313,742**	**955,957,867**

The notes on pages 40 to 95 are an integral part of these consolidated financial statements.

Consolidated Cash Flow Statement

For the year ended 31st December, 2006

	Notes	2006 HK$	(As restated) 2005 HK$
OPERATING ACTIVITIES			
Operating profit from continuing operations		**101,736,470**	68,606,400
Operating loss from discontinued operation	12	**(7,238,845)**	(16,977,205)
Adjustments for:			
Depreciation and amortisation of property, plant and equipment	16	**55,782,567**	59,409,128
Amortisation of leasehold land and land use rights	18	**1,233,702**	1,062,347
Impairment losses on goodwill	19	**981,123**	2,455,958
Release of negative goodwill	6	**(94,901)**	(16,449,454)
Net (gain) loss on disposal of property, plant and equipment	9	**(812,747)**	4,597,514
Revaluation deficit of leasehold buildings	9	**494,566**	186,250
Fair value gains on investment properties	6	**(800,000)**	(3,503)
Impairment losses on property, plant and equipment	16	**995,952**	–
Impairment losses for bad and doubtful debts		**15,110,606**	20,306,525
Write-down of inventories	9	**8,261,408**	7,753,318
OPERATING CASH FLOWS BEFORE MOVEMENTS IN WORKING CAPITAL		**175,649,901**	130,947,278
Increase in inventories		**(81,197,628)**	(36,436,325)
Increase in trade and other receivables		**(83,613,894)**	(29,478,819)
Increase in bills receivable		**(5,848,857)**	(12,000,801)
Increase in trade and other payables		**121,160,276**	3,188,988
Increase (Decrease) in bills payable		**34,669,591**	(55,105,607)
Cash generated from operations		**160,819,389**	1,114,714
Tax outside Hong Kong paid		**(15,558,577)**	(9,118,654)
Hong Kong Profits Tax (paid) refunded		**(1,955,530)**	156,654
NET CASH FROM (USED IN) OPERATING ACTIVITIES		**143,305,282**	(7,847,286)

Consolidated Cash Flow Statement

For the year ended 31st December, 2006

	Notes	2006 HK$	(As restated) 2005 HK$
INVESTING ACTIVITIES			
Amounts (advanced to) repaid from associates		**(25,579,137)**	4,480,856
Purchase of available-for-sale financial assets		**(4,711,393)**	–
Net proceeds from disposal of a subsidiary	32	**173,974**	–
Proceeds from disposal of discontinued operation	32	**3**	–
Increase in pledged bank deposits		**(16,543,875)**	(6,111,224)
Acquisition of additional shareholding in subsidiaries from minority shareholders		**(457,000)**	(6,971,031)
Purchase of property, plant and equipment		**(54,649,323)**	(51,710,803)
Proceeds from disposal of an associate		**–**	1
Proceeds from disposal of property, plant and equipment		**8,142,506**	41,169,054
Proceeds from disposal of available-for-sale financial assets		**8,364,488**	–
Amount repaid from an investee company		**105**	–
Interest received	8	**1,035,202**	1,009,617
Dividends received from unlisted investments	8	**–**	146,448
Dividends received from associates		**4,291,156**	39,425,489
NET CASH (USED IN) GENERATED FROM INVESTING ACTIVITIES		**(79,933,294)**	21,438,407
FINANCING ACTIVITIES			
Repayment of bank loans		**(337,929,022)**	(187,635,194)
Interest paid	7	**(28,648,015)**	(27,705,346)
Repayment of obligations under finance leases		**(5,259,761)**	(4,882,156)
Dividends paid to minority shareholders of subsidiaries		**(2,457,341)**	(16,940,769)
Dividends paid to Company shareholders		**(14,150,454)**	(7,062,289)
Repayment of other loans		**(90,591)**	(262,254)
Bank loans raised		**277,640,777**	228,620,864
Capital contributed by minority shareholders of a subsidiary		**636,295**	–
Amounts advanced from (to) associates		**24,921,207**	(4,149,030)
Proceeds from issue of shares	27	**–**	517,534
NET CASH USED IN FINANCING ACTIVITIES		**(85,336,905)**	(19,498,640)
DECREASE IN CASH AND CASH EQUIVALENTS		**(21,964,917)**	(5,907,519)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	26	**79,809,902**	83,867,372
EFFECT OF FOREIGN EXCHANGE RATE CHANGES		**3,217,716**	1,850,049
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	26	**61,062,701**	79,809,902

The notes on pages 40 to 95 are an integral part of these consolidated financial statements.

Notes to the Financial Statements

For the year ended 31st December, 2006

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 40.

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. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited. 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.

The adoption of new/revised HKFRS

In 2006, the Group adopted the amendments and interpretation of HKFRS below, which are relevant to its operations.

HKAS 19 (Amendment)	Actuarial Gains and Losses, Group Plans and Disclosures
HKAS 21 (Amendment)	Net Investment in a Foreign Operation
HKAS 27 (Amendment)	Consolidated and Separate Financial Statements Amendments as a consequence of the Companies (Amendments) Ordinance 2005
HKAS 39 (Amendment)	Cash Flow Hedge Accounting of Forecast Intragroup Transactions
HKAS 39 (Amendment)	The Fair Value Option
HKAS 39 and HKFRS 4 (Amendment)	Financial Guarantee Contracts
HK(IFRIC) – Int 4	Determining whether an Arrangement contains a Lease

The Group has assessed the impact of the adoption of these amendments and interpretation and considered that there was no significant impact on the Group's results and financial position nor any substantial changes in the Group's accounting policies.

Notes to the Financial Statements

For the year ended 31st December, 2006

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(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 all entities over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights.

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.

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.

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.

Notes to the Financial Statements

For the year ended 31st December, 2006

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(b) Basis of consolidation (Continued)

(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(i)).

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

In accordance with the Group's internal financial reporting system, the Group has chosen business segment information as the primary reporting format and geographical segment information as the secondary reporting format for the purposes of these financial statements.

Segment revenue, expenses, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to that segment. For example, segment assets may include inventories, trade receivables and property, plant and equipment. Segment revenue, expenses, assets, and liabilities are determined before intra-group balances and intra-group transactions are eliminated as part of the consolidation process, except to the extent that such intra-group balances and transactions are between group entities within a single segment. Inter-segment pricing is based on similar terms as those available to other external parties.

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

Unallocated items mainly comprise financial and corporate assets, interest-bearing loans, borrowings, tax balances, corporate and financing expenses. A discontinued segment is separately presented from continuing segments.

(d) Foreign currency 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.

Notes to the Financial Statements

For the year ended 31st December, 2006

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(d) Foreign currency translation (Continued)

(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, 2006

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 property, plant and equipment 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, 2006

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, 2006

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, 2006

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) Financial guarantees issued, provisions and contingent liabilities

(i) Financial guarantees issued

Financial guarantees are contracts that require the issuer (i.e. the guarantor) to make specified payments to reimburse the beneficiary of the guarantee (the "holder") for a loss the holder incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

Where the Group issues a financial guarantee, the fair value of the guarantee (being the transaction price, unless the fair value can otherwise be reliably estimated) is initially recognised as deferred income within trade and other payables. Where consideration is received or receivable for the issuance of the guarantee, the consideration is recognised in accordance with the Group's policies applicable to that category of asset. Where no such consideration is received or receivable, an immediate expense is recognised in profit or loss on initial recognition of any deferred income.

