ANNUAL REPORT 2012 年報

大同機械企業有限公司
COSMOS MACHINERY ENTERPRISES LIMITED
Stock Code 股份代號: 118

5 consecutive years
商界展關懷
caringcompany 2007-12
Awarded by The Hong Kong Council of Social Service
香港社會服務聯會頒發

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CORPORATE INFORMATION

CHAIRMAN EMERITUS
Tang Kwan

DIRECTORS
Executive Directors
Tang To *(Chairman)*
Jiang Wei
Wong Yiu Ming
Tang Yu, Freeman

Non-Executive Directors
Wu Ding *(Vice Chairman)*
Kan Wai Wah
Qu Jinping

Independent Non-Executive Directors
Yeung Shuk Fan *CPA (US) ACIS*
Cheng Tak Yin
Ho Wei Sem
Huang Zhi Wei

Audit Committee
Yeung Shuk Fan *CPA (US) ACIS*
Cheng Tak Yin
Ho Wei Sem

Remuneration Committee
Yeung Shuk Fan *CPA (US) ACIS*
Cheng Tak Yin
Ho Wei Sem
Tang To

Committee of Executive Directors
Tang To
Jiang Wei
Wong Yiu Ming
Tang Yu, Freeman

Nomination Committee
Yeung Shuk Fan *CPA (US) ACIS*
Cheng Tak Yin
Ho Wei Sem
Tang To
Wong Yiu Ming

CHIEF EXECUTIVE OFFICER
Wong Yiu Ming

JOINT COMPANY SECRETARIES
Ho Kwong Sang *FCCA CPA FCS FCIS*
Tam Pui Ling *ACS ACIS*

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PRINCIPAL BANKERS
Bank of China (Hong Kong) Limited
The Hongkong & Shanghai
Banking Corporation Limited
Citic Bank International Limited
DBS Bank (Hong Kong) Limited

SOLICITORS
Woo, Kwan, Lee & Lo

AUDITORS
Ting Ho Kwan & Chan

SHARE REGISTRAR
Tricor Secretaries Limited
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28 Queen's Road East
Wanchai
Hong Kong

LISTING INFORMATION
The Stock Exchange of Hong Kong Limited
Stock Code: 118

CHAIRMAN'S STATEMENT

I am pleased to announce the annual results of Cosmos Machinery Enterprises Limited (the "Company") and its subsidiaries (the "Group") for the year ended 31st December, 2012.

RESULTS

The Group's consolidated turnover for the year was approximately HK$2,121,595,000, representing a decrease of about 12% compared to approximately HK$2,416,690,000 for 2011. Our loss after taxation was approximately HK$13,138,000, while the profit for the same period of last year was about HK$34,513,000. For the year ended 31st December, 2012, the loss attributable to shareholders was about HK$24,175,000, and in the previous year, the profit attributable to shareholders was approximately HK$26,579,000.

CHAIRMAN'S STATEMENT

The year 2012 was a year full of confidence crisis, and the overseas and domestic markets remained in their doldrums. Facing such a market adversity, all member companies within the Group demonstrated to be proactive, prudent and strenuous in coping with the situation. Still, I would like to apologize to all shareholders that our results were at a loss, which I would strictly review to find out what had not been done enough.

During the period under review, the Group's machinery business was affected by the lingering global financial and deepening sovereign debt crises occurring in European countries. Inheriting the slowdown reversal and the continuing adversity that occurred in the second half of 2011, the oversea market was shrinking in its orders. What was more was that in order to suppress the overheated property market and to guard against inflation, the Chinese government had since the third quarter of 2011 until the full financial year of 2012 widely tightened its liquidity, but without easing its tightening financial policy in favour of the commercial and industrial field. This dealt a blow to the industrial entrepreneurs who originally intended to replace their equipment and facilities, as a response to the State's call for technology upgrades, energy saving and wastage reduction. Instead, the entrepreneurs had to either delay or change their plans due to difficulties in raising fund. The domestic market remained quiet and did not show any sign of recovery, and market competition was therefore getting more stringent. In spite of the fact that labour cost was escalating in the industry, contenders in the industry cut down their prices without self discipline, and provided longer credit terms as their means for a Red Sea style competition. And it brought about severe challenges to the operating environment.

During this sustaining adverse situation, the Group followed the principle of responding to shareholders so that operating arrangement could be prepared for longer term market slowdown, focus could be placed to protect the Group's financial health and steadiness, and steady, healthy and proactive operating and sales strategies could be maintained, and so that the pursuit of higher sales performance that may result in taking up higher credit risk could also be abandoned. Although the sales turnover of the Group's machinery and trading businesses declined 23% and 10% respectively, the Group's steady and healthy financial foundation supports its various businesses that could therefore maintain their healthy and normal operations.

In the quiet market, although a lot of customers reduced or even cancelled their orders it provided a good opportunity for the Group to cultivate new market and seek for customers that required high-end quality. During the year under review, the Group's plastic material processing production base located in Dongguan and Hefei actively cultivated customers that required high quality. A test-run was smoothly gone through and new business was developed, thus eliminating the risk of an over concentrated clientele occurring in the past. Also, during the previous year the printed circuit board business further cultivated its new customers and new markets actively. Now, its customer base is healthier and its business results in the previous year returned to growth.

COSMOS-PRESS Precision Press Forming Flexible Manufacturing System

Copying with the operating environment of the year 2012, reducing operating expenses was imperative. Still, the Group's various businesses continued to promote the research and development of new technologies and new products, hence investment in related products was not reduced. Rather, with the strenuous effort

CHAIRMAN'S STATEMENT

of the research and development team of the Group's machinery business, it secured applications for four inventions and nine patents for utility models last year. The performance of the Group's hydraulic press series was successfully upgraded to the precision press forming grade of products. The Se series of plastic injection moulding machines, which features energy saving and wastage reduction, has finished a further engineering optimization. Inheriting the effort made in the past few years, the Ge series of all-electric plastic injection moulding machines was successfully developed in the second half of last year. And that is poised to inject new momentum in the Group's plastic injection moulding business.

During the past one year, the Group continued to provide training to its staff. And, we firmly believe that only with steady and healthy financial foundation, a good team, and excellent products can we be really competitive.

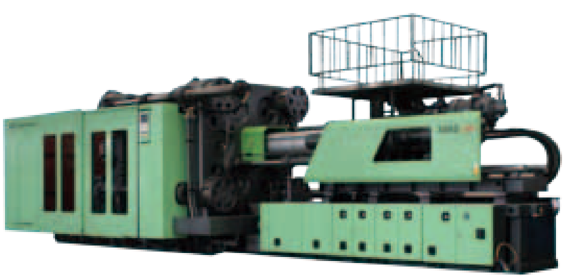
FUTURE PROSPECTS

With the central banks of the US, Europe and Japan continuing their monetary easing policies, the overseas market has recently shown a mild sign of recovery. Hence, it is believed that the market may turn active in a mild tone. Nevertheless, the issue of the core problem of the advanced countries has not been truly resolved, sovereign debts have not been effectively controlled, and mishaps of the financial crisis may emerge again anytime. Thus, it is unlikely that we can anticipate any steady recovery in the consumer market. The liquidity that flooded the market is poised to affect the fluctuation of currency exchange rates and commodity prices. The real economy will therefore remain difficult. In view of the domestic market having been in the doldrums for quite a while, the new leadership shall maintain steady and healthy monetary and proactive fiscal policies. Although fund raising has recently been loosened for small and medium enterprises, the Chinese government's concern about the property market bubble has remained unchanged. And they may go further to strictly guard against the resurgence of price inflation. It is therefore foreseen that the government's financial policy may remain to be tight. The country will promote its policy to reform national income distribution. Under this circumstance, labour cost will continue to rise, and the coming year's operating environment will not be easy.

Nevertheless, our nation has clearly been persistent in optimizing the industrial structure. It has actively promoted independent innovation of science and technology, technological upgrade, and has supported enterprises to expedite the deployment of new technology, new material, new techniques and new facilities – in order to enhance market competition. Last year, businesses within the Group spent strenuous effort to research and develop new products, cultivate new customers that require high-end quality, thus fortifying an excellent foundation that has created an opportunity for the Group's various businesses to thrive for good results.

The year 2013 will remain to be a year full of changes. The Group will therefore continue with its prudency to proactively cope with the situation, to implement steady and healthy financial strategies, to maintain scientific and technological research and development, to increase injection of resources for automated facilities and human resource training, and to seek for opportunity that allow us to concentrate our resources towards the development of various core businesses. I believe that through the concerted effort of all my colleagues and our continuing learning to elevate our capability to master changes, the Group will, in the new year, turn around to become profitable in its business results.

The past one year was filled with difficulties. The senior management and our staff force worked very hard and persisted in a realistic manner to maintain a healthy financial position and steady foundation for the Group during the time of adversity. For this, I would like to extend my heartfelt appreciation. Also, I would like to convey my profound appreciation for what our directors had contributed, and the supports and cooperation of all our shareholders, customers and partners.



DONGHUA 3050JSe/BPR+ Servo-Driven Two-Platen Plastic Injection Moulding Machine Special for Auto Bumper

TANG To
Chairman

Hong Kong, 27th March, 2013

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

During the year under review, an unstable global economic climate, coupled with the credit crunch that occurred in Europe and America, reverberated throughout the world economy, and confidence crisis rippled over the market. Customers from various industries had to suspend their development of new products or defer their investment plans, which significantly and negatively impacted the Group's overall businesses.

In China, due to the tightening of credit by domestic banks it was difficult for enterprises to raise funds. That combined with high inflation rate, rising operating cost and intense competition within the industry, the Group's consolidated performance was not encouraging, and some individual member companies even recorded losses. Consolidated net loss for the year was approximately HK$24,175,000. Nevertheless, other performance indicators of the Group, such as turnover days, repayment capability, and debt ratio remained healthy and stable. Under the strategic planning of the management and with the hard work of all our staff, we strongly believe that the loss occurred is only temporary. It is anticipated that 2013 should be the year to turnaround and bring profits for the Group.

Manufacturing Business

Machinery

Machinery business recorded an overall sales for the full year of approximately HK$843,924,000, a decrease of approximately 23% compared with last year, which accounted for approximately 40% of the consolidated turnover of the Group. The profit in the period was approximately HK$1,530,000.

Since the third quarter of the year under review, the slowdown in external economic growth, the rise in domestic labor cost, the appreciation of the RMB and other adverse factors have negatively impacted the manufacturing industry. Most Chinese manufacturers have been running below capacity. With such an uncertain future, customers remained conservative on capital investment and suspended or deferred plans for acquiring new equipment or replacing old equipment. On the export side, a weak recovery in the major markets and different degrees of depreciation of those currencies against RMB led to a significant fall in sales. Besides, the decline in sales caused an increase in the marginal cost of production, and with supply exceeding demand and some disorderly price competition, the business experienced an overall decline in gross profit margin.

In line with the trend of national energy saving and emission reduction, and industrial restructuring, our machinery business will continue to use "energy-saving, accuracy and efficiency, enhancing automation and networking capabilities" as the overall strategic line for its products. And after several years of development, our hydraulic machines have been successfully upgraded to focus on research and sales of the industry-specific machines and precision press forming flexible production lines.

After several years of research and development, the optimization of the Ge series all-electric plastic injection molding machine, with a total of 20 models, was completed, and they were put in the market for product trials in the second half of the year. Ge series is the most high-end series out of the GREENLINE servo-driven energy saving plastic injection moulding machines, targeting industries like pharmaceutical

WELLTEC Ge Series All-Electric+ Plastic Injection Moulding Machine

MANAGEMENT DISCUSSION AND ANALYSIS

packaging, optics products and precision plastic parts. And the Group has already started selling them in bulk since early 2013. In the JSe series, the large servo-driven two platen plastic injection moulding machine, was upgraded and optimized with clamping forces of 1300T to 4000T that would greatly enhance operation speed, and was accepted extensively by our customers.

In respect of deepening and exploration of the market, the Group has completed the coverage of pre-sale and after-sale services in second-tier cities in inland areas of China for this business during the year. In respect of the export business, sales have declined and developing countries remained the main sales market. In consideration of the Group's product mix being gradually transformed to the higher end of the market, subsequent overseas marketing campaigns and sales network will expand to North America and Western Europe.

The Se series servo-driven energy-saving plastic injection moulding machine, assembled by our Indian joint venture partner JH-WELLTEC, has been widely taken by customers in India this year. During this period, localized supply chains were successfully constructed for some of the machinery structural parts, sale and after sale points were also established in eight of India's industrial cities, thus enhancing our long-term sustainable development and competitive advantage.

In respect of the production base distribution in China, the Group will continue to take full advantage of the facilities that surround the Wuxi High Technology Industrial Development Zone, and manufacture our own sheet-metal press brake that was originally outsourced for manufacture, and at the same time focus on the production and sales of the FS series servo-driven hydraulic energy-saving models. On the other hand, a separate production workshop was built on our base in southern China in the year under review, which is equipped with dust-free and air conditioning production environment to provide the best conditions for assembling high precision models.

Wuxi new production base started operation formally in April 2012

Plastic Products and Processing

During the period under review, sales of plastic products and processing business was approximately HK$332,364,000, representing a decrease of about 29% as compared with the same period last year and accounted for approximately 16% of the Group's consolidated turnover. Due to the rise in the overall material and labor costs, the business recorded a loss of approximately HK$20,215,000. Contributing to the loss included an amount of HK$8,700,000 for business restructuring, which was attributed to the closure of the plastic product factory in Wuxi, the termination of the plastic bucket production line in the Dongguan factory, and the relocation of the factory in Hefei.

In respect of the home appliances and A/V products processing business, the production base located in Dongguan experienced a major setback in the first half of the year. During this period, due to the external economic downturn, customers tended to be conservative in developing new products, resulting in significant decrease in and even cancellation of orders. That coupled with the growing

Plastic Casing of Handheld Tablet Product

MANAGEMENT DISCUSSION AND ANALYSIS

complexity of product design and production technology, and escalating production cost, drove the business to a relatively significant loss position. Affected by the subsidy policy for home appliances products in rural areas which was made two years ago, which turned out to be negative to the business as the market prematurely exhausted its purchasing power, the plastic products and processing business located in Hefei showed a downturn in the first half of the year. But starting in the third quarter, orders gradually increased and basically climbed back up to the normal level in the fourth quarter, the overall profitability of the business for the full year's operation reached a breakeven.


Thin-Wall Plastic Containers

During the financial year under review, food packaging and cutlery sales were similar to the same period of last year, of which sales of candy sticks increased by about 26% compared with those of the previous year. Since there was not any significant fluctuation in the price of plastic, we were able to control costs and resulted in an increase in profit in this area. The business was also committed to optimize cost management and to increase the overall gross profit margin. In the year, the business's production workshop and technological processes were re-engineered for a number of products, which included upgrading to a one hundred thousand grade dust-free workshop, increasing automated production equipment and developing our own valve gate type multi-cavity hot runner system mould, so as to effectively improved the cleanliness and quality of our products, and, in turn, secure orders from major customers. Overall, this business recorded a satisfactory amount of profit.


BioChef Kitchen Ware


Pocket Folding Magnifier

During the year, the sales of our eco-friendly kitchenware brand, BioChef, spanned from Hong Kong to Southeast Asia, the United Kingdom and the United States. Various distribution channels were also developed in China, including some strategic cooperation arrangements. The gift packages which were sold during Mid-Autumn Festival and New Year received excellent feedback. However, as this business is still at the stage of establishing its brand image and distribution channels, overall profitability was not broken even yet.

For the sales of optic and lighting products, during the period under review, sales were similar to the same period of last year, yet overall performance was not encouraging and recorded a loss as a result of increasing operating expenses and shrinking gross profit.

Printed Circuit Board

For the printed circuit board business, the sales of 2012 was approximately HK$565,986,000, representing an increase of approximately 30% compared with the same period of last year, and accounted for about 27% of the Group's consolidated turnover, while operating profit for the period was approximately HK$22,933,000.

The first half of the year 2012 was a difficult year for the business's operation. Due to the recessionary external economic climate, the business loses its orders seriously while operating costs were under rising pressure, and hence its business results in the half year once recorded a loss.

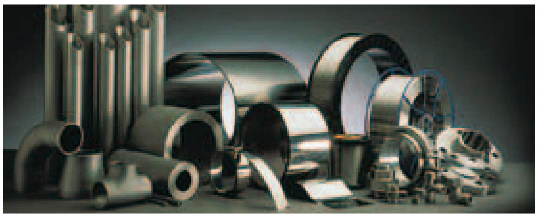
Although the economic situation in the second half of the year remained in its doldrums, the number of orders increased substantially thanks to the efforts of the management team. The business therefore revived in the second half of the year as orders for circuit boards from the car industry in Europe increased significantly. Besides, technological production processes were improved to control costs effectively. Hence, the business made desirable contribution of profit during the period under review.

MANAGEMENT DISCUSSION AND ANALYSIS

Trading Business

Industrial Consumables

The trading business during the year under review accounted for a turnover of approximately HK$374,806,000, representing a decrease of 10% compared with the same period of last year and accounted for approximately 17% of the Group's consolidated turnover. The operating profit for the period was approximately HK$23,553,000.



Precision Stainless Steel Strips and Wires

During the year under review, the credit crunch in Europe and America continued to constrain our exports, the major adjustments and tightening of credit by domestic banks in China made it very difficult for the manufacturing business. During this tough time, externally our strategy was to proactively focus on developing new markets, strengthening the competitiveness of our sales team, accommodating the requirements of environmental protection and energy conservation, as well as factory automation. Internally, we successfully reduced our inventory level, and strictly maintained our account receivables reasonably well. With these measures, we managed to keep the business in a solid financial position.

Load Cell

During the year under review, the business successfully developed its market for automated equipment (such as robotic arms), and further increased its market share in the elevator industry. There was also a significant growth in the project for re-engineering the hydraulic servo-driven system for plastic injection moulding machines, which helped compensating for the slowdown that occurred in other businesses. In addition, the growth of new products such as plastic fasteners and special stainless steel wire were ideal, reducing the negative impact the sluggish market had made on the business. Hence, the overall business made reasonable contribution of profit this year.

Other businesses

Electronic Watt-Hour Meters and Related Businesses

Shenzhen Haoningda Meters Co., Ltd. ("Haoningda"), an associate of the Group in Shenzhen, recorded stable operating income, hence achieving a reasonable return for the Group this year. During the year under review, this business was busy developing new products that included but not limited the single and three-phase smart meters, power cable accessories, energy-saving and emission reduction products, and the low voltage centralized meter system solutions, which were all highly praised by our customers. Nonetheless, the Group planned in late December 2012 to sell certain of its stake in Haoningda, and had made all necessary disclosure on such an intention.

