大同機械企業有限公司

COSMOS MACHINERY ENTERPRISES LIMITED

Stock Code 股份代號: 118

Annual Report 年報 2009

商界展關懷

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CORPORATE INFORMATION

DIRECTORS

Executive Directors

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

Non-Executive Directors

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

Independent Non-Executive Directors and Audit Committee Members

Yip Jeffery
Yeung Shuk Fan
Cheng Tak Yin

Remuneration Committee

Yip Jeffery
Yeung Shuk Fan
Cheng Tak Yin
Tang To

Committee of Executive Directors

Tang To
Jiang Wei
Wong Yiu Ming

CHIEF EXECUTIVE OFFICER

Wong Yiu Ming

JOINT COMPANY SECRETARIES

Ho Kwong Sang
Tam Pui Ling

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PRINCIPAL BANKERS

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

SOLICITORS

Woo, Kwan, Lee & Lo

AUDITORS

Ting Ho Kwan & Chan

SHARE REGISTRAR

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

LISTING INFORMATION

The Stock Exchange of Hong Kong Limited
Stock Code: 118

| CHAIRMAN'S STATEMENT |

I am pleased to present to shareholders the annual report of Cosmos Machinery Enterprises Limited (the "Company") and its subsidiaries (the "Group") for the year ended 31st December, 2009.

RESULTS

The Group's consolidated turnover for the year 2009 was approximately HK$1,692,794,000, representing a decrease of about 13% from the approximate HK$1,939,383,000 for 2008. Our profit after taxation stood at about HK$26,760,000, representing a decrease of about 52% as compared with about HK$56,305,000 for the same period of last year (profit after taxation for 2008 included a gain totaled HK$66,933,000 arising from the compensation and disposal of land, factory premises and production workshop pursuant to the compensation contract and disposal contract signed between Wuxi Grand Tech Machinery Group Ltd., a wholly-owned subsidiary of the Group, and Wuxi Industry Development Group Co., Ltd.). For the year ended 31st December, 2009, the profit attributable to shareholders was about HK$7,301,000, decreased by about 84% as compared with last year.

CHAIRMAN'S STATEMENT

During the period under review, along with the further spread of the international financial crisis that had resulted in sluggish global economy and unprecedented downturn of domestic and foreign markets, especially in the first half of 2009, the Group's sales of businesses decreased drastically and its overall results were hit hard, such that our interim results for the first half of the year even recorded a net loss of approximately HK$18,147,000. Facing unheard-of crucibles and challenges, the Group changed pressures into motivations and reviewed businesses earnestly and practically other than stringent inventory control to address longer and worse rigorous adversities, which included implementing streamlined administration and optimized production process; providing training on crisis management and execution skill for management members; adhering to prudent credit term policy in stagnant and unordered market conditions; and establishing closer cooperation with suppliers. Under innovative and tenacious struggles of colleagues, the Group reduced losses in the hostile economic environment. Also, most businesses regained satisfactory growth in the second half of 2009. Certain business could even transcend the level before financial crisis and recover losses in the first half of 2009, thus retaining profit-making results for the year.

The Group's machinery business was closely linked to investment intentions of industry circles that it was heavily impacted in the global economic plight. However, abnormal predicament represents more often the motivation for reform. At the beginning of 2009, the machinery business conducted reformative integration and streamlining measures on all functional departments to enhance their efficiency and strain capacity. Amid market doldrums, we still persisted in R&D input and concentrating resources to accelerate perfecting our self-developed Se-series injection moulding machines that are of high precision and electricity saving functions with outperforming cost-performance ratio. Since its launch in the middle of 2009, customers' satisfactory reaction and better-than-expected orders are inspiring. Not only do the Se-series products provide higher profit margin but they also follow market trends of energy saving and consumption reduction, which represents premium tool of cost effectiveness for customers and new competitive edges of this business in the market.

Greenline Se 190T Servo-driven Energy Saving Injection Moulding Machine for PVC Application

| CHAIRMAN'S STATEMENT |

Orders for plastic products and processing business were sharply cut due to impacts of the global economic recession. Thus, besides belt-tightening to minimize losses, our member companies did their utmost to actively optimize cost management to improve productivity, add automatic equipment and adjust product mixes as well as market strategies. During the period under review, the injection molding factory located in Shenyang that had been loss-making for long was closed down. Thanks to desirable adjustment in sales strategies and price markdown of plastics, our plastic injection product business of plastic tableware and food packaging in Zhuhai attained laudable achievements. Despite the approximate decrease of 26% from last year in terms of annual results of plastic products and processing business, the series of optimization and rectification implemented have laid a solid foundation for continued expansion of this business after going through test of the crisis.

In face of depression in the export-focused industry, the trading business of industrial consumables shrank dramatically. Fortunately, the Central Government launched policies to simulate domestic demand, cultivate emerging industries and facilitate huge investment in infrastructure. Capitalizing on this situation, this business managed to timely re-deploy resources to develop the domestic demand market and exploit customers in emerging industries, thus offsetting the declining results and opening up new opportunities for long-term business development.

The printed circuit board business had been undergoing orderly adjustment in product mixes for the past few years, in which low added-value products were eliminated. Besides, it has for years insisted on a diversified market deployment, such that it recorded no dramatic drop in orders when the global electronic product industry was slack. Boosted by the management's consciousness of hardship, measurements including process reform and redundancy for efficiency improvement were proactively implemented, which, coupled with favorable factor like drop in raw material prices, resulted in gratifying profits for this business.

Shenzhen Haoningda Meters Co., Ltd., an associate company of the Group in Shenzhen, has weathered the global financial crisis, and has, under the national grid reconstruction investment plan, obtained numerous orders and achieved satisfactory growth in results by virtue of its remarkable self-independent R&D achievements. It was listed on the A-share market in Shenzhen Stock Exchange in early February, 2010 and raised proceeds of more than RMB600 million in total as the capital of future sustainable development.

Forward-looking Statement

In the aftermaths of the global financial crisis, the world economy is recovering in 2010 with the operating environment in a better position for improvement, and national policies have brought with us favorable opportunities. Nevertheless, complex uncertainties hide amid new opportunities: prices in raw materials including metal and plastics may fluctuate and exchange rates of different currencies may vary; migrant worker shortage emerged in the beginning of the year is bound to cause hike in labour costs; together with other unfavorable factor including rise of trade protectionism, all are new challenges that we must address with the consciousness of hardship.

Other than promoting policies relating to industrial upgrade and self-independent innovation, the State has issued adjustment and revival planning for the equipment manufacture industry and made energy saving and emission reduction as a long-term national policy. The Group will maintain substantial investment in R&D of the machinery business, and enhance technology reserve to maintain market competitive edges of products. Carrying on results of Se-series injection moulding machines, the Group has managed to extend the application of servo-driven core technology, capable of both energy saving and consumption reduction as well as high precision, to product lines of rubber injection machine and hydraulic punching machine. As a result, the overall product mix of machinery business is expected to make breakthrough. Upon completion and opening of the new factory in Dongguan in the middle of 2010, its production capacity will be expanded to abate bottlenecks of the current order backlog.

Greenline Se 1000T Servo-driven Energy Saving Injection Moulding Machine

Orders of plastic products and processing business will stabilize in 2010. Strict requirements for new orders are bound to be met by way of optimized and rectified management measures. Besides, hike in labour costs is to be offset by increased automatic investment. The business is expected to recover for growth. Meanwhile, under the State's policies to stimulate national consumption and the "Home Appliances Subsidy Policy for Rural Areas", there will be larger room for development in domestic sales market of the plastic processing business, and the Group will gradually input resources to capture opportunities in light of the expanded market.

With recovery of the global economy, China's export trade will gradually rebound and results of our trading business are expected for pick-up. Besides, the State takes initiatives in implementing new policies including domestic demand expansion, technical renovation and cultivation of strategic emerging industries, creating golden opportunities and also room for sustained development for the trading business in the next few years.

The printed circuit board business will carry on the admirable performance of last year to brace for opportunities in the revitalized market and maintain prominent results despite facing challenges in production cost increase in 2010. It is expected that the government will tighten regulations on environmental protection and pollution discharge, but the business has advanced sewage treatment reuse facilities added and installed at the factory that business expansion requirement in the next few years will be satisfied by only increasing certain investment.

Successful listing of Shenzhen Haoningda Meters Co., Ltd. on the A-share market of Shenzhen is conducive to the Group's asset optimization and growth of its results will contribute to the Group's profit.

Overall, in 2010, the domestic market will undergo greater changes, which in return generate more business opportunities that are favorable to the Group's businesses. After endurance, rectification and optimization against adversity last year, we are confident that our management team is well positioned to strive for satisfactory results and overcome new challenges ahead with stronger strength and determination in a new year, so as to maximize return for shareholders.

On behalf of the Board, I would like to extend my heartfelt gratitude to the whole personnel working in collaboration to conquer obstacles with the Group. I would also like to show my appreciation to shareholders, customers, partners and other groups concerned for your support and trust.

TANG To
Chairman

Hong Kong, 20th April, 2010

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

Manufacturing Business

Machinery

As market demands gradually recovered and product mixes were strategically adjusted in the second half of 2009, our results were improved obviously with lessened losses, and managed to record profit in the fourth quarter of the year. During the period under review, we recorded a turnover of HK$585,529,000, a decline of about 13% from approximately HK$672,670,000 of the same period of last year and accounted for approximately 35% of the Group's consolidated turnover, while the loss in the period was approximately HK$23,722,000, and the performance was declined by about 154% as compared with the same period of last year.

Against a backdrop of global economic recession and uncertain prospects, production and sale of domestic export business were in downturn in the first half of 2009. An array of massive economic revival programs launched by the Central Government stimulated both liquidity of money-supply and consumption demand, and gradual recovery of domestic economic in the second quarter drove machinery demands. However, as impacted by financial crisis extensions, revitalization in major regions was still feeble, and the export markets only began to have a slight revival in the second half of 2009. Export sales during the period recorded a decrease of 46% as compared with last year, the proportion of export decreased to 15% by 24% from last year. On the whole, general purpose injection moulding machines were still oversupplied in the unordered competition, and their consolidated gross profit margin decreased by about 7% as compared with the same period of last year. In streamlining the structure and executing belt-tightening measures, we also structurally reformed product mixes of injection moulding machine business to speed up the elimination of traditional general purpose injection moulding machines of lower gross profit margin and mobilize resources to servo-driven energy saving products. Meanwhile, an all-round adjustment on the supply deployment at home and abroad was conducted to improve the capacity for contingency of the entire supply chain.

On the product development front, to cater for the trend of environmental and energy saving machinery, key components of Greenline servo-driven energy-saving model that was first launched in 2007 was successfully localized after almost three-year self-independent R&D and optimization, with the enhanced Se-series being promoted in the market. Currently, unique OEM-version components are being jointly developed under strategic partnership agreement with suppliers, so as to coordinate the medium and long-term upgrade planning of products. Ever since the launch at ChinaPlas exhibition in May 2009, the high cost-performance ratio of Se-series injection moulding machine has been widely recognized and well received by customers both at home and abroad. In the second half of 2009, total order value for the series was encouraging that it maintained its momentum of monthly increase to date. By capitalizing on this product series, the consolidated gross profit margin of injection machine is expected to resume to a reasonable level.

CNC Sheet Metal Punching & Precision Shearing Composite Processing Production Line-1500mm x 2500mm

MANAGEMENT DISCUSSION AND ANALYSIS

Other products including CNC sheet-metal processing machine, rubber injection machine and extrusion line business achieved relatively satisfactory results. The consolidated sales and gross profit margin could hold the line with last year. These are attributable to the continuous optimized design and market segmenting strategy and the policy of massive infrastructure investment adopted in the PRC. During the period, the Group successfully developed the CNC hydraulic turrent punch press that can process large-sized sheet at a time and the advanced full-automatic control technology, and thus succeeded in obtaining orders of CNC sheet metal punching & precision shearing composite processing production line from the world's largest solar water heater producer located in Shandong. The production line consisting LX230BDK CNC Punch Press can dually process 1500mmx2500mm large-sized sheet at a time, and the equipment has been delivered to customers in early 2010. We firmly believe that the benchmarking order conduces to further expanding this new market.

With the rebound in orders in the second half of 2009, our grassroots staff was properly aggrandized in production bases in South China and East China. Moreover, to get in line with the government's urban planning of "relocation to industrial zone", the Dongguan Dongchen factory expansion project was implemented during the period under review. As civil work and factory structure roofing were completed at the end of 2009, the project is intended to be completed for operation at the middle of 2010. The preparation work for construction of the new factory at Wuxi National High-tech Industrial Development Zone is expected to be formally initiated in the first quarter of 2011, and to be completed within the second quarter of 2011 to match up with the revised relocation schedule of the local government. The Group will also make timely adjustment to its production deployment in South China and East China whenever necessary, so as to meet the geographical demand of the domestic market.

Plastic Products and Processing

During the period under review, sales of plastic products and processing business was approximately HK$356,554,000, representing a decrease of about 9% as compared with the same period of last year and accounted for approximately 21% of the Group's consolidated turnover, while operating profit of the year was approximately HK$6,748,000, decreased by about 26% from the same period of last year.

Our plastic processing business in Dongguan experienced a tough year and the situation was extremely severe in the first half of the year, resembling the entire export in South China. During the period, orders from many major customers were repeatedly delayed and even cancelled, and the general economic depression forced customers to slash their development of new products. The market took a favorable turn in the second half of 2009 as customers resumed orders and developed new products, and orders rose as compared with the same period of last year. However, the annual turnover still decreased by about 23%. During the year, our cost control and productivity optimization were quite effective, which improved gross profit margin and led to a slight profit contribution to the Group's business for 2009.

LED Table Lamp

Humidifier

Plastic Food Containers

Impacted by the sluggish market during the period under review, the turnover of the plastic injection product business of plastic tableware and food packaging in Zhuhai failed to meet the expected goals as sales to major customers decreased. Nonetheless, benefited by the drop in plastics prices and the effective implementation of optimized cost control, the gross profit margin rose by about 10%, and new products of higher gross profit were launched and new customers secured successively as our market development yielded results. Accordingly, we recorded a satisfactory profit contribution. During the year under review, we had obtained a number of international certifications on product quality, such as ISO9001:2008 and HACCP and the like, which vigorously contributed to our product quality improvement.

The Group's plastic processing plant in Hefei is engaged in the processing of plastic casings and components of household electrical appliances for several domestic renowned household appliance enterprises. During the period under review, both its sales and results recorded reasonable growth as driven by the State's "Home Appliances Subsidy Policy for Rural Areas". In view of the high potential in markets in East China, and that the Group still has enormous room for sales improvement of its plastic processing base in the region, the management have formulated a long-term strategy for its development, which include the plan to purchase land in Hefei for extension of factory premises, and the expansion of production lines to cope with future growth requirement. The injection processing factory processing television shell in Shenyang that had been loss-making for long was closed down during the period under review.

1.25" dia.
Metal Premium Magnifier 5x

For the optic products business, enterprises fully relying on export bore the brunt of the financial crisis and the situation is even worse in the market of gift items. During the year under review, customers sharply cut orders to reduce inventories, of which losses in microscope product orders were the most severe. Fortunately, the Group managed to secure new customers of processing parts during the year, which partly made up for losses in regular customers. But the turnover for the year still decreased by about 31% as compared with the same period of 2008. During the period under review, as production costs were relatively stable, the appreciation of RMB slowed down, in addition to the processing orders of lens with high gross profits margin was added to product mixes, the gross profit margin of the business increased, but total profitability for the year was still unbalanced.

Printed Circuit Board

The printed circuit board business recorded a sales of approximately HK$477,441,000 in 2009, representing a decrease of about 10% as compared with the same period of 2008, and accounted for approximately 28% of the Group's consolidated turnover, while operating profit for the period was approximately HK$51,467,000, increased by approximately 88% over last year.

During the year under review, global crisis impinged on all sectors across the world but our orders from customers of this business could still be maintained. Furthermore, owing to positive external factors including markdown of raw materials, relative stability of the RMB exchange rate and wages, coupled with effective internal control measures implemented to tap new resources and economize on expense, and to streamline processes, our overall production costs dropped and operations achieved pleasant annual results.

Aluminum Clad

Trading Business

Industrial Consumables

During the period under review, trading business accounted for a turnover of approximately HK$271,106,000, representing a decrease of about 22% as compared with the same period of last year and accounted for approximately 16% of the Group's consolidated turnover, while operating profit for the period was approximately HK$12,031,000, decreasing by approximately 53% from last year.