The amount of the guarantee initially recognised as deferred income is amortised in profit or loss over the term of the guarantee as income from financial guarantees issued. In addition, provisions are recognised in accordance with note 2(k)(iii) if and when (i) it becomes probable that the holder of the guarantee will call upon the Group under the guarantee, and (ii) the amount of that claim on the Group is expected to exceed the amount currently carried in trade and other payables in respect of that guarantee i.e. the amount initially recognised, less accumulated amortisation.

(ii) Contingent liabilities acquired in business combinations

Contingent liabilities acquired as part of a business combination are initially recognised at fair value, provided the fair value can be reliably measured. After their initial recognition at fair value, such contingent liabilities are recognised at the higher of the amount initially recognised, less accumulated amortisation where appropriate, and the amount that would be determined in accordance with note 2(k)(iii). Contingent liabilities acquired in a business combination that cannot be reliably fair valued are disclosed in accordance with note 2(k)(iii).

Notes to the Financial Statements
For the year ended 31st December, 2006

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(k) Financial guarantees issued, provisions and contingent liabilities (Continued)

(iii) Other provisions and contingent liabilities

Provisions are recognised for other liabilities of uncertain timing or amount when the Group or the Company has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

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

(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 initially measured at fair value and, after initial recognition, at amortised cost less any impairment losses for bad and doubtful debts (see note 2(j)), except for the following receivables:

- Interest-free loans made to related parties without any fixed repayment terms or the effect of discounting being immaterial, that are measured at cost less any impairment losses for bad and doubtful debts, and

- Short term receivables with no stated interest rate and the effect of discounting being immaterial, that are measured at their original invoiced amount less any impairment losses for bad and doubtful debts (see note 2(j)).

(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, 2006

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) Trade and other payables

Trade and other payables are initially measured at fair value and, after initial recognition, at amortised cost, except for the following payables:

– short-term payables with no stated interest rate and the effect of discounting being immaterial, that are measured at their original invoiced amount.

– interest free loans from related parties without any fixed repayment terms or the effect of discounting being immaterial, that are measured at cost.

(q) 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.

Notes to the Financial Statements

For the year ended 31st December, 2006

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(r) 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.

(s) 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.

(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.

Notes to the Financial Statements

For the year ended 31st December, 2006

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(t) Revenue recognition (Continued)

(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.

(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.

Interim dividends are simultaneously proposed and declared, because the Company's memorandum and articles of association grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

Notes to the Financial Statements

For the year ended 31st December, 2006

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(w) Discontinued operations

A discontinued operation is a component of the Group's business, the operations and cash flows of which can be clearly distinguished from the rest of the Group and which represents a separate major line of business or geographical area of operations, or is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations, or is a subsidiary acquired exclusively with a view to resale.

Classification as a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held for sale, if earlier. It also occurs when the operation is abandoned.

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

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

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

(x) 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;

(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.

Notes to the Financial Statements

For the year ended 31st December, 2006

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 minimising 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.

(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.

3. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Financial risk factors (Continued)

(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 19).

(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.

Notes to the Financial Statements

For the year ended 31st December, 2006

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (Continued)

(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, 2006, the Group is organised on a product basis into five main business segments.

Continuing operations:

(1) trading of industrial consumables

(2) manufacturing of plastic processing products

(3) manufacturing of machinery; and

(4) manufacturing of printed circuit boards.

Discontinued operation:

(5) manufacturing of audio and electronic products

Details of the discontinued operation are disclosed in note 12 to the financial statements.

Notes to the Financial Statements

For the year ended 31st December, 2006

5. BUSINESS AND GEOGRAPHICAL SEGMENTS (Continued)

Primary reporting format – Business segments (Continued)

The segment results for the year ended 31st December, 2006 are as follows:

	Continuing operations							Discontinued operation		
	Industrial consumables HK$	Plastic processing products HK$	Machinery HK$	Printed circuit boards HK$	Other operations HK$	Eliminations HK$	Sub-total HK$	Audio and electronic products HK$	Eliminations HK$	Consolidated HK$
TURNOVER										
External sales	345,942,479	425,165,758	685,684,256	456,174,592	–	–	1,912,967,085	109,664,550	–	2,022,631,635
Inter-segment sales	8,499,425	18,273,484	10,976,674	–	–	(19,779,373)	17,970,210	–	(17,970,210)	–
Total revenue	354,441,904	443,439,242	696,660,930	456,174,592	–	(19,779,373)	1,930,937,295	109,664,550	(17,970,210)	2,022,631,635

Inter-segment sales are charged at prevailing market rates.

	Industrial consumables HK$	Plastic processing products HK$	Machinery HK$	Printed circuit boards HK$	Other operations HK$	Eliminations HK$	Sub-total HK$	Audio and electronic products HK$	Eliminations HK$	Consolidated HK$
RESULTS										
Segment results	27,707,969	28,589,602	33,134,111	31,109,331	2,225,061	1,153,429	123,919,503	(7,238,845)	–	116,680,658
Unallocated corporate expenses							(22,183,033)	–		(22,183,033)
Profit (loss) from operations							101,736,470	(7,238,845)		94,497,625
Finance costs							(27,927,482)	(720,533)		(28,648,015)
Investment income							4,777,545	16,306		4,793,851
Gain on disposal of a subsidiary							10,561	1		10,562
Gain on disposal of discontinued operation							60,629	–		60,629
Share of results of associates		(344,763)	5,632,786		24,157,827		29,445,850	–		29,445,850
Profit (loss) before taxation							108,103,573	(7,943,071)		100,160,502
Taxation							11,544,167	–		11,544,167
Profit (loss) before minority interests							96,559,406	(7,943,071)		88,616,335

	Continuing operations					Discontinued operation	
	Industrial consumables HK$	Plastic processing products HK$	Machinery HK$	Printed circuit boards HK$	Other operations HK$	Audio and electronic products HK$	Consolidated HK$
ASSETS							
Segment assets	183,857,875	333,868,341	940,166,030	255,741,727	93,020,890	21,642,020	1,828,296,883
Interests in associates							218,320,863
Available-for-sale financial assets							7,656,695
Unallocated corporate assets							53,150,201
Consolidated total assets							2,107,424,642
LIABILITIES							
Segment liabilities	81,755,699	66,472,818	430,862,543	148,374,937	3,317,447	24,354,397	755,137,841
Tax payable							5,327,039
Borrowings							340,565,426
Unallocated corporate liabilities							50,436,469
Consolidated total liabilities							1,151,466,775
OTHER INFORMATION							
Addition of goodwill	–	–	981,123	–	–	–	981,123
Capital additions	1,551,880	12,204,154	19,868,990	21,637,366	429,282	443,851	56,135,523
Depreciation and amortisation	974,459	17,413,493	20,485,205	14,671,986	1,736,788	1,734,338	57,016,269
Other non-cash expenses	169,863	3,840,755	13,629,416	559,366	695,417	4,971,763	23,866,580

Notes to the Financial Statements

For the year ended 31st December, 2006

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:

	Continuing operations							Discontinued operation		
	Industrial consumables HK$	Plastic processing products HK$	Machinery HK$	Printed circuit boards HK$	Other operations HK$	Eliminations HK$	Sub-total HK$	Audio and electronic products HK$	Eliminations HK$	Consolidated HK$
TURNOVER										
External sales	268,286,842	349,706,556	573,929,106	374,270,953	–	–	1,566,193,457	84,535,186	–	1,650,728,643
Inter-segment sales	6,997,496	14,702,249	11,054,992	–	–	(18,052,488)	14,702,249	–	(14,702,249)	–
Total revenue	275,284,338	364,408,805	584,984,098	374,270,953	–	(18,052,488)	1,580,895,706	84,535,186	(14,702,249)	1,650,728,643

Inter-segment sales are charged at prevailing market rates.