BUSINESS PROSPECTS

The machinery business will continue to employ "steady growth" as the overall strategy, and will use product deepening and market development as the marketing mix strategy. In respect of the research and development and the production and marketing of products, "environmentally-friendly, energy-saving, precition" will continue to be the leading direction. At the same time, we will enhance the automation and network functions of our products, along with a full upgrade on all of our product lines in every aspect, which hopefully could help us in gaining a larger market share in the high-end market. We expect that the State will continue to increase the minimum wage as it has been happening every year. To this end and in the case of inevitable labor

MANAGEMENT DISCUSSION AND ANALYSIS

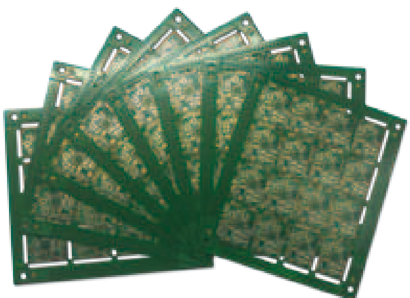
cost increase, the Group will further consider cost optimization options for all activities in the value-added chain to enhance our competitive advantage. The Group is prudently optimistic about the future of the the machinery manufacturing business.

In-Mold Labeling Product

The plastic processing business will continue with its existing marketing strategy and strengthen its position in the market. Meanwhile, to manage soaring cost, the business will continue to streamline its business process and upgrade its plant equipment to reduce costs and optimize structure. In addition, the business will be dedicated to independent research and development, and marketing to continue its development in a high standard, high-value-added and high-growth market, so as to bring reasonable contribution of profit to the Group.

The trading business will continue to uphold the strategy of "seeking progress in stability". Without sacrificing the financial health of the Company, new markets and products will also be explored and developed, along with tighter control on cost, account receivable and inventory management, aiming to maintain profit growth in this uncertain economic environment.

For the printed circuit board business, its sales will continue to adhere to a strategic principle that will focus on an identified number of the most promising end-users as its key development targets. And, we will capitalize on our consistency in providing high quality products and excellent after-sales service that are flexible and resilient. These will enable us to establish our position in the printed circuit board business. Thus, it is expected that the orders and turnover for the coming year will be more stable; the capacity of the company will be running at a fairly high level.



Six-Layer PCB

Looking ahead to 2013, the Group, along with other manufacturers in China, will share the same challenges that include fluctuation in raw material prices, increased labor cost and the uncertainties in the external economy, etc. Nevertheless, the Group will continue to manage these issues and maintain a steady pace of development. In respect of operation, operating costs and risks can be further reduced through optimizing cost control and promoting automation; turnover can be increased through the committed efforts in developing new markets and improving the distribution network. In addition, we will continue to conduct research and development on energy-saving and biodegradable products, and develop the market for environmentally friendly products. We will constantly keep our business up-to-date and look for new opportunities. In respect of internal management, we will continue to optimize the structure and training of human resources, and improve the ERP information management system, and for financial control, a prudent financial management style will be implemented for a healthy development of the Group. The Board of Directors and the Management will uphold a positive, stable, and healthy attitude, and implement an effective and strong management system, while paying close attention to the macroeconomic and market changes to take countermeasures accordingly to enable all our businesses restore an upward trend.

COSMOS-NC ESH Series High Speed Full Servo-Electric CNC Turrent Punch Press

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Statistical Highlights

	2012 HK$'000	2011 HK$'000
Operating results		
Turnover	**2,121,595**	2,416,690
Profit from operations	**2,117**	59,757
Profit (Loss) before taxation	**(2,861)**	49,665
Profit (Loss) attributable to equity holders of the Company	**(24,175)**	26,579
Earning (Loss) per share – Basic (cents)	**(3.37)**	3.72
Earning per share – Diluted (cents)	**N/A**	3.70
Dividend per share (cents)	**–**	0.50
Dividend payout	**–**	13%
Financial position at year end		
Total assets	**2,826,138**	2,828,914
Fixed assets	**765,226**	766,865
Quick assets	**977,140**	994,599
Net current assets	**401,960**	428,454
Shareholders' funds	**1,378,937**	1,401,455
Net asset value per share (cents)	**192**	195
Financial statistics		
Current ratio	**1.33**	1.40
Quick asset ratio	**0.80**	0.82
Gearing ratio	**0.02**	0.02
Total debt ratio	**0.44**	0.44

DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

Mr. Tang To, aged 64, 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 is responsible for the overall policy making and significant investments of the Group. Mr. Tang has over 39 years of experience in manufacturing and trading businesses in Hong Kong and the PRC. Mr. Tang is the father of Mr. Tang Yu, Freeman, 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 Securities and Futures Ordinance. Mr. Tang is a director of Shenzhen Haoningda Meters Co., Ltd., which is an associate of the Company with its shares listed and commenced trading on the Shenzhen Stock Exchange on 9th February, 2010.

Mr. Jiang Wei, aged 50, 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 the Deputy General Manager of China Resources (Holdings) Company Limited, a substantial shareholder of the Company within the meaning of Part XV of the Securities and Futures Ordinance. 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 at present a Non-Executive Director of China Asset (Holdings) Limited and an Independent Non-Executive Director of Greentown China Holdings Limited, the securities of both companies are listed on the main board of the Stock Exchange. He is also a Director of China Vanke Company Limited which is a company listed in the PRC.

Mr. Wong Yiu Ming, aged 59, Executive Director and Chief Executive Officer of the Company, has 35 years of experience in sales, marketing and corporate management. Mr. Wong joined the Group in 1978. He holds a Bachelor of Science degree in Engineering and a Master degree in Business Administration. Mr. Wong was appointed as the General Manager of the Company on 1st February, 1999 and has been re-designated as Chief Executive Officer of the Company with effect from 12th September, 2005. He is responsible for the strategic planning and general management of the Group. Mr. Wong is a director of Shenzhen Haoningda Meters Co., Ltd., which is an associate of the Company with its shares listed and commenced trading on the Shenzhen Stock Exchange on 9th February, 2010.

Mr. Tang Yu, Freeman, aged 35, Executive Director of the Company. He is the son of Mr. Tang To, the Chairman and Executive Director of the Board. He joined the Group in 2006 and is at present the Managing Director and General Manager respectively of two subsidiaries of the Group which are engaged in plastic products and processing. He is responsible for the overall management and strategic planning of these subsidiaries. Besides, he also holds directorship in several subsidiaries of the Group. Prior to joining the Group, he worked in the Commercial Banking Division of HSBC (HK) and as an associate investment advisor in Royal Bank of Canada from 2001 to 2006. Mr. Tang graduated from the University of Western Ontario (Canada) and holds a Bachelor of Arts degree in Economics and holds a Diploma in Financial Planning.

DIRECTORS AND SENIOR MANAGEMENT

NON-EXECUTIVE DIRECTORS

Mr. Wu Ding, aged 47, was appointed as the Vice-Chairman and Non-Executive Director of the Company on 1st June, 2007. Mr. Wu is the Chairman and Chief Executive Officer (CEO) of China Resources Investment Enterprises Limited; and was appointed as the CEO of China Resources Capital Holdings Company Limited in 2011; he is also the supervisor of Vanke Co., Ltd, a listed company in the PRC and the Director of Harvest Capital Partners Limited. Prior to this, he served as the Deputy General Manager of China Resources Land Limited, Chairman and General Manager of China Resources (Shanghai) Co., Ltd., Director of China Resources SZITIC Trust. Mr. Wu joined China Resources in 1988, and he holds an EMBA degree from CEIBS China Europe International Business School.

Mr. Kan Wai Wah, aged 55, Non-Executive Director of the Company, is the Managing Director of Super Harvest Consultancy Limited. He has over 31 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 Securities and Futures Ordinance.

Mr. Qu Jinping, aged 56, 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 the Vice President of South China University of Technology from December 1998 to November 2007. 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 was awarded a Member of the Chinese Academy of Engineering in 2011. 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, Chairman of Guangdong Mechanical Engineering Institute, Deputy Chairman of Guangdong Material Research Society, council member of Guangdong Inventor Association, Deputy Chief Editor of certain publications namely the World Plastics and Plastics Machinery, member of editorial committee of the Journal of South China University of Technology, the China Plastics, the Plastic Industry, the Plastics, the Engineering Plastics Application. Mr. Qu was appointed as Non-Executive Director of the Company on 8th September, 2006.

DIRECTORS AND SENIOR MANAGEMENT

INDEPENDENT NON-EXECUTIVE DIRECTORS

Ms. Yeung Shuk Fan, aged 47, Independent Non-Executive Director of the Company, has over 23 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 18 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 74, Independent Non-Executive Director of the Company, has over 41 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.

Mr. Ho Wei Sem, aged 65, Independent Non-Executive Director of the Company. Mr. Ho has been working in various government institutions in Dongguan during the past 40 years and has extensive experience in management. He was the director-general of Dongguan City Municipal and Public Utilities Management Bureau (東莞市市政公用事業管理局) and Dongguan City Urban Integrated Management Bureau (東莞市城市綜合管理局) from 2000 to August, 2007 before his retirement. During the period from 1996 to 2000, he was the officer of Dongguan City Management Committee (東莞市城市管理委員會). From 1990 to 1996, he was the deputy chief of Dongguan City Urban and Rural Construction Planning Bureau (東莞市城鄉建設規劃局), and was the deputy supervisor of the Preparation Committee of Dongguan City Government (東莞市城區政府籌備組) during the period from 1988 to 1990. He was appointed as Independent Non-Executive Director of the Company with effect from 21st December 2010.

Mr. Huang Zhi Wei, aged 73, Independent Non-Executive Director of the Company, is currently the Executive Vice President of Guangdong General Chamber of Commerce. Mr. Huang has spent over ten years in economic-related government sectors in China. He served as the Deputy Director General of Guangdong Department of Foreign Trade & Economic Cooperation and the Director of General of Guangdong Board of Investment from 1993 to 2000 respectively. He also served as the Executive Officer of Foshan Economic Committee from 1984 to 1992. Prior to this, he worked as an engineer in Foshan Power Plant for almost 10 years and served as the Chief Engineer and Deputy General Manager of Foshan Household Electrical Appliances Corporation from 1981 to 1984. Mr. Huang graduated from the Central China University of Science and Engineering, majored in electric engineering. He is at present an Independent Non-Executive Director of Lerado Group (Holding) Company Limited, a company listed on the Stock Exchange of Hong Kong Limited. He is also an Independent Director of Keda Industrial Co., Ltd., a company listed on The Shanghai Stock Exchange. He was appointed as Independent Non-Executive Director of the Company with effect from 2nd November 2012.

DIRECTORS AND SENIOR MANAGEMENT

SENIOR MANAGEMENT

Mr. Ho Kwong Sang, aged 57, joined the Group in 1981, is the Chief Financial Officer of the Group. He is responsible for the financial management of the Group. Mr. Ho is an accountancy graduate of the Hong Kong Polytechnic University and holds a Master of Arts degree in Management. Professionally, he is a Certified Public Accountant (Hong Kong), Fellow Chartered and Certified Accountant (United Kingdom), Certified Tax Adviser (Hong Kong) and Fellow Chartered Secretary (United Kingdom and Hong Kong). He is also qualified as a Certified Insurance Professional and a Senior Associate of the Australian and New Zealand Institute of Insurance and Finance.

Mr. Li Tin Loi, aged 49, graduated from the Hong Kong Polytechnic University in Electrical Engineering. He also holds a Diploma in Management Studies, a Professional Diploma in Corporate Governance and a Master degree in Business Administration. He has 26 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. Yip Kar Shun, aged 66, has over 33 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 50, joined the Group in 2000. He has 26 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. Tong Shui Yuk, aged 44, joined the Group in 2006. He has 26 years of experience in plastic technology manufacture, marketing and management. He holds an Honors degree in Polymer Engineering from United Kingdom, a master degree in Industrial Automation and a master degree in Business Administration. He is a Certified Management Accountant (Canada), Chartered Engineer (United Kingdom) and Chartered Marketer (United Kingdom). Mr. Tong is currently the General Manager of a subsidiary of the Group which is engaged in plastic products and processing.

REPORT OF THE DIRECTORS

The directors of the Company (the "Directors") have pleasure in presenting their annual report and the audited financial statements of the Company for the year ended 31st December, 2012.

PRINCIPAL ACTIVITIES

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

RESULTS

The results of the Group for the year ended 31st December, 2012 are set out in the consolidated income statement on page 35 of the annual report.

FINAL DIVIDEND

The Board does not recommend to distribute the final dividend for the year ended 31st December, 2012 (2011: HK0.5 cent per share).

FINANCIAL REVIEW

Liquidity and Financial Resources

As at 31st December, 2012, the Group's shareholders' funds were approximately HK$1,378,937,000, compared with approximately HK$1,401,455,000 as at 31st December, 2011.

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, 2012 was approximately 0.44 (2011: 0.44), and the liquidity ratio was approximately 1.33 (2011: 1.40), both were maintained at a healthy level. As at 31st December, 2012, cash, bank balances and time deposits amounted to approximately HK$209,206,000. 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 126 of the annual report.

REPORT OF THE DIRECTORS

LEASEHOLD LAND AND BUILDINGS, PLANT AND EQUIPMENT

The leasehold land and buildings of the Group were revalued on 31st December, 2012. The resulting surplus and deficit arising on revaluation of leasehold land and buildings held for own use attributable to the Group have been recognised in other comprehensive income and accumulated separately in the property revaluation reserve or consolidated income statement as appropriate.

During the year, the Group spent, in aggregate approximately HK$76,977,000 on the acquisition of property, plant and equipment for the purpose of expanding business.

Details of these and other movements in plant and equipment of the Group and of the Company during the year are set out in note 16 to the financial statements.

SHARE CAPITAL

Details of the share capital of the Company are set out in note 25 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 27 to the financial statements.

DISTRIBUTABLE RESERVES

Distributable reserves of the Company as at 31st December, 2012, calculated in accordance with the Companies Ordinance, Cap 32, amounted to approximately HK$86,797,000.

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
Tang Yu, Freeman

Non-Executive Directors
Wu Ding *(Vice Chairman)*
Kan Wai Wah
Qu Jinping

Independent Non-Executive Directors
Yeung Shuk Fan
Cheng Tak Yin
Ho Wei Sem
Huang Zhi Wei (Appointed on 2nd November, 2012)

REPORT OF THE DIRECTORS

In accordance with Articles 103 of the Company's Articles of Association, Mr. Tang To, Mr. Wu Ding, Mr. Jiang Wei and Mr. Qu Jinping will retire from office and, being eligible, will offer themselves for re-election at the forthcoming Annual General Meeting. In accordance with Article 94 of the Company's Article of Association, Mr. Huang Zhi Wei will retire from office and being eligible will offer himself for re-election at the forthcoming Annual General Meeting.

No director has a service contract with the Company or any of its subsidiaries, which is not terminable within one year without payment of compensation (other than statutory compensation).

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

The Non-Executive Directors and the Independent Non-Executive Directors were appointed for a specific term of three years commencing from 1st June, 2010, 21st December, 2010, 1st January, 2011, 8th September, 2012 and 30th January, 2013 respectively. Every director including those appointed for a specific term is subject to retirement by rotation and re-appointment at least once every three years.

DIRECTOR'S AND CHIEF EXECUTIVE'S INTERESTS IN SECURITIES

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

(a) **Interests in the Shares**

	Number of shares held					Approximate
Name of Directors	Personal Interests	Family Interests	Corporate Interests	Other Interests	Total	% of total Issued Shares of the Company
Tang To	4,970,000	2,000 *(Note 2)*	300,617,458 *(Note 1)*	224,000 *(Note 3)*	305,813,458	42.66
Wong Yiu Ming	10,832,072	–	–	–	10,832,072	1.51
Kan Wai Wah	136,400	–	–	–	136,400	0.02
Cheng Tak Yin	1,406,000	–	–	4,400	1,410,400	0.20

REPORT OF THE DIRECTORS

Notes:

1. As at 31st December, 2012, 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, 2012, 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 ("Fullwin"); (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, 2012, 2,000 Shares were held by the spouse of Mr. Tang.

3. As at 31st December, 2012, 224,000 Shares were jointly held by Mr. Tang and his spouse.

(b) Interests in Share Options

Name of Director	Capacity	Number of options held	Number of underlying shares	Approximate % of total issued shares of the Company
Wong Yiu Ming	Beneficial Owner	6,000,000	6,000,000	0.84

The percentage shown was calculated based on the number of issued shares of the Company as at 31st December, 2012.

As at 31st December, 2012, 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, 2012 which is significant in relation to the business of the Company and its subsidiaries.

As at 31st December, 2012, none of the Directors had any direct interests or indirect interests in any asset which had been acquired, or disposed of by, or leased to any member of the Group, or was proposed to be acquired, or disposed of by, or leased to any member of the Group.

REPORT OF THE DIRECTORS

SUBSTANTIAL SHAREHOLDERS

As at 31st December, 2012, 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	41.45
Codo	–	297,157,052 *(Note 2)*	297,157,052	41.45
Cosmos Holdings	127,052,600	170,104,452 *(Note 3)*	297,157,052	41.45
Tai Shing	170,104,452	–	170,104,452	23.73
Saniwell Holding Inc.	–	297,157,052 *(Note 4)*	297,157,052	41.45
China Resources (Holdings) Company Limited	169,649,046 *(Note 5)*	–	169,649,046	23.66

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, 2012, 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, 2012, 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, 2012, Codo is interested in 297,157,052 Shares through its wholly owned subsidiaries, Cosmos Holdings and Tai Shing. As at 31st December, 2012, 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; (iv) 16.09% by Yik Wan; and (v) 20.23% by 5 individuals and 2 limited companies.

REPORT OF THE DIRECTORS

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

4. As at 31st December, 2012, 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; (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, 2012.

Save as disclosed above, as at 31st December, 2012, 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; (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; and (iii) the nominal value of the Company's shares.

REPORT OF THE DIRECTORS

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.

Further details of share option scheme are set out in note 26 to the financial statements.

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				
Grantee(s)	Date of grant	Exercisable period	Exercise price per share HK$	Outstanding at 1.1.2012	Granted during the period	Exercised during the period	Cancelled/ Lapsed during the period	Outstanding at 31.12.2012
Director								
Wong Yiu Ming	24.5.2010	15.6.2010 to 14.6.2013	0.66	6,000,000	–	–	–	6,000,000
Employees								
(in aggregate)	24.5.2010	25.5.2010 to 19.6.2013	0.66	8,000,000	–	–	–	8,000,000
Total				14,000,000	–	–	–	14,000,000

Notes:

1. The exercisable period of share options granted to employees is three years commencing from the respective dates of acceptance of each particular employee which varied from 25th May, 2010 to 20th June, 2010;

2. As at 31st December, 2012, the Company had 14,000,000 share options outstanding representing approximately 1.95% of the issued share capital of the Company as at the date of this report. The exercise in full of the share options outstanding would, under the present capital structure of the Company, result in the issue of 14,000,000 additional ordinary shares of HK$0.40 each of the Company and additional share capital of approximately HK$5,600,000 and share premium of approximately HK$3,640,000 (before issue expenses).

