年報
Annual Report 2008

大同機械企業有限公司
COSMOS MACHINERY ENTERPRISES LIMITED

Stock Code 股份代號 : 118

Contents

Corporate Information

DIRECTORS

Executive Directors

Tang To *(Chairman)*
Jiang Wei
Wong Yiu Ming

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

CHIEF EXECUTIVE OFFICER

Wong Yiu Ming

QUALIFIED ACCOUNTANT

Ho Kwong Sang

JOINT COMPANY SECRETARY

Ho Kwong Sang
Tam Pui Ling

REGISTERED OFFICE

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

PRINCIPAL BANKERS

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

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, 2008.

RESULTS

The Group's consolidated turnover for the year 2008 was approximately HK$1,939,383,000, representing a decrease of about 7% over the approximate figure of HK$2,093,377,000 for 2007. Our profit after taxation stood at about HK$56,305,000, representing a decrease of about 59% over HK$137,692,000 for the same period of last year. For the year ended 31st December, 2008, the profit attributable to shareholders was about HK$45,240,000, decreasing by about 55% when compared with last year.

CHAIRMAN'S STATEMENT

The Group experienced a difficult year during the year under review. The first half of the year saw surging prices of various raw materials in the international market including food prices which resulted in greater inflation pressure in the domestic market. To avoid disrupting people's daily lives as well as social stability, the Chinese government has successively launched a number of policies and measures to prevent an overheated economy and to curb inflation. Such policies included substantially raising deposit reserve ratio of domestic banks. As a result, loans to corporate entities were tightened, in addition, various unfavourable factors such as rapid appreciation of Renminbi, substantial reduction in export tax rebate, implementation of new labour contract law and increase in labour costs have all contributed to a more difficult operating environment for all industrial sectors. The collapse of Lehman Brothers in mid September finally triggered the outbreak of financial crisis. In October, banks in Hong Kong rapidly tightened their credit. As a result, enterprises in Hong Kong who relied on local bank finance or with supply chain in Hong Kong and were able to avoid the stringent credit policy previously implemented by the PRC were now also seriously affected. Moreover, the U.S., Europe and Japan markets quickly deteriorated, causing most factories which relied on Europe and the U.S. markets to lose their orders or were asked to postpone the delivery date. Orders for the next year were held back and forced factories to lay off their labours. Before Chinese New Year, thousands of factories were forced to close down and the market was full of negative sentiment that was not seen in decades. Raw material prices, which were once lingering at high level, sharply plummeted due to curtailing demand. However, it added more pressure to those factories which still held stock purchased at high price. In face of the continued pressure to lower the price of new orders, factories can only choose to cease production or to operate at a loss. The economic downturn continues to persist and shows no sign of bottoming out.

COSMOS NC LX230BD 1500mm Large Sheet-sized CNC Hydraulic Turrent Punch Press

In the early stage of the financial crisis, the PRC government immediately adopted a more relax monetary policy. In the second half of the year, it successively uplifted export tax rebate and decisively allocated RMB4 trillion for investment in infrastructures, such as basic infrastructure, electricity, transportation, environmental protection, medical service, education etc, so as to boost economic growth. The newly launched rural medical reform and rural education reform cleared concern of the peasant community over medical and educational expenses that were bothering them who had to save up their income to meet the needs of their family and children and thus release their purchasing power. Moreover, the rural household appliance subsidy scheme also served to boost domestic demand, under which peasants are subsidized by the state in purchase of electrical appliance. With the lead of the above infrastructure projects and change in consumption pattern in the rural areas, it is expected that the domestic market will continuously prosper in the near future.

In face of such economic hardship, the operation of each of our member companies was affected by different degrees and suffered a setback in results. The machinery manufacturing business was most seriously hit due to the capital investment nature of its products, with both export and domestic sales decreased. The sales for rubber injection machines remained stable, which was attributable to its continual improvement over the years to meet the needs of power grid upgrade. While the newly developed Sv series servo-driven pump energy-saving and high precision injection moulding machine received wide recognition for its cost effectiveness. Our factory at Zhou Wu District, Dongguan has kicked off the development project. The new factory layout and facilities, designed to facilitate management and cost control, will better accommodate our future development.

The consolidated results of plastic processing business was lower than expected due to high plastic prices and failure of transferring the additional cost to customers. Benefiting from the continuous growth in consumer market in the PRC, the market demand for food packaging has increased and provides favourable opportunity for our Zhuhai plant which specializes in plastic injection products of plastic tableware and food packaging. Additional processing facilities will be added to this business in 2009. It is expected that with team realignment and improved product quality, this business segment will resume profitability.

As to printed circuit board processing business, it recorded significant growth in sales following successful adjustment of product mix by the management. However, owing to higher raw material price and processing cost, the profit thus remained flat. With smooth implementation of a new product portfolio, the Company continues to hold a prudent and optimistic view of this business segment for the coming year.

WELLTEC Ec220+ High Speed Thin Wall Series Injection Moulding Machine

As the manufacturing industry has been seriously battered, profit of our trading business has shrunken by nearly 20% despite a similar turnover. Fortunately, the customers of the north and northeast China markets, which were developed earlier as planned, mainly focused on domestic demand and thus were less affected. It is expected the growth in those new markets in the coming year will be able to set off the loss in the south China market.

Shenzhen Haoningda Meters Co., Ltd., the associate in Shenzhen, successfully explored overseas power grid market, established long term development platform and initiated self R&D and quality control deployment during the year under review. The company's result for the year was not affected by the financial crisis owing to state's power grid reconstruction project. The company is actively expanding its production capacity to meet market demand. It is expected the company will achieve satisfactory results for the year 2009.

The current financial crisis is fundamentally different from the Asian financial turmoil in 1997. It is caused by high leverage ratio combined with lack of regulation, excessive investment and over spending of the U.S. and European markets, the world's leading consumer markets. The outburst of the economic bubble has resulted in worldwide economic downturn and emergence of various forms of protectionism. Excess supply will eventually eliminate those less competitive market players and lead to re-adjustment and re-construction of new economic order. When the global economy enters the post-crisis period, the credit model, consumption model and market competition model will change accordingly. The Group is strengthening its control over cash flow to cope with any challenges that may result from potential shrinkage of credit policy and maintaining a practical and conservative credit term policy to avoid further deterioration of market situation. The Group will adopt a prudent approach to redeploy its future capital investment, with an aim to meet the change in market needs in future and to facilitate control over cash flow. In view of the changing environment, the Group will focus on enhancing the foresight of the management so that they can formulate effective response plan in a timely manner. The Group will also optimize its response mechanism by streamlining management structure, thereby facilitating the circulation of operation information as well as implementation of adjustment. In face of such rapid changes, we are fully confident that we will able to achieve new height while coping with a different mode of market competition.

Finally, I would like to express my sincere thanks to the long term support of all our customers, suppliers, banks and shareholders. I would also like to pay my tribute to the board and our staff for their contribution to the success of the Group.

TANG To
Chairman

Hong Kong, 22nd April, 2009

Management Discussion and Analysis

BUSINESS REVIEW

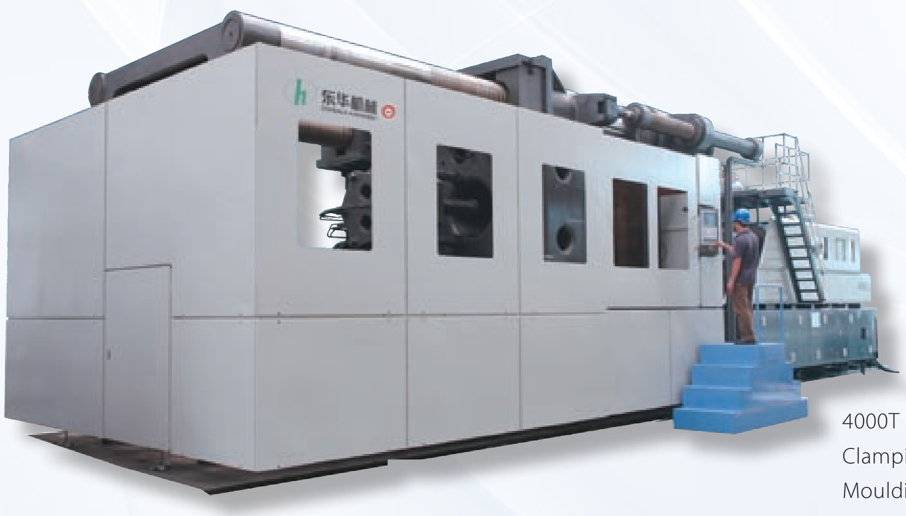
Manufacturing Business

Machinery

In the second half of 2008, as impacted by adverse factors, such as the rapid deterioration in global economy and drastic fluctuation in prices of raw materials, we recorded a turnover of approximately HK$672,670,000, a decline of about 17% over HK$806,800,000 of the same period of last year and accounted for approximately 35% of the Group's consolidated turnover, while operating profit was approximately HK$44,334,000, a decrease of about 46% over the same period of last year.

In the first three quarters of last year, the price of steel and plastics kept increasing. While in the fourth quarter, the financial crisis that swept across the world has quickly resulted in drastic setbacks in global economy. As a result, the manufacturing sector was seriously hit. Since the fourth quarter, many customers that rely upon export had to suspend or postpone their investment plans in machinery equipment due to sharp decline in volume of orders. In addition, reform of China's value added tax ("VAT") system since January 2009, which allows deduction of input VAT for purchase of equipment, had led to delay fulfillment of machinery purchase contract for the year by some of our domestic customers, and further dragged down our sales for the period. On the other hand, the increase in average steel price for the year by 35% from the previous year and a sluggish market demand for general purpose injection moulding machines, which made it impossible to transfer the additional costs to customers, have resulted in a drop in our average gross profit by approximately 5%. Although the gross profit margins of other machinery products, such as rubber injection machines and special hydraulic presses, remained stable and even recorded satisfactory growth in sales for the period, such increase was not able to cover the loss in profit of injection moulding machines.

For product development, as the Sv series servo-driven pump energy-saving and high precision injection moulding machine, which was launched in April of last year, received wide recognition from customers, the Group thus applied the same technology to large clamping force machine. In addition, the Group also successfully developed and manufactured on its own the super-sized injection moulding machine, which was the first direct hydraulic clamping two platen injection moulding machine with clamping force of 4000T in China as verified by state experts, and therefore put an end to the reliance of imported large-sized high precision injection moulding equipment by domestic industry. Meanwhile, Dong Hua Machinery Limited, the Group's machinery production plant, was named the first batch of new and high technology enterprises in Guangdong Province in 2008 by the Department of Science and Technology of Guangdong Province in December of last year as recognition of our contribution to the machinery industry.



4000T Direct Hydraulic Clamping Two-platen Injection Moulding Machine

As disclosed by the Company in May of last year, Wuxi Grand Tech Machinery Group Ltd. ("Wuxi Grand"), a wholly-owned subsidiary of the Group, signed a compensation agreement and disposal agreement with Wuxi Industry Development Group Co., Ltd. ("Wuxi Industry"). Wuxi Grand received a compensation of RMB55,518,200 from Wuxi Industry for early termination of lease contract in respect of factory premises, land, production workshop, office and staff dormitory with remaining lease period of 12 years, and a cash consideration of RMB25,317,600 for disposal of another parcel of land in Wuxi. Gains from the above compensation and disposal, which amounted to HK$66,933,000, has been accounted for in this financial year.

In September last year, we started to restructure our injection moulding machine production centre of the production base in South China, streamline structure and appropriately reallocate our staff, so as to reduce operational costs. To get in line with the government's urban plan of "relocation to industrial zone", the Dongguan Dongchen factory expansion project and the preparation work for construction of new factory at Wuxi National High-tech Industrial Development Zone were commenced in the first half of the year. The Group will also make timely adjustment to its production structure in South China and East China whenever necessary, so as to meet the geographical demand of the domestic market.

Plastic Products and Processing

During the period under review, sales of plastic products and processing business was approximately HK$390,316,000, representing a decrease of about 19% as compared with the same period of last year and accounted for approximately 20% of the Group's consolidated turnover, while operating profit of the year was approximately HK$9,162,000, decreased by about 61% over the same period of last year.

Our plastic processing plant in Dongguan recorded a significant decrease in sales to our major customers as compared with the same period of last year, which was due to continuous increase in the prices of our production materials such as packaging articles and hardware for the period from the beginning to the middle of the year and the failure to transfer the increased costs to customers on a timely basis. In the second half of the year, despite a slight reduction of price of materials, the pressure of continuous asking for lower prices by the customers further shrank the gross profit and, combined with additional costs as a result of the implementation of the new labour law, had resulted in a less than satisfactory profit for this business segment. Under such severe operating condition, the Group has speeded up the pace of automation development of this business during the year with a view to reduce labour cost and strengthen the competitiveness of our products.

Humidifier

Plastic Food Containers

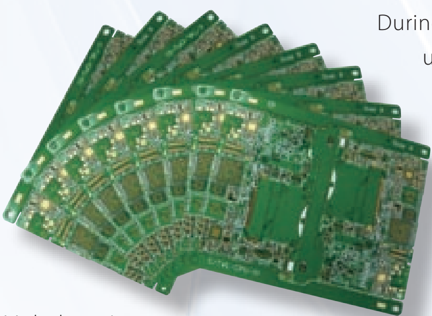
During the period under review, the Zhuhai plant which specializes in plastic injection products of plastic tableware and food packaging failed to meet the expected goals. During the period, although several major customers of this business segment, including Shunde Nissin and Guangzhou Mead Johnson, achieved business growth, this business segment has failed to contribute profit given the significant fluctuation in price of raw materials which in turn exerted massive impacts on costs, as well as undesirable results in broadening of domestic and overseas markets.

For the optic products business, certain optic products such as microscopes recorded a significant decrease in orders during the year, which led to a decrease of approximately 12% in turnover as compared with the same period of last year. Owing to surging price of various production costs and the appreciation of Renminbi, the gross profit of such products thus diminished. For the development of new products, we introduced a number of aspheric frameless magnifier in 2008, which apply novel design and are equipped with LED lights to increase illuminative brightness. However, given the global economic recession and weakening purchasing power, the sales of which was not satisfactory.