	Industrial consumables HK$	Plastic processing products HK$	Machinery HK$	Printed circuit boards HK$	Other operations HK$	Eliminations HK$	Sub-total HK$	Audio and electronic products HK$	Eliminations HK$	Consolidated HK$
RESULTS										
Segment results	18,475,049	22,156,951	29,010,580	18,762,027	(612,342)	434,786	88,227,051	(16,977,205)	–	71,249,846
Unallocated corporate expenses							(19,620,651)	–		(19,620,651)
Profit (loss) from operations							68,606,400	(16,977,205)		51,629,195
Finance costs							(24,881,347)	(2,823,999)		(27,705,346)
Investment income							1,146,382	9,683		1,156,065
Loss on disposal of an associate							(163,278)	–		(163,278)
Share of results of associates		(379,623)	4,906,841		50,856,187		55,383,405	–		55,383,405
Profit (loss) before taxation							100,091,562	(19,791,521)		80,300,041
Taxation							7,197,785	–		7,197,785
Profit (loss) before minority interests							92,893,777	(19,791,521)		73,102,256

Notes to the Financial Statements

For the year ended 31st December, 2006

5. BUSINESS AND GEOGRAPHICAL SEGMENTS (Continued)

Primary reporting format – Business segments (Continued)

	Continuing operations					Discontinued operation	
	Industrial consumables HK$	Plastic processing products HK$	Machinery HK$	Printed circuit boards HK$	Other operations HK$	Audio and electronic products HK$	Consolidated HK$
ASSETS							
Segment assets	144,959,427	285,992,387	924,272,566	218,698,044	41,645,619	48,200,525	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	137,317,793	16,277,726	15,028,239	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	13,534,486	681,693	1,417,256	64,869,177
Depreciation and amortisation	1,024,817	19,701,530	21,270,744	13,588,304	1,556,372	3,329,708	60,471,475
Other non-cash expenses	97,702	348,506	17,546,312	240,000	3,489,119	6,026,079	27,747,718

Notes to the Financial Statements

For the year ended 31st December, 2006

5. BUSINESS AND GEOGRAPHICAL SEGMENTS (Continued)

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, North America and Europe. 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.

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)
	2006	2005
	HK$	HK$
Hong Kong	**608,529,651**	649,752,691
PRC	**1,084,800,934**	786,615,691
Other Asia-Pacific countries	**98,686,926**	72,798,397
North America	**82,582,828**	25,775,129
Europe	**38,366,746**	31,251,549
Continuing operations	**1,912,967,085**	1,566,193,457
Discontinued operation	**109,664,550**	84,535,186
	2,022,631,635	1,650,728,643

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)
	2006	2005	**2006**	2005
	HK$	HK$	**HK$**	HK$
Hong Kong	**490,853,326**	522,217,125	**2,438,801**	729,375
PRC	**1,559,563,466**	1,262,398,368	**52,119,242**	63,489,768
Other Asia-Pacific countries	**15,684,114**	13,789,338	**–**	–
North America	**7,950,765**	15,214,716	**–**	–
Europe	**11,730,951**	14,965,558	**2,114,752**	–
Continuing operations	**2,085,782,622**	1,828,585,105	**56,672,795**	64,219,143
Discontinued operation	**21,642,020**	48,200,525	**443,851**	1,760,617
	2,107,424,642	1,876,785,630	**57,116,646**	65,979,760

Notes to the Financial Statements

For the year ended 31st December, 2006

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:

	2006 HK$	(As restated) 2005 HK$
Turnover		
Sales of goods	**1,912,967,085**	1,566,193,457
Other income		
Commission income	**480,761**	700,317
Gross rental income from properties	**2,684,308**	3,188,709
Handling and services income	**787,300**	730,957
Release of negative goodwill to income	**94,901**	16,449,454
Compensation for disposal of land use rights, net	**–**	21,124,419
Gain on disposal of a domain name	**3,491,500**	–
Sundry income	**25,191,308**	16,699,229
	32,730,078	58,893,085
Gains, net		
Exchange gain	**1,633,662**	1,038,262
Fair value gains on investment properties	**800,000**	3,503
	2,433,662	1,041,765
	35,163,740	59,934,850

7. FINANCE COSTS

	2006 HK$	(As restated) 2005 HK$
Interest on:		
Borrowings wholly repayable within five years		
– bank loans and overdrafts	**26,479,432**	24,485,808
– other loans	**636,983**	2,233,998
Finance leases	**1,531,600**	985,540
	28,648,015	27,705,346
Less: Attributable to discontinued operation *(note 12)*	**720,533**	2,823,999
	27,927,482	24,881,347

Notes to the Financial Statements

For the year ended 31st December, 2006

8. INVESTMENT INCOME

	2006 HK$	(As restated) 2005 HK$
Interest income	**1,035,202**	1,009,617
Gain on disposal of available-for-sale financial assets	**3,758,649**	–
Dividends received and receivable from unlisted investments	**–**	146,448
	4,793,851	1,156,065
Less: Attributable to discontinued operation *(note 12)*	**16,306**	9,683
	4,777,545	1,146,382

9. PROFIT BEFORE TAXATION

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

	2006		2005	
	Continuing operations HK$	**Discontinued operation HK$**	Continuing operations HK$	Discontinued operation HK$
Charging:				
Staff costs:				
Directors' remuneration *(note 10)*	**13,974,614**	**–**	12,181,425	–
Salaries and other benefits	**219,734,824**	**10,843,080**	186,326,940	12,601,630
Retirement benefits scheme contributions	**8,670,428**	**114,020**	7,741,544	106,022
	242,379,866	**10,957,100**	206,249,909	12,707,652
Depreciation and amortisation on:				
– Owned assets	**49,922,540**	**1,847,175**	50,451,330	3,458,771
– Assets held under finance leases	**4,012,852**	**–**	5,499,027	–
– Leasehold land and land use rights *(note 18)*	**1,233,702**	**–**	1,062,347	–
Impairment losses on goodwill (included in other operating expenses)	**981,123**	**–**	2,455,958	–
Auditors' remuneration				
– Current year	**1,874,325**	**137,000**	1,561,991	118,000
– Underprovided (overprovided) in prior years	**12,650**	**8,000**	(91,140)	(17,000)
Loss on disposal of property, plant and equipment	**–**	**226,711**	–	5,969,837
Impairment losses on property, plant and equipment	**195,481**	**800,471**	–	–
Operating lease payments *(note 34)*	**12,756,276**	**30,926**	12,325,219	56,281
Revaluation deficit on leasehold buildings	**494,566**	**–**	186,250	–
Write-down of inventories	**3,289,645**	**4,971,763**	1,753,318	6,000,000
Share of associates' taxation	**5,541,839**	**–**	5,618,447	–
and crediting:				
Rental income net of outgoings	**2,456,839**	**–**	2,783,556	–
Profit on disposal of property, plant and equipment	**1,039,458**	**–**	1,372,323	–

Notes to the Financial Statements

For the year ended 31st December, 2006

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$	2006 Total HK$	2005 Total HK$
Mr. Tang To	**3,138,062**	**1,112,000**	**151,200**	**4,401,262**	3,736,293
Mr. Wong Yiu Ming	**3,092,162**	**1,282,900**	**159,750**	**4,534,812**	3,789,023
Mr. Zhao Zhuoying	**40,000**	**–**	**–**	**40,000**	40,000
Mr. Yan Wing Fai	**1,187,200**	**866,200**	**12,000**	**2,065,400**	2,080,074
Mr. Li Tin Loi	**292,000**	**1,400,800**	**80,910**	**1,773,710**	1,436,605
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. Liang Shangli*	**100,000**	**–**	**–**	**100,000**	40,000
Mr. Yip Jeffery*	**40,000**	**–**	**–**	**40,000**	40,000
Miss. Yeung Shuk Fan*	**168,000**	**–**	**–**	**168,000**	168,000
Mr. Qu Jinping#	**–**	**–**	**–**	**–**	–
Total 2006	**8,177,424**	**5,342,300**	**454,890**	**13,974,614**	12,181,425
Total 2005	6,598,536	5,145,700	437,189		

