Notes to the Financial Statements

For the year ended 31st December, 2006

1. GENERAL

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

The Company is an investment holding company. The address of its registered office is 8/F., Tai Tung Industrial Building, 29-33 Tsing Yi Road, Tsing Yi Island, New Territories, Hong Kong. The principal activities of its principal subsidiaries are set out in note 40.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

(a) Basis of preparation

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

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

The adoption of new/revised HKFRS

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(b) Basis of consolidation

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

(i) Subsidiaries

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

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

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

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

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(b) Basis of consolidation (Continued)

(ii) Associates

Associates are all entities, not being a subsidiary or a jointly controlled entity, over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for by the equity method of accounting and are initially recognised at cost. The Group's investments in associates include goodwill (net of any accumulated impairment loss) identified on acquisition (see Note 2(i)).

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

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

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

Notes to the Financial Statements

For the year ended 31st December, 2006

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Segment reporting

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

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

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

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

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

(d) Foreign currency translation

(i) Functional and presentation currency

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

Notes to the Financial Statements

For the year ended 31st December, 2006

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(d) Foreign currency translation (Continued)

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except when deferred in equity as qualifying cash flow hedges or qualifying net investment hedges.

Translation differences on non-monetary items, such as equity instruments held at fair value through profit or loss, are reported as part of the fair value gain or loss. Translation differences on non-monetary items, such as equities classified as available-for-sale financial assets, are included in the fair value reserve in equity.

(iii) Group companies

The results and financial position of all the group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(i) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

(ii) income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and

(iii) all resulting exchange differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities, and of borrowings and other currency instruments designated as hedges of such investments, are taken to shareholders' equity. When a foreign operation is sold, such exchange differences are recognised in the income statement as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

Notes to the Financial Statements

For the year ended 31st December, 2006

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(e) Property, plant and equipment

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

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

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

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

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

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

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

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

Notes to the Financial Statements

For the year ended 31st December, 2006

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) Investment properties

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

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

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

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

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

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

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

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

Changes in fair values are recognised in the income statement.

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

Notes to the Financial Statements

For the year ended 31st December, 2006

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) Investment properties (Continued)

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

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

(g) Leasehold land and land use rights

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

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

(h) Borrowing costs

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

(i) Intangible assets

Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary/associate/jointly controlled entity at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill on acquisitions of associates and jointly controlled entities is included in investments in associates and jointly controlled entities respectively. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing.

Notes to the Financial Statements

For the year ended 31st December, 2006

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(j) Impairment of assets

Assets that have an indefinite useful life are not subject to amortisation, which are at least tested annually for impairment and are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

(k) Financial guarantees issued, provisions and contingent liabilities

(i) Financial guarantees issued

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

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

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

(ii) Contingent liabilities acquired in business combinations

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

Notes to the Financial Statements

For the year ended 31st December, 2006

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

(iii) Other provisions and contingent liabilities

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

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

(l) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average method. The cost of finished goods and work in progress comprises raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). It excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

(m) Trade and other receivables

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

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

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

(n) Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within bank and other borrowings in current liabilities on the balance sheet.

Notes to the Financial Statements

For the year ended 31st December, 2006

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(o) Share capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Where any group company purchases the Company's equity share capital (Treasury shares), the consideration paid, including any directly attributable incremental costs (net of income taxes,) is deducted from equity attributable to the Company's equity holders until the shares are cancelled, reissued or disposed of. Where such shares are subsequently sold or reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the Company's equity holders.

(p) Trade and other payables

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

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

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

(q) Bank and other borrowings

Bank and other borrowings are recognised initially at fair value, net of transaction costs incurred. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability, including fees and commissions paid to agents, advisers, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Bank and other borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

Bank and other borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(r) Income tax

Income tax comprises current and deferred tax. Income tax is recognised in the income statement or in equity if it relates to items that are recognised in the same or a different period, directly in equity.

Deferred tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, if the deferred tax arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss, it is not accounted for. Deferred tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

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

(s) Employee benefits

(i) Retirement benefit costs

Payments to defined contribution plans under the mandatory provident fund scheme, the ORSO scheme and state-managed retirement benefits scheme are charged as expenses as they fall due.

(ii) Profit-sharing and bonus plans

The Group recognises a liability and an expense for bonuses and profit-sharing, based on a formula that takes into consideration the profit attributable to the Company's shareholders after certain adjustments. The Group recognises a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

(t) Revenue recognition

Revenue comprises the fair value for the sale of goods and services, net of value-added tax, rebates and discounts and after eliminating sales within the Group. Revenue is recognised as follows:

(i) Sales of goods are recognised when a Group entity has delivered products to the customer, the customer has accepted the products and collectibility of the related receivables is reasonably assured.

