## 1. GENERAL

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

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

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

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

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

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

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

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

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

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

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

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

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

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

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

### (a) Basis of preparation

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

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

### (b) Basis of consolidation

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

#### *(i) Subsidiaries and minority interests*

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

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

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

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

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (b) Basis of consolidation (Continued)

#### *(i) Subsidiaries and minority interests (Continued)*

Minority interests represent the portion of the net assets of subsidiaries attributable to interests that are not owned by the company, whether directly or indirectly through subsidiaries, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. Minority interests are presented in the consolidated balance sheet within equity, separately from equity attributable to the equity shareholders of the company. Minority interests in the results of the Group are presented on the face of the consolidated income statement and the consolidated statement of comprehensive income as an allocation of the total profit or loss and total comprehensive income for the year between minority interests and the equity shareholders of the company.

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

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

#### *(ii) Associates*

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

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

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

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

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

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (c) Segment reporting

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

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

### (d) Foreign currency translation

*(i) Functional and presentation currency*

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

*(ii) Transactions and balances*

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

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

*(iii) Group companies*

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

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

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

(iii) all resulting exchange differences are recognised in other comprehensive income and accumulated separately in equity in the translation reserve.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (d) Foreign currency translation (Continued)

*(iii) Group companies (Continued)*

On consolidation, exchange differences arising from the translation of the net investment in foreign entities, and of borrowings and other currency instruments designated as hedges of such investments, are recognised in other comprehensive income and accumulated separately in equity in the translation reserve. When a foreign operation is sold, such exchange differences are reclassified from equity to profit or loss when gain or loss on disposal is recognised.

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

### (e) Property, plant and equipment

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

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

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

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

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

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

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

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

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

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

### (f) Leasehold land and land use rights

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

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

### (g) Goodwill

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

Goodwill is stated at cost less accumulated impairment losses. Goodwill arising on a business combination is allocated to each cash-generating unit, or groups of cash generating units, that is expected to benefit from the synergies of the combination and is tested annually for impairment. In respect of associates, the carrying amount of goodwill is included in the carrying amount of the interest in the associate and the investment as a whole is tested for impairment whenever there is objective evidence of impairment (note 3(h)).

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

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

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (h) Impairment of assets

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

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

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

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

- For investments in associates recognised using the equity method (see note 3(b)(ii)), the impairment loss is measured by comparing the recoverable amount of the investment as a whole with its carrying amount in accordance with note 3(h)(ii). The impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount in accordance with note 3(h)(ii).
- For unquoted equity securities carried at cost, the impairment loss is measured as the difference between the carrying amount of the financial asset and the estimated future cash flows, discounted at the current market rate of return for a similar financial asset where the effect of discounting is material. Impairment losses for equity securities are not reversed.
- For trade and other current receivables and other financial assets carried at amortised cost, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material. This assessment is made collectively where financial assets carried at amortised cost share similar risk characteristics, such as similar past due status, and have not been individually assessed as impaired. Future cash flows for financial assets which are assessed for impairment collectively are based on historical loss experience for assets with credit risk characteristics similar to the collective group.

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

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (h) Impairment of assets (Continued)

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

– For available-for-sale securities, the cumulative loss that has been recognised in the fair value reserve is reclassified to profit or loss. The amount of the cumulative loss that is recognised in profit or loss is the difference between the acquisition cost (net of any principal repayment and amortisation) and current fair value, less any impairment loss on that asset previously recognised in profit or loss.

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

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

*(ii) Impairment of other assets*

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

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

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

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

– goodwill.

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

– Calculation of recoverable amount

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

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (h) Impairment of assets (Continued)

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

– Recognition of impairment losses

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

– Reversals of impairment losses

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

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

### (i) Financial assets

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

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

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

*(ii) Loans and receivables*

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

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

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (i) Financial assets (Continued)

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

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

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

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

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

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

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

### (j) Derivative financial instruments

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

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (k) Cash flow hedges

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

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

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

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

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

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

#### *(i) Financial guarantees issued*

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

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

The amount of the guarantee initially recognised as deferred income is amortised in profit or loss over the term of the guarantee as income from financial guarantees issued. In addition, provisions are recognised in accordance with note 3(l)(iii) if and when (i) it becomes probable that the holder of the guarantee will call upon the Group under the guarantee, and (ii) the amount of that claim on the Group is expected to exceed the amount currently carried in trade and other payables in respect of that guarantee i.e. the amount initially recognised, less accumulated amortisation.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

*(ii) Contingent liabilities acquired in business combinations*

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

*(iii) Other provisions and contingent liabilities*

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

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

### (m) Inventories

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

### (n) Trade and other receivables

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

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

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

### (o) Cash and cash equivalents

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

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

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (p) Share capital

Ordinary shares are classified as equity.