During the year, the extremely sluggish US and European markets led to shrink of exports trade of China's manufacturing industry, and made South China, the region relying on processing trade and export markets, the worst-hit area, sales of our customers was significantly reduced and thus directly impacted our performance in the region. Fortunately, gaps in certain export declines were partly offset with domestic demand market support in East China and North China under a relatively stable economic environment. The successful exploration of some domestic demand sectors like 3G communication equipment, coal mining machinery, LED encapsulation equipment, MTR screened automatic door and power distribution box has effectively alleviated the degression of results of our trading business. To address such a difficult economic situation, apart from intensifying efforts in market expansion and new product promotion, we also adopted a prudent retrenchment policy, which has effectively reduced inventory and account receivable balance by 28% and 24% respectively, all with an aim to maintain sufficient cash flow and minimize operational risks. After the ordeal of the financial crisis, salient improvement on the business was made from frontline sales to logistic support, and management of the whole supply chain was optimized, laying a foundation for growth in the coming year.

AC Servo Motor

Other Businesses

Electronic Watt-Hour Meters and Related Businesses

Shenzhen Haoningda Meters Co., Ltd. ("Haoningda"), an associate company of the Group in Shenzhen, was listed on Shenzhen Stock Exchange by issuing A shares in February 2010. Haoningda issued 20 million A shares at the price of RMB36.5 per share, raising total proceeds of approximately RMB687,000,000. Proceeds from the listing will be used to increase the share capital in Nanjing Haoningda Electronic Meters Manufacturing Co., Ltd. so as to implement electronic watt-hour meters and electric automation management system terminal projects and improve the production capacity of the factory. Furthermore, the proceeds will be also applied to construction of a technology R&D centre and establishment of marketing networks. After the A share issue, our shareholding ratio in Haoningda will be diluted from 41.99% to 31.50%, and an estimated book gain of approximately HK$201,000,000 was recognized for deemed disposal of interests in an associate company by the Company.

BUSINESS PROSPECTS

Looking into 2010, on the machinery front, we believe that the present economic growth momentum can be maintained in the light of an expected stability of domestic political and economic macro-situation and keynote. Besides, the program on adjusting and reviving the equipment manufacture industry launched by the Central Government, and the extended "Vehicle and Home Appliances Subsidy Policy for Rural Areas", all of which have a positive effect on domestic industry production and consumption. In November 2009, the State Council uttered the significant goal of 40% energy-saving and emission reduction by 2020 together with factors including industrial electricity fee markup nationwide, all of which were conducive to the sales of servo energy saving machinery. On the other hand, its is expected that steel and plastic prices will stabilize in the first half of 2010 and that the economic prospect will improve, thus the market requirement for machinery may maintain a favorable momentum. As for prospects in 2010, we will adopt an aggressive strategy for core injection moulding machine business to enlarge market shares by way of focusing on sale and manufacture of servo energy saving Se-series, with an aim to realize over 60% of total product sales proportion. The rubber injection machine and sheet-metal processing machine product line will be dominated by a moderate growth strategy, under which Greenline servo energy saving product mixes (namely RTSe-series rubber injection machines and CMSe-series hydraulic presses) are to be further enriched through the extended application of self-developed Se-series, enabling this to become a new profit driver of the business. For exports business, the strategy of market development and deepening will be continued with servo energy saving machinery as the core product to strive for growth of sales.

DEKUMA DKM – RT280Sv Servo-driven Energy Saving Rubber Injection Moulding Machine

Ever since the improvement on the general situation of the domestic equipment industry in the fourth quarter of 2009, the labour market changes accordingly, and labour shortage occurs in the manufacturing industry in all regions. Under the policy of aiding agriculture and benefiting farmers, shortage of front-line staff is expected to linger. As labour costs are estimated to ineluctably rise in the coming year, we will optimize product design and production process, and improve operation efficiency to maintain cost strengths. It is anticipating that we can regain growth in business and contribute to the Group's profit in 2010.

MANAGEMENT DISCUSSION AND ANALYSIS

For plastic processing business, the factory in Dongguan is expected to carry on its desirable orders and new product development progress in the fourth quarter of 2009 to advance steadily in 2010. High-gloss injection molded product components and LED table lamps will become our key products. We will be committed to measures including optimizing human resource and cost control, improving operation efficiency and focusing on controlling foreign exchange risks in the next year. As for business of plastic tableware and food packaging in Zhuhai, we will stress on exploration of new customers and products. We are going to broaden our customer base by attending large product exhibitions. On the production front, we will purchase more automatic equipment, manipulators, for instance, and conduct packaging production line automation renovation and other initiatives to improve productivity and product quality. With the combined effect of these conditions, we are to make ideal contributions to the Group's profit in 2010. On the optic product front, apart from increasing product types to enrich product offerings, we will also diversify business model, develop products on our own and even attempt processing accessory production, thereby augment the overall sales. Currently, we are considering on-line directly sale of certain products with brand effects in order to enhance market penetration.

Plastic Tablewares

5" dia.
Multi-angle Magnifier 2x with 4 LEDs

For trading business, the global economy seems to have a sign of recovery but hidden troubles still exist. It is believed that export trade will remain slow in growth. The trading business will lay particular stress on the domestic demand market, and focus on new products and new sectors related to energy saving and environmental protection. Along with the economic recovery of the external environment, the entire operating environment is expected to make distinct improvement by leveraging measures of China's continuous domestic demand stimulation. We are deeply convinced that results in the next year can rebound to the level before financial crisis by virtue of our optimized teams, superb products and quality services.

Radial Hydraulic Motor

For printed circuit board business, production costs including raw materials and wages have rallied again since the end of 2009, and are expected to soar in 2010, making a tougher operating environment. We will not only secure support from our existing customers, but also be dedicated to developing products with higher production effectiveness to attract more customers. Moreover, the Group will continue to upgrade environment friendly equipment to meet increased production needs in the future.

6-layer Immersion Gold PCB

Weathering the global economic crisis in 2009, the Group' operations have advanced and consolidated by ordeals, while its business structure has undergone rational and practical adjustment. In the second half of the year, as the Group's measures yielded results gradually and the staff stuck to their respective posts to overcome challenges, the Group's operations saw recovery step by step. Looking forward, inheriting the indomitable dashing spirit against adversity, and fuelled with the economic recovery momentum, we are confident that we can proactively capture opportunities to strike for continued growth. It is our conviction that the Group is well positioned to achieve brilliant results and maximize profits for shareholders in 2010.

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Statistical Highlights

	2009 HK$'000	2008 HK$'000
Operating results		
Turnover	**1,692,794**	1,939,383
Profit from operations	**23,980**	73,442
Profit before taxation	**35,324**	63,932
Profit attributable to equity holders of the Company	**7,301**	45,240
Earning per share – Basic (cents)	**1.03**	6.37
Earning per share – Diluted (cents)	**N/A**	N/A
Dividend per share (cents)	**–**	–
Dividend payout	**0%**	0%
Financial position at year end		
Total assets	**2,198,421**	2,274,039
Fixed assets	**404,109**	384,061
Quick assets	**1,025,824**	1,048,549
Net current assets	**536,965**	577,968
Shareholders' funds	**991,891**	982,821
Net asset value per share (cents)	**140**	138
Financial statistics		
Current ratio	**1.53**	1.54
Quick asset ratio	**1.02**	0.98
Gearing ratio	**0.03**	0.07
Total debt ratio	**0.47**	0.50

| DIRECTORS AND SENIOR MANAGEMENT |

EXECUTIVE DIRECTORS

Mr. Tang To, aged 61, Chairman and Executive Director of the Company, has served on the Board since the listing of the Company in 1988 and was appointed as Chairman and Executive Director of the Company in September, 1997. Mr. Tang has over 36 years of experience in manufacturing and trading businesses in Hong Kong and the PRC. Mr. Tang is responsible for the overall policy making and significant investments of the Group. Mr. Tang is the son of Mr. Tang Kwan, Honorary Chairman and Non-Executive Director of the Company. Mr. Tang is a director of certain companies which are members of the Group and related to certain substantial shareholders of the Company within the meaning of Part XV of the 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 47, 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 also a Non-Executive Director of China Resources Enterprises, Limited, China Resources Power Holdings Company Limited, China Resources Land Ltd. and China Resources Microelectronics Limited. The securities of these four companies are listed on the main board of the Stock Exchange of Hong Kong Limited (the "Stock Exchange") and they are also subsidiaries of China Resources (Holdings) Company Limited. Mr. Jiang is also at present a Non-Executive Director of China Asset (Holdings) Limited and 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 56, Executive Director and Chief Executive Officer of the Company, has 32 years of experience in sales, marketing and general management. Mr. Wong joined the Group in 1978. He holds a Bachelor of Science degree in Engineering and a Master degree in Business Administration. Mr. Wong was appointed as the General Manager of the Company on 1st February, 1999 and has been re-designated as Chief Executive Officer of the Company with effect from 12th September, 2005. He is responsible for the strategic planning and general management of the Group. Mr. 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.

NON-EXECUTIVE DIRECTORS

Mr. Tang Kwan, aged 85, Honorary Chairman and Non-Executive Director of the Company, is one of the founders of the Company. He has over 50 years of experience in machinery trading in Hong Kong and the PRC. Mr. Tang was appointed as the Honorary Chairman and Non-Executive Director on 18th September, 1997. Mr. Tang is the father of Mr. Tang To, Chairman and Executive Director of the Company. Mr. Tang is an administrator of a member company of the Group and a director of certain companies related to certain substantial shareholders of the Company within the meaning of Part XV of the Securities and Futures Ordinance.

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

Mr. Kan Wai Wah, aged 52, Non-Executive Director of the Company, is the Managing Director of 綽餘飲食顧問有限公司. He has over 28 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 53, 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 is concurrently a standing council member of Chinese Material Research Society, council member of Plastic Processing Association of China, council member of China Plastic Machine Association, Deputy Chairman of China Altered-Properties Plastics Association, academic committee member of State Key Laboratory of Macromolecular Materials, Deputy Chairman of Guangdong Material Research Society, council member of Guangdong Inventor Association, Deputy Chief Editor of certain publications namely the World Plastics and Plastics Machinery, member of editorial committee of the Journal of South China University of Technology, the China Plastics, the Plastic Industry, the Plastics, the Engineering Plastics Application. Mr. Qu was appointed as Non-Executive Director of the Company on 8th September, 2006.

DIRECTORS AND SENIOR MANAGEMENT

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Yip Jeffery, aged 76, Independent Non-Executive Director of the Company, is a registered optometrist in Hong Kong. Mr. Yip is the President of the Hong Kong Eye Foundation Limited, the Past President of the Hong Kong Optometric Association Limited, the Past President and the Honorary Life President of the Hong Kong Contact Lens Research Association Limited. Mr. Yip joined the Company in August 1994.

Ms. Yeung Shuk Fan, aged 44, Independent Non-Executive Director of the Company, has over 20 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 15 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 71, Independent Non-Executive Director of the Company, has over 38 years of experience in business management. Currently, he is the Vice-Chairman and director of Hong Kong and Kowloon Machinery and Instrument Merchants Association Limited. He was appointed as Independent Non-Executive Director of the Company with effect from 30th January, 2007.

SENIOR MANAGEMENT

Mr. Ho Kwong Sang, aged 54, joined the Group in 1981, is the Chief Financial Officer of the Group and the qualified accountant of the Company. He is responsible for the financial management of the Group. Mr. Ho holds a Bachelor of Arts degree in Business Administration and a Master of Arts degree in Management. He is a Certified Public Accountant in Hong Kong, a Chartered Certified Accountant and a Chartered Secretary in the United Kingdom. He is also a Fellow member of the Hong Kong Institute of Chartered Secretaries and a Member of the Chartered Institute for Securities and Investment.

Mr. Li Tin Loi, aged 46, graduated from the Hong Kong Polytechnic University in Electrical Engineering. He also holds a Diploma in Management Studies and a Master degree in Business Administration. He has 23 years of experience in marketing and management. Mr. Li joined the Group in 1992 and is currently responsible for the strategic planning and general management of subsidiary companies which are engaged in machinery business.

Mr. Wan Ming Sang, aged 65, has more than 35 years of experience in the plastic processing industry. Mr. Wan joined Ming Sun Enterprises Limited in 1987 and is currently its Managing Director.

Mr. Yip Kar Shun, aged 63, has over 30 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 47, joined the Group in 2000. He has 23 years of experience in manufacturing, marketing and general administrative management. He graduated from the Hong Kong Polytechnic University in Electrical Engineering. He also holds a Diploma in Computer Programming, a Diploma in Management Studies and a Master degree in Business Administration. He is currently the General Manager of a subsidiary of the Group which is engaged in the trading of industrial consumables and machinery components.

Mr. Andreas Brenner, aged 43, German nationality, graduated from the RWTH Aaachen University (Institute for Plastic Processing – IKV) in Mechanical Engineering. He has more than 13 years experience in the development/research of process technology for plastic and rubber machines and in the development of high precision moulds for the injection moulding process. Furthermore he has experience in developing plastic packaging articles and medical articles for the pharmaceutical industry. He joined the Group in April 2005 as the Technical Director and is the Deputy General Manager of a subsidiary of the Group, Dekuma Rubber and Plastic Technology (Dongguan) Limited since October 2006.

REPORT OF THE DIRECTORS

The directors of the Company (the "Directors") have pleasure in presenting their annual report and the audited financial statements of the Company for the year ended 31st December, 2009.

PRINCIPAL ACTIVITIES

The Company acts as an investment holding company. The principal activities of its principal subsidiaries are set out in note 41 to the financial statements.

RESULTS

The results of the Group for the year ended 31st December, 2009 are set out in the consolidated income statement on page 29 of the annual report.

FINAL DIVIDEND

The Board does not recommend to pay final dividend for the year ended 31st December, 2009 (2008: Nil).

FINANCIAL REVIEW

Liquidity and Financial Resources

As at 31st December, 2009, the Group's shareholders' funds were approximately HK$991,891,000, compared with approximately HK$982,821,000 as at 31st December, 2008.

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, 2009 was approximately 0.47 (2008: 0.50), and the liquidity ratio was approximately 1.53 (2008: 1.54), both were maintained at a healthy level. As at 31st December, 2009, cash, bank balances and time deposits amounted to approximately HK$309,027,000. 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 110 of the annual report.

INVESTMENT PROPERTIES, LEASEHOLD BUILDINGS AND PLANT AND EQUIPMENT

The investment properties and leasehold buildings of the Group were revalued on 31st December, 2009. The resulting surplus arising on revaluation of investment properties attributable to the Group has been credited to the consolidated income statement. The resulting surplus and deficit arising on revaluation of leasehold buildings attributable to the Group has been credited or charged to the buildings revaluation reserve or consolidated income statement as appropriate.

During the year, the Group spent, in aggregate, approximately HK$70,881,315 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 15 to the financial statements.

REPORT OF THE DIRECTORS

SHARE CAPITAL

Details of the share capital of the Company are set out in note 26 to the financial statements.

RESERVES

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

MAJOR CUSTOMERS AND SUPPLIERS

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

DIRECTORS

The Directors during the year and up to the date of this report were:

Executive Directors

Tang To *(Chairman)*
Wong Yiu Ming *(Chief Executive Officer)*
Jiang Wei

Non-Executive Directors

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

Independent Non-Executive Directors

Yip Jeffery
Yeung Shuk Fan
Cheng Tak Yin

In accordance with Article 103 of the Company's Articles of Association, Mr. Wong Yiu Ming, Mr. Tang Kwan, Mr. Kan Wai Wah and Ms. Yeung Shuk Fan will retire from office and, being eligible, will offer themselves for re-election at the forthcoming Annual General Meeting.

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

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

The Non-Executive Directors and the Independent Non-Executive Directors were appointed for a specific term of three years commencing from 1st June, 2007, 1st January, 2008, 8th September, 2009 and 30th January, 2010 respectively. Every director including those appointed for a specific term is subject to retirement by rotation and re-appointment at least once every three years.

DIRECTOR'S AND CHIEF EXECUTIVE'S INTERESTS IN SECURITIES

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

Interests in the Shares

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

Notes:

1. As at 31st December, 2009, 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, 2009, 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, 2009, 2,000 Shares were held by the spouse of Mr. Tang.