(ii) Rental income, including rentals invoiced in advance from properties under operating leases, is recognised on a straight line basis over the period of the leases.

Notes to the Financial Statements

For the year ended 31st December, 2006

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(t) Revenue recognition (Continued)

(iii) Commission income, handling and services income are recognised when services are provided.

(iv) Interest income is recognised on a time-proportion basis using the effective interest method. When a receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loans is recognised either as cash is collected or on a cost-recovery basis as conditions warrant.

(v) Dividend income is recognised when the right to receive payment is established prior to the balance sheet date.

(u) Leases

(i) Operating lease (both as the lessee or the lessor)

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Where the Group is the lessee, payments made under operating leases (net of any incentives received from the lessor) are expensed in the income statement on a straight-line basis over the period of the lease. Where the Group is the lessor, assets leased by the Group under operating leases are included in non current assets and rentals receivable under the operating leases are credited to the income statement in a straight line basis over the lease period.

(ii) Finance lease (as the lessee)

Leases of assets where the Group has substantially obtained all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's commencement at the lower of the fair value of the leased property and the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of finance charges, are included in current and non-current bank and other borrowings. The interest element of the finance cost is recognised in the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The investment properties acquired under finance leases are carried at their fair value, while the property, plant and equipment acquired under finance leases are depreciated over the shorter of the useful lives of the assets or the lease terms.

(v) Dividend distribution

Final dividends proposed by the directors are classified as a separate allocation of retained profits within the equity section of the balance sheet, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognised as a liability.

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

Notes to the Financial Statements

For the year ended 31st December, 2006

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(w) Discontinued operations

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

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

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

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

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

(x) Related parties

A party is related to the Group if:

(i) directly, or indirectly through one or more intermediaries, the party:

(1) controls, is controlled by, or is under common control with, the Group;

(2) has an interest in the Group that gives its significant influence over the Group; or

(3) has joint control over the Group;

(ii) the party is a jointly-controlled entity;

(iii) the party is an associate;

(iv) the party is a member of the key management personnel of the Company or its parent;

(v) the party is a close member of the family of any individual referred to in (i) or (iv);

(vi) the party is an entity that is controlled, jointly-controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (iv) or (v); or

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

Notes to the Financial Statements

For the year ended 31st December, 2006

3. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including currency risk and price risk), credit risk, liquidity risk and cash flow interest-rate risk. The Group's risk management objectives and policies mainly focus on minimising the potential adverse effects of these risks on the Group by closely monitoring the individual exposure as follows:

(a) Market risk

(i) Foreign exchange risk

Foreign exchange risk is the risk of loss due to adverse movements in foreign exchange rates relating to investments denominated in foreign currencies. The Group's assets and liabilities are primarily denominated in Hong Kong dollars. When seeking to optimise the returns on its funds available for investment, the Group has certain investments in foreign operations, whose net assets are exposed to foreign currency translation risk.

(ii) Price risk

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

(b) Credit risk

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

(c) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. The Group aims to maintain flexibility in funding by keeping committed credit lines available and sufficient bank deposits to meet short term cash requirements.

3. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Financial risk factors (Continued)

(d) Cash flow interest rate risk

The Group's interest-rate risk arises from long-term borrowings, bank deposits and finance lease obligations. Borrowings obtained at variable rates expose the Group to cash flow interest-rate risk. The Group's borrowings are based on Prime or HIBOR interest rates. Details of the Group's borrowings are set out in note 29. Bank deposits are primarily short term in nature. In order to manage the cash flow interest rate risk, the Group will repay the corresponding borrowing when it has surplus funds.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

(a) Critical accounting estimates and assumptions

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

(i) Estimated impairment of goodwill

The Group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated in Note 2(j). The recoverable amounts of cash-generating units have been determined based on value-in use calculations. These calculations require the use of estimates (Note 19).

(ii) Estimate of fair value of unlisted securities

Certain unlisted securities included in available-for-sale financial assets are stated at cost at the balance sheet date as the Group determines the fair value of such assets closely approximates to the cost. For the unlisted securities valued at fair value, the Group uses the discounted cashflows valuation method and makes assumptions that are based on market conditions existing at each balance sheet date for the determination of the fair value.

(iii) Estimate of fair value of investment properties

The best evidence of fair value is current prices in an active market for similar lease and other contracts. In the absence of such information, the Group determines the amount within a range of reasonable fair value estimates. In making its judgement, the Group considers information from a variety of sources including:

(i) current prices in an active market for properties of different nature, condition or location (or subject to different lease or other contracts), adjusted to reflect those differences.

(ii) recent prices of similar properties in less active markets, with adjustments to reflect any changes in economic conditions since the date of the transactions that occurred at those prices.