3. No share option was granted, exercised or lapsed under the Share Option Scheme for the year ended 31st December, 2012.

REPORT OF THE DIRECTORS

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 Corporate Governance Code in Appendix 14 of the Listing Rules. The audited financial statements of the Company for the year ended 31st December, 2012 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 Corporate Governance Code 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.

NOMINATION COMMITTEE

The nomination committee of the Company comprises three Independent Non-Executive Directors and two Executive Directors was established on 29th March, 2012 with written terms of reference in compliance with the code provisions of the Corporate Governance Code in Appendix 14 of the Listing Rules. The main functions of the nomination committee are to make recommendations to the Board on the appointment or re-appointment of directors based on their skill, knowledge and experiences. Furthermore, the nomination committee will review the structure, size and composition of the Board at least annually to complement the Company's corporate strategy.

COMMITTEE OF EXECUTIVE DIRECTORS

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

EMPLOYEES AND REMUNERATION POLICY

As at 31st December, 2012, the Group has approximately 6,000 employees (2011: approximately 6,000), remunerations were formulated in accordance with market trends and performance of employees. Benefits have included schemes of insurance, retirement, share option and so on.

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

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

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

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's shares during the year ended 31st December, 2012.

REPORT OF THE DIRECTORS

CORPORATE GOVERNANCE

The Directors consider that the Company has complied with the Code on Corporate Governance Practices (for the period from 1st January, 2012 to 31st March, 2012) and Corporate Governance Code (for the period from 1st April, 2012 to 31st December, 2012) as set out in Appendix 14 of the Listing Rules throughout the year ended 31st December, 2012 except for the deviation from code provision A.6.7 as mentioned below:

Code provision A.6.7 stipulates that independent non-executive directors and other non-executive directors should attend the issuer's general meetings and develop a balanced understanding of the views of shareholders. Some independent non-executive directors and non-executive directors were unable to attend the 2012 annual general meeting of the Company (the "2012 AGM") due to their other business engagements. However, the Board believes that the presence of independent non-executive director at the 2012 AGM allowed the Board to develop a balanced understanding of the views of shareholders.

Further information on the Company's corporate governance practices is set out in the Corporate Governance Report in this annual report.

COMPLIANCE WITH MODEL CODE

Throughout the year ended 31st December, 2012, 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.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Pursuant to Rules 3.10A of the Listing Rules, the Company has appointed sufficient 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 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, 2012.

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, 27th March, 2013

CORPORATE GOVERNANCE REPORT

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, which became effective on 1st January, 2005 (the "CG Code") and the new Corporate Governance Code effective on 1st April, 2012 ("New CG Code") contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") as its own code of corporate governance practices. The Directors consider that the Company has complied with the CG Code and the new CG Code during the financial year ended 31st December, 2012, except for the deviation from code provision A.6.7 as mentioned below:

Code provision A.6.7 stipulates that independent non-executive directors and other non-executive directors should attend the issuer's general meetings and develop a balanced understanding of the views of shareholders. Some independent non-executive directors and non-executive directors were unable to attend the 2012 annual general meeting of the Company (the "2012 AGM") due to their other business engagements. However, the Board believes that the presence of independent non-executive director at the 2012 AGM allowed the Board to develop a balanced understanding of the views of shareholders.

THE BOARD

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

CORPORATE GOVERNANCE REPORT

The Board has at least four scheduled meetings a year at quarterly interval and meets as and when required. During the financial year ended 31st December, 2012, the Board held four meetings and one annual general meeting. The attendance of the Directors at the Board meetings and the annual general meeting are as follows:

Name of Directors	Number of attendance for the year ended 31st December 2012 Board Meetings	2012 Annual general Meeting
Executive Directors		
Tang To *(Chairman)*	4/4	1/1
Jiang Wei	2/4	0/1
Wong Yiu Ming *(Chief Executive Officer)*	4/4	1/1
Tang Yu, Freeman	4/4	1/1
Non-Executive Directors		
Wu Ding *(Vice Chairman)*	2/4	0/1
Kan Wai Wah	4/4	0/1
Qu Jinping	3/4	0/1
Independent Non-Executive Directors		
Yeung Shuk Fan	4/4	1/1
Cheng Tak Yin	4/4	0/1
Ho Wei Sem	4/4	0/1
Huang Zhi Wei (appointed on 2nd November 2012)	N/A	N/A

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

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

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

CORPORATE GOVERNANCE FUNCTIONS

No corporate governance committee has been established and the Board is responsible for performing the corporate governance function. The Board is responsible for performing the corporate governance duties including (a) to develop and review the Company's policy and practices on corporate governance; (b) to review and monitor the training and continuous professional development of Directors and senior management; (c) to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements; (d) to develop, review and monitor the code of conduct and compliance manual to employees and Directors; and (e) to review the Company's compliance with Appendix 14 to the Listing Rules (Corporate Governance Code and Corporate Governance Report).

CORPORATE GOVERNANCE REPORT

CHAIRMAN AND CHIEF EXECUTIVE OFFICER ("CEO")

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

BOARD COMPOSITION

As at the date of this report, the Board comprises four Executive Directors, being Tang To, Jiang Wei, Wong Yiu Ming and Tang Yu, Freeman, three Non-Executive Directors, being Wu Ding, Kan Wai Wah and Qu Jinping and four Independent Non-Executive Directors, being Yeung Shuk Fan, Cheng Tak Yin, Ho Wei Sem and Huang Zhi Wei.

Except Mr. Tang To, the Chairman and an Executive Director and Mr. Tang Yu, Freeman, an Executive Director are father and son, 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 11 to 13 to the annual report, which demonstrates a diversity of skills, expertise, experience and qualifications.

The Company has received annual confirmation of independence from the four 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.

NOMINATION OF DIRECTORS AND NOMINATION COMMITTEE

Regarding the nomination of Directors, the Company established the Nomination Committee on 29th March, 2012 which comprises three Independent Non-Executive Directors namely Ms. Yeung Shuk Fan, Mr. Cheng Tak Yin and Mr. Ho Wei Sem and two Executive Directors namely Mr. Tang To (being the Chairman) and Mr. Wong Yiu Ming. The Nomination Committee 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, identify suitable individual qualified to become board members and makes recommendation on relevant matters relating to the appointment or re-appointment of Directors if necessary, in particular, to those candidates who can add value to the management through their contributions in the relevant strategic business areas and which appointments will result in the constitution of strong and diverse Board.

CORPORATE GOVERNANCE REPORT

Meeting of the Nomination Committee shall be held at least once a year. One meeting was held during the year ended 31st December, 2012. The Nomination Committee is of the opinion that the current size and composition of the Board is adequate to facilitate effective decision-making, and is also satisfied that the existing composition of the Board, which as a group provides the core competencies necessary to guide the Group. Terms of Reference of the Nomination Committee is currently available on the HKExnews website and the Company's website.

The attendance of each member of Nomination Committee at the meeting is set out as follows:

Directors	Number of attendance/ Number of meetings held
Ms. Yeung Shuk Fan	1/1
Mr. Cheng Tak Yin	1/1
Mr. Ho Wei Sem	1/1
Mr. Tang To	1/1
Mr. Wong Yiu Ming	1/1

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' CONTINUOUS PROFESSIONAL DEVELOPMENT

All Directors of the Company are encouraged to attend to Continuous Professional Development training. All the Directors have been supplied with relevant reading materials regarding corporate governance or attend relevant forum or training courses organized by qualified professionals on relevant topics to develop and enhance their knowledge and skill in relation to their contribution to the Board.

The Directors also disclose to the Company their interests as Directors or other offices in other public companies in timely manner and provide updates to the Company on any subsequent changes.

CORPORATE GOVERNANCE REPORT

DIRECTORS' SECURITIES TRANSACTIONS

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

SUPPLY OF AND ACCESS TO INFORMATION

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

REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT

The Company established a Remuneration Committee in June 2005. When determining the remuneration packages the Remuneration Committee will consider factors such as the salaries paid by comparable companies, time commitment of Directors and senior management, job responsibilities, performance of the individual and performance of the Company. The Remuneration Committee has adopted the approach under B.1.2(c)(i) of the code provisions to determine, with delegated responsibility, the remuneration packages of individual executive directors and senior management. It will also review and approve performance-based remuneration by reference to the corporate goals and objectives resolved by the Board from time to time. Its work for the year ended 31st December 2012 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; and

(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.

As at the date of this report, the chairman of the Remuneration Committee is an Independent Non-Executive Director, Mr. Cheng Tak Yin and the remaining members are Ms. Yeung Shuk Fan and Mr. Ho Wei Sem, 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, 2012, 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.

CORPORATE GOVERNANCE REPORT

The Remuneration Committee held one meeting during the financial year ended 31st December, 2012 and the attendance of each member's attendance at this meeting is set out as follows:

Directors	**Number of attendance/ Number of meetings held**
Ms. Yeung Shuk Fan	1/1
Mr. Tang To	1/1
Mr. Cheng Tak Yin	1/1
Mr. Ho Wei Sem	1/1

To comply with the New CG Code, the revised terms of reference of the Remuneration Committee, which was adopted and approved by the Board on 29th March, 2012, is currently made available on the HKExnews website and the Company's website.

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 enables 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 26 to the accounts. Remuneration of senior management disclosed by band is set out as follows:

The remuneration of senior management were within the following bands	**Number of employees 2012**
HK$1,000,001 to HK$2,000,000	2
HK$2,000,001 to HK$3,000,000	1
HK$3,000,001 to HK$4,000,000	1
HK$4,000,001 to HK$5,000,000	1
	5

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 Independent Auditor's Report on page 33 which acknowledges the reporting responsibilities of the Group's auditors. The Directors aim to present a balanced and understandable assessment of the Group's, position and prospects. The Board is not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Group's ability to continue as a going concern, the Board therefore continues to adopt the going concern approach in preparing the accounts.

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

CORPORATE GOVERNANCE REPORT

COMPANY SECRETARY

The Joint Company Secretaries of the Company are Ms. Tam Pui Ling and Mr. Ho Kwong Sang, the chief financial officer of the Group. They are employees of the Company and responsible for providing advices to the Board for ensuring the Board procedures are followed and that the applicable laws and regulations are complied with.

The Joint Company Secretaries of the Company have complied with all the proposed qualifications, experience and training requirements under the Listing Rules.

INTERNAL CONTROLS

Through the Company's internal audit functions, the Directors annually 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 function 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. It also reviews regularly the adequacy of resources, qualifications and experience of staff of the Group's accounting and financial reporting function, and their training programmes and budget. 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. Cheng Tak Yin and Mr. Ho Wei Sem, 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 twice 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.

To comply with the New CG Code, the revised terms of reference of the Audit Committee, which was adopted and approved by the Board on 29th March 2012, is currently made available on the HKEXnews website and the Company's website.

For the financial year ended 31st December, 2012, 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, 2011 and the unaudited interim financial statement for the six months ended 30th June, 2012 with recommendation to the Board for approval; and

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

CORPORATE GOVERNANCE REPORT

The Audit Committee held two meetings during the financial year ended 31st December, 2012. The attendance of each member's attendance at such meetings is set out as follows:

Directors	**Number of attendance/ Number of meetings held**
Ms. Yeung Shuk Fan *(Chairman of the Audit Committee)*	2/2
Mr. Cheng Tak Yin	2/2
Mr. Ho Wei Sem	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	2,782,407
Non-audit services	–
	2,782,407

COMMITTEE OF EXECUTIVE DIRECTORS

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

SHAREHOLDERS' RIGHT

The Company follows a policy of disclosing information to shareholders in a timely manner. Members of the Board meet and communicate with shareholders at the Annual General Meeting of the Company ("AGM"). The notice of AGM is distributed to all shareholders at least 20 clear business days prior to the AGM and accompanying circular also set out details of each proposed resolution and other relevant information as required under the Listing Rules. The Chairman proposes separate resolution for each issue to be considered and put each proposed resolution to the vote by way of a poll. An explanation of the detailed procedures of conducting a poll will be provided to shareholders at the commencement of the AGM, to ensure that shareholders are familiar with such procedures. Voting results are available in the Company's website at www.cosmel.com on the day after the AGM. The Chairman of the Board has attended at the annual general meeting to be available to answer questions from shareholders.

CORPORATE GOVERNANCE REPORT

In accordance with the Company's Article and the Companies Ordinance (Chapter 32), any members holding at the date of the deposit of the requisition not less than one-twentieth of such paid up capital of the Company (which carries the right of voting at the general meetings), is entitled to deposit a requisition to the registered office of the Company to convene an extraordinary general meeting ("EGM") of the Company in accordance with the following procedures.

The requisition must state the objects of the meeting, and must be signed by the requisitionists and deposited at the registered office of the Company at Units 1217-1223A, 12th Floor, Trade Square, No. 681 Cheung Sha Wan Road, Kowloon, Hong Kong for the attention of the Board or the Company Secretary. The documents may consist of several documents in like form, each signed by one or more requisitionists.

The request will be verified by the Company's Share Registrars and upon their confirmation that the request is proper and in order, the Board will convene the EGM by serving sufficient notice in accordance with the statutory requirements to all the registered members. On the contrary, if the request has been verified as not in order, the requisitionist will be advised of this outcome and the EGM will not be convened as requested.

If within twenty-one days from the date of deposit of the requisition, the Board fails to proceed to convene such meeting, the requisitionists, or any of them representing more than one-half of the total voting rights of all of them, may themselves convene an EGM in the same manner, all reasonable expenses incurred by the requisitionists by reason of the failure of the Board to duly convene the EGM shall be reimbursed by the Company to the requisitionists(s).

The Board has established a shareholders' communication policy and reviews it on a regular basis to ensure its effectiveness. Our corporate website www.cosmel.com contains an investor relations section which offers timely access to the Company's corporate information, interim and annual reports, announcements and circulars issued by the Company.

INDEPENDENT AUDITOR'S REPORT

TING HO KWAN & CHAN
CERTIFIED PUBLIC ACCOUNTANTS (PRACTISING)

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

香港德輔道中249－253號
東寧大廈9字樓

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 consolidated financial statements of Cosmos Machinery Enterprises Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 35 to 125, which comprise the consolidated and Company balance sheets as at 31st December, 2012, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' responsibility for the consolidated financial statements

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated 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 assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view 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 consolidated financial statements.

INDEPENDENT AUDITOR'S REPORT

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 consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31st December, 2012 and of the Group's loss 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)

Hong Kong, 27th March, 2013

CONSOLIDATED INCOME STATEMENT

For the year ended 31st December, 2012

	Notes	2012 HK$	2011 HK$
Turnover	6	**2,121,594,925**	2,416,689,680
Cost of sales		**(1,757,903,363)**	(2,016,014,230)
Gross profit		**363,691,562**	400,675,450
Other income and gains, net	6	**23,620,498**	31,849,463
Distribution costs		**(138,863,457)**	(140,354,256)
Administrative expenses		**(241,614,053)**	(222,804,791)
Allowance for impairment of bad and doubtful debts		**(4,717,934)**	(9,609,007)
Profit from operations		**2,116,616**	59,756,859
Finance costs	7	**(19,399,240)**	(23,147,747)
Investment income, net	8	**4,139,507**	3,575,150
Share of results of associates		**10,126,635**	9,481,203
Gain on dilution of shareholding in an associate		**154,951**	–
(Loss) Profit before taxation	9	**(2,861,531)**	49,665,465
Taxation	11	**(10,276,451)**	(15,152,028)
(Loss) Profit for the year		**(13,137,982)**	34,513,437
Attributable to:			
– Equity shareholders of the Company	12	**(24,174,761)**	26,578,969
– Non-controlling interests		**11,036,779**	7,934,468
		(13,137,982)	34,513,437
(Loss) Earnings per share for (loss) profit attributable to the equity shareholders of the Company during the year	14		
– Basic		**(3.37 cents)**	3.72 cents
– Diluted		**(3.37 cents)**	3.70 cents

Details of the dividends payable and proposed for the year are disclosed in note 15 to the consolidated financial statements.

The notes on pages 44 to 125 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31st December, 2012

	Note	2012 HK$	2011 HK$
(Loss) Profit for the year		(13,137,982)	34,513,437
Other comprehensive income for the year, net of tax:	13		
Cash flow hedges		–	5,751
Change in fair value of available-for-sale financial assets		(568,800)	357,426
Share of other comprehensive (expense) income of associates		(719,416)	21,365,603
Surplus on revaluation of properties held for own use		7,405,366	5,383,251
Exchange differences arising from translation of financial statements of foreign operations		(314,968)	49,786,823
		5,802,182	76,898,854
Total comprehensive (expense) income for the year		(7,335,800)	111,412,291
Attributable to:			
– Equity shareholders of the Company		(18,927,782)	98,066,968
– Non-controlling interests		11,591,982	13,345,323
Total comprehensive (expense) income for the year		(7,335,800)	111,412,291

The notes on pages 44 to 125 are an integral part of these consolidated financial statements.

CONSOLIDATED BALANCE SHEET

At 31st December, 2012

	Notes	2012 HK$	2011 HK$
Non-current Assets			
Property, plant and equipment	16	708,833,517	709,341,076
Leasehold land and land use rights	17	56,391,979	57,523,745
Interests in associates	19	421,822,914	414,580,960
Available-for-sale financial assets	20	6,704,704	7,273,504
Deferred tax assets	30	5,642,797	4,515,601
		1,199,395,911	1,193,234,886
Current Assets			
Inventories	21	649,601,907	641,079,688
Trade and other receivables	22	713,698,937	700,330,398
Current tax recoverable		672,782	–
Pledged bank deposits	37	53,562,606	67,015,054
Cash and cash equivalents	23	209,205,918	227,253,772
		1,626,742,150	1,635,678,912
Current Liabilities			
Trade and other payables	24	846,189,291	844,908,119
Amounts due to associates		1,317,178	1,317,178
Bank borrowings	28	355,772,004	341,206,875
Obligations under finance leases	29	15,902,923	14,544,949
Current tax payable		5,600,639	5,247,921
		1,224,782,035	1,207,225,042
Net Current Assets		401,960,115	428,453,870
Total Assets less Current Liabilities		1,601,356,026	1,621,688,756

CONSOLIDATED BALANCE SHEET

At 31st December, 2012

	Notes	2012 HK$	2011 HK$
Non-current Liabilities			
Other borrowings	28	–	160,355
Obligations under finance leases	29	15,276,525	24,608,641
Deferred tax liabilities	30	8,177,552	6,459,610
		23,454,077	31,228,606
Net Assets		1,577,901,949	1,590,460,150
Equity			
Capital and reserves attributable to equity shareholders of the Company:			
Share capital	25	286,772,277	286,772,277
Reserves		1,092,165,248	1,111,097,926
Proposed final dividend	15	–	3,584,653
		1,378,937,525	1,401,454,856
Non-controlling Interests		198,964,424	189,005,294
Total Equity		1,577,901,949	1,590,460,150

The consolidated financial statements on pages 35 to 125 were approved and authorised for issue by the Board of Directors on 27th March, 2013 and are signed on its behalf by:

TANG TO
DIRECTOR

WONG YIU MING
DIRECTOR

The notes on pages 44 to 125 are an integral part of these consolidated financial statements.

