

大同機械企業有限公司

COSMOS MACHINERY ENTERPRISES LIMITED

Stock Code 股份代號: 118

年報
Annual Report
2007

*50 Years of Serving
& Sharing*



商界展關懷

caringcompany 2007/08
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Corporate Information

DIRECTORS

Executive Directors

Tang To (*Chairman*)

Jiang Wei

Wong Yiu Ming

Li Tin Loi

Non-Executive Directors

Tang Kwan (*Honorary Chairman*)

Wu Ding (*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

Jiang Wei

Wong Yiu Ming

Li Tin Loi

CHIEF EXECUTIVE OFFICER

Wong Yiu Ming

QUALIFIED ACCOUNTANT

Ho Kwong Sang

JOINT COMPANY SECRETARY

Ho Kwong Sang

Tam Pui Ling

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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

Tricor 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, 2007.

RESULTS

The Group's consolidated turnover for the year 2007 was in the region of approximately HK\$2,093,377,000, representing an increase of about 3% over the approximate figure of HK\$2,022,632,000 for 2006. Our profit after taxation stood at about HK\$137,692,000, or some 55% higher than the approximate figure of HK\$88,616,000 for the previous year. For the year ended 31st December, 2007, the profit attributable to shareholders was about HK\$100,040,000, increasing by 54% when compared with last year.

CHAIRMAN'S STATEMENT

In the second year of the Eleventh Five-Year Plan, China further pushed ahead for the implementation of the overall strategy on optimizing industrial structure and uplifting technological level, so as to radically turnaround from the previously adopted extensive development mode and reduction of export tax rebate on products characterized by high energy-consuming, high-polluting and high resources-consuming. In addition, in order to avoid an overheated economy, more stringent measures were adopted to control money supply and retrench new loan. Over the past year, owing to the continued upward adjustment of state minimum wages which resulted in rising labor cost and appreciation of Renminbi, the operating costs and profit across all types of industries were directly affected. However, the implementation of such policies is beneficiary to the long-term sustainable and healthy development of the country as a whole. Since it is not the aim of China to remain as the "world factory" but to become a technologically advanced country, therefore gives rise to such series of structural changes in market. In face of such challenges, the Group had aggressively enhanced its product portfolio and launched a series of measures such as optimizing production equipment and technology level and placing emphasis on energy saving, environmental protection and reduction of materials consumption.

Carrying on the past and opening up for the future, the Group had, while seeking for better performance, continued to invest in new technology, new products and new markets. During the period under review, amid the abrupt market changes, our new products and new markets had both contributed positively to the Group.

For the machinery manufacturing business, owing to its newly developed and continuously optimizing high-tech injection moulding machine series in recent years, the business had recorded encouraging sales to industries which require high performance such as auto component and communication devices in last year. Sales



H2 Single Large Clamping Cylinder Injection Moulding Machine

Chairman's Statement

of CNC sheet-metal processing machine and rubber injection machine both achieved considerable growth. These high performance products had, not only be able to stay away from hostile competition, but also setting off the downturn of the general purpose injection moulding machine market. During the year, new patented products developed by the Group, such as Hf series foam injection moulding machine and "DCM – direct compound moulding" plastic injection moulding machine, had enhanced the efficiency of our customers by combing energy saving, material saving and performance enhancement features. These new products will serve as new impetus for our future market development and also new elements of our adjusted product portfolio.

The overall performance of plastic products and processing business had declined owing to rising material cost and labor cost. Nevertheless, the good news is our professional plastic packaging factory in Zhuhai has made significant progress in terms of securing new quality customers and integration of production management, and has stopped loss and achieved breakeven. Besides, our optic plastic manufacturing business also laid new platform for the launch of new products and achieved continuous profit growth. It is expected the profitability of plastic processing business will further enhance following adjustment of its customer structure and consolidation of production capacity in the coming year.

Printed circuit board business continued to adjust its product mix during the year by expanding the production volume and securing orders for multi-layer printed circuit board and focusing on value added business so as to dilute part of the rising costs and maintain its business performance. The plan for product mix adjustment will be implemented in the coming year, which includes reducing the production volume of low value-added single-layer printed circuit board and purchase of new equipment to sustain its profitability.

Trading business continued to record higher performance, which mainly attributable to our successful strategy in exploring new markets and targeting customers who request for high quality products. As a result of the vigorous implementation of state's general policy, market demand for high quality products will continuously increase, it is expected this business can maintain its stable growth.

China's rapid development in recent years has astonished the world but at the same time created certain imbalance issues, and adjustment seems unavoidable in this stage. It is expected new laws and regulations promulgated in recent years will continue to be implemented in more stringent manner, minimum wages will continue to be uplifted yearly, and more supplementary rules and regulations will be launched. The new corporate income tax law and new labor contract law promulgated in the year are continuance of such adjustment. It is anticipated that more laws and regulations in protecting and safeguarding the interests and benefits of the employees will be launched subsequently. On the other hand, China will head for intensive economic development and pursue for quality and technology advancement.



REP-DEKUMA Elastomer Injection Machine

Chairman's Statement

Nowadays, in order to survive and continuously develop, enterprises must be able to response to market changes and identify business opportunity amid those changes. To meet those rapid changes, the middle and high level management must receive well training. Therefore, it is the Group's long term strategy to focus on personnel training investment. During the year, the Group launched a systematic training course for its mid and high-level management staff in respect of management theory and practical application. The results were encouraging. Given such experiences, the Group decided to carry on such kind of training in the coming year. It is expected that through learning and improvement, our management ability, response ability and innovative ability will continuously be improved. The Group will also gain more experience in personnel training and have more talents and be able to capture more opportunities amid the rapid changing environment and therefore achieve better performance.

This year is the fifty anniversary of the Group. We will continue to adhere to our good corporate practice and principles of "anchored in the industries, people-oriented, continuous learning, pragmatic and innovative", to undertake social responsibility, to generate satisfactory return for our shareholders and to develop our staff potential to the fullest extent.

On behalf of the Group, I would like to express my sincere thanks to the long term support of all our shareholders and directors. I would also like to pay my tribute to our staff for their continuous learning and improvement and their hard work for contributing to the success of the Group.



TANG To

Chairman

Hong Kong, 23rd April, 2008

Management Discussion and Analysis

BUSINESS REVIEW

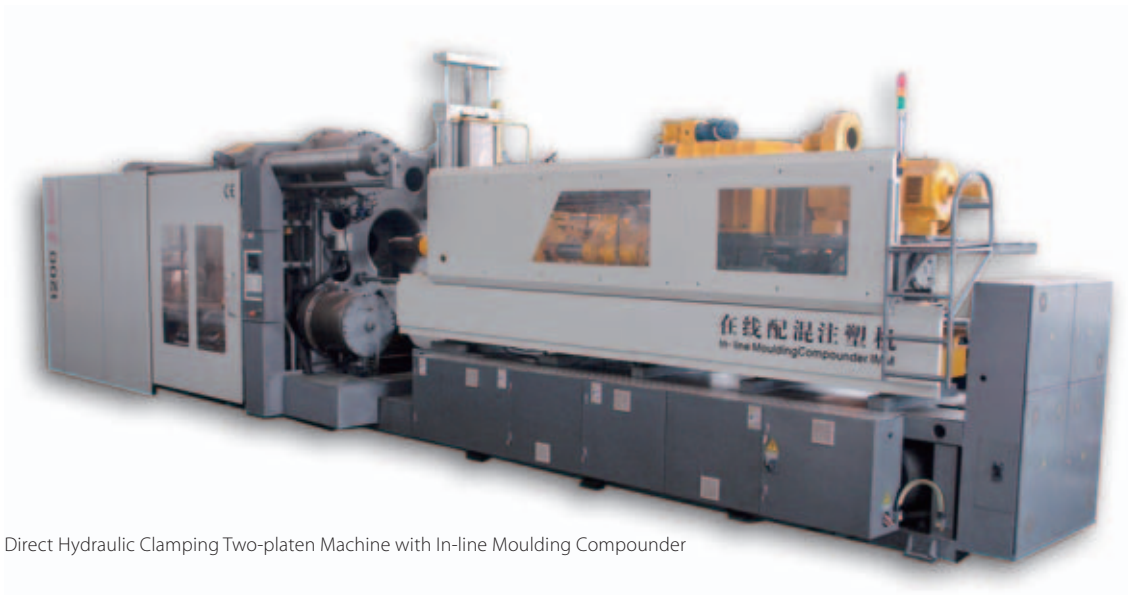
Manufacturing Business

Machinery

In 2007, the turnover of the Group's machinery business was HK\$806,800,000, accounted for approximately 39% of the Group's consolidated turnover and representing an increase of approximately 18% over approximately HK\$685,684,000 of the same period of last year, while operating profit of the year was approximately HK\$82,351,000 representing an increase of approximately 149% over the same period of last year.

During the year under review, owing to shrinking profit margin of most of our export oriented customers caused by Renminbi appreciation and reduction of tax rebate for export plastic products, a more conservative and prudent approach was adopted by our customers when investing in injection moulding machinery, which together with soaring plastic price as a result of inflated cruel oil price, had resulted in substantial decrease in the demand for general purpose injection moulding machine in the second half of 2007. However, thanks to the Group's strategic adjustment on its product portfolio started a few years ago, the Group's development towards customized plastic injection machinery and relevant sales and marketing work was thus strengthened: e.g. medium and large J series direct hydraulic clamping two platen plastic injection moulding machine and Fx series high precision injection moulding machine. During the period, sales to domestic auto industry, household electrical appliances and communication industry achieved satisfactory growth, thus setting off the impact of curtailed sales to the toy industry and the daily products industry. In terms of export business, due to appreciation of Renminbi, order from some price sensitive markets started to slow down in the second half of 2007, however a double-digit growth was still recorded on a whole year basis.

In terms of new products, sales of CNC sheet-metal processing machine and rubber injection machine recorded strong growth, with sales up approximately 65% and 80% respectively over the same period of last year. The Group's self-developed project on CNC sheet-metal processing machine (Network Intelligent CNC Sheet-metal Processing Equipment) had not only received wide recognition from its customers, but also awarded the Top-Grade Honor for



Direct Hydraulic Clamping Two-platen Machine with In-line Moulding Compounder

Management Discussion and Analysis

Science and Technology Development by the People's Government of Dongguan Municipality in August 2007. In terms of rubber processing machine, the Group had successfully developed and launched to the market the DKM-RL series (1200T clamping force) large-sized rubber injection machine for the manufacturing of hollow rubber insulator for use in transmission and distribution of extreme high voltage up to 500,000 volt, which is the first self-developed and manufactured horizontal rubber injection machine in the PRC, thereby putting a stop to the traditional reliance on Europe imported equipment in the power transmission and distribution hardware industry. Moreover, DKM-RL 1200 rubber injection machine and 260-80Hf hyper foam high-performance foam plastic injection moulding machine were also awarded the Machinery and Equipment Design Certificate of Merit of the Hong Kong Awards for Industries of 2007. The launch of these new products had not only stimulated our sales but also contributed to the rubber and plastic processing industry in China in terms of enhancing their technology level.

In the coming year, the Group will continue to speed up its pace to optimize and promote its new injection moulding machines, such as the Hf series foam injection moulding machine characterized by its patented material saving and energy saving features and the "DCM – direct compound moulding" plastic injection moulding machine, to cater for the increasing environmental concern of the community as well as to provide added value for its customers for improving their gross profit. In terms of export market, the Group will implement product and market exploration strategy. The large J series two platen machine was awarded the CE certification during the year and full marketing campaign can be launched in Eastern Europe market and major auto markets. It is expected overall export business will sustain double-digit growth in terms of sales.

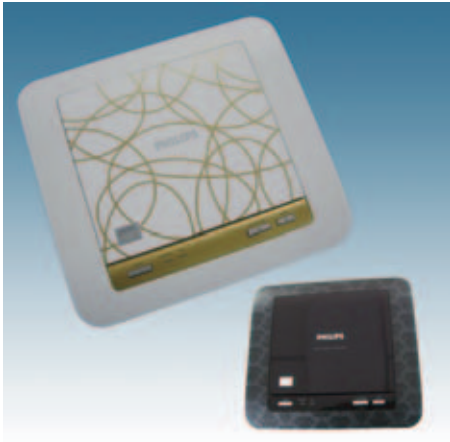
The Group has made CNC sheet-metal processing machine and rubber injection machine as its strategic growth business and these two product lines are expected to generate substantial growth in 2008. Through product design improvement and further cost optimization and expansion of production capacity, it is expected the surging manufacturing cost pressure can be set off and thus further improve the gross profit. To cater for the continuous growth of the Group's machine manufacturing business and relocation of Dongguan Nanchen factory, Dongguan Dongchen factory expansion project and the construction of Wuxi new factory at Wuxi National High-tech Industrial Development Zone had commenced during the year. Moreover, the Group will continue to optimize the production of the Group's factories located in southern and eastern China in order to maximize their resources synergy. In



260-80Hf Hyper Foam High-performance Foam Plastic Injection Moulding Machine

conclusion, with new products entering their growth period and driven by strong export growth, the Group is cautiously optimistic on the sustainable growth of sales and profit of the machine manufacturing business.

Management Discussion and Analysis



DVD Plastics Parts

Plastic Products and Processing

During the period under review, sales of plastic products and processing business was HK\$479,495,000, representing an increase of about 13% as compared with the same period of last year and accounted for approximately 23% of the Group's consolidated turnover, while operating profit of the year was HK\$23,572,000, decreased by approximately 18% over the same period of last year.

Our plastic processing operation in Dongguan continued to be affected by surging raw material prices including paint and chemical materials during the year, which combined with increasingly complicated product design and production technology, had resulted in higher production cost. Besides, continuous asking for lower prices by the customers had also

shrunk the gross profit of the business and leading to a less than satisfactory result in the first half of the year. In the second half of the year, the Group strived to improve its production processing and workflow, a new fully automatic production line was added, thereby enhancing its paint production capacity, improving its quality and reducing the scrap rate and ultimately save more material and improve the gross profit. The result is notable.

The Zhuhai plant which specializes in plastic injection products of plastic tableware and food packaging achieved higher sales to existing customers and also satisfactory sales to new customers given the robust economic development in China. In 2007, it recorded an increase in turnover of approximately 22%, with profitability substantially improved during the period. However, in the past year, with dramatic change in macro economic environment, continuously soaring operation costs including labour cost and raw material cost, had created a very difficult environment for the plastic processing industry. Fortunately, by implementing a series of management reform and resource reallocation, for example, integrating the printing workshop and the extrusion workshop, re-arranging the production machines of the plastic processing workshop, strengthening control over machine efficiency and product scrap rate, thereby keeping production cost and management fee at a reasonable level and laying the foundation for a sustainable and stable business growth.



Plastic Food Containers

Management Discussion and Analysis

For the optic products business, with sales contribution from self-developed products, overall turnover of this segment increased approximately 25% in 2007. The sales of large magnifier, being the major sales growth contributor, almost double the sales of last year. In response to market demand, new series of design are now being developed. During the year under review, production cost including electricity, plastic material and wages had all substantially increased which together with the appreciation of Renminbi had further eroded our gross profit. Fortunately, such fixed expenses were set off by increased sales and improved operating profit, thus gross profit margin was maintained at the same level as last year. Also, a number of new injection moulding machines were introduced during the year to replace the obsolete machines.



3.5" Diameter Aspheric Magnifier
3X 5X with LED

Printed Circuit Board

In terms of printed circuit board business, sales of HK\$440,615,000 was recorded in 2007, decreased by 3% as compared with the same period of last year and accounted for 21% of the Group's consolidated turnover, while operating profit was approximately HK\$29,714,000, slightly decreased by approximately 4% over last year.



Aluminium or Metal Clad

During the year, in face of rising labour cost and Renminbi appreciation, the Group had actively conducted negotiation with its customers to seek their support for proper adjustment on selling prices, the Group had also secured lower prices from some of its suppliers for raw materials, thereby setting off part of its inflated cost. In terms of products, the Group shifted its focus to multi-layer printed circuit board production in order to widen its profit margin. In terms of cost control, automated processing equipment was introduced during the year for lowering of the proportion of labour cost, which together with the proper application of an upgraded enterprise resource management software, thus enabling better production process, effective cost control and better product quality.