Notes to the Financial Statements

For the year ended 31st December, 2006

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (Continued)

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

Distinction between investment properties and owner-occupied properties

The Group determines whether a property qualifies as investment property. In making its judgement, the Group considers whether the property generates cash flows largely independently of the other assets held by an entity. Owner-occupied properties generate cash flows that are attributable not only to property but also to other assets used in the production or supply process.

5. BUSINESS AND GEOGRAPHICAL SEGMENTS

Primary reporting format – Business segments

At 31st December, 2006, the Group is organised on a product basis into five main business segments.

Continuing operations:

(1) trading of industrial consumables

(2) manufacturing of plastic processing products

(3) manufacturing of machinery; and

(4) manufacturing of printed circuit boards.

Discontinued operation:

(5) manufacturing of audio and electronic products

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

Notes to the Financial Statements

For the year ended 31st December, 2006

5. BUSINESS AND GEOGRAPHICAL SEGMENTS (Continued)

Primary reporting format – Business segments (Continued)

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

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

Inter-segment sales are charged at prevailing market rates.

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

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

Notes to the Financial Statements

For the year ended 31st December, 2006

5. BUSINESS AND GEOGRAPHICAL SEGMENTS (Continued)

Primary reporting format – Business segments (Continued)

The segment results for the year ended 31st December, 2005 are as follows:

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

Inter-segment sales are charged at prevailing market rates.

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

Notes to the Financial Statements

For the year ended 31st December, 2006

5. BUSINESS AND GEOGRAPHICAL SEGMENTS (Continued)

Primary reporting format – Business segments (Continued)

	Continuing operations					Discontinued operation	
	Industrial consumables HK$	Plastic processing products HK$	Machinery HK$	Printed circuit boards HK$	Other operations HK$	Audio and electronic products HK$	Consolidated HK$
ASSETS							
Segment assets	144,959,427	285,992,387	924,272,566	218,698,044	41,645,619	48,200,525	1,663,768,568
Interests in associates							176,613,599
Available-for-sale financial assets							7,649,210
Unallocated corporate assets							28,754,253
Consolidated total assets							1,876,785,630
LIABILITIES							
Segment liabilities	58,998,310	67,826,339	301,926,269	137,317,793	16,277,726	15,028,239	597,374,676
Tax payable							11,194,007
Borrowings							387,205,179
Unallocated corporate liabilities							15,799,648
Consolidated total liabilities							1,011,573,510
OTHER INFORMATION							
Addition of goodwill	–	–	767,222	–	–	343,361	1,110,583
Capital additions	247,512	15,483,790	33,504,440	13,534,486	681,693	1,417,256	64,869,177
Depreciation and amortisation	1,024,817	19,701,530	21,270,744	13,588,304	1,556,372	3,329,708	60,471,475
Other non-cash expenses	97,702	348,506	17,546,312	240,000	3,489,119	6,026,079	27,747,718

Notes to the Financial Statements

For the year ended 31st December, 2006

5. BUSINESS AND GEOGRAPHICAL SEGMENTS (Continued)

Secondary reporting format – Geographical segments

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

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

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

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

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

Notes to the Financial Statements

For the year ended 31st December, 2006

6. TURNOVER, OTHER INCOME AND GAINS, NET

Turnover represents the amounts received and receivable for goods sold to customers, less returns and discounts, during the year. An analysis of the Group's turnover, other income and gains, net is as follows:

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

7. FINANCE COSTS

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

Notes to the Financial Statements

For the year ended 31st December, 2006

8. INVESTMENT INCOME

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

9. PROFIT BEFORE TAXATION

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

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

Notes to the Financial Statements

For the year ended 31st December, 2006

10. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

(a) Directors' emoluments

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

Name of directors	Directors' Fees HK$	Salaries and allowances HK$	Retirement benefits scheme contributions HK$	2006 Total HK$	2005 Total HK$
Mr. Tang To	3,138,062	1,112,000	151,200	4,401,262	3,736,293
Mr. Wong Yiu Ming	3,092,162	1,282,900	159,750	4,534,812	3,789,023
Mr. Zhao Zhuoying	40,000	–	–	40,000	40,000
Mr. Yan Wing Fai	1,187,200	866,200	12,000	2,065,400	2,080,074
Mr. Li Tin Loi	292,000	1,400,800	80,910	1,773,710	1,436,605
Mr. Tang Kwan	40,000	680,400	51,030	771,430	771,430
Mr. Kan Wai Wah	40,000	–	–	40,000	40,000
Mr. He Zhiqi	40,000	–	–	40,000	40,000
Mr. Liang Shangli*	100,000	–	–	100,000	40,000
Mr. Yip Jeffery*	40,000	–	–	40,000	40,000
Miss. Yeung Shuk Fan*	168,000	–	–	168,000	168,000
Mr. Qu Jinping#	–	–	–	–	–
Total 2006	8,177,424	5,342,300	454,890	13,974,614	12,181,425
Total 2005	6,598,536	5,145,700	437,189		

* Independent non-executive directors

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

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

(b) Employees' emoluments

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

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

Notes to the Financial Statements

For the year ended 31st December, 2006

11. TAXATION

Hong Kong profits tax has been provided at the rate of 17.5% (2005: 17.5%) on the estimated assessable profits for the year. Taxation on overseas profits has been calculated on the estimated assessable profits for the year at the rates of taxation prevailing in the countries in which the Group operates.