4" dia. Supper Bright
Magnifier 2x 4x with 4 LEDs

Printed Circuit Board

In terms of printed circuit board business, sales for 2008 was approximately HK$531,018,000, representing a notable growth of about 21% as compared with the same period of last year and accounted for approximately 27% of the Group's consolidated turnover, while operating profit for the period was approximately HK$27,329,000, decreased by approximately 8% over last year.



Multi-layer Immersion
Gold PCB

During the period under review, this business segment still faced various unfavourable operating factors such as surging price of production materials, implementation of the new labour law and appreciation of Renminbi. Furthermore, the outburst of the financial crisis since the end of last year has instantly crippled the industrial and commercial sector worldwide, and this business segment was unavoidably affected. Fortunately, we were able to secure most of the orders with our major customers and offset the increased costs by an upward adjustment of our selling price, thereby achieving our intended target. In terms of production, we successfully adjusted the proportion of single-sided, double-sided and multi-layer printed circuit boards, which improved the profitability of our product portfolio.

Trading Business

Industrial Consumables

During the period under review, trading business accounted for a turnover of approximately HK$345,379,000, representing a decrease of about 6% as compared with the same period of last year and accounted for approximately 18% of the Group's consolidated turnover. Operating profit was about HK$25,332,000, dropped by approximately 19% as compared with last year.

The domestic market was seriously affected by unfavourable factors in last year. In addition with the global financial crisis triggered by sub-prime crisis in the United States, the manufacturing industry had suffered an unprecedented adverse impact. Especially in the South China region, many companies were forced to close down. Fortunately, the successful development of new products such as steel strips and successful expansion into new markets in the power supply, communication and anchor sectors have made up some of the shortfall and reduced the extent of decrease in turnover. In view of the rapid

Pneumatic Tools

deteriorating market condition, apart from putting in greater efforts in market expansion and new products promotion, the Group also adopted prudent policy to control costs and rationalize inventory level and account receivables, all with the aim to minimize operating risks, enhance operation efficiency and strengthen overall competitiveness of this business segment.

Other Businesses

Electronic Watt-Hour Meters and Related Businesses

Shenzhen Haoningda Meters Co., Ltd. ("Haoningda"), an associate company of the Group in Shenzhen, maintained stable growth in its principal business. During the period, the company adopted a "Just In Time" production model, which features effective arrangement of purchase, supply and production as well as flexible marketing strategies to shield off the adverse impact of production bottleneck, as a result this business segment was able to achieve a satisfactory performance despite economic downturn and intensified competition, and recorded an increased turnover as compared with the same period of the previous year. During the period under review, the company successfully opened up the markets of Mongolia, Australia and UK, which was an important achievement in our pursuit of overseas markets. In 2008, Haoningda was honoured "Leading Innovative Enterprise in Shenzhen" and "Top 500 Industrial Giants in Shenzhen" by Shenzhen Municipal Government, which fully demonstrates a wide recognition of our research and development on new product and new technology. The company's plan to list its A shares on Shenzhen Stock Exchange progresses smoothly, and the Group will make relevant disclosures in due course in accordance with relevant regulations.

BUSINESS PROSPECTS

The outburst of sub-prime mortgage crises in U.S. eventually evolved into a global financial crisis in the fourth quarter of the year, inflicting overwhelming devastation to the global economic system. Banks in Europe, North America and Asia all tighten up their credit control, resulting in a credit crisis which affect all business sectors, and even determine the fate of many market players. Our business started to feel the impacts of the severe economic conditions from the fourth quarter, and we expected that, for a certain period in the near future, the global economy will still be full of challenges and the business environment will continue to be difficult.

As for the prospects of machinery business in 2009, it is expected that the market demand for machinery in the first half of 2009 will remain weak given a deteriorating economic environment. For the core injection moulding machine business, we will implement more stringent inventory control policy while exploring supplementary channels in the defined market segments to make up for the decline in sales of general purpose machines. While a steady-increase strategy will be introduced for rubber injection machines and sheet-metal processing machines, it is expected that these two types of products will benefit from the PRC Government's policy of massive investment in infrastructures including electric power distribution and allocation as well as mass transportation, which will stimulate overall demand for relevant electrical insulator and sheet-metal processing machines.

As steel price started to decline, it does contribute positively to the cost aspect of machinery manufacturing,

REP-DEKUMA H-Series Horizontal Rubber Injection Moulding Machine

Sv Series Servo-driven Pump Energy Saving Injection Moulding Machine

however, there are still numerous uncertainties regarding whether the massive investment in infrastructure construction will drive up demand for steel and therefore blow up its price, and it is expected that cut-throat competition will intensify as overall demand for equipment is continuously shrinking. As a result, the Group will stick to its existing guidelines of optimizing organizational structure and operation, furthering cost and expenses reduction and exercising tighter control over internal and external expenditure so as to maintain a satisfactory gross profit margin. Meanwhile, we will accelerate optimization and promotion of our new injection moulding machines, especially the servo-driven pump energy-saving injection moulding machines, and extend the technology onto the high-end rubber injection machines. For export business, we will continue to explore and penetrate into new market as an effort to pump up our sales by all possible means. The year 2009 will still be a period of reshuffling and consolidation for the machinery manufacturing industry, and we will take it as an opportunity to expand our overseas market share in both overseas and the mainland China. However, in the short-term, we still hold a conservative attitude to the prospects of the manufacturing business.

In addition, as disclosed in the Company's announcement published in December 2007 relating to the discloseable transaction, the Group's plants at Jianshe Road, Dongguan will be relocated to Zhou Wu District, Fu Cheng, Dongguan, in order to co-operate with the urban construction planning of the Government of Dongguan. The construction of the new plants commenced in April 2009 and is expected to be completed and commence production in July 2010.

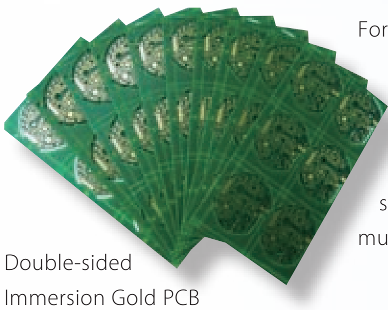
For plastic products and processing business, in the coming year, the Group will continue to improve our automated production lines in the Dongguan Plant to achieve cost efficiency. Currently, the Group is working on purchasing new dust-free injection line to reduce defective rate and enhance the quality of finished products. In respect of market exploration, the Group plans to secure new customers through attending exhibitions of the relevant industries. The Group has been manufacturing desk lamps and small household appliances for our Japanese customer Twinbird for recent years and receiving favourable comments. It is expected that the co-operation will be strengthened and orders for manufacturing other types of products such as vacuum cleaners and air-conditioners may be gained. The Zhuhai plant which specializes in plastic tableware and food packaging, has been put on track with credible performance in both securing new customers and market exploration, subsequent to its restructuring in the second half of last year. It has presented an encouraging result for the first quarter of 2009 and is expected to make a satisfactory profit contribution as a whole in 2009. For the optic products business, the Group plans to drive up the overall sales by diversifying the range of products for trade in the following years. The Group has initially chosen magnifiers that we have not produced before and has considered to put other optic products or PMMA (acrylic) plastic products to its product line.


Desk Lamp

For trading business, the Group believes that it is not possible for PRC to stay out from the global economic crisis in the coming year. With the continuous weakening of the external economy, the PRC's export trade will be stagnant. The PRC Government's policy of stimulating domestic demand will only partially compensate the export trade recession and measures take time to get result. The market competition is, thus, increasingly intense. With the bailout packages being rolled out by countries, the prices of raw materials will decline sharply and tax rebate for certain export products may be resumed, which brings hopes to the gloomy marketplace. Confronted with such a huge challenge, the Group will put great effort to explore new market demands and develop new products. Meanwhile, the Group will continuously optimize its management system to satisfy our customers with its high efficient operation and quality service in combination with our superior products, in order to grasp every opportunity and aims at getting improvement under such adverse market environment.

Pneumatic Tools

For printed circuit board business, it is expected that the operating environment will remain difficult in the coming year. The Group will not only take active measures to secure support from our existing customers, but also make every effort to develop products with higher profitability. In terms of environmental protection, the Group is committed to achieve higher standard continuously, so as to enhance the current output, and to further expand the proportion of multi-layer printed circuit board.



Double-sided
Immersion Gold PCB

Looking forward, the global economy will remain extremely tough. Suffering from the economic downturn and the shrinkage of the credit market, the operating environment is expected to be full of uncertainties and challenges. However, as most Asian countries possess a general high saving rate, especially PRC which pulls its economy by domestic demand, the region is expecting an earlier recovery than elsewhere in the world and becoming an important pillar to support the reviving of Hong Kong's economy. Nevertheless, the Group is well positioned to pursue stable and continuous development in this unfavorable situation by keeping its proactive efforts in consolidating all its business sectors, implementing a prudent operating and financial policies, maintaining sound management, optimizing both product and sales structures and strengthening cost-control measures.

The Group sticks to the "people-oriented" policy, as it believes that excellent human resources is always the key to the promotion of an enterprise's competitiveness and resiliency in front of crises. Last year, the Group provided another 6-months management training programme with the purpose of rendering a comprehensive and practical management training to its potential middle-level managers, cultivating reliable successors in all its business sectors, and laying a solid foundation for its future development.

With its strong foundation built through its 50-year history, an outstanding management team and a sound and healthy corporate practice, we will weather the upcoming difficult and tough future. The Group believes that opportunities can be created in the crisis. Situated under uncertainties and adversities, the Group should behave and react with its indomitable corporate spirit. The Group will be able to overcome the upcoming difficulties and challenges just like what we did in the past. We will surely pull through the current adversities and welcome the new coming opportunities.

DONGHUA PP Medical Plastic Container Series Injection Moulding Machine

Financial Statistical Highlights

	2008 HK$'000	2007 HK$'000
Operating results		
Turnover	**1,939,383**	2,093,377
Profit from operations	**73,442**	144,019
Profit before taxation	**63,932**	147,626
Profit attributable to equity holders of the Company	**45,240**	100,040
Earning per share – Basic (cents)	**6.37**	14.12
Earning per share – Diluted (cents)	**N/A**	N/A
Dividend per share (cents)	**–**	2.1
Dividend payout	**0%**	15%
Financial position at year end		
Total assets	**2,274,039**	2,261,340
Fixed assets	**384,061**	408,004
Quick assets	**1,048,549**	958,620
Net current assets	**577,968**	499,729
Shareholders' funds	**982,821**	926,841
Net asset value per share (cents)	**138**	131
Financial statistics		
Current ratio	**1.54**	1.47
Quick asset ratio	**0.98**	0.91
Gearing ratio	**0.07**	0.08
Total debt ratio	**0.50**	0.50

Directors and Senior Management

EXECUTIVE DIRECTORS

Mr. Tang To, aged 60, 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 35 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 46, 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 Company Limited, China Resources Land Ltd. and China Resources Microelectronics Limited. The securities of these four 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 55, Executive Director and Chief Executive Officer of the Company, has 31 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.

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 49 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 43, 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 Investment & Asset Management Company, Limited, which is a subsidiary 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 51, Non-Executive Director of the Company, is a Managing Director of 綽餘飲食顧問有限公司. He has over 27 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 52, 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.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Yip Jeffery, aged 75, 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 43, Independent Non-Executive Director of the Company, has over 19 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 14 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 70, Independent Non-Executive Director of the Company, has over 37 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 53, 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. Li Tin Loi, aged 45, 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 22 years of experience in marketing and management. Mr. Li joined the Group in 1992 and is currently responsible for the strategic planning and general management of subsidiary companies which are engaged in machinery business.

Mr. Wan Ming Sang, aged 64, has more than 34 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 62, has over 29 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 46, joined the Group in 2000. He has 22 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.

Mr. Andreas Brenner, aged 42, German nationality, graduated from the RWTH Aaachen University (Institute for Plastic Processing – IKV) in Mechanical Engineering. He has more than 12 years of 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, Dekuma Rubber and Plastic Technology (Dongguan) Limited (formerly known as Dongguan Dekuma Welltec Machinery Co. Ltd.) since October 2006.

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, 2008.

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, 2008 are set out in the consolidated income statement on page 35 of the annual report.

FINAL DIVIDEND

The Board does not recommend to pay final dividend for the year ended 31st December, 2008 (2007: HK1.5 cents per share).

FINANCIAL REVIEW

Liquidity and Financial Resources

As at 31st December, 2008, the Group's shareholders' funds were approximately HK$982,821,000, compared with approximately HK$926,841,000 as at 31st December, 2007.

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, 2008 was approximately 0.50 (2007: 0.50), and the liquidity ratio was approximately 1.54 (2007: 1.47), both were maintained at a healthy level. As at 31st December, 2008, cash, bank balances and time deposits amounted to approximately HK$189,369,000. 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. Foreign exchange risks arising from fluctuation of exchange rates of foreign currencies are managed by the Group using foreign exchange forward contracts when necessary.

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 118 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, 2008. 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.

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

During the year, the Group spent, in aggregate, approximately HK$53,317,925 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 15 and 16 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 *(Chief Executive Officer)*
Jiang Wei
Li Tin Loi (resigned on 1st December, 2008)
Yan Wing Fai, Richard (resigned on 31st March, 2008)

Non-Executive Directors

Tang Kwan (*Honorary Chairman)*
Wu Ding (*Vice Chairman)*
Kan Wai Wah
Qu Jinping

Independent Non-Executive Directors

Yip Jeffery
Yeung Shuk Fan
Cheng Tak Yin

DIRECTORS (Continued)

In accordance with Article 103 of the Company's Articles of Association, Mr. Tang To, Mr. Yip Jeffery, Mr. Qu Jinping and Mr. Cheng Tak Yin will retire from office and, being eligible, will offer themselves for re-election at the forthcoming Annual General Meeting.

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

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:

Interests in the Shares

	Number of shares held					Approximate % of total Issued
Name of Directors	**Personal Interests**	**Family Interests**	**Corporate Interests**	**Others Interests**	**Total**	**Shares of the Company**
Tang To	2,970,000	2,000 *(Note 2)*	300,617,458 *(Note 1)*	224,000 *(Note 3)*	303,813,458	42.79
Wong Yiu Ming	11,696,072	–	–	–	11,696,072	1.65
Tang Kwan	–	297,157,052 *(Note 4)*	–	–	297,157,052	41.86
Kan Wai Wah	136,400	–	–	–	136,400	0.02
Cheng Tak Yin	1,716,000	–	–	4,400	1,720,400	0.24

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

Notes:

1. As at 31st December, 2008, 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, 2008, 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 ("Keepsound"), 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 ("Yik Wan"); and (v) 20.23% by 5 individuals and 2 limited companies.