Trading Business

Industrial Consumables

During the period under review, industrial consumables accounted for 17% of the Group's consolidated turnover, with turnover increased to approximately HK\$366,467,000, representing an increase of 6% as compared with the same period of last year. Operating profit was HK\$31,452,000, up approximately 14% as compared with last year.

During the year, with China's economy remained robust and a stable development of the manufacturing sector as a whole, our major target industries such as auto, electronics, spring, machine manufacturing, machine tool, household electrical appliances and mould, all achieved steady growth. Besides, our sound market development strategy had



AC Servo Motor

Management Discussion and Analysis

enabled our products to successfully enter the mining machine and telecommunication equipment sectors, an important move for our future business growth. Given the strong business momentum in the year, the Group had further optimized its customer structure so as to minimize its operating risks and enhance its profitability.

Other Businesses

Electronic Watt-Hour Meters and Related Businesses

Shenzhen Haoningda Meters Co., Ltd., the associate of the Group in Shenzhen, was able to maintain a stable development and achieve satisfactory returns during the year. In the period under review, the company's plan to list its A shares on Shenzhen Stock Exchange was progressing smoothly. The Company will make timely disclosure on such progress in accordance with relevant rules and regulations.

Suzhou Sanguang Science & Technology Co., Ltd.

Suzhou Sanguang Science & Technology Co., Ltd., a 21.13% associate company of the Group, notified the Group on 31st January, 2008 that it intended to list its shares on Shenzhen Stock Exchange and had been under close supervision for application in the A share issue by Guolian Securities Co., Ltd.. The Group will make appropriate disclosure when the company submits its listing application to the China Securities Regulatory Commission.

Prospects

Looking forward in 2008, it is believed that China's economy will continue to maintain a stable growth. However, given stronger measures on macro economic control will be imposed, it is expected that investment and domestic demand will slow down and thus demand for plastic processing machinery will only record moderate growth. Nevertheless, some industries, such as auto accessories and household electrical appliances will benefit from the rapid growth in both manufacturing and sales of automobile as well as the 2008 Olympic Games, which will fuel the demand for high quality household electrical appliances and in turn sustain the demand for large and high performance injection moulding machine. On the other hand, despite those unfavourable factors such as surging raw material price, shortage of electricity supply, additional labour cost due to introduction of new labour law in China, reduction of export tax rebate and appreciation of Renminbi, the Group is not able to transfer all those additional cost to its customers because of fierce market competition. In turn, the Group will try to mitigate those impacts on its profit margin through continuous adherence to effectiveness enhancement measures to control both internal and external cost.



F5V Injection Moulding Machine

Management Discussion and Analysis

In addition, the Company has issued an announcement and a circular to its shareholders on 5th December, 2007 and 24th December, 2007 respectively in relation to compensation for relocation of Dong Hua Machinery Limited ("Dong Hua"), the Group's subsidiary located in Jianshe Road, Dongguan. Due to the urban planning of Dongguan, the State-owned Assets Supervision and Administration Commission of Dongguan ("SASAC") planned to call back the land and requested Dong Hua to move out from the land. After due consideration, the



DKM-RL 1200 Rubber Injection Machine

Company decided to co-operate with the state's planning and plans to relocate the plants. The Company thus entered into a compensation agreement with SASAC whereas Dong Hua will receive compensation for relocation of the plants of approximately RMB76,092,000. Dong Hua will relocate to a parcel of land at Zhou Wu District, Fu Cheng, Dongguan with a site area of approximately 66,365 sq.m. The land was purchased by the Group in 1993 on which 19,203 sq.m. of the site area have been utilized by the Group since 1994 to construct factory buildings. The remaining 47,162 sq.m. of site area will be used for the relocation of Dong Hua. Since Dong Hua will relocate to Zhou Wu District, Dongguan, the Group will therefore commence expansion of the factory building in different stages in the year. Whereas in Wuxi, the Group had purchased a piece of land of approximately 75,000 sq.m. in Wuxi National High-tech Industrial Development Zone in 2006. The Group intends to commence construction of factory building and facilities thereon in the coming year in different stages. It is expected that upon completion of expansion in Dongguan and Wuxi, the production capacity will greatly enhanced and be able to meet market demand.

In terms of trading business, with anticipated stable economic growth in China and full government backup on original industry to enhance product quality and value, it is expected that market demand for high quality components and tools will increase accordingly, which is crucial and favourable for the trading of import products. Meanwhile, as a result of soaring raw material prices, such as metal and plastic, and gradual abolishment of export tax rebate, higher cost is incurred for the processing and manufacturing industries. The situation is further worsen by the gradual implementation of the policy for optimizing industries structure in Guangdong Province, and create additional adverse impact for the trading business in the coming year.



Various Kinds of Spring Wires and Steel Strips

In face of such opportunities and challenges, the Group will continue to explore new markets and products and will also finalize its enterprise resources planning system (with customer relationship management application), with an aim to further improve its logistics supply and enhance operating efficiency, and to secure reasonable return through high quality services and products that meet the requirements of the customers.

Management Discussion and Analysis

For plastic processing business, the Group will strengthen its business development capability so as to provide higher quality products to more customers who have their brands. In addition, the Group will focus on cost and expenditure control, optimize production efficiency and enhance automatization in order to secure sustainable profitability growth.

For printed circuit board, despite its already diversified customer base, the Group is still actively exploring new customers to further broaden its customer base for future business development. For environmental protection, the Group has adopted the European Union's guidance on restriction of use of certain hazardous substance (RoHS) and recycling of reclaimed water.



Desk Lamp

The year 2008 marks the 50th anniversary of the Group. In accordance with its best corporate practice over the past 50 years, the Group will continue to adhere to its progressive but prudence attitude to seek sustainable and stable growth. The Group will strive to reinforce its business while at the same time strengthen personnel training. The aim is to enhance its operating efficiency and profitability and secure better return for its shareholders.

Management Discussion and Analysis

Financial Statistical Highlights

	2007 HK\$'000	2006 HK\$'000
Operating results		
Turnover	2,093,377	2,022,632
Profit from operations	144,019	94,498
Profit before taxation	147,626	100,161
Profit attributable to equity holders of the Company	100,040	65,143
Earning per share – Basic (cents)	14.12	9.21
Earning per share – Diluted (cents)	N/A	N/A
Dividend per share (cent)	2.1	2.0
Dividend payout	15%	22%
Financial position at year end		
Total assets	2,261,340	2,107,425
Fixed assets	408,004	420,123
Quick assets	958,620	842,640
Net current assets	499,729	329,014
Shareholders' funds	926,841	791,644
Net asset value per share (cents)	131	112
Financial statistics		
Current ratio	1.47	1.30
Quick asset ratio	0.91	0.76
Gearing ratio	0.08	0.05
Total debt ratio	0.50	0.55

Directors and Senior Management

EXECUTIVE DIRECTORS

Mr. Tang To, aged 59, 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 34 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. Jiang Wei, aged 45, was appointed as an Executive Director of the Company on 1st June, 2007, holds a bachelor degree in International Trade and a master degree in International Business and Finance, both from the University of International Business and Economics in Beijing China. Mr. Jiang has been with China Resources National Corporation since 1988, and joined China Resources (Holdings) Company Limited in 1990. Mr. Jiang is at present the director and chief financial officer of China Resources (Holdings) Company Limited, a substantial shareholder of the Company within the meaning of Part XV of the Securities and Futures Ordinance (Cap 571). He has extensive experiences in financial and business planning, budgeting and controlling, legal and statutory tax planning, risk management and investment feasibility studies and decision making. Mr. Jiang is also a non-executive director of China Resources Enterprises, Limited, China Resources Power Holdings Limited, China Resources Land Ltd., China Resources Logic Limited and China Resources Microelectronics Limited. The securities of these five companies are listed on the main board of the Stock Exchange of Hong Kong Limited (the "Stock Exchange") and they are also subsidiaries of China Resources (Holdings) Company Limited. Mr. Jiang is also at present a non-executive director of China Asset (Holdings) Limited and the independent non-executive director of Greentown China Holdings Limited, the securities of both companies are listed on the main board of the Stock Exchange.

Mr. Wong Yiu Ming, aged 54, Executive Director and Chief Executive Officer of the Company, has 30 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. Li Tin Loi, aged 44, 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 21 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 84, Honorary Chairman and Non-Executive Director of the Company, is one of the founders of the Company. He has over 48 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. Wu Ding, aged 42, was appointed as the Vice-Chairman and Non-Executive Director of the Company on 1st June, 2007, holds a bachelor degree in Economics from the Shan Xi University of Finance and Economics. Mr. Wu joined China Resources Group since August 1988 and joined the Enterprises Development Department of China Resources Group between November 1993 and March 1999. During this period, he had been acted as director and deputy general manager of several companies of China Resources Group. Mr. Wu is at present the general manager of China Resources Development & Investment Company Limited and the Investment & Asset Management Department of China Resources (Holdings) Company Limited, a substantial shareholder of the Company within the meaning of Part XV of the Securities and Futures Ordinance (Cap 571). He is also at present the chairman and general manager of China Resources Shanghai Co., Ltd., deputy general manager of China Resources Land Ltd. as well as the chairman of China Resources Sun Hung Kai Properties (WuXi) Ltd.

Mr. Kan Wai Wah, aged 50, Non-Executive Director of the Company, is a Managing Director of 綽餘飲食顧問有限公司. He has over 26 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 51, 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.

Directors and Senior Management

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Yip Jeffery, aged 74, 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.

Ms. Yeung Shuk Fan, aged 42, Independent Non-Executive Director of the Company, has over 18 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 13 years, Ms. 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 69, Independent Non-Executive Director of the Company, has over 36 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 52, 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 63, has more than 33 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 61, has over 28 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 45, joined the Group in 2000. He has 21 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.

Directors and Senior Management

Mr. John, Mak Chun Yeung, aged 44, has over 20 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 12 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 41, German nationality, graduated from the RWTH Aachen University (Institute for Plastic Processing – IKV) in Mechanical Engineering. He has more than 11 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, 2007.

PRINCIPAL ACTIVITIES

The Company acts as an investment holding company. The principal activities of its principal subsidiaries are set out in note 42 to the financial statements.

RESULTS

The results of the Group for the year ended 31st December, 2007 are set out in the consolidated income statement on page 39 of the annual report.

FINAL DIVIDEND

The Board recommends the payment of a final dividend of HK1.5 cents per share (2006: HK1.5 cents per share) for the year ended 31st December, 2007. Upon shareholders' approval at the forthcoming annual general meeting, the proposed final dividend will be paid on or about 30th June, 2008 to shareholders whose names appear on the register of members of the Company as at the date of the 2008 Annual General Meeting.

FINANCIAL REVIEW

Liquidity and Financial Resources

As at 31st December, 2007, the Group's shareholders' funds were approximately HK\$926,841,000, compared with approximately HK\$791,644,000 as at 31st December, 2006.

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, 2007 was approximately 0.50 (2006: 0.55), and the liquidity ratio was approximately 1.30 (2006: 1.30), both were maintained at a healthy level. As at 31st December, 2007, cash, bank balances and time deposits amounted to approximately HK\$188,935,000. 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 122 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, 2007. 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.

Report of the Directors

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

During the year, the Group spent, in aggregate, approximately HK\$71,354,512 on the acquisition of property, plant and equipment for the purpose of expanding business.

Details of these and other movements in investment properties, plant and equipment of the Group and of the Company during the year are set out in notes 16 and 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 29 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

Jiang Wei (appointed on 1st June, 2007)

Li Tin Loi

Zhao Zhuoying (resigned on 1st June, 2007)

Yan Wing Fai, Richard (resigned on 31st March, 2008)

Non-Executive Directors

Tang Kwan, *Honorary Chairman*

Wu Ding, *Vice Chairman* (appointed on 1st June, 2007)

Kan Wai Wah

Qu Jinping

He Zhiqi, *Vice Chairman* (resigned on 1st June, 2007)

Independent Non-Executive Directors

Yip Jeffery

Yeung Shuk Fan

Cheng Tak Yin (appointed on 30th January, 2007)

Liang Shangli (resigned on 30th January, 2007)

Report of the Directors

DIRECTORS (Continued)

In accordance with Articles 94 and 103 of the Company's Articles of Association, Mr. Wu Ding, Mr. Jiang Wei, Mr. Wong Yiu Ming, Mr. Tang Kwan, Mr. Kan Wai Wah, Ms. Yeung Shuk Fan 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).

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 8th September, 2006, 30th January, 2007, 1st June, 2007 and 1st January, 2008 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:

(a) Interests in the Shares

Name of Director	Personal Interests	Number of shares held			Total	Approximate % of total Issued Shares of the Company
		Family Interests	Corporate Interests	Others Interests		
Tang To	2,970,000	2,000 (Note 2)	300,617,458 (Note 1)	224,000 (Note 3)	303,813,458	42.79
Wong Yiu Ming	11,696,072	–	–	–	11,696,072	1.65
Tang Kwan	–	297,157,052 (Note 4)	–	–	297,157,052	41.85
Kan Wai Wah	136,400	–	–	–	136,400	0.02
Cheng Tak Yin	1,716,000	–	–	4,400	1,720,400	0.24

Report of the Directors

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

Notes:

1. As at 31st December, 2007, 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, 2007, 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 Holding 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 Holding 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, 2007, 2,000 Shares were held by the spouse of Mr. Tang.
3. As at 31st December, 2007, 224,000 Shares were jointly held by Mr. Tang and his spouse.
4. As at 31st December, 2007, 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, 2007, 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.

Report of the Directors

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

(b) Interests in the Share Options

Name of Director	Capacity	Number of Options held	Total	Approximate % of total Issued Shares of the Company
Wong Yiu Ming	Beneficial Owner	2,000,000	2,000,000	0.28
Yan Wing Fai Richard (resigned on 31st March, 2008)	Beneficial Owner	1,600,000	1,600,000	0.23
Li Tin Loi	Beneficial Owner	1,600,000	1,600,000	0.23

The percentage shown was calculated based on the number of issued shares of the Company as at 31st December, 2007.

As at 31st December, 2007, 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, 2007 which is significant in relation to the business of the Company and its subsidiaries.

As at 31st December, 2007, 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, 2007, 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		Total	Approximate % of total Issued Shares of the Company
	Direct Interests	Deemed Interests		
Law Kit Fong	–	297,157,052 (Note 1)	297,157,052	41.85
Codo	–	297,157,052 (Note 2)	297,157,052	41.85
Cosmos Holdings	127,052,600	170,104,452 (Note 3)	297,157,052	41.85
Tai Shing	170,104,452	–	170,104,452	23.96
Saniwell Holding Inc.	–	297,157,052 (Note 4)	297,157,052	41.85
China Resources (Holdings) Company Limited	169,649,046 (Note 5)	–	169,649,046	23.89

Notes:

- 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, 2007, 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, 2007, 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).
- As at 31st December, 2007, Codo is interested in 297,157,052 Shares through its wholly owned subsidiaries, Cosmos Holdings and Tai Shing. As at 31st December, 2007, Codo is owned as to (i) 25.06% by Keepsound Investments Limited, a Hong Kong company controlled by Saniwell Holding 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 Holding 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.
- 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, 2007, Saniwell Holding 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 Holding 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 Holding 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, 2007.

Save as disclosed above, as at 31st December, 2007, 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, and unless otherwise terminated or amended, this scheme will remain in force for 10 years from that date.

The exercise price of the share options is determinable by the directors, but shall not be less than the highest of (i) the closing price of the Company's shares as quoted on the Stock Exchange's daily quotation sheets on the date of the offer of the share options; and (ii) the average closing price of the Company's shares as quoted on the Stock Exchange's daily quotation sheets for the five trading days immediately preceding the date of offer; (iii) the nominal value of the Company's shares.

Report of the Directors

SHARE OPTION SCHEME (Continued)

The offer of the grant of option may be accepted within 28 days from the date of offer, upon payment of a nominal consideration of HK\$1 by the grantee. The option period of the share options is determined by the directors at their absolute discretion and notified by them to each grantee as being the period during which an option may be exercised and in any event, such period shall not be longer than 10 years from the date of offer. Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings.

On 8th June, 2007, the Company offered to grant 26,200,000 share options to the Company's directors and employees under the share option scheme at exercise price of HK\$1.40 per share. The period opened for the grantees to accept the options is from 8th June, 2007 to 5th July, 2007. At the close of the acceptance period of the options, an aggregate of 26,120,000 share options offered by the Company were accepted by the grantees, while 80,000 share options were declined. The share options granted and so accepted by grantees are exercisable within a period of one year commencing from the respective dates of acceptance of each grantee.