3. As at 31st December, 2009, 224,000 Shares were jointly held by Mr. Tang and his spouse.

4. As at 31st December, 2009, Mr. Tang Kwan was deemed to be interested in the block of 297,157,052 Shares under the SFO through his deemed interests in Codo. As at 31st December, 2009, Codo through its wholly owned subsidiaries, Cosmos Holdings and Tai Shing, was deemed to be interested in 297,157,052 shares. Codo is incorporated in Hong Kong and is owned as to (i) 25.06% by Keepsound, a Hong Kong company controlled by The Saniwell Trust, a trust established for the benefit of Mr. Tang Kwan's family, of which the spouse of Mr. Tang Kwan is one of the beneficiaries; (ii) 8.37% by Elegant Power; (iii) 30.25% by Friendchain, a Hong Kong company controlled as to 40% by Elegant Power, as to 57.42% by The Saniwell Trust and as to 2.58% by Fullwin; (iv) 16.09% by Yik Wan Company Limited; and (v) 20.23% by 5 individuals and 2 limited companies.

The percentage shown was calculated based on the number of issued shares of the Company as at 31st December, 2009.

As at 31st December, 2009, 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, 2009 which is significant in relation to the business of the Company and its subsidiaries.

As at 31st December, 2009, none of the Directors had any direct interests or indirect interests in any asset which had been acquired, or disposed of by, or leased to any member of the Group, or was proposed to be acquired, or disposed of by, or leased to any member of the Group.

SUBSTANTIAL SHAREHOLDERS

As at 31st December, 2009, the following interests in 5% or more in the shares and underlying shares of the Company have been notified to the Company and recorded in the register of substantial shareholders' interests and short positions required to be kept under Section 336 of Part XV of the SFO:

Interests in the Shares

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

Notes:

1. Ms. Law Kit Fong is deemed to be interested in the block of 297,157,052 Shares through her direct and indirect interests in Elegant Power and Codo. As at 31st December, 2009, 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, 2009, 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, 2009, Codo is interested in 297,157,052 Shares through its wholly owned subsidiaries, Cosmos Holdings and Tai Shing. As at 31st December, 2009, 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.

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

4. As at 31st December, 2009, 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, 2009.

Save as disclosed above, as at 31st December, 2009, 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.

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

The Company did not grant any share option and there is no outstanding during the year under review.

Further details of the share option scheme are set out in note 27 to the financial statements.

AUDIT COMMITTEE

The audit committee of the Company comprises the three Independent Non-Executive Directors. It has adopted terms of reference which are in line with the code provisions of the Code on Corporate Governance Practices in Appendix 14 of the Listing Rules. The audited financial statements of the Company for the year ended 31st December, 2009 have been reviewed by the audit committee who is of the opinion that such statements comply with the applicable accounting standards, legal requirements and the Listing Rules, and that adequate disclosures have been made.

REMUNERATION COMMITTEE

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

COMMITTEE OF EXECUTIVE DIRECTORS

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

EMPLOYEES AND REMUNERATION POLICY

As at 31st December, 2009, the Group has approximately 5,500 employees (2008: approximately 5,500), 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, 2009.

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

The directors consider that the Company has complied with the Code on Corporate Governance Practices as set out in Appendix 14 of the Listing Rules throughout the year ended 31st December, 2009.

COMPLIANCE WITH MODEL CODE

Throughout the year ended 31st December, 2009, the Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules and all Directors have confirmed that they have fully complied with the required standard as set out in the Model Code based on the enquiry of all the directors of the Company.

INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

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

PUBLIC FLOAT

The Company has maintained a sufficient public float throughout the year ended 31st December, 2009.

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, 20th April, 2010

CORPORATE GOVERNANCE REPORT

COMPLIANCE WITH CODE ON CORPORATE GOVERNANCE

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

The Company has adopted the code provisions set out in the Code of Corporate Governance Practices (the "CG Code") contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), which became effective on 1st January, 2005 as its own code of corporate governance practices. The Directors consider that the Company has complied with the CG Code during the financial year ended 31st December, 2009.

THE BOARD

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

The Board has at least four scheduled meetings a year at quarterly interval and meets as and when required. During the financial year ended 31st December, 2009, the Board held five meetings. The attendance of the Directors at the Board meetings are as follows:

Name of Directors	**Number of attendance/ Number of meetings held**
Executive Directors	
Tang To *(Chairman)*	5/5
Jiang Wei	3/5
Wong Yiu Ming *(Chief Executive Officer)*	5/5
Non-Executive Directors	
Tang Kwan *(Honorary Chairman)*	3/5
Wu Ding *(Vice Chairman)*	3/5
Kan Wai Wah	5/5
Qu Jinping	3/5
Independent Non-Executive Directors	
Yip Jeffery	5/5
Yeung Shuk Fan	5/5
Cheng Tak Yin	5/5

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

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

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

CHAIRMAN AND CHIEF EXECUTIVE OFFICER ("CEO")

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

BOARD COMPOSITION

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

Except Mr. Tang To, the Chairman and Executive Director, who is the son of Mr. Tang Kwan, the Honorary Chairman and Non-Executive Director, the other Board members have no financial, business, family or other material/relevant relationships with each other. Such balanced board composition is formed to ensure strong independence exists across the Board. The biographies of the Directors are set out in pages 12 to 14 to the annual report, which demonstrates a diversity of skills, expertise, experience and qualifications.

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

APPOINTMENTS, RE-ELECTION, REMOVAL AND NOMINATION OF DIRECTORS

Every Director (including those appointed for a specific term) shall be subject to retirement by rotation at least once every three years and that any Director appointed to fill a casual vacancy on the Board shall be subject to re-election by shareholders at the first general meeting after the appointment and any Director appointed as an addition to the Board shall hold office until the next following annual general meeting of the Company.

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

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

Meeting of the Board regarding the nomination of Directors shall be held at least once a year or when necessary. During the year of 2009, one meeting in relation to nomination of Directors is held with the attendance of the Directors setting out as follows:

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

The Board is of the opinion that the current size and composition of the Board is adequate to facilitate effective decision-making. The Board is also satisfied that the existing composition of Board, which as a group, provides the core competencies necessary to guide the Group.

RESPONSIBILITIES OF DIRECTORS

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

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

DELEGATION BY THE BOARD

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

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

DIRECTORS' SECURITIES TRANSACTIONS

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

SUPPLY OF AND ACCESS TO INFORMATION

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

REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT

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

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

(ii) To oversee performance of the Executive Directors;

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

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

During the year under review and up to date of this report, the chairman of the Remuneration Committee is an Independent Non-Executive Director, Mr. Yip Jeffery and the remaining members are Ms. Yeung Shuk Fan and Mr. Cheng Tak Yin, being Independent Non-Executive Directors and the Chairman of the Board of the Company, Mr. Tang To.

The Remuneration Committee annually sets out its recommendation on the remuneration package of the Executive Directors. For the financial year ended 31st December, 2009, the Remuneration Committee has reviewed and recommended to the Board the salaries and bonuses of the Executive Directors and the senior management of the Company.

The Remuneration Committee held one meeting during the financial year ended 31st December, 2009 and the attendance of each member's attendance at this meeting is set out as follows:

Directors	Number of attendance/ Number of meetings held
Mr. Yip Jeffery	1/1
Ms. Yeung Shuk Fan	1/1
Mr. Tang To	1/1
Mr. Cheng Tak Yin	1/1

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

Details of the amount of Directors emoluments are set out in note 10 to the accounts and details of the 2005 Share Option Scheme are set out in the Report of the Directors and note 27 to the accounts.

FINANCIAL REPORTING

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

The Directors acknowledge their responsibility to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Group and in presenting the interim and annual financial statement, and announcements to shareholders. The responsibilities of the Directors in relation to the financial statement, should be read in conjunction with, but distinguished from, the Report of the Auditors on page 28 which acknowledges the reporting responsibilities of the Group's auditors. The Directors aim to present a balanced and understandable assessment of the Group's, position and prospects. The Board is not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Group's ability to continue as a going concern, the Board therefore continues to adopt the going concern approach in preparing the accounts.

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

INTERNAL CONTROLS

Through the Company's internal audit functions, the Directors 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. Yip Jeffery and Mr. Cheng Tak Yin, who among themselves possess a great deal of management experience in the accounting profession and commercial sectors.

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

For the financial year ended 31st December, 2009, 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, 2008 and the unaudited interim financial statement for the six months ended 30th June, 2009 with recommendation to the Board for approval; and

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

The Audit Committee held two meetings during the financial year ended 31st December, 2009. The attendance of each member's attendance at such meetings is set out as follows:

Directors	**Number of attendance/ Number of meetings held**
Ms. Yeung Shuk Fan *(Chairman of the Audit Committee)*	2/2
Mr. Yip Jeffery	2/2
Mr. Cheng Tak Yin	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	2,512,442
Non-audit services	–
	2,512,442

COMMITTEE OF EXECUTIVE DIRECTORS

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

COMMUNICATIONS WITH SHAREHOLDERS

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.

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

Hong Kong, 20th April, 2010

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") set out on pages 29 to 109, which comprise the consolidated and company balance sheets as at 31st December, 2009, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the financial statements

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

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. This report is made solely to you, as a body, in accordance with Section 141 of the Hong Kong Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurances as to whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the 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, 2009 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the Hong Kong Companies Ordinance.

TING HO KWAN & CHAN
Certified Public Accountants (practising)

CONSOLIDATED INCOME STATEMENT

For the year ended 31st December, 2009

	Notes	**2009 HK$**	2008 HK$
Turnover	*6*	**1,692,794,123**	1,939,382,596
Cost of sales		**(1,409,480,292)**	(1,639,642,529)
Gross profit		**283,313,831**	299,740,067
Other income and gains, net	*6*	**17,582,559**	41,291,069
Distribution costs		**(88,016,637)**	(107,602,601)
Administrative expenses		**(187,300,579)**	(221,377,214)
Other operating expenses		**–**	(1,016,674)
Allowance for impairment of bad and doubtful debts		**(1,598,785)**	(4,532,697)
Gain on disposal of property, plant and equipment and leasehold land and land use rights		**–**	66,939,617
Profit from operations		**23,980,389**	73,441,567
Finance costs	*7*	**(15,492,503)**	(26,514,651)
Investment income, net	*8*	**2,948,592**	3,886,830
Gain on deregistration of a subsidiary		**1,400,403**	–
Share of results of associates		**22,487,191**	13,118,446
Profit before taxation	*9*	**35,324,072**	63,932,192
Taxation	*11*	**8,563,612**	7,627,086
Profit for the year		**26,760,460**	56,305,106
Attributable to:			
Equity holders of the Company	*12*	**7,301,451**	45,239,508
Minority interests		**19,459,009**	11,065,598
		26,760,460	56,305,106
Basic earnings per share for profit attributable to the equity holders of the Company during the year	*14*	**1.03 cents**	6.37 cents

The notes on pages 38 to 109 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31st December, 2009

	Note	2009 HK$	2008 HK$
Profit for the year		**26,760,460**	56,305,106
Other comprehensive income for the year:	*13*		
Cash flow hedges		**(5,751)**	–
Change in fair value of available-for-sale financial assets		**(55,793)**	96,803
Share of other comprehensive (loss) income of associates		**(1,346,456)**	6,000,546
Surplus (Deficit) on revaluation of buildings		**4,573,123**	(7,074,211)
Exchange differences:			
net movement in translation reserve		**(207,696)**	24,879,511
		2,957,427	23,902,649
Total comprehensive income for the year, net of tax		**29,717,887**	80,207,755
Attributable to:			
Equity holders of the Company		**9,069,753**	66,665,493
Minority interests		**20,648,134**	13,542,262
Total comprehensive income for the year		**29,717,887**	80,207,755

The notes on pages 38 to 109 are an integral part of these consolidated financial statements.

CONSOLIDATED BALANCE SHEET

At 31st December, 2009

	Notes	2009 HK$	2008 HK$
Non-current Assets			
Property, plant and equipment	15	**361,600,924**	340,735,583
Leasehold land and land use rights	16	**42,508,147**	43,325,391
Interests in associates	19	**240,348,760**	234,903,019
Available-for-sale financial assets	20	**4,673,651**	4,729,444
Deferred tax assets	31	**3,854,387**	4,385,509
		652,985,869	628,078,946
Current Assets			
Inventories	21	**519,611,140**	597,411,553
Leasehold land and land use rights	16	**822,174**	784,383
Trade and other receivables	22	**672,659,564**	735,153,954
Derivative financial instruments	24	**1,421,499**	–
Tax recoverable		**2,143,017**	2,542,886
Pledged bank deposits	38	**39,750,142**	120,697,909
Cash and cash equivalents	25	**309,027,423**	189,369,411
		1,545,434,959	1,645,960,096
Current Liabilities			
Trade and other payables	23	**673,317,605**	666,428,196
Amounts due to associates		**53,263,201**	61,742,160
Derivative financial instruments	24	**1,427,250**	167,215
Bank and other borrowings – due within one year	29	**263,948,875**	328,282,000
Obligations under finance leases – due within one year	30	**10,262,297**	6,919,984
Tax payable		**6,250,861**	4,452,725
		1,008,470,089	1,067,992,280
Net Current Assets		**536,964,870**	577,967,816
Total Assets less Current Liabilities		**1,189,950,739**	1,206,046,762

CONSOLIDATED BALANCE SHEET

At 31st December, 2009

	Notes	**2009 HK$**	2008 HK$
Non-current Liabilities			
Bank and other borrowings – due after one year	*29*	**16,980,979**	61,258,521
Obligations under finance leases – due after one year	*30*	**11,453,731**	8,753,792
Deferred tax liabilities	*31*	**2,881,638**	229,299
Total Non-current Liabilities		**31,316,348**	70,241,612
Net Assets		**1,158,634,391**	1,135,805,150
Equity			
Capital and reserves attributable to the Company's equity holders:			
Share capital	*26*	**283,972,277**	283,972,277
Reserves		**707,918,746**	698,848,993
		991,891,023	982,821,270
Minority Interests		**166,743,368**	152,983,880
Total Equity		**1,158,634,391**	1,135,805,150

The financial statements on pages 29 to 109 were approved and authorised for issue by the Board of Directors on 20th April, 2010 and are signed on its behalf by:

TANG TO
DIRECTOR

WONG YIU MING
DIRECTOR

The notes on pages 38 to 109 are an integral part of these consolidated financial statements.