2. As at 31st December, 2008, 2,000 Shares were held by the spouse of Mr. Tang.

3. As at 31st December, 2008, 224,000 Shares were jointly held by Mr. Tang and his spouse.

4. As at 31st December, 2008, 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. As at 31st December, 2008, 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, a Hong Kong company controlled by The Saniwell Trust, a trust established for the benefit of Mr. Tang Kwan's family, of which the spouse of Mr. Tang Kwan is one of the beneficiaries; (ii) 8.37% by Elegant Power; (iii) 30.25% by Friendchain, a Hong Kong company controlled as to 40% by Elegant Power, as to 57.42% by The Saniwell Trust and as to 2.58% by Fullwin Limited; (iv) 16.09% by Yik Wan Company Limited; and (v) 20.23% by 5 individuals and 2 limited companies.

The percentage shown was calculated based on the number of issued shares of the Company as at 31st December, 2008.

As at 31st December, 2008, 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, 2008 which is significant in relation to the business of the Company and its subsidiaries.

As at 31st December, 2008, 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.

SUBSTANTIAL SHAREHOLDERS

As at 31st December, 2008, the following interests in 5% or more in the shares and underlying shares of the Company have been notified to the Company and recorded in the register of substantial shareholders' interests and short positions required to be kept under Section 336 of Part XV of the SFO:

Interests in the Shares

Name of Substantial Shareholders	Number of shares held Direct Interests	Deemed Interests	Total	Approximate % of total Issued Shares of the Company
Law Kit Fong	–	297,157,052 *(Note 1)*	297,157,052	41.86
Codo	–	297,157,052 *(Note 2)*	297,157,052	41.86
Cosmos Holdings	127,052,600	170,104,452 *(Note 3)*	297,157,052	41.86
Tai Shing	170,104,452	–	170,104,452	23.96
Saniwell Holding Inc.	–	297,157,052 *(Note 4)*	297,157,052	41.86
China Resources (Holdings) Company Limited	169,649,046 *(Note 5)*	–	169,649,046	23.90

Notes:

1. Ms. Law Kit Fong is deemed to be interested in the block of 297,157,052 Shares through her direct and indirect interests in Elegant Power and Codo. As at 31st December, 2008, 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, 2008, Codo is owned as to 30.25% by Friendchain (which is owned as to 40% by Elegant Power) and 8.37% by Elegant Power (which is wholly owned by Ms. Law Kit Fong).

2. As at 31st December, 2008, Codo is interested in 297,157,052 Shares through its wholly owned subsidiaries, Cosmos Holdings and Tai Shing. As at 31st December, 2008, Codo is owned as to (i) 25.06% by Keepsound, 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; and (v) 20.23% by 5 individuals and 2 limited companies.

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

SUBSTANTIAL SHAREHOLDERS (Continued)

4. As at 31st December, 2008, 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, 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; 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, 2008.

Save as disclosed above, as at 31st December, 2008, 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.

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.

The Company did not grant any share option during the year under review. The following table disclosed movements in the Company's share options during the period:

				Number of share options				
Grantees	**Date of grant**	**Exercisable period**	**Exercise price per share**	**Outstanding at 1.1.2008**	**Granted during the period**	**Exercised during the period**	**Cancelled/ Lapsed during the period**	**Outstanding at 31.12.2008**
			HK$					
Directors								
Wong Yiu Ming	8.6.2007	15.6.2007 to 14.6.2008	1.40	2,000,000	–	–	(2,000,000)	–
Li Tin Loi (resigned on 1st December, 2008)	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 3.7.2008	1.40	1,600,000	–	–	(1,600,000)	–
Sub-total				5,200,000	–	–	(5,200,000)	–
Employees								
(in aggregate)	8.6.2007	15.6.2007 to 4.7.2008	1.40	18,270,000	–	–	(18,270,000)	–
Total				23,470,000	–	–	(23,470,000)	–

Further details of the share option scheme 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, 2008 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 three Executive Directors and meets frequently as when necessary and is responsible for the management and day-to-day operations of the Group.

EMPLOYEES AND REMUNERATION POLICY

As at 31st December, 2008, the Group has approximately 5,500 employees (2007: approximately 7,000), 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, 2008, the Company repurchased its ordinary shares on the Stock Exchange as follows:

Month of repurchase	Number of shares repurchased	Price per share Highest	Price per share Lowest	Aggregate consideration
		HK$	HK$	HK$
October 2008	92,000	0.40	0.33	34,451

The purchase of the Company's shares during the year was effected by the directors, pursuant to the mandate obtained from shareholders at the last annual general meeting, with a view to benefiting shareholders as a whole by enhancing the net asset value per share and earning per share of the Company. The repurchased shares were cancelled during the year and the issued share capital of the Company was reduced by the nominal value of these shares.

Apart from the repurchase of the shares as disclosed above, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's shares during the year ended 31st December, 2008.

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, 2008.

COMPLIANCE WITH MODEL CODE

Throughout the year ended 31st December, 2008, 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, 2008.

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.hkexnews.hk.

On behalf of the Board
TANG To
Chairman

Hong Kong, 22nd April, 2009

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, 2008.

THE BOARD

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

The Board has at least four scheduled meetings a year at quarterly interval and meets as and when required. During the financial year ended 31st December, 2008, the Board held six meetings. The attendance of the Directors at the Board meetings are as follows:

Name of Directors		**Number of attendance/ Number of meetings held (or the number of meetings held in particular director's terms of office this year)**
Executive Directors		
Tang To *(Chairman)*		6/6
Jiang Wei		4/6
Wong Yiu Ming *(Chief Executive Officer)*		6/6
Li Tin Loi	(resigned on 1st December, 2008)	6/6
Yan Wing Fai, Richard	(resigned on 31st March, 2008)	2/2
Non-Executive Directors		
Tang Kwan *(Honorary Chairman)*		6/6
Wu Ding *(Vice Chairman)*		4/6
Kan Wai Wah		6/6
Qu Jinping		4/6
Independent Non-Executive Directors		
Yip Jeffery		6/6
Yeung Shuk Fan		5/6
Cheng Tak Yin		6/6

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 three Executive Directors, being Tang To, Jiang Wei and Wong Yiu Ming, 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.

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 at least once a year or when necessary. During the year of 2008, 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.

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 and Mr. Cheng Tak Yin, being Independent Non-Executive Directors and the Chairman of the Board of the Company, Mr. Tang To.

The Remuneration Committee annually sets out its recommendation on the remuneration package of the Executive Directors. For the financial year ended 31st December, 2008, 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.

REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT (Continued)

The Remuneration Committee held one meeting during the financial year ended 31st December, 2008 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	1/1

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

Details of the amount of Directors emoluments are set out in note 10 to the accounts and details of the 2005 Share Option Scheme are set out in the Report of the Directors 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 34 which acknowledges the reporting responsibilities of the Group's auditors. The Directors aim to present a balanced and understandable assessment of the Group's, position and prospects. The Board is not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Group's ability to continue as a going concern, the Board therefore continues to adopt the going concern approach in preparing the accounts.

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

INTERNAL CONTROLS

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

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

AUDIT COMMITTEE

During the year under review and up to the date of this report, the Audit Committee comprises all three Independent Non-Executive Directors namely, Ms. Yeung Shuk Fan (being the Chairman of the Audit Committee), Mr. Yip Jeffery and Mr. Cheng Tak Yin, 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, 2008, 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, 2007 and the unaudited interim financial statement for the six months ended 30th June, 2008 with recommendation to the Board for approval; and

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

The Audit Committee held two meetings during the financial year ended 31st December, 2008. 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)	1/2
Mr. Yip Jeffery	2/2
Mr. Cheng Tak Yin	2/2

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

AUDITORS' REMUNERATION

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

	Fee paid/payable HK$
Services rendered	
Audit services	2,288,485
Non-audit services	–
	2,288,485

COMMITTEE OF EXECUTIVE DIRECTORS

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

COMMUNICATIONS WITH SHAREHOLDERS

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

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

VOTING BY POLL

During 2008, 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
9th Floor, Tung Ning Building
249-253 Des Voeux Road Central
Hong Kong

Hong Kong, 22nd April, 2009

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 35 to 117, which comprise the consolidated and company balance sheets as at 31st December, 2008, 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, 2008 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, 2008

	Notes	2008 HK$	2007 HK$
Turnover	6	**1,939,382,596**	2,093,377,079
Cost of sales		**(1,639,642,529)**	(1,707,055,795)
Gross profit		**299,740,067**	386,321,284
Other income and gains, net	6	**41,291,069**	42,456,772
Distribution costs		**(107,602,601)**	(118,108,159)
Administrative expenses		**(221,377,214)**	(212,774,788)
Other operating expenses		**(1,016,674)**	(4,095,510)
Allowance for impairment of bad and doubtful debts		**(4,532,697)**	(9,780,150)
Gain on disposal of property, plant and equipment and leasehold land and land use rights		**66,939,617**	59,999,829
Profit from operations		**73,441,567**	144,019,278
Finance costs	7	**(26,514,651)**	(27,088,135)
Investment income, net	8	**3,886,830**	1,647,619
Loss on disposal of subsidiaries		**–**	(1,158,846)
Loss on disposal of associates		**–**	(93,250)
Share of results of associates		**13,118,446**	30,299,480
Profit before taxation	9	**63,932,192**	147,626,146
Taxation	11	**7,627,086**	9,933,951
Profit for the year		**56,305,106**	137,692,195
Attributable to:			
Equity holders of the Company	12	**45,239,508**	100,040,174
Minority interests		**11,065,598**	37,652,021
		56,305,106	137,692,195
Basic earnings per share for profit attributable to the equity holders of the Company during the year	13	**6.37 cents**	14.12 cents
Dividends	14	**–**	14,910,476

The notes on pages 42 to 117 are an integral part of these consolidated financial statements.

Consolidated Balance Sheet

At 31st December, 2008

	Notes	2008 HK$	2007 HK$
Non-current Assets			
Property, plant and equipment	15	**340,735,583**	342,056,163
Investment properties	16	**–**	21,460,000
Leasehold land and land use rights	17	**43,325,391**	44,487,714
Goodwill	18	**–**	–
Interests in associates	20	**234,903,019**	271,203,774
Available-for-sale financial assets	21	**4,729,444**	5,055,010
Deferred tax assets	32	**4,385,509**	21,138,883
		628,078,946	705,401,544
Current Assets			
Inventories	22	**597,411,553**	597,318,110
Leasehold land and land use rights	17	**784,383**	1,013,153
Trade and other receivables	23	**735,153,954**	734,386,277
Tax recoverable		**2,542,886**	465,589
Pledged bank deposits	39	**120,697,909**	33,820,056
Cash and cash equivalents	26	**189,369,411**	188,935,065
		1,645,960,096	1,555,938,250
Current Liabilities			
Trade and other payables	24	**666,428,196**	725,966,417
Amounts due to associates		**61,742,160**	48,703,065
Derivative financial instruments	25	**167,215**	–
Bank and other borrowings – due within one year	30	**328,282,000**	269,545,927
Obligations under finance leases – due within one year	31	**6,919,984**	5,480,551
Tax payable		**4,452,725**	6,513,033
		1,067,992,280	1,056,208,993
Net Current Assets		**577,967,816**	499,729,257
Total Assets less Current Liabilities		**1,206,046,762**	1,205,130,801

	Notes	2008 HK$	2007 HK$
Non-current Liabilities			
Bank and other borrowings – due after one year	30	**61,258,521**	55,720,389
Obligations under finance leases – due after one year	31	**8,753,792**	7,679,497
Deferred tax liabilities	32	**229,299**	13,211,494
Total Non-current Liabilities		**70,241,612**	76,611,380
Net Assets		**1,135,805,150**	1,128,519,421
Equity			
Capital and reserves attributable to the Company's equity holders:			
Share capital	27	**283,972,277**	284,009,077
Reserves		**698,848,993**	642,831,491
		982,821,270	926,840,568
Minority Interests		**152,983,880**	201,678,853
Total Equity		**1,135,805,150**	1,128,519,421

The financial statements on pages 35 to 117 were approved and authorised for issue by the Board of Directors on 22nd April, 2009 and are signed on its behalf by:

TANG TO
Director

WONG YIU MING
Director

The notes on pages 42 to 117 are an integral part of these consolidated financial statements.