BALANCE SHEET

At 31st December, 2012

	Notes	2012 HK$	2011 HK$
Non-current Assets			
Property, plant and equipment	*16*	**1,692,680**	2,488,592
Interests in subsidiaries	*18*	**730,754,933**	719,217,284
		732,447,613	721,705,876
Current Assets			
Trade and other receivables		**4,648,393**	5,031,210
Amount due from an associate		**–**	8,602,698
Cash and cash equivalents	*23*	**314,037**	14,196,262
		4,962,430	27,830,170
Current Liabilities			
Trade and other payables		**2,755,129**	2,725,103
Amounts due to subsidiaries		**56,297,240**	65,067,930
Amount due to an associate		**233,912**	233,912
Bank and other borrowings	*28*	**58,043,513**	45,762,500
		117,329,794	113,789,445
Net Current Liabilities		**(112,367,364)**	(85,959,275)
Total Assets less Current Liabilities/Net Assets		**620,080,249**	635,746,601
Capital and Reserves			
Share capital	*25*	**286,772,277**	286,772,277
Reserves	*27*	**333,307,972**	348,974,324
Total Equity		**620,080,249**	635,746,601

TANG TO
DIRECTOR

WONG YIU MING
DIRECTOR

The notes on pages 44 to 125 are an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31st December, 2012

	Attributable to equity shareholders of the Company												
	Share capital HK$	Share premium HK$	Capital redemption reserve HK$	Share options reserve HK$	Property revaluation reserve HK$	Translation reserve HK$	Hedging reserve HK$	Others HK$	Proposed final dividend HK$	Retained profits HK$	Total HK$	Non-controlling interests HK$	Total equity HK$
Balance at 1st January, 2011	284,412,277	244,428,565	36,800	511,226	29,084,874	111,644,272	(5,751)	(517,987)	10,688,860	630,032,172	1,310,315,308	183,445,170	1,493,760,478
Profit for the year	–	–	–	–	–	–	–	–	–	26,578,969	26,578,969	7,934,468	34,513,437
Other comprehensive income for the year:													
Fair value gains:													
– Available-for-sale financial assets	–	–	–	–	–	–	–	357,426	–	–	357,426	–	357,426
Share of reserves of associates	–	–	–	–	–	21,365,603	–	–	–	–	21,365,603	–	21,365,603
Surplus on revaluation of properties held for own use	–	–	–	–	5,135,066	–	–	–	–	–	5,135,066	704,840	5,839,906
Deferred taxation adjustment	–	–	–	–	(345,589)	–	–	–	–	–	(345,589)	(111,066)	(456,655)
Cash flow hedges	–	–	–	–	–	–	5,751	–	–	–	5,751	–	5,751
Exchange differences arising from translation of financial statements of foreign operations	–	–	–	–	–	44,969,742	–	–	–	–	44,969,742	4,817,081	49,786,823
Total other comprehensive income for the year	–	–	–	–	4,789,477	66,335,345	5,751	357,426	–	–	71,487,999	5,410,855	76,898,854
Total comprehensive income for the year	–	–	–	–	4,789,477	66,335,345	5,751	357,426	–	26,578,969	98,066,968	13,345,323	111,412,291
Transactions with owners:													
Realised on disposal of properties held for own use	–	–	–	–	(1,888,850)	–	–	–	–	1,888,850	–	–	–
Shares issued upon exercise of share options	2,360,000	1,665,549	–	(131,549)	–	–	–	–	–	–	3,894,000	–	3,894,000
Changes in the ownership interests in subsidiaries that do not result in a loss of control (note 32)	–	–	–	–	–	(30,476)	–	(84,983)	–	–	(115,459)	374,614	259,155
Dividend paid to the non-controlling shareholders	–	–	–	–	–	–	–	–	–	–	–	(8,609,813)	(8,609,813)
2010 final dividend paid (note 15(2))	–	–	–	–	–	–	–	–	(10,688,860)	(17,101)	(10,705,961)	–	(10,705,961)
Capital injection from the non-controlling shareholders	–	–	–	–	–	–	–	–	–	–	–	450,000	450,000
Proposed final dividend (note 15(1))	–	–	–	–	–	–	–	–	3,584,653	(3,584,653)	–	–	–
Balance at 31st December, 2011	286,772,277	246,094,114	36,800	379,677	31,985,501	177,949,141	–	(245,544)	3,584,653	654,898,237	1,401,454,856	189,005,294	1,590,460,150

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31st December, 2012

	Attributable to equity shareholders of the Company												
	Share capital HK$	Share premium HK$	Capital redemption reserve HK$	Share options reserve HK$	Property revaluation reserve HK$	Translation reserve HK$	Hedging reserve HK$	Others HK$	Proposed final dividend HK$	Retained profits HK$	Total HK$	Non-controlling interests HK$	Total equity HK$
Balance at 1st January, 2012	286,772,277	246,094,114	36,800	379,677	31,985,501	177,949,141	-	(245,544)	3,584,653	654,898,237	1,401,454,856	189,005,294	1,590,460,150
Loss for the year	-	-	-	-	-	-	-	-	-	(24,174,761)	(24,174,761)	11,036,779	(13,137,982)
Other comprehensive income for the year:													
Fair value loss:													
– Available-for-sale financial assets	-	-	-	-	-	-	-	(568,800)	-	-	(568,800)	-	(568,800)
Share of reserves of associates	-	-	-	-	-	(719,416)	-	-	-	-	(719,416)	-	(719,416)
Surplus on revaluation of properties held for own use	-	-	-	-	8,092,013	-	-	-	-	-	8,092,013	697,402	8,789,415
Deferred taxation adjustment	-	-	-	-	(1,263,137)	-	-	-	-	-	(1,263,137)	(120,912)	(1,384,049)
Exchange differences arising from translation of financial statements of foreign operations	-	-	-	-	-	(293,681)	-	-	-	-	(293,681)	(21,287)	(314,968)
Total other comprehensive income for the year	-	-	-	-	6,828,876	(1,013,097)	-	(568,800)	-	-	5,246,979	555,203	5,802,182
Total comprehensive income for the year	-	-	-	-	6,828,876	(1,013,097)	-	(568,800)	-	(24,174,761)	(18,927,782)	11,591,982	(7,335,800)
Transactions with owners:													
Realised on dilution of interest in an associate	-	-	-	-	-	(4,896)	-	-	-	-	(4,896)	-	(4,896)
Dividend paid to the non-controlling shareholders	-	-	-	-	-	-	-	-	-	-	-	(1,632,852)	(1,632,852)
2011 final dividend paid (note 15(2))	-	-	-	-	-	-	-	-	(3,584,653)	-	(3,584,653)	-	(3,584,653)
Balance at 31st December, 2012	286,772,277	246,094,114	36,800	379,677	38,814,377	176,931,148	-	(814,344)	-	630,723,476	1,378,937,525	198,964,424	1,577,901,949

The notes on pages 44 to 125 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31st December, 2012

	Notes	2012 HK$	2011 HK$
OPERATING ACTIVITIES			
Profit from operations		**2,116,616**	59,756,859
Adjustments for:			
Depreciation of property, plant and equipment	*16*	**76,177,493**	67,601,262
Amortisation of leasehold land and land use rights	*17*	**1,469,016**	881,548
Loss on disposal of property, plant and equipment	*9*	**1,700,283**	239,350
Deficit on revaluation of properties held for own use		**91,421**	–
Allowance for impairment of bad and doubtful debts		**4,717,934**	9,609,007
Write-down of inventories	*21*	**2,537,888**	5,778,444
Operating cash flows before movements in working capital		**88,810,651**	143,866,470
Increase in inventories		**(11,217,686)**	(15,082,957)
(Increase) Decrease in trade and other receivables		**(19,645,603)**	82,547,431
Increase (Decrease) in trade and other payables		**3,252,192**	(94,003,215)
Cash generated from operations		**61,199,554**	117,327,729
Hong Kong profits tax paid		**(2,551,191)**	(407,293)
Overseas tax paid		**(8,851,400)**	(16,900,013)
NET CASH GENERATED FROM OPERATING ACTIVITIES		**49,796,963**	100,020,423

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31st December, 2012

	Notes	2012 HK$	2011 HK$
INVESTING ACTIVITIES			
Decrease (Increase) in pledged bank deposits		**13,435,919**	(7,578,518)
Capital contribution to associates		**–**	(544,426)
Purchase of an available-for-sale financial asset		**–**	(1,831,055)
Purchase of property, plant and equipment and leasehold land and land use rights	31	**(70,077,117)**	(214,716,441)
Proceeds from disposal of property, plant and equipment and leasehold land and land use rights		**7,715,856**	10,418,551
Proceeds from changes in the ownership interests in subsidiaries	32	**–**	259,155
Interest received	8	**4,126,056**	3,554,706
Dividend received from associates		**6,282,476**	6,633,912
Dividend received from listed available-for-sale financial asset	8	**13,451**	20,444
NET CASH USED IN INVESTING ACTIVITIES		**(38,503,359)**	(203,783,672)
FINANCING ACTIVITIES			
Repayment of bank and other loans		**(461,925,497)**	(179,730,989)
Interest paid	7	**(19,399,240)**	(23,147,747)
Repayment of obligations under finance leases		**(14,873,491)**	(9,959,428)
Dividend paid to the non-controlling shareholders of subsidiaries		**(1,632,852)**	(8,609,813)
Dividend paid		**(3,584,653)**	(10,705,961)
Bank loans raised		**446,503,575**	233,217,664
Capital injection by the non-controlling shareholders		**–**	450,000
Amounts advanced to associates		**(3,967,156)**	(5,131,604)
Proceeds from issue of shares		**–**	3,894,000
NET CASH (USED IN) GENERATED FROM FINANCING ACTIVITIES		**(58,879,314)**	276,122
NET DECREASE IN CASH AND CASH EQUIVALENTS		**(47,585,710)**	(103,487,127)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		**220,470,000**	310,733,261
EFFECT OF FOREIGN EXCHANGE RATE CHANGES		**(323,187)**	13,223,866
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	23	**172,561,103**	220,470,000

The notes on pages 44 to 125 are an integral part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2012

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 Units 1217-1223A, 12/F., Trade Square, No. 681 Cheung Sha Wan Road, Kowloon, Hong Kong. The principal activities of its principal subsidiaries are set out in note 40.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

(a) Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS"), which also include Hong Kong Accounting Standards ("HKAS") and Interpretations ("Int") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the requirements of the Hong Kong Companies Ordinance. These consolidated financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange. The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of properties held for own use and certain financial assets, which are carried at fair value.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2012

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

(b) Basis of consolidation

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

(i) Subsidiaries and non-controlling interests

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities generally but not necessarily accompanying a shareholding of more than one half of the voting rights. In assessing control, potential voting rights that presently are exercisable are taken into account.

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances and transactions and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognised amounts of acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred.

Goodwill is initially measured as the excess of the aggregate of the consideration transferred and the fair value of non-controlling interests over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognised in profit or loss.

Non-controlling interests represent the equity in a subsidiary not attributable directly or indirectly to the Company and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. For each business combination, the Group can elect to measure any non-controlling interests either at fair value or at their proportionate share of the subsidiary's net identifiable assets.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2012

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

(b) Basis of consolidation *(Continued)*

(i) Subsidiaries and non-controlling interests (Continued)

Non-controlling interests are presented in the consolidated balance sheet within equity, separately from equity attributable to the equity shareholders of the Company. Non-controlling interests in the results of the Group are presented on the face of the consolidated income statement and the consolidated statement of comprehensive income as an allocation of the total profit or loss and total comprehensive income for the year between non-controlling interests and the equity shareholders of the Company. Loan from holders of non-controlling interests and other contractual obligations towards these holders are presented as financial liabilities in the consolidated balance sheet in accordance with note 2(q) or 2(r) depending on the nature of the liability.

Changes in the Group's interests in a subsidiary that do not result in a loss of control are accounted for as equity transactions, whereby adjustments are made to the amounts of controlling and non-controlling interests within consolidated equity to reflect the change in relative interests, but no adjustments are made to goodwill and no gain or loss is recognised.

When the Group loses control of a subsidiary, it is accounted for as a disposal of the entire interest in that subsidiary, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former subsidiary at the date when control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset (see note 2(i)) or, when appropriate, the cost on initial recognition of an investment in an associate (see note 2(b)(ii)).

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

(ii) Associates

An associate is an entity, not being a subsidiary or a jointly controlled entity, over which the Group has significant influence but not control or joint control, over its management, including participation in the financial and operating policy decisions, and generally accompanying a shareholding of between 20% and 50% of the voting rights.

An investment in an associate is accounted for using the equity method, whereby the investment is initially recognised at cost and adjusted thereafter for the post-acquisition change in the Group's share of net assets of the associate, unless it is classified as held for sale or included in a disposal group held for sale. The Group's share of the post-acquisition, post-tax results of the associate for the year, including any impairment loss on goodwill relating to the investment in associate recognised for the year are recognised in the consolidated income statement whereas the Group's share of the post-acquisition post-tax items of the associate's other comprehensive income is recognised in the consolidated statement of comprehensive income.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2012

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

(b) Basis of consolidation *(Continued)*

(ii) Associates (Continued)

When the Group's share of losses exceeds its interest in the associate, the Group's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the investee. For this purpose, the Group's interest is the carrying amount of the investment under the equity method together with the Group's long-term interests that in substance form part of the Group's net investment in the associate.

Unrealised profits and losses resulting from transactions between the Group and its associates are eliminated to the extent of the Group's interest in the investee, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in profit or loss.

When the Group ceases to have significant influence over an associate, it is accounted for as a disposal of the entire interest in that investee, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former investee at the date when significant influence is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset (see note 2(i)) or, when appropriate, the cost on initial recognition of an investment in an associate.

Dilution gains and losses arising in investments in associates are recognised in profit or loss.

(c) Segment reporting

Operating segments, and the amounts of each segment item reported in the consolidated financial statements, are identified from the financial information provided regularly to the Group's top management for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria. A discontinued segment is separately presented from continuing segments.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2012

2. 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 the Group's 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 profit or loss, except those arising from qualifying cash flow hedges or qualifying net investment hedges which are recognised in other comprehensive income.

Translation differences on non-monetary financial assets and liabilities, such as equity instruments held at fair value through profit or loss, are recognised in profit or loss as part of the fair value gain or loss. Translation differences on non-monetary financial assets, such as equities classified as available-for-sale financial assets, are recognised in other comprehensive income and accumulated separately in equity in the fair value reserve.

(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 in other comprehensive income and accumulated separately in equity in the translation reserve.

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 recognised in other comprehensive income and accumulated separately in equity in the translation reserve. When a foreign operation is sold, such exchange differences are reclassified from equity to profit or loss when gain or loss on disposal is recognised.

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 year-end closing rate.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2012

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

(e) Property, plant and equipment

Properties held for own use are stated at their revalued amounts, being their fair value at the date of revaluation less any subsequent accumulated 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. All other items of property, plant and equipment are stated at cost less accumulated depreciation and any impairment losses (see note 2(h)).

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 profit or loss during the financial period in which they are incurred.

Revaluations on properties held for own use are performed with sufficient regularity to ensure that the carrying amount of these assets does not differ materially from which would be determined using fair values at the balance sheet date.

Changes arising on the revaluation of properties held for own use are generally dealt with in other comprehensive income and are accumulated separately in equity in the property revaluation reserve. The only exceptions are as follows:

– when a deficit arises on revaluation, it will be charged to profit or loss to the extent that exceeds the amount held in the reserve in respect of that same asset immediately prior to the revaluation; and

– when a surplus arises on revaluation, it will be credited to profit or loss to the extent that a deficit on revaluation in respect of that same asset had previously been charged to profit or loss.

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:

Leasehold land held for own use under finance leases	Unexpired term of the leases
Buildings held for own use	40 years or unexpired term of the leases, if shorter
Furniture, fixtures and equipment	3 – 10 years
Plant and machinery	5 – 10 years
Motor vehicles	3 – 10 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2012

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

(e) Property, plant and equipment *(Continued)*

Assets under construction represent buildings, structures, plant and machinery and other fixed assets under construction or installation and are stated at cost less any accumulated impairment losses, and are 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. Assets under construction are reclassified to the appropriate category of property, plant and equipment or investment properties when completed and ready for use.

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal. Any related revaluation surplus is transferred from the revaluation reserve to retained profits and is not reclassified to profit or loss.

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

(f) Leasehold land and land use rights

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

Leasehold land and land use rights relating to certain buildings of the Group are stated at cost and are amortised over the period of the lease on the straight-line basis to profit or loss.

(g) Goodwill

Goodwill represents the excess of

(i) the aggregate of the fair value of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the Group's previously held equity interest in the acquiree; over

(ii) the Group's interest in the net fair value of the acquiree's identifiable assets and liabilities measured as at the acquisition date.

When (ii) is greater than (i), then this excess is recognised immediately in profit or loss as a gain on a bargain purchase.

Goodwill is stated at cost less accumulated impairment losses. Goodwill arising on a business combination is allocated to each cash-generating unit, or groups of cash generating units, that is expected to benefit from the synergies of the combination and is tested annually for impairment. In respect of associates, the carrying amount of goodwill is included in the carrying amount of the interest in the associate and the investment as a whole is tested for impairment whenever there is objective evidence of impairment (note 2(h)).

On disposal of a cash generating unit, or an associate during the year, any attributable amount of purchased goodwill is included in the calculation of the profit or loss on disposal.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2012

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

(h) Impairment of assets

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

Investments in equity securities (other than investments in subsidiaries: see note 2(h)(ii)) 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 investments in associates recognised using the equity method (see note 2(b)(ii)), the impairment loss is measured by comparing the recoverable amount of the investment as a whole with its carrying amount in accordance with note 2(h)(ii). The impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount in accordance with note 2(h)(ii).
- 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2012

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

(h) Impairment of assets *(Continued)*

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

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

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

– For available-for-sale financial assets, the cumulative loss that has been recognised in the fair value reserve is reclassified to 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 equity financial assets are not reversed through profit or loss. Any subsequent increase in the fair value of such assets is recognised in other comprehensive income.