BALANCE SHEET

At 31st December, 2009

	Notes	2009 HK$	2008 HK$
Non-current Assets			
Property, plant and equipment	15	**2,477,618**	3,002,955
Interests in subsidiaries	18	**701,207,608**	711,233,747
		703,685,226	714,236,702
Current Assets			
Trade and other receivables		**442,249**	722,441
Cash and cash equivalents	25	**9,145,528**	17,096,505
		9,587,777	17,818,946
Current Liabilities			
Trade and other payables		**3,014,322**	4,059,757
Amounts due to subsidiaries		**48,532,631**	34,997,948
Amounts due to associates		**52,173,935**	60,652,894
Derivative financial instruments	24	**–**	167,215
Bank and other borrowings – due within one year	29	**79,537,032**	74,320,624
		183,257,920	174,198,438
Net Current Liabilities		**(173,670,143)**	(156,379,492)
Total Assets less Current Liabilities		**530,015,083**	557,857,210
Non-current Liabilities			
Bank and other borrowings – due after one year	29	**–**	28,000,000
Net Assets		**530,015,083**	529,857,210
Capital and Reserves			
Share capital	26	**283,972,277**	283,972,277
Reserves	28	**246,042,806**	245,884,933
Total Equity		**530,015,083**	529,857,210

TANG TO
DIRECTOR

WONG YIU MING
DIRECTOR

The notes on pages 38 to 109 are an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31st December, 2009

	Attributable to equity holders of the Company												
	Share capital HK$	Share premium HK$	Capital redemption reserve HK$	Share options HK$	Building revaluation reserve HK$	Translation reserve HK$	Hedging reserve HK$	Others HK$	Proposed dividend HK$	Retained profits HK$	Total HK$	Minority interests HK$	Total equity HK$
Balance at 1st January, 2008	284,009,077	244,118,039	–	3,051,804	12,898,514	63,429,167	–	(66,824)	10,650,340	308,750,451	926,840,568	201,678,853	1,128,519,421
Profit for the year	–	–	–	–	–	–	–	–	–	45,239,508	45,239,508	11,065,598	56,305,106
Other comprehensive income for the year:													
Fair value gains:													
– Available-for-sale financial assets	–	–	–	–	–	–	–	96,803	–	–	96,803	–	96,803
Share of reserves of associates	–	–	–	–	–	5,549,434	–	451,112	–	–	6,000,546	–	6,000,546
Revaluation deficit on buildings	–	–	–	–	(3,491,174)	–	–	–	–	–	(3,491,174)	(607,847)	(4,099,021)
Deferred taxation adjustment	–	–	–	–	(1,650,740)	–	–	–	–	–	(1,650,740)	(1,324,450)	(2,975,190)
Realised on disposal of properties	–	–	–	–	(741,199)	–	–	–	–	741,199	–	–	–
Currency translation differences	–	–	–	–	–	20,470,550	–	–	–	–	20,470,550	4,408,961	24,879,511
Total other comprehensive income for the year	–	–	–	–	(5,883,113)	26,019,984	–	547,915	–	741,199	21,425,985	2,476,664	23,902,649
Total comprehensive income for the year	–	–	–	–	(5,883,113)	26,019,984	–	547,915	–	45,980,707	66,665,493	13,542,262	80,207,755
Transactions with owners:													
Repurchase of own shares	(36,800)	–	36,800	–	–	–	–	–	–	(34,451)	(34,451)	–	(34,451)
Transfer on lapse of share options	–	–	–	(3,051,804)	–	–	–	–	–	3,051,804	–	–	–
Elimination of minority interests in an associate	–	–	–	–	–	–	–	–	–	–	–	(59,054,146)	(59,054,146)
Dividend paid to minority shareholders	–	–	–	–	–	–	–	–	–	–	–	(3,183,089)	(3,183,089)
Dividend relating to 2007	–	–	–	–	–	–	–	–	(10,650,340)	–	(10,650,340)	–	(10,650,340)
Balance at 31st December, 2008	283,972,277	244,118,039	36,800	–	7,015,401	89,449,151	–	481,091	–	357,748,511	982,821,270	152,983,880	1,135,805,150

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31st December, 2009

	Attributable to equity holders of the Company												
	Share capital HK$	Share premium HK$	Capital redemption reserve HK$	Share options HK$	Building revaluation reserve HK$	Translation reserve HK$	Hedging reserve HK$	Others HK$	Proposed dividend HK$	Retained profits HK$	Total HK$	Minority interests HK$	Total equity HK$
Balance at 1st January, 2009	283,972,277	244,118,039	36,800	-	7,015,401	89,449,151	-	481,091	-	357,748,511	982,821,270	152,983,880	1,135,805,150
Profit for the year	-	-	-	-	-	-	-	-	-	7,301,451	7,301,451	19,459,009	26,760,460
Other comprehensive income for the year:													
Cash flow hedges	-	-	-	-	-	-	(5,751)	-	-	-	(5,751)	-	(5,751)
Fair value loss:													
– Available-for-sale financial assets	-	-	-	-	-	-	-	(55,793)	-	-	(55,793)	-	(55,793)
Share of reserves of associates	-	-	-	-	-	752,582	-	(2,099,038)	-	-	(1,346,456)	-	(1,346,456)
Revaluation surplus on buildings	-	-	-	-	4,218,184	-	-	-	-	-	4,218,184	1,276,930	5,495,114
Deferred taxation adjustment	-	-	-	-	(709,584)	-	-	-	-	-	(709,584)	(212,407)	(921,991)
Currency translation differences:													
Net movement in translation reserve	-	-	-	-	-	(332,298)	-	-	-	-	(332,298)	124,602	(207,696)
Total other comprehensive income for the year	-	-	-	-	3,508,600	420,284	(5,751)	(2,154,831)	-	-	1,768,302	1,189,125	2,957,427
Total comprehensive income for the year	-	-	-	-	3,508,600	420,284	(5,751)	(2,154,831)	-	7,301,451	9,069,753	20,648,134	29,717,887
Transactions with owners:													
Dividend paid to minority shareholders	-	-	-	-	-	-	-	-	-	-	-	(6,888,646)	(6,888,646)
Balance at 31st December, 2009	283,972,277	244,118,039	36,800	-	10,524,001	89,869,435	(5,751)	(1,673,740)	-	365,049,962	991,891,023	166,743,368	1,158,634,391

The notes on pages 38 to 109 are an integral part of these consolidated financial statements.

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31st December, 2009

	Notes	2009 HK$	2008 HK$
OPERATING ACTIVITIES			
Profit from operations		**23,980,389**	73,441,567
Adjustments for:			
Depreciation and amortisation of property, plant and equipment	*15*	**50,308,671**	55,045,097
Amortisation of leasehold land and land use rights	*16*	**822,174**	928,716
Impairment losses on goodwill	*17*	**–**	483,750
Loss (Gain) on disposal of property, plant and equipment and leasehold land and land use rights		**4,921,103**	(66,939,617)
Revaluation (surplus) deficit of leasehold buildings		**(429,785)**	532,924
Allowance for impairment of bad and doubtful debts		**1,598,785**	4,532,697
Write down of inventories	*21*	**9,180,371**	11,031,033
OPERATING CASH FLOWS BEFORE MOVEMENTS IN WORKING CAPITAL		**90,381,708**	79,056,167
Decrease in inventories		**69,282,959**	14,355,792
Decrease in trade and other receivables		**61,590,540**	3,890,364
Increase (Decrease) in trade and other payables		**6,095,450**	(82,072,641)
Cash generated from operations		**227,350,657**	15,229,682
Hong Kong profits tax paid		**(579,240)**	(1,631,438)
Overseas tax paid		**(3,525,022)**	(9,357,426)
NET CASH GENERATED FROM OPERATING ACTIVITIES		**223,246,395**	4,240,818

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31st December, 2009

	Notes	2009 HK$	2008 HK$
INVESTING ACTIVITIES			
Amounts advanced from (to) associates		**19,345,784**	(50,100,879)
Purchase of available-for-sale financial assets		**–**	(171,254)
Decrease (Increase) in pledged bank deposits		**81,101,813**	(84,979,573)
Acquisition of additional shareholding in a subsidiary from minority shareholders		**–**	(483,750)
Realised loss on foreign currency forward contracts	*8*	**–**	(258,197)
Capital contribution to an associate		**(3,650,791)**	–
Purchase of property, plant and equipment		**(55,778,262)**	(43,568,325)
Proceeds from disposal of investment properties		**–**	21,460,000
Proceeds from disposal of property, plant and equipment and leasehold land and land use rights		**1,048,153**	76,583,402
Proceeds from disposal of available-for-sale financial assets		**–**	528,765
Interest received	*8*	**2,942,700**	4,376,345
Dividends received from associates		**–**	46,466,481
Dividend received from available-for-sale financial asset	*8*	**5,892**	755
NET CASH GENERATED FROM (USED IN) INVESTING ACTIVITIES		**45,015,289**	(30,146,230)
FINANCING ACTIVITIES			
Repayment of bank loans		**(347,952,742)**	(357,717,659)
Interest paid	*7*	**(15,492,503)**	(26,514,651)
Repayment of obligations under finance leases		**(9,060,801)**	(7,235,872)
Dividends paid to minority shareholders of subsidiaries		**(6,888,646)**	(3,183,089)
Dividends paid to Company's shareholders		**–**	(10,650,340)
Bank loans raised		**225,008,615**	417,282,408
Amounts advanced (to) from associates		**(8,478,959)**	13,039,095
Repurchase of own shares	*26*	**–**	(34,451)
NET CASH (USED IN) GENERATED FROM FINANCING ACTIVITIES		**(162,865,036)**	24,985,441
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		**105,396,648**	(919,971)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		**177,208,790**	172,616,699
EFFECT OF FOREIGN EXCHANGE RATE CHANGES		**123,189**	5,512,062
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	*25*	**282,728,627**	177,208,790

The notes on pages 38 to 109 are an integral part of these consolidated financial statements.

1. GENERAL

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

The Company is an investment holding company. The address of its registered office is 8/F., Tai Tung Industrial Building, 29-33 Tsing Yi Road, Tsing Yi Island, New Territories, Hong Kong. The principal activities of its principal subsidiaries are set out in note 41.

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

The Hong Kong Institute of Certified Public Accountants ("HKICPA") has issued the following new and revised HKFRSs that are first effective for the current accounting period of the Group and the Company.

Improvements to HKFRSs (2008)	
HKAS 1 (revised 2007)	Presentation of financial statements
HKAS 23 (amendment)	Borrowing costs
HKAS 32 & 1 (amendment)	Puttable financial instruments and obligations arising on liquidation
HKFRS 1 & HKAS 27 (amendments)	Cost of an investment in a subsidiary, jointly controlled entity or associate
HKFRS 2 (amendment)	Vesting conditions and cancellations
HKFRS 7 (amendment)	Improving disclosures about financial instruments
HKFRS 8	Operating segments
HK(IFRIC) 13	Customer loyalty programmes
HK(IFRIC) 15	Agreements for the construction of real estate
HK(IFRIC) 16	Hedges of a net investment in a foreign operation

The adoption of these new and revised HKFRSs has no material impact on the results and financial position of the Group and the Company. Except as described below, these financial statements have been prepared on a basis consistent with the accounting policies adopted in the prior year.

(a) As a result of the adoption of HKAS 1 (revised 2007), details of changes in equity during the period arising from transactions with equity shareholders in their capacity as such have been presented separately from all other income and expenses in a revised consolidated statement of changes in equity. All other items of income and expense are presented in the consolidated income statement, if they are recognised as part of profit or loss for the period, or otherwise in a new primary statement, the consolidated statement of comprehensive income. Corresponding amounts have been restated to conform to the new presentation. This change in presentation has no effect on reported profit or loss, total income and expense or net assets for any period presented.

(b) As a result of the adoption of the amendments to HKFRS 7, "Financial instruments: Disclosures – improving disclosures about financial instruments", the financial statements include expanded disclosures in note 39(b) about the fair value measurement of the Group's financial instruments, categorising these fair value measurements into a three-level fair value hierarchy according to the extent to which they are based on observable market data. The Group has taken advantage of the transitional provisions set out in the amendments to HKFRS 7, under which comparative information for the newly required disclosures about the fair value measurements of financial instruments has not been provided.

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

(c) HKFRS 8 requires segment disclosures to be based on the way that the Group's top management regards and manages the Group, with the amounts reported for each reportable segment being the measures reported to the Group's top management for the purposes of assessing segment performance and making decisions about operating matters. In contrast, the predecessor Standard (HKAS 14, "Segment reporting") required an entity to identify two sets of segments (business and geographical) using a risks and returns approach, with the entity's "system of internal financial reporting to key management personnel" serving only as the starting point for the identification of such segments. In the past, the Group's primary reporting format was business segments. The application of HKFRS 8 has not resulted in a redesignation of the Group's reportable segments as compared with the primary reportable segments determined in accordance with HKAS 14, nor has the adoption of HKFRS 8 changed the basis of measurement of segment profit or loss.

(d) The "Improvements to HKFRSs (2008)" comprise a number of minor and non-urgent amendments to a range of HKFRSs which the HKICPA has issued as an omnibus batch of amendments. Of these, the following two amendments have resulted in changes to the Group's accounting policies:

- As a result of amendments to HKAS 28, Investments in associates, impairment losses recognised in respect of the associates and jointly controlled entities carried under the equity method are no longer allocated to the goodwill inherent in that carrying value. As a result, when there has been a favourable change in the estimates used to determine the recoverable amount, the impairment loss will be reversed. Previously, the Group allocated impairment losses to goodwill and, in accordance with the accounting policy for goodwill, did not consider the loss to be reversible. In accordance with the transitional provisions in the amendment, this new policy will be applied prospectively to any impairment losses that arise in the current or future periods and previous periods have not been restated.

- As a result of amendments to HKAS 40, Investment property, investment property which is under construction will be carried at fair value at the earlier of when the fair value first becomes reliably measurable and the date of completion of the property. Any gain or loss will be recognised in profit or loss, consistent with the policy adopted for all other investment properties carried at fair value. Previously such property was carried at cost until the construction was completed, at which time it was fair valued with any gain or loss being recognised in profit or loss. As the Group does not currently have any investment property under construction, this change in policy has no impact on net assets or profit or loss for any of the periods presented.

(e) The amendments to HKAS 27 have removed the requirement that dividends out of pre-acquisition profits should be recognised as a reduction in the carrying amount of the investment in the investee, rather than as income. As a result, as from 1st January, 2009, all dividends receivable from subsidiaries, associates and jointly controlled entities, whether out of pre- or post-acquisition profits, will be recognised in the Company's profit or loss and the carrying amount of the investment in the investee will not be reduced unless that carrying amount is assessed to be impaired as a result of the investee declaring the dividend. In such cases, in addition to recognising dividend income in profit or loss, the Company would recognise an impairment loss. In accordance with the transitional provisions in the amendment, this new policy will be applied prospectively to any dividends receivable in the current or future periods and previous periods have not been restated.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

(a) Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with HKFRS, which also include Hong Kong Accounting Standards and Interpretations issued by the HKICPA, accounting principles generally accepted in Hong Kong and the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited. The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of buildings, certain financial assets and financial liabilities (including derivative instruments), which are carried at fair value.

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

(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 minority interests

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

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

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated.

Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(b) Basis of consolidation (Continued)

(i) Subsidiaries and minority interests (Continued)

Minority interests represent the portion of the net assets of subsidiaries attributable to interests that are not owned by the company, whether directly or indirectly through subsidiaries, 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. Minority interests are presented in the consolidated balance sheet within equity, separately from equity attributable to the equity shareholders of the company. Minority 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 minority interests and the equity shareholders of the company.

Where losses applicable to the minority exceed the minority's interest in the equity of a subsidiary, the excess, and any further losses applicable to the minority, are charged against the Group's interest except to the extent that the minority has a binding obligation to, and is able to, make additional investment to cover the losses. If the subsidiary subsequently reports profits, the Group's interest is allocated all such profits until the minority's share of losses previously absorbed by the Group has been recovered.

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

(ii) Associates

Associates are all entities, not being a subsidiary or a jointly controlled entity, over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for by the equity method of accounting and are initially recognised at cost. The Group's investments in associates include goodwill (net of any accumulated impairment loss) identified on acquisition (see note 3(g)).

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

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

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Segment reporting

Operating segments, and the amounts of each segment item reported in the 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.

(d) Foreign currency translation

(i) Functional and presentation currency

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

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(d) Foreign currency translation (Continued)

(iii) Group companies (Continued)

On consolidation, exchange differences arising from the translation of the net investment in foreign entities, and of borrowings and other currency instruments designated as hedges of such investments, are 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.

(e) Property, plant and equipment

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

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

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 building 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 is 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 extend 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:

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

The assets' residual values (if any) and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date. An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(e) Property, plant and equipment (Continued)

Assets under construction represents buildings, structures, plant and machinery and other fixed assets under construction or installation and is stated at cost less any accumulated impairment losses, and is not depreciated. Cost comprises direct costs of construction, installation and testing as well as capitalised borrowing costs on related borrowed funds during the period of construction or installation. Assets under construction is 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 3(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 lessee-occupied properties.

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

(g) Goodwill

Goodwill represents the excess of the cost of a business combination or an investment in an associate over the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities.

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 3(h)).

Any excess of the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over the cost of a business combination or an investment in an associate is recognised immediately in profit or loss.

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.

3. 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 3(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 3(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 3(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 3(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.

– 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(h) Impairment of assets (Continued)

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

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

(ii) Impairment of other assets

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

– property, plant and equipment (other than properties carried at revalued amounts);

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

– investments in subsidiaries (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).

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(h) Impairment of assets (Continued)

(ii) Impairment of other assets (Continued)

– 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.

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 included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. Trade and other receivables, pledged bank deposits and cash and cash equivalents in the balance sheet are classified as loans and receivables.

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(i) Financial assets (Continued)

(iii) Available-for-sale financial assets

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

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

Changes in the fair value of monetary securities denominated in a foreign currency and classified as available-for-sale are analysed between translation differences resulting from changes in amortised cost of the security and other changes in the carrying amount of the security. The translation differences on monetary securities are recognised in profit or loss; translation differences on non-monetary securities are recognised in 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 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, reference to other instruments that are substantially the same, discounted cash flow analysis and option pricing models, making maximum use of market inputs and relying as little as possible on entity-specific inputs.