* Independent non-executive directors

\# Appointed on 8th September, 2006 as non-executive director

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

(b) Employees' emoluments

The five highest paid individuals included four (2005: four) directors, details of whose emoluments are set out above. The emoluments of the remaining one (2005: one) individual are as follows:

	2006 HK$	2005 HK$
Salaries and other benefits	**4,415,800**	2,396,360
Retirement benefits schemes contributions	**45,900**	45,900
	4,461,700	2,442,260

Notes to the Financial Statements

For the year ended 31st December, 2006

11. TAXATION

Hong Kong profits tax has been provided at the rate of 17.5% (2005: 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.

	2006 HK$	2005 HK$
Hong Kong Profits Tax		
Current year	**2,655,092**	1,494,083
Underprovision in prior years	**127,265**	1,003,805
	2,782,357	2,497,888
Taxation outside Hong Kong	**8,234,261**	5,295,076
Deferred taxation relating to the origination and reversal of temporary differences *(note 31)*	**527,549**	(595,179)
Taxation charge	**11,544,167**	7,197,785

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:

	2006 HK$	2005 HK$
Profit before taxation (including loss from discontinued operation)	**100,160,502**	80,300,041
Tax at the domestic income tax rate of 17.5% (2005: 17.5%)	**17,528,088**	14,052,507
Tax effect of expenses that are not deductible in determining taxable profit	**22,371,386**	28,778,778
Tax effect of income that is not taxable in determining taxable profit	**(35,328,422)**	(37,767,091)
Underprovision of Hong Kong Profits Tax in prior years	**127,265**	1,003,805
Tax effect of tax losses not recognised	**8,208,714**	8,945,518
Tax effect of temporary differences not recognised	**695,991**	733,235
Tax effect of utilisation of tax losses not previously recognised	**(2,832,221)**	(2,926,536)
Effect of different tax rates of subsidiaries operating in other jurisdictions	**773,366**	(5,622,431)
Taxation charge	**11,544,167**	7,197,785
Represented by:		
Tax charge attributable to discontinued operation *(note 12)*	**–**	–
Tax charge attributable to continuing operations	**11,544,167**	7,197,785
Taxation charge	**11,544,167**	7,197,785

Notes to the Financial Statements

For the year ended 31st December, 2006

12. DISCONTINUED OPERATION

Pursuant to a resolution passed by the board of directors dated 31st December, 2006, the Group disposed of a subsidiary, Glory Horse Industries Limited ("Glory Horse"), and discontinued its manufacturing of audio and electronic products. On 31st December, 2006, the Group entered into an agreement with an independent third party to dispose of its entire interest in the Glory Horse for an aggregate cash consideration of HK$3, at fair value determined by both parties. The disposal was completed on 31st December, 2006. An analysis of the results, cash flows of the discontinued operation is as follows:

		2006 HK$	2005 HK$
THE GROUP			
(a)	**Results**		
	Turnover	**109,664,550**	84,535,186
	Cost of sales	**(109,791,426)**	(90,755,745)
	Gross loss	**(126,876)**	(6,220,559)
	Other operating income	**500,377**	270,988
	Distribution costs	**(2,109,067)**	(1,513,366)
	Administrative expenses	**(5,503,279)**	(9,488,189)
	Impairment losses for bad and doubtful debts	**–**	(26,079)
	Operating loss	**(7,238,845)**	(16,977,205)
	Finance costs *(note 7)*	**(720,533)**	(2,823,999)
	Investment income *(note 8)*	**16,306**	9,683
	Gain on disposal of a subsidiary	**1**	–
	Loss for the year	**(7,943,071)**	(19,791,521)
(b)	**Cash flows**		
	Operating cash flows	**(25,094,223)**	(8,595,118)
	Investing cash flows	**2,317,982**	17,338,779
	Financing cash flows	**23,016,371**	(9,552,185)
	Total cash flows	**240,130**	(808,524)

Notes to the Financial Statements

For the year ended 31st December, 2006

13. 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 HK$3,126,959 (2005: the loss of HK$25,543,295).

14. EARNINGS PER SHARE

The calculation of basic earnings per ordinary share is based on the Group's profit attributable to equity holders of the Company divided by the weighted average number of ordinary shares in issue during the year.

	2006	(As restated) 2005
Weighted average number of shares in issue during the year	**707,522,692**	706,856,278
Profit attributable to the equity holders of the Company from continuing operations	**HK$73,086,086**	HK$74,013,076
Earnings per share from continuing operations	**10.33 cents**	10.47 cents
Loss attributable to the equity holders of the Company from discontinued operation	**(HK$7,943,071)**	(HK$19,791,521)
Loss per share from discontinued operation	**(1.12) cents**	(2.80) cents

15. DIVIDENDS

	2006 **HK$**	2005 HK$
Interim dividend of HK$0.005 (2005: nil) per share	**3,537,614**	–
Dividend proposed after the balance sheet date of HK$0.015 (2005: HK$0.015) per share	**10,612,840**	10,612,840
	14,150,454	10,612,840

Notes to the Financial Statements
For the year ended 31st December, 2006

16. PROPERTY, PLANT AND EQUIPMENT

	Leasehold buildings	Furniture, fixtures and equipment	Plant and machinery	Motor vehicles	Properties under construction	Total
	HK$	HK$	HK$	HK$	HK$	HK$
THE GROUP						
COST OR VALUATION						
At 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 and 1st January, 2006	126,799,000	141,248,775	436,738,658	40,032,143	11,630,582	756,449,158
Currency realignment	4,320,136	2,399,148	7,516,876	1,078,751	435,763	15,750,674
Reclassifications	1,880,265	(171,258)	13,904,315	–	(15,613,322)	–
Additions	1,013,830	10,026,705	33,004,810	3,785,030	8,305,148	56,135,523
Disposals	–	(2,348,772)	(15,983,552)	(5,703,833)	(1,255,513)	(25,291,670)
Adjustment on revaluation	(5,555,231)	–	–	–	–	(5,555,231)
At 31st December, 2006	**128,458,000**	**151,154,598**	**475,181,107**	**39,192,091**	**3,502,658**	**797,488,454**
Analysis of cost or valuation:						
At 31st December, 2006						
At cost	**–**	**151,154,598**	**475,181,107**	**39,192,091**	**3,502,658**	**669,030,454**
At valuation – 2006	**128,458,000**	**–**	**–**	**–**	**–**	**128,458,000**
	128,458,000	**151,154,598**	**475,181,107**	**39,192,091**	**3,502,658**	**797,488,454**
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