Balance Sheet

At 31st December, 2008

	Notes	2008 HK$	2007 HK$ (Restated)
Non-current Assets			
Property, plant and equipment	15	**3,002,955**	2,223,616
Interests in subsidiaries	19	**711,233,747**	735,850,726
		714,236,702	738,074,342
Current Assets			
Trade and other receivables		**722,441**	657,281
Cash and cash equivalents	26	**17,096,505**	23,681,117
		17,818,946	24,338,398
Current Liabilities			
Trade and other payables		**4,059,757**	4,649,940
Amounts due to subsidiaries		**34,997,948**	32,069,046
Amounts due to associates		**60,652,894**	47,619,799
Derivative financial instruments	25	**167,215**	–
Bank and other borrowings – due within one year	30	**74,320,624**	75,670,031
		174,198,438	160,008,816
Net Current Liabilities		**(156,379,492)**	(135,670,418)
Total Assets less Current Liabilities		**557,857,210**	602,403,924
Non-current Liabilities			
Bank and other borrowings – due after one year	30	**28,000,000**	44,000,000
Net Assets		**529,857,210**	558,403,924
Capital and Reserves			
Share capital	27	**283,972,277**	284,009,077
Reserves	29	**245,884,933**	274,394,847
Total Equity		**529,857,210**	558,403,924

TANG TO
Director

WONG YIU MING
Director

The notes on pages 42 to 117 are an integral part of these financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31st December, 2008

	Attributable to equity holders of the Company											
	Share capital HK$	Share premium HK$	Capital redemption HK$	Share options HK$	Building revaluation HK$	Translation HK$	Other HK$	Proposed dividend HK$	Retained profits HK$	Total HK$	Minority interests HK$	Total equity HK$
Balance at 1st January, 2007	283,009,077	241,478,789	–	–	18,083,856	22,588,327	(38,474)	10,612,840	215,909,710	791,644,125	164,313,742	955,957,867
Fair value losses:												
– Available-for-sale financial assets	–	–	–	–	–	–	(28,350)	–	–	(28,350)	–	(28,350)
Revaluation surplus on buildings	–	–	–	–	2,608,949	–	–	–	–	2,608,949	430,513	3,039,462
Deferred taxation adjustment	–	–	–	–	(107,023)	–	–	–	–	(107,023)	–	(107,023)
Realised on disposal of properties	–	–	–	–	(7,687,268)	–	–	–	7,687,268	–	–	–
Realised on disposal of subsidiaries	–	–	–	–	–	(459,666)	–	–	–	(459,666)	1,618,512	1,158,846
Realised on disposal of associates	–	–	–	–	–	960,014	–	–	–	960,014	–	960,014
Currency translation differences	–	–	–	–	–	40,340,492	–	–	–	40,340,492	4,377,876	44,718,368
Net income recognised directly in equity	–	–	–	–	(5,185,342)	40,840,840	(28,350)	–	7,687,268	43,314,416	6,426,901	49,741,317
Profit for the year	–	–	–	–	–	–	–	–	100,040,174	100,040,174	37,652,021	137,692,195
Total recognised income for 2007	–	–	–	–	(5,185,342)	40,840,840	(28,350)	–	107,727,442	143,354,590	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	–	–	–	3,214,829	–	–	–	–	–	3,214,829	–	3,214,829
Shares issued upon exercise of share options	1,000,000	2,639,250	–	(139,250)	–	–	–	–	–	3,500,000	–	3,500,000
Transfer on lapse of share options	–	–	–	(23,775)	–	–	–	–	23,775	–	–	–
Dividend paid to minority shareholders	–	–	–	–	–	–	–	–	–	–	(8,732,970)	(8,732,970)
Dividend relating to 2006	–	–	–	–	–	–	–	(10,612,840)	–	(10,612,840)	–	(10,612,840)
Interim dividend	–	–	–	–	–	–	–	–	(4,260,136)	(4,260,136)	–	(4,260,136)
Proposed dividend	–	–	–	–	–	–	–	10,650,340	(10,650,340)	–	–	–
Balance at 31st December, 2007 and 1st January, 2008	284,009,077	244,118,039	-	3,051,804	12,898,514	63,429,167	(66,824)	10,650,340	308,750,451	926,840,568	201,678,853	1,128,519,421
Fair value gains:												
– Available-for-sale financial assets	-	-	-	-	-	-	96,803	-	-	96,803	-	96,803
Share of capital reserve of an associate	-	-	-	-	-	-	451,112	-	-	451,112	-	451,112
Revaluation deficit on buildings	-	-	-	-	(3,491,174)	-	-	-	-	(3,491,174)	(607,847)	(4,099,021)
Deferred taxation adjustment	-	-	-	-	(1,650,740)	-	-	-	-	(1,650,740)	(1,324,450)	(2,975,190)
Realised on disposal of properties	-	-	-	-	(741,199)	-	-	-	741,199	-	-	-
Currency translation differences	-	-	-	-	-	26,019,984	-	-	-	26,019,984	4,408,961	30,428,945
Net income recognised directly in equity	-	-	-	-	(5,883,113)	26,019,984	547,915	-	741,199	21,425,985	2,476,664	23,902,649
Profit for the year	-	-	-	-	-	-	-	-	45,239,508	45,239,508	11,065,598	56,305,106
Total recognised income for 2008	-	-	-	-	(5,883,113)	26,019,984	547,915	-	45,980,707	66,665,493	13,542,262	80,207,755
Repurchase of own shares	(36,800)	-	36,800	-	-	-	-	-	(34,451)	(34,451)	-	(34,451)
Transfer on lapse of share options	-	-	-	(3,051,804)	-	-	-	-	3,051,804	-	-	-
Dividend paid to minority shareholders	-	-	-	-	-	-	-	-	-	-	(3,183,089)	(3,183,089)
Elimination of minority interests in an associate *(note 20)*	-	-	-	-	-	-	-	-	-	-	(59,054,146)	(59,054,146)
Dividend relating to 2007	-	-	-	-	-	-	-	(10,650,340)	-	(10,650,340)	-	(10,650,340)
Balance at 31st December, 2008	283,972,277	244,118,039	36,800	-	7,015,401	89,449,151	481,091	-	357,748,511	982,821,270	152,983,880	1,135,805,150

The notes on pages 42 to 117 are an integral part of these consolidated financial statements.

Consolidated Cash Flow Statement

For the year ended 31st December, 2008

	Notes	2008 HK$	2007 HK$
OPERATING ACTIVITIES			
Profit from operations		**73,441,567**	144,019,278
Adjustments for:			
Depreciation and amortisation of property, plant and equipment	*15*	**55,045,097**	54,959,026
Amortisation of leasehold land and land use rights	*17*	**928,716**	1,013,153
Impairment losses on goodwill	*18*	**483,750**	–
Share-based payments		**–**	3,214,829
Gain on disposal of property, plant and equipment and leasehold land and land use rights		**(66,939,617)**	(59,999,829)
Revaluation deficit (surplus) of leasehold buildings	*9*	**532,924**	(273,958)
Gain on disposal of investment properties	*6*	**–**	(8,976,730)
Fair value gain on investment properties	*6*	**–**	(7,960,000)
Impairment losses on property, plant and equipment	*15*	**–**	1,500,000
Allowance for impairment of bad and doubtful debts		**4,532,697**	9,780,150
Write-down of inventories	*9*	**11,031,033**	13,972,864
OPERATING CASH FLOWS BEFORE MOVEMENTS IN WORKING CAPITAL		**79,056,167**	151,248,783
Decrease in inventories		**14,355,792**	25,907,766
Decrease (Increase) in trade and other receivables		**3,890,364**	(22,854,991)
Decrease in trade and other payables		**(82,072,641)**	(65,483,197)
Cash generated from operations		**15,229,682**	88,818,361
Hong Kong profits tax paid		**(1,631,438)**	(2,570,819)
Overseas tax paid		**(9,357,426)**	(7,808,765)
NET CASH GENERATED FROM OPERATING ACTIVITIES		**4,240,818**	78,438,777

	Notes	2008 HK$	2007 HK$
INVESTING ACTIVITIES			
Amounts advanced to associates		**(50,100,879)**	(9,890,098)
Purchase of available-for-sale financial assets		**(171,254)**	(509,505)
(Increase) Decrease in pledged bank deposits		**(84,979,573)**	573,762
Acquisition of additional shareholding in a subsidiary from minority shareholders		**(483,750)**	(119,759)
Realised loss on foreign currency forward contracts	8	**(258,197)**	–
Acquisition of an associate		**–**	(4,668,152)
Purchase of property, plant and equipment		**(43,568,325)**	(64,096,821)
Proceeds from disposal of associates		**–**	1,386,193
Proceeds from disposal of investment properties		**21,460,000**	25,306,730
Proceeds from disposal of property, plant and equipment and leasehold land and land use rights		**76,583,402**	100,954,922
Proceeds from disposal of available-for-sale financial assets		**528,765**	2,742,657
Interest received	8	**4,376,345**	2,030,074
Dividends received from associates		**46,466,481**	–
Dividends received from available-for-sale financial assets	8	**755**	–
NET CASH (USED IN) GENERATED FROM INVESTING ACTIVITIES		**(30,146,230)**	53,710,003
FINANCING ACTIVITIES			
Repayment of bank loans		**(357,717,659)**	(324,799,356)
Interest paid	7	**(26,514,651)**	(27,088,135)
Repayment of obligations under finance leases		**(7,235,872)**	(5,009,819)
Dividends paid to minority shareholders of subsidiaries		**(3,183,089)**	(8,732,970)
Dividends paid to Company's shareholders		**(10,650,340)**	(14,872,976)
Bank loans raised		**417,282,408**	333,599,394
Capital contributed by minority shareholders of a subsidiary		**–**	2,138,918
Amounts advanced from associates		**13,039,095**	14,353,381
Proceeds from issue of shares	27	**–**	3,500,000
Repurchase of own shares	27	**(34,451)**	–
NET CASH GENERATED FROM (USED IN) FINANCING ACTIVITIES		**24,985,441**	(26,911,563)
(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS		**(919,971)**	105,237,217
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		**172,616,699**	61,062,701
EFFECT OF FOREIGN EXCHANGE RATE CHANGES		**5,512,062**	6,316,781
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	26	**177,208,790**	172,616,699

The notes on pages 42 to 117 are an integral part of these consolidated financial statements.

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 ("HKFRS")

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 HKFRS") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), which are first effective for the Group's current financial year.

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

Except for the adoption of the HK(IFRIC) – Int 11, "HKFRS 2 – Group and Treasury Share Transactions", which has resulted in changes to the Group's accounting policies as detailed below, the adoption of the other HKFRSs had no material effect on how the results and financial position for the current or prior accounting periods have been prepared and presented.

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

(a) The HKAS 39, "Financial Instruments: Recognition and Measurement", amendment on reclassification of financial assets permits reclassification of certain financial assets out of the held-for-trading and available-for-sale categories if specified conditions are met. The related amendment to HKFRS 7, "Financial Instruments: Disclosures", introduces disclosure requirements with respect to financial assets reclassified out of the held-for-trading and available-for-sale categories. The amendment is effective prospectively from 1st July, 2008. This amendment does not have any impact on the Group's financial statements, as the Group has not reclassified any financial assets.

(b) HK(IFRIC) – Int 11, "HKFRS 2 – Group and Treasury Share Transactions", provided guidance on whether share-based transactions involving treasury shares or involving group entities (for example, options over shares of a parent) should be accounted for as equity-settled or cash-settled share-based payment transactions in the separate financial statements of the parent and group companies. The interpretation should be applied retrospectively. Accordingly, prior period adjustments have been made in the Company's financial statements (note 29).

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

(b) (Continued)

The adoption of HK(IFRIC) – Int 11 resulted in:

	THE COMPANY	
	2008	2007
	HK$	HK$
Increase in investments in subsidiaries	**–**	1,902,006
Increase in retained profits	**–**	1,902,006
Increase in profit for the year	**–**	1,902,006

This interpretation did not have any impact on the consolidated financial statements of the Group.

(c) HK(IFRIC) – Int 12, "Service concession arrangements", provides guidance on the accounting by operators for public-to-private services concession agreements. This interpretation does not have any significant impact on the Group's accounting policies and financial statements.

(d) HK(IFRIC) – Int 14, "HKAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction", provides guidance on assessing the limit in HKAS 19 on the amount of the surplus that can be recognised as an asset. It also explains how the pension asset or liability may be affected by a statutory or contractual minimum funding requirement. 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, investment properties, certain financial assets and financial liabilities (including derivative instruments), which are carried at fair value.

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(b) Basis of consolidation

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

(i) Subsidiaries

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

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

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

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

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

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

(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)).

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(b) Basis of consolidation (Continued)

(ii) Associates (Continued)

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.

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(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.

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(e) Property, plant and equipment

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

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

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

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

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

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

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

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (note 3(i)).

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) Investment properties

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

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

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

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

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

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

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

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

Changes in fair values are recognised in the income statement.

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) Investment properties (Continued)

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

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

(g) Leasehold land and land use rights

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

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

(h) 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(i) Impairment of assets

(1) Impairment of investments in equity securities and other receivables

Investments in equity securities (other than investments in subsidiaries and associates: see note 3(i)(2)) and other current and non-current 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.

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(i) Impairment of assets (Continued)

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

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.

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.

(2) 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(i) Impairment of assets (Continued)

(2) Impairment of other assets (Continued)

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).

– 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 categories: at fair value through profit or loss, loans and receivables and available-for-sale financial assets. The classification depends on the purpose for which the 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(j) Financial assets (Continued)

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

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets.

(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, pledged bank deposits 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.

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

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

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”.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(j) Financial assets (Continued)

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.

(k) Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Repurchase of the Company's own equity instruments is recognised and deducted directly in equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Company's own equity instruments.

(l) Derivative financial instruments

The Group's derivative financial instruments are mainly foreign currency forward contracts. Derivative financial instruments are classified as held for trading unless they are designated as effective hedging instruments. All derivatives are carried as assets when the fair values are positive and as liabilities when the fair values are negative.

Derivative financial instruments held for trading are typically entered into with the intention to settle in the near future. These instruments are initially recorded at fair value. Subsequent to initial recognition, these instruments are remeasured at fair value. Fair value adjustments and realised gains and losses are recognised in the income statement.

(m) 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

(i) Financial guarantees issued (Continued)

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(n) 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.

(o) 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.

(p) 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.

Pledged bank deposits are not included in cash and cash equivalents.

(q) 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(r) 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(m)(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.

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

(s) 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.

(t) Income tax

Income tax for the year comprises current tax and movement in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are 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.

Current tax is the expected tax payable on the taxable income for the year, using tax rates (and laws) enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

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 substantively 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 and liabilities are not discounted.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(t) Income tax (Continued)

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 assets also arise from unused tax losses and unused tax credits.

At each balance sheet date, the Group reviews and assesses the recognised and unrecognised deferred tax assets and the future taxable profit to determine whether any recognised deferred tax assets should be derecognised and any unrecognised deferred tax assets should be recognised.

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.

(u) 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).

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(v) 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 recovery 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.

(w) 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(x) 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.

(y) 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.

(z) Related parties

For the purposes of these financial statements, a party is considered to be related to the Group if:

(i) the party has the ability, directly, or indirectly through one or more intermediaries, to control the Group or exercise significant influence over the Group in making financial and operating policies decisions, or has joint control over the Group;

(ii) the Group and the party are subject to common control;

(iii) the party is an associate of the Group or a joint venture in which the Group is a venturer;

(iv) the party is a member of the key management personnel of the Group or the Group's parent; or a close family member of such an individual or is an entity under the control, joint control or significant influence of such individuals;

(v) the party is a close member of a party referred to in (i) or is an entity under the control, joint control or significant influence of such individuals; or

(vi) 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.

Close family members of an individual are those family members who may be expected to influence, or be influenced by, that individual in their dealings with the entity.

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) Allowance for impairment of trade and other receivables

The Group assesses impairment of trade and other receivables based upon evaluation of the recoverability of the trade and other receivables at each balance sheet date. The estimates are based on the ageing of the trade and other receivables and the historical write-off experience. If the financial condition of the debtors were to deteriorate, additional impairment may be required. A considerable level of judgement is exercised by the directors when assessing the financial condition and credit worthiness of each customer. An increase or decrease in the impairment loss would affect the net profit in future years.