(j) Derivative financial instruments

Derivative financial instruments are recognised initially at fair value. At each balance sheet date the fair value is remeasured. The gain or loss on remeasurement to fair value is recognised immediately in profit or loss, except where the derivatives qualify for cash flow hedge accounting or hedge the net investment in a foreign operation, in which case recognition of any resultant gain or loss depends on the nature of the item being hedged (see note 3(k)).

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(k) Cash flow hedges

Where a derivative financial instrument is designated as a hedge of the variability in cash flows of a recognised asset or liability or a highly probable forecast transaction or the foreign currency risk of a committed future transaction, the effective portion of any gains or losses on remeasurement of the derivative financial instrument to fair value are recognised in other comprehensive income and accumulated separately in equity in the hedging reserve. The ineffective portion of any gain or loss is recognised immediately in profit or loss.

If a hedge of a forecast transaction subsequently results in the recognition of a non-financial asset or non-financial liability, the associated gain or loss is reclassified from equity to be included in the initial cost or other carrying amount of the non-financial asset or liability.

If a hedge of a forecast transaction subsequently results in the recognition of a financial asset or a financial liability, the associated gain or loss is reclassified from equity to profit or loss in the same period or periods during which the asset acquired or liability assumed affects profit or loss (such as when interest income or expense is recognised).

For cash flow hedges, other than those covered by the preceding two policy statements, the associated gain or loss is reclassified from equity to profit or loss in the same period or periods during which the hedged forecast transaction affects profit or loss.

When a hedging instrument expires or is sold, terminated or exercised, or the entity revokes designation of the hedge relationship but the hedged forecast transaction is still expected to occur, the cumulative gain or loss at that point remains in equity until the transaction occurs and it is recognised in accordance with the above policy. If the hedged transaction is no longer expected to take place, the cumulative unrealised gain or loss is reclassified from equity to profit or loss immediately.

(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 3(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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

(ii) Contingent liabilities acquired in business combinations

Contingent liabilities acquired as part of a business combination are initially recognised at fair value, provided the fair value can be reliably measured. After their initial recognition at fair value, such contingent liabilities are recognised at the higher of the amount initially recognised, less accumulated amortisation where appropriate, and the amount that would be determined in accordance with note 3(l)(iii). Contingent liabilities acquired in a business combination that cannot be reliably fair valued are disclosed in accordance with note 3(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.

(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 measured at fair value and, after initial recognition, at amortised cost less any allowance for impairment of bad and doubtful debts, except for the following receivables:

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

– short term receivables with no stated interest rate and the effect of discounting being immaterial, that are measured at their original invoiced amount less any allowance for impairment of bad and doubtful debts.

(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 cash flow statement.

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(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 holders until the shares are cancelled, reissued or disposed of. Where such shares are subsequently sold or reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the Company's equity holders.

(q) Trade and other payables

Trade and other payables are initially measured at fair value. Except for financial guarantee liabilities (if any) measured in accordance with note 3(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.

– 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 movement 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 or 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 (and laws) enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, if the deferred tax arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss, it is not accounted for. The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities using the tax rates enacted or substantively enacted at the balance sheet date. Deferred tax assets and liabilities are not discounted.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(s) Income tax (Continued)

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised. Deferred tax assets also arise from unused tax losses and unused tax credits.

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

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

(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 binomial lattice model, taking into account the terms and conditions upon which the options were granted. Where the employees have to meet vesting conditions before becoming unconditionally entitled to the share options, the total estimated fair value of the share options is spread over the vesting period, taking into account the probability that the options will vest.

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(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 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.

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, 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(v) Leases (Continued)

(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 3(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 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.

(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) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. Capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(y) Related parties

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

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

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

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

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

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

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

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

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

(a) Critical accounting estimates and assumptions

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal to the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(i) Allowance for impairment of trade and other receivables

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

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (Continued)

(a) Critical accounting estimates and assumptions (Continued)

(ii) Income taxes

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

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

(iii) Provision for inventories

The Group reviews the carrying amounts of inventories at each balance sheet date to determine whether the inventories are carried at lower of cost and net realisable value in accordance with the accounting policy set out in note 3(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 goodwill

The Group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated in note 3(h). The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of estimates (note 17).

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

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.

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 senior 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. A discontinued segment is separately presented from continuing segments.

5. SEGMENT REPORTING (Continued)

Segment results, assets and liabilities (Continued)

The segment results for the year ended 31st December, 2009 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	271,105,362	356,554,162	585,529,111	477,441,183	2,164,305	–	1,692,794,123
Inter-segment sales	8,228,774	190,779	3,925,694	–	5,386,688	(17,731,935)	–
Total revenue	279,334,136	356,744,941	589,454,805	477,441,183	7,550,993	(17,731,935)	1,692,794,123

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	12,031,572	6,748,498	(23,722,249)	51,466,615	(4,895,063)	788,848	42,418,221
Unallocated corporate expenses							(18,437,832)
Profit from operations							23,980,389
Finance costs							(15,492,503)
Investment income, net							2,948,592
Gain on deregistration of a subsidiary							1,400,403
Share of results of associates		(827,059)	(2,454,424)		25,768,674		22,487,191
Profit before taxation							35,324,072
Taxation							8,563,612
Profit before minority interests							26,760,460

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	**179,950,397**	**333,273,343**	**1,045,118,683**	**321,834,267**	**28,751,198**	**1,908,927,888**
Interests in associates						**240,348,760**
Available-for-sale financial assets						**4,673,651**
Unallocated corporate assets						**44,470,529**
Consolidated total assets						**2,198,420,828**
LIABILITIES						
Segment liabilities	**50,075,392**	**54,055,375**	**431,320,714**	**131,391,538**	**5,664,478**	**672,507,497**
Tax payable						**6,250,861**
Borrowings						**302,645,882**
Unallocated corporate liabilities						**58,382,197**
Consolidated total liabilities						**1,039,786,437**
OTHER INFORMATION						
Capital additions	**302,025**	**12,750,297**	**34,475,070**	**23,043,880**	**310,043**	**70,881,315**
Depreciation and amortisation	**1,009,964**	**16,708,065**	**17,331,506**	**15,197,620**	**883,690**	**51,130,845**
Other non-cash expenses	**1,258,708**	**649,841**	**(790,553)**	**2,800,000**	**6,431,375**	**10,349,371**

5. SEGMENT REPORTING (Continued)

Segment results, assets and liabilities (Continued)

The segment results for the year ended 31st December, 2008 are as follows:

	Industrial consumables HK$	Plastic processing products HK$	Machinery HK$	Printed circuit boards HK$	Other operations HK$	Eliminations HK$	Consolidated HK$
TURNOVER							
External sales	345,379,421	390,315,725	672,669,293	531,018,157	–	–	1,939,382,596
Inter-segment sales	6,634,560	4,801	5,973,491	–	–	(12,612,852)	–
Total revenue	352,013,981	390,320,526	678,642,784	531,018,157	–	(12,612,852)	1,939,382,596

Inter-segment sales are charged at prevailing market rates.

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

5. 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	200,393,654	351,161,407	1,008,916,648	327,960,169	42,412,119	1,930,843,997
Interests in associates						234,903,019
Available-for-sale financial assets						4,729,444
Unallocated corporate assets						103,562,582
Consolidated total assets						2,274,039,042
LIABILITIES						
Segment liabilities	55,098,057	53,365,657	396,281,221	153,477,262	4,923,206	663,145,403
Tax payable						4,452,725
Borrowings						405,214,297
Unallocated corporate liabilities						65,421,467
Consolidated total liabilities						1,138,233,892
OTHER INFORMATION						
Addition of goodwill	–	–	483,750	–	–	483,750
Capital additions	654,452	11,962,869	11,854,444	27,047,173	1,798,987	53,317,925
Depreciation and amortisation	1,253,001	17,589,991	19,517,418	16,563,583	1,049,820	55,973,813
Other non-cash expenses	430,768	1,587,073	10,392,366	600,000	3,086,447	16,096,654

5. SEGMENT REPORTING (Continued)

Geographical information

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

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

	Sales revenue by geographical market	
	2009	2008
	HK$	HK$
Hong Kong	**607,250,797**	657,336,823
PRC	**921,949,380**	1,040,404,151
Other Asia-Pacific countries	**125,407,342**	169,302,475
North America	**13,475,932**	24,360,176
Europe	**24,710,672**	47,978,971
	1,692,794,123	1,939,382,596

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

	Carrying amount of segment assets		**Additions to property, plant and equipment and goodwill**	
	2009	2008*	**2009**	2008
	HK$	HK$	**HK$**	HK$
Hong Kong	**707,826,749**	655,084,747	**146,540**	1,593,515
PRC	**1,471,907,573**	1,599,157,928	**70,734,775**	52,208,160
Other Asia-Pacific countries	**8,833,580**	9,540,975	**–**	–
North America	**4,430,697**	4,514,479	**–**	–
Europe	**5,422,229**	5,740,913	**–**	–
	2,198,420,828	2,274,039,042	**70,881,315**	53,801,675

* The comparative figures have been reclassified in order to conform to the current year's basis of allocation of segment assets.

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:

	2009 HK$	2008 HK$
Turnover		
Sales of goods	**1,692,794,123**	1,939,382,596
Other income		
Commission income	**39,272**	1,254,982
Gross rental income from properties	**601,148**	890,269
Handling and services income	**2,224,885**	1,131,592
Sales of scrapped materials	**436,952**	6,080,166
Sundry income	**11,755,155**	18,145,893
	15,057,412	27,502,902
Gains, net		
Exchange gain	**2,095,362**	13,788,167
Revaluation surplus on leasehold buildings	**429,785**	–
	2,525,147	13,788,167
	17,582,559	41,291,069

7. FINANCE COSTS

	2009 HK$	2008 HK$
Interest on:		
Borrowings wholly repayable within five years		
– bank loans and overdrafts	**14,562,748**	26,104,034
– other loans	**398,793**	172,526
Finance leases	**530,962**	238,091
Total interest expense on financial liabilities not at fair value through profit or loss	**15,492,503**	26,514,651

8. INVESTMENT INCOME, NET

	2009 HK$	2008 HK$
Interest income	**2,942,700**	4,376,345
Dividend income from listed available-for-sale financial asset	**5,892**	755
Loss on disposal of available-for-sale financial assets	**–**	(64,858)
Realised loss on foreign currency forward contracts	**–**	(258,197)
Unrealised loss on foreign currency forward contracts	**–**	(167,215)
	2,948,592	3,886,830

9. PROFIT BEFORE TAXATION

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

	2009 HK$	2008 HK$
Charging:		
Directors' remuneration *(note 10)*	**9,480,151**	16,331,242
Salaries and other benefits	**230,452,791**	274,566,938
Retirement benefits scheme contributions	**4,854,171**	4,006,226
	244,787,113	294,904,406
Depreciation and amortisation on:		
– Owned assets	**46,034,510**	51,543,084
– Assets held under finance leases	**4,274,161**	3,502,013
– Leasehold land and land use rights *(note 16)*	**822,174**	928,716
Impairment losses on goodwill (included in other operating expenses)	**–**	483,750
Loss on disposal of property, plant and equipment	**4,921,103**	–
Auditors' remuneration		
– Current year	**2,190,020**	2,227,657
– Underprovided in prior years	**322,422**	60,828
Operating lease payments *(note 34)*	**18,916,399**	17,158,219
Revaluation deficit on leasehold buildings	**–**	532,924
Share of associates' taxation	**4,074,801**	4,374,562
and crediting:		
Rental income net of direct outgoings *(note 34)*	**539,878**	804,970

10. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

(a) Directors' emoluments

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

Name of directors	Directors' fees HK$	Salaries and allowances HK$	Retirement benefits scheme contributions HK$	2009 Total HK$	2008 Total HK$
Executive directors					
Mr. Tang To	**2,436,185**	**1,196,000**	**157,500**	**3,789,685**	5,540,455
Mr. Wong Yiu Ming	**2,811,036**	**1,560,000**	**180,000**	**4,551,036**	6,749,357
Mr. Yan Wing Fai [(1)]	**–**	**–**	**–**	**–**	678,750
Mr. Li Tin Loi [(2)]	**–**	**–**	**–**	**–**	2,223,250
Mr. Jiang Wei	**40,000**	**–**	**–**	**40,000**	40,000
Non-executive directors					
Mr. Tang Kwan	**40,000**	**680,400**	**51,030**	**771,430**	771,430
Mr. Kan Wai Wah	**40,000**	**–**	**–**	**40,000**	40,000
Mr. Qu Jinping	**–**	**–**	**–**	**–**	–
Mr. Wu Ding	**40,000**	**–**	**–**	**40,000**	40,000
Mr. Yip Jeffery	**40,000**	**–**	**–**	**40,000**	40,000
Miss Yeung Shuk Fan	**168,000**	**–**	**–**	**168,000**	168,000
Mr. Cheng Tak Yin	**40,000**	**–**	**–**	**40,000**	40,000
Total 2009	**5,655,221**	**3,436,400**	**388,530**	**9,480,151**	16,331,242
Total 2008	10,212,812	5,612,150	506,280		

Notes:

(1) Resigned on 31st March, 2008

(2) Resigned on 1st December, 2008

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

10. DIRECTORS' AND EMPLOYEES' EMOLUMENTS (Continued)

(b) Employees' emoluments

The five highest paid individuals included two (2008: three) directors, details of whose emoluments are set out above. The emoluments of the remaining three (2008: two) individuals are as follows:

	2009	2008
	HK$	HK$
Salaries and other benefits	**10,324,500**	5,670,200
Retirement benefits schemes contributions	**198,900**	104,625
	10,523,400	5,774,825

The emoluments of the employees were within the following bands:

	Number of employees	
	2009	2008
HK$1,000,001 to HK$2,000,000	**2**	1
HK$4,000,001 to HK$5,000,000	**–**	1
HK$7,000,001 to HK$8,000,000	**1**	–
	3	2

11. TAXATION

The provision for Hong Kong Profits Tax for 2009 is calculated at 16.5% (2008: 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.

	2009	2008
	HK$	HK$
Hong Kong profits tax		
Current year	**1,379,954**	1,144,963
Tax reduction in prior year	**–**	(125,000)
Under (Over)-provision in prior years	**247,490**	(101,102)
	1,627,444	918,861
Overseas tax		
Current year	**5,063,355**	5,160,734
(Over) Under-provision in prior years	**(389,541)**	579,099
	4,673,814	5,739,833
Deferred taxation relating to the origination and reversal of temporary differences *(note 31)*		
Current year	**2,262,354**	851,432
Effect of change in tax rate	**–**	116,960
	2,262,354	968,392
Taxation charge	**8,563,612**	7,627,086

11. TAXATION (Continued)

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

	2009 HK$	2008 HK$
Profit before taxation	**35,324,072**	63,932,192
Tax at the domestic income tax rate of 16.5% (2008: 16.5%)	**5,828,472**	10,548,812
Tax effect of expenses that are not deductible in determining taxable profit	**14,962,583**	30,898,497
Tax effect of income that is not taxable in determining taxable profit	**(19,489,384)**	(42,048,201)
(Over) Under-provision of profits tax in prior years, net	**(142,051)**	477,997
Tax reduction in prior year	**–**	(125,000)
Decrease in opening net deferred tax assets resulting from changes in applicable tax rates	**–**	116,960
Tax effect of tax losses not recognised	**10,955,574**	12,382,809
Tax effect of temporary differences not recognised	**461,331**	675,052
Tax effect of utilisation of tax losses not previously recognised	**(1,603,533)**	(1,860,685)
Tax effect of write down deferred tax assets	**1,968,917**	–
Effect of different tax rates of subsidiaries operating in other jurisdictions	**(4,378,297)**	(3,439,155)
Taxation charge	**8,563,612**	7,627,086

12. PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The profit attributable to equity holders of the Company dealt with in the financial statements of the Company is HK$157,873 (2008: Loss of HK$15,959,917).