Impairment losses are written off against the corresponding assets directly, except for impairment losses recognised in respect of trade debtors and bills receivables 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 is 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2012

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

(h) Impairment of assets *(Continued)*

(ii) Impairment of other assets

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

– property, plant and equipment (other than leasehold land held for own use under finance leases and properties carried at revalued amounts);

– land and land use rights classified as being held under an operating lease;

– investments in subsidiaries (except for those classified as held for sale or included in a disposal group that is classified as held for sale); and

– goodwill.

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

– Calculation of recoverable amount

The recoverable amount of an asset is the greater of its fair value less cost to sell 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 if 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2012

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

(h) Impairment of assets *(Continued)*

(ii) Impairment of other assets (Continued)

– Reversals of impairment losses *(Continued)*

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.

(i) 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.

(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 subsequently carried at amortised cost using the effective interest method. They are included in current assets, except for maturities greater than 12 months after the balance sheet date which are classified as non-current assets. Trade and other receivables, pledged bank deposits and cash and cash equivalents in the balance sheet are classified as loans and receivables.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2012

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

(i) Financial assets *(Continued)*

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

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 securities and other changes in the carrying amount of the securities. The translation differences on monetary securities are recognised in profit or loss; translation differences on non-monetary securities are recognised in other comprehensive income and accumulated separately in equity in the translation reserve. Changes in the fair value of monetary and non-monetary securities classified as available for sale are recognised in other comprehensive income and accumulated separately in equity in the fair value reserve.

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

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

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Group established fair value by using valuation techniques. These include the use of recent arm's length transactions, by reference to the current fair value of another instrument that is 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.

(j) 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. Other borrowing costs are expensed in the period in which they are incurred. 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.

(k) Government grants

Government grants are recognised in the balance sheet initially when there is reasonable assurance that they will be received and that the Group will comply with the conditions attaching to them. Grants that compensate the Group for expenses incurred are recognised as revenue in profit or loss on a systematic basis in the same periods in which the expenses are incurred. Grants that compensate the Group for the cost of an asset are deducted from the carrying amount of the asset and consequently are effectively recognised in profit or loss over the useful life of the asset by way of reduced depreciation expense.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2012

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

(l) Financial guarantees issued, provisions and contingent liabilities

(i) Financial guarantees issued

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

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

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

(ii) Contingent liabilities acquired in business combinations

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

(iii) Other provisions and contingent liabilities

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2012

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

(m) 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.

(n) Trade and other receivables

Trade and other receivables are initially recognised 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.

(o) 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 statement of cash flows.

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

(p) 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 shareholders 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 shareholders.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2012

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

(q) Trade and other payables

Trade and other payables are initially recognised at fair value. Except for financial guarantee liabilities (if any) measured in accordance with note 2(l)(i), trade and other payables are subsequently stated at amortised cost, except for the following payables:

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

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

(r) 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.

(s) Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to items recognised in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity, respectively.

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

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2012

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

(s) Income tax *(Continued)*

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at each balance sheet date and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Additional income taxes that arise from the distribution of dividends are recognised when the liability to pay the related dividends is recognised.

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

- in the case of current tax assets and liabilities, the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or

- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either;

  - the same taxable entity; or

  - different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2012

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

(t) 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 Hull White Trinomial 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 or 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 share option reserve. On vesting date, the amount recognised as an expense is adjusted to reflect the actual number of options that vest (with a corresponding adjustment to the share option reserve) except where forfeiture is only due to not achieving vesting conditions that relate to the market price of the Company's shares. The equity amount is recognised in the share option reserve until either the option is exercised (when it is transferred to the share premium account) or the option expires (when it is released directly to retained profits).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2012

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

(u) 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 shareholder's right to receive payment is established prior to the balance sheet date.

(v) Leases

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

Leases of assets are classified as finance leases when the leases transfer substantially all risks and rewards incidental to ownership of the assets to the Group. All other leases are classified as operating leases.

(i) Leases of land and buildings

Whenever necessary, in order to classify and account for a lease of land and buildings, the minimum lease payments (including any lump-sum upfront payments) are allocated between the land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element of the lease at the inception of the lease.

The land element is classified as an operating lease unless title is expected to pass to the lessee by the end of the lease term. The building element is classified as a finance or operating lease in the same way as leases of other assets. The payments made on acquiring land held under an operating lease are recognised in the balance sheet as leasehold land and land use rights which are stated at cost and are amortised on a straight-line basis over the period of the lease term.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2012

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

(v) Leases *(Continued)*

(i) Leases of land and buildings (Continued)

If the lease payments on a lease of land and buildings cannot be allocated reliably between the land and building elements at the inception of the lease or the relevant lease transfers the significant risks and rewards of ownership of the land in accordance with the criteria set out in HKAS 17, the entire lease is classified as a finance lease, unless it is clear that both elements are operating leases, in which case the entire lease is classified as an operating lease.

(ii) Finance leases

Assets held under finance leases are recognised in the balance sheet at amounts equal to the fair value of the leased assets, or, if lower, the present value of the minimum lease payments, each determined at the inception of the lease. The corresponding liabilities, net of finance charges, on the finance leases are recorded as obligations under finance leases. All assets held under finance leases are classified as property, plant and equipment, except for those properties held to earn rental income which are classified as investment property, in the balance sheet.

Depreciation and impairment losses are calculated and recognised in the same manner as the depreciation and impairment losses on property, plant and equipment as set out in note 2(e), except for the estimated useful lives cannot exceed the relevant lease terms, if shorter.

Minimum lease payments are apportioned between finance charge and the reduction of the outstanding liabilities. The finance charge is recognised in profit or loss over the period of the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

(iii) Operating leases

Where the Group is the lessee, lease payments under an operating lease are recognised as an expense on a straight-line basis over the period of the lease term. 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 on a straight-line basis over the lease period. Contingent rentals are charged as an expense in the periods in which they are incurred.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2012

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

(w) 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.

(x) Related parties

(i) A person, or a close member of that person's family, is related to the Group if that person:

(1) has control or joint control over the Group;

(2) has significant influence over the Group; or

(3) is a member of the key management personnel of the Group or the Group's parent.

(ii) An entity is related to the Group if any of the following conditions applies:

(1) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(2) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

(3) Both entities are joint ventures of the same third party.

(4) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

(5) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group.

(6) The entity is controlled or jointly controlled by a person identified in (i).

(7) A person identified in (i)(1) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2012

3. CHANGES IN ACCOUNTING POLICIES

The HKICPA has issued certain new and revised HKFRS that are first effective for the current accounting period of the Company and the Group. Of these, the following developments are relevant to the Group's financial statements:

– Amendments to HKFRS 7, Financial instruments: Disclosures

– Amendments to HKAS 12, Income taxes

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period (see note 41).

Amendments to HKFRS 7, Financial instruments: Disclosures

The amendments to HKFRS 7 require certain disclosures to be included in the financial statements in respect of transferred financial assets that are not derecognised in their entirety and for any continuing involvement in transferred financial assets that are derecognised in their entirety, irrespective of when the related transfer transactions occurred. However, an entity need not provide the disclosures for the comparative period in the first year of adoption. The Group did not have any significant transfers of financial assets in previous periods or the current period which require disclosure in the current accounting period under the amendments.

Amendments to HKAS 12, Income taxes

Under HKAS 12 deferred tax is required to be measured with reference to the tax consequences that would follow from the manner in which the entity expects to recover the carrying amount of the asset(s) in question. In this regard, the amendments to HKAS 12 introduced a rebuttable presumption that the carrying amount of investment property carried at fair value under HKAS 40, Investment property, will be recovered through sale. This presumption is rebutted on a property-by-property basis if the investment property in question is depreciable and is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale. The Group did not have any investment properties stated at fair value and hence the adoption of the amendments has had no financial impact on the results and financial position of the Group for the current or prior accounting periods.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2012

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The assumptions, 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.

(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 (the "PRC"). 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 2(m). 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.

(iv) Impairment of available-for-sale financial assets

The Group follows the guidance of HKAS 39 to determine when an available-for-sale financial asset is impaired. This determination requires significant judgement. In making this judgement, the Group evaluates, among other factors, the duration and extent to which the fair value of such financial asset is less than its cost; and the financial health of and short-term business outlook for the investee, including factors such as industry and sector performance, changes in technology and operational and financing cash flow.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2012

5. SEGMENT REPORTING

The Group manages its business by a mixture of both business lines and geographical location. In a manner consistent with the way in which information is reported internally to the Group's top management for the purposes of assessing segment performance and allocating resources between segments, the Group has identified, on a product basis, the following four reportable segments.

(1) trading of industrial consumables;

(2) manufacturing of plastic processing products;

(3) manufacturing of machinery; and

(4) manufacturing of printed circuit boards.

Segment results, assets and liabilities

For the purposes of assessing segment performance and allocating resources between segments, the Group's top executive management monitors the results, assets and liabilities attributable to each reportable segment on the following basis:

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2012

5. SEGMENT REPORTING *(Continued)*

Segment results, assets and liabilities *(Continued)*

The segment results for the year ended 31st December, 2012 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	374,805,995	332,364,236	843,923,611	565,985,877	4,515,206	-	2,121,594,925
Inter-segment sales	17,984,250	278,415	3,905,002	-	6,410,144	(28,577,811)	-
Total revenue	392,790,245	332,642,651	847,828,613	565,985,877	10,925,350	(28,577,811)	2,121,594,925

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	23,553,121	(20,215,389)	1,529,693	22,933,611	1,247,608	(102,583)	28,946,061
Unallocated corporate expenses							(26,829,445)
Profit from operations							2,116,616
Finance costs							(19,399,240)
Investment income, net							4,139,507
Share of results of associates							10,126,635
Gain on dilution of shareholding in an associate							154,951
Loss before taxation							(2,861,531)
Taxation							(10,276,451)
Loss before non-controlling interests							(13,137,982)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2012

5. SEGMENT REPORTING *(Continued)*

Segment results, assets and liabilities *(Continued)*

	Industrial consumables HK$	Plastic processing products HK$	Machinery HK$	Printed circuit boards HK$	Other operations HK$	Consolidated HK$
ASSETS						
Segment assets	232,844,699	380,301,176	1,244,420,808	445,757,886	34,660,986	2,337,985,555
Interests in associates						421,822,914
Available-for-sale financial assets						6,704,704
Unallocated corporate assets						59,624,888
Consolidated total assets						2,826,138,061
LIABILITIES						
Segment liabilities	53,734,678	81,414,444	484,316,957	216,278,866	8,460,181	844,205,126
Current tax payable						5,600,639
Borrowings						386,951,452
Unallocated corporate liabilities						11,478,895
Consolidated total liabilities						1,248,236,112
OTHER INFORMATION						
Capital additions	197,038	30,875,627	25,910,861	19,772,924	220,667	76,977,117
Depreciation and amortisation	1,514,443	15,108,079	34,030,143	25,423,991	1,569,853	77,646,509
Other non-cash expenses	1,978,092	1,499,019	2,053,377	1,600,000	216,758	7,347,246
Share of results of associates	-	(782,394)	2,794,085	-	8,114,944	10,126,635

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2012

5. SEGMENT REPORTING *(Continued)*

Segment results, assets and liabilities *(Continued)*

The segment results for the year ended 31st December, 2011 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	417,944,603	466,494,466	1,092,910,513	435,723,112	3,616,986	–	2,416,689,680
Inter-segment sales	22,874,281	386,052	9,978,919	–	7,449,089	(40,688,341)	–
Total revenue	440,818,884	466,880,518	1,102,889,432	435,723,112	11,066,075	(40,688,341)	2,416,689,680

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	30,962,844	1,640,029	48,318,726	7,416,108	266,315	(670,806)	87,933,216
Unallocated corporate expenses							(28,176,357)
Profit from operations							59,756,859
Finance costs							(23,147,747)
Investment income, net							3,575,150
Share of results of associates							9,481,203
Profit before taxation							49,665,465
Taxation							(15,152,028)
Profit before non-controlling interests							34,513,437

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2012

5. SEGMENT REPORTING *(Continued)*

Segment results, assets and liabilities *(Continued)*

	Industrial consumables HK$	Plastic processing products HK$	Machinery HK$	Printed circuit boards HK$	Other operations HK$	Consolidated HK$
ASSETS						
Segment assets	254,837,531	374,195,429	1,307,300,835	358,642,215	41,262,562	2,336,238,572
Interests in associates						414,580,960
Available-for-sale financial assets						7,273,504
Unallocated corporate assets						70,820,762
Consolidated total assets						2,828,913,798
LIABILITIES						
Segment liabilities	67,883,121	69,285,259	554,818,977	145,277,723	5,688,899	842,953,979
Current tax payable						5,247,921
Borrowings						380,520,820
Unallocated corporate liabilities						9,730,928
Consolidated total liabilities						1,238,453,648
OTHER INFORMATION						
Capital additions	12,595,722	39,695,718	181,187,088	17,875,395	1,886,343	253,240,266
Depreciation and amortisation	1,706,934	15,778,355	24,408,946	25,167,457	1,421,118	68,482,810
Other non-cash expenses (income)	422,579	1,916,410	14,048,462	(1,000,000)	–	15,387,451
Share of results of associates	–	(786,335)	2,566,969	–	7,700,569	9,481,203

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2012

5. SEGMENT REPORTING *(Continued)*

Geographical information

The Group's operations are located in Hong Kong, other regions in 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	
	2012	2011
	HK$	HK$
Hong Kong	**642,725,325**	528,645,477
PRC	**1,231,902,213**	1,554,322,243
Other Asia-Pacific countries	**203,219,350**	277,695,164
North America	**10,404,569**	13,415,047
Europe	**33,343,468**	42,611,749
	2,121,594,925	2,416,689,680

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

	Carrying amount of segment assets		Additions to property, plant and equipment	
	2012	2011	**2012**	2011
	HK$	HK$	**HK$**	HK$
Hong Kong	**689,206,265**	685,266,526	**947,434**	2,917,555
PRC	**2,100,677,679**	2,120,275,298	**76,029,683**	250,322,711
Other Asia-Pacific countries	**30,007,174**	19,817,688	**–**	–
North America	**2,691,407**	3,205,708	**–**	–
Europe	**3,555,536**	348,578	**–**	–
	2,826,138,061	2,828,913,798	**76,977,117**	253,240,266

Information about major customers

No customer of the Group has individually accounted for over 10% of the Group's total revenue during the year (2011: Nil) and no information about major customers is presented accordingly.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2012

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:

	2012 HK$	2011 HK$
Turnover		
Sales of goods	2,121,594,925	2,416,689,680
Other income		
Gross rental income from properties	533,734	2,431,989
Handling, tooling and sales of scrapped materials	7,815,477	7,477,203
Government grants	1,516,206	5,704,094
Sundry income	13,755,081	9,208,844
	23,620,498	24,822,130
Gains, net		
Exchange gain	–	7,027,333
	23,620,498	31,849,463

7. FINANCE COSTS

	2012 HK$	2011 HK$
Interest on:		
Bank borrowings wholly repayable within 5 years	18,466,834	22,806,487
Finance leases	932,406	341,260
	19,399,240	23,147,747

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2012

8. INVESTMENT INCOME, NET

	2012 HK$	2011 HK$
Interest income	4,126,056	3,554,706
Dividend income from listed available-for-sale financial asset	13,451	20,444
	4,139,507	3,575,150

9. (LOSS) PROFIT BEFORE TAXATION

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

	2012 HK$	2011 HK$
Charging:		
Directors' remuneration *(note 10)*	14,459,708	14,935,904
Staff cost (excluding directors' remuneration)		
– Salaries and other benefits	337,471,553	320,961,838
– Retirement benefits scheme contributions	18,469,166	12,895,551
Total staff cost	370,400,427	348,793,293
Depreciation and amortisation on:		
– Owned assets	73,661,995	64,043,462
– Assets held under finance leases	1,980,770	3,142,989
– Leasehold land held for own use under finance leases	534,728	414,811
– Leasehold land and land use rights	1,469,016	881,548
Loss on disposal of property, plant and equipment	1,700,283	239,350
Deficit on revaluation of properties held for own use	91,421	–
Exchange loss, net	302,456	–
Auditors' remuneration		
– Current year	2,725,739	2,251,868
– Underprovision in prior years	56,668	8,659
Operating lease payments – Land and buildings	22,029,820	23,653,148
and crediting:		
Rental income net of direct outgoings	533,734	2,431,989

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2012

10. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

(a) Directors' emoluments

Directors' remuneration for the year ended 31st December, 2012, 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$	2012 Total HK$
Executive directors				
Mr. Tang To	4,010,579	1,255,000	161,550	5,427,129
Mr. Wong Yiu Ming (1)	5,303,159	2,050,000	213,750	7,566,909
Mr. Jiang Wei	60,000	–	–	60,000
Mr. Tang Yu, Freeman	93,920	830,000	13,750	937,670
Non-executive directors				
Mr. Kan Wai Wah	60,000	–	–	60,000
Mr. Ho Wei Sem	60,000	–	–	60,000
Miss. Yeung Shuk Fan	168,000	–	–	168,000
Mr. Cheng Tak Yin	60,000	–	–	60,000
Mr. Wu Ding	60,000	–	–	60,000
Mr. Qu Jinping	–	–	–	–
Mr. Huang Zhi Wei (2)	60,000	–	–	60,000
Total	9,935,658	4,135,000	389,050	14,459,708

Notes:

(1) Mr. Wong Yiu Ming is also the chief executive of the Company and his emoluments disclosed above include those for services rendered by him as the chief executive.

(2) Appointed on 2nd November, 2012

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2012

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

(a) **Directors' emoluments** *(Continued)*

Directors' remuneration for the year ended 31st December, 2011, 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$	2011 Total HK$
Executive directors				
Mr. Tang To	4,549,132	1,226,000	159,525	5,934,657
Mr. Wong Yiu Ming	5,666,842	1,890,000	202,500	7,759,342
Mr. Jiang Wei	60,000	–	–	60,000
Mr. Tang Yu, Freeman (2)	–	642,000	10,000	652,000
Non-executive directors				
Mr. Tang Kwan (1)	–	113,400	8,505	121,905
Mr. Kan Wai Wah	60,000	–	–	60,000
Mr. Ho Wei Sem	60,000	–	–	60,000
Miss. Yeung Shuk Fan	168,000	–	–	168,000
Mr. Cheng Tak Yin	60,000	–	–	60,000
Mr. Wu Ding	60,000	–	–	60,000
Mr. Qu Jinping	–	–	–	–
Total	10,683,974	3,871,400	380,530	14,935,904

Notes:

(1) Resigned on 18th March, 2011

(2) Appointed on 18th March, 2011

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2012

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

(b) **Employees' emoluments**

The five highest paid individuals included two (2011: two) directors, details of whose emoluments are set out above. The emoluments of the remaining three (2011: three) individuals are as follows:

	2012	2011
	HK$	HK$
Salaries and other benefits	**9,511,762**	5,176,400
Retirement benefits scheme contributions	**242,934**	244,143
	9,754,696	5,420,543

The emoluments of the employees were within the following bands:

	Number of employees	
	2012	2011
HK$1,000,001 to HK$2,000,000	**–**	2
HK$2,000,001 to HK$3,000,000	**1**	1
HK$3,000,001 to HK$4,000,000	**1**	–
HK$4,000,001 to HK$5,000,000	**1**	–
	3	3

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2012

11. TAXATION

The provision for Hong Kong Profits Tax is calculated at the rate of 16.5% (2011: 16.5%) of the estimated assessable profits for the year. Taxation for overseas subsidiaries is charged at the appropriate current rates of taxation ruling in the relevant countries.