The following table disclosed movements in the Company's share options during the period:

	Date of grant (note 1)	Exercisable period	Exercise price per share HK\$	Number of share options				Outstanding at 31.12.2007
				Outstanding at 1.1.2007	Granted during the period	Exercised during the period	Cancelled/ Lapsed during the period	
Directors								
Wong Yiu Ming	8.6.2007	15.6.2007 to 14.6.2008	1.40	–	4,000,000	(2,000,000)	–	2,000,000
Li Tin Loi	8.6.2007	20.6.2007 to 19.6.2008	1.40	–	1,600,000	–	–	1,600,000
Yan Wing Fai, Richard (resigned on 31st March, 2008)	8.6.2007	4.7.2007 to 3.7.3008	1.40	–	1,600,000	–	–	1,600,000
Sub-total					7,200,000	(2,000,000)	–	5,200,000
Employees								
(in aggregate)	8.6.2007	15.6.2007 to 4.7.2008 (note 3)	1.40	–	18,920,000	(500,000)	(150,000)	18,270,000
Total					26,120,000	(2,500,000) (note 2)	(150,000)	23,470,000

Report of the Directors

SHARE OPTION SCHEME (Continued)

Notes:

1. The closing price of Company's shares on the trading day immediately before 8th June, 2007, being the date of grant of options was HK\$1.44;
2. During the period, the weighted average closing price of the Company's shares on the trade day immediately before the respective dates on which the share options were exercised was HK\$1.50;
3. The exercisable period of share options granted to employees is one year commencing from the respective dates of acceptance of each particular employee which varied from 15th June, 2007 to 5th July, 2007;
4. 2,500,000 shares options were exercised during the period and 2,500,000 ordinary shares of HK\$0.4 each of the Company was issued and allotted during the period resulted in new share capital of HK\$1,000,000 and share premium of HK\$2,500,000 (before issue expenses);
5. As at 31st December, 2007, the Company had 23,470,000 share options outstanding representing approximately 3.31% of the issued share capital of the Company as at the date of this report. The exercise in full of the share options outstanding would, under the present capital structure of the Company, result in the issue of 23,470,000 additional ordinary shares of HK\$0.4 each of the Company and additional share capital of approximately HK\$9,388,000 and share premium of approximately HK\$23,470,000 (before issue expenses).

Further details of the share option scheme including the valuation of the share options are set out in note 28 to the financial statements.

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, 2007 have been reviewed by the audit committee who is of the opinion that such statements comply with the applicable accounting standards, legal requirements and the Listing Rules, and that adequate disclosures have been made.

REMUNERATION COMMITTEE

The remuneration committee comprises three Independent Non-Executive Directors and the Chairman of the Board of the Company. It has adopted terms of reference which are in line with the code provisions of the Code on Corporate Governance 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 four Executive Directors and meets frequently as when necessary and is responsible for the management and day-to-day operations of the Group.

Report of the Directors

EMPLOYEES AND REMUNERATION POLICY

As at 31st December, 2007, the Group has approximately 7,000 employees (2006: 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, 2007, there has been no purchase, sale or redemption by the Company or any of its subsidiaries of the Company's listed shares.

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

The directors consider that the Company has complied with the Code on Corporate Governance Practices as set out in Appendix 14 of the Listing Rules throughout the year ended 31st December, 2007.

COMPLIANCE WITH MODEL CODE

Throughout the year ended 31st December, 2007, 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, 2007.

Report of the Directors

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, 23rd April, 2008

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, 2007.

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.

Corporate Governance Report

THE BOARD (Continued)

The Board has four scheduled meetings a year at quarterly interval and meets as and when required. During the financial year ended 31st December, 2007, the Board held six meetings. The attendance of the Directors at the Board meetings are as follows:

Name of Directors	Position	Number of attendance/ Number of meetings held (or the number of meetings held in particular director's terms of office this year)
<i>Executive Directors</i>		
Tang To	Chairman	6/6
Jiang Wei (appointed on 1st June, 2007)	Executive Director	2/3
Wong Yiu Ming	Executive Director and Chief Executive Officer	6/6
Li Tin Loi	Executive Director	6/6
Zhao Zhuoying (resigned on 1st June, 2007)	Executive Director	2/3
Yan Wing Fai, Richard (resigned on 31st March, 2008)	Executive Director	6/6
<i>Non-Executive Directors</i>		
Tang Kwan	Honorary Chairman	6/6
Wu Ding	Vice Chairman	2/3
Kan Wai Wah	Non-Executive Director	6/6
Qu Jinping	Non-Executive Director	4/6
He Zhiqi (resigned on 1st June, 2007)	Vice-Chairman	2/3
<i>Independent Non-Executive Directors</i>		
Yip Jeffery	Independent Non-Executive Director	6/6
Yeung Shuk Fan	Independent Non-Executive Director	6/6
Cheng Tak Yin (appointed on 30th January, 2007)	Independent Non-Executive Director	5/5
Liang Shangli (resigned on 30th January, 2007)	Independent Non-Executive Director	N/A

Corporate Governance Report

THE BOARD (Continued)

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

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

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

CHAIRMAN AND CHIEF EXECUTIVE OFFICER ("CEO")

In order to preserve independence and to have balanced 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 four Executive Directors, being Tang To, Jiang Wei, Wong Yiu Ming and Li Tin Loi, four Non-Executive Directors, being Tang Kwan, Wu Ding, 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 14 to 16 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.

Corporate Governance Report

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

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.

Meeting of the Board regarding the nomination of directors shall be held when necessary. During the year of 2007, one meeting in relation to nomination of directors is held with the attendance of the directors setting out as follows:

Directors	Number of attendance/Number of meetings held
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.

Corporate Governance Report

DIRECTORS' SECURITIES TRANSACTIONS

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

SUPPLY OF AND ACCESS TO INFORMATION

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

REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT

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

Corporate Governance Report

REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT (Continued)

The Remuneration Committee annually sets out its recommendation on the remuneration package of the Executive Directors. For the financial year ended 31st December, 2007, 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, 2007 and the attendance of each member's attendance at this meeting is set out as follows:

Directors	Number of attendance/Number of meetings held
Mr. Yip Jeffery	1/1
Ms. Yeung Shuk Fan	1/1
Mr. Tang To	1/1
Mr. Cheng Tak Yin (appointed on 30th January, 2007)	1/1
Mr. Liang Shangli (resigned on 30th January, 2007)	N/A

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 and note 28 to the accounts.

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 38 which acknowledges the reporting responsibilities of the Group's auditors. The Directors aim to present a balanced and understandable assessment of the Group's, position and prospects. The Board is not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Group's ability to continue as a going concern, the Board therefore continues to adopt the going concern approach in preparing the accounts.

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

Corporate Governance Report

INTERNAL CONTROLS

Through the Company's internal audit functions, the directors conduct a review of the effectiveness of the system of internal control of the Company which 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, Ms. 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.

For the financial year ended 31st December, 2007, 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, 2006 and the unaudited interim financial statement for the six months ended 30th June, 2007 with recommendation to the Board for approval; and
3. reviewed principles and procedures on internal control system covering financial, operational and risk management functions.

Corporate Governance Report

AUDIT COMMITTEE (Continued)

The Audit Committee held two meetings during the financial year ended 31st December, 2007. The attendance of each member's attendance at such meetings is set out as follows:

Directors	Number of attendance/Number of meetings held
Ms. Yeung Shuk Fan (Chairman of the Audit Committee)	2/2
Mr. Yip Jeffery	2/2
Mr. Cheng Tak Yin (appointed on 30th January, 2007)	2/2
Mr. Liang Shangli (resigned on 30th January, 2007)	N/A

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	2,036
Non-audit services	—
	<hr/>
	2,036
	<hr/>

COMMITTEE OF EXECUTIVE DIRECTORS

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

COMMUNICATIONS WITH SHAREHOLDERS

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

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

Corporate Governance Report

VOTING BY POLL

During 2007, 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.

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, 23rd April, 2008

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 39 to 121, which comprise the consolidated and company balance sheets as at 31st December, 2007, 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, 2007 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, 2007

	Note	2007 HK\$	2006 HK\$
Turnover	6	2,093,377,079	1,912,967,085
Cost of sales		(1,707,055,795)	(1,522,181,575)
Gross profit		386,321,284	390,785,510
Other income and gains, net	6	42,456,772	34,124,282
Distribution costs		(118,108,159)	(106,347,483)
Administrative expenses		(212,774,788)	(201,179,002)
Other operating expenses		(4,095,510)	(1,575,689)
Allowance for impairment of bad and doubtful debts		(9,780,150)	(15,110,606)
Net gain on disposal of properties, plant and equipment and leasehold land and land use rights		59,999,829	1,039,458
Profit from operations		144,019,278	101,736,470
Finance costs	7	(27,088,135)	(27,927,482)
Investment income	8	1,647,619	4,777,545
(Loss) Gain on disposal of subsidiaries		(1,158,846)	10,561
Loss on disposal of associates		(93,250)	–
Gain on disposal of discontinued operation		–	60,629
Share of results of associates		30,299,480	29,445,850
Profit before taxation	9	147,626,146	108,103,573
Taxation	11	9,933,951	11,544,167
Profit for the year from continuing operations		137,692,195	96,559,406
Discontinued operation: Loss from discontinued operation	12	–	(7,943,071)
Profit for the year		137,692,195	88,616,335
Attributable to:			
Equity holders of the Company	13	100,040,174	65,143,015
Minority interests		37,652,021	23,473,320
		137,692,195	88,616,335
Basic earnings (loss) per share for profit (loss) attributable to the equity holders of the Company during the year	14	14.12 cents	10.33 cents
– from continuing operations		N/A	(1.12) cents
– from discontinued operation		14.12 cents	9.21 cents
Dividends	15	14,910,476	14,150,454

The notes on pages 46 to 121 are an integral part of these consolidated financial statements.

Consolidated Balance Sheet

At 31st December, 2007

	Note	2007 HK\$	2006 HK\$
Non-current Assets			
Property, plant and equipment	16	342,056,163	353,916,700
Investment properties	17	21,460,000	29,830,000
Leasehold land and land use rights	18	44,487,714	36,376,732
Goodwill	19	–	–
Interests in associates	21	271,203,774	218,320,863
Available-for-sale financial assets	22	5,055,010	7,656,695
Deferred tax assets	32	21,138,883	17,838,652
		705,401,544	663,939,642
Current Assets			
Inventories	23	597,318,110	600,845,124
Leasehold land and land use rights	18	1,013,153	1,233,702
Trade and other receivables	24	734,386,277	702,003,580
Tax recoverable		465,589	476,885
Pledged bank deposits	39	33,820,056	31,963,316
Cash and cash equivalents	26	188,935,065	106,962,393
		1,555,938,250	1,443,485,000
Current Liabilities			
Trade and other payables	25	725,966,417	759,900,308
Amounts due to associates		48,703,065	34,349,684
Tax payable		6,513,033	5,327,039
Bank and other borrowings			
– due within one year	30	269,545,927	310,337,523
Obligations under finance leases			
– due within one year	31	5,480,551	4,556,173
		1,056,208,993	1,114,470,727
Net Current Assets		499,729,257	329,014,273
Total Assets less Current Liabilities		1,205,130,801	992,953,915

Consolidated Balance Sheet

At 31st December, 2007

	Note	2007 HK\$	2006 HK\$
Non-current Liabilities			
Bank and other borrowings			
– due after one year	30	55,720,389	19,315,727
Obligations under finance leases			
– due after one year	31	7,679,497	6,356,003
Deferred tax liabilities	32	13,211,494	11,324,318
Total Non-current Liabilities		76,611,380	36,996,048
Net Assets		1,128,519,421	955,957,867
Equity			
Capital and reserves attributable to the Company's equity holders:			
Share capital	27	284,009,077	283,009,077
Share premium	29	244,118,039	241,478,789
Other reserves	29	79,312,661	40,633,709
Retained profits			
– Proposed dividend	15	10,650,340	10,612,840
– Others		308,750,451	215,909,710
		926,840,568	791,644,125
Minority Interests		201,678,853	164,313,742
Total Equity		1,128,519,421	955,957,867

The financial statements on pages 39 to 121 were approved and authorised for issue by the Board of Directors on 23rd April, 2008 and are signed on its behalf by:

TANG TO
Director

WONG YIU MING
Director

The notes on pages 46 to 121 are an integral part of these consolidated financial statements.

Balance Sheet

At 31st December, 2007

	Note	2007 HK\$	2006 HK\$
Non-current Assets			
Property, plant and equipment	16	2,223,616	2,543,652
Interests in subsidiaries	20	733,948,720	632,050,980
Interests in associates	21	–	822,802
		736,172,336	635,417,434
Current Assets			
Trade and other receivables		657,281	1,420,547
Cash and cash equivalents	26	23,681,117	152,071
		24,338,398	1,572,618
Current Liabilities			
Trade and other payables		4,649,940	5,533,430
Amounts due to subsidiaries		32,069,046	31,314,668
Amounts due to associates		47,619,799	33,266,418
Bank and other borrowings – due within one year	30	75,670,031	29,284,406
		160,008,816	99,398,922
Net Current Liabilities		(135,670,418)	(97,826,304)
Total Assets less Current Liabilities		600,501,918	537,591,130
Non-Current Liabilities			
Bank and other borrowings – due after one year	30	44,000,000	–
Net Assets		556,501,918	537,591,130
Capital and Reserves			
Share capital	27	284,009,077	283,009,077
Share premium	29	244,118,039	241,478,789
Share options reserve	29	3,051,804	–
Retained profits	29	14,672,658	2,490,424
Proposed dividend	15	10,650,340	10,612,840
Total Equity		556,501,918	537,591,130

TANG TO
Director

WONG YIU MING
Director

The notes on pages 46 to 121 are an integral part of these financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31st December, 2007

	Note	Attributable to equity holders of the Company					Total HK\$
		Share capital HK\$	Share premium HK\$	Other reserves HK\$	Retained profits HK\$	Minority interests HK\$	
Balance at 1st January, 2006		283,009,077	241,478,789	25,277,384	175,529,989	139,916,881	865,212,120
Fair value losses:							
– Available-for-sale financial assets	29	–	–	(97,964)	–	–	(97,964)
Revaluation surplus on buildings	29	–	–	895,235	–	207,834	1,103,069
Deferred taxation adjustment	29	–	–	(36,188)	–	–	(36,188)
Realised on disposal of a subsidiary	29	–	–	(14,600)	–	(75,697)	(90,297)
Realised on disposal of discontinued operation	29	–	–	(60,626)	–	–	(60,626)
Currency translation differences	29	–	–	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
Fair value losses:							
– Available-for-sale financial assets	29	–	–	(28,350)	–	–	(28,350)
Revaluation surplus on buildings	29	–	–	2,608,949	–	430,513	3,039,462
Deferred taxation adjustment	29	–	–	(107,023)	–	–	(107,023)
Realised on disposal of properties	29	–	–	(7,687,268)	7,687,268	–	–
Realised on disposal of subsidiaries	29	–	–	(459,666)	–	1,618,512	1,158,846
Realised on disposal of associates	29	–	–	960,014	–	–	960,014
Currency translation differences	29	–	–	40,340,492	–	4,377,876	44,718,368
Net income recognised directly in equity		–	–	35,627,148	7,687,268	6,426,901	49,741,317
Profit for the year		–	–	–	100,040,174	37,652,021	137,692,195
Total recognised income for 2007		–	–	35,627,148	107,727,442	44,078,922	187,433,512
Acquisition of additional interests in a subsidiary		–	–	–	–	(119,759)	(119,759)
Capital contribution in a subsidiary by minority shareholders		–	–	–	–	2,138,918	2,138,918
Recognition on grant of share options	29	–	–	3,214,829	–	–	3,214,829
Shares issued upon exercise of share options	27	1,000,000	2,639,250	(139,250)	–	–	3,500,000
Transfer on lapse of share options	29	–	–	(23,775)	23,775	–	–
Dividend paid to minority shareholders		–	–	–	–	(8,732,970)	(8,732,970)
Interim dividend		–	–	–	(4,260,136)	–	(4,260,136)
Dividend relating to 2006		–	–	–	(10,612,840)	–	(10,612,840)
Balance at 31st December, 2007		284,009,077	244,118,039	79,312,661	319,400,791	201,678,853	1,128,519,421

The notes on pages 46 to 121 are an integral part of these consolidated financial statements.