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

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

### (q) Trade and other payables

Trade and other payables are initially measured at fair value. Except for financial guarantee liabilities (if any) measured in accordance with note 3(l)(i), trade and other payables are subsequently stated at amortised cost, except for the following payables:

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

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

### (r) Bank and other borrowings

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

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

### (s) Income tax

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

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

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

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (s) Income tax (Continued)

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

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

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

### (t) Employee benefits

*(i) Retirement benefit costs*

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

*(ii) Profit-sharing and bonus plans*

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

*(iii) Share-based compensation*

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

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

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (u) Revenue recognition

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

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

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

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

(iv) Interest income is recognised as it accrues using the effective interest method.

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

### (v) Leases

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

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

*(i) Leases of land and buildings*

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

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

If the lease payments on a lease of land and buildings cannot be allocated reliably between the land and building elements at the inception of the lease, the entire lease is classified as a finance lease, unless it is clear that both elements are operating leases, in which case the entire lease is classified as an operating lease.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (v) Leases (Continued)

*(ii) Finance leases*

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

Depreciation and impairment losses are calculated and recognised in the same manner as the depreciation and impairment losses on property, plant and equipment as set out in note 3(e), except for the estimated useful lives cannot exceed the relevant lease terms, if shorter.

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

*(iii) Operating leases*

Where the Group is the lessee, lease payments under an operating lease are recognised as an expense on a straight-line basis over the lease term. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets and rentals receivable under the operating leases are credited to the income statement on a straight line basis over the lease period. Contingent rentals are charged as an expense in the periods in which they are incurred.

### (w) Dividend distribution

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

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

### (x) Borrowing costs

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

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (y) Related parties

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

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

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

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

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

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

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

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

## 4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

### (a) Critical accounting estimates and assumptions

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

*(i) Allowance for impairment of trade and other receivables*

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

## 4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (Continued)

### (a) Critical accounting estimates and assumptions (Continued)

*(ii) Income taxes*

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

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

*(iii) Provision for inventories*

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

*(iv) Impairment of goodwill*

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

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

*Impairment of available-for-sale financial assets*

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

## 5. SEGMENT REPORTING

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

(1) trading of industrial consumables;

(2) manufacturing of plastic processing products;

(3) manufacturing of machinery; and

(4) manufacturing of printed circuit boards.

### Segment results, assets and liabilities

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

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

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

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

## 5. SEGMENT REPORTING (Continued)

### Segment results, assets and liabilities (Continued)

The segment results for the year ended 31st December, 2009 are as follows:

| | Industrial consumables HK$ | Plastic processing products HK$ | Machinery HK$ | Printed circuit boards HK$ | Other operations HK$ | Eliminations HK$ | Consolidated HK$ |
|---|---|---|---|---|---|---|---|
| TURNOVER | | | | | | | |
| External sales | 271,105,362 | 356,554,162 | 585,529,111 | 477,441,183 | 2,164,305 | – | 1,692,794,123 |
| Inter-segment sales | 8,228,774 | 190,779 | 3,925,694 | – | 5,386,688 | (17,731,935) | – |
| Total revenue | 279,334,136 | 356,744,941 | 589,454,805 | 477,441,183 | 7,550,993 | (17,731,935) | 1,692,794,123 |

Inter-segment sales are charged at prevailing market rates.

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

## 5. SEGMENT REPORTING (Continued)

### Segment results, assets and liabilities (Continued)

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

## 5. SEGMENT REPORTING (Continued)

### Segment results, assets and liabilities (Continued)

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

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

Inter-segment sales are charged at prevailing market rates.

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

## 5. SEGMENT REPORTING (Continued)

### Segment results, assets and liabilities (Continued)

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

## 5. SEGMENT REPORTING (Continued)

### Geographical information

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

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

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

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

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

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

## 6. TURNOVER, OTHER INCOME AND GAINS, NET

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

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

## 7. FINANCE COSTS

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

## 8. INVESTMENT INCOME, NET

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

## 9. PROFIT BEFORE TAXATION

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

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

## 10. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

### (a) Directors' emoluments

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

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

*Notes:*

(1) Resigned on 31st March, 2008

(2) Resigned on 1st December, 2008

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

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

### (b) Employees' emoluments

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

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

The emoluments of the employees were within the following bands:

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

## 11. TAXATION

The provision for Hong Kong Profits Tax for 2009 is calculated at 16.5% (2008: 16.5%) of the estimated assessable profits for the year. Taxation for overseas subsidiaries is charged at the appropriate current rates of taxation ruling in the relevant countries.