	2012	2011
	HK$	HK$
Current tax:		
Hong Kong profits tax		
Current year	**2,088,709**	1,904,676
Overprovision in prior years	**(59,482)**	(85,879)
	2,029,227	1,818,797
Overseas tax		
Current year	**6,735,480**	13,736,667
Underprovision in prior years	**2,303,249**	–
	9,038,729	13,736,667
Deferred tax:		
Deferred taxation relating to the origination and reversal of temporary differences *(note 30)*	**(791,505)**	(268,549)
Overprovision in prior years *(note 30)*	**–**	(134,887)
	(791,505)	(403,436)
Taxation charge	**10,276,451**	15,152,028

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2012

11. TAXATION *(Continued)*

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

	2012	2011
	HK$	HK$
(Loss) profit before taxation	**(2,861,531)**	49,665,465
Tax at the domestic income tax rate of 16.5% (2011: 16.5%)	**(472,152)**	8,194,802
Tax effect of share of results of associates	**(1,670,894)**	(1,564,398)
Tax effect of expenses that are not deductible in determining taxable profit	**3,231,122**	5,654,633
Tax effect of income that is not taxable in determining taxable profit	**(2,529,508)**	(1,501,726)
Overprovision of current tax in current year, net	**107,930**	624,752
Under (Over) – provision of current tax in prior years, net	**2,240,962**	(85,879)
Overprovision of deferred tax in prior years, net	**–**	(134,887)
Tax effect of tax losses not recognised	**11,929,613**	5,296,721
Tax effect of temporary differences not recognised	**(3,819,007)**	(978,817)
Tax effect of utilisation of tax losses not previously recognised	**(749,777)**	(3,645,273)
Effect of tax exemptions granted to the PRC subsidiaries	**–**	(542,838)
Effect of different tax rates of subsidiaries operating in other jurisdictions	**2,008,162**	3,834,938
Taxation charge	**10,276,451**	15,152,028

12. LOSS ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF THE COMPANY

The loss attributable to equity shareholders of the Company dealt with in the financial statements of the Company is HK$12,081,699 (2011: Profit of HK$32,528,412).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2012

13. OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX

Tax effects relating to each component of other comprehensive income

	2012			2011		
	Before tax amount HK$	**Tax expenses HK$**	**Net-of-tax amount HK$**	Before tax amount HK$	Tax expenses HK$	Net-of-tax amount HK$
Cash flow hedges	**–**	**–**	**–**	5,751	–	5,751
Change in fair value of available-for-sale financial assets *(note 20)*	**(568,800)**	**–**	**(568,800)**	357,426	–	357,426
Share of other comprehensive income of associates	**(719,416)**	**–**	**(719,416)**	21,365,603	–	21,365,603
Surplus on revaluation of properties held for own use	**8,789,415**	**(1,384,049)**	**7,405,366**	5,839,906	(456,655)	5,383,251
Exchange differences arising from translation of financial statements of foreign operations	**(314,968)**	**–**	**(314,968)**	49,786,823	–	49,786,823
	7,186,231	**(1,384,049)**	**5,802,182**	77,355,509	(456,655)	76,898,854

14. (LOSS) EARNINGS PER SHARE

(a) **Basic (loss) earnings per share**

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

	2012	2011
Weighted average number of ordinary shares in issue during the year	**716,930,692**	715,174,472
(Loss) Profit attributable to the equity shareholders of the Company	**(HK$24,174,761)**	HK$26,578,969
Basic (loss) earnings per share	**(HK3.37 cents)**	HK3.72 cents

(b) **Diluted (loss) earnings per share**

No adjustment has been made to the basic loss per ordinary share amount presented for the year ended 31st December, 2012 in respect of a dilution as the share options granted under the share option scheme outstanding had an anti-dilutive effect on the basic loss per share amount presented.

For the year ended 31st December, 2011, the calculation of diluted earnings per share is based on the profit of HK$26,578,969. The weighted average number of ordinary shares used in the calculation is 715,174,472 ordinary shares in issue during the year, as used in the basic earnings per share calculation, and the weighted average number of ordinary shares of 3,155,942 assumed to have been issued at no consideration on the deemed exercise or conversion of all dilutive potential ordinary shares into ordinary shares.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2012

15. DIVIDEND

(1) Dividend payable to equity shareholders of the Company attributable to the year

	2012	2011
	HK$	HK$
Dividend proposed after the balance sheet date of HK$Nil (2011: HK$0.005) per share	**–**	3,584,653

(2) Dividend payable to equity shareholders of the Company attributable to the previous financial year, approved and paid during the year

	2012	2011
	HK$	HK$
Final dividend in respect of the previous financial year, approved and paid during the year, of HK$0.005 (2011: HK$0.015) per share	**3,584,653**	10,705,961

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2012

16. PROPERTY, PLANT AND EQUIPMENT

	Leasehold land held for own use under finance leases HK$	Buildings held for own use HK$	Furniture, fixtures and equipment HK$	Plant and machinery HK$	Motor vehicles HK$	Assets under construction HK$	Total HK$
THE GROUP							
COST OR VALUATION							
At 1st January, 2011	25,938,000	152,987,000	175,907,978	593,085,512	41,591,381	52,736,620	1,042,246,491
Currency realignment	–	7,641,066	5,070,964	17,231,227	1,615,535	3,083,407	34,642,199
Additions	–	4,143,222	36,472,447	30,822,651	6,309,040	153,399,344	231,146,704
Reclassifications	–	21,143,717	148,512	19,253,680	216,457	(40,762,366)	–
Disposals	(5,840,000)	(1,100,567)	(8,936,565)	(18,006,690)	(3,991,891)	–	(37,875,713)
Adjustment on revaluation	1,490,000	(1,505,438)	–	–	–	–	(15,438)
At 31st December, 2011 and 1st January, 2012	**21,588,000**	**183,309,000**	**208,663,336**	**642,386,380**	**45,740,522**	**168,457,005**	**1,270,144,243**
Currency realignment	**-**	**(40,855)**	**(29,450)**	**(82,244)**	**(7,905)**	**(41,553)**	**(202,007)**
Additions	**-**	**779,011**	**12,865,274**	**25,983,237**	**3,594,265**	**33,404,733**	**76,626,520**
Reclassifications	**-**	**161,558,841**	**3,805,209**	**34,354,720**	**86,956**	**(199,805,726)**	**-**
Disposals	**-**	**-**	**(10,425,179)**	**(53,508,891)**	**(5,679,203)**	**-**	**(69,613,273)**
Adjustment on revaluation	**4,118,000**	**(4,511,997)**	**-**	**-**	**-**	**-**	**(393,997)**
At 31st December, 2012	**25,706,000**	**341,094,000**	**214,879,190**	**649,133,202**	**43,734,635**	**2,014,459**	**1,276,561,486**
Analysis of cost or valuation:							
At 31st December, 2012							
At cost	**-**	**-**	**214,879,190**	**649,133,202**	**43,734,635**	**2,014,459**	**909,761,486**
At valuation	**25,706,000**	**341,094,000**	**-**	**-**	**-**	**-**	**366,800,000**
	25,706,000	**341,094,000**	**214,879,190**	**649,133,202**	**43,734,635**	**2,014,459**	**1,276,561,486**
At 31st December, 2011							
At cost	–	–	208,663,336	642,386,380	45,740,522	168,457,005	1,065,247,243
At valuation	21,588,000	183,309,000	–	–	–	–	204,897,000
	21,588,000	183,309,000	208,663,336	642,386,380	45,740,522	168,457,005	1,270,144,243

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2012

16. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

	Leasehold land held for own use under finance leases HK$	Buildings held for own use HK$	Furniture, fixtures and equipment HK$	Plant and machinery HK$	Motor vehicles HK$	Assets under construction HK$	Total HK$
THE GROUP							
ACCUMULATED DEPRECIATION, AMORTISATION AND IMPAIRMENT							
At 1st January, 2011	–	–	127,815,811	352,100,436	30,474,147	–	510,390,394
Currency realignment	–	417,472	3,375,919	10,944,661	1,146,615	–	15,884,667
Reclassifications	–	–	(96,259)	23,294	72,965	–	–
Depreciation provided for the year	414,811	5,536,486	14,319,460	43,156,290	4,174,215	–	67,601,262
Written back on disposals	–	(513,425)	(8,108,185)	(14,982,798)	(3,613,404)	–	(27,217,812)
Eliminated on revaluation	(414,811)	(5,440,533)	–	–	–	–	(5,855,344)
At 31st December, 2011 and 1st January, 2012	**-**	**-**	**137,306,746**	**391,241,883**	**32,254,538**	**-**	**560,803,167**
Currency realignment	**-**	**17,218**	**14,209**	**1,950**	**3,057**	**-**	**36,434**
Reclassifications	**-**	**-**	**(8,243)**	**-**	**8,243**	**-**	**-**
Depreciation provided for the year	**534,728**	**8,540,045**	**18,673,694**	**44,125,905**	**4,303,121**	**-**	**76,177,493**
Written back on disposals	**-**	**-**	**(9,566,521)**	**(45,887,885)**	**(4,742,728)**	**-**	**(60,197,134)**
Eliminated on revaluation	**(534,728)**	**(8,557,263)**	**-**	**-**	**-**	**-**	**(9,091,991)**
At 31st December, 2012	**-**	**-**	**146,419,885**	**389,481,853**	**31,826,231**	**-**	**567,727,969**
NET BOOK VALUES							
At 31st December, 2012	**25,706,000**	**341,094,000**	**68,459,305**	**259,651,349**	**11,908,404**	**2,014,459**	**708,833,517**
At 31st December, 2011	21,588,000	183,309,000	71,356,590	251,144,497	13,485,984	168,457,005	709,341,076

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2012

16. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

The net book value of leasehold land held for own use under finance leases held by the Group:

	2012	2011
	HK$	HK$
In Hong Kong:		
– under medium-term leases	**25,706,000**	21,588,000

The leasehold land and buildings of the Group were revalued as at 31st December, 2012 on the open market existing use basis by Cushman & Wakefield Valuation Advisory Services (HK) Ltd., an independent firm of professional valuers. The surplus arising on revaluation attributable to the Group has been credited to the other comprehensive income for the year and is accumulated separately in equity in property revaluation reserve.

Depreciation expense of HK$51,718,989 (2011: HK$48,073,361) has been expensed in cost of goods sold, HK$2,673,799 (2011: HK$1,937,261) in selling and distribution costs and HK$21,784,705 (2011: HK$17,590,640) in administrative expenses.

Had leasehold land and buildings been carried at cost less accumulated depreciation and amortisation, the carrying value of leasehold land and buildings would have been HK$300,923,414 (2011: HK$145,991,850).

The net book value of the Group's plant and machinery includes an amount of HK$60,044,648 (2011: HK$62,137,726) in respect of assets held under finance leases (note 37).

At 31st December, 2012, certain of the Group's buildings with an aggregate carrying value of HK$58,590,000 (2011: HK$27,500,000) were pledged to secure certain bank borrowings granted to the Group (note 37).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2012

16. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

	Furniture, fixtures and equipment HK$	Motor vehicles HK$	Total HK$
THE COMPANY			
COST			
At 1st January, 2011	5,666,065	1,054,768	6,720,833
Additions	1,302,642	496,717	1,799,359
Disposals	(1,954,089)	–	(1,954,089)
At 31st December, 2011 and 1st January, 2012	**5,014,618**	**1,551,485**	**6,566,103**
Additions	**121,716**	**–**	**121,716**
Disposals	**(327,490)**	**–**	**(327,490)**
At 31st December, 2012	**4,808,844**	**1,551,485**	**6,360,329**
ACCUMULATED DEPRECIATION			
At 1st January, 2011	3,907,697	847,987	4,755,684
Depreciation provided for the year	709,863	202,733	912,596
Written back on disposals	(1,590,769)	–	(1,590,769)
At 31st December, 2011 and 1st January, 2012	**3,026,791**	**1,050,720**	**4,077,511**
Depreciation provided for the year	**714,896**	**202,732**	**917,628**
Written back on disposals	**(327,490)**	**–**	**(327,490)**
At 31st December, 2012	**3,414,197**	**1,253,452**	**4,667,649**
NET BOOK VALUES			
At 31st December, 2012	**1,394,647**	**298,033**	**1,692,680**
At 31st December, 2011	1,987,827	500,765	2,488,592

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2012

17. LEASEHOLD LAND AND LAND USE RIGHTS

	THE GROUP	
	2012	2011
	HK$	HK$
COST		
At 1st January	**67,054,479**	43,037,486
Currency realignment	**(12,474)**	1,923,431
Additions	**350,597**	22,093,562
At 31st December	**67,392,602**	67,054,479
ACCUMULATED AMORTISATION		
At 1st January	**9,530,734**	8,359,678
Currency realignment	**873**	289,508
Amortisation for the year	**1,469,016**	881,548
At 31st December	**11,000,623**	9,530,734
NET BOOK VALUE		
At 31st December	**56,391,979**	57,523,745
At 1st January	**57,523,745**	34,677,808

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:

	2012	2011
	HK$	HK$
Outside Hong Kong held on:		
Long-term leases	**–**	625,813
Medium-term leases	**56,391,979**	56,897,932
	56,391,979	57,523,745

At 31st December, 2012, certain of the Group's land use rights with an aggregate carrying value of HK$20,466,967 (2011: HK$5,243,328) were pledged to secure certain bank borrowings granted to the Group (note 37).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2012

18. INTERESTS IN SUBSIDIARIES

	THE COMPANY	
	2012	2011
	HK$	HK$
Unlisted shares/capital contributions, at cost	**40,184,956**	40,184,956
Less: impairment losses	**5,160**	5,160
	40,179,796	40,179,796
Amounts due from subsidiaries	**706,120,743**	694,583,094
Less: allowance for impairment of doubtful debts	**15,545,606**	15,545,606
	690,575,137	679,037,488
	730,754,933	719,217,284

Details of the Company's principal subsidiaries at 31st December, 2012 are set out in note 40.

Amounts due from subsidiaries are unsecured and have no fixed terms of repayment. Other than the carrying amounts of HK$13,500,000 (2011: HK$2,500,000) 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$15,585,671 (2011: HK$15,573,261) were impaired. 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 age over three years. The other amounts due from subsidiaries do not contain impaired assets.

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

	THE COMPANY	
	2012	2011
	HK$	HK$
At 1st January	**15,545,606**	51,718,437
Unused amounts reversed	**–**	(36,172,831)
At 31st December	**15,545,606**	15,545,606

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2012

19. INTERESTS IN ASSOCIATES

	THE GROUP	
	2012	2011
	HK$	HK$
Unlisted shares, at cost	**14,589,743**	14,589,743
Share of post-acquisition profits and reserves, net of dividends received	**18,107,587**	16,810,178
	32,697,330	31,399,921
Listed shares in the PRC, at cost	**8,360,510**	8,360,510
Share of post-acquisition profits and reserves, net of dividends received	**355,223,420**	353,246,031
	363,583,930	361,606,541
	396,281,260	393,006,462
Amounts due from associates *(note 39)*	**25,541,654**	21,574,498
	421,822,914	414,580,960
Market value of listed shares in the PRC	**751,874,214**	555,654,027

(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 (2011: HK$312,724).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2012

19. INTERESTS IN ASSOCIATES *(Continued)*

Details of the principal associates of the Group at 31st December, 2012 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	The PRC	30.00	Plastic processing
Suzhou Sanguang Science & Technology Co., Ltd	The PRC	21.13	Manufacturing of industrial machinery, equipment and supplies
Shenzhen Haoningda Meters Co., Ltd.	The PRC	31.50	Manufacturing and trading of electronic meters
Guangzhou Polyten Experimental Analysis Instrument Co., Ltd. *(note a)*	The PRC	22.50	Manufacturing and trading of the experimental analysis instrument

Note a: During the year, the Group's interest in an associate, Guangzhou Polyten Experimental Analysis Instrument Co., Ltd. ("Polyten"), decreased from 30% to 22.5% as a result of the capital injection of RMB1,000,000 by one of the existing shareholders of Polyten. This dilution of the Group's interest in Polyten has resulted in a gain of HK$154,951 which is recognised in the consolidated income statement.

The above table lists out 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2012

19. INTERESTS IN ASSOCIATES *(Continued)*

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

	2012 HK$	2011 HK$
Total assets	**1,993,094,579**	1,819,128,193
Total liabilities	**(700,194,123)**	(539,697,959)
Net assets	**1,292,900,456**	1,279,430,234
Group's share of associates' net assets	**396,281,260**	393,006,462
Total revenue	**914,179,934**	814,391,855
Total profit for the year	**34,982,477**	36,269,018
Group's share of associates' profits for the year	**10,126,635**	9,481,203
Group's share of associates' other comprehensive (expense) income	**(719,416)**	21,365,603

20. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	THE GROUP	
	2012 HK$	2011 HK$
At 1st January	**7,273,504**	5,085,023
Additions	**–**	1,831,055
Revaluation (deficits)/surplus recognised in other comprehensive income *(note 13)*	**(568,800)**	357,426
At 31st December	**6,704,704**	7,273,504
Less: non-current portion	**6,704,704**	7,273,504
Current portion	**–**	–

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2012

20. AVAILABLE-FOR-SALE FINANCIAL ASSETS *(Continued)*

Available-for-sale financial assets include the following:

	THE GROUP	
	2012	2011
	HK$	HK$
Unlisted equity securities, at cost	**6,376,006**	6,376,006
Impairment losses	**(174,060)**	(174,060)
	6,201,946	6,201,946
Listed equity securities outside Hong Kong, at market value	**502,758**	1,071,558
	6,704,704	7,273,504

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2012

21. INVENTORIES

(a) Inventories in the consolidated balance sheet comprise:

	THE GROUP	
	2012	2011
	HK$	HK$
Trading inventories and finished goods	**257,300,074**	254,686,608
Work in progress	**145,751,508**	126,512,573
Raw materials	**246,550,325**	259,880,507
	649,601,907	641,079,688

At 31st December, 2012, the carrying amount of inventories that were stated at fair value less cost to sell is HK$528,076,521 (2011: HK$541,566,843).