13. OTHER COMPREHENSIVE INCOME

(a) Tax effects relating to each component of other comprehensive income

	2009			2008		
	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)*	**(55,793)**	**–**	**(55,793)**	96,803	–	96,803
Share of other comprehensive income of associates	**(1,346,456)**	**–**	**(1,346,456)**	6,000,546	–	6,000,546
Surplus (Deficit) on revaluation of buildings	**5,495,114**	**(921,991)**	**4,573,123**	(4,099,021)	(2,975,190)	(7,074,211)
Exchange differences:						
Net movement in translation reserve (note b below)	**(207,696)**	**–**	**(207,696)**	24,879,511	–	24,879,511
	3,879,418	**(921,991)**	**2,957,427**	26,877,839	(2,975,190)	23,902,649

(b) Reclassification adjustments relating to components of other comprehensive income

	2009 HK$	2008 HK$
Translation reserve:		
Exchange differences on translation of financial statements of overseas subsidiaries	**1,192,707**	24,879,511
Reclassification adjustments:		
– Realisation of translation reserve on deregistration of an overseas subsidiary	**(1,400,403)**	–
Net movement in the translation reserve during the year recognised in other comprehensive income	**(207,696)**	24,879,511

14. EARNINGS PER SHARE

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

	2009	2008
Weighted average number of shares in issue during the year	**709,930,692**	710,000,697
Profit attributable to the equity holders of the Company	**HK$7,301,451**	HK$45,239,508
Earnings per share	**1.03 cents**	6.37 cents

15. PROPERTY, PLANT AND EQUIPMENT

	Leasehold buildings 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, 2008	107,155,000	172,032,852	507,424,339	38,481,133	5,058,488	830,151,812
Currency realignment	4,628,159	4,220,492	13,899,704	1,380,202	283,929	24,412,486
Reclassifications	1,652,203	1,619,611	1,506,537	657	(4,779,008)	–
Additions	1,994,662	7,350,691	30,360,647	3,226,643	10,385,282	53,317,925
Disposals	(3,168,386)	(8,786,452)	(12,935,992)	(4,463,852)	–	(29,354,682)
Adjustment on revaluation	(10,129,638)	–	–	–	–	(10,129,638)
At 31st December, 2008 and 1st January, 2009	**102,132,000**	**176,437,194**	**540,255,235**	**38,624,783**	**10,948,691**	**868,397,903**
Currency realignment	**116,280**	**127,568**	**432,151**	**42,291**	**17,405**	**735,695**
Reclassifications	**1,531,300**	**(76,537)**	**12,766,397**	**–**	**(14,221,160)**	**–**
Additions	**187,309**	**7,494,215**	**36,604,390**	**2,268,937**	**24,326,464**	**70,881,315**
Disposals	**(5,878,633)**	**(9,484,552)**	**(56,802,283)**	**(2,740,973)**	**–**	**(74,906,441)**
Adjustment on revaluation	**2,963,744**	**–**	**–**	**–**	**–**	**2,963,744**
At 31st December, 2009	**101,052,000**	**174,497,888**	**533,255,890**	**38,195,038**	**21,071,400**	**868,072,216**
Analysis of cost or valuation:						
At 31st December, 2009						
At cost	**–**	**174,497,888**	**533,255,890**	**38,195,038**	**21,071,400**	**767,020,216**
At valuation – 2009	**101,052,000**	**–**	**–**	**–**	**–**	**101,052,000**
	101,052,000	**174,497,888**	**533,255,890**	**38,195,038**	**21,071,400**	**868,072,216**
At 31st December, 2008						
At cost	–	176,437,194	540,255,235	38,624,783	10,948,691	766,265,903
At valuation – 2008	102,132,000	–	–	–	–	102,132,000
	102,132,000	176,437,194	540,255,235	38,624,783	10,948,691	868,397,903

15. PROPERTY, PLANT AND EQUIPMENT (Continued)

	Leasehold buildings 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, 2008	–	121,344,083	339,549,602	27,201,964	–	488,095,649
Currency realignment	156,471	2,350,311	8,333,404	911,847	–	11,752,033
Depreciation provided for the year	5,509,673	13,211,254	32,541,857	3,782,313	–	55,045,097
Written back on disposals	(168,451)	(7,757,976)	(9,962,578)	(3,843,761)	–	(21,732,766)
Eliminated on revaluation	(5,497,693)	–	–	–	–	(5,497,693)
At 31st December, 2008 and 1st January, 2009	**–**	**129,147,672**	**370,462,285**	**28,052,363**	**–**	**527,662,320**
Currency realignment	**7,468**	**54,187**	**283,674**	**53,312**	**–**	**398,641**
Depreciation provided for the year	**5,007,421**	**9,851,856**	**32,297,024**	**3,152,370**	**–**	**50,308,671**
Written back on disposals	**(2,053,734)**	**(8,924,358)**	**(55,550,597)**	**(2,408,496)**	**–**	**(68,937,185)**
Eliminated on revaluation	**(2,961,155)**	**–**	**–**	**–**	**–**	**(2,961,155)**
At 31st December, 2009	**–**	**130,129,357**	**347,492,386**	**28,849,549**	**–**	**506,471,292**
NET BOOK VALUES						
At 31st December, 2009	**101,052,000**	**44,368,531**	**185,763,504**	**9,345,489**	**21,071,400**	**361,600,924**
At 31st December, 2008	102,132,000	47,289,522	169,792,950	10,572,420	10,948,691	340,735,583

15. PROPERTY, PLANT AND EQUIPMENT (Continued)

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

	2009 HK$	2008 HK$
In Hong Kong:		
– under medium-term leases	**1,962,000**	1,922,000
Outside Hong Kong:		
– under long leases	**11,720,000**	11,900,000
– under medium-term leases	**87,370,000**	88,310,000
	101,052,000	102,132,000

The leasehold buildings of the Group were revalued as at 31st December, 2009 and 31st December, 2008 on the open market existing use basis by Knight Frank Petty Limited, an independent firm of professional valuers. The surplus (deficit) arising on revaluation attributable to the Group have been credited (charged) to the income statement, and the other comprehensive income for the year and accumulated separately in building revaluation reserve, respectively.

Depreciation expense of HK$35,681,899 (2008: HK$41,058,955) has been expensed in cost of goods sold, HK$1,185,153 (2008: HK$1,345,051) in selling and distribution costs and HK$13,441,619 (2008: HK$12,641,091) in administrative expenses.

Had leasehold buildings been carried at cost less accumulated depreciation and amortisation, the carrying value of leasehold buildings would have been HK$74,146,622 (2008: HK$79,247,108).

The net book value of the Group's plant and machinery includes an amount of HK$47,149,146 (2008: HK$34,715,509) in respect of assets held under finance leases.

At 31st December, 2009, certain of the Group's leasehold buildings with an aggregate carrying value of HK$23,200,000 (2008: HK$nil) were pledged to secure certain bank borrowings granted to the Group (note 38).

15. PROPERTY, PLANT AND EQUIPMENT (Continued)

	Furniture, fixtures and equipment HK$	Motor vehicles HK$	Total HK$
THE COMPANY			
COST			
At 1st January, 2008	10,379,100	537,821	10,916,921
Additions	1,041,257	516,947	1,558,204
Disposals	(5,558,203)	–	(5,558,203)
At 31st December, 2008 and 1st January, 2009	**5,862,154**	**1,054,768**	**6,916,922**
Additions	**39,291**	**–**	**39,291**
Disposals	**(275,076)**	**–**	**(275,076)**
At 31st December, 2009	**5,626,369**	**1,054,768**	**6,681,137**
ACCUMULATED DEPRECIATION			
At 1st January, 2008	8,263,048	430,257	8,693,305
Depreciation provided for the year	567,914	210,951	778,865
Written back on disposals	(5,558,203)	–	(5,558,203)
At 31st December, 2008 and 1st January, 2009	**3,272,759**	**641,208**	**3,913,967**
Depreciation provided for the year	**461,238**	**103,390**	**564,628**
Written back on disposals	**(275,076)**	**–**	**(275,076)**
At 31st December, 2009	**3,458,921**	**744,598**	**4,203,519**
NET BOOK VALUES			
At 31st December, 2009	**2,167,448**	**310,170**	**2,477,618**
At 31st December, 2008	2,589,395	413,560	3,002,955

16. LEASEHOLD LAND AND LAND USE RIGHTS

	THE GROUP	
	2009	2008
	HK$	HK$
COST		
At 1st January	**56,050,967**	58,390,241
Currency realignment	**49,294**	1,871,420
Disposals	**–**	(4,210,694)
At 31st December	**56,100,261**	56,050,967
ACCUMULATED AMORTISATION		
At 1st January	**11,941,193**	12,889,374
Currency realignment	**6,573**	311,928
Amortisation for the year	**822,174**	928,716
Written back on disposals	**–**	(2,188,825)
At 31st December	**12,769,940**	11,941,193
NET BOOK VALUE		
At 31st December	**43,330,321**	44,109,774
Portion classified as current assets	**822,174**	784,383
Long term portion	**42,508,147**	43,325,391
At 1st January	**44,109,774**	45,500,867

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:

	2009	2008
	HK$	HK$
In Hong Kong held on:		
Leases of between 10 to 50 years	**9,677,434**	9,919,579
Outside Hong Kong held on:		
Leases of over 50 years	**5,964,644**	6,145,967
Leases of between 10 to 50 years	**27,688,243**	28,044,228
	43,330,321	44,109,774

16. LEASEHOLD LAND AND LAND USE RIGHTS (Continued)

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

At 31st December, 2009, certain of the Group's land use rights with an aggregate carrying value of HK$3,939,905 (2008: HK$nil) were pledged to secure certain bank borrowings granted to the Group (note 38).

17. GOODWILL

	THE GROUP	
	2009	2008
	HK$	HK$
COST		
At 1st January	**17,183,008**	26,589,649
Acquisition of additional interest in a subsidiary	**–**	483,750
Elimination on deregistration of a subsidiary	**–**	(9,890,391)
At 31st December	**17,183,008**	17,183,008
ACCUMULATED IMPAIRMENT		
At 1st January	**17,183,008**	26,589,649
Impairment losses recognised in the year	**–**	483,750
Elimination on deregistration of a subsidiary	**–**	(9,890,391)
At 31st December	**17,183,008**	17,183,008
NET CARRYING AMOUNT		
At 31st December	**–**	–

Impairment tests for goodwill

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

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

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

18. INTERESTS IN SUBSIDIARIES

	THE COMPANY 2009 HK$	2008 HK$
Unlisted shares/capital contributions, at cost	**39,946,384**	39,946,384
Less: impairment losses	**3,005,160**	1,150,366
	36,941,224	38,796,018
Amounts due from subsidiaries	**706,875,597**	713,657,909
Less: allowance for impairment of doubtful debts	**42,609,213**	41,220,180
	664,266,384	672,437,729
	701,207,608	711,233,747

Details of the Company's principal subsidiaries at 31st December, 2009 are set out in note 41.

Amounts due from subsidiaries are unsecured and have no fixed terms of repayment. Other than the carrying amounts of HK$39,000,000 (2008: HK$55,500,000) 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$554,205,318 (2008: HK$545,258,776) 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 ages 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 2009 HK$	2008 HK$
At 1st January	**41,220,180**	41,220,180
Impairment loss recognised	**4,008,355**	–
Unused amounts reversed	**(2,619,322)**	–
At 31st December	**42,609,213**	41,220,180

19. INTERESTS IN ASSOCIATES

	THE GROUP 2009 HK$	2008 HK$
Share of net assets	**164,406,694**	139,615,169
Amounts due from associates *(note 40)*	**75,942,066**	95,287,850
	240,348,760	234,903,019

(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 (2008: HK$312,724).

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

	THE GROUP AND THE COMPANY 2009 HK$	2008 HK$
At 1st January	**–**	15,250
Uncollectible amounts written off	**–**	(15,250)
At 31st December	**–**	–

Details of the principal associates, all of which are unlisted entities, of the Group at 31st December, 2009 are as follows:

Name of associate	Place of incorporation/ registration and operation	Proportion of nominal value of registered capital attributable to the Group %	Principal activities
Dalian Huada Plastics Co Ltd	PRC	30.00	Plastic processing
Suzhou Sanguang Science & Technology Co., Ltd.	PRC	21.13	Manufacturing of industrial machinery, equipment and supplies
Shenzhen Haoningda Meters Company Limited	PRC	41.99	Manufacturing and trading of electronic meters

19. INTERESTS IN ASSOCIATES (Continued)

The above table lists the associates of the Group which, in the opinion of the directors, principally affect the results of the Group for the year or form a substantial portion of the net assets of the Group at the end of the year.

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

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

	2009	2008
	HK$	HK$
Total assets	**786,105,348**	751,433,211
Total liabilities	**418,416,796**	439,330,328
Net assets	**367,688,552**	312,102,883
Group's share of associates' net assets	**164,406,694**	139,615,169
Revenue	**440,264,084**	413,835,824
Profit for the year	**52,979,948**	51,052,310
Group's share of associates' profits for the year	**22,487,191**	13,118,446

20. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	THE GROUP		**THE COMPANY**	
	2009	2008	**2009**	2008
	HK$	HK$	**HK$**	HK$
At 1st January	**4,729,444**	5,055,010	**–**	–
Additions	**–**	171,254	**–**	–
Disposals	**–**	(593,623)	**–**	–
Revaluation (deficit) surplus recognised in other comprehensive income *(note 13(a))*	**(55,793)**	96,803	**–**	–
At 31st December	**4,673,651**	4,729,444	**–**	–
Less: non-current portion	**4,673,651**	4,729,444	**–**	–
Current portion	**–**	–	**–**	–

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

Available-for-sale financial assets include the following:

	THE GROUP		THE COMPANY	
	2009	2008	**2009**	2008
	HK$	HK$	**HK$**	HK$
Unlisted securities, at cost	**5,350,694**	6,442,680	**–**	–
Impairment losses	**(979,803)**	(2,071,789)	**–**	–
	4,370,891	4,370,891	**–**	–
Listed securities, at market value				
Equity securities – Japan	**302,760**	358,553	**–**	–
	4,673,651	4,729,444	**–**	–

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

	THE GROUP		THE COMPANY	
	2009	2008	**2009**	2008
	HK$	HK$	**HK$**	HK$
Renminbi	**4,370,891**	4,370,891	**–**	–
Japanese Yen	**302,760**	358,553	**–**	–
	4,673,651	4,729,444	**–**	–

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

21. INVENTORIES

(a) Inventories in the balance sheet comprise:

	THE GROUP	
	2009	2008
	HK$	HK$
Trading inventories and finished goods	**156,956,667**	234,062,665
Work in progress	**118,044,622**	107,510,905
Raw materials	**244,609,851**	255,837,983
	519,611,140	597,411,553

At 31st December, 2009, the carrying amount of inventories that were stated at fair value less cost to sell is HK$424,951,897 (2008: HK$483,389,176).

21. INVENTORIES (Continued)

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

	THE GROUP	
	2009	2008
	HK$	HK$
Carrying amount of inventories sold	**1,374,240,265**	1,585,788,332
Write down of inventories	**9,395,786**	11,031,033
Reversal of write-down of inventories	**(215,415)**	–
	1,383,420,636	1,596,819,365

The reversal of write-down of inventories made in prior years arose due to certain obsolete inventories had been sold.

22. TRADE AND OTHER RECEIVABLES

	THE GROUP	
	2009	2008
	HK$	HK$
Trade and bills receivables	**565,694,571**	571,778,683
Less: allowance for impairment of bad and doubtful debts	**71,526,782**	68,736,703
Trade and bills receivables, net	**494,167,789**	503,041,980
Other receivables	**183,447,707**	247,763,555
Less: allowance for impairment of bad and doubtful debts	**21,216,065**	23,094,761
Other receivables, net	**162,231,642**	224,668,794
Prepayments	**15,416,997**	6,604,792
Amounts due from related parties *(note 40)*	**843,136**	838,388
	672,659,564	735,153,954

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.

22. TRADE AND OTHER RECEIVABLES (Continued)

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	
	2009	2008
	HK$	HK$
0 to 3 months	**368,252,039**	331,819,568
4 to 6 months	**49,976,719**	68,846,796
7 to 9 months	**16,344,515**	36,523,479
Over 9 months	**59,594,516**	65,852,137
	494,167,789	503,041,980

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

	Trade receivables		Other receivables	
	2009	2008	**2009**	2008
	HK$	HK$	**HK$**	HK$
At 1st January	**68,736,703**	64,101,498	**23,094,761**	21,511,974
Currency realignment	**83,997**	2,712,933	**35,199**	1,159,656
Impairment loss recognised	**3,660,444**	4,061,649	**–**	1,652,622
Unused amounts reversed	**(147,764)**	(1,059,428)	**(1,913,895)**	(122,146)
Uncollectible amounts written off	**(806,598)**	(1,079,949)	**–**	(1,107,345)
At 31st December	**71,526,782**	68,736,703	**21,216,065**	23,094,761

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

At 31st December, 2009, trade and bills receivables of HK$92,414,448 (2008: HK$99,561,606) were impaired. The amount of allowance was HK$71,526,782 as at 31st December, 2009 (2008: HK$68,736,703). It is assessed that a portion of the receivables is expected to be recovered.