(ii) Income taxes

The Group is subject to income taxes mainly in Hong Kong and the People's Republic of China. Significant judgement is required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

Recognition of deferred tax assets, which principally relate to allowance for doubtful debts and tax losses, depends on the management's expectation of future taxable profit that will be available against which the tax losses can be utilised. The outcome of their actual utilisation may be different.

(iii) Provision for inventories

The Group reviews the carrying amounts of inventories at each balance sheet date to determine whether the inventories are carried at lower of cost and net realisable value in accordance with the accounting policy set out in note 3(n). The directors estimate the net realisable value based on the current market situation and historical experience on similar inventories. Any change in the assumptions would increase or decrease the amount of inventories write-down or the related reversals of write-down and affect the Group's net asset value.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (Continued)

(a) Critical accounting estimates and assumptions (Continued)

(iv) 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 18).

(v) 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.

(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, 2008, the Group is organised on a product basis into four main business segments.

(1) trading of industrial consumables;

(2) manufacturing of plastic processing products;

(3) manufacturing of machinery; and

(4) manufacturing of printed circuit boards.

5. BUSINESS AND GEOGRAPHICAL SEGMENTS (Continued)

Primary reporting format – Business segments (Continued)

The segment results for the year ended 31st December, 2008 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	345,379,421	390,315,725	672,669,293	531,018,157	–	–	1,939,382,596
Inter-segment sales	6,634,560	4,801	5,973,491	–	–	(12,612,852)	–
Total revenue	352,013,981	390,320,526	678,642,784	531,018,157	–	(12,612,852)	1,939,382,596

Inter-segment sales are charged at prevailing market rates.

	Industrial consumables HK$	Plastic processing products HK$	Machinery HK$	Printed circuit boards HK$	Other operations HK$	Eliminations HK$	Consolidated HK$
RESULTS							
Segment results	25,331,840	9,161,870	44,334,252	27,329,178	(3,900,660)	796,372	103,052,852
Unallocated corporate expenses							(29,611,285)
Profit from operations							73,441,567
Finance costs							(26,514,651)
Investment income, net							3,886,830
Share of results of associates		(249,107)	(3,030,491)		16,398,044		13,118,446
Profit before taxation							63,932,192
Taxation							7,627,086
Profit before minority interests							56,305,106

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	**200,393,654**	**351,161,407**	**1,008,916,648**	**327,960,169**	**42,412,119**	**1,930,843,997**
Interests in associates						**234,903,019**
Available-for-sale financial assets						**4,729,444**
Unallocated corporate assets						**103,562,582**
Consolidated total assets						**2,274,039,042**
LIABILITIES						
Segment liabilities	**55,098,057**	**53,365,657**	**396,281,221**	**153,477,262**	**4,923,206**	**663,145,403**
Tax payable						**4,452,725**
Borrowings						**405,214,297**
Unallocated corporate liabilities						**65,421,467**
Consolidated total liabilities						**1,138,233,892**
OTHER INFORMATION						
Addition of goodwill	**–**	**–**	**483,750**	**–**	**–**	**483,750**
Capital additions	**654,452**	**11,962,869**	**11,854,444**	**27,047,173**	**1,798,987**	**53,317,925**
Depreciation and amortisation	**1,253,001**	**17,589,991**	**19,517,418**	**16,563,583**	**1,049,820**	**55,973,813**
Other non-cash expenses	**430,768**	**1,587,073**	**10,392,366**	**600,000**	**3,086,447**	**16,096,654**

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.

	Industrial consumables HK$	Plastic processing products HK$	Machinery HK$	Printed circuit boards HK$	Other operations HK$	Eliminations HK$	Consolidated HK$
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, net							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

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

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 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	
	2008	2007
	HK$	HK$
Hong Kong	**657,336,823**	804,749,061
PRC	**1,040,404,151**	1,048,219,380
Other Asia-Pacific countries	**169,302,475**	120,632,569
North America	**24,360,176**	74,221,683
Europe	**47,978,971**	45,554,386
	1,939,382,596	2,093,377,079

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**	
	2008	2007	**2008**	2007
	HK$	HK$	**HK$**	HK$
Hong Kong	**1,206,530,319**	1,095,134,267	**1,593,515**	931,255
PRC	**1,047,712,356**	1,141,663,638	**52,208,160**	70,423,257
Other Asia-Pacific countries	**9,540,975**	11,329,193	**–**	–
North America	**4,514,479**	6,481,983	**–**	–
Europe	**5,740,913**	6,730,713	**–**	–
	2,274,039,042	2,261,339,794	**53,801,675**	71,354,512

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:

	2008	2007
	HK$	HK$
Turnover		
Sales of goods	**1,939,382,596**	2,093,377,079
Other income		
Commission income	**1,254,982**	503,847
Gross rental income from properties	**890,269**	2,134,700
Handling and services income	**1,131,592**	578,954
Sales of scrapped materials	**6,080,166**	4,651,631
Sundry income	**18,145,893**	10,968,457
	27,502,902	18,837,589
Gains, net		
Exchange gain	**13,788,167**	6,255,579
Fair value gain on investment properties	**–**	7,960,000
Gain on disposal of investment properties	**–**	8,976,730
Revaluation surplus on leasehold buildings	**–**	426,874
	13,788,167	23,619,183
	41,291,069	42,456,772

7. FINANCE COSTS

	2008 HK$	2007 HK$
Interest on:		
Borrowings wholly repayable within five years		
– bank loans and overdrafts	**26,104,034**	24,875,353
– other loans	**172,526**	1,183,918
Finance leases	**238,091**	1,028,864
Total interest expense on financial liabilities not at fair value through profit or loss	**26,514,651**	27,088,135

8. INVESTMENT INCOME, NET

	2008 HK$	2007 HK$
Interest income	**4,376,345**	2,030,074
Dividend income from available-for-sale financial assets	**755**	–
Loss on disposal of available-for-sale financial assets	**(64,858)**	(382,455)
Realised loss on foreign currency forward contracts	**(258,197)**	–
Unrealised loss on foreign currency forward contracts	**(167,215)**	–
	3,886,830	1,647,619

9. PROFIT BEFORE TAXATION

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

	2008 HK$	2007 HK$
Charging:		
Directors' remuneration *(note 10)*	**16,331,242**	15,309,022
Salaries and other benefits	**274,566,938**	249,563,711
Retirement benefits scheme contributions	**4,006,226**	4,550,671
Share-based payments	**–**	2,998,829
	294,904,406	272,422,233
Depreciation and amortisation on:		
– Owned assets	**51,543,084**	51,659,417
– Assets held under finance leases	**3,502,013**	3,299,609
– Leasehold land and land use rights *(note 17)*	**928,716**	1,013,153
Impairment losses on goodwill (included in other operating expenses)	**483,750**	–
Auditors' remuneration		
– Current year	**2,227,657**	2,004,212
– Underprovided in prior years	**60,828**	31,730
Impairment losses on property, plant and equipment *(note 15)*	**–**	1,500,000
Operating lease payments *(note 35)*	**17,158,219**	13,145,157
Revaluation deficit on leasehold buildings	**532,924**	152,916
Write-down of inventories	**11,031,033**	13,972,864
Share of associates' taxation	**4,374,562**	5,341,455
and crediting:		
Rental income net of direct outgoings *(note 35)*	**804,970**	1,835,251
Revaluation surplus on leasehold buildings	**–**	426,874

10. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

(a) Directors' emoluments

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

Name of directors	Directors' fees HK$	Salaries and allowances HK$	Retirement benefits scheme contributions HK$	Share-based payments[7] HK$	2008 Total HK$	2007 Total HK$
Executive directors						
Mr. Tang To	4,080,205	1,296,000	164,250	–	5,540,455	4,718,021
Mr. Wong Yiu Ming	5,041,607	1,530,000	177,750	–	6,749,357	5,033,621
Mr. Yan Wing Fai[5]	430,000	245,750	3,000	–	678,750	2,242,375
Mr. Li Tin Loi[6]	253,000	1,860,000	110,250	–	2,223,250	2,175,575
Mr. Zhao Zhuoying[4]	–	–	–	–	–	–
Mr. Jiang Wei[3]	40,000	–	–	–	40,000	40,000
Non-executive directors						
Mr. Tang Kwan	40,000	680,400	51,030	–	771,430	771,430
Mr. He Zhiqi[4]	–	–	–	–	–	–
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]	–	–	–	–	–	–
Mr. Qu Jinping	–	–	–	–	–	–
Mr. Cheng Tak Yin[1]	40,000	–	–	–	40,000	40,000
Mr. Wu Ding[3]	40,000	–	–	–	40,000	40,000
Total 2008	**10,212,812**	**5,612,150**	**506,280**	**–**	**16,331,242**	**15,309,022**
Total 2007	9,171,492	5,445,400	476,130	216,000		

10. DIRECTORS' AND EMPLOYEES' EMOLUMENTS (Continued)

(a) Directors' emoluments (Continued)

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) Resigned on 1st December, 2008

(7) 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(u)(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.

(b) Employees' emoluments

The five highest paid individuals included three (2007: four) directors, details of whose emoluments are set out above. The emoluments of the remaining two (2007: one) individuals are as follows:

	2008	2007
	HK$	HK$
Salaries and other benefits	**5,670,200**	4,856,900
Retirement benefits schemes contributions	**104,625**	45,900
	5,774,825	4,902,800

The emoluments of the employees were within the following bands:

	Number of employees	
	2008	2007
HK$1,000,001 to HK$2,000,000	**1**	–
HK$2,000,001 to HK$3,000,000	**–**	–
HK$3,000,001 to HK$4,000,000	**–**	–
HK$4,000,001 to HK$5,000,000	**1**	1
	2	1

11. TAXATION

In February 2008, the Hong Kong Government announced a decrease in the Hong Kong Profits Tax rate from 17.5% to 16.5% applicable to the Group's operations in Hong Kong as from the year ended 31st December, 2008. This decrease has been taken into account in the preparation of the Group's and the Company's 2008 financial statements. Accordingly, the provision for Hong Kong Profits Tax for 2008 is calculated at 16.5% (2007: 17.5%) of the estimated assessable profits for the year after deducting accumulated tax losses brought forward and the deferred tax has been re-estimated accordingly.

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.

In March 2007, the National People's Congress approved the Enterprise Income Tax Law of the People's Republic of China (the "new EIT Laws"). The new EIT Law changes the enterprise income tax rate to 25% with effect from 1st January, 2008. Enterprises that are currently entitled to exemptions or reductions from the standard income tax rate for a fixed term may continue to enjoy such treatment until the fixed term expires. The deferred tax has been re-estimated accordingly.

	2008 **HK$**	2007 HK$
Hong Kong profits tax		
Current year	**1,144,963**	2,364,322
Tax reduction in prior year	**(125,000)**	–
Over-provision in prior years	**(101,102)**	(95,718)
	918,861	2,268,604
Overseas tax		
Current year	**5,160,734**	8,809,867
Under-provision in prior years	**579,099**	101,987
	5,739,833	8,911,854
Deferred taxation relating to the origination and reversal of temporary differences *(note 32)*		
Current year	**851,432**	(1,246,507)
Effect of change in tax rate	**116,960**	–
	968,392	(1,246,507)
Taxation charge	**7,627,086**	9,933,951

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:

	2008	2007
	HK$	HK$
Profit before taxation	**63,932,192**	147,626,146
Tax at the domestic income tax rate of 16.5% (2007: 17.5%)	**10,548,812**	25,834,575
Tax effect of expenses that are not deductible in determining taxable profit	**30,898,497**	37,220,547
Tax effect of income that is not taxable in determining taxable profit	**(42,048,201)**	(60,666,621)
Under-provision of profits tax in prior years, net	**477,997**	6,269
Tax reduction in prior year	**(125,000)**	–
Decrease in opening net deferred tax assets resulting from changes in applicable tax rates	**116,960**	–
Tax effect of tax losses not recognised	**12,382,809**	8,490,035
Tax effect of temporary differences not recognised	**675,052**	(259,816)
Tax effect of utilisation of tax losses not previously recognised	**(1,860,685)**	(1,085,387)
Effect of different tax rates of subsidiaries operating in other jurisdictions	**(3,439,155)**	394,349
Taxation charge	**7,627,086**	9,933,951

12. LOSS ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The loss attributable to equity holders of the Company is dealt with in the financial statements of the Company to the extent of HK$15,959,917 (2007 restated: profit of HK$28,970,941).

13. 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.

	2008	2007
Weighted average number of shares in issue during the year	**710,000,697**	708,704,884
Profit attributable to the equity holders of the Company	**HK$45,239,508**	HK$100,040,174
Earnings per share	**6.37 cents**	14.12 cents

Diluted earnings per share for the years 2007 & 2008 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 both years. During the year ended 31st December, 2008, all share options outstanding had also lapsed.