Notes to the Financial Statements

For the year ended 31st December, 2006

16. PROPERTY, PLANT AND EQUIPMENT (Continued)

	Leasehold buildings HK$	Furniture, fixtures and equipment HK$	Plant and machinery HK$	Motor vehicles HK$	Properties under construction HK$	Total HK$
THE GROUP						
DEPRECIATION AND AMORTISATION						
At 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 and 1st January, 2006	–	89,868,660	288,165,775	26,229,122	–	404,263,557
Currency realignment	145,366	1,220,848	4,574,599	714,510	–	6,655,323
Depreciation provided for the year	6,018,368	12,953,274	32,304,939	4,505,986	–	55,782,567
Impairment losses	–	801,753	194,199	–	–	995,952
Reclassifications	–	(490,565)	519,841	(29,276)	–	–
Disposals	–	(1,918,347)	(11,665,663)	(4,377,901)	–	(17,961,911)
Eliminated on revaluation	(6,163,734)	–	–	–	–	(6,163,734)
At 31st December, 2006	**–**	**102,435,623**	**314,093,690**	**27,042,441**	**–**	**443,571,754**
NET BOOK VALUES						
At 31st December, 2006	**128,458,000**	**48,718,975**	**161,087,417**	**12,149,650**	**3,502,658**	**353,916,700**
At 31st December, 2005	126,799,000	51,380,115	148,572,883	13,803,021	11,630,582	352,185,601

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

	2006 HK$	2005 HK$
In Hong Kong:		
– under medium-term leases	**2,258,000**	2,429,000
Outside Hong Kong:		
– under long leases	**32,520,000**	31,330,000
– under medium-term leases	**93,680,000**	93,040,000
	128,458,000	126,799,000

The leasehold buildings of the Group were revalued as at 31st December, 2006 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.

Notes to the Financial Statements

For the year ended 31st December, 2006

16. PROPERTY, PLANT AND EQUIPMENT (Continued)

Depreciation expense of HK$41,464,414 (2005: HK$44,535,041) has been expensed in cost of goods sold, HK$1,836,107 (2005: HK$2,828,847) in selling and distribution costs and HK$12,482,046 (2005: HK$12,045,240) in administrative expenses.

Had leasehold buildings been carried at cost less accumulated depreciation and amortisation, the carrying value of leasehold buildings would have been HK$81,188,152 (2005: HK$93,695,887).

The net book value of the Group's plant and machinery includes an amount of HK$45,737,655 (2005: HK$18,269,901) in respect of assets held under finance leases.

	Furniture, fixtures and equipment HK$	Motor vehicles HK$	Total HK$
THE COMPANY			
COST			
At 1st January, 2005	9,272,533	537,821	9,810,354
Additions	681,693	–	681,693
At 31st December, 2005 and 1st January, 2006	9,954,226	537,821	10,492,047
Additions	429,282	–	429,282
Disposal	(39,349)	–	(39,349)
At 31st December, 2006	**10,344,159**	**537,821**	**10,881,980**
ACCUMULATED DEPRECIATION			
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 and 1st January, 2006	7,043,493	215,129	7,258,622
Depreciation provided for the year	995,964	107,564	1,103,528
Written back on disposal	(23,822)	–	(23,822)
At 31st December, 2006	**8,015,635**	**322,693**	**8,338,328**
NET BOOK VALUES			
At 31st December, 2006	**2,328,524**	**215,128**	**2,543,652**
At 31st December, 2005	2,910,733	322,692	3,233,425

Notes to the Financial Statements

For the year ended 31st December, 2006

17. INVESTMENT PROPERTIES

	THE GROUP	
	2006	2005
	HK$	HK$
At beginning of the year	**29,030,000**	24,400,000
Reclassified from leasehold land	–	3,846,497
Reclassified from buildings	–	780,000
Fair value gains	**800,000**	3,503
At end of the year	**29,830,000**	29,030,000

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, 2006 and 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 (2005: HK$13,500,000) were pledged to secure certain bank borrowings granted to the Group (Note 38).

18. LEASEHOLD LAND AND LAND USE RIGHTS

	THE GROUP	
	2006	2005
	HK$	HK$
Cost		
At beginning of the year	**51,356,806**	61,592,363
Currency realignment	**731,295**	412,139
Reclassified to investment properties	–	(4,877,861)
Disposal	–	(5,769,835)
At end of the year	**52,088,101**	51,356,806
Accumulated amortisation		
At beginning of the year	**13,060,873**	13,964,129
Currency realignment	**183,092**	86,895
Amortisation for the year	**1,233,702**	1,062,347
Reclassified to investment properties	–	(1,031,364)
Disposal	–	(1,021,134)
At end of the year	**14,477,667**	13,060,873
Net book value		
At end of the year	**37,610,434**	38,295,933
Portion classified as current assets	**1,233,702**	1,062,347
Long term portion	**36,376,732**	37,233,586
At beginning of the year	**38,295,933**	47,628,234

18. 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:

	2006 HK$	2005 HK$
In Hong Kong held on:		
Leases of over 50 years	–	–
Leases of between 10 to 50 years	14,333,493	14,867,304
Outside Hong Kong held on:		
Leases of over 50 years	7,867,471	7,894,919
Leases of between 10 to 50 years	15,409,470	15,533,710
	37,610,434	38,295,933

Bank borrowings are secured on land for the carrying value of HK$14,947,063 (2005: HK$12,266,025) *(Note 38)*.

19. GOODWILL

	THE GROUP HK$
Year ended 31st December, 2005	
Opening net book amount	1,345,375
Acquisition of minority interests	1,110,583
Impairment losses	(2,455,958)
Closing net book amount	–
At 31st December, 2005	
Cost	25,608,526
Accumulated amortisation and impairment	(25,608,526)
Closing net book amount	–
Year ended 31st December, 2006	
Opening net book amount	–
Acquisition of additional interest in a subsidiary	981,123
Impairment losses	(981,123)
Closing net book amount	–
At 31st December, 2006	
Cost	26,589,649
Accumulated amortisation and impairment	(26,589,649)
Closing net book amount	–

Notes to the Financial Statements

For the year ended 31st December, 2006

19. GOODWILL (Continued)

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.

20. INTERESTS IN SUBSIDIARIES

	THE COMPANY	
	2006	2005
	HK$	HK$
Unlisted shares/capital contributions, at cost less impairment losses	**40,781,145**	40,781,145
Amounts due from subsidiaries less impairment losses	**591,269,835**	579,541,547
	632,050,980	620,322,692

Details of the Company's principal subsidiaries at 31st December, 2006 are set out in note 40.

Amounts due from subsidiaries are unsecured, interest free and have no fixed terms of repayment. Other than the carrying amounts of HK$47,060,152 (2005: HK$69,278,341) which are interest bearing, the remaining balances are interest free. 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.

Notes to the Financial Statements
For the year ended 31st December, 2006

21. INTERESTS IN ASSOCIATES

	2006 HK$	2005 HK$
THE GROUP		
Share of net assets	**183,008,740**	166,380,613
Amounts due from associates less impairment losses	**35,312,123**	10,232,986
	218,320,863	176,613,599
THE COMPANY		
Unlisted shares, at cost	**–**	–
Amounts due from associates less impairment losses	**822,802**	1,383,391
	822,802	1,383,391

(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 the balance sheet date include goodwill of HK$312,724 (2005: HK$312,724).

Details of the principal associates of the Group at 31st December, 2006 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.

Notes to the Financial Statements

For the year ended 31st December, 2006

21. INTERESTS IN ASSOCIATES (Continued)

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

	2006 HK$	2005 HK$
Total assets	**492,721,379**	465,132,490
Total liabilities	**248,626,063**	265,412,585
Net assets	**244,095,316**	199,719,905
Group's share of associates' net assets	**183,008,740**	166,380,613
Revenue	**358,857,960**	342,706,443
Profit for the year	**68,123,339**	87,391,039
Group's share of associates' profits for the year	**29,445,850**	55,383,405

22. AVAILABLE-FOR SALE FINANCIAL ASSETS

	THE GROUP		THE COMPANY	
	2006 HK$	2005 HK$	**2006 HK$**	2005 HK$
At beginning of the year	**7,649,210**	7,589,720	**4,579,544**	4,579,544
Additions	**4,711,393**	–	**–**	–
Disposals	**(4,605,944)**	–	**(4,579,544)**	–
Revaluation (deficit) surplus transfer to equity *(Note 28)*	**(97,964)**	59,490	**–**	–
At end of the year	**7,656,695**	7,649,210	**–**	4,579,544
Less: non-current portion	**7,656,695**	7,649,210	**–**	4,579,544
Current portion	**–**	–	**–**	–

There were no impairment provisions made on available-for-sale financial assets in 2006 and 2005.