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

	THE GROUP	
	2009	2008
	HK$	HK$
Less than 6 months past due	**13,904,334**	22,857,967
6 months to 1 year past due	**2,473,323**	4,296,100
1 year to 3 years past due	**10,323,311**	7,469,118
Over 3 years past due	**65,713,480**	64,938,421
	92,414,448	99,561,606

22. TRADE AND OTHER RECEIVABLES (Continued)

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

	THE GROUP	
	2009	2008
	HK$	HK$
Neither past due nor impaired	**354,925,419**	317,833,375
Less than 6 months past due	**78,222,596**	114,648,235
6 months to 1 year past due	**10,711,513**	22,487,698
1 year to 3 years past due	**23,134,872**	12,380,023
Over 3 years past due	**6,285,723**	4,867,746
	473,280,123	472,217,077

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

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

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

	THE GROUP		THE COMPANY	
	2009	2008	**2009**	2008
United States Dollars	**13,469,097**	15,863,227	**–**	–
Renminbi	**413,921,772**	415,347,138	**–**	160,000
Japanese Yen	**88,853,870**	23,239,680	**–**	–
Euro Dollars	**4,246**	27,549	**–**	–

23. TRADE AND OTHER PAYABLES

	THE GROUP	
	2009	2008
	HK$	HK$
Trade and bills payables	**427,771,914**	448,014,449
Accruals and other payables	**245,163,141**	217,630,292
Amounts due to related parties *(note 40)*	**382,550**	783,455
	673,317,605	666,428,196

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	
	2009	2008
	HK$	HK$
0 to 3 months	**320,106,373**	281,025,261
4 to 6 months	**89,863,279**	139,722,276
7 to 9 months	**2,029,335**	14,671,267
Over 9 months	**15,772,927**	12,595,645
	427,771,914	448,014,449

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

	THE GROUP		THE COMPANY	
	2009	2008	**2009**	2008
United States Dollars	**2,918,308**	3,958,045	**–**	–
Renminbi	**474,290,395**	415,826,027	**–**	–
Japanese Yen	**203,619,228**	204,864,921	**–**	–
Euro Dollars	**163,240**	294,699	**–**	–

24. DERIVATIVE FINANCIAL INSTRUMENTS

THE GROUP

	2009		2008	
	Assets	**Liabilities**	Assets	Liabilities
	HK$	**HK$**	HK$	HK$
Forward foreign exchange contracts:				
– held as cash flow hedges	**1,421,499**	**1,427,250**	–	–
– other derivative	**–**	**–**	–	167,215
	1,421,499	**1,427,250**	–	167,215

The notional principal amount of the outstanding forward foreign exchange contracts at 31st December, 2009 was EUR127,798 (2008: nil). The hedged highly probable forecast transactions denominated in foreign currency are expected to occur at various dates during the next 12 months. Gains and losses recognised in the hedging reserve in equity on forward foreign exchange contracts as of 31st December, 2009 are recognised in other comprehensive income in the period during which the hedged forecast transaction affects the profit or loss.

THE COMPANY

	2009	2008
	HK$	HK$
Forward foreign exchange forward contract		
– other derivative, at fair value	**–**	167,215

During 2008, the Company entered into various forward foreign exchange contracts to manage its exchange rate exposures which did not meet the criteria for hedge accounting. Realised and unrealised loss on foreign currency forward contracts amounting to HK$425,412 was charged to the income statement.

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

25. CASH AND CASH EQUIVALENTS

	THE GROUP		**THE COMPANY**	
	2009	2008	**2009**	2008
	HK$	HK$	**HK$**	HK$
Bank balances and cash	**309,027,423**	189,369,411	**9,145,528**	17,096,505

25. CASH AND CASH EQUIVALENTS (Continued)

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

	THE GROUP	
	2009	2008
	HK$	HK$
Bank balances and cash per above	**309,027,423**	189,369,411
Bank overdrafts *(note 29)*	**(26,298,796)**	(12,160,621)
	282,728,627	177,208,790

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

	THE GROUP		THE COMPANY	
	2009	2008	**2009**	2008
United States Dollars	**7,838,959**	5,368,616	**3,335**	2,585
Renminbi	**223,835,741**	93,793,776	**–**	–
Japanese Yen	**8,774,972**	24,663,208	**–**	–
Euro Dollars	**108,962**	61,261	**–**	–

26. SHARE CAPITAL

	Number of ordinary shares	**Value HK$**
Ordinary shares of HK$0.40 each		
Authorised:		
At 1st January, 2008, 31st December, 2008 and 31st December, 2009	1,000,000,000	400,000,000
Issued and fully paid:		
At 1st January, 2008	710,022,692	284,009,077
Repurchase of own shares	(92,000)	(36,800)
At 31st December, 2008 and 31st December, 2009	**709,930,692**	**283,972,277**

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

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

27. 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 five business days immediately preceding the date of grant, or (iii) the nominal value of the Company's shares.

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

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

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

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

No share options were granted, exercised or cancelled during 2009. All unexercised share options granted as at 31 December, 2007 had lapsed on or before 4th July, 2008.

The following table discloses details of the Company's share options held by directors and employees and movements in the Scheme during the year ended 31st December, 2008.

27. SHARE OPTION SCHEME (Continued)

Grantee	Date of grant [1]	Exercisable period	Exercise price per share HK$	Outstanding at 31.12.2007	Number of share options: Granted during the year	Exercised during the year	Lapsed during the year	Outstanding at 31.12.2008
Directors								
Mr. Wong Yiu Ming	08.06.2007	15.06.2007–14.06.2008	1.4	2,000,000	–	–	2,000,000	–
Mr. Li Tin Loi (resigned on 1st December, 2008)	08.06.2007	20.06.2007–19.06.2008	1.4	1,600,000	–	–	1,600,000	–
Mr. Yan Wing Fai, Richard (resigned on 31st March, 2008)	08.06.2007	04.07.2007–03.07.2008	1.4	1,600,000	–	–	1,600,000	–
				5,200,000	–	–	5,200,000	–
Employees								
In aggregate	08.06.2007	15.06.2007–04.07.2008 [2]	1.4	18,270,000	–	–	18,270,000	–
				23,470,000	–	–	23,470,000	–

Notes:

(1) The closing price of Company's shares on the trading day immediately before 8th June, 2007, being the date of grant of options was HK$1.44.

(2) The exercisable period of share options granted to employees is one year commencing from the respective dates of acceptance of each particular employee which varied from 15th June, 2007 to 5th July, 2007.

28. RESERVES

THE COMPANY

	Share premium HK$	Capital redemption reserve HK$	Share options reserve HK$	Retained profits HK$	Proposed dividend HK$	Total HK$
Balance at 1st January, 2008	244,118,039	–	3,051,804	16,574,664	10,650,340	274,394,847
Loss for the year	–	–	–	(15,959,917)	–	(15,959,917)
Repurchase of own shares	–	36,800	–	(34,451)	–	2,349
Transfer on lapse of share options	–	–	(3,051,804)	1,149,798	–	(1,902,006)
Dividend relating to 2007	–	–	–	–	(10,650,340)	(10,650,340)
Balance at 31st December, 2008	**244,118,039**	**36,800**	**–**	**1,730,094**	**–**	**245,884,933**
Profit for the year	**–**	**–**	**–**	**157,873**	**–**	**157,873**
Balance at 31st December, 2009	**244,118,039**	**36,800**	**–**	**1,887,967**	**–**	**246,042,806**

29. BANK AND OTHER BORROWINGS

	THE GROUP		THE COMPANY	
	2009	2008	**2009**	2008
	HK$	HK$	**HK$**	HK$
Non-current				
Bank borrowings				
– secured	**3,500,000**	2,000,000	**–**	–
– unsecured	**13,333,336**	59,111,112	**–**	28,000,000
	16,833,336	61,111,112	**–**	28,000,000
Other loans				
– unsecured	**147,643**	147,409	**–**	–
	16,980,979	61,258,521	**–**	28,000,000
Current				
Bank borrowings				
– secured	**78,039,253**	120,624,240	**–**	–
– unsecured	**159,610,826**	195,497,139	**63,000,000**	66,000,000
Bank overdrafts *(note 25)*				
– unsecured	**26,298,796**	12,160,621	**16,537,032**	8,320,624
	263,948,875	328,282,000	**79,537,032**	74,320,624
Total borrowings	**280,929,854**	389,540,521	**79,537,032**	102,320,624

The maturity of borrowings is as follows:

	THE GROUP		THE COMPANY	
	2009	2008	**2009**	2008
	HK$	HK$	**HK$**	HK$
Within one year	**263,948,875**	328,282,000	**79,537,032**	74,320,624
Between one and two years	**15,333,336**	61,111,112	**–**	28,000,000
Between two and five years	**1,500,000**	–	**–**	–
Over five years	**147,643**	147,409	**–**	–
	280,929,854	389,540,521	**79,537,032**	102,320,624

The effective interest rate as at 31st December, 2009 for bank loans is 3.78% per annum (2008: 3.61% per annum).

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

29. BANK AND OTHER BORROWINGS (Continued)

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

	Carrying amounts		Fair values	
	2009	2008	**2009**	2008
	HK$	HK$	**HK$**	HK$
Bank borrowings	**16,833,336**	61,111,112	**15,956,798**	58,028,694
Other loans	**147,643**	147,409	**102,986**	102,822
	16,980,979	61,258,521	**16,059,784**	58,131,516

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

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

	THE GROUP		THE COMPANY	
	2009	2008	**2009**	2008
	HK$	HK$	**HK$**	HK$
Hong Kong Dollars	**152,909,907**	268,091,435	**79,537,032**	102,320,624
Renminbi	**128,019,947**	121,449,086	**–**	–
	280,929,854	389,540,521	**79,537,032**	102,320,624

The Group has the following undrawn borrowing facilities:

	2009	2008
	HK$	HK$
Floating rate		
– expiring within one year	**344,127,605**	328,456,227

The facilities expiring within one year are annual facilities subject to review at various dates during 2010.

Bank borrowings and overdrafts are secured by the certain leasehold buildings and leasehold land and land use rights of the Group (notes 15 and 16).

30. OBLIGATIONS UNDER FINANCE LEASES

THE GROUP

	Minimum lease payments 2009 HK$	2008 HK$	Present value of minimum lease payments 2009 HK$	2008 HK$
Amounts payable under finance leases:				
Within one year	**10,721,461**	7,283,490	**10,262,297**	6,919,984
In the second to fifth year inclusive	**11,766,180**	8,961,146	**11,453,731**	8,753,792
	22,487,641	16,244,636	**21,716,028**	15,673,776
Less: Future finance charges	**771,613**	570,860	**N/A**	N/A
Present value of lease payments	**21,716,028**	15,673,776	**21,716,028**	15,673,776
Less: Amount due for settlement within one year shown under current liabilities			**10,262,297**	6,919,984
Amount due for settlement after one year			**11,453,731**	8,753,792

It is the Group's policy to lease certain of its plant and machinery under finance leases. The average lease term is 4 years. For the year ended 31st December, 2009, the average effective borrowing rate was 3.55% per annum (2008: 3.64% per annum). Interest is charged at one month HIBOR or HIBOR plus 1.8% to 2% per annum (2008: one month HIBOR or HIBOR plus 1.25% to 2% 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.

31. 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% (2008: 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)/ decelerated tax depreciation HK$	Revaluation of buildings HK$	Tax losses HK$	Others HK$	Total HK$
At 1st January, 2008	(833,094)	(5,307,779)	2,769,464	11,298,798	7,927,389
Currency realignment	153,009	(276,678)	–	296,072	172,403
Effect of change in tax rate					
– Credited to equity	–	7,422	–	–	7,422
– Credited (charged) to income statement	10,526	893,082	(81,617)	(938,951)	(116,960)
Charged to equity	–	(2,982,612)	–	–	(2,982,612)
Credited (Charged) to income statement	2,726,594	7,145,860	(1,756,450)	(8,967,436)	(851,432)
At 31st December, 2008 and 1st January, 2009	**2,057,035**	**(520,705)**	**931,397**	**1,688,483**	**4,156,210**
Currency realignment	**(1,716)**	**–**	**–**	**2,600**	**884**
Charged to equity	**–**	**(921,991)**	**–**	**–**	**(921,991)**
Credited (Charged) to income statement	**(4,271,721)**	**414,450**	**1,481**	**1,593,436**	**(2,262,354)**
At 31st December, 2009	**(2,216,402)**	**(1,028,246)**	**932,878**	**3,284,519**	**972,749**

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:

	2009 HK$	2008 HK$
Deferred tax assets	**3,854,387**	4,385,509
Deferred tax liabilities	**(2,881,638)**	(229,299)
	972,749	4,156,210

31. 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, 2009, the Group has unrecognised tax losses of HK$304,306,492 (2008: restated HK$254,188,143) available for offset against future profits. Included in unrecognised tax losses are losses of HK$83,666,971 (2008: HK$61,155,378) 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, 2009, the Company has unutilised tax losses of HK$141,837,490 (2008: HK$144,297,966) available for offset against future profits. No deferred tax asset has been recognised in respect of the tax losses due to the unpredictability of future profit streams. The tax losses do not expire under current tax legislation. The Company has no significant unprovided deferred tax liabilities at both of year end dates.

32. NOTES TO CONSOLIDATED CASH FLOW STATEMENT

Deregistration of a subsidiary

	2009 **HK$**	2008 HK$
NET LIABILITIES DISPOSED OF:		
Translation reserve realised upon deregistration	**(1,400,403)**	–
Gain on deregistration of a subsidiary	**1,400,403**	–
	–	–
SATISFIED BY:		
Cash consideration	**–**	–

33. MAJOR NON-CASH TRANSACTIONS

During the year, the Group entered into finance leases in respect of the acquisition of property, plant and equipment with a total capital value at the inception of the leases of HK$15,103,053 (2008: HK$9,749,600).

34. OPERATING LEASE COMMITMENTS

The Group as lessee

	THE GROUP	
	2009 **HK$**	2008 HK$
Minimum lease payments made during the year under operating leases in respect of:		
Land and buildings	**18,875,299**	17,130,859
Plant and machinery	**41,100**	27,360
	18,916,399	17,158,219

34. OPERATING LEASE COMMITMENTS (Continued)

The Group as lessee (Continued)

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	
	2009	2008
	HK$	HK$
Within one year	**12,355,677**	10,895,633
In the second to fifth year inclusive	**26,072,145**	26,445,935
Over five years	**24,444,685**	28,162,560
	62,872,507	65,504,128

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

The Group as lessor

Property rental income earned during the year net of direct outgoings of HK$61,270 (2008: HK$85,299) was HK$539,878 (2008: HK$804,970).

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	
	2009	2008
	HK$	HK$
Within one year	**538,412**	297,941
In the second to fifth year inclusive	**294,165**	61,231
	832,577	359,172

THE COMPANY

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

35. CAPITAL COMMITMENTS

	THE GROUP	
	2009	2008
	HK$	HK$
Capital expenditure:		
Authorised but not contracted for	**–**	–
Contracted but not provided for	**6,384,160**	2,651,857
	6,384,160	2,651,857

THE COMPANY

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

36. FINANCIAL GUARANTEES AND CONTINGENT LIABILITIES

	THE GROUP		THE COMPANY	
	2009	2008	**2009**	2008
	HK$	HK$	**HK$**	HK$
Guarantees given to financial institutions in respect of credit facilities utilised by:				
Subsidiaries	**–**	–	**887,736,000**	936,560,000
Outsiders	**–**	9,096,876	**–**	–
	–	9,096,876	**887,736,000**	936,560,000

In the opinion of the directors, the fair value of the liabilities in relation to the above guarantees is insignificant as at 31st December, 2009 and 31st December, 2008.

37. RETIREMENT BENEFITS SCHEMES

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

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

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

37. RETIREMENT BENEFITS SCHEMES (Continued)

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$5,242,701 (2008: HK$4,512,506) represents contributions payable to these schemes by the Group in respect of the current accounting period. As at 31st December, 2009, contributions of approximately HK$15,023 (2008: HK$208,498) due in respect of the reporting period had not been paid over to the schemes.