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

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

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

Notes to the Financial Statements

For the year ended 31st December, 2006

12. DISCONTINUED OPERATION

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

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

Notes to the Financial Statements

For the year ended 31st December, 2006

13. PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The profit attributable to equity holders of the Company is dealt with in the financial statements of the Company to the extent of HK$3,126,959 (2005: the loss of HK$25,543,295).

14. EARNINGS PER SHARE

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

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

15. DIVIDENDS

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

Notes to the Financial Statements

For the year ended 31st December, 2006

16. PROPERTY, PLANT AND EQUIPMENT

	Leasehold buildings	Furniture, fixtures and equipment	Plant and machinery	Motor vehicles	Properties under construction	Total
	HK$	HK$	HK$	HK$	HK$	HK$
THE GROUP						
COST OR VALUATION						
At 1st January, 2005	132,340,000	145,677,380	457,310,772	40,887,770	25,690,869	801,906,791
Currency realignment	1,629,842	1,624,513	4,880,621	647,142	521,908	9,304,026
Reclassifications	19,098,601	473,174	10,434,006	100,865	(30,886,646)	(780,000)
Additions	2,029,007	9,883,016	30,504,785	3,989,417	18,462,952	64,869,177
Disposals	(27,792,171)	(16,409,308)	(66,391,526)	(5,593,051)	(2,158,501)	(118,344,557)
Adjustment on revaluation	(506,279)	–	–	–	–	(506,279)
At 31st December, 2005 and 1st January, 2006	126,799,000	141,248,775	436,738,658	40,032,143	11,630,582	756,449,158
Currency realignment	4,320,136	2,399,148	7,516,876	1,078,751	435,763	15,750,674
Reclassifications	1,880,265	(171,258)	13,904,315	–	(15,613,322)	–
Additions	1,013,830	10,026,705	33,004,810	3,785,030	8,305,148	56,135,523
Disposals	–	(2,348,772)	(15,983,552)	(5,703,833)	(1,255,513)	(25,291,670)
Adjustment on revaluation	(5,555,231)	–	–	–	–	(5,555,231)
At 31st December, 2006	**128,458,000**	**151,154,598**	**475,181,107**	**39,192,091**	**3,502,658**	**797,488,454**
Analysis of cost or valuation:						
At 31st December, 2006						
At cost	**–**	**151,154,598**	**475,181,107**	**39,192,091**	**3,502,658**	**669,030,454**
At valuation – 2006	**128,458,000**	**–**	**–**	**–**	**–**	**128,458,000**
	128,458,000	**151,154,598**	**475,181,107**	**39,192,091**	**3,502,658**	**797,488,454**
At 31st December, 2005						
At cost	–	141,248,775	436,738,658	40,032,143	11,630,582	629,650,158
At valuation – 2005	126,799,000	–	–	–	–	126,799,000
	126,799,000	141,248,775	436,738,658	40,032,143	11,630,582	756,449,158

Notes to the Financial Statements

For the year ended 31st December, 2006

16. PROPERTY, PLANT AND EQUIPMENT (Continued)

	Leasehold buildings HK$	Furniture, fixtures and equipment HK$	Plant and machinery HK$	Motor vehicles HK$	Properties under construction HK$	Total HK$
THE GROUP						
DEPRECIATION AND AMORTISATION						
At 1st January, 2005	–	89,554,258	309,188,825	25,000,248	–	423,743,331
Currency realignment	51,513	555,384	2,715,826	380,857	–	3,703,580
Depreciation provided for the year	5,226,450	13,518,571	35,594,675	5,069,432	–	59,409,128
Reclassifications	–	92,912	(92,912)	–	–	–
Disposals	(12,171)	(13,852,465)	(59,240,639)	(4,221,415)	–	(77,326,690)
Eliminated on revaluation	(5,265,792)	–	–	–	–	(5,265,792)
At 31st December, 2005 and 1st January, 2006	–	89,868,660	288,165,775	26,229,122	–	404,263,557
Currency realignment	145,366	1,220,848	4,574,599	714,510	–	6,655,323
Depreciation provided for the year	6,018,368	12,953,274	32,304,939	4,505,986	–	55,782,567
Impairment losses	–	801,753	194,199	–	–	995,952
Reclassifications	–	(490,565)	519,841	(29,276)	–	–
Disposals	–	(1,918,347)	(11,665,663)	(4,377,901)	–	(17,961,911)
Eliminated on revaluation	(6,163,734)	–	–	–	–	(6,163,734)
At 31st December, 2006	**–**	**102,435,623**	**314,093,690**	**27,042,441**	**–**	**443,571,754**
NET BOOK VALUES						
At 31st December, 2006	**128,458,000**	**48,718,975**	**161,087,417**	**12,149,650**	**3,502,658**	**353,916,700**
At 31st December, 2005	126,799,000	51,380,115	148,572,883	13,803,021	11,630,582	352,185,601