(b) The analysis of the amount of inventories recognised as an expense and included in profit or loss is as follows:

	THE GROUP	
	2012	2011
	HK$	HK$
Carrying amount of inventories sold	**1,737,485,431**	1,998,075,412
Write-down of inventories	**4,978,311**	7,539,530
Reversal of write-down of inventories	**(2,440,423)**	(1,761,086)
	1,740,023,319	2,003,853,856

The reversal of write-down of inventories made in prior years arose due to certain obsolete inventories being sold during the year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2012

22. TRADE AND OTHER RECEIVABLES

	THE GROUP	
	2012	2011
	HK$	HK$
Trade and bills receivables	**670,794,453**	632,555,407
Less: allowance for impairment of bad and doubtful debts	**71,914,921**	80,134,369
Trade and bills receivables, net	**598,879,532**	552,421,038
Other receivables	**92,148,867**	145,277,451
Less: allowance for impairment of bad and doubtful debts	**18,122,438**	18,870,447
Other receivables, net	**74,026,429**	126,407,004
Prepayments	**40,129,423**	20,850,925
Amounts due from related parties	**663,553**	651,431
	713,698,937	700,330,398

At 31st December, 2012, none of the Group's trade receivables were pledged to secure certain bank borrowings granted to the Group (2011: HK$13,395,831) (note 37).

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	
	2012	2011
	HK$	HK$
0 to 3 months	**440,521,434**	367,298,716
4 to 6 months	**63,358,957**	73,341,526
7 to 9 months	**35,203,313**	42,998,666
Over 9 months	**59,795,828**	68,782,130
	598,879,532	552,421,038

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2012

22. 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	
	2012	2011
	HK$	HK$
At 1st January	**80,134,369**	81,860,603
Currency realignment	**(11,659)**	3,858,977
Impairment loss recognised	**3,563,410**	9,112,145
Unused amounts reversed	**(499,475)**	–
Uncollectible amounts written off	**(11,271,724)**	(14,697,356)
At 31st December	**71,914,921**	80,134,369

	Other receivables	
	2012	2011
	HK$	HK$
At 1st January	**18,870,447**	17,348,179
Currency realignment	**(1,463)**	1,025,406
Impairment loss recognised	**1,653,999**	707,046
Unused amounts reversed	**–**	(210,184)
Uncollectible amounts written off	**(2,400,545)**	–
At 31st December	**18,122,438**	18,870,447

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 the 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, 2012, trade and bills receivables of HK$77,963,070 (2011: HK$89,440,527) were impaired. The amount of allowance was HK$71,914,921 as at 31st December, 2012 (2011: HK$80,134,369). It is assessed that a portion of the receivables is expected to be recovered.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2012

22. TRADE AND OTHER RECEIVABLES *(Continued)*

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

	THE GROUP	
	2012	2011
	HK$	HK$
Less than 6 months past due	**9,775,616**	11,289,179
6 months to 1 year past due	**500,323**	382,000
1 year to 3 years past due	**6,520,957**	10,381,133
Over 3 years past due	**61,166,174**	67,388,215
	77,963,070	89,440,527

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

	THE GROUP	
	2012	2011
	HK$	HK$
Neither past due nor impaired	**445,386,375**	350,390,018
Less than 6 months past due	**99,183,297**	134,286,758
6 months to 1 year past due	**24,067,580**	33,841,430
1 year to 3 years past due	**19,986,401**	21,051,402
Over 3 years past due	**4,207,730**	3,545,272
	592,831,383	543,114,880

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 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 the following currencies:

	THE GROUP	
	2012	2011
United States Dollars	**23,034,592**	12,960,010
Renminbi	**358,273,327**	410,653,154
Japanese Yen	**47,979,153**	16,558,528

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2012

23. CASH AND CASH EQUIVALENTS

	THE GROUP		THE COMPANY	
	2012	2011	**2012**	2011
	HK$	HK$	**HK$**	HK$
Bank balances and cash	**209,205,918**	227,253,772	**314,037**	14,196,262

Cash and cash equivalents include the following for the purpose of the consolidated statement of cash flows:

	THE GROUP	
	2012	2011
	HK$	HK$
Bank balances and cash per above	**209,205,918**	227,253,772
Bank overdrafts *(note 28)*	**(36,644,815)**	(6,783,772)
	172,561,103	220,470,000

Included in bank balances and cash in the balance sheets are the following amounts denominated in the following currencies:

	THE GROUP		THE COMPANY	
	2012	2011	**2012**	2011
United States Dollars	**4,544,203**	3,592,234	**3,315**	3,315
Renminbi	**128,936,969**	116,523,715	**9,456**	–
Japanese Yen	**13,125,571**	24,188,141	**–**	–
Euro Dollars	**61,810**	171,067	**–**	–

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2012

24. TRADE AND OTHER PAYABLES

	THE GROUP 2012 HK$	2011 HK$
Trade and bills payables	**555,170,095**	542,635,481
Accruals and other payables	**290,636,646**	301,890,088
Amounts due to related parties *(note 39)*	**382,550**	382,550
	846,189,291	844,908,119

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 2012 HK$	2011 HK$
0 to 3 months	**422,900,873**	404,385,367
4 to 6 months	**106,678,996**	113,728,604
7 to 9 months	**17,572,213**	15,231,864
Over 9 months	**8,018,013**	9,289,646
	555,170,095	542,635,481

Included in trade and other payables are the following amounts denominated in the following currencies:

	THE GROUP 2012	2011
United States Dollars	**10,177,541**	5,664,533
Renminbi	**534,964,451**	545,552,443
Japanese Yen	**142,300,549**	164,423,035
Euro Dollars	**492,255**	348,050

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2012

25. SHARE CAPITAL

	Number of ordinary shares	Value HK$
Ordinary shares of HK$0.40 each		
Authorised:		
At 1st January, 2011, 31st December, 2011 and 31st December, 2012	1,000,000,000	400,000,000
Issued and fully paid:		
At 1st January, 2011	711,030,692	284,412,277
Shares issued upon the exercise of share options	5,900,000	2,360,000
At 31st December, 2011 and 31st December, 2012	**716,930,692**	**286,772,277**

During the year, no share options were exercised.

In 2011, the subscription rights attaching to 5,900,000 share options were exercised at the exercise price of HK$0.66 per share, resulting in the issue of 5,900,000 shares of HK$0.66 each and new share capital of HK$2,360,000 and share premium of HK$1,534,000, together with a release of the share options reserve amounting to HK$131,549 credited to the share premium account (note 27). All the ordinary shares issued last year ranked pari passu in all respects with the existing shares. Details of the share options outstanding and movements during the year are set out in note 26.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2012

26. SHARE OPTION SCHEME

On 30th May, 2005, the shareholders of the Company adopted a share option scheme (the "Scheme") which will expire 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 5 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 9.85% 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2012

26. 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, 2012.

				Number of share options				
Grantee	Date of grant[1]	Exercisable period	Exercise price per share HK$	Outstanding and exercisable at 31.12.2011	Granted during the year	Exercised during the year	Lapsed during the year	Outstanding and exercisable at 31.12.2012
Director								
Mr. Wong Yiu Ming	24.05.2010	15.06.2010–14.06.2013	0.66	6,000,000	–	–	–	**6,000,000**
Employees								
In aggregate	24.05.2010	25.05.2010–19.06.2013 [2]	0.66	8,000,000	–	–	–	**8,000,000**
				14,000,000	–	–	–	**14,000,000**

Notes:

(1) The closing price of the Company's shares on the trading day, 24th May, 2010, being the date of grant of options was HK$0.62.

(2) The exercisable period of share options granted to employees is 3 years commencing from the respective dates of acceptance of each particular employee which varied from 25th May, 2010 to 20th June, 2010.

(3) The options outstanding at 31st December, 2012 had a weighted average remaining contractual life of 0.5 years (2011: 1.5 years).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2012

26. 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, 2011.

Grantee	Date of grant[1]	Exercisable period	Exercise price per share HK$	Number of share options: Outstanding and exercisable at 31.12.2010	Granted during the year	Exercised during the year[3]	Lapsed during the year	Outstanding and exercisable at 31.12.2011
Director								
Mr. Wong Yiu Ming	24.05.2010	15.06.2010–14.06.2013	0.66	6,000,000	–	–	–	6,000,000
Employees								
In aggregate	24.05.2010	25.05.2010–19.06.2013 [2]	0.66	13,900,000	–	5,900,000	–	8,000,000
				19,900,000	–	5,900,000	–	14,000,000

Notes:

(1) The closing price of the Company's shares on the trading day, 24th May, 2010, being the date of grant of options was HK$0.62.

(2) The exercisable period of share options granted to employees is 3 years commencing from the respective dates of acceptance of each particular employee which varied from 25th May, 2010 to 20th June, 2010.

(3) During the year, the weighted average closing price of the Company's shares on the trading dates immediately before the respective dates on which the share options were exercised was HK$1.11.

(4) The options outstanding at 31st December, 2011 had a weighted average remaining contractual life of 1.5 years.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2012

26. SHARE OPTION SCHEME *(Continued)*

In determining the share option benefit expense, management appointed RHL Appraisal Limited which used The Hull White Trinomial 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 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 24th May, 2010 using the Model with the inputs are as follows:

	Directors	**Employees**
Exercise price	HK$0.66	HK$0.66
Dividend yield	Nil	Nil
Expected volatility	68.95%	69.52%
Risk-free-interest rate	1.178%	0.924%
Expected life of option	3	3
Expected multiple	1.05714	1.03928
Closing share price at valuation date	HK$0.66	HK$0.62
Fair value of share option at valuation date	HK$0.033	HK$0.022

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 valuation date. Dividend yield is based on historical dividend trend and expected future dividend policy determined by the Company. Dilution effect is factored for the valuation of the share options based on the outstanding shares as of the valuation date. No other features of options grant were incorporated into the measurement of fair value.

At the balance sheet date, the Company had 14,000,000 (2011: 14,000,000) share options outstanding under the Scheme which represent approximately 1.95% (2011: 1.95%) of the Company's shares in issue at that date. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 14,000,000 (2011: 14,000,000) additional shares of HK$0.4 each of the Company and additional share capital of HK$5,600,000 (2011: HK$5,600,000) and share premium of HK$3,640,000 (2011: HK$3,640,000) (before issue expenses).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2012

27. RESERVES

THE COMPANY

	Share premium HK$	Capital redemption reserve HK$	Share options reserve HK$	Retained profits HK$	Proposed final dividend HK$	Total HK$
Balance at 1st January, 2011	244,428,565	36,800	511,226	69,952,422	10,688,860	325,617,873
Profit for the year	–	–	–	32,528,412	–	32,528,412
Exercise of share options	1,665,549	–	(131,549)	–	–	1,534,000
2010 final dividend paid *(note 15(2))*	–	–	–	(17,101)	(10,688,860)	(10,705,961)
Proposed final dividend *(note 15(1))*	–	–	–	(3,584,653)	3,584,653	–
Balance at 31st December, 2011	**246,094,114**	**36,800**	**379,677**	**98,879,080**	**3,584,653**	**348,974,324**
Loss for the year	**–**	**–**	**–**	**(12,081,699)**	**–**	**(12,081,699)**
2011 final dividend paid *(note 15(2))*	**–**	**–**	**–**	**–**	**(3,584,653)**	**(3,584,653)**
Balance at 31st December, 2012	**246,094,114**	**36,800**	**379,677**	**86,797,381**	**–**	**333,307,972**

28. BANK AND OTHER BORROWINGS

	THE GROUP		THE COMPANY	
	2012 HK$	2011 HK$	**2012 HK$**	2011 HK$
Non-current				
Other loans – unsecured	**–**	160,355	**–**	–
Current				
Bank borrowings				
– secured	**77,171,044**	55,236,215	**–**	–
– unsecured	**241,956,145**	279,186,888	**44,612,500**	45,762,500
Bank overdrafts *(note 23)*				
– unsecured	**36,644,815**	6,783,772	**13,431,013**	–
	355,772,004	341,206,875	**58,043,513**	45,762,500
Total borrowings	**355,772,004**	341,367,230	**58,043,513**	45,762,500

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2012

28. BANK AND OTHER BORROWINGS *(Continued)*

At 31st December, 2012, the bank and other borrowings were repayable as follows:

	THE GROUP		THE COMPANY	
	2012	2011	**2012**	2011
	HK$	HK$	**HK$**	HK$
Within 1 year	**355,772,004**	341,206,875	**58,043,513**	45,762,500
Between 1 and 2 years	**–**	–	**–**	–
Between 2 and 5 years	**–**	–	**–**	–
Over 5 years	**–**	160,355	**–**	–
	355,772,004	341,367,230	**58,043,513**	45,762,500

The aggregate carrying amount of the Group's loans as at 31st December, 2012 (that are repayable more than one year after the balance sheet date but contain a repayment on demand clause) that have been reclassified as current liabilities is HK$6,491,506 (2011: HK$27,680,753).

The aggregate carrying amount of the Company's loans as at 31st December, 2012 (that are repayable more than one year after the balance sheet date but contain a repayment on demand clause) that have been reclassified as current liabilities is HK$ Nil (2011: HK$4,612,500).

These loans are callable by the lenders, but the management does not expect the lenders to exercise its rights to demand repayment in normal circumstances.

The effective interest rate as at 31st December, 2012 for bank borrowings and overdrafts is 4.45% per annum (2011: 4.57% per annum).

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

	Carrying amounts		Fair values	
	2012	2011	**2012**	2011
	HK$	HK$	**HK$**	HK$
Other loans	**–**	160,355	**–**	116,711

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2012

28. BANK AND OTHER BORROWINGS *(Continued)*

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

	THE GROUP		THE COMPANY	
	2012	2011	**2012**	2011
	HK$	HK$	**HK$**	HK$
Hong Kong Dollars	**230,842,311**	202,092,531	**58,043,513**	45,762,500
Renminbi	**124,929,693**	139,274,699	**–**	–
	355,772,004	341,367,230	**58,043,513**	45,762,500

The Group has the following undrawn borrowing facilities:

	2012	2011
	HK$	HK$
Floating rate		
– expiring within one year	**463,891,897**	395,186,652

The facilities expiring within one year are annual facilities subject to review at various dates during 2012.

Bank borrowings are secured by the certain buildings and leasehold land and land use rights of the Group (notes 16 and 17).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2012

29. OBLIGATIONS UNDER FINANCE LEASES

THE GROUP

	Minimum lease payments		Present value of minimum lease payments	
	2012	2011	**2012**	2011
	HK$	HK$	**HK$**	HK$
Amounts payable under finance lease:				
Within 1 year	**16,654,257**	15,580,454	**15,902,923**	14,544,949
Between 2 to 5 years	**15,693,254**	25,591,259	**15,276,525**	24,608,641
	32,347,511	41,171,713	**31,179,448**	39,153,590
Less: Future finance charges	**1,168,063**	2,018,123	**N/A**	N/A
Present value of lease payments	**31,179,448**	39,153,590	**31,179,448**	39,153,590
Less: Amount due for settlement within 1 year under current liabilities			**15,902,923**	14,544,949
Amount due for settlement after 1 year			**15,276,525**	24,608,641

It is the Group's policy to lease certain of its plant and machinery under finance leases. The lease term is expiring from three to four years. For the year ended 31st December, 2012, the average effective borrowing rate was 2.39% per annum (2011: 2.72% per annum). Interest is charged at one month HIBOR to 5.75% per annum (2011: one month HIBOR or HIBOR plus 2% to 2.5% per annum) on the outstanding loan balances. All leases are on a fixed repayment basis and no arrangement has been entered into for contingent rental payments.

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

THE COMPANY

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2012

30. 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% (2011: 16.5%).

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 tax depreciation HK$	Revaluation of land and buildings HK$	Tax losses HK$	Others HK$	Total HK$
At 1st January, 2011	(2,777,428)	(4,499,710)	1,470,775	3,941,895	(1,864,468)
Currency realignment	(166,474)	(85,057)	35,909	189,300	(26,322)
Charged to equity	–	(456,655)	–	–	(456,655)
Credited to income statement *(note 11)*	202,517	–	–	66,032	268,549
(Under)over-provision in prior years *(note 11)*	(217,684)	352,571	–	–	134,887
At 31st December, 2011 and 1st January, 2012	**(2,959,069)**	**(4,688,851)**	**1,506,684**	**4,197,227**	**(1,944,009)**
Currency realignment	**(1,167)**	**350**	**(1,600)**	**4,215**	**1,798**
Charged to equity	**–**	**(1,384,049)**	**–**	**–**	**(1,384,049)**
(Charged) credited to income statement *(note 11)*	**(879,158)**	**–**	**(648,474)**	**2,319,137**	**791,505**
At 31st December, 2012	**(3,839,394)**	**(6,072,550)**	**856,610**	**6,520,579**	**(2,534,755)**

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:

	2012 HK$	2011 HK$
Deferred tax assets	**5,642,797**	4,515,601
Deferred tax liabilities	**(8,177,552)**	(6,459,610)
	(2,534,755)	(1,944,009)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2012

30. 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, 2012, the Group has unrecognised tax losses of HK$339,517,756 (2011: HK$287,434,412) available for offset against future profits. Included in unrecognised tax losses are losses of HK$86,664,146 (2011: HK$49,204,721) that will expire 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, 2012, the Company has unutilised tax losses of HK$166,827,562 (2011: HK$158,070,996) 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 the year end dates.

31. MAJOR NON-CASH TRANSACTIONS

During the year, the Group acquired property, plant and equipment and leasehold land and land use rights with an aggregate cost of HK$76,977,117 of which HK$6,900,000 was acquired by means of finance leases (2011: HK$38,523,825). Cash payments of HK$70,077,117 were made to purchase property, plant and equipment and leasehold land and land use rights. (2011: HK$214,716,441).

32. DISPOSAL OF INTEREST IN A SUBSIDIARY WITHOUT LOSS OF CONTROL

The Group has not disposed of any interest in a subsidiary without loss of control during the year ended 31st December, 2012.

On 17th May, 2011, the Group disposed of 30% of the issued capital of Cosmos I-Tech Solutions Limited ("I-Tech"), a company incorporated in Hong Kong, to third parties for a total consideration of HK$259,155.

Upon completion of the above disposal, the Group's effective interest in I-Tech was decreased from 100% to 70%. Consequently, the Group recognised an increase in non-controlling interests of HK$374,614 and a decrease in equity attributable to equity shareholders of the Company of HK$115,459. The effect of changes in the ownership interests of I-Tech on the equity attributable to equity shareholders of the Company during the year is summarised as follows:

	2012	2011
	HK$	HK$
Carrying amount of non-controlling interests disposed of	–	(374,614)
Consideration received from non-controlling interests	–	259,155
Loss on disposal within equity	–	(115,459)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2012

33. OPERATING LEASE COMMITMENTS

The Group as lessee

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	
	2012	2011
	HK$	HK$
Within 1 year	**19,719,661**	18,660,705
Between 2 to 5 years	**30,016,783**	40,987,797
Over 5 years	**15,050,839**	15,158,509
	64,787,283	74,807,011

Operating lease payments represent rentals payable by the Group for certain of its office properties, factories and plant and machinery. Leases are negotiated mostly for terms of ranging from 1 to 10 years and rentals are almost fixed for the said term.