14. DIVIDENDS

	2008 HK$	2007 HK$
Interim dividend of HK$nil (2007: HK$0.006) per share	–	4,260,136
Dividend proposed after the balance sheet date of HK$nil (2007: HK$0.015) per share	–	10,650,340
	–	14,910,476

15. PROPERTY, PLANT AND EQUIPMENT

	Leasehold buildings HK$	Furniture, fixtures and equipment HK$	Plant and machinery HK$	Motor vehicles HK$	Properties under construction HK$	Total HK$
THE GROUP						
COST OR VALUATION						
At 1st January, 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 and 1st January, 2008	**107,155,000**	**172,032,852**	**507,424,339**	**38,481,133**	**5,058,488**	**830,151,812**
Currency realignment	**4,628,159**	**4,220,492**	**13,899,704**	**1,380,202**	**283,929**	**24,412,486**
Reclassifications	**1,652,203**	**1,619,611**	**1,506,537**	**657**	**(4,779,008)**	**–**
Additions	**1,994,662**	**7,350,691**	**30,360,647**	**3,226,643**	**10,385,282**	**53,317,925**
Disposals	**(3,168,386)**	**(8,786,452)**	**(12,935,992)**	**(4,463,852)**	**–**	**(29,354,682)**
Adjustment on revaluation	**(10,129,638)**	**–**	**–**	**–**	**–**	**(10,129,638)**
At 31st December, 2008	**102,132,000**	**176,437,194**	**540,255,235**	**38,624,783**	**10,948,691**	**868,397,903**
Analysis of cost or valuation:						
At 31st December, 2008						
At cost	**–**	**176,437,194**	**540,255,235**	**38,624,783**	**10,948,691**	**766,265,903**
At valuation – 2008	**102,132,000**	**–**	**–**	**–**	**–**	**102,132,000**
	102,132,000	**176,437,194**	**540,255,235**	**38,624,783**	**10,948,691**	**868,397,903**
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

15. PROPERTY, PLANT AND EQUIPMENT (Continued)

	Leasehold buildings HK$	Furniture, fixtures and equipment HK$	Plant and machinery HK$	Motor vehicles HK$	Properties under construction HK$	Total HK$
THE GROUP						
ACCUMULATED DEPRECIATION, AMORTISATION AND IMPAIRMENT						
At 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 and 1st January, 2008	**–**	**121,344,083**	**339,549,602**	**27,201,964**	**–**	**488,095,649**
Currency realignment	**156,471**	**2,350,311**	**8,333,404**	**911,847**	**–**	**11,752,033**
Depreciation provided for the year	**5,509,673**	**13,211,254**	**32,541,857**	**3,782,313**	**–**	**55,045,097**
Written back on disposals	**(168,451)**	**(7,757,976)**	**(9,962,578)**	**(3,843,761)**	**–**	**(21,732,766)**
Eliminated on revaluation	**(5,497,693)**	**–**	**–**	**–**	**–**	**(5,497,693)**
At 31st December, 2008	**–**	**129,147,672**	**370,462,285**	**28,052,363**	**–**	**527,662,320**
NET BOOK VALUES						
At 31st December, 2008	**102,132,000**	**47,289,522**	**169,792,950**	**10,572,420**	**10,948,691**	**340,735,583**
At 31st December, 2007	107,155,000	50,688,769	167,874,737	11,279,169	5,058,488	342,056,163

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

	2008 HK$	2007 HK$
In Hong Kong:		
– under medium-term leases	**1,922,000**	1,985,000
Outside Hong Kong:		
– under long leases	**11,900,000**	34,360,000
– under medium-term leases	**88,310,000**	70,810,000
	102,132,000	107,155,000

15. PROPERTY, PLANT AND EQUIPMENT (Continued)

The leasehold buildings of the Group were revalued as at 31st December, 2008 and 31st December, 2007 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$41,058,955 (2007: HK$40,109,610) has been expensed in cost of goods sold, HK$1,345,051 (2007: HK$1,875,337) in selling and distribution costs and HK$12,641,091 (2007: HK$12,974,079) 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$79,247,108 (2007: HK$80,523,207).

The net book value of the Group's plant and machinery includes an amount of HK$34,715,509 (2007: HK$10,647,847) in respect of assets held under finance leases.

	Furniture, fixtures and equipment HK$	Motor vehicles HK$	Total HK$
THE COMPANY			
COST			
At 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 and 1st January, 2008	10,379,100	537,821	10,916,921
Additions	1,041,257	516,947	1,558,204
Disposals	(5,558,203)	–	(5,558,203)
At 31st December, 2008	**5,862,154**	**1,054,768**	**6,916,922**
ACCUMULATED DEPRECIATION			
At 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 and 1st January, 2008	8,263,048	430,257	8,693,305
Depreciation provided for the year	567,914	210,951	778,865
Written back on disposals	(5,558,203)	–	(5,558,203)
At 31st December, 2008	**3,272,759**	**641,208**	**3,913,967**
NET BOOK VALUES			
At 31st December, 2008	**2,589,395**	**413,560**	**3,002,955**
At 31st December, 2007	2,116,052	107,564	2,223,616

16. INVESTMENT PROPERTIES

	THE GROUP	
	2008	2007
	HK$	HK$
Valuation		
At 1st January	**21,460,000**	29,830,000
Disposals	**(21,460,000)**	(16,330,000)
Fair value gain	**–**	7,960,000
At 31st December	**–**	21,460,000

The valuation of investment properties held by the Group comprises:

	2008	2007
	HK$	HK$
In Hong Kong:		
Medium-term leases	**–**	21,460,000

At 31st December, 2007, the investment properties of the Group were revalued on the open market existing use basis by Knight Frank Petty Limited, an independent firm of professional valuers.

17. LEASEHOLD LAND AND LAND USE RIGHTS

	THE GROUP	
	2008	2007
	HK$	HK$
COST		
At 1st January	**58,390,241**	52,088,101
Currency realignment	**1,871,420**	1,636,938
Additions	**–**	12,529,547
Disposals	**(4,210,694)**	(7,864,345)
At 31st December	**56,050,967**	58,390,241
ACCUMULATED AMORTISATION		
At 1st January	**12,889,374**	14,477,667
Currency realignment	**311,928**	439,778
Amortisation for the year	**928,716**	1,013,153
Written back on disposals	**(2,188,825)**	(3,041,224)
At 31st December	**11,941,193**	12,889,374
NET BOOK VALUE		
At 31st December	**44,109,774**	45,500,867
Portion classified as current assets	**784,383**	1,013,153
Long term portion	**43,325,391**	44,487,714
At 1st January	**45,500,867**	37,610,434

17. LEASEHOLD LAND AND LAND USE RIGHTS (Continued)

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

	2008 HK$	2007 HK$
In Hong Kong held on:		
Leases of over 50 years	–	–
Leases of between 10 to 50 years	9,919,579	10,161,724
Outside Hong Kong held on:		
Leases of over 50 years	6,145,967	8,014,499
Leases of between 10 to 50 years	28,044,228	27,324,644
	44,109,774	45,500,867

At 31st December, 2008, no leasehold land or land use rights was mortgaged to bank to secure bank borrowings. At 31st December, 2007, leasehold land at the carrying value of HK$12,380,447 was mortgaged to bank to secure bank borrowings (note 39).

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). The gain was included in the gain on disposal of property, plant and equipment and leasehold land and land use rights as shown in consolidated income statement for the year ended 31st for December, 2007.

As set out in the Company's announcement on 30th May, 2008, and the circular dated 20th June, 2008, Wuxi Grand Tech Machinery Group Ltd. ("Wuxi Grand"), a wholly owned subsidiary of the Company, on 30th May, 2008, entered into agreements with two independent third parties whereas Wuxi Grand will receive a total amount of RMB80,835,800 (HK$90,806,336) being the consideration for disposal of a parcel of land and compensation for early termination of a lease agreement. The disposal and compensation resulted a gain of HK$66,933,494 (after deducting expenses of HK$18,851,038). The gain was included in the gain on disposal of properties, plant and equipment and leasehold land and land use rights as shown in consolidated income statement for the year ended 31st for December, 2008.

18. GOODWILL

	THE GROUP	
	2008	2007
	HK$	HK$
COST		
At 1st January	**26,589,649**	26,589,649
Acquisition of additional interest in a subsidiary	**483,750**	–
Elimination on deregistration of a subsidiary	**(9,890,391)**	–
At 31st December	**17,183,008**	26,589,649
ACCUMULATED IMPAIRMENT		
At 1st January	**26,589,649**	26,589,649
Impairment losses recognised in the year	**483,750**	–
Elimination on deregistration of a subsidiary	**(9,890,391)**	–
At 31st December	**17,183,008**	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.

19. INTERESTS IN SUBSIDIARIES

	THE COMPANY	
	2008	2007
	HK$	HK$
		(Restated)
Unlisted shares/capital contributions, at cost less impairment losses	**38,796,018**	40,698,024
Amounts due from subsidiaries less allowance for impairment	**672,437,729**	695,152,702
	711,233,747	735,850,726

Details of the Company's principal subsidiaries at 31st December, 2008 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$11,500,000 (2007: HK$24,923,100) 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$545,258,776 (2007: HK$554,586,699) were impaired. The amount of allowance was HK$41,220,180 as at 31st December, 2008 (2007: 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.

20. INTERESTS IN ASSOCIATES

	2008 HK$	2007 HK$
THE GROUP		
Share of net assets	**139,615,169**	226,016,803
Amounts due from associates	**95,287,850**	45,202,221
Allowance for impairment of doubtful debts	**–**	(15,250)
	234,903,019	271,203,774
THE COMPANY		
Unlisted shares, at cost	**–**	–
Amount due from an associate	**–**	15,250
Allowance for impairment of doubtful debts	**–**	(15,250)
	–	–

(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 amounts due from associates do not contain impaired assets.

(b) Interests in associates at the balance sheet date include goodwill of HK$312,724 (2007: HK$312,724).

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

	THE GROUP AND THE COMPANY	
	2008 **HK$**	2007 HK$
At 1st January	**15,250**	1,500,000
Impairment loss recognised	**–**	15,250
Eliminated on disposal of an associate	**–**	(1,500,000)
Uncollectible amounts written off	**(15,250)**	–
At 31st December	**–**	15,250

20. INTERESTS IN ASSOCIATES (Continued)

Details of the principal associates of the Group at 31st December, 2008 are as follows:

Name of associate	Place of incorporation/ registration and operation	Proportion of nominal value of registered capital attributable to the Group %	Principal activities
Dalian Huada Plastics Co Ltd	PRC	30.00	Plastic processing
Shenzhen Haoningda Meters Company Limited	PRC	41.99	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.

In prior years, the Group's equity interest in an associate, Shenzhen Haoningda Meters Company Limited ("SZHND"), was held indirectly by a non-wholly owned subsidiary of the Group. Pursuant to a re-organisation carried out during 2008, the Group's shareholding in this non-wholly owned subsidiary was decreased and it became an associate of the Group. However the Group's equity interest in SZHND remained unchanged. These changes have no material impact on the Group's interests in associates and profit for the year attributable to the equity holders of the Company except that the Group's indirect equity interest in SZHND amounting to HK$59,054,000 previously held by minority interests has been eliminated on consolidation with minority interests shown under equity.

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

	2008 HK$	2007 HK$
Total assets	**751,433,211**	641,337,096
Total liabilities	**439,330,328**	290,945,446
Net assets	**312,102,883**	350,391,650
Group's share of associates' net assets	**139,615,169**	226,016,803
Revenue	**413,835,824**	419,043,856
Profit for the year	**51,052,310**	70,818,637
Group's share of associates' profits for the year	**13,118,446**	30,299,480

21. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	THE GROUP		THE COMPANY	
	2008	2007	**2008**	2007
	HK$	HK$	**HK$**	HK$
At 1st January	**5,055,010**	7,656,695	**–**	–
Currency realignment	**–**	42,272	**–**	–
Additions	**171,254**	509,505	**–**	–
Disposals	**(593,623)**	(3,125,112)	**–**	–
Revaluation surplus (deficit) transfer to equity	**96,803**	(28,350)	**–**	–
At 31st December	**4,729,444**	5,055,010	**–**	–
Less: non-current portion	**4,729,444**	5,055,010	**–**	–
Current portion	**–**	–	**–**	–

Available-for-sale financial assets include the following:

	THE GROUP		THE COMPANY	
	2008	2007	**2008**	2007
	HK$	HK$	**HK$**	HK$
Unlisted securities, at cost	**6,442,680**	7,036,303	**–**	–
Impairment losses	**(2,071,789)**	(2,071,789)	**–**	–
	4,370,891	4,964,514	**–**	–
Listed securities, at market value				
Equity securities – Japan	**358,553**	90,496	**–**	–
	4,729,444	5,055,010	**–**	–

21. AVAILABLE-FOR-SALE FINANCIAL ASSETS (Continued)

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

	THE GROUP		THE COMPANY	
	2008	2007	**2008**	2007
	HK$	HK$	**HK$**	HK$
United States Dollars	**–**	593,623	**–**	–
Renminbi	**4,370,891**	4,370,891	**–**	–
Japanese Yen	**358,553**	90,496	**–**	–
	4,729,444	5,055,010	**–**	–

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.

22. INVENTORIES

	THE GROUP	
	2008	2007
	HK$	HK$
Trading inventories and finished goods	**234,062,665**	202,375,795
Work in progress	**107,510,905**	122,888,745
Raw materials	**255,837,983**	272,053,570
	597,411,553	597,318,110

At 31st December, 2008 the carrying amount of inventories that were stated at net realisable value amounted to HK$483,389,176 (2007: HK$505,249,268).

23. TRADE AND OTHER RECEIVABLES

	THE GROUP	
	2008	2007
	HK$	HK$
Trade and bills receivables	**571,778,683**	634,843,227
Less: allowance for impairment of bad and doubtful debts	**68,736,703**	64,101,498
Trade and bills receivables, net	**503,041,980**	570,741,729
Other receivables	**254,368,347**	184,094,659
Less: allowance for impairment of bad and doubtful debts	**23,094,761**	21,511,974
Other receivables, net	**231,273,586**	162,582,685
Amounts due from related parties *(note 41)*	**838,388**	1,061,863
	735,153,954	734,386,277

The directors consider that the carrying amounts of trade and other receivables approximate to their fair values. In the opinion of the directors, 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 ageing 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	
	2008	2007
	HK$	HK$
0 to 3 months	**331,819,568**	406,553,187
4 to 6 months	**68,846,796**	91,081,590
7 to 9 months	**36,523,479**	26,969,550
Over 9 months	**65,852,137**	46,137,402
	503,041,980	570,741,729

23. TRADE AND OTHER RECEIVABLES (Continued)

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

	Trade receivables		Other receivables	
	2008	2007	**2008**	2007
	HK$	HK$	**HK$**	HK$
At 1st January	**64,101,498**	62,024,480	**21,511,974**	13,990,808
Currency realignment	**2,712,933**	3,701,987	**1,159,656**	1,315,338
Impairment loss recognised	**4,061,649**	5,680,365	**1,652,622**	6,205,828
Unused amounts reversed	**(1,059,428)**	(2,121,293)	**(122,146)**	–
Uncollectible amounts written off	**(1,079,949)**	(5,184,041)	**(1,107,345)**	–
At 31st December	**68,736,703**	64,101,498	**23,094,761**	21,511,974

The above allowance for impairment of bad and 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, 2008, trade and bills receivables of HK$99,561,606 (2007: HK$92,669,200) were impaired. The amount of allowance was HK$68,736,703 as at 31st December, 2008 (2007: HK$64,101,498). It is assessed that a portion of the receivables is expected to be recovered.