Notes to the Financial Statements
For the year ended 31st December, 2006

22. AVAILABLE-FOR SALE FINANCIAL ASSETS (Continued)

Available-for-sale financial assets include the following:

	THE GROUP		THE COMPANY	
	2006	2005	**2006**	2005
	HK$	HK$	**HK$**	HK$
Unlisted securities, at cost	**9,609,638**	9,504,189	**–**	4,579,544
Impairment losses	**(2,071,789)**	(2,071,789)	**–**	–
	7,537,849	7,432,400	**–**	4,579,544
Listed securities, at market value				
Equity securities – Japan	**118,846**	216,810	**–**	–
	7,656,695	7,649,210	**–**	4,579,544

Available-for-sale financial assets are denominated in the following currencies:

	THE GROUP		THE COMPANY	
	2006	2005	**2006**	2005
	HK$	HK$	**HK$**	HK$
Hong Kong Dollars	**–**	26,505	**–**	–
United States Dollars	**850,007**	–	**–**	–
Renminbi	**6,687,842**	7,405,895	**–**	4,579,544
Japanese Yen	**118,846**	216,810	**–**	–
	7,656,695	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, 2006

23. INVENTORIES

	THE GROUP	
	2006	2005
	HK$	HK$
Trading inventories and finished goods	**207,699,226**	178,713,068
Work in progress	**109,474,409**	97,196,190
Raw materials	**283,671,489**	239,170,642
	600,845,124	515,079,900

At 31st December, 2006 the carrying amount of inventories that were carried at fair value less costs to sell amounted to HK$517,847,143 (2005: HK$440,377,649).

24. TRADE AND OTHER RECEIVABLES

	THE GROUP	
	2006	2005
	HK$	HK$
Trade receivables	**541,118,136**	458,229,592
Other receivables	**130,827,838**	127,897,236
Amounts due from related parties *(Note 39)*	**1,071,060**	955,452
	673,017,034	587,082,280

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

The Group allows an average credit period of 90 days to 120 days for customers. The aged analysis of the Group's trade receivables at the balance sheet date is as follows:

	THE GROUP	
	2006	2005
	HK$	HK$
0 to 3 months	**400,640,001**	313,130,873
4 to 6 months	**67,463,581**	53,587,512
7 to 9 months	**22,226,433**	26,877,786
Over 9 months	**50,788,121**	64,633,421
	541,118,136	458,229,592

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

Notes to the Financial Statements

For the year ended 31st December, 2006

24. TRADE AND OTHER RECEIVABLES (Continued)

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	
	2006	2005	**2006**	2005
United States Dollars	**9,106,736**	5,685,053	**–**	–
Renminbi	**364,433,078**	348,240,105	**–**	–
Japanese Yen	**43,493,405**	25,935,525	**–**	–
Euro Dollars	**370,082**	–	**–**	–

25. TRADE AND OTHER PAYABLES

	THE GROUP	
	2006	2005
	HK$	HK$
Trade payables	**414,275,641**	322,829,298
Accruals and other payables	**208,325,024**	163,503,784
Amounts due to related parties *(Note 39)*	**5,812,264**	12,074,521
	628,412,929	498,407,603

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

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

	THE GROUP	
	2006	2005
	HK$	HK$
0 to 3 months	**286,614,709**	254,577,445
4 to 6 months	**80,220,745**	38,127,124
7 to 9 months	**34,300,012**	11,699,548
Over 9 months	**13,140,175**	18,425,181
	414,275,641	322,829,298

Notes to the Financial Statements

For the year ended 31st December, 2006

25. TRADE AND OTHER PAYABLES (Continued)

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	
	2006	2005	**2006**	2005
United States Dollars	**3,588,390**	1,465,732	**–**	–
Renminbi	**439,331,642**	294,121,320	**–**	–
Japanese Yen	**221,559,328**	121,141,903	**–**	–
Euro Dollars	**77,233**	–	**–**	–

26. CASH AND CASH EQUIVALENTS

	THE GROUP		THE COMPANY	
	2006	2005	**2006**	2005
	HK$	HK$	**HK$**	HK$
Bank balances and cash	**106,962,393**	116,814,933	**152,071**	216,363

Included in bank balances and cash 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	
	2006	2005	**2006**	2005
United States Dollars	**952,713**	1,753,945	**409**	21,386
Renminbi	**81,383,800**	95,991,080	**–**	–
Japanese Yen	**346,574**	15,937,976	**–**	–
Euro Dollars	**34,181**	–	**–**	–

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

	THE GROUP	
	2006	2005
	HK$	HK$
Bank balances and cash per above	**106,962,393**	116,814,933
Bank overdrafts *(Note 29)*	**(45,899,692)**	(37,005,031)
	61,062,701	79,809,902

Notes to the Financial Statements
For the year ended 31st December, 2006

27. SHARE CAPITAL

	Number of ordinary shares	Value HK$
Ordinary shares of HK$0.40 each		
Authorised:		
At 1st January, 2005, 31st December, 2005 and 31st December, 2006	1,000,000,000	400,000,000
Issued and fully paid:		
At 1st January, 2005	706,228,857	282,491,543
Issue of shares	1,293,835	517,534
At 31st December, 2005 and 31st December, 2006	**707,522,692**	**283,009,077**

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.

Notes to the Financial Statements

For the year ended 31st December, 2006

28. OTHER RESERVES

THE GROUP

	Buildings revaluation	Investment properties revaluation	Translation	Other	Total
	HK$	HK$	HK$	HK$	HK$
Balance at 1st January, 2005	22,994,623	–	(821,700)	–	22,172,923
Fair value gains:					
– Available-for-sale financial assets	–	–	–	59,490	59,490
Revaluation surplus on buildings	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 and 1st January, 2006	17,224,809	–	7,993,085	59,490	25,277,384
Fair value gains:					
– Available-for-sale financial assets	–	–	–	(97,964)	(97,964)
Revaluation surplus on buildings	895,235	–	–	–	895,235
Deferred taxation adjustment	(36,188)	–	–	–	(36,188)
Realised on disposal of interest in a subsidiary	–	–	(14,600)	–	(14,600)
Realised on disposal of discontinued operation	–	–	(60,626)	–	(60,626)
Currency translation differences	–	–	14,670,468	–	14,670,468
Balance at 31st December, 2006	**18,083,856**	**–**	**22,588,327**	**(38,474)**	**40,633,709**

THE GROUP AND THE COMPANY

	Share premium
	HK$
At 1st January, 2005, 31st December, 2005 and 31st December, 2006	241,478,789

Notes to the Financial Statements

For the year ended 31st December, 2006

28. OTHER RESERVES (Continued)

THE COMPANY

	Retained profits HK$	Proposed dividend HK$	Total HK$
Balance at 1st January, 2005	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	–
Balance at 31st December, 2005 and 1st January, 2006	13,513,919	10,612,840	24,126,759
Profit for the year	3,126,959	–	3,126,959
Dividend relating to 2005	–	(10,612,840)	(10,612,840)
Interim dividend	(3,537,614)	–	(3,537,614)
Proposed dividend	(10,612,840)	10,612,840	–
Balance at 31st December, 2006	**2,490,424**	**10,612,840**	**13,103,264**