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

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

The leasehold buildings of the Group were revalued as at 31st December, 2006 and 31st December, 2005 on the open market existing use basis by Messrs. Knight Frank, an independent firm of professional valuers. The (surplus) deficit arising on revaluation attributable to the Group have been (credited) charged to the buildings revaluation reserve and the consolidated income statement respectively.

Notes to the Financial Statements

For the year ended 31st December, 2006

16. PROPERTY, PLANT AND EQUIPMENT (Continued)

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

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

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

	Furniture, fixtures and equipment HK$	Motor vehicles HK$	Total HK$
THE COMPANY			
COST			
At 1st January, 2005	9,272,533	537,821	9,810,354
Additions	681,693	–	681,693
At 31st December, 2005 and 1st January, 2006	9,954,226	537,821	10,492,047
Additions	429,282	–	429,282
Disposal	(39,349)	–	(39,349)
At 31st December, 2006	**10,344,159**	**537,821**	**10,881,980**
ACCUMULATED DEPRECIATION			
At 1st January, 2005	6,090,129	107,564	6,197,693
Depreciation provided for the year	953,364	107,565	1,060,929
At 31st December, 2005 and 1st January, 2006	7,043,493	215,129	7,258,622
Depreciation provided for the year	995,964	107,564	1,103,528
Written back on disposal	(23,822)	–	(23,822)
At 31st December, 2006	**8,015,635**	**322,693**	**8,338,328**
NET BOOK VALUES			
At 31st December, 2006	**2,328,524**	**215,128**	**2,543,652**
At 31st December, 2005	2,910,733	322,692	3,233,425

Notes to the Financial Statements

For the year ended 31st December, 2006

17. INVESTMENT PROPERTIES

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

The investment properties of the Group are situated in Hong Kong and also the People's Republic of China and held under medium-term leases. They are held for rental purposes under operating leases. The investment properties of the Group were revalued as at 31st December, 2006 and 31st December, 2005 on the open market existing use basis by Messrs. Knight Frank, an independent firm of professional valuers.

Certain of the Group's investment properties with an aggregate carrying value of HK$13,500,000 (2005: HK$13,500,000) were pledged to secure certain bank borrowings granted to the Group (Note 38).

18. LEASEHOLD LAND AND LAND USE RIGHTS

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

Notes to the Financial Statements

For the year ended 31st December, 2006

18. LEASEHOLD LAND AND LAND USE RIGHTS (Continued)

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

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

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

19. GOODWILL

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

Notes to the Financial Statements

For the year ended 31st December, 2006

19. GOODWILL (Continued)

Impairment tests for goodwill

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

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

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

20. INTERESTS IN SUBSIDIARIES

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

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

Amounts due from subsidiaries are unsecured, interest free and have no fixed terms of repayment. Other than the carrying amounts of HK$47,060,152 (2005: HK$69,278,341) which are interest bearing, the remaining balances are interest free. In the opinion of the directors, the amounts will not be repayable within twelve months of the balance sheet date and are accordingly classified as non-current.

Notes to the Financial Statements

For the year ended 31st December, 2006

21. INTERESTS IN ASSOCIATES

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

(a) Amounts due from associates are unsecured, interest free and have no fixed terms of repayment. In the opinion of the directors, the amounts will not be repayable within twelve months of the balance sheet date and are accordingly classified as non-current.

(b) Interests in associates at the balance sheet date include goodwill of HK$312,724 (2005: HK$312,724).

Details of the principal associates of the Group at 31st December, 2006 are as follows:

Name of associate	Place of incorporation/ registration and operation	Proportion of nominal value of issued share capital/registered capital attributable to the Group %	Principal activities
Dalian Huada Plastics Co Ltd	PRC	30.00	Plastic processing
Shenzhen Hao Ning Da Meters Manufacturing Company Limited	PRC	42.00	Manufacturing and trading of electronic meters
Suzhou Sanguang Science & Technology Co., Ltd.	PRC	30.00	Manufacturing of industrial machinery, equipment and supplies

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

Notes to the Financial Statements

For the year ended 31st December, 2006

21. INTERESTS IN ASSOCIATES (Continued)

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

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

22. AVAILABLE-FOR SALE FINANCIAL ASSETS

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

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

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

22. AVAILABLE-FOR SALE FINANCIAL ASSETS (Continued)

Available-for-sale financial assets include the following:

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

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

	THE GROUP		THE COMPANY	
	2006 HK$	2005 HK$	**2006 HK$**	2005 HK$
Hong Kong Dollars	**–**	26,505	**–**	–
United States Dollars	**850,007**	–	**–**	–
Renminbi	**6,687,842**	7,405,895	**–**	4,579,544
Japanese Yen	**118,846**	216,810	**–**	–
	7,656,695	7,649,210	**–**	4,579,544

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

Notes to the Financial Statements

For the year ended 31st December, 2006

23. INVENTORIES

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

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

24. TRADE AND OTHER RECEIVABLES

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

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

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

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

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

Notes to the Financial Statements

For the year ended 31st December, 2006

24. TRADE AND OTHER RECEIVABLES (Continued)

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

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

25. TRADE AND OTHER PAYABLES

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

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

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

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

Notes to the Financial Statements

For the year ended 31st December, 2006

25. TRADE AND OTHER PAYABLES (Continued)

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

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

26. CASH AND CASH EQUIVALENTS

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

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

	THE GROUP		THE COMPANY	
	2006	2005	**2006**	2005
United States Dollars	**952,713**	1,753,945	**409**	21,386
Renminbi	**81,383,800**	95,991,080	**–**	–
Japanese Yen	**346,574**	15,937,976	**–**	–
Euro Dollars	**34,181**	–	**–**	–

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

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

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

27. SHARE CAPITAL

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

On 7th July, 2005, 1,293,835 shares of HK$0.4 each were allotted and issued to shareholders who had not submitted the forms of election or had submitted the forms of election to receive part only of the final dividend in cash for the 2004 final dividends pursuant to the scrip dividend scheme announced by the Company on 14th June, 2005. These shares rank pari passu in all respects with other shares in issue.

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

Notes to the Financial Statements

For the year ended 31st December, 2006

28. OTHER RESERVES

THE GROUP

	Buildings revaluation HK$	Investment properties revaluation HK$	Translation HK$	Other HK$	Total HK$
Balance at 1st January, 2005	22,994,623	–	(821,700)	–	22,172,923
Fair value gains:					
– Available-for-sale financial assets	–	–	–	59,490	59,490
Revaluation surplus on buildings	4,947,148	–	–	–	4,947,148
Realised on disposal of properties	(10,716,962)	–	–	–	(10,716,962)
Realised on disposal of interest in an associate	–	–	(6,721)	–	(6,721)
Share of changes in equity of associates	–	–	1,737,749	–	1,737,749
Currency translation differences	–	–	7,083,757	–	7,083,757
Balance at 31st December, 2005 and 1st January, 2006	17,224,809	–	7,993,085	59,490	25,277,384
Fair value gains:					
– Available-for-sale financial assets	–	–	–	(97,964)	(97,964)
Revaluation surplus on buildings	895,235	–	–	–	895,235
Deferred taxation adjustment	(36,188)	–	–	–	(36,188)
Realised on disposal of interest in a subsidiary	–	–	(14,600)	–	(14,600)
Realised on disposal of discontinued operation	–	–	(60,626)	–	(60,626)
Currency translation differences	–	–	14,670,468	–	14,670,468
Balance at 31st December, 2006	**18,083,856**	**–**	**22,588,327**	**(38,474)**	**40,633,709**

THE GROUP AND THE COMPANY

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

Notes to the Financial Statements

For the year ended 31st December, 2006

28. OTHER RESERVES (Continued)

THE COMPANY

	Retained profits HK$	Proposed dividend HK$	Total HK$
Balance at 1st January, 2005	49,670,054	7,062,289	56,732,343
Loss for the year	(25,543,295)	–	(25,543,295)
Dividend relating to 2004	–	(7,062,289)	(7,062,289)
Proposed dividend	(10,612,840)	10,612,840	–
Balance at 31st December, 2005 and 1st January, 2006	13,513,919	10,612,840	24,126,759
Profit for the year	3,126,959	–	3,126,959
Dividend relating to 2005	–	(10,612,840)	(10,612,840)
Interim dividend	(3,537,614)	–	(3,537,614)
Proposed dividend	(10,612,840)	10,612,840	–
Balance at 31st December, 2006	**2,490,424**	**10,612,840**	**13,103,264**

Notes to the Financial Statements

For the year ended 31st December, 2006

29. BANK AND OTHER BORROWINGS

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

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

Notes to the Financial Statements

For the year ended 31st December, 2006

29. BANK AND OTHER BORROWINGS (Continued)

The maturity of borrowings is as follows:

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

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

Non-current other loans are not wholly repayable within 5 years and interest free. Current portion of other loan is interest bearing at the rate of 5.8% per annum (2005: 6.59% per annum).