Consolidated Cash Flow Statement

For the year ended 31st December, 2007

	Note	2007 HK\$	2006 HK\$
OPERATING ACTIVITIES			
Operating profit from continuing operations		144,019,278	101,736,470
Operating loss from discontinued operation	12	–	(7,238,845)
Adjustments for:			
Depreciation and amortisation of property, plant and equipment	16	54,959,026	55,782,567
Amortisation of leasehold land and land use rights	18	1,013,153	1,233,702
Impairment losses on goodwill	19	–	981,123
Release of negative goodwill	6	–	(94,901)
Share-based payments		3,214,829	–
Net gain on disposal of property, plant and equipment and leasehold land and land use rights	9	(59,999,829)	(812,747)
Revaluation (surplus) deficit of leasehold buildings	9	(273,958)	494,566
Gain on disposal of investment properties	9	(8,976,730)	–
Fair value gains on investment properties	6	(7,960,000)	(800,000)
Impairment losses on property, plant and equipment	16	1,500,000	995,952
Allowance for impairment of bad and doubtful debts		9,780,150	15,110,606
Write-down of inventories	9	13,972,864	8,261,408
OPERATING CASH FLOWS BEFORE MOVEMENTS IN WORKING CAPITAL		151,248,783	175,649,901
Decrease (Increase) in inventories		25,907,766	(81,197,628)
Increase in trade and other receivables		(22,854,991)	(89,462,751)
(Decrease) Increase in trade and other payables		(65,483,197)	155,829,867
Cash generated from operations		88,818,361	160,819,389
Hong Kong profits tax paid		(2,570,819)	(1,955,530)
Overseas tax paid		(7,808,765)	(15,558,577)
NET CASH FROM OPERATING ACTIVITIES		78,438,777	143,305,282

Consolidated Cash Flow Statement

For the year ended 31st December, 2007

	Note	2007 HK\$	2006 HK\$
INVESTING ACTIVITIES			
Amounts advanced to associates		(9,890,098)	(25,579,137)
Purchase of available-for-sale financial assets		(509,505)	(4,711,393)
Net proceeds from disposal of a subsidiary	33	–	173,974
Proceeds from disposal of discontinued operation	33	–	3
Decrease (Increase) in pledged bank deposits		573,762	(16,543,875)
Acquisition of additional shareholding in subsidiaries from minority shareholders		(119,759)	(457,000)
Acquisition of an associate		(4,668,152)	–
Purchase of property, plant and equipment		(64,096,821)	(54,649,323)
Proceeds from disposal of associates		1,386,193	–
Proceeds from disposal of investment properties		25,306,730	–
Proceeds from disposal of property, plant and equipment and leasehold land and buildings		100,954,922	8,142,506
Proceeds from disposal of available-for-sale financial assets		2,742,657	8,364,488
Amount repaid from an investee company		–	105
Interest received	8	2,030,074	1,035,202
Dividends received from associates		–	4,291,156
NET CASH GENERATED FROM (USED IN) INVESTING ACTIVITIES		53,710,003	(79,933,294)
FINANCING ACTIVITIES			
Repayment of bank loans		(324,799,356)	(337,929,022)
Interest paid	7	(27,088,135)	(28,648,015)
Repayment of obligations under finance leases		(5,009,819)	(5,259,761)
Dividends paid to minority shareholders of subsidiaries		(8,732,970)	(2,457,341)
Dividends paid to Company's shareholders		(14,872,976)	(14,150,454)
Repayment of other loans		–	(90,591)
Bank loans raised		333,599,394	277,640,777
Capital contributed by minority shareholders of a subsidiary		2,138,918	636,295
Amounts advanced from associates		14,353,381	24,921,207
Proceeds from issue of shares	27	3,500,000	–
NET CASH USED IN FINANCING ACTIVITIES		(26,911,563)	(85,336,905)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		105,237,217	(21,964,917)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	26	61,062,701	79,809,902
EFFECT OF FOREIGN EXCHANGE RATE CHANGES		6,316,781	3,217,716
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	26	172,616,699	61,062,701

The notes on pages 46 to 121 are an integral part of these consolidated financial statements.

Notes to the Financial Statements

For the year ended 31st December, 2007

1. GENERAL

Cosmos Machinery Enterprises Limited ("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 42.

2. IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

In the current year, the Group has applied, for the first time, the following new Hong Kong Accounting Standards ("HKAS"), amendment and interpretations ("Int") ("new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), which are first effective for the Group's current financial year.

HKAS 1 (Amendment)	Capital Disclosures
HKFRS 7	Financial Instruments: Disclosures
HK(IFRIC) – Int 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies
HK(IFRIC) – Int 8	Scope of HKFRS 2
HK(IFRIC) – Int 9	Reassessment of Embedded Derivatives
HK(IFRIC) – Int 10	Interim Financial Reporting and Impairment

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

The principal effects of adopting these new and revised HKFRSs are summarised as follows:

(a) HKFRS 7 Financial Instruments: Disclosures

This standard introduces new disclosures relating to financial instruments and does not have any impact on the classification and valuation of the Group's financial instruments, or the disclosures relating to taxation and trade and other payables.

(b) Amendment to HKAS 1 Presentation of Financial Statements – Capital Disclosures

This amendment requires the Group to make disclosures that enable users of the financial statements to evaluate the Group's objectives, policies and processes for managing capital. These new disclosures are shown in note 40(b) to the financial statements.

Notes to the Financial Statements

For the year ended 31st December, 2007

2. IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) (Continued)

(c) HK(IFRIC) – Int 7 Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies

This interpretation provides guidance on how to apply requirements of HKAS 29 in a reporting period in which an entity identifies the existence of hyperinflation in the economy of its functional currency, when the economy was not hyperinflationary in the prior period. As none of the Group entities have a currency of a hyperinflationary economy as its functional currency, this interpretation is not relevant to the Group’s operations.

(d) HK(IFRIC) – Int 8 Scope of HKFRS 2

This interpretation requires consideration of transactions involving the issuance of equity instruments, where the identifiable consideration received is less than the fair value of the equity instruments issued in order to establish whether or not they fall within the scope of HKFRS 2. As the Company has only issued equity instruments to its employees in accordance with the Company’s share option scheme, the interpretation does not have any impact on the Group’s financial statements.

(e) HK(IFRIC) – Int 9 Reassessment of Embedded Derivatives

This interpretation requires that the date to assess whether an embedded derivative is required to be separated from the host contract and accounted for as a derivative is the date that the Group first becomes a party to the contract, with reassessment only if there is a change to the contract that significantly modifies the cash flows. This interpretation is not relevant for the Group’s operations and does not have any impact on the Group’s financial statements.

(f) HK(IFRIC) – Int 10 Interim Financial Reporting and Impairment

This interpretation prohibits the impairment losses recognised in an interim period on goodwill and investments in equity instruments and in financial assets carried at cost to be reversed at a subsequent balance sheet date. This interpretation does not have any impact on the Group’s financial statements.

3. 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 HKFRS, which also include Hong Kong Accounting Standards and Interpretations issued by the 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.

Notes to the Financial Statements

For the year ended 31st December, 2007

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(a) Basis of preparation (Continued)

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.

(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, 2007

3. 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 3(h)).

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.

Dilution gains and losses in associates are recognised in the consolidated income statement.

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

(c) Segment reporting

A 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.

Notes to the Financial Statements

For the year ended 31st December, 2007

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Segment reporting (Continued)

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.

(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.

Notes to the Financial Statements

For the year ended 31st December, 2007

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(d) Foreign currency translation (Continued)

(iii) Group companies (Continued)

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.

(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 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.

Notes to the Financial Statements

For the year ended 31st December, 2007

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(e) Property, plant and equipment (Continued)

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 3(i)).

(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.

Notes to the Financial Statements

For the year ended 31st December, 2007

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) Investment properties (Continued)

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.

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.

Notes to the Financial Statements

For the year ended 31st December, 2007

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(h) 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 at the date of acquisition. Goodwill on acquisitions of subsidiaries is shown separately in the consolidated balance sheet. 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.

(i) Impairment of assets

(i) *Impairment of investments in equity securities and other receivables*

Investments in equity securities (other than investments in subsidiaries and associates: see note 3(i)(ii)) and other current and noncurrent receivables that are stated at cost or amortised cost or are classified as available-for-sale financial assets are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. Objective evidence of impairment includes observable data that comes to the attention of the Group about one or more of the following loss events:

- significant financial difficulty of the debtor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- it becoming probable that the debtor will enter bankruptcy or other financial reorganisation;
- significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; and
- a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

Notes to the Financial Statements

For the year ended 31st December, 2007

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(i) Impairment of assets (Continued)

(i) *Impairment of investments in equity securities and other receivables (Continued)*

If any such evidence exists, any impairment loss is determined and recognised as follows:

- For unquoted equity securities carried at cost, the impairment loss is measured as the difference between the carrying amount of the financial asset and the estimated future cash flows, discounted at the current market rate of return for a similar financial asset where the effect of discounting is material. Impairment losses for equity securities are not reversed.
- For trade and other current receivables and other financial assets carried at amortised cost, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material. This assessment is made collectively where financial assets carried at amortised cost share similar risk characteristics, such as similar past due status, and have not been individually assessed as impaired. Future cash flows for financial assets which are assessed for impairment collectively are based on historical loss experience for assets with credit risk characteristics similar to the collective group.

If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

- For available-for-sale financial assets, the cumulative loss that has been recognised directly in equity is removed from equity and is recognised in profit or loss. The amount of the cumulative loss that is recognised in profit or loss is the difference between the acquisition cost (net of any principal repayment and amortisation) and current fair value, less any impairment loss on that asset previously recognised in profit or loss.

Impairment losses recognised in profit or loss in respect of available-for-sale financial assets are not reversed through profit or loss. Any subsequent increase in the fair value of such assets is recognised directly in equity.

Notes to the Financial Statements

For the year ended 31st December, 2007

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(i) Impairment of assets (Continued)

(i) *Impairment of investments in equity securities and other receivables (Continued)*

Impairment losses are written off against the corresponding assets directly, except for impairment losses recognised in respect of trade debtors and bills receivable included within trade and other receivables, whose recovery is considered doubtful but not remote. In this case, the allowance for impairment of bad and doubtful debts are recorded using an allowance account. When the Group is satisfied that recovery is remote, the amount considered irrecoverable is written off against trade debtors and bills receivable directly and any amounts held in the allowance account relating to that debt are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in profit or loss.

(ii) *Impairment of other assets*

Internal and external sources of information are reviewed at each balance sheet date to identify indications that the following assets may be impaired or, except in the case of goodwill, an impairment loss previously recognised no longer exists or may have decreased:

- property, plant and equipment (other than properties carried at revalued amounts);
- land and land use rights classified as being held under an operating lease;
- investments in subsidiaries and associates (except for those classified as held for sale or included in a disposal group that is classified as held for sale); and
- goodwill.

If any such indication exists, the asset's recoverable amount is estimated. In addition, for goodwill, intangible assets that are not yet available for use and intangible assets that have indefinite useful lives, the recoverable amount is estimated annually whether or not there is any indication of impairment.

- Calculation of recoverable amount

The recoverable amount of an asset is the greater of its net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

Notes to the Financial Statements

For the year ended 31st December, 2007

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(i) Impairment of assets (Continued)

(ii) *Impairment of other assets (Continued)*

- Recognition of impairment losses

An impairment loss is recognised in profit or loss whenever the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash generating unit (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs to sell, or value in use, if determinable.

- Reversals of impairment losses

In respect of assets other than goodwill, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is not reversed.

A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

(j) Financial assets

The Group classifies its financial assets in the following two categories: available-for-sale financial assets and loans and receivables. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition and re-evaluates their classification at every balance sheet date.

(i) *Available-for-sale financial assets*

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

(ii) *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. Trade and other receivables and cash and cash equivalents in the balance sheet are classified as loans and receivables.

Loans and receivables are recognised initially at fair value, plus transaction costs incurred. Loans and receivables are subsequently carried at amortised cost using the effective interest method.

Notes to the Financial Statements

For the year ended 31st December, 2007

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(j) Financial assets (Continued)

(ii) Loans and receivables (Continued)

Regular purchases and sales of financial assets are recognised on the trade-date – the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in the income statement. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are carried at amortised cost using the effective interest method.

Changes in the fair value of monetary securities denominated in a foreign currency and classified as available-for-sale are analysed between translation differences resulting from changes in amortised cost of the security and other changes in the carrying amount of the security. The translation differences on monetary securities are recognised in profit or loss; translation differences on non-monetary securities are recognised in equity. Changes in the fair value of monetary and non-monetary securities classified as available for sale are recognised in equity.

When securities classified as available for sale are sold or impaired, the accumulated fair value adjustments recognised in equity are included in the income statement as 'gains and losses from investment securities'.

Interest on available-for-sale financial assets calculated using the effective interest method is recognised in the income statement as part of other income. Dividends on available-for-sale equity instruments are recognised in the income statement as part of other income when the Group's right to receive payments is established.

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Group established fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis and option pricing models, making maximum use of market inputs and relying as little as possible on entity-specific inputs.

Notes to the Financial Statements

For the year ended 31st December, 2007

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(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 3(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 3(k)(iii). Contingent liabilities acquired in a business combination that cannot be reliably fair valued are disclosed in accordance with note 3(k)(iii).

(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.

Notes to the Financial Statements

For the year ended 31st December, 2007

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(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 allowance for impairment of bad and doubtful debts, 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 allowance for impairment of 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 allowance for impairment of bad and doubtful debts.

(n) Cash and cash equivalents

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

(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.

Notes to the Financial Statements

For the year ended 31st December, 2007

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(p) Trade and other payables

Trade and other payables are initially measured at fair value. Except for financial guarantee liabilities (if any) measured in accordance with note 3(k)(i), trade and other payables are subsequently stated 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, and
- 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.

(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 and associates, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Notes to the Financial Statements

For the year ended 31st December, 2007

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(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.

(iii) *Share-based compensation*

The fair value of share options granted to employees is recognised as an employee cost with a corresponding increase in share option reserve within equity. The fair value is measured at grant date using the binomial lattice model, taking into account the terms and conditions upon which the options were granted. Where the employees have to meet vesting conditions before becoming unconditionally entitled to the share options, the total estimated fair value of the share options is spread over the vesting period, taking into account the probability that the options will vest.

During the vesting period, the number of share options that is expected to vest is reviewed. Any adjustment to the cumulative fair value recognised in prior years is charged/credited to the income statement for the year of the review, unless the original employee expenses qualify for recognition as an asset, with a corresponding adjustment to the capital reserve. On vesting date, the amount recognised as an expense is adjusted to reflect the actual number of options that vest (with a corresponding adjustment to the share option reserve) except where forfeiture is only due to not achieving vesting conditions that relate to the market price of the Company's shares. The equity amount is recognised in the share option reserve until either the option is exercised (when it is transferred to the share premium account) or the option expires (when it is released directly to retained profits).

Notes to the Financial Statements

For the year ended 31st December, 2007

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(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 and the customer has accepted the products and collectibility of the related receivables is reasonably assured.
- (ii) Rental income, including rentals invoiced in advance from properties under operating leases, is recognised on a straight line basis over the period of the leases.
- (iii) Commission income, handling and services income are recognised when services are provided.
- (iv) Interest income is recognised as it accrues using the effective interest method.
- (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.

Notes to the Financial Statements

For the year ended 31st December, 2007

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(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.

(w) 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.

(x) 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.

Notes to the Financial Statements

For the year ended 31st December, 2007

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(y) Related parties

For the purposes of these financial statements, a party is considered to be 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, 2007

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 3(i). 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, 2007

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, 2007, the Group is organised on a product basis into four 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:

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, 2007

5. BUSINESS AND GEOGRAPHICAL SEGMENTS (Continued) Primary reporting format – Business segments (Continued)

The segment results for the year ended 31st December, 2007 are as follows:

	Industrial consumables HK\$	Plastic processing products HK\$	Machinery HK\$	Printed circuit boards HK\$	Other operations HK\$	Eliminations HK\$	Consolidated HK\$
TURNOVER							
External sales	366,467,005	479,495,091	806,800,302	440,614,681	–	–	2,093,377,079
Inter-segment sales	6,960,302	–	7,911,414	–	–	(14,871,716)	–
Total revenue	373,427,307	479,495,091	814,711,716	440,614,681	–	(14,871,716)	2,093,377,079

Inter-segment sales are charged at prevailing market rates.