Notes to the Financial Statements

For the year ended 31st December, 2006

29. BANK AND OTHER BORROWINGS

	THE GROUP		THE COMPANY	
	2006	2005	**2006**	2005
	HK$	HK$	**HK$**	HK$
Non-current				
Bank borrowings				
– secured	**7,019,187**	18,319,894	**–**	–
– unsecured	**12,167,122**	2,820,181	**–**	–
	19,186,309	21,140,075	**–**	–
Other loans				
– secured	**–**	–	**–**	–
– unsecured	**129,418**	124,880	**–**	–
	129,418	124,880	**–**	–
	19,315,727	21,264,955	**–**	–
Current				
Bank borrowings				
– secured	**112,959,777**	113,503,985	**–**	–
– unsecured	**151,478,054**	200,654,880	**10,000,000**	10,000,000
Bank overdrafts *(note 26)*				
– secured	**41,148,623**	21,599,148	**14,351,085**	13,239,518
– unsecured	**4,751,069**	15,405,883	**4,933,321**	4,974,214
	310,337,523	351,163,896	**29,284,406**	28,213,732
Other loans				
– secured	**–**	90,591	**–**	–
	310,337,523	351,254,487	**29,284,406**	28,213,732
Total borrowings	**329,653,250**	372,519,442	**29,284,406**	28,213,732

Bank borrowings and overdrafts are secured by the leasehold buildings, leasehold land and land use rights and investment properties of the Group *(Notes 16, 17 and 18)*. Other loans in 2005 were secured by plant and machinery.

29. BANK AND OTHER BORROWINGS (Continued)

The maturity of borrowings is as follows:

	THE GROUP		THE COMPANY	
	2006	2005	**2006**	2005
	HK$	HK$	**HK$**	HK$
Within one year	**310,337,523**	351,254,487	**29,284,406**	28,213,732
Between one and two years	**14,741,865**	17,617,525	**–**	–
Between two and five years	**4,444,444**	3,522,550	**–**	–
Wholly repayable with five years	**329,523,832**	372,394,562	**29,284,406**	28,213,732
Over five years	**129,418**	124,880	**–**	–

The effective interest rate as at 31st December, 2006 for bank loans repayable within one year is 5.91% per annum (2005: 5.56% per annum).

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 5.8% per annum (2005: 6.59% per annum).

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

	Carrying amounts		Fair values	
	2006	2005	**2006**	2005
	HK$	HK$	**HK$**	HK$
Bank borrowings	**19,186,309**	21,140,075	**16,877,719**	18,804,839
Other loans	**129,418**	124,880	**97,626**	85,156
	19,315,727	21,264,955	**16,975,345**	18,889,995

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

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

	THE GROUP		THE COMPANY	
	2006	2005	**2006**	2005
	HK$	HK$	**HK$**	HK$
Hong Kong Dollars	**118,681,319**	144,679,219	**29,284,406**	28,213,732
Renminbi	**210,971,931**	227,840,223	**–**	–
	329,653,250	372,519,442	**29,284,406**	28,213,732

Notes to the Financial Statements

For the year ended 31st December, 2006

29. BANK AND OTHER BORROWINGS (Continued)

The Group has the following undrawn borrowing facilities:

	2006 HK$	2005 HK$
Floating rate		
– expiring with one year	**181,563,440**	140,406,181

The facilities expiring within one year are annual facilities subject to review at various dates during 2007.

30. OBLIGATIONS UNDER FINANCE LEASES

THE GROUP

	Minimum lease payments		Present value of minimum lease payments	
	2006 HK$	2005 HK$	**2006 HK$**	2005 HK$
Amounts payable under finance leases:				
Within one year	**5,126,623**	5,716,170	**4,556,173**	4,895,625
In the second to fifth year inclusive	**6,766,595**	10,690,166	**6,356,003**	9,790,112
	11,893,218	16,406,336	**10,912,176**	14,685,737
Less: Future finance charges	**981,042**	1,720,599	**N/A**	N/A
Present value of lease payments	**10,912,176**	14,685,737	**10,912,176**	14,685,737
Less: Amount due for settlement within one year shown under current liabilities			**4,556,173**	4,895,625
Amount due for settlement after one year			**6,356,003**	9,790,112

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, 2006, the average effective borrowing rate was 6.44% (2005: 6.61%). 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.

Notes to the Financial Statements
For the year ended 31st December, 2006

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% (2005: 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 tax depreciation HK$	Revaluation of properties HK$	Tax losses HK$	Others HK$	Total HK$
At 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 and 1st January 2006	779,765	(4,483,413)	294,994	10,355,585	6,946,931
Exchange differences	97,450	(259,470)	–	319,185	157,165
Disposal of a subsidiary	(26,025)	–	–	–	(26,025)
Charged to equity	–	(36,188)	–	–	(36,188)
Charged to income statement	(497,438)	–	(30,111)	–	(527,549)
At 31st December, 2006	**353,752**	**(4,779,071)**	**264,883**	**10,674,770**	**6,514,334**

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:

	2006 HK$	2005 HK$
Deferred tax liabilities	**(11,324,318)**	(9,536,005)
Deferred tax assets	**17,838,652**	16,482,936
	6,514,334	6,946,931

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

	2006 HK$	2005 HK$
Unused tax losses	**214,598,925**	254,173,388

The tax losses do not expire under current tax legislation.

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

Notes to the Financial Statements

For the year ended 31st December, 2006

31. DEFERRED TAXATION (Continued)

THE COMPANY

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

	2006 HK$	2005 HK$
Unused tax losses	105,440,165	92,557,774

The tax losses do not expire under current tax legislation.

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

32. NOTES TO CONSOLIDATED CASH FLOW STATEMENT

Disposal of subsidiaries

	2006		2005	
	Continuing operations HK$	Discontinued operation HK$	Continuing operations HK$	Discontinued operation HK$
NET ASSETS DISPOSED OF:				
Deferred tax assets	26,025	–	–	–
Other receivables	227,684	–	–	–
Cash and cash equivalents	150,802	–	–	–
Minority interests	(75,697)	–	–	–
	328,814	–	–	–
Translation reserve realised on disposal	(14,600)	–	–	–
Gain on disposal	10,561	1	–	–
	324,775	1	–	–
SATISFIED BY:				
Cash consideration	324,775	1	–	–
NET CASH INFLOW ON DISPOSAL:				
Cash consideration	324,775	1	–	–
Cash and cash equivalents disposed of	(150,802)	–	–	–
	173,973	1	–	–

Notes to the Financial Statements
For the year ended 31st December, 2006

32. NOTES TO CONSOLIDATED CASH FLOW STATEMENT (Continued)

Disposal of discontinued operation

On 31st December, 2006, the Group disposed of its entire interest in the "Glory Horse" at an aggregate cash consideration of HK$3. At the date of disposal, the net asset value of "Glory Horse" was nil. Accordingly, the net cash inflow from the disposal of the discontinued operation was HK$3. Details of the disposal are as follows:

	2006 HK$	2005 HK$
NET ASSETS DISPOSED OF:		
Translation reserve realised on disposal	(60,626)	–
Gain on disposal	60,629	–
	3	–
SATISFIED BY:		
Cash consideration	3	–

33. 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$1,486,200 (2005: HK$13,158,374).