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

	THE GROUP	
	2008	2007
	HK$	HK$
Less than 6 months past due	**22,857,967**	25,224,767
6 months to 1 year past due	**4,296,100**	1,329,758
1 year to 3 years past due	**7,469,118**	13,904,961
Over 3 years past due	**64,938,421**	52,209,714
	99,561,606	92,669,200

23. TRADE AND OTHER RECEIVABLES (Continued)

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

	THE GROUP	
	2008	2007
	HK$	HK$
Neither past due nor impaired	**317,833,375**	393,054,780
Less than 6 months past due	**114,648,235**	102,211,333
6 months to 1 year past due	**22,487,698**	24,596,375
1 year to 3 years past due	**12,380,023**	16,294,489
Over 3 years past due	**4,867,746**	6,017,050
	472,217,077	542,174,027

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 currencies other than the functional currency of the entity to which they relate:

	THE GROUP		THE COMPANY	
	2008	2007	**2008**	2007
United States Dollars	**15,863,227**	13,090,146	**–**	–
Renminbi	**415,347,138**	445,359,912	**160,000**	–
Japanese Yen	**23,239,680**	73,983,923	**–**	–
Euro Dollars	**27,549**	321,381	**–**	–

24. TRADE AND OTHER PAYABLES

	THE GROUP	
	2008	2007
	HK$	HK$
Trade and bills payables	**448,014,449**	479,823,325
Accruals and other payables	**217,630,292**	245,123,715
Amounts due to related parties *(note 41)*	**783,455**	1,019,377
	666,428,196	725,966,417

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

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

	THE GROUP	
	2008	2007
	HK$	HK$
0 to 3 months	**281,025,261**	407,736,126
4 to 6 months	**139,722,276**	52,839,935
7 to 9 months	**14,671,267**	6,701,347
Over 9 months	**12,595,645**	12,545,917
	448,014,449	479,823,325

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

	THE GROUP		THE COMPANY	
	2008	2007	**2008**	2007
United States Dollars	**3,958,045**	6,031,599	**–**	–
Renminbi	**415,826,027**	460,018,174	**–**	–
Japanese Yen	**204,864,921**	155,257,772	**–**	–
Euro Dollars	**294,699**	306,709	**–**	–

25. DERIVATIVE FINANCIAL INSTRUMENTS

	THE GROUP AND THE COMPANY	
	2008	2007
	HK$	HK$
Foreign currency forward contract, at fair value	**167,215**	–

The Company has entered into various forward currency contracts to manage its exchange rate exposures which did not meet the criteria for hedge accounting. Realised and unrealised loss on foreign currency forward contracts amounting to HK$425,412 was charged to the income statement during the year (2007: HK$nil).

The notional principal amount of the outstanding foreign currency forward contract at 31st December, 2008 was US$1,060,000 (HK$8,216,060 approximately) (2007: HK$nil). The fair value of foreign currency forward contract was measured by reference to the settled amount on the maturity of the forward contract which was in January, 2009.

26. CASH AND CASH EQUIVALENTS

	THE GROUP		THE COMPANY	
	2008	2007	**2008**	2007
	HK$	HK$	**HK$**	HK$
Bank balances and cash	**189,369,411**	188,935,065	**17,096,505**	23,681,117

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

	THE GROUP		THE COMPANY	
	2008	2007	**2008**	2007
United States Dollars	**5,368,616**	4,097,687	**2,585**	51,889
Renminbi	**93,793,776**	94,574,338	**–**	–
Japanese Yen	**24,663,208**	24,461,668	**–**	–
Euro Dollars	**61,261**	115,052	**–**	–

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

	THE GROUP	
	2008	2007
	HK$	HK$
Bank balances and cash per above	**189,369,411**	188,935,065
Bank overdrafts *(note 30)*	**(12,160,621)**	(16,318,366)
	177,208,790	172,616,699

27. SHARE CAPITAL

	Number of ordinary shares	Value HK$
Ordinary shares of HK$0.40 each		
Authorised:		
At 1st January, 2007, 31st December, 2007 and 31st December, 2008	1,000,000,000	400,000,000
Issued and fully paid:		
At 1st January, 2007	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**
Repurchase of own shares	**(92,000)**	**(36,800)**
At 31st December, 2008	**709,930,692**	**283,972,277**

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.

During October 2008, the Company had repurchased, through the Stock Exchange of Hong Kong Limited, 92,000 ordinary shares at an aggregate consideration of HK$33,980. The repurchased shares were cancelled and the issued share capital of the Company was reduced by the nominal value of these shares accordingly. An amount equivalent to the par value of the shares cancelled of HK$36,800 was transferred to the capital redemption reserve. The aggregate amount paid on the repurchase of the shares of HK$34,451 was charged to retained profits.

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.

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.

28. SHARE OPTION SCHEME (Continued)

No share options were granted, exercised or cancelled during the year. At 31st December, 2008, no share option remained outstanding under the Scheme and all of the 23,470,000 share options granted remaining at 31st December, 2007 had lapsed on or before 4th July, 2008.

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, 2008.

				Number of share options				
Grantee	Date of grant[1]	Exercisable period	Exercise price per share HK$	Outstanding at 31.12.2007	Granted during the year	Exercised during the year	Lapsed during the year	Outstanding at 31.12.2008
Directors								
Mr. Wong Yiu Ming	08.06.2007	15.06.2007-14.06.2008	1.4	**2,000,000**	–	–	**2,000,000**	–
Mr. Li Tin Loi (resigned on 1st December, 2008)	08.06.2007	20.06.2007-19.06.2008	1.4	**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	1.4	**1,600,000**	–	–	**1,600,000**	–
				5,200,000	–	–	**5,200,000**	–
Employees								
In aggregate	08.06.2007	15.06.2007-04.07.2008[2]	1.4	**18,270,000**	–	–	**18,270,000**	–
				23,470,000	–	–	**23,470,000**	–

28. SHARE OPTION SCHEME (Continued)

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	Granted during the year	Exercised during the year[3]	Cancelled/ Lapsed during the year	Outstanding at 31.12.2007
				Number of share options				
Directors								
Mr. Wong Yiu Ming	08.06.2007	15.06.2007- 14.06.2008	1.4	–	4,000,000	2,000,000	–	2,000,000
Mr. Li Tin Loi (resigned on 1st December, 2008)	08.06.2007	20.06.2007- 19.06.2008	1.4	–	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	1.4	–	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]	1.4	–	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 2007, 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.

In 2007, the fair value of the share options granted was HK$3,214,829 of which the Group recognised a share options benefit expense of HK$3,214,829.

28. SHARE OPTION SCHEME (Continued)

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:

	Directors	**Employees**
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.

29. RESERVES

THE COMPANY

	Share premium HK$	Capital redemption HK$	Share options HK$	Retained profit HK$	Proposed dividend HK$	Total HK$
Balance at 1st January, 2007	241,478,789	–	–	2,490,424	10,612,840	254,582,053
Profit for the year						
As previously stated	–	–	–	27,068,935	–	27,068,935
Effect of adopting HK(IFRIC) – Int 11	–	–	–	1,902,006	–	1,902,006
As restated	–	–	–	28,970,941	–	28,970,941
Recognition on grant of share options	–	–	3,214,829	–	–	3,214,829
Shares issued upon exercise of share options	2,500,000	–	–	–	–	2,500,000
Transfer on lapse of share options	–	–	(23,775)	23,775	–	–
Transfer from share options reserve	139,250	–	(139,250)	–	–	–
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, as restated	**244,118,039**	**–**	**3,051,804**	**16,574,664**	**10,650,340**	**274,394,847**
Loss for the year	**–**	**–**	**–**	**(15,959,917)**	**–**	**(15,959,917)**
Repurchase of own shares	**–**	**36,800**	**–**	**(34,451)**	**–**	**2,349**
Transfer on lapse of share options	**–**	**–**	**(3,051,804)**	**1,149,798**	**–**	**(1,902,006)**
Dividend relating to 2007	**–**	**–**	**–**	**–**	**(10,650,340)**	**(10,650,340)**
Balance at 31st December, 2008	**244,118,039**	**36,800**	**–**	**1,730,094**	**–**	**245,884,933**

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 the retained profits should the related option expire or be forfeited. At 31st December, 2008, all share options granted had lapsed, the share options reserve was therefore transferred to retained profits.

30. BANK AND OTHER BORROWINGS

	THE GROUP		THE COMPANY	
	2008	2007	**2008**	2007
	HK$	HK$	**HK$**	HK$
Non-current				
Bank borrowings				
– secured	**2,000,000**	7,136,370	**–**	–
– unsecured	**59,111,112**	48,444,444	**28,000,000**	44,000,000
	61,111,112	55,580,814	**28,000,000**	44,000,000
Other loans				
– unsecured	**147,409**	139,575	**–**	–
	61,258,521	55,720,389	**28,000,000**	44,000,000
Current				
Bank borrowings				
– secured	**120,624,240**	33,309,119	**–**	–
– unsecured	**195,497,139**	219,918,442	**66,000,000**	61,000,000
Bank overdrafts *(note 26)*				
– secured	**–**	285,240	**–**	–
– unsecured	**12,160,621**	16,033,126	**8,320,624**	14,670,031
	328,282,000	269,545,927	**74,320,624**	75,670,031
Total borrowings	**389,540,521**	325,266,316	**102,320,624**	119,670,031

Bank borrowings and overdrafts are secured by the leasehold buildings and leasehold land and land use rights of the Group (notes 15 and 17).

30. BANK AND OTHER BORROWINGS (Continued)

The maturity of borrowings is as follows:

	THE GROUP		THE COMPANY	
	2008	2007	**2008**	2007
	HK$	HK$	**HK$**	HK$
Within one year	**328,282,000**	269,545,927	**74,320,624**	75,670,031
Between one and two years	**61,111,112**	25,580,814	**28,000,000**	16,000,000
Between two and five years	**–**	30,000,000	**–**	28,000,000
Wholly repayable within five years	**389,393,112**	325,126,741	**102,320,624**	119,670,031
Over five years	**147,409**	139,575	**–**	–

The effective interest rate as at 31st December, 2008 for bank loans is 3.61% per annum (2007: 5.97% 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	
	2008	2007	**2008**	2007
	HK$	HK$	**HK$**	HK$
Bank borrowings	**61,111,112**	55,580,814	**58,028,694**	48,460,101
Other loans	**147,409**	139,575	**102,822**	97,358
	61,258,521	55,720,389	**58,131,516**	48,557,459

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

30. BANK AND OTHER BORROWINGS (Continued)

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

	THE GROUP		THE COMPANY	
	2008	2007	**2008**	2007
	HK$	HK$	**HK$**	HK$
Hong Kong Dollars	**268,091,435**	165,997,395	**102,320,624**	119,670,031
Renminbi	**121,449,086**	156,916,141	**–**	–
United States Dollars	**–**	2,352,780	**–**	–
	389,540,521	325,266,316	**102,320,624**	119,670,031

The Group has the following undrawn borrowing facilities:

	2008	2007
	HK$	HK$
Floating rate		
– expiring with one year	**328,456,227**	305,953,968

The facilities expiring within one year are annual facilities subject to review at various dates during 2009.

31. OBLIGATIONS UNDER FINANCE LEASES

THE GROUP

	Minimum lease payments		Present value of minimum lease payments	
	2008	2007	**2008**	2007
	HK$	HK$	**HK$**	HK$
Amounts payable under finance leases:				
Within one year	**7,283,490**	6,083,788	**6,919,984**	5,480,551
In the second to fifth year inclusive	**8,961,146**	8,194,848	**8,753,792**	7,679,497
	16,244,636	14,278,636	**15,673,776**	13,160,048
Less: Future finance charges	**570,860**	1,118,588	**N/A**	N/A
Present value of lease payments	**15,673,776**	13,160,048	**15,673,776**	13,160,048
Less: Amount due for settlement within one year shown under current liabilities			**6,919,984**	5,480,551
Amount due for settlement after one year			**8,753,792**	7,679,497

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, 2008, the average effective borrowing rate was 3.64% per annum (2007: 4.85% per annum). Interest is charged at one month HIBOR or HIBOR plus 1.25% to 2% per annum (2007: 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.

32. DEFERRED TAXATION

THE GROUP

Deferred taxation is calculated in full on temporary difference under the liability method using a principal taxation rate of 16.5% (2007: 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, 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 and 1st January, 2008	**(833,094)**	**(5,307,779)**	**2,769,464**	**11,298,798**	**7,927,389**
Currency realignment	**153,009**	**(276,678)**	**–**	**296,072**	**172,403**
Effect of change in tax rate					
– Credited to equity	**–**	**7,422**	**–**	**–**	**7,422**
– Credited (Charged) to income statement	**10,526**	**893,082**	**(81,617)**	**(938,951)**	**(116,960)**
Charged to equity	**–**	**(2,982,612)**	**–**	**–**	**(2,982,612)**
Credited (Charged) to income statement	**2,726,594**	**7,145,860**	**(1,756,450)**	**(8,967,436)**	**(851,432)**
At 31st December, 2008	**2,057,035**	**(520,705)**	**931,397**	**1,688,483**	**4,156,210**

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:

	2008 HK$	2007 HK$
Deferred tax assets	**4,385,509**	21,138,883
Deferred tax liabilities	**(229,299)**	(13,211,494)
	4,156,210	7,927,389

32. DEFERRED TAXATION (Continued)

THE GROUP (Continued)

Deferred tax assets are recognised for tax losses carried forward to the extent that the realisation of the related tax benefit through the future taxable profits is probable. At 31st December, 2008, the Group has unrecognised tax losses of HK$230,316,567 (2007: HK$203,015,553) available for offset against future profits. Included in unrecognised tax losses are losses of HK$61,155,378 (2007: HK$31,962,329) that will be expired in five years and the remaining balance does not expire under the current tax legislation. Temporary differences arising in connection with interests in associates are insignificant.

THE COMPANY

At 31st December, 2008, the Company has unutilised tax losses of HK$144,297,966 (2007: HK$122,334,307) available for offset against future profits. No deferred tax asset has been recognised in respect of the tax losses due to the unpredictability of future profit streams. The tax losses do not expire under current tax legislation. The Company has no significant unprovided deferred tax liabilities at both of year end dates.