RESULTS

Segment results	31,452,282	23,572,063	82,350,998	29,714,187	2,265,134	694,576	170,049,240
Unallocated corporate expenses							(26,029,962)
Profit from operations							144,019,278
Finance costs							(27,088,135)
Investment income							1,647,619
Loss on disposal of subsidiaries							(1,158,846)
Loss on disposal of associates							(93,250)
Share of results of associates		(175,787)	3,245,882		27,229,385		30,299,480
Profit before taxation							147,626,146
Taxation							9,933,951
Profit before minority interests							137,692,195

Notes to the Financial Statements

For the year ended 31st December, 2007

5. BUSINESS AND GEOGRAPHICAL SEGMENTS (Continued) Primary reporting format – Business segments (Continued)

	Industrial consumables HK\$	Plastic processing products HK\$	Machinery HK\$	Printed circuit boards HK\$	Other operations HK\$	Consolidated HK\$
ASSETS						
Segment assets	205,540,785	364,471,845	1,014,268,168	274,652,123	70,973,283	1,929,906,204
Interests in associates						271,203,774
Available-for-sale financial assets						5,055,010
Unallocated corporate assets						55,174,806
Consolidated total assets						2,261,339,794
LIABILITIES						
Segment liabilities	76,807,957	70,675,797	422,529,755	144,164,060	7,909,872	722,087,441
Tax payable						6,513,033
Borrowings						338,426,364
Unallocated corporate liabilities						65,793,535
Consolidated total liabilities						1,132,820,373
OTHER INFORMATION						
Capital additions	1,476,132	9,307,901	33,824,326	25,913,966	832,187	71,354,512
Depreciation and amortisation	1,159,229	16,428,851	21,530,660	15,352,273	1,501,166	55,972,179
Other non-cash expenses (income)	(313,054)	(1,060,935)	14,885,673	267,896	10,126,350	23,905,930

Notes to the Financial Statements

For the year ended 31st December, 2007

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		Consolidated
	Industrial consumables	Plastic processing products	Machinery	Printed circuit boards	Other operations	Eliminations	Sub-total	Audio and electronic products	Eliminations	
	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	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.										
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

Notes to the Financial Statements

For the year ended 31st December, 2007

5. BUSINESS AND GEOGRAPHICAL SEGMENTS (Continued) Primary reporting format – Business segments (Continued)

	Continuing operations					Discontinued operation	Consolidated
	Industrial consumables	Plastic processing products	Machinery	Printed circuit boards	Other operations	Audio and electronic products	
	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	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, 2007

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	
	2007 HK\$	2006 HK\$
Hong Kong	804,749,061	608,529,651
PRC	1,048,219,380	1,084,800,934
Other Asia-Pacific countries	120,632,569	98,686,926
North America	74,221,683	82,582,828
Europe	45,554,386	38,366,746
Continuing operations	2,093,377,079	1,912,967,085
Discontinued operation	–	109,664,550
	2,093,377,079	2,022,631,635

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

	Carrying amount of segment assets		Additions to property, plant and equipment and goodwill	
	2007 HK\$	2006 HK\$	2007 HK\$	2006 HK\$
Hong Kong	1,095,134,267	490,853,326	931,255	2,438,801
PRC	1,141,663,638	1,559,563,466	70,423,257	52,119,242
Other Asia-Pacific countries	11,329,193	15,684,114	–	–
North America	6,481,983	7,950,765	–	–
Europe	6,730,713	11,730,951	–	2,114,752
Continuing operations	2,261,339,794	2,085,782,622	71,354,512	56,672,795
Discontinued operation	–	21,642,020	–	443,851
	2,261,339,794	2,107,424,642	71,354,512	57,116,646

Notes to the Financial Statements

For the year ended 31st December, 2007

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:

	2007 HK\$	2006 HK\$
Turnover		
Sales of goods	2,093,377,079	1,912,967,085
Other income		
Commission income	503,847	480,761
Gross rental income from properties	2,134,700	2,684,308
Handling and services income	578,954	787,300
Release of negative goodwill to income	–	94,901
Gain on disposal of a domain name	–	3,491,500
Sundry income	15,620,088	24,151,850
	18,837,589	31,690,620
Gains, net		
Exchange gain	6,255,579	1,633,662
Fair value gains on investment properties	7,960,000	800,000
Gain on disposal of investment properties	8,976,730	–
Revaluation surplus on leasehold buildings	426,874	–
	23,619,183	2,433,662
	42,456,772	34,124,282

Notes to the Financial Statements

For the year ended 31st December, 2007

7. FINANCE COSTS

	2007 HK\$	2006 HK\$
Interest on:		
Borrowings wholly repayable within five years		
– bank loans and overdrafts	24,875,353	26,479,432
– other loans	1,183,918	636,983
Finance leases	1,028,864	1,531,600
	27,088,135	28,648,015
Less: Attributable to discontinued operation (<i>note 12</i>)	–	720,533
	27,088,135	27,927,482

8. INVESTMENT INCOME

	2007 HK\$	2006 HK\$
Interest income	2,030,074	1,035,202
(Loss) Gain on disposal of available-for-sale financial assets	(382,455)	3,758,649
	1,647,619	4,793,851
Less: Attributable to discontinued operation (<i>note 12</i>)	–	16,306
	1,647,619	4,777,545

Notes to the Financial Statements

For the year ended 31st December, 2007

9. PROFIT BEFORE TAXATION

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

	2007		2006	
	Continuing operations HK\$	Discontinued operation HK\$	Continuing operations HK\$	Discontinued operation HK\$
<i>Charging:</i>				
Staff costs:				
Directors' remuneration (note 10)	15,309,022	–	13,974,614	–
Salaries and other benefits	249,563,711	–	219,734,824	10,843,080
Retirement benefits scheme contributions	4,550,671	–	8,670,428	114,020
Share-based payments	2,998,829	–	–	–
	272,422,233	–	242,379,866	10,957,100
Depreciation and amortisation on:				
– Owned assets	51,659,417	–	49,922,540	1,847,175
– Assets held under finance leases	3,299,609	–	4,012,852	–
– Leasehold land and land use rights (note 18)	1,013,153	–	1,233,702	–
Impairment losses on goodwill (included in other operating expenses) (note 19)	–	–	981,123	–
Auditors' remuneration				
– Current year	2,004,212	–	1,874,325	137,000
– Underprovided in prior years	31,730	–	12,650	8,000
Loss on disposal of property, plant and equipment (note below)	3,697,817	–	–	226,711
Impairment losses on property, plant and equipment (note 16)	1,500,000	–	195,481	800,471
Operating lease payments (note 35)	13,145,157	–	12,756,276	30,926
Revaluation deficit on leasehold buildings	152,916	–	494,566	–
Write-down of inventories	13,972,864	–	3,289,645	4,971,763
Share of associates' taxation	5,341,455	–	5,541,839	–
<i>and crediting:</i>				
Rental income net of direct outgoings	1,835,251	–	2,456,839	–
Revaluation surplus on leasehold buildings	426,874	–	–	–
Gain on disposal of investment properties	8,976,730	–	–	–
Gain on disposal of property, plant and equipment and leasehold land and land use rights (note below)	63,697,646	–	1,039,458	–

Note: For the year ended 31st December, 2007, the above gain on disposal of property, plant and equipment and leasehold land and land use rights included a gain of HK\$52,526,570 (after deducting expenses of HK\$1,029,760) which resulted from the compensation for relocation of the plants in Dongguan (see also note 18). The net gain on disposal of property, plant and equipment and leasehold land and land use rights of the Group of HK\$59,999,829 has been shown in the consolidated income statement.

Notes to the Financial Statements

For the year ended 31st December, 2007

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	Salaries and allowances	Retirement	Share-based payments ⁽⁶⁾	2007 Total	2006 Total
			benefits scheme contributions			
	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$
Executive directors						
Mr. Tang To	3,383,871	1,178,000	156,150	–	4,718,021	4,401,262
Mr. Wong Yiu Ming	3,344,871	1,400,000	168,750	120,000	5,033,621	4,534,812
Mr. Yan Wing Fai ⁽⁵⁾	1,271,375	911,000	12,000	48,000	2,242,375	2,065,400
Mr. Li Tin Loi	763,375	1,276,000	88,200	48,000	2,175,575	1,773,710
Mr. Zhao Zhuoying ⁽⁴⁾	–	–	–	–	–	40,000
Mr. Jiang Wei ⁽³⁾	40,000	–	–	–	40,000	–
Non-executive directors						
Mr. Tang Kwan	40,000	680,400	51,030	–	771,430	771,430
Mr. He Zhiqi ⁽⁴⁾	–	–	–	–	–	40,000
Mr. Kan Wai Wah	40,000	–	–	–	40,000	40,000
Mr. Yip Jeffery	40,000	–	–	–	40,000	40,000
Miss. Yeung Shuk Fan	168,000	–	–	–	168,000	168,000
Mr. Liang Shangli ⁽²⁾	–	–	–	–	–	100,000
Mr. Qu Jinping	–	–	–	–	–	–
Mr. Cheng Tak Yin ⁽¹⁾	40,000	–	–	–	40,000	–
Mr. Wu Ding ⁽³⁾	40,000	–	–	–	40,000	–
Total 2007	9,171,492	5,445,400	476,130	216,000	15,309,022	13,974,614
Total 2006	8,177,424	5,342,300	454,890	–		

Notes:

- (1) Appointed on 30th January, 2007
- (2) Resigned on 30th January, 2007
- (3) Appointed on 1st June, 2007
- (4) Resigned on 1st June, 2007
- (5) Resigned on 31st March, 2008
- (6) These represent the estimated value of share options granted to the directors under the Company's share option scheme. The value of these share options is measured according to the Group's accounting policies for share-based payments as set out in note 3(s)(iii). The details of these benefits in kind are also set out in note 28.

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

Notes to the Financial Statements

For the year ended 31st December, 2007

10. DIRECTORS' AND EMPLOYEES' EMOLUMENTS (Continued)

(b) Employees' emoluments

The five highest paid individuals included four (2006: four) directors, details of whose emoluments are set out above. The emoluments of the remaining one (2006: one) individual are as follows:

	2007 HK\$	2006 HK\$
Salaries and other benefits	4,856,900	4,415,800
Retirement benefits schemes contributions	45,900	45,900
	4,902,800	4,461,700

11. TAXATION

Hong Kong profits tax has been provided at the rate of 17.5% (2006: 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.

	2007 HK\$	2006 HK\$
Hong Kong profits tax		
Current year	2,364,322	2,655,092
(Over) Under-provision in prior years	(95,718)	127,265
	2,268,604	2,782,357
Overseas tax paid		
Current year	8,809,867	8,234,261
Under-provision in prior years	101,987	–
	8,911,854	8,234,261
Deferred taxation relating to the origination and reversal of temporary differences (note 32)	(1,246,507)	527,549
Taxation charge	9,933,951	11,544,167

Notes to the Financial Statements

For the year ended 31st December, 2007

11. TAXATION (Continued)

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

	2007 HK\$	2006 HK\$
Profit before taxation (including loss from discontinued operation)	147,626,146	100,160,502
Tax at the domestic income tax rate of 17.5% (2006: 17.5%)	25,834,575	17,528,088
Tax effect of expenses that are not deductible in determining taxable profit	37,220,547	22,371,386
Tax effect of income that is not taxable in determining taxable profit	(60,666,621)	(35,328,422)
Under-provision of profits tax in prior years, net	6,269	127,265
Tax effect of tax losses not recognised	8,490,035	8,208,714
Tax effect of temporary differences not recognised	(259,816)	695,991
Tax effect of utilisation of tax losses not previously recognised	(1,085,387)	(2,832,221)
Effect of different tax rates of subsidiaries operating in other jurisdictions	394,349	773,366
Taxation charge	9,933,951	11,544,167
Represented by:		
Tax charge attributable to discontinued operation (<i>note 12</i>)	–	–
Tax charge attributable to continuing operations	9,933,951	11,544,167
Taxation charge	9,933,951	11,544,167

Notes to the Financial Statements

For the year ended 31st December, 2007

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:

	2007 HK\$	2006 HK\$
THE GROUP		
(a) Results		
Turnover	–	109,664,550
Cost of sales	–	(109,791,426)
Gross loss	–	(126,876)
Other operating income	–	500,377
Distribution costs	–	(2,109,067)
Administrative expenses	–	(5,503,279)
Operating loss	–	(7,238,845)
Finance costs (note 7)	–	(720,533)
Investment income (note 8)	–	16,306
Gain on disposal of a subsidiary	–	1
Loss for the year	–	(7,943,071)
(b) Cash flows		
Operating cash flows	–	(25,094,223)
Investing cash flows	–	2,317,982
Financing cash flows	–	23,016,371
Total cash flows	–	240,130

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\$27,068,935 (2006: HK\$3,126,959).

Notes to the Financial Statements

For the year ended 31st December, 2007

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.

	2007	2006
Weighted average number of shares in issue during the year	708,704,884	707,522,692
Profit attributable to the equity holders of the Company from continuing operations	HK\$100,040,174	HK\$73,086,086
Earnings per share from continuing operations	14.12 cents	10.33 cents
Loss attributable to the equity holders of the Company from discontinued operation	N/A	(HK\$7,943,071)
Loss per share from discontinued operation	N/A	(1.12) cents

Diluted earnings per share for the year ended 31st December, 2007 has not been presented as the exercise price of the Company's outstanding share options was higher than the average market price of the Company's shares for that year.

15. DIVIDENDS

	2007	2006
	HK\$	HK\$
Interim dividend of HK\$0.006 (2006: HK\$0.005) per share	4,260,136	3,537,614
Dividend proposed after the balance sheet date of HK\$0.015 (2006: HK\$0.015) per share	10,650,340	10,612,840
	14,910,476	14,150,454

Notes to the Financial Statements

For the year ended 31st December, 2007

16. PROPERTY, PLANT AND EQUIPMENT

	Leasehold buildings HK\$	Furniture, fixtures and equipment HK\$	Plant and machinery HK\$	Motor vehicles HK\$	Properties under construction HK\$	Total HK\$
THE GROUP						
COST OR VALUATION						
At 1st January, 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 and 1st January, 2007	128,458,000	151,154,598	475,181,107	39,192,091	3,502,658	797,488,454
Currency realignment	8,185,753	5,542,728	18,216,308	2,211,102	274,908	34,430,799
Reclassifications	–	12,112,211	(10,502,328)	–	(1,609,883)	–
Additions	1,265,650	8,577,238	41,596,789	4,111,657	3,273,631	58,824,965
Disposals	(28,563,191)	(5,353,923)	(17,067,537)	(7,033,717)	(382,826)	(58,401,194)
Adjustment on revaluation	(2,191,212)	–	–	–	–	(2,191,212)
At 31st December, 2007	107,155,000	172,032,852	507,424,339	38,481,133	5,058,488	830,151,812
Analysis of cost or valuation:						
At 31st December, 2007						
At cost	–	172,032,852	507,424,339	38,481,133	5,058,488	722,996,812
At valuation – 2007	107,155,000	–	–	–	–	107,155,000
	107,155,000	172,032,852	507,424,339	38,481,133	5,058,488	830,151,812
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

Notes to the Financial Statements

For the year ended 31st December, 2007

16. PROPERTY, PLANT AND EQUIPMENT (Continued)

	Leasehold buildings	Furniture, fixtures and equipment	Plant and machinery	Motor vehicles	Properties under construction	Total
	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$
THE GROUP						
DEPRECIATION, AMORTISATION AND IMPAIRMENT						
At 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)	–	–
Written back on 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 and 1st January, 2007	–	102,435,623	314,093,690	27,042,441	–	443,571,754
Currency realignment	371,474	3,032,815	10,868,646	1,565,788	–	15,838,723
Depreciation provided for the year	6,803,985	13,939,126	29,883,219	4,332,696	–	54,959,026
Impairment losses	–	552,979	947,021	–	–	1,500,000
Reclassifications	–	4,820,383	(4,820,383)	–	–	–
Written back on disposals	(1,670,827)	(3,436,843)	(11,422,591)	(5,738,961)	–	(22,269,222)
Eliminated on revaluation	(5,504,632)	–	–	–	–	(5,504,632)
At 31st December, 2007	–	121,344,083	339,549,602	27,201,964	–	488,095,649
NET BOOK VALUES						
At 31st December, 2007	107,155,000	50,688,769	167,874,737	11,279,169	5,058,488	342,056,163
At 31st December, 2006	128,458,000	48,718,975	161,087,417	12,149,650	3,502,658	353,916,700

Notes to the Financial Statements

For the year ended 31st December, 2007

16. PROPERTY, PLANT AND EQUIPMENT (Continued)

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

	2007 HK\$	2006 HK\$
In Hong Kong:		
– under medium-term leases	1,985,000	2,258,000
Outside Hong Kong:		
– under long leases	34,360,000	32,520,000
– under medium-term leases	70,810,000	93,680,000
	107,155,000	128,458,000

The leasehold buildings of the Group were revalued as at 31st December, 2007 and 31st December, 2006 on the open market existing use basis by Knight Frank Petty Limited, an independent firm of professional valuers. The (surplus) deficit arising on revaluation attributable to the Group have been (credited) charged to the buildings revaluation reserve and the consolidated income statement respectively.