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

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

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

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

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

Notes to the Financial Statements

For the year ended 31st December, 2006

29. BANK AND OTHER BORROWINGS (Continued)

The Group has the following undrawn borrowing facilities:

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

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

30. OBLIGATIONS UNDER FINANCE LEASES

THE GROUP

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

It is the Group's policy to lease certain of its plant and machinery under finance leases. The average lease term is 4 years. For the year ended 31st December, 2006, the average effective borrowing rate was 6.44% (2005: 6.61%). Interest rates are fixed at the contract date. All leases are on a fixed repayment basis and no arrangement has been entered into for contingent rental payments.

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

THE COMPANY

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

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

31. DEFERRED TAXATION

THE GROUP

Deferred taxation is calculated in full on temporary difference under the liability method using a principal taxation rate of 17.5% (2005: 17.5%).

The following are the major components of deferred tax assets (liabilities) recognised by the Group and movements thereon during the current and prior years:

	Decelerated tax depreciation HK$	Revaluation of properties HK$	Tax losses HK$	Others HK$	Total HK$
At 1st January, 2005	236,452	(4,357,585)	159,600	10,300,455	6,338,922
Exchange differences	138,658	(125,828)	–	–	12,830
Credited to income statement	404,655	–	135,394	55,130	595,179
At 31st December, 2005 and 1st January 2006	779,765	(4,483,413)	294,994	10,355,585	6,946,931
Exchange differences	97,450	(259,470)	–	319,185	157,165
Disposal of a subsidiary	(26,025)	–	–	–	(26,025)
Charged to equity	–	(36,188)	–	–	(36,188)
Charged to income statement	(497,438)	–	(30,111)	–	(527,549)
At 31st December, 2006	**353,752**	**(4,779,071)**	**264,883**	**10,674,770**	**6,514,334**

For the purposes of balance sheet presentation, certain deferred tax assets (liabilities) have been offset in accordance with the conditions set out in HKAS 12. The following is the analysis of the deferred tax balances shown in the consolidated balance sheet:

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

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

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

The tax losses do not expire under current tax legislation.

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

Notes to the Financial Statements

For the year ended 31st December, 2006

31. DEFERRED TAXATION (Continued)

THE COMPANY

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

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

The tax losses do not expire under current tax legislation.

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

32. NOTES TO CONSOLIDATED CASH FLOW STATEMENT

Disposal of subsidiaries

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

Notes to the Financial Statements

For the year ended 31st December, 2006

32. NOTES TO CONSOLIDATED CASH FLOW STATEMENT (Continued)

Disposal of discontinued operation

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

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

33. MAJOR NON-CASH TRANSACTIONS

During the year, the Group entered into finance leases in respect of the acquisition of property, plant and equipment with a total capital value at the inception of the leases of HK$1,486,200 (2005: HK$13,158,374).

34. OPERATING LEASE COMMITMENTS

The Group as lessee

THE GROUP

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

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

THE GROUP

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

Notes to the Financial Statements

For the year ended 31st December, 2006

34. OPERATING LEASE COMMITMENTS (Continued)

The Group as lessee (Continued)

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

The Group as lessor

Property rental income earned during the year net of outgoings of HK$227,469 (2005: HK$405,153), was HK$2,456,839 (2005: HK$2,783,556). The remaining properties are expected to generate rental yields of 7.7% (2005: 8.5%) on an ongoing basis. All of the properties held have committed tenants for the next 1–3 years.

At the balance sheet date, the Group had contracted with tenants for the following future minimum lease receipts under non-cancellable operating leases:

	THE GROUP	
	2006	2005
	HK$	HK$
Within one year	**762,882**	2,512,880
In the second to fifth year inclusive	**1,681,362**	2,202,038
After five years	**–**	38,084
	2,444,244	4,753,002

THE COMPANY

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

35. OTHER COMMITMENTS

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

THE COMPANY

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

Notes to the Financial Statements

For the year ended 31st December, 2006

36. FINANCIAL GUARANTEES AND CONTINGENT LIABILITIES

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

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

37. RETIREMENT BENEFITS SCHEMES

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

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

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

Employees who are employed by subsidiaries in the PRC are members of the state-managed pension scheme operated by the PRC government. These subsidiaries are required to contribute 10%–15% of payroll costs to the pension scheme to fund the benefits. The only obligation of the Group with respect to the pension scheme is to make the required contributions under the scheme.

The total cost charged to the consolidated income statement of HK$9,239,338 (2005: HK$8,284,755) represents contributions payable to these schemes by the Group in respect of the current accounting period. As at 31st December, 2006, contributions of approximately HK$262,136 (2005: HK$104,285) due in respect of the reporting period had not been paid over to the schemes.