33. NOTES TO CONSOLIDATED CASH FLOW STATEMENT

Disposal of subsidiaries

	2008 **HK$**	2007 HK$
NET LIABILITIES DISPOSED OF:		
Minority interests	–	1,618,512
Translation reserve realised upon disposal	–	(459,666)
Loss on disposal of subsidiaries	–	(1,158,846)
	–	–
SATISFIED BY:		
Cash consideration	–	–
NET CASH INFLOW ON DISPOSAL:		
Cash consideration	–	–
Cash and cash equivalents disposed of	–	–
	–	–

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$9,749,600 (2007: HK$7,257,691).

35. OPERATING LEASE COMMITMENTS

The Group as lessee

	THE GROUP	
	2008	2007
	HK$	HK$
Minimum lease payments made during the year under operating leases in respect of:		
Land and buildings	**17,130,859**	11,220,376
Plant and machinery	**27,360**	1,924,781
	17,158,219	13,145,157

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	
	2008	2007
	HK$	HK$
Within one year	**10,895,633**	10,864,755
In the second to fifth year inclusive	**26,445,935**	35,553,817
Over five years	**28,162,560**	42,600,383
	65,504,128	89,018,955

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$85,299 (2007: HK$299,449) was HK$804,970 (2007: HK$1,835,251).

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	
	2008	2007
	HK$	HK$
Within one year	**297,941**	383,146
In the second to fifth year inclusive	**61,231**	–
	359,172	383,146

THE COMPANY

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

36. CAPITAL COMMITMENTS

	THE GROUP	
	2008	2007
	HK$	HK$
		(Restated)
Capital expenditure:		
Authorised but not contracted for	**–**	–
Contracted but not provided for	**2,651,857**	–
	2,651,857	–

THE COMPANY

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

37. FINANCIAL GUARANTEES AND CONTINGENT LIABILITIES

	THE GROUP		THE COMPANY	
	2008	2007	**2008**	2007
	HK$	HK$	**HK$**	HK$
Guarantees given to financial institutions in respect of credit facilities utilised by:				
Subsidiaries	**–**	–	**936,560,000**	750,640,000
Outsiders	**9,096,876**	894,101	**–**	–
	9,096,876	894,101	**936,560,000**	750,640,000

In the opinion of the directors, the fair value of the liabilities in relation to the above guarantees is insignificant as at 31st December, 2008 and 31st December, 2007.

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 16% – 20% 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$4,512,506 (2007: HK$5,026,801) represents contributions payable to these schemes by the Group in respect of the current accounting period. As at 31st December, 2008, contributions of approximately HK$208,498 (2007: HK$18,771) due in respect of the reporting period had not been paid over to the schemes.

39. PLEDGE OF ASSETS

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

	2008 **HK$**	2007 HK$
Leasehold buildings	**–**	67,690,337
Leasehold land and land use rights	**–**	12,380,447
Plant and machinery	**34,715,509**	10,647,847
Bank deposits	**120,697,909**	33,820,056
	155,413,418	124,538,687

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

40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

(a) Financial instruments by categories

The accounting policies for financial instruments have been applied to the line items below:

THE GROUP

	Loans and receivables HK$	Available-for-sale financial assets HK$	Total HK$
Assets as per consolidated balance sheet			
31st December, 2008			
Available-for-sale financial assets *(note 21)*	**–**	**4,729,444**	**4,729,444**
Amounts due from associates *(note 20)*	**95,287,850**	**–**	**95,287,850**
Trade and other receivables *(note 23)*	**735,153,954**	**–**	**735,153,954**
Pledged bank deposits *(note 39)*	**120,697,909**	**–**	**120,697,909**
Cash and cash equivalents *(note 26)*	**189,369,411**	**–**	**189,369,411**
Total	**1,140,509,124**	**4,729,444**	**1,145,238,568**
31st December, 2007			
Available-for-sale financial assets *(note 21)*	–	5,055,010	5,055,010
Amounts due from associates *(note 20)*	45,186,971	–	45,186,971
Trade and other receivables *(note 23)*	734,386,277	–	734,386,277
Pledged bank deposits *(note 39)*	33,820,056	–	33,820,056
Cash and cash equivalents *(note 26)*	188,935,065	–	188,935,065
Total	1,002,328,369	5,055,010	1,007,383,379

	Financial liabilities measured at amortised cost HK$	Financial liabilities at fair value through profit or loss HK$	Total HK$
Liabilities as per consolidated balance sheet			
31st December, 2008			
Trade and other payables *(note 24)*	**666,428,196**	**–**	**666,428,196**
Derivative financial instruments *(note 25)*	**–**	**167,215**	**167,215**
Amounts due to associates	**61,742,160**	**–**	**61,742,160**
Bank and other borrowings *(note 30)*	**389,540,521**	**–**	**389,540,521**
Obligation under finance leases *(note 31)*	**15,673,776**	**–**	**15,673,776**
Total	**1,133,384,653**	**167,215**	**1,133,551,868**
31st December, 2007			
Trade and other payables *(note 24)*	725,966,417	–	725,966,417
Amounts due to associates	48,703,065	–	48,703,065
Bank and other borrowings *(note 30)*	325,266,316	–	325,266,316
Obligation under finance leases *(note 31)*	13,160,048	–	13,160,048
Total	1,113,095,846	–	1,113,095,846

40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

(a) Financial instruments by categories (Continued)

THE COMPANY

	Loans and receivables HK$
Assets as per balance sheet	
31st December, 2008	
Amounts due from subsidiaries *(note 19)*	**672,437,729**
Trade and other receivables	**722,441**
Cash and cash equivalents *(note 26)*	**17,096,505**
Total	**690,256,675**
31st December, 2007	
Amounts due from subsidiaries *(note 19)*	695,152,702
Trade and other receivables	657,281
Cash and cash equivalents *(note 26)*	23,681,117
Total	719,491,100

	Financial liabilities measured at amortised cost HK$	**Financial liabilities at fair value through profit or loss HK$**	**Total HK$**
Liabilities as per balance sheet			
31st December, 2008			
Trade and other payables	**4,059,757**	**–**	**4,059,757**
Derivative financial instruments *(note 25)*	**–**	**167,215**	**167,215**
Amounts due to subsidiaries	**34,997,948**	**–**	**34,997,948**
Amounts due to associates	**60,652,894**	**–**	**60,652,894**
Bank and other borrowings *(note 30)*	**102,320,624**	**–**	**102,320,624**
Total	**202,031,223**	**167,215**	**202,198,438**
31st December, 2007			
Trade and other payables	4,649,940	–	4,649,940
Amounts due to subsidiaries	32,069,046	–	32,069,046
Amounts due to associates	47,619,799	–	47,619,799
Bank and other borrowings *(note 30)*	119,670,031	–	119,670,031
Total	204,008,816	–	204,008,816

40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

(b) 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 assets of the Group are principally denominated in United States Dollar ("US$"). Hong Kong dollars ("HK$") 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, 2008, 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$3,861,000 (2007: HK$3,971,000), higher or lower. At 31st December, 2008, if HK$ had strengthened/weakened by 10% against the RMB, equity would have been approximately HK$86,388,347 (2007: HK$97,403,000), lower or higher.

At 31st December, 2008, 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$1,101,620 (2007: HK$191,000), 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 HK$ and US$ would be materially unaffected by any changes in movement in value of US$ 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 HK$ at the exchange rate ruling at the balance sheet date for presentation purposes. The analysis is performed on the same basis for 2007.

40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

(b) 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, 2008, 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$1,086,000 (2007: HK$815,000) lower/higher, mainly as a result of higher/lower interest expense on floating rate borrowings.

At 31st December, 2008, 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$264,000 (2007: HK$417,000) 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 2007.

40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

(b) 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 23.

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.

40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

(b) 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, 2008					
Trade and other payables	**666,428,196**	**–**	**–**	**–**	**666,428,196**
Amounts due to associates	**61,742,160**	**–**	**–**	**–**	**61,742,160**
Obligations under finance leases	**7,237,263**	**7,183,173**	**1,824,200**	**–**	**16,244,636**
Derivative financial instruments	**167,215**	**–**	**–**	**–**	**167,215**
Bank and other borrowings	**335,275,716**	**48,599,252**	**13,422,432**	**147,409**	**397,444,809**
	1,070,850,550	**55,782,425**	**15,246,632**	**147,409**	**1,142,027,016**
At 31st December, 2007					
Trade and other payables	725,966,417	–	–	–	725,966,417
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
	1,061,121,645	31,328,011	35,682,694	139,575	1,128,271,925

40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

(c) 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, 2008 and 2007 are as follows:

	2008	2007
	HK$	HK$
Current liabilities	**1,067,992,280**	1,056,208,993
Non-current liabilities	**70,241,612**	76,611,380
Total borrowings	**1,138,233,892**	1,132,820,373
Total equity	**1,135,805,150**	1,128,519,421
Total capital	**2,274,039,042**	2,261,339,794
Total debts ratio	**50%**	50%

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

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:

	Notes	**2008 HK$**	2007 HK$
Substantial shareholders and its subsidiaries:			
EDP charges received *(note i)*		**183,600**	183,600
Management fee paid *(note i)*		**2,821,275**	2,814,075
Balances due from the Group as at the balance sheet date *(note ii)*	*24*	**400,905**	636,827
Balances due to the Group as at the balance sheet date *(note ii)*	*23*	**12,323**	117,551
Company controlled by certain directors:			
Management fee paid *(note i)*		**996,000**	996,000
EDP charges received *(note i)*		**51,600**	51,600
Balance due to the Group as at the balance sheet date *(note ii)*	*23*	**1,150**	–
Minority shareholders:			
Balances due from the Group as at the balance sheet date *(note ii)*	*24*	**382,550**	382,550
Balances due to the Group as at the balance sheet date *(note ii)*	*23*	**824,915**	944,312
Associates:			
Sales of finished goods *(note i)*		**1,398,491**	13,264,261
Sub-contracting charge received *(note i)*		**6,625,056**	1,247,981
Sub-contracting charge paid *(note i)*		**45,386**	–
Purchases *(note i)*		**12,117,385**	10,378,598
Balances due from the Group as at the balance sheet date *(note ii)*		**61,742,160**	48,703,065
Balances due to the Group as at the balance sheet date *(note ii)*		**95,287,850**	45,186,971
Key management compensation of the Group:			
Salaries and other short-term employee benefits		**16,331,242**	15,309,022

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.

42. PARTICULARS OF PRINCIPAL SUBSIDIARIES

Details of the Company's principal subsidiaries at 31st December, 2008 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
Dekuma Rubber and Plastic Technology (Dongguan) Limited (formerly known as Dongguan Dekuma Welltec Machinery Limited) *(note a)*	PRC	PRC	HK$4,000,000	100.00	100.00	Manufacturing and trading of 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

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 held by the Company*/ subsidiaries %	Proportion of nominal value of issued share capital/ registered capital attributable to the Group %	Principal activities
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
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. 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 for annual periods beginning on or after 1st July, 2008

HK(IFRIC) – Int 13	Customer Loyalty Programmes

Effective for annual periods beginning on or after 1st October, 2008

HK(IFRIC) – Int 16	Hedges of a Net Investment in a Foreign Operation

Effective for annual periods beginning on or after 1st January, 2009

HKAS 1 (Revised)	Presentation of Financial Statements
HKAS 23 (Revised)	Borrowing Costs
HKFRS 2 (Amendment)	Vesting Conditions and Cancellations
HKFRS 7 (Amendments)	Improving Disclosures about Financial Instruments
HKFRS 8	Operating Segments
HKFRS 1 & HKAS 27 (Amendments)	Cost of an Investment in a subsidiary, Jointly Controlled Entity or Associate
HKAS 32 & 1 (Amendments)	Puttable Financial Instruments and Obligations Arising on Liquidation
HK(IFRIC) – Int 15	Agreements for the Construction of Real Estate

Effective for annual periods beginning on or after 1st July, 2009

HKAS 27 (Revised)	Consolidated and Separate Financial Statements
HKAS 39 (Amendment)	Eligible Hedged Items
HKFRS 3 (Revised)	Business Combinations
HK(IFRIC) – Int 17	Distribution of Non-cash Assets to Owners

Effective for transfers on or after 1st July, 2009

HK(IFRIC) – Int 18	Transfer of Assets from Customers

Apart from the above, the HKICPA has also issued "Improvements to HKFRSs" which sets out amendments to a number of HKFRSs. Except for the amendments to HKFRS 5 which is effective for annual periods beginning on or after 1st July, 2009, other amendments are effective for annual periods beginning on or after 1st January, 2009.

The application of HKFRS 3 (Revised) may affect the accounting for business combination for which the acquisition date is on or after the beginning of the first annual reporting period beginning on after 1st July, 2009. HKAS 27 (Revised) will affect the accounting treatment for changes in a parent's ownership interest in a subsidiary. HKAS 1 (Revised) will prohibit the presentation of items of income and expenses (that is, 'non-owner changes in equity') in the statement of changes in equity, requiring 'non-owner changes in equity' to be presented separately from owner changes in equity. All non-owner changes in equity will be required to be shown in a performance statement, but entities can choose whether to present one performance statement (the statement of comprehensive income) or two statements (the consolidated income statement and statement of comprehensive income). The directors of the Company anticipate that the application of the other new and revised standards, amendments or interpretation will have no material impact on the results and the financial position of the Group.

FINANCIAL SUMMARY

INCOME STATEMENT

	For the year ended 31st December,				
	2004	2005	2006	2007	**2008**
	HK$'000	HK$'000	HK$'000	HK$'000	**HK$'000**
Turnover	1,665,687	1,650,729	2,022,632	2,093,377	**1,939,383**
Profit before taxation	65,482	80,300	100,160	147,626	**63,932**
Taxation	8,934	7,198	11,544	9,934	**7,627**
Profit for the year	56,548	73,102	88,616	137,692	**56,305**
Minority interests	15,088	18,881	23,473	37,652	**11,066**
Profit attributable to equity holders of the Company	41,460	54,221	65,143	100,040	**45,239**

BALANCE SHEET

	At 31st December,				
	2004	2005	2006	2007	**2008**
	HK$'000	HK$'000	HK$'000	HK$'000	**HK$'000**
Total assets	1,812,175	1,876,786	2,107,424	2,261,339	**2,274,039**
Total liabilities	991,994	1,011,574	1,151,466	1,132,820	**1,138,234**
Total equity	820,181	865,212	955,958	1,128,519	**1,135,805**
Minority interests	157,559	139,917	164,314	201,679	**152,984**

REGISTERED OFFICE

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

註冊辦事處

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