Depreciation expense of HK\$40,109,610 (2006: HK\$41,464,414) has been expensed in cost of goods sold, HK\$1,875,337 (2006: HK\$1,836,107) in selling and distribution costs and HK\$12,974,079 (2006: HK\$12,482,046) 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\$88,924,639 (2006: HK\$81,188,152).

The net book value of the Group's plant and machinery includes an amount of HK\$10,647,847 (2006: HK\$22,148,126) in respect of assets held under finance leases.

Notes to the Financial Statements

For the year ended 31st December, 2007

16. PROPERTY, PLANT AND EQUIPMENT (Continued)

	Furniture, fixtures and equipment HK\$	Motor vehicles HK\$	Total HK\$
THE COMPANY			
COST			
At 1st January, 2006	9,954,226	537,821	10,492,047
Additions	429,282	–	429,282
Disposals	(39,349)	–	(39,349)
At 31st December, 2006 and 1st January, 2007	10,344,159	537,821	10,881,980
Additions	832,187	–	832,187
Disposals	(797,246)	–	(797,246)
At 31st December, 2007	10,379,100	537,821	10,916,921
ACCUMULATED DEPRECIATION			
At 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 disposals	(23,822)	–	(23,822)
At 31st December, 2006 and 1st January, 2007	8,015,635	322,693	8,338,328
Depreciation provided for the year	1,039,313	107,564	1,146,877
Written back on disposals	(791,900)	–	(791,900)
At 31st December, 2007	8,263,048	430,257	8,693,305
NET BOOK VALUES			
At 31st December, 2007	2,116,052	107,564	2,223,616
At 31st December, 2006	2,328,524	215,128	2,543,652

Notes to the Financial Statements

For the year ended 31st December, 2007

17. INVESTMENT PROPERTIES

	THE GROUP	
	2007 HK\$	2006 HK\$
VALUATION		
At beginning of the year	29,830,000	29,030,000
Written back on disposals	(16,330,000)	–
Fair value gains	7,960,000	800,000
At end of the year	21,460,000	29,830,000

The valuation of investment properties held by the Group comprises:

	2007 HK\$	2006 HK\$
In Hong Kong:		
– under medium-term leases	21,460,000	24,400,000
Outside Hong Kong:		
– under medium-term leases	–	5,430,000
	21,460,000	29,830,000

The investment properties are held for rental purposes under operating leases (*note 35*). The investment properties of the Group were revalued as at 31st December, 2007 and 31st December, 2006 on the open market existing use basis by Knight Frank Petty Limited, an independent firm of professional valuers.

At 31st December, 2006, certain of the Group's investment properties with an aggregate carrying value of HK\$13,500,000 were pledged to secure certain bank borrowings granted to the Group (*note 39*).

Notes to the Financial Statements

For the year ended 31st December, 2007

18. LEASEHOLD LAND AND LAND USE RIGHTS

	THE GROUP	
	2007 HK\$	2006 HK\$
COST		
At beginning of the year	52,088,101	51,356,806
Currency realignment	1,636,938	731,295
Additions	12,529,547	–
Disposals	(7,864,345)	–
At end of the year	58,390,241	52,088,101
ACCUMULATED AMORTISATION		
At beginning of the year	14,477,667	13,060,873
Currency realignment	439,778	183,092
Amortisation for the year	1,013,153	1,233,702
Written back on disposals	(3,041,224)	–
At end of the year	12,889,374	14,477,667
NET BOOK VALUE		
At end of the year	45,500,867	37,610,434
Portion classified as current assets	1,013,153	1,233,702
Long term portion	44,487,714	36,376,732
At beginning of the year	37,610,434	38,295,933

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:

	2007 HK\$	2006 HK\$
In Hong Kong held on:		
Leases of over 50 years	–	–
Leases of between 10 to 50 years	10,161,724	14,333,493
Outside Hong Kong held on:		
Leases of over 50 years	8,014,499	7,867,471
Leases of between 10 to 50 years	27,324,644	15,409,470
	45,500,867	37,610,434

Bank borrowings are secured on land for the carrying value of HK\$12,380,447 (2006: HK\$14,947,063) (note 39).

Notes to the Financial Statements

For the year ended 31st December, 2007

18. LEASEHOLD LAND AND LAND USE RIGHTS (Continued)

As set out in the Company's announcement on 5th December, 2007 and the circular dated 24th December, 2007, Dong Hua Machinery Limited ("Dong Hua"), a 75.56% owned subsidiary of the Company, on 5th December, 2007, entered into a compensation agreement with the State-owned Assets Supervision and Administration Commission of Dongguan whereas Dong Hua will receive a compensation of RMB76,092,642 (HK\$78,357,164) for relocation of Dong Hua's plants in Dongguan which comprise of a parcel of land and 16 buildings for production workshops, offices and staff quarters purposes. The compensation for relocation of the plants resulted a gain of HK\$52,526,570 (after deducting expenses of HK\$1,029,760). See also note 9 to the financial statements.

19. GOODWILL

	THE GROUP	
	2007 HK\$	2006 HK\$
COST		
At 1st January	26,589,649	25,608,526
Acquisition of additional interest in a subsidiary	–	981,123
At 31st December	26,589,649	26,589,649
IMPAIRMENT		
At 1st January	26,589,649	25,608,526
Impairment losses recognised in the year	–	981,123
At 31st December	26,589,649	26,589,649
NET CARRYING AMOUNT		
At 31st December	–	–

Impairment tests for goodwill

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

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

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

Notes to the Financial Statements

For the year ended 31st December, 2007

20. INTERESTS IN SUBSIDIARIES

	THE COMPANY	
	2007 HK\$	2006 HK\$
Unlisted shares/capital contributions, at cost less impairment losses	38,796,018	40,781,145
Amounts due from subsidiaries less allowance for impairment	695,152,702	591,269,835
	733,948,720	632,050,980

Details of the Company's principal subsidiaries at 31st December, 2007 are set out in note 42.

Amounts due from subsidiaries are unsecured and have no fixed terms of repayment. Other than the carrying amounts of HK\$24,923,100 (2006: HK\$47,060,152) which are interest bearing, the remaining balances are interest free. In the opinion of the directors, the amounts will not be repayable within 12 months of the balance sheet date and are accordingly classified as non-current. The amounts due from subsidiaries of HK\$554,586,699 (2006: HK\$528,152,766) were impaired. The amount of allowance was HK\$41,220,180 as at 31st December, 2007 (2006: HK\$41,220,180). It is assessed that a portion of the receivables is expected to be recovered. The individually impaired receivables mainly relate to subsidiaries which are in financial difficulties and they are of ages over three years. The other amounts due from subsidiaries do not contain impaired assets.

21. INTERESTS IN ASSOCIATES

	THE COMPANY	
	2007 HK\$	2006 HK\$
THE GROUP		
Share of net assets	226,016,803	183,008,740
Amounts due from associates	45,202,221	36,812,123
Allowance for impairment of doubtful debts	(15,250)	(1,500,000)
	271,203,774	218,320,863
THE COMPANY		
Unlisted shares, at cost	–	–
Amounts due from associates	15,250	2,322,802
Allowance for impairment of doubtful debts	(15,250)	(1,500,000)
	–	822,802

(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 12 months of the balance sheet date and are accordingly classified as non-current. The individually impaired receivables HK\$15,250 (2006: HK\$2,307,552) mainly relate to associates which are in financial difficulties and they are of ages over three years. The other amounts due from associates do not contain impaired assets.

(b) Interests in associates at the balance sheet date include goodwill of HK\$312,724 (2006: HK\$312,724).

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For the year ended 31st December, 2007

21. INTERESTS IN ASSOCIATES (Continued)

The movements on the allowance for impairment of doubtful debts are as follows:

	THE GROUP AND THE COMPANY	
	2007 HK\$	2006 HK\$
At 1st January	1,500,000	1,000,000
Impairment loss recognised	15,250	500,000
Eliminated on disposal of an associate	(1,500,000)	–
At 31st December	15,250	1,500,000

Details of the principal associates of the Group at 31st December, 2007 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 Haoningda Meters Company Limited (Formerly known as Shenzhen Hao Ning Da Meters Manufacturing Company Limited)	PRC	42.00	Manufacturing and trading of electronic meters
Suzhou Sanguang Science & Technology Co., Ltd.	PRC	21.13	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.

The names of certain associates referred to as above represent management's translation of the Chinese names of these companies as no English names have been registered.

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21. INTERESTS IN ASSOCIATES (Continued)

Suzhou Sanguang Science & Technology Co., Ltd. ("Suzhou Sanguang") was a 30% held associate of the Group at 31st December, 2006 and there was a dilution of interests in Suzhou Sanguang due to additional capital contribution from other shareholders during the year ended 31st December, 2007. The Group's interests in Suzhou Sanguang was decreased from 30% to 23.62% following dilution of 6.38% interests. Subsequent to the dilution of interests, the Group disposed of 2.49% interests in Suzhou Sanguang with the remaining interests of 21.13% held. The net result of the dilution and disposal of Suzhou Sanguang was included in loss on disposal of associates as shown in the consolidated income statement.

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

	2007 HK\$	2006 HK\$
Total assets	641,337,096	492,721,379
Total liabilities	290,945,446	248,626,063
Net assets	350,391,650	244,095,316
Group's share of associates' net assets	226,016,803	183,008,740
Revenue	419,043,856	358,857,960
Profit for the year	70,818,637	68,123,339
Group's share of associates' profits for the year	30,299,480	29,445,850

22. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	THE GROUP		THE COMPANY	
	2007 HK\$	2006 HK\$	2007 HK\$	2006 HK\$
At beginning of the year	7,656,695	7,649,210	–	4,579,544
Currency realignment	42,272	–	–	–
Additions	509,505	4,711,393	–	–
Disposals	(3,125,112)	(4,605,944)	–	(4,579,544)
Revaluation deficit transfer to equity (note 29)	(28,350)	(97,964)	–	–
At end of the year	5,055,010	7,656,695	–	–
Less: non-current portion	5,055,010	7,656,695	–	–
Current portion	–	–	–	–

There were no impairment provisions made on available-for-sale financial assets in 2007 and 2006.

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For the year ended 31st December, 2007

22. AVAILABLE-FOR SALE FINANCIAL ASSETS (Continued)

Available-for-sale financial assets include the following:

	THE GROUP		THE COMPANY	
	2007 HK\$	2006 HK\$	2007 HK\$	2006 HK\$
Unlisted securities, at cost	7,036,303	9,609,638	–	–
Impairment losses	(2,071,789)	(2,071,789)	–	–
	4,964,514	7,537,849	–	–
Listed securities, at market value				
Equity securities – Japan	90,496	118,846	–	–
	5,055,010	7,656,695	–	–

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

	THE GROUP		THE COMPANY	
	2007 HK\$	2006 HK\$	2007 HK\$	2006 HK\$
United States Dollars	593,623	850,007	–	–
Renminbi	4,370,891	6,687,842	–	–
Japanese Yen	90,496	118,846	–	–
	5,055,010	7,656,695	–	–

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.

23. INVENTORIES

	THE GROUP	
	2007 HK\$	2006 HK\$
Trading inventories and finished goods	202,375,795	207,699,226
Work in progress	122,888,745	109,474,409
Raw materials	272,053,570	283,671,489
	597,318,110	600,845,124

At 31st December, 2007 the carrying amount of inventories that were carried at fair value less costs to sell amounted to HK\$505,249,268 (2006: HK\$517,847,143).

Notes to the Financial Statements

For the year ended 31st December, 2007

24. TRADE AND OTHER RECEIVABLES

	THE GROUP	
	2007 HK\$	2006 HK\$
Trade and bills receivables	634,843,227	635,222,116
Less: allowance for impairment of doubtful debts	64,101,498	62,024,480
Trade and bills receivables, net	570,741,729	573,197,636
Other receivables	184,094,659	141,725,692
Less: allowance for impairment of doubtful debts	21,511,974	13,990,808
Other receivables, net	162,582,685	127,734,884
Amounts due from related parties (note 41)	1,061,863	1,071,060
	734,386,277	702,003,580

The directors consider that the carrying amounts of trade and other receivables approximate to their fair values. All trade and other receivables are expected to be recovered or recognised as expense within one year.

The Group allows an average credit period of 90 days to 120 days for customers. The aged analysis of the Group's trade and bills receivables, based on the invoice date and net of allowances, at the balance sheet date is as follows:

	THE GROUP	
	2007 HK\$	2006 HK\$
0 to 3 months	406,553,187	429,626,546
4 to 6 months	91,081,590	67,463,581
7 to 9 months	26,969,550	22,226,433
Over 9 months	46,137,402	53,881,076
	570,741,729	573,197,636

Notes to the Financial Statements

For the year ended 31st December, 2007

24. TRADE AND OTHER RECEIVABLES (Continued)

The movements on the allowance for impairment of doubtful debts of the Group are as follows:

	Trade receivables		Other receivables	
	2007 HK\$	2006 HK\$	2007 HK\$	2006 HK\$
At 1st January	62,024,480	61,613,572	13,990,808	10,378,589
Currency realignment	3,701,987	1,827,259	1,315,338	236,169
Impairment loss recognised	5,680,365	11,278,770	6,205,828	3,376,050
Unused amounts reversed	(2,121,293)	(44,214)	–	–
Uncollectible amounts written off	(5,184,041)	(12,650,907)	–	–
At 31st December	64,101,498	62,024,480	21,511,974	13,990,808

The above allowance for impairment of doubtful debts is a provision for individually impaired trade receivables and fully impaired other receivables. The individually impaired trade receivables mainly represent sales made to PRC customers which have remained long overdue. The fully impaired other receivables relate to debtors that have been long outstanding without settlement nor having any business relationship with the Group. The Group does not hold any collateral or other credit enhancements over these balances.

At 31st December, 2007, trade and bills receivables of HK\$92,669,200 (2006: HK\$92,092,010) were impaired. The amount of allowance was HK\$64,101,498 as at 31st December, 2007 (2006: HK\$62,024,480). It is assessed that a portion of the receivables is expected to be recovered.

The aged analysis of the trade and bills receivables that are considered to be impaired is as follows:

	THE GROUP	
	2007 HK\$	2006 HK\$
Less than 6 months past due	25,224,767	26,321,798
6 months to 1 year past due	1,329,758	4,623,560
1 year to 3 years past due	13,904,961	20,409,995
Over 3 years past due	52,209,714	40,736,657
	92,669,200	92,092,010

Notes to the Financial Statements

For the year ended 31st December, 2007

24. TRADE AND OTHER RECEIVABLES (Continued)

The aged analysis of the trade receivables that are not considered to be impaired is as follows:

	THE GROUP	
	2007 HK\$	2006 HK\$
Neither past due nor impaired	393,054,780	397,982,470
Less than 6 months past due	102,211,333	93,419,736
6 months to 1 year past due	24,596,375	25,154,052
1 year to 3 years past due	16,294,489	19,105,947
Over 3 years past due	6,017,050	7,467,901
	542,174,027	543,130,106

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

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

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	
	2007	2006	2007	2006
United States Dollars	13,090,146	9,140,144	–	–
Renminbi	445,359,912	392,355,898	–	–
Japanese Yen	73,983,923	43,493,405	–	–
Euro Dollars	321,381	370,082	–	–

Notes to the Financial Statements

For the year ended 31st December, 2007

25. TRADE AND OTHER PAYABLES

	THE GROUP	
	2007 HK\$	2006 HK\$
Trade and bills payables	479,823,325	545,763,020
Accruals and other payables	245,123,715	208,325,024
Amounts due to related parties (note 41)	1,019,377	5,812,264
	725,966,417	759,900,308

The directors consider that the carrying amount of trade and other payables approximates to their fair value. All trade and other payables are expected to be settled or recognised as income within one year or are repayable on demand.