34. OPERATING LEASE COMMITMENTS

The Group as lessee

THE GROUP

	2006 HK$	2005 HK$
Minimum lease payments made during the year under operating leases in respect of:		
Land and buildings	12,454,210	11,042,916
Plant and machinery	332,992	1,338,584
	12,787,202	12,381,500

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

	2006 HK$	2005 HK$
Within one year	10,815,398	12,212,098
In the second to fifth year inclusive	37,102,912	39,496,695
Over five years	50,547,368	65,751,687
	98,465,678	117,460,480

Notes to the Financial Statements

For the year ended 31st December, 2006

34. OPERATING LEASE COMMITMENTS (Continued)

The Group as lessee (Continued)

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.

The Group as lessor

Property rental income earned during the year net of outgoings of HK$227,469 (2005: HK$405,153), was HK$2,456,839 (2005: HK$2,783,556). The remaining properties are expected to generate rental yields of 7.7% (2005: 8.5%) 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	
	2006	2005
	HK$	HK$
Within one year	**762,882**	2,512,880
In the second to fifth year inclusive	**1,681,362**	2,202,038
After five years	**–**	38,084
	2,444,244	4,753,002

THE COMPANY

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

35. OTHER COMMITMENTS

	THE GROUP	
	2006	2005
	HK$	HK$
Capital expenditure contracted for but not provided for in the financial statements in respect of:		
Acquisition of leasehold land and buildings	**–**	2,791,862
Investments	**5,275,616**	6,256,121
	5,275,616	9,047,983
Capital expenditure authorised but not contracted for	**–**	–

THE COMPANY

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

Notes to the Financial Statements

For the year ended 31st December, 2006

36. FINANCIAL GUARANTEES AND CONTINGENT LIABILITIES

	THE GROUP		THE COMPANY	
	2006	2005	**2006**	2005
	HK$	HK$	**HK$**	HK$
Guarantees given to financial institutions in respect of credit facilities utilised by:				
Subsidiaries	**–**	–	**647,476,008**	708,161,811
Outsiders	**1,627,365**	–	**–**	–
	1,627,365	–	**647,476,008**	708,161,811

In the opinion of the directors, the fair value of the liabilities in relation to the above guarantees is insignificant as at 31st December, 2006 and 31st December, 2005.

37. 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$9,239,338 (2005: HK$8,284,755) represents contributions payable to these schemes by the Group in respect of the current accounting period. As at 31st December, 2006, contributions of approximately HK$262,136 (2005: HK$104,285) 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, 2006

38. PLEDGE OF ASSETS

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

	Net book value	
	2006	2005
	HK$	HK$
Investment properties	**13,500,000**	13,500,000
Leasehold buildings	**67,722,000**	42,036,000
Leasehold land and land use rights	**14,947,063**	12,266,025
Plant and machinery	**22,148,126**	66,372,394
Bank deposits	**31,963,636**	15,208,608
	150,280,825	149,383,027

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

39. 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:

		2006	2005
	Notes	**HK$**	HK$
Substantial shareholders and its subsidiaries:			
EDP charges received *(note i)*		**183,600**	183,600
Management fee paid *(note i)*		**2,892,880**	2,999,389
Balances due from the Group as at the balance sheet date *(note ii)*	*25*	**5,429,714**	5,216,812
Balances due to the Group as at the balance sheet date *(note ii)*	*24*	**46,140**	260,417
Company controlled by certain directors:			
Management fee paid *(note i)*		**996,000**	996,000

Notes to the Financial Statements
For the year ended 31st December, 2006

39. TRANSACTIONS AND BALANCES WITH RELATED PARTIES (Continued)

	Notes	2006 HK$	2005 HK$
Minority shareholders:			
Purchases of finished goods *(note i)*		**42,104,098**	21,558,904
Rental paid *(note i)*		**308,702**	2,631,492
Interest paid *(note iii)*		**–**	2,051,728
Balances due from the Group as at the balance sheet date *(note ii)*	25	**382,550**	6,857,709
Balances due to the Group as at the balance sheet date *(note ii)*	24	**1,024,920**	695,035
Associates:			
Sales of finished goods *(note i)*		**–**	12,478
Balances due from the Group as at the balance sheet date *(note ii)*		**34,349,684**	9,428,477
Balances due to the Group as at the balance sheet date *(note ii)*		**35,312,123**	10,232,986
Key management compensation of the Group:			
Salaries and other short-term employee benefits		**13,974,614**	12,181,425

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 balances are unsecured, interest free and have no fixed repayment terms.

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

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, 2006

40. PARTICULARS OF PRINCIPAL SUBSIDIARIES

Details of the Company's principal subsidiaries at 31st December, 2006 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 %	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
Grand Technology Products Limited	Hong Kong	Hong Kong	HK$9,500,000	100.00	100.00	Investment holding

Notes to the Financial Statements

For the year ended 31st December, 2006

40. 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 Industrial Supplies Co., Limited (Formerly 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	Trading of machinery

Notes to the Financial Statements
For the year ended 31st December, 2006

40. 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
Wu Xi Grand Tech Machinery Group Co. Ltd. *(note a)*	PRC	PRC	US$9,586,000	100.00	100.00	Manufacturing and trading of machinery
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:

(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.

41. COMPARATIVE AMOUNTS

As explained in note 12 to the financial statements, in accordance with HKFRS 5 "Non-current assets held for sale and discontinued operations" issued by the HKICPA, the results and cash flows of the operations of the disposed subsidiary have been presented as discontinued operation. The 2005 comparative figures in the consolidated income statement, consolidated cash flow statement and other related notes have been restated accordingly.

Notes to the Financial Statements

For the year ended 31st December, 2006

42. STANDARDS, INTERPRETATIONS AND AMENDMENTS TO EXISTING STANDARDS THAT ARE NOT YET EFFECTIVE

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

Effective from 1st January, 2007

HKAS 1 (Amendment)	Presentation of Financial Statements: Capital Disclosures
HK (IFRIC) – Int 8	Scope of HKFRS 2 (effective from 1st March, 2006)
HK (IFRIC) – Int 9	Reassessment of Embedded Derivatives (effective from 1st June, 2006)
HK (IFRIC) – Int 10	Interim Reporting and Impairment (effective from 1st November, 2006)
HK (IFRIC) – Int 11	HKFRS 2 – Group and Treasury Share Transactions
HKFRS 7	Financial Instruments: Disclosures

Effective from 1st January, 2009

HKFRS 8	Operating Segments

The Group has not early adopted the above standards, interpretations and amendments and is not yet in a position to state whether substantial changes to the Group's accounting policies and presentation of the financial statements will be resulted.

Financial Summary

INCOME STATEMENT

	For the year ended 31st December,				
	2002	2003	2004	2005	**2006**
	HK$000	HK$000	HK$000	HK$000	**HK$000**
Turnover	1,313,484	1,393,628	1,665,687	1,650,729	**2,022,632**
Profit before taxation	56,350	52,167	65,482	80,300	**100,160**
Taxation	16,377	13,379	8,934	7,198	**11,544**
Profit for the year	39,973	38,788	56,548	73,102	**88,616**
Minority interests	17,512	18,260	15,088	18,881	**23,473**
Profit attributable to equity holders of the Company	22,461	20,528	41,460	54,221	**65,143**

BALANCE SHEET

	At 31st December,				
	2002	2003	2004	2005	**2006**
	HK$'000	HK$'000	HK$'000	HK$'000	**HK$'000**
Total assets	1,586,135	1,691,715	1,812,175	1,876,786	**2,107,424**
Total liabilities	820,522	889,430	991,994	1,011,574	**1,151,466**
Total equity	765,613	802,285	820,181	865,212	**955,958**
Minority interests	164,436	170,482	157,559	139,917	**164,314**

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