Notes to the Financial Statements

For the year ended 31st December, 2006

38. PLEDGE OF ASSETS

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

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

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

39. TRANSACTIONS AND BALANCES WITH RELATED PARTIES

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

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

Notes to the Financial Statements

For the year ended 31st December, 2006

39. TRANSACTIONS AND BALANCES WITH RELATED PARTIES (Continued)

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

Notes:

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

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

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

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

Notes to the Financial Statements

For the year ended 31st December, 2006

40. PARTICULARS OF PRINCIPAL SUBSIDIARIES

Details of the Company's principal subsidiaries at 31st December, 2006 are as follows:

Name of subsidiary	Place of incorporation/ registration	Place of operation	Issued and fully paid share capital/ registered capital	Proportion of nominal value of issued share capital/ registered capital held by the Company*/ subsidiaries	attributable to the Group	Principal activities
				%	%	
Cosmos Machinery Limited	Hong Kong	Hong Kong	HK$10,000,000	100.00	100.00	Investment holding
Cosmos Machinery International Limited	Hong Kong	Hong Kong	HK$32,000,000	100.00*	100.00	Trading in industrial machinery, equipment and supplies and investment holding
Dongguan Cosmos Machinery Limited *(note b)*	PRC	PRC	HK$30,000,000	75.56	75.56	Manufacturing of industrial machinery
Dongguan Great Wall Optical Plastic Works Limited *(note a)*	PRC	PRC	HK$16,126,800	100.00	100.00	Manufacturing of microscopes and magnifiers with acrylic lenses
Dong Hua Machinery Limited *(note b)*	PRC	PRC	Rmb40,800,000	75.56	75.56	Assembling and trading of machinery
Dongguan Welltec Machinery Limited *(note b)*	PRC	PRC	HK$55,920,000	75.56	75.56	Manufacturing and trading of machinery
Gainbase Industrial Limited	Hong Kong	Hong Kong	HK$10,000	100.00	52.00	Trading in printed circuit boards
Grand Technology Products Limited	Hong Kong	Hong Kong	HK$9,500,000	100.00	100.00	Investment holding

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

40. PARTICULARS OF PRINCIPAL SUBSIDIARIES (Continued)

Name of subsidiary	Place of incorporation/ registration	Place of operation	Issued and fully paid share capital/ registered capital	Proportion of nominal value of issued share capital/ registered capital held by the Company*/ subsidiaries %	Proportion of nominal value of issued share capital/ registered capital attributable to the Group %	Principal activities
Great Wall (Holding) Company Limited	Hong Kong	Hong Kong	HK$9,900,000	100.00	100.00	Investment holding
Jackson Equities Incorporated	British Virgin Islands	Hong Kong	US$2	100.00	100.00	Investment holding
Karmay Industrial Limited	Hong Kong	Hong Kong	HK$14,979,444	100.00	100.00	General trading and investment holding
Karmay Plastic Products (Zhuhai) Co., Ltd. *(note a)*	PRC	PRC	HK$16,800,000	100.00	100.00	Manufacturing of plastic products
Melco Industrial Supplies Co., Limited (Formerly Melco Trading Company Limited)	Hong Kong	Hong Kong	HK$1,500,000	100.00	100.00	Trading in industrial equipment and screws
Ming Sun Enterprises Limited	Hong Kong	Hong Kong	HK$3,000,000	100.00	100.00	Investment holding
Ming Sun Enterprises (China) Limited	Hong Kong	Hong Kong	HK$1,000,000	100.00	100.00	Manufacturing of Moulds and trading of plasticwares
Shenzhen Gainbase Printed Circuit Board Co., Limited *(note b)*	PRC	PRC	HK$29,500,000	100.00	52.00	Manufacturing of printed circuit boards
Welltec Machinery Limited	Hong Kong	Hong Kong	HK$10,000,000	100.00	100.00	Trading of machinery

Notes to the Financial Statements

For the year ended 31st December, 2006

40. PARTICULARS OF PRINCIPAL SUBSIDIARIES (Continued)

Name of subsidiary	Place of incorporation/ registration	Place of operation	Issued and fully paid share capital/ registered capital	Proportion of nominal value of issued share capital/ registered capital held by the Company*/ subsidiaries %	attributable to the Group %	Principal activities
Wu Xi Grand Tech Machinery Group Co. Ltd. *(note a)*	PRC	PRC	US$9,586,000	100.00	100.00	Manufacturing and trading of machinery
Wu Xi Grand Plastic Machine Manufacture Co., Ltd. *(note b)*	PRC	PRC	US$2,850,000	100.00	100.00	Manufacturing and trading of machinery

Notes:

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

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

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

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

41. COMPARATIVE AMOUNTS

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

Notes to the Financial Statements

For the year ended 31st December, 2006

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

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

Effective from 1st January, 2007

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

Effective from 1st January, 2009

HKFRS 8	Operating Segments

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