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

	THE GROUP	
	2007 HK\$	2006 HK\$
0 to 3 months	407,736,126	418,102,088
4 to 6 months	52,839,935	80,220,745
7 to 9 months	6,701,347	34,300,012
Over 9 months	12,545,917	13,140,175
	479,823,325	545,763,020

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	
	2007	2006	2007	2006
United States Dollars	6,031,599	6,284,366	–	–
Renminbi	460,018,174	485,331,642	–	–
Japanese Yen	155,257,772	284,206,293	–	–
Euro Dollars	306,709	77,233	–	–

Notes to the Financial Statements

For the year ended 31st December, 2007

26. CASH AND CASH EQUIVALENTS

	THE GROUP		THE COMPANY	
	2007 HK\$	2006 HK\$	2007 HK\$	2006 HK\$
Bank balances and cash	188,935,065	106,962,393	23,681,117	152,071

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	
	2007	2006	2007	2006
United States Dollars	4,097,687	952,713	51,889	409
Renminbi	94,574,338	81,383,800	–	–
Japanese Yen	24,461,668	346,574	–	–
Euro Dollars	115,052	34,181	–	–

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

	THE GROUP	
	2007 HK\$	2006 HK\$
Bank balances and cash per above	188,935,065	106,962,393
Bank overdrafts (<i>note 30</i>)	(16,318,366)	(45,899,692)
	172,616,699	61,062,701

Notes to the Financial Statements

For the year ended 31st December, 2007

27. SHARE CAPITAL

	Number of ordinary shares	Value HK\$
Ordinary shares of HK\$0.40 each		
Authorised:		
At 1st January, 2006, 31st December, 2006 and 31st December, 2007	1,000,000,000	400,000,000
Issued and fully paid:		
At 1st January, 2006 and 31st December, 2006	707,522,692	283,009,077
Shares issued upon exercise of share options	2,500,000	1,000,000
At 31st December, 2007	710,022,692	284,009,077

On 5th July, 2007, 13th July, 2007 and 30th July, 2007 respectively, the subscription rights attaching to 2,500,000 share options were exercised at the exercise price of HK\$1.4 per share, resulting in the issue of 2,500,000 shares of HK\$1.4 each and new share capital of HK\$1,000,000 and share premium of HK\$2,500,000, together with a release of the share options reserve amounting to HK\$139,250 which is credited to the share premium account (note 29). Details of share options outstanding and movements during the year are set out in note 28.

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

28. SHARE OPTION SCHEME

On 30th May, 2005, the shareholders of the Company adopted a share option scheme (the "Scheme") which will be expired on 29th May, 2015 for the primary purpose of providing incentives to selected participants including directors, full-time employees of the Group, chief executive, associates of executive director or chief executive, consultants, professional and other advisers of the Group (the "Participants"). Under the Scheme, the board of directors of the Company may at its discretion offer options to the Participants to subscribe for shares in the Company at a consideration of HK\$1 for each lot of share options granted. Options granted should be accepted within 28 days from the date of grant.

The exercise price is determined by the directors of the Company and will not be less than the highest of (i) the closing price of the shares on the date of grant, (ii) the average closing price of the shares for the five business days immediately preceding the date of grant, or (iii) the nominal value of the Company's shares.

Unless a prior approval from the Company's shareholders is sought, the total number of shares in respect of which options may be granted under the Scheme is not permitted to exceed 70,622,885 shares, being 10% of the shares of the Company in issue as at the date of shareholders' approval of the Scheme and represents 9.95% of the issued share capital of the Company as at the date of this annual report.

Notes to the Financial Statements

For the year ended 31st December, 2007

28. SHARE OPTION SCHEME (Continued)

The maximum aggregate number of shares which may be issued upon the exercise of all outstanding options granted and yet to be exercised under the Scheme and any other schemes, must not, in aggregate, exceed 30% of the total number of shares of the Company in issue from time to time.

An option may be exercised in accordance with the terms of the Scheme at any time after the date upon which the option is granted and prior to the expiry of 10 years from that date. The period during which an option may be exercised will be determined by the board of directors in its absolute discretion, save that no option may be exercised more than 10 years after it has been granted. No option may be granted more than 10 years after the date of approval of the Scheme. Subject to earlier termination by the Company in general meeting or by the board of directors' resolution at a general meeting, the Scheme shall be valid and effective for a period of 10 years after the date of adoption of the Scheme.

The maximum number of shares (issued and to be issued) in respect of which options may be granted to any eligible person in any 12-month period shall not exceed 1% of the total number of shares of the Company in issue, unless a shareholders' approval has been obtained.

The following table discloses details of the Company's share options held by directors and employees and movements in the Scheme during the year ended 31st December, 2007.

Grantee	Date of grant ⁽¹⁾	Exercisable period	Exercise price per share HK\$	Outstanding at 31.12.2006	Number of share options			Outstanding at 31.12.2007
					Granted during the year	Exercised during the year ⁽²⁾	Cancelled/ Lapsed during the year	
Directors								
Mr. Wong Yiu Ming	08.06.2007	15.06.2007- 14.06.2008	1.40	-	4,000,000	2,000,000	-	2,000,000
Mr. Li Tin Loi	08.06.2007	20.06.2007- 19.06.2008	1.40	-	1,600,000	-	-	1,600,000
Mr. Yan Wing Fai, Richard (resigned on 31st March, 2008)	08.06.2007	04.07.2007- 03.07.2008	1.40	-	1,600,000	-	-	1,600,000
				-	7,200,000	2,000,000	-	5,200,000
Employees								
In aggregate	08.06.2007	15.06.2007- 04.07.2008 ⁽²⁾	1.40	-	18,920,000	500,000	150,000	18,270,000
				-	26,120,000	2,500,000	150,000	23,470,000

Notes:

- (1) The closing price of Company's shares on the trading day immediately before 8th June, 2007, being the date of grant of options was HK\$1.44.
- (2) The exercisable period of share options granted to employees is one year commencing from the respective dates of acceptance of each particular employee which varied from 15th June, 2007 to 5th July, 2007.
- (3) During the year, the weighted average closing price of the Company's shares on the trading day immediately before the respective dates on which the share options were exercised was HK\$1.50.

Notes to the Financial Statements

For the year ended 31st December, 2007

28. SHARE OPTION SCHEME (Continued)

The fair value of the share options granted during the year was HK\$3,214,829 of which the Company recognised a share options benefit expense of HK\$3,214,829 during the year ended 31st December, 2007.

In determining the share option benefit expense, management appointed RHL Appraisal Limited which used the Binomial lattice model (the "Model") to provide a valuation report of the share option benefit expense. The Company has used the Model with the consideration of vesting period and possible exercise pattern to value the share options granted during the year. The value of an option varies with different variables of certain subjective assumptions. Any change in the variables so adopted may materially affect the estimation of the fair value of an option. Details of the fair values of share options determined at the date of grant on 8th June, 2007 using the Model with the inputs are as follows:

	<u>Directors</u>	<u>Employees</u>
Exercise price	HK\$1.4	HK\$1.4
Dividend yield	1.40%	1.40%
Expected volatility	67.73%	67.73%
Risk-free interest rate	4.16%	4.16%
Expected life of option	1 year	1 year
Exercise multiple	1.01651	1.13706
Closing share price at grant date	HK\$1.43	HK\$1.43
Fair value of share option at grant date	HK\$0.030	HK\$0.1585

The expected volatility, which is based on the approximate weekly historical volatility of closing prices of the share of the Company in the past one year immediately before the date of grant, reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome. The risk free rates are based on 1 year yield of Hong Kong Exchange Fund Notes as at the share options grant date. Dividend yield is based on historical dividend trend and expected future dividend policy determined by the Company. Historical option exercise trends referenced to determine exercise multiple for directors and employees. No other features of options grant were incorporated into the measurement of fair value.

At the balance sheet date, the Company had 23,470,000 share options outstanding under the Scheme which represented approximately 3.31% of the Company's share in issue at that date. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 23,470,000 additional shares of HK\$0.4 each of the Company and additional share capital of HK\$9,388,000 and share premium of HK\$23,470,000 (before issue expenses).

Notes to the Financial Statements

For the year ended 31st December, 2007

29. OTHER RESERVES THE GROUP

	Buildings revaluation HK\$	Share options HK\$	Translation HK\$	Other HK\$	Total HK\$
Balance at 1st January, 2006	17,224,809	–	7,993,085	59,490	25,277,384
Fair value losses:					
– 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 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 and 1st January, 2007	18,083,856	–	22,588,327	(38,474)	40,633,709
Fair value losses:					
– Available-for-sale financial assets	–	–	–	(28,350)	(28,350)
Revaluation surplus on buildings	2,608,949	–	–	–	2,608,949
Deferred taxation adjustment	(107,023)	–	–	–	(107,023)
Realised on disposal of properties	(7,687,268)	–	–	–	(7,687,268)
Realised on disposal of subsidiaries	–	–	(459,666)	–	(459,666)
Realised on disposal of associates	–	–	960,014	–	960,014
Recognition on grant of share options	–	3,214,829	–	–	3,214,829
Transfer on exercise of share options	–	(139,250)	–	–	(139,250)
Transfer on lapse of share options	–	(23,775)	–	–	(23,775)
Currency translation differences	–	–	40,340,492	–	40,340,492
Balance at 31st December, 2007	12,898,514	3,051,804	63,429,167	(66,824)	79,312,661

The share options reserve represents the fair value of share options granted which are yet to be exercised. The amount will either be transferred to the share premium account when the related options are exercised, or be transferred to retained profits should the related option expire or be forfeited.

Notes to the Financial Statements

For the year ended 31st December, 2007

29. OTHER RESERVES (Continued) THE GROUP AND THE COMPANY

	Share premium HK\$
At 1st January, 2006 and 31st December, 2006	241,478,789
Shares issued upon exercise of share options	2,500,000
Transfer from share options reserve	139,250
At 31st December, 2007	244,118,039

THE COMPANY

	Retained profits HK\$	Proposed dividend HK\$	Share options HK\$	Total HK\$
Balance at 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 and 1st January, 2007	2,490,424	10,612,840	–	13,103,264
Profit for the year	27,068,935	–	–	27,068,935
Recognition on grant of share options	–	–	3,214,829	3,214,829
Transfer on exercise of share options	–	–	(139,250)	(139,250)
Transfer on lapse of share options	23,775	–	(23,775)	–
Dividend relating to 2006	–	(10,612,840)	–	(10,612,840)
Interim dividend	(4,260,136)	–	–	(4,260,136)
Proposed dividend	(10,650,340)	10,650,340	–	–
Balance at 31st December, 2007	14,672,658	10,650,340	3,051,804	28,374,802

The share options reserve represents the fair value of share options granted which are yet to be exercised. The amount will either be transferred to the share premium account when the related options are exercised, or be transferred to retained profits should the related option expire or be forfeited.

Notes to the Financial Statements

For the year ended 31st December, 2007

30. BANK AND OTHER BORROWINGS

	THE GROUP		THE COMPANY	
	2007 HK\$	2006 HK\$	2007 HK\$	2006 HK\$
Non-current				
Bank borrowings				
– secured	7,136,370	7,019,187	–	–
– unsecured	48,444,444	12,167,122	44,000,000	–
	55,580,814	19,186,309	44,000,000	–
Other loans				
– unsecured	139,575	129,418	–	–
	55,720,389	19,315,727	44,000,000	–
Current				
Bank borrowings				
– secured	33,309,119	112,959,777	–	–
– unsecured	219,918,442	151,478,054	61,000,000	10,000,000
Bank overdrafts (note 26)				
– secured	285,240	41,148,623	–	14,351,085
– unsecured	16,033,126	4,751,069	14,670,031	4,933,321
	269,545,927	310,337,523	75,670,031	29,284,406
Total borrowings	325,266,316	329,653,250	119,670,031	29,284,406

Bank borrowings and overdrafts are secured by the leasehold buildings and leasehold land and land use rights of the Group (notes 16 and 18).

Notes to the Financial Statements

For the year ended 31st December, 2007

30. BANK AND OTHER BORROWINGS (Continued)

The maturity of borrowings is as follows:

	THE GROUP		THE COMPANY	
	2007 HK\$	2006 HK\$	2007 HK\$	2006 HK\$
Within one year	269,545,927	310,337,523	75,670,031	29,284,406
Between one and two years	25,580,814	14,741,865	16,000,000	–
Between two and five years	30,000,000	4,444,444	28,000,000	–
Wholly repayable with five years	325,126,741	329,523,832	119,670,031	29,284,406
Over five years	139,575	129,418	–	–

The effective interest rate as at 31st December, 2007 for bank loans repayable within one year is 5.97% per annum (2006: 5.91% per annum).

Non-current other loans are not wholly repayable within 5 years and interest free.

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

	Carrying amounts		Fair values	
	2007 HK\$	2006 HK\$	2007 HK\$	2006 HK\$
Bank borrowings	55,580,814	19,186,309	48,460,101	16,877,719
Other loans	139,575	129,418	97,358	97,626
	55,720,389	19,315,727	48,557,459	16,975,345

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	
	2007 HK\$	2006 HK\$	2007 HK\$	2006 HK\$
Hong Kong Dollars	165,997,395	118,681,319	119,670,031	29,284,406
Renminbi	156,916,141	210,971,931	–	–
United States Dollars	2,352,780	–	–	–
	325,266,316	329,653,250	119,670,031	29,284,406

Notes to the Financial Statements

For the year ended 31st December, 2007

30. BANK AND OTHER BORROWINGS (Continued)

The Group has the following undrawn borrowing facilities:

	2007 HK\$	2006 HK\$
Floating rate		
– expiring with one year	305,953,968	181,563,440

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

31. OBLIGATIONS UNDER FINANCE LEASES THE GROUP

	Minimum lease payments		Present value of minimum lease payments	
	2007 HK\$	2006 HK\$	2007 HK\$	2006 HK\$
Amounts payable under finance leases:				
Within one year	6,083,788	5,126,623	5,480,551	4,556,173
In the second to fifth year inclusive	8,194,848	6,766,595	7,679,497	6,356,003
	14,278,636	11,893,218	13,160,048	10,912,176
Less: Future finance charges	1,118,588	981,042	N/A	N/A
Present value of lease payments	13,160,048	10,912,176	13,160,048	10,912,176
Less: Amount due for settlement within one year shown under current liabilities			5,480,551	4,556,173
Amount due for settlement after one year			7,679,497	6,356,003

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, 2007, the average effective borrowing rate was 4.85% (2006: 6.44%). Interests are charged at one month HIBOR or HIBOR plus 1.25% to 2.5% per annum on the outstanding loan balances. 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, 2007

32. 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% (2006: 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:

	(Accelerated)/ decelerated tax depreciation HK\$	Revaluation of properties HK\$	Tax losses HK\$	Others HK\$	Total HK\$
At 1st January, 2006	779,765	(4,483,413)	294,994	10,355,585	6,946,931
Currency realignment	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 and 1st January, 2007	353,752	(4,779,071)	264,883	10,674,770	6,514,334
Currency realignment	43,346	(421,685)	–	651,910	273,571
Charged to equity	–	(107,023)	–	–	(107,023)
Credited (Charged) to income statement	(1,230,192)	–	2,504,581	(27,882)	1,246,507
At 31st December, 2007	(833,094)	(5,307,779)	2,769,464	11,298,798	7,927,389

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:

	2007 HK\$	2006 HK\$
Deferred tax liabilities	(13,211,494)	(11,324,318)
Deferred tax assets	21,138,883	17,838,652
	7,927,389	6,514,334

Notes to the Financial Statements

For the year ended 31st December, 2007

32. DEFERRED TAXATION (Continued)

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

	2007 HK\$	2006 HK\$
Unused tax losses	203,015,553	214,598,925

The tax losses do not expire under current tax legislation.