The Group as lessor

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	
	2012	2011
	HK$	HK$
Within 1 year	**231,841**	384,667
Between 2 to 5 years	**–**	642,861
	231,841	1,027,528

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2012

33. OPERATING LEASE COMMITMENTS *(Continued)*

The Company as lessee

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

	THE COMPANY	
	2012	2011
	HK$	HK$
Within 1 year	**4,381,465**	4,779,780
Between 2 to 5 years	**–**	4,381,465
	4,381,465	9,161,245

34. CAPITAL COMMITMENTS

	THE GROUP		THE COMPANY	
	2012	2011	**2012**	2011
	HK$	HK$	**HK$**	HK$
Capital expenditure:				
Authorised but not contracted for	**–**	–	**–**	–
Contracted but not provided for	**28,522,888**	40,732,479	**–**	–
	28,522,888	40,732,479	**–**	–

35. FINANCIAL GUARANTEES AND CONTINGENT LIABILITIES

	THE GROUP		THE COMPANY	
	2012	2011	**2012**	2011
	HK$	HK$	**HK$**	HK$
Guarantees given to financial institutions in respect of credit facilities utilised by				
– subsidiaries	**–**	–	**1,184,536,628**	1,200,259,647
– third party	**–**	2,407,460	**–**	–

In the opinion of the directors, the fair value of the liabilities in relation to the above guarantees is insignificant as at 31st December, 2012 and 31st December, 2011.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2012

36. RETIREMENT BENEFITS SCHEMES

The Group participates in both a defined contribution scheme which is registered under the Occupational Retirement Scheme Ordinance (the "ORSO Scheme") and a Mandatory Provident Fund Scheme (the "MPF Scheme") established under the Mandatory Provident Fund Schemes 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 5.0% 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 5.0% 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$18,858,216 (2011: HK$13,276,081) represents contributions payable to these schemes by the Group in respect of the current accounting period. As at 31st December, 2012, contributions of HK$835,795 (2011: HK$249,186) due in respect of the reporting period had not been paid over to the schemes.

37. PLEDGE OF ASSETS

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

	2012 **HK$**	2011 HK$
Buildings	**58,590,000**	27,500,000
Leasehold land and land use rights	**20,466,967**	5,243,328
Plant and machinery	**60,044,648**	62,137,726
Bank deposits	**53,562,606**	67,015,054
Trade receivables	**–**	13,395,831
	192,664,221	175,291,939

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2012

38. 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, 2012			
Available-for-sale financial assets *(note 20)*	**–**	**6,704,704**	**6,704,704**
Amounts due from associates *(note 19)*	**25,541,654**	**–**	**25,541,654**
Trade and other receivables	**673,569,514**	**–**	**673,569,514**
Pledged bank deposits *(note 37)*	**53,562,606**	**–**	**53,562,606**
Cash and cash equivalents *(note 23)*	**209,205,918**	**–**	**209,205,918**
Total	**961,879,692**	**6,704,704**	**968,584,396**
31st December, 2011			
Available-for-sale financial assets *(note 20)*	–	7,273,504	7,273,504
Amounts due from associates *(note 19)*	21,574,498	–	21,574,498
Trade and other receivables	646,646,274	–	646,646,274
Pledged bank deposits *(note 37)*	67,015,054	–	67,015,054
Cash and cash equivalents *(note 23)*	227,253,772	–	227,253,772
Total	962,489,598	7,273,504	969,763,102

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2012

38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

(a) **Financial instruments by categories** *(Continued)*

THE GROUP

	Financial liabilities at amortised cost
	HK$
Liabilities as per consolidated balance sheet	
31st December, 2012	
Trade and other payables	**720,810,560**
Amounts due to associates	**1,317,178**
Bank and other borrowings *(note 28)*	**355,772,004**
Obligations under finance leases *(note 29)*	**31,179,448**
Total	**1,109,079,190**
31st December, 2011	
Trade and other payables	720,131,117
Amounts due to associates	1,317,178
Bank and other borrowings *(note 28)*	341,367,230
Obligations under finance leases *(note 29)*	39,153,590
Total	1,101,969,115

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2012

38. 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, 2012	
Amounts due from subsidiaries *(note 18)*	**690,575,137**
Trade and other receivables	**4,352,324**
Cash and cash equivalents *(note 23)*	**314,037**
Total	**695,241,498**
31st December, 2011	
Amounts due from subsidiaries *(note 18)*	679,037,488
Amount due from an associate	8,602,698
Trade and other receivables	4,681,810
Cash and cash equivalents *(note 23)*	14,196,262
Total	706,518,258

	Financial liabilities at amortised cost HK$
Liabilities as per balance sheet	
31st December, 2012	
Trade and other payables	**1,150,158**
Amounts due to subsidiaries	**56,297,240**
Amount due to an associate	**233,912**
Bank and other borrowings *(note 28)*	**58,043,513**
Total	**115,724,823**
31st December, 2011	
Trade and other payables	2,687,481
Amounts due to subsidiaries	65,067,930
Amount due to an associate	233,912
Bank and other borrowings *(note 28)*	45,762,500
Total	113,751,823

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2012

38. 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 arising in the normal course of its business and financial instruments. 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 RMB. Hong Kong dollars ("HK$"), United states dollars ("US$") 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. The Group currently does not have a foreign currency hedging policy.

Certain assets and liabilities of the Group are principally denominated in US$. HK$ is pegged to US$, and thus foreign exchange exposure is considered as minimal.

At 31st December, 2012, if HK$ had strengthened/weakened by 10% against the RMB, with all other variables held constant, post-tax profit for the year would have been approximately HK$1,216,000 (2011: HK$527,000), lower or higher. There will be no impact on other components of equity.

At 31st December, 2012, if HK$ had strengthened/weakened by 10% against the YEN, with all other variables held constant, post-tax profit for the year would have been approximately HK$531,000 (2011: HK$989,000), higher or lower. There will be no impact on other components of equity.

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

The stated changes represent management's assessment of reasonably possible changes in foreign exchange rates over the period until the next annual balance sheet date. In this respect, it is assumed that the pegged rate between the HK$ and the US$ would be materially unaffected by any changes in movement in value of the 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 2011.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2012

38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

(b) Financial risk factors *(Continued)*

(ii) Interest rate risk

Except for pledged bank deposits and cash and cash equivalents (note 23), 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 28.

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 borrowings 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, 2012, if interest rates on HK$-denominated borrowings had been 50 basis points higher/lower with all other variables held constant, post-tax loss for the year would have been approximately HK$786,000 (2011: HK$956,000) higher/lower, mainly as a result of higher/lower interest expense on floating rate borrowings.

At 31st December, 2012, if interest rates on RMB-denominated borrowings had been 50 basis points higher/lower with all other variables held constant, post-tax loss for the year would have been approximately HK$98,000 (2011: HK$524,000) 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 2011.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2012

38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

(b) Financial risk factors *(Continued)*

(iii) Price risk

The Group is exposed to equity securities price risk in its 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.

(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. Further quantitative disclosure in respect of the Group's exposure to credit risk arising from trade and other receivables are set out in note 22.

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.

(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 tables below categorised the Group's and the Company'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 and the Company.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2012

38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

(b) Financial risk factors *(Continued)*

(v) Liquidity risk

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, 2012					
Trade and other payables	**720,810,560**	**–**	**–**	**–**	**720,810,560**
Amounts due to associates	**1,317,178**	**–**	**–**	**–**	**1,317,178**
Obligations under finance leases	**16,654,257**	**12,415,242**	**3,278,012**	**–**	**32,347,511**
Bank and other borrowings	**361,850,531**	**–**	**–**	**–**	**361,850,531**
Total	**1,100,632,526**	**12,415,242**	**3,278,012**	**–**	**1,116,325,780**
At 31st December, 2011					
Trade and other payables	720,131,117	–	–	–	720,131,117
Amounts due to associates	1,317,178	–	–	–	1,317,178
Obligations under finance leases	15,574,001	16,849,473	9,779,759	–	42,203,233
Bank and other borrowings	347,576,128	–	–	160,355	347,736,483
Total	1,084,598,424	16,849,473	9,779,759	160,355	1,111,388,011

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2012

38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

(b) **Financial risk factors** *(Continued)*

(v) Liquidity risk (Continued)

The Company

	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, 2012					
Trade and other payables	**1,150,158**	**–**	**–**	**–**	**1,150,158**
Amounts due to subsidiaries	**56,297,240**	**–**	**–**	**–**	**56,297,240**
Amount due to an associate	**233,912**	**–**	**–**	**–**	**233,912**
Bank and other borrowings	**59,320,966**	**–**	**–**	**–**	**59,320,966**
Total	**117,002,276**	**–**	**–**	**–**	**117,002,276**
At 31st December, 2011					
Trade and other payables	2,687,481	–	–	–	2,687,481
Amounts due to subsidiaries	65,067,930	–	–	–	65,067,930
Amount due to an associate	233,912	–	–	–	233,912
Bank and other borrowings	46,971,235	–	–	–	46,971,235
Total	114,960,558	–	–	–	114,960,558

(vi) Fair values

The following table presents the carrying value of the financial instruments measured at fair value at the balance sheet date across the 3 levels of the fair value hierarchy defined in HKFRS 7, Financial Instruments: Disclosures, with the fair value of each financial instrument categorised in its entirety based on the lowest level of input that is significant to that fair value measurement. The levels are defined as follows:

– Level 1 (highest level): fair values measured using quoted prices (unadjusted) in active markets for identical financial instruments

– Level 2: fair values measured using quoted prices in active markets for similar financial instruments, or using valuation techniques in which all significant inputs are directly or indirectly based on observable market data

– Level 3 (lowest level): fair values measured using valuation techniques in which any significant input is not based on observable market data

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2012

38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

(b) Financial risk factors *(Continued)*

(vi) Fair values (Continued)

2012

	The Group			
	Level 1 HK$	**Level 2 HK$**	**Level 3 HK$**	**Total HK$**
Assets:				
Available-for-sale financial assets				
– Listed shares	**502,758**	**–**	**–**	**502,758**

2011

	Level 1 HK$	Level 2 HK$	Level 3 HK$	Total HK$
Assets:				
Available-for-sale financial assets				
– Listed shares	1,071,558	–	–	1,071,558

During the year there were no transfers between instruments in Level 1 and Level 2.

All other financial instruments are carried at amounts not materially different from their fair values as at 31st December, 2012 and 2011.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2012

38. 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, 2012 and 2011 are as follows:

	2012	2011
	HK$	HK$
Current liabilities	**1,224,782,035**	1,207,225,042
Non-current liabilities	**23,454,077**	31,228,606
Total borrowings	**1,248,236,112**	1,238,453,648
Total equity	**1,577,901,949**	1,590,460,150
Total capital	**2,826,138,061**	2,828,913,798
Total debts ratio	**44%**	44%

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2012

39. TRANSACTIONS AND BALANCES WITH RELATED PARTIES

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

	Notes	**2012** **HK$**	2011 HK$
Substantial shareholder and its subsidiaries:			
EDP charges received *(note i)*		**183,600**	183,600
Management fee paid *(note i)*		**–**	558,396
Company controlled by certain directors' relative:			
EDP charges received *(note i)*		**51,600**	51,600
Management fee paid *(note i)*		**996,000**	996,000
Non-controlling 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)*		**662,526**	650,355
Associates:			
Balances due from the Group as at the balance sheet date *(note ii)*		**1,317,178**	1,317,178
Balances due to the Group as at the balance sheet date *(note ii)*	19	**25,541,654**	21,574,498
Compensation of key management personnel of the Group *(note iii)*:			
Salaries and other short-term employee benefits		**26,732,934**	20,356,447

Further details of directors' and the chief executive's emoluments are included in note 10 to the consolidated financial statements.

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 terms of repayment.

(iii) Key management personnel whose profiles are included in Directors and Senior Management Profile section of this report. During the year, the directors have considered that it is more appropriate to redefine the criteria for identification of senior management to be included in related parties disclosure, therefore the comparative figures has been restated to conform with current management's interpretation.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2012

40. PARTICULARS OF PRINCIPAL SUBSIDIARIES

Details of the Company's principal subsidiaries at 31st December, 2012 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
Cosmos Machinery (Dongguan) Trading Co., Ltd. *(note a)*	The PRC	The PRC	HK$5,000,000	100.00	100.00	Trading of machinery
Cosmos Machinery (Wuxi) Trading Co., Ltd. *(note a)*	The PRC	The PRC	HK$5,000,000	100.00	100.00	Trading of machinery
Dekuma Rubber and Plastic Technology (Dongguan) Limited *(note a)*	The PRC	The PRC	HK$24,000,000	100.00	100.00	Manufacturing and trading of machinery
Dongguan Great Wall Optical Plastic Works Co., Ltd. *(note a)*	The PRC	The PRC	HK$20,000,000	100.00	100.00	Manufacturing of microscopes and magnifiers with acrylic lenses
Dong Hua Machinery Ltd. *(note b)*	The PRC	The PRC	RMB146,199,955	75.56	75.56	Manufacturing and trading of machinery
Gainbase Industrial Limited	Hong Kong	Hong Kong	HK$10,000	100.00	52.00	Trading of printed circuit boards
Grand Technology Products Limited	Hong Kong	Hong Kong	HK$9,500,000	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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2012

40. PARTICULARS OF PRINCIPAL SUBSIDIARIES *(Continued)*

Name of subsidiary	Place of incorporation/ registration	Place of operation	Issued and fully paid share capital/ registered capital	Proportion of nominal value of issued share capital/ registered capital held by the Company*/ subsidiaries %	Proportion of nominal value of issued share capital/ registered capital attributable to the Group %	Principal activities
Karmay Plastic Products (Zhuhai) Co., Ltd. (note a)	The PRC	The PRC	HK$16,800,000	100.00	100.00	Manufacturing of plastic products
Melco Industrial Supplies Company Limited	Hong Kong	Hong Kong	HK$1,500,000	100.00	100.00	Trading of industrial equipment and screws
美高工業器材（上海）有限公司 *(note a)*	The PRC	The PRC	US$600,000	100.00	100.00	Trading of industrial equipment and screws
Guangzhou Melco Industrial Supplies Co., Ltd. *(note a)*	The PRC	The PRC	US$400,000	100.00	100.00	Trading of industrial equipment and screws
MS Enterprises Limited	Hong Kong	Hong Kong	HK$3,000,000	100.00	100.00	Manufacturing of moulds and trading of plastic wares
Shenzhen Gainbase Printed Circuit Board Co., Ltd. *(note a)*	The PRC	The 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 Ltd. *(note a)*	The PRC	The PRC	US$9,586,000	100.00	100.00	Manufacturing and trading of machinery
Wu Xi Grand Plastic Machine Manufacture Co., Ltd. *(note b)*	The PRC	The PRC	US$2,850,000	100.00	100.00	Manufacturing and trading of machinery
合肥大同格蘭塑業有限公司 *(note a)*	The PRC	The PRC	HK$56,000,000	100.00	100.00	Manufacturing of plastic products

Notes:

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2012

40. PARTICULARS OF PRINCIPAL SUBSIDIARIES *(Continued)*

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

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

41. POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31ST DECEMBER, 2012

Up to the date of issue of these consolidated financial statements, the HKICPA has issued a number of amendments, new standards and interpretations which are not yet effective for the year ended 31st December, 2012 and which have not been early adopted in these consolidated financial statements.

The Group is in the process of making an assessment of what the impact of these amendments, new standards and new interpretations is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the Group's results of operations and financial position.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2012

41. POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31ST DECEMBER, 2012 *(Continued)*

In addition, the following developments may result in new or amended disclosures in the consolidated financial statements:

	Effective for accounting periods beginning on or after
Amendments to HKAS 1, Presentation of financial statements – Presentation of items of other comprehensive income	1st July, 2012
HKFRS 10, Consolidated financial statements	1st January, 2013
HKFRS 11, Joint arrangements	1st January, 2013
HKFRS 12, Disclosure of interests in other entities	1st January, 2013
HKFRS 13, Fair value measurement	1st January, 2013
HKAS 27 (2011), Separate financial statements (2012)	1st January, 2013
HKAS 28 (2011), Investments in associates and joint ventures	1st January, 2013
Revised HKAS 19, Employee benefits	1st January, 2013
Annual improvements to HKFRSs 2009-2011 Cycle	1st January, 2013
Amendments to HKFRS 1, First-time adoption of Hong Kong Financial Reporting Standards – Government loans	1st January, 2013
Amendments to HKFRS 7, Financial instruments: Disclosures – Offsetting financial assets and financial liabilities	1st January, 2013
Amendments to HKFRS 10, HKFRS 11 and HKFRS 12, Consolidated financial statements, Joint arrangements and Disclosure of interests in other entities: Transition guidance	1st January, 2013
HK(IFRIC) – Int 20, Stripping costs in the production phase of a surface mine	1st January, 2013
Amendments to HKAS 32, Financial Instruments: Presentation – Offsetting financial assets and financial liabilities	1st January, 2014
Amendments to HKFRS 10, HKFRS 12 and HKAS 27(2011), Investment entities	1st January, 2014
HKFRS 9, Financial instruments	1st January, 2015
Amendments to HKFRS 7 and HKFRS 9, Mandatory effective date of HKFRS 9 and Transition disclosures	1st January, 2015

FINANCIAL SUMMARY

INCOME STATEMENT

	For the year ended 31st December,				
	2008 HK$'000	2009 HK$'000	2010 HK$'000	2011 HK$'000	**2012** **HK$'000**
Turnover	1,939,383	1,692,794	2,426,658	2,416,690	**2,121,595**
(Loss) Profit before taxation	63,932	35,324	310,727	49,665	**(2,861)**
Taxation	(7,627)	(8,564)	(13,349)	(15,152)	**(10,277)**
(Loss) Profit for the year	56,305	26,760	297,378	34,513	**(13,138)**
Non-controlling interests	11,066	19,459	21,707	7,934	**11,037**
(Loss) Profit attributable to equity shareholders of the Company	45,239	7,301	275,671	26,579	**(24,175)**

BALANCE SHEET

	At 31st December,				
	2008 HK$'000	2009 HK$'000	2010 HK$'000	2011 HK$'000	**2012** **HK$'000**
Total assets	2,280,337	2,208,321	2,699,588	2,828,914	**2,826,138**
Total liabilities	(1,139,273)	(1,041,420)	(1,205,828)	(1,238,454)	**(1,248,236)**
Total equity	1,141,064	1,166,901	1,493,760	1,590,460	**1,577,902**
Non-controlling interests	153,020	166,840	183,445	189,005	**198,965**

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