38. PLEDGE OF ASSETS

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

	2009 **HK$**	2008 HK$
Leasehold buildings	**23,200,000**	–
Leasehold land and land use rights	**3,939,905**	–
Plant and machinery	**47,149,146**	34,715,509
Bank deposits	**39,750,142**	120,697,909
	114,039,193	155,413,418

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

39. 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$	Derivative HK$	Total HK$
Assets as per consolidated balance sheet				
31st December, 2009				
Available-for-sale financial assets *(note 20)*	**–**	**4,673,651**	**–**	**4,673,651**
Amounts due from associates *(note 19)*	**75,942,066**	**–**	**–**	**75,942,066**
Trade and other receivables *(note 22)*	**657,242,567**	**–**	**–**	**657,242,567**
Derivative financial instrument *(note 24)*	**–**	**–**	**1,421,499**	**1,421,499**
Pledged bank deposits *(note 38)*	**39,750,142**	**–**	**–**	**39,750,142**
Cash and cash equivalents *(note 25)*	**309,027,423**	**–**	**–**	**309,027,423**
Total	**1,081,962,198**	**4,673,651**	**1,421,499**	**1,088,057,348**
31st December, 2008				
Available-for-sale financial assets *(note 20)*	–	4,729,444	–	4,729,444
Amounts due from associates *(note 19)*	95,287,850	–	–	95,287,850
Trade and other receivables *(note 22)*	728,549,162	–	–	728,549,162
Pledged bank deposits *(note 38)*	120,697,909	–	–	120,697,909
Cash and cash equivalents *(note 25)*	189,369,411	–	–	189,369,411
Total	1,133,904,332	4,729,444	–	1,138,633,776

39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

(a) Financial instruments by categories (Continued)

THE GROUP (Continued)

	Financial liabilities measured at amortised cost HK$	Financial liabilities at fair value through profit or loss HK$	Derivative HK$	Total HK$
Liabilities as per consolidated balance sheet				
31st December, 2009				
Trade and other payables *(note 23)*	**673,317,605**	**–**	**–**	**673,317,605**
Derivative financial instruments *(note 24)*	**–**	**–**	**1,427,250**	**1,427,250**
Amounts due to associates	**53,263,201**	**–**	**–**	**53,263,201**
Bank and other borrowings *(note 29)*	**280,929,854**	**–**	**–**	**280,929,854**
Obligation under finance leases *(note 30)*	**21,716,028**	**–**	**–**	**21,716,028**
Total	**1,029,226,688**	**–**	**1,427,250**	**1,030,653,938**
31st December, 2008				
Trade and other payables *(note 23)*	666,428,196	–	–	666,428,196
Derivative financial instruments *(note 24)*	–	167,215	–	167,215
Amounts due to associates	61,742,160	–	–	61,742,160
Bank and other borrowings *(note 29)*	389,540,521	–	–	389,540,521
Obligation under finance leases *(note 30)*	15,673,776	–	–	15,673,776
Total	1,133,384,653	167,215	–	1,133,551,868

39. 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, 2009	
Amounts due from subsidiaries *(note 18)*	**664,266,384**
Trade and other receivables	**270,249**
Cash and cash equivalents *(note 25)*	**9,145,528**
Total	**673,682,161**
31st December, 2008	
Amounts due from subsidiaries *(note 18)*	672,437,729
Trade and other receivables	722,441
Cash and cash equivalents *(note 25)*	17,096,505
Total	690,256,675

	Financial liabilities measured at amortised cost HK$	**Financial liabilities at fair value through profit or loss HK$**	**Total HK$**
Liabilities as per balance sheet			
31st December, 2009			
Trade and other payables	**3,014,322**	**–**	**3,014,322**
Amounts due to subsidiaries	**48,532,631**	**–**	**48,532,631**
Amounts due to associates	**52,173,935**	**–**	**52,173,935**
Bank and other borrowings *(note 29)*	**79,537,032**	**–**	**79,537,032**
Total	**183,257,920**	**–**	**183,257,920**
31st December, 2008			
Trade and other payables	4,059,757	–	4,059,757
Derivative financial instruments *(note 24)*	–	167,215	167,215
Amounts due to subsidiaries	34,997,948	–	34,997,948
Amounts due to associates	60,652,894	–	60,652,894
Bank and other borrowings *(note 29)*	102,320,624	–	102,320,624
Total	202,031,223	167,215	202,198,438

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

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

At 31st December, 2009, 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$3,217,149 (2008: HK$3,861,000), higher or lower. At 31st December, 2009, if HK$ had strengthened/weakened by 10% against the RMB, equity would have been approximately HK$87,455,407 (2008: HK$86,388,347), lower or higher.

At 31st December, 2009, 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$724,504 (2008: HK$1,101,620), 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 2008.

39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

(b) Financial risk factors (Continued)

(ii) Interest rate risk

Except for pledged bank deposits (note 38) and cash and cash equivalents (note 25), 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 29.

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

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

At 31st December, 2009, if interest rates on HK$-denominated borrowings had been 50 basis points higher/lower with all other variables held constant, post-tax profit for the year would have been approximately HK$770,000 (2008: HK$1,086,000) lower/higher, mainly as a result of higher/lower interest expense on floating rate borrowings.

At 31st December, 2009, if interest rates on RMB-denominated borrowings had been 50 basis points higher/lower with all other variables held constant, post-tax profit for the year would have been approximately HK$485,000 (2008: HK$264,000) 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 2008.

39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

(b) Financial risk factors (Continued)

(iii) Price risk

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

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

(iv) Credit risk

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

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

The maximum exposure to credit risk without taking account of any collateral held is represented by the carrying amount of each of financial assets in the consolidated balance sheet after deducting any impairment allowance. Further quantitative disclosure in respect of the Group's exposure to credit risk arising from trade and other receivables are set out in note 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 table below categorised the Group's financial liabilities into relevant maturity groupings based on the remaining period from the balance sheet date to the contractual maturity date. The tabulated amounts are the contractual undiscounted cash flow payments of the Group.

39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

(b) Financial risk factors (Continued)

(v) Liquidity risk (Continued)

	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, 2009					
Trade and other payables	**673,317,605**	**–**	**–**	**–**	**673,317,605**
Amounts due to associates	**53,263,201**	**–**	**–**	**–**	**53,263,201**
Obligations under finance leases	**10,721,461**	**10,775,963**	**990,216**	**–**	**22,487,640**
Derivative financial instruments	**1,427,250**	**–**	**–**	**–**	**1,427,250**
Bank and other borrowings	**269,268,382**	**15,504,304**	**1,522,875**	**147,643**	**286,443,204**
	1,007,997,899	**26,280,267**	**2,513,091**	**147,643**	**1,036,938,900**
At 31st December, 2008					
Trade and other payables	666,428,196	–	–	–	666,428,196
Amounts due to associates	61,742,160	–	–	–	61,742,160
Obligations under finance leases	7,237,263	7,183,173	1,824,200	–	16,244,636
Derivative financial instruments	167,215	–	–	–	167,215
Bank and other borrowings	335,275,716	48,599,252	13,422,432	147,409	397,444,809
	1,070,850,550	55,782,425	15,246,632	147,409	1,142,027,016

(vi) Fair values

The following table presents the carrying value of financial instruments measured at fair value at the balance sheet date across the three 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

39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

(b) Financial risk factors (Continued)

(vi) Fair values (Continued)

2009

	The Group			
	Level 1 HK$	Level 2 HK$	Level 3 HK$	Total HK$
Assets:				
Available-for-sale investments				
– Listed	**302,760**	**–**	**–**	**302,760**
– Unlisted	**–**	**–**	**4,370,891**	**4,370,891**
Derivative financial instruments	**–**	**1,421,499**	**–**	**1,421,499**
	302,760	**1,421,499**	**4,370,891**	**6,095,150**
Liabilities:				
Derivative financial instruments	**–**	**1,427,250**	**–**	**1,427,250**

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

Derivative financial instruments are foreign currency forward contracts and they are marked to market using the foreign exchange forward rates ruling at the balance sheet date.

All other financial instruments are carried at amounts not materially different from their fair values as at 31st December, 2009 and 2008.

(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.

39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

(c) Capital risk management (Continued)

The total debts ratios at 31st December, 2009 and 2008 are as follows:

	2009 HK$	2008 HK$
Current liabilities	**1,008,470,089**	1,067,992,280
Non-current liabilities	**31,316,348**	70,241,612
Total borrowings	**1,039,786,437**	1,138,233,892
Total equity	**1,158,634,391**	1,135,805,150
Total capital	**2,198,420,828**	2,274,039,042
Total debts ratio	**47%**	50%

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

40. 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	**2009 HK$**	2008 HK$
Substantial shareholders and its subsidiaries:			
EDP charges received *(note i)*		**183,600**	183,600
Management fee paid *(note i)*		**2,823,675**	2,821,275
Balances due from the Group as at the balance sheet date *(note ii)*	*23*	**–**	400,905
Balances due to the Group as at the balance sheet date *(note ii)*	*22*	**12,312**	12,323
Company controlled by certain directors:			
Management fee paid *(note i)*		**996,000**	996,000
EDP charges received *(note i)*		**–**	51,600
Balances due to the Group as at the balance sheet date *(note ii)*	*22*	**4,598**	1,150
Minority shareholders:			
Balances due from the Group as at the balance sheet date *(note ii)*	*23*	**382,550**	382,550
Balances due to the Group as at the balance sheet date *(note ii)*	*22*	**826,226**	824,915
Associates:			
Sales of finished goods *(note i)*		**51,565**	1,398,491
Service fee received *(note i)*		**127,099**	–
Sub-contracting charge received *(note i)*		**1,323,799**	6,625,056
Sub-contracting charge paid *(note i)*		**–**	45,386
Purchases *(note i)*		**5,930,151**	12,117,385
Purchases of property, plant and equipment *(note i)*		**3,232,902**	–
Balances due from the Group as at the balance sheet date *(note ii)*		**53,263,201**	61,742,160
Balances due to the Group as at the balance sheet date *(note ii)*	*19*	**75,942,066**	95,287,850
Key management compensation of the Group:			
Salaries and other short-term employee benefits		**9,480,151**	16,331,242

40. TRANSACTIONS AND BALANCES WITH RELATED PARTIES (Continued)

Notes:

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

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

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

41. PARTICULARS OF PRINCIPAL SUBSIDIARIES

Details of the Company's principal subsidiaries at 31st December, 2009 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
Dekuma Rubber and Plastic Technology (Dongguan) Limited *(note a)*	PRC	PRC	HK$4,000,000	100.00	100.00	Manufacturing and trading of machinery
Dongguan Great Wall Optical Plastic Works Limited *(note a)*	PRC	PRC	HK$16,126,800	100.00	100.00	Manufacturing of microscopes and magnifiers with acrylic lenses
Dong Hua Machinery Limited *(note c)*	PRC	PRC	RMB138,387,843	75.56	75.56	Manufacturing and trading of machinery
Gainbase Industrial Limited	Hong Kong	Hong Kong	HK$10,000	100.00	52.00	Trading in printed circuit boards
Grand Technology Products Limited	Hong Kong	Hong Kong	HK$9,500,000	100.00	100.00	Investment holding
Great Wall (Holding) Company Limited	Hong Kong	Hong Kong	HK$9,900,000	100.00	100.00	Investment holding

41. 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
Jackson Equities Incorporated	British Virgin Islands	Hong Kong	US$2	100.00*	100.00	Investment holding
Karmay Industrial Limited	Hong Kong	Hong Kong	HK$14,979,444	100.00	100.00	General trading and investment holding
Karmay Plastic Products (Zhuhai) Co., Ltd. *(note a)*	PRC	PRC	HK$16,800,000	100.00	100.00	Manufacturing of plastic products
Melco Industrial Supplies Co., Limited	Hong Kong	Hong Kong	HK$1,500,000	100.00	100.00	Trading in industrial equipment and screws
Ming Sun Enterprises Limited	Hong Kong	Hong Kong	HK$3,000,000	100.00	100.00	Investment holding
Ming Sun Enterprises (China) Limited	Hong Kong	Hong Kong	HK$1,000,000	100.00	100.00	Manufacturing of moulds and trading of plasticwares
Shenzhen Gainbase Printed Circuit Board Co., Limited *(note b)*	PRC	PRC	HK$140,000,000	100.00	52.00	Manufacturing of printed circuit boards
Welltec Machinery Limited	Hong Kong	Hong Kong	HK$10,000,000	100.00	100.00	Trading of machinery
Wu Xi Grand Tech Machinery Group Co. Ltd. *(note a)*	PRC	PRC	US$9,586,000	100.00	100.00	Manufacturing and trading of machinery
Wu Xi Grand Plastic Machine Manufacture Co., Ltd. *(note b)*	PRC	PRC	US$2,850,000	100.00	100.00	Manufacturing and trading of machinery

Notes:

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

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

(c) On 5th June, 2009, Dong Hua Machinery Limited, a sino-foreign cooperative enterprise, obtained the approval from the local government authority to merge with Dongguan Cosmos Machinery Limited and Dongguan Welltec Machinery Limited. Upon completion of the merger, the registered capital of Dong Hua Machinery Limited was increased from RMB40.8M to RMB130.39M. Dongguan Cosmos Machinery Limited and Dongguan Welltec Machinery Limited were also deregistered.

41. PARTICULARS OF PRINCIPAL SUBSIDIARIES (Continued)

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

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

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

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

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

HKAS 27 (Revised)	Consolidated and separate financial statements
HKAS 39 (Amendment)	Eligible hedged items
HKFRS 3 (Revised)	Business combinations
HK(IFRIC) – Int 17	Distribution of non-cash assets to owners

Effective for transfers on or after 1st July, 2009

HK(IFRIC) – Int 18	Transfer of assets from customers

Effective for annual periods beginning on 1st July, 2009 or 1st January, 2010

Improvements to HKFRSs 2009

Effective for annual periods beginning on or after 1st July, 2010

HK(IFRIC) – Int 19	Extinguishing financial liabilities with equity instruments

Effective for annual periods beginning on or after 1st January, 2011

HKAS 24 (Revised)	Related party disclosures

Effective for annual periods beginning on or after 1st January, 2013

HKFRS 9	Financial instruments

The Group is in the process of making an assessment of what the impact of these amendments 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.

43. EVENTS AFTER THE BALANCE SHEET DATE

On 9th February, 2010, an associate of the Group, Shenzhen Haoningda Meters Co., Ltd., completed the initial public offering ("IPO") of its A Shares and commenced the trading of the A Shares on the Shenzhen Stock Exchange. Upon the completion of the IPO, the Group's shareholding in the associate would be reduced from approximately 41.99% to approximately 31.50%. Further details of the IPO are set out in the Company's announcement on 8th February, 2010.

44. COMPARATIVE FIGURES

As a result of the application of HKAS 1 (revised 2007), "Presentation of financial statements", certain comparative figures have been adjusted to conform to current year's presentation and to provide comparative amounts in respect of items disclosed for the first time in 2009. Further details of these developments are disclosed in note 2.

FINANCIAL SUMMARY

INCOME STATEMENT

	For the year ended 31st December,				
	2005	2006	2007	2008	**2009**
	HK$'000	HK$'000	HK$'000	HK$'000	**HK$'000**
Turnover	1,650,729	2,022,632	2,093,377	1,939,383	**1,692,794**
Profit before taxation	80,300	100,160	147,626	63,932	**35,324**
Taxation	7,198	11,544	9,934	7,627	**8,564**
Profit for the year	73,102	88,616	137,692	56,305	**26,760**
Minority interests	18,881	23,473	37,652	11,066	**19,459**
Profit attributable to equity holders of the Company	54,221	65,143	100,040	45,239	**7,301**

BALANCE SHEET

	At 31st December,				
	2005	2006	2007	2008	**2009**
	HK$'000	HK$'000	HK$'000	HK$'000	**HK$'000**
Total assets	1,876,786	2,107,424	2,261,339	2,274,039	**2,198,421**
Total liabilities	1,011,574	1,151,466	1,132,820	1,138,234	**1,039,787**
Total equity	865,212	955,958	1,128,519	1,135,805	**1,158,634**
Minority interests	139,917	164,314	201,679	152,984	**166,743**

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