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

THE COMPANY

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

	2007 HK\$	2006 HK\$
Unused tax losses	122,334,307	105,440,165

The tax losses do not expire under current tax legislation.

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

Notes to the Financial Statements

For the year ended 31st December, 2007

33. NOTES TO CONSOLIDATED CASH FLOW STATEMENT

Disposal of subsidiaries

	2007		2006	
	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	1,618,512	–	(75,697)	–
	1,618,512	–	328,814	–
Translation reserve realised on disposal	(459,666)	–	(14,600)	–
(Loss) Gain on disposal	(1,158,846)	–	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

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:

	2007 HK\$	2006 HK\$
NET ASSETS DISPOSED OF:		
Translation reserve realised on disposal	–	(60,626)
Gain on disposal	–	60,629
	–	3
SATISFIED BY:		
Cash consideration	–	3

Notes to the Financial Statements

For the year ended 31st December, 2007

34. 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\$7,257,691 (2006: HK\$1,486,200).

35. OPERATING LEASE COMMITMENTS

The Group as lessee

	THE GROUP	
	2007 HK\$	2006 HK\$
Minimum lease payments made during the year under operating leases in respect of:		
Land and buildings	11,220,376	12,454,210
Plant and machinery	1,924,781	332,992
	13,145,157	12,787,202

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	
	2007 HK\$	2006 HK\$
Within one year	10,864,755	10,815,398
In the second to fifth year inclusive	35,553,817	37,102,912
Over five years	42,600,383	50,547,368
	89,018,955	98,465,678

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 direct outgoings of HK\$299,449 (2006: HK\$227,469), was HK\$1,835,251 (2006: HK\$2,456,839). The remaining properties are expected to generate rental yields of 5.44% (2006: 7.7%) on an ongoing basis. The properties held have committed tenant for the next year.

Notes to the Financial Statements

For the year ended 31st December, 2007

35. OPERATING LEASE COMMITMENTS (Continued)

The Group as lessor (Continued)

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	
	2007 HK\$	2006 HK\$
Within one year	383,146	762,882
In the second to fifth year inclusive	–	1,681,362
	383,146	2,444,244

THE COMPANY

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

36. OTHER COMMITMENTS

	THE GROUP	
	2007 HK\$	2006 HK\$
Capital expenditure contracted for but not provided for in the financial statements in respect of: Investments	119,293,017	5,275,616
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, 2007

37. FINANCIAL GUARANTEES AND CONTINGENT LIABILITIES

	THE GROUP		THE COMPANY	
	2007 HK\$	2006 HK\$	2007 HK\$	2006 HK\$
Guarantees given to financial institutions in respect of credit facilities utilised by:				
Subsidiaries	–	–	750,640,000	647,476,008
Outsiders	894,101	1,627,365	–	–
	894,101	1,627,365	750,640,000	647,476,008

In the opinion of the directors, the fair value of the liabilities in relation to the above guarantees is insignificant as at 31st December, 2007 and 31st December, 2006.

38. 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\$5,026,801 (2006: HK\$9,239,338) represents contributions payable to these schemes by the Group in respect of the current accounting period. As at 31st December, 2007, contributions of approximately HK\$18,771 (2006: HK\$262,136) 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, 2007

39. PLEDGE OF ASSETS

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

	Net book value	
	2007 HK\$	2006 HK\$
Investment properties	–	13,500,000
Leasehold buildings	67,690,337	67,722,000
Leasehold land and land use rights	12,380,447	14,947,063
Plant and machinery	10,647,847	22,148,126
Bank deposits	33,820,056	31,963,316
	124,538,687	150,280,505

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

Notes to the Financial Statements

For the year ended 31st December, 2007

40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

(a) Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including foreign currency risk, interest rate risk and price risk), credit risk and liquidity 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 summarised below.

(i) Foreign currency risk

The Group is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to Renminbi ("RMB") and Japanese Yen ("YEN"). Such exposures arise from sales or purchases by subsidiaries other than the subsidiaries' functional currencies. This currency exposure is managed primarily through sourcing raw materials denominated in the same currency. In addition, certain recognised assets and liabilities are denominated in currencies other than the functional currencies of the entities to which they relate.

Certain of the assets of the Group are principally denominated in United States Dollar ("US\$"). HK\$ is pegged to US\$, and thus foreign exchange exposure is considered as minimal. The Group currently does not have a foreign currency hedging policy.

At 31st December, 2007, if HK\$ had strengthened/weakened by 10% against the RMB, with all other variable held constant, post-tax profit for the year would have been approximately HK\$3,971,000 (2006: HK\$585,000), higher or lower. At 31st December, 2007, if HK\$ had strengthened/weakened by 10% against the RMB, equity would have been approximately HK\$97,403,000 (2006: HK\$68,027,000), lower or higher.

At 31st December, 2007, if HK\$ had strengthened/weakened by 10% against the YEN, with all other variable held constant, post-tax profit for the year would have been approximately HK\$191,000 (2006: HK\$1,172,000), higher or lower. There will be no impact on other components of equity.

The sensitivity analysis has been determined assuming that the change in foreign exchange rates had occurred at the balance sheet date and had been applied to each of the Group entities' exposure to currency risk for financial instruments in existence at that date, and that all other variables, in particular interest rates, remain constant.

The stated changes represent management's assessment of reasonably possible changes in foreign exchange rates over the period until the next annual balance sheet date. In this respect, it is assumed that the pegged rate between the Hong Kong dollar and the United States dollar would be materially unaffected by any changes in movement in value of the United States dollar against other currencies. Results of the analysis as presented in above represent an aggregation of the effects on each of the Group entities' profit after tax and equity measured in the respective functional currencies, translated into Hong Kong dollars at the exchange rate ruling at the balance sheet date for presentation purposes. The analysis is performed on the same basis for 2006.

Notes to the Financial Statements

For the year ended 31st December, 2007

40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

(a) Financial risk factors (Continued)

(ii) Interest rate risk

Except for pledged bank deposits (*note 39*) and cash and cash equivalents (*note 26*), the Group has no other significant interest-bearing assets. The Group's income and operating cash flows are substantially independent of changes in market interest rates. Management does not anticipate significant impact on interest-bearing assets resulted from the changes in interest rates because the interest rates of bank deposits are not expected to change significantly.

The Group's cash flow interest rate risk is mainly concentrated on the fluctuation of Prime or HIBOR arising from the Group's borrowings denominated in HK\$ and RMB.

Borrowings at variable rates expose the Group to cash flow interest-rate risk. Borrowings at fixed rates expose the Group to fair value interest-rate risk. Details of the Group's borrowings have been disclosed in *note 30*.

The Group has not used any interest rate swaps to hedge its exposure to interest rate risk. In order to manage the cash flow interest rate risk, the Group will repay the corresponding borrowing when it has surplus funds.

The sensitivity analyses below have been determined based on the exposure to interest rates for the variable-rate bank borrowings at the balance sheet date. For variable-rate bank borrowings, the analysis is prepared assuming the amount of liability outstanding at the balance sheet date was outstanding for the whole year.

At 31st December, 2007, if interest rates on HK\$-denominated borrowings had been 50 basis points higher/lower with all other variables held constant, post-tax profit for the year would have been approximately HK\$815,000 (2006: HK\$545,000) lower/higher, mainly as a result of higher/lower interest expense on floating rate borrowings.

At 31st December, 2007, if interest rates on RMB-denominated borrowings had been 50 basis points higher/lower with all other variables held constant, post-tax profit for the year would have been approximately HK\$417,000 (2006: HK\$442,000) lower/higher, mainly as a result of higher/lower interest expense on floating rate borrowings.

The sensitivity analysis above has been determined assuming that the change in interest rates had occurred at the balance sheet date and had been applied to the exposure to interest rate risk for financial instruments in existence at that date. The above changes in interest rates represent management's assessment of a reasonably possible change in interest rates over the period until the next annual balance sheet date. The analysis is performed on the same basis for 2006.

Notes to the Financial Statements

For the year ended 31st December, 2007

40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

(a) Financial risk factors (Continued)

(iii) *Price risk*

The Group is exposed to equity securities price risk because investments held by the Group are classified on the consolidated balance sheet as available-for-sale financial assets. 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.

The Company is exposed to other price risk in respect of investments in subsidiaries and associates. The sensitivity to price risk in relation to the investments in subsidiaries and associates cannot be reliably determined due to numerous uncertainties regarding the future development of these subsidiaries and associates.

(iv) *Credit risk*

The Group's credit risk is principally attributable to trade and other receivables and amounts due from associates.

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.

The maximum exposure to credit risk without taking account of any collateral held is represented by the carrying amount of each of financial assets in the consolidated balance sheet after deducting any impairment allowance. Further quantitative disclosure in respect of the Group's exposure to credit risk arising from trade and other receivables are set out in note 24.

The credit risk on bank balances is limited because the counterparties are reputable banks with high quality external credit ratings in Hong Kong and the PRC.

Notes to the Financial Statements

For the year ended 31st December, 2007

40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

(a) Financial risk factors (Continued)

(v) Liquidity risk

Individual operating entities within the Group are responsible for their own cash management, including the short term investment of cash surpluses and the raising of loans to cover expected cash demands, subject to approval by the parent company's board when the borrowings exceed certain predetermined levels of authority. The Group's policy is to regularly monitor its liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

The table below categorised the Group's financial liabilities into relevant maturity groupings based on the remaining period from the balance sheet date to the contractual maturity date. The tabulated amounts are the contractual undiscounted cash flow payments of the Group.

	Less than 1 year HK\$	Between 1 and 2 years HK\$	Between 2 and 5 years HK\$	Over 5 years HK\$	Total HK\$
At 31st December, 2007					
Trade and other payables	726,446,916	-	-	-	726,446,916
Amounts due to associates	48,703,065	-	-	-	48,703,065
Obligations under finance leases	6,083,788	4,083,446	4,111,402	-	14,278,636
Bank and other borrowings	280,368,375	27,244,565	31,571,292	139,575	339,323,807
	1,061,602,144	31,328,011	35,682,694	139,575	1,128,752,424
At 31st December, 2006					
Trade and other payables	761,596,438	-	-	-	761,596,438
Amounts due to associates	34,349,684	-	-	-	34,349,684
Obligations under finance leases	5,126,623	4,203,698	2,562,897	-	11,893,218
Bank and other borrowings	321,193,524	11,677,223	8,236,695	129,418	341,236,860
	1,122,266,269	15,880,921	10,799,592	129,418	1,149,076,200

Notes to the Financial Statements

For the year ended 31st December, 2007

40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

(b) Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The Group monitors capital on the basis of the total debts ratio. This ratio is calculated as total borrowings divided by total capital. Total borrowings include current liabilities and non-current liabilities. Total capital includes total borrowings and total equity as shown in the consolidated balance sheet.

The total debts ratios at 31st December, 2007 and 2006 are as follows:

	2007 HK\$	2006 HK\$
Current liabilities	1,056,208,993	1,114,470,727
Non-current liabilities	76,611,380	36,996,048
Total borrowings	1,132,820,373	1,151,466,775
Total equity	1,128,519,421	955,957,867
Total capital	2,261,339,794	2,107,424,642
Total debts ratio	50%	55%

Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

Notes to the Financial Statements

For the year ended 31st December, 2007

41. 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:

	<i>Note</i>	2007 HK\$	2006 HK\$
Substantial shareholders and its subsidiaries:			
EDP charges received (<i>note i</i>)		183,600	183,600
Management fee paid (<i>note i</i>)		2,814,075	2,892,880
Balances due from the Group as at the balance sheet date (<i>note ii</i>)	25	636,827	5,429,714
Balances due to the Group as at the balance sheet date (<i>note ii</i>)	24	117,551	46,140
Company controlled by certain directors:			
Management fee paid (<i>note i</i>)		996,000	996,000
EDP charges received (<i>note i</i>)		51,600	–

Notes to the Financial Statements

For the year ended 31st December, 2007

41. TRANSACTIONS AND BALANCES WITH RELATED PARTIES (Continued)

	Note	2007 HK\$	2006 HK\$
Minority shareholders:			
Purchases of finished goods (<i>note i</i>)		–	42,104,098
Rental paid (<i>note i</i>)		–	308,702
Balances due from the Group as at the balance sheet date (<i>note ii</i>)	25	382,550	382,550
Balances due to the Group as at the balance sheet date (<i>note ii</i>)	24	944,312	1,024,920
Associates:			
Sales of finished goods (<i>note i</i>)		13,264,261	–
Sub-contracting charge received (<i>note i</i>)		1,247,981	–
Purchases (<i>note i</i>)		10,378,598	–
Balances due from the Group as at the balance sheet date (<i>note ii</i>)		48,703,065	34,349,684
Balances due to the Group as at the balance sheet date (<i>note ii</i>)		45,186,971	35,312,123
Key management compensation of the Group:			
Salaries and other short-term employee benefits		15,309,022	13,974,614

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.

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, 2007

42. PARTICULARS OF PRINCIPAL SUBSIDIARIES

Details of the Company's principal subsidiaries at 31st December, 2007 are as follows:

Name of subsidiary	Place of incorporation/ registration	Place of operation	Issued and fully paid share capital/ registered capital	Proportion of nominal value of issued share capital/ registered capital held by the Company*/ subsidiaries %	Proportion of nominal value of issued share capital/ registered capital attributable to the Group %	Principal activities
Cosmos Machinery Limited	Hong Kong	Hong Kong	HK\$10,000,000	100.00	100.00	Investment holding
Cosmos Machinery International Limited	Hong Kong	Hong Kong	HK\$32,000,000	100.00*	100.00	Trading in industrial machinery, equipment and supplies and investment holding
Dongguan Cosmos Machinery Limited (note b)	PRC	PRC	HK\$30,000,000	75.56	75.56	Manufacturing of industrial machinery
Dongguan Great Wall Optical Plastic Works Limited (note a)	PRC	PRC	HK\$16,126,800	100.00	100.00	Manufacturing of microscopes and magnifiers with acrylic lenses
Dong Hua Machinery Limited (note b)	PRC	PRC	RMB40,800,000	75.56	75.56	Manufacturing 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
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	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

Notes to the Financial Statements

For the year ended 31st December, 2007

42. 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		Principal activities
				held by the Company*/ subsidiaries %	attributable to the Group %	
Shenzhen Gainbase Printed Circuit Board Co., Limited (note b)	PRC	PRC	HK\$140,000,000	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
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.

43. EVENT SUBSEQUENT TO BALANCE SHEET DATE

Subsequent to the balance sheet date, the Group disposed of the remaining investment properties at a consideration of HK\$21,460,000 to an independent third party.

Notes to the Financial Statements

For the year ended 31st December, 2007

44. 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 March, 2007

HK(IFRIC) – Int 11

HKFRS 2 – Group and Treasury Share Transactions

Effective from 1st January, 2008

HK(IFRIC) – Int 12

Service Concession Arrangements

HK(IFRIC) – Int 14

HKAS 19 – The Limit on a Defined Benefit Assets, Minimum Funding Requirement and their Interaction

Effective from 1st July, 2008

HK(IFRIC) – Int 13

Customer Loyalty Programmes

Effective from 1st January, 2009

HKAS 1 (Revised)

Presentation of Financial Statements

HKAS 23 (Revised)

Borrowing Costs

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,				
	2003 HK\$'000	2004 HK\$'000	2005 HK\$'000	2006 HK\$'000	2007 HK\$'000
Turnover	1,393,628	1,665,687	1,650,729	2,022,632	2,093,377
Profit before taxation	52,167	65,482	80,300	100,160	147,626
Taxation	13,379	8,934	7,198	11,544	9,934
Profit for the year	38,788	56,548	73,102	88,616	137,692
Minority interests	18,260	15,088	18,881	23,473	37,652
Profit attributable to equity holders of the Company	20,528	41,460	54,221	65,143	100,040

BALANCE SHEET

	At 31st December,				
	2003 HK\$'000	2004 HK\$'000	2005 HK\$'000	2006 HK\$'000	2007 HK\$'000
Total assets	1,691,715	1,812,175	1,876,786	2,107,424	2,261,339
Total liabilities	889,430	991,994	1,011,574	1,151,466	1,132,820
Total equity	802,285	820,181	865,212	955,958	1,128,519
Minority interests	170,482	157,559	139,917	164,314	201,679