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

## 11. TAXATION (Continued)

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

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

## 12. PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

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

## 13. OTHER COMPREHENSIVE INCOME

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

| | 2009 | | | 2008 | | |
|---|---|---|---|---|---|---|
| | **Before tax amount HK$** | **Tax expenses HK$** | **Net-of-tax amount HK$** | Before tax amount HK$ | Tax expenses HK$ | Net-of-tax amount HK$ |
| Cash flow hedges | **(5,751)** | **–** | **(5,751)** | – | – | – |
| Change in fair value of available-for-sale financial assets *(note 20)* | **(55,793)** | **–** | **(55,793)** | 96,803 | – | 96,803 |
| Share of other comprehensive income of associates | **(1,346,456)** | **–** | **(1,346,456)** | 6,000,546 | – | 6,000,546 |
| Surplus (Deficit) on revaluation of buildings | **5,495,114** | **(921,991)** | **4,573,123** | (4,099,021) | (2,975,190) | (7,074,211) |
| Exchange differences: | | | | | | |
| Net movement in translation reserve (note b below) | **(207,696)** | **–** | **(207,696)** | 24,879,511 | – | 24,879,511 |
| | **3,879,418** | **(921,991)** | **2,957,427** | 26,877,839 | (2,975,190) | 23,902,649 |

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

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

## 14. EARNINGS PER SHARE

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

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

## 15. PROPERTY, PLANT AND EQUIPMENT

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

## 15. PROPERTY, PLANT AND EQUIPMENT (Continued)

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

## 15. PROPERTY, PLANT AND EQUIPMENT (Continued)

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

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

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

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

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

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

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

## 15. PROPERTY, PLANT AND EQUIPMENT (Continued)

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

## 16. LEASEHOLD LAND AND LAND USE RIGHTS

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

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

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

## 16. LEASEHOLD LAND AND LAND USE RIGHTS (Continued)

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

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

## 17. GOODWILL

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

### Impairment tests for goodwill

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

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

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

## 18. INTERESTS IN SUBSIDIARIES

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

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

Amounts due from subsidiaries are unsecured and have no fixed terms of repayment. Other than the carrying amounts of HK$39,000,000 (2008: HK$55,500,000) which are interest bearing, the remaining balances are interest free. In the opinion of the directors, the amounts will not be repayable within 12 months of the balance sheet date and are accordingly classified as non-current. The amounts due from subsidiaries of HK$554,205,318 (2008: HK$545,258,776) were impaired. It is assessed that a portion of the receivables is expected to be recovered. The individually impaired receivables mainly relate to subsidiaries which are in financial difficulties and they are of ages over three years. The other amounts due from subsidiaries do not contain impaired assets.

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

| | THE COMPANY | |
|---|---|---|
| | **2009** | 2008 |
| | **HK$** | HK$ |
| At 1st January | **41,220,180** | 41,220,180 |
| Impairment loss recognised | **4,008,355** | – |
| Unused amounts reversed | **(2,619,322)** | – |
| At 31st December | **42,609,213** | 41,220,180 |

## 19. INTERESTS IN ASSOCIATES

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

(a) Amounts due from associates are unsecured, interest free and have no fixed terms of repayment. In the opinion of the directors, the amounts will not be repayable within 12 months of the balance sheet date and are accordingly classified as non-current. The amounts due from associates do not contain impaired assets.

(b) Interests in associates at the balance sheet date include goodwill of HK$312,724 (2008: HK$312,724).

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

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

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

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

## 19. INTERESTS IN ASSOCIATES (Continued)

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

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

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

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

## 20. AVAILABLE-FOR-SALE FINANCIAL ASSETS

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

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

Available-for-sale financial assets include the following:

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

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

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

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

## 21. INVENTORIES

(a) Inventories in the balance sheet comprise:

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

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

## 21. INVENTORIES (Continued)

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

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

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

## 22. TRADE AND OTHER RECEIVABLES

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

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

## 22. TRADE AND OTHER RECEIVABLES (Continued)

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

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

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

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

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

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

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

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

## 22. TRADE AND OTHER RECEIVABLES (Continued)

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

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

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

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

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

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

## 23. TRADE AND OTHER PAYABLES

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

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

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

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

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

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

## 24. DERIVATIVE FINANCIAL INSTRUMENTS

**THE GROUP**

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

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

**THE COMPANY**

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

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

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

## 25. CASH AND CASH EQUIVALENTS

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

## 25. CASH AND CASH EQUIVALENTS (Continued)

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

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

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

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

## 26. SHARE CAPITAL

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

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

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

## 27. SHARE OPTION SCHEME

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

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

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

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

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

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

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

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

## 27. SHARE OPTION SCHEME (Continued)

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

*Notes:*

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

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

## 28. RESERVES

### THE COMPANY

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

## 29. BANK AND OTHER BORROWINGS

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

The maturity of borrowings is as follows:

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

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

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

## 29. BANK AND OTHER BORROWINGS (Continued)

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

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

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

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

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

The Group has the following undrawn borrowing facilities:

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

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

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

## 30. OBLIGATIONS UNDER FINANCE LEASES

### THE GROUP

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

It is the Group's policy to lease certain of its plant and machinery under finance leases. The average lease term is 4 years. For the year ended 31st December, 2009, the average effective borrowing rate was 3.55% per annum (2008: 3.64% per annum). Interest is charged at one month HIBOR or HIBOR plus 1.8% to 2% per annum (2008: one month HIBOR or HIBOR plus 1.25% to 2% per annum) on the outstanding loan balances. All leases are on a fixed repayment basis and no arrangement has been entered into for contingent rental payments.

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

### THE COMPANY

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

## 31. DEFERRED TAXATION

### THE GROUP

Deferred taxation is calculated in full on temporary difference under the liability method using a principal taxation rate of 16.5% (2008: 16.5%).

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

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

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

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

## 31. DEFERRED TAXATION (Continued)

### THE GROUP (Continued)

Deferred tax assets are recognised for tax losses carried forward to the extent that the realisation of the related tax benefit through the future taxable profits is probable. At 31st December, 2009, the Group has unrecognised tax losses of HK$304,306,492 (2008: restated HK$254,188,143) available for offset against future profits. Included in unrecognised tax losses are losses of HK$83,666,971 (2008: HK$61,155,378) that will expire in five years and the remaining balance does not expire under the current tax legislation. Temporary differences arising in connection with interests in associates are insignificant.

### THE COMPANY

At 31st December, 2009, the Company has unutilised tax losses of HK$141,837,490 (2008: HK$144,297,966) available for offset against future profits. No deferred tax asset has been recognised in respect of the tax losses due to the unpredictability of future profit streams. The tax losses do not expire under current tax legislation. The Company has no significant unprovided deferred tax liabilities at both of year end dates.

## 32. NOTES TO CONSOLIDATED CASH FLOW STATEMENT

### Deregistration of a subsidiary

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

## 33. MAJOR NON-CASH TRANSACTIONS

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

## 34. OPERATING LEASE COMMITMENTS

### The Group as lessee

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

## 34. OPERATING LEASE COMMITMENTS (Continued)

### The Group as lessee (Continued)

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

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

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

### The Group as lessor

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

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

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

### THE COMPANY

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

## 35. CAPITAL COMMITMENTS

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

### THE COMPANY

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

## 36. FINANCIAL GUARANTEES AND CONTINGENT LIABILITIES

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

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

## 37. RETIREMENT BENEFITS SCHEMES

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

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

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

## 37. RETIREMENT BENEFITS SCHEMES (Continued)

Employees who are employed by subsidiaries in the PRC are members of the state-managed pension scheme operated by the PRC government. These subsidiaries are required to contribute 16% – 20% of payroll costs to the pension scheme to fund the benefits. The only obligation of the Group with respect to the pension scheme is to make the required contributions under the scheme.

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

## 38. PLEDGE OF ASSETS

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

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

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

## 39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

### (a) Financial instruments by categories

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

**THE GROUP**

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

## 39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

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

**THE GROUP (Continued)**

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

## 39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

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

**THE COMPANY**

| | Loans and receivables HK$ |
|---|---|
| **Assets as per balance sheet** | |
| **31st December, 2009** | |
| Amounts due from subsidiaries *(note 18)* | **664,266,384** |
| Trade and other receivables | **270,249** |
| Cash and cash equivalents *(note 25)* | **9,145,528** |
| **Total** | **673,682,161** |
| 31st December, 2008 | |
| Amounts due from subsidiaries *(note 18)* | 672,437,729 |
| Trade and other receivables | 722,441 |
| Cash and cash equivalents *(note 25)* | 17,096,505 |
| Total | 690,256,675 |

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

## 39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

### (b) Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including foreign currency risk, interest rate risk and price risk), credit risk and liquidity risk arising in the normal course of its business and financial instruments. The Group's risk management objectives and policies mainly focus on minimising the potential adverse effects of these risks on the Group by closely monitoring the individual exposure as summarised below.

#### *(i) Foreign currency risk*

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

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

At 31st December, 2009, if HK$ had strengthened/weakened by 10% against the RMB, with all other variables held constant, post-tax profit for the year would have been approximately HK$3,217,149 (2008: HK$3,861,000), higher or lower. At 31st December, 2009, if HK$ had strengthened/weakened by 10% against the RMB, equity would have been approximately HK$87,455,407 (2008: HK$86,388,347), lower or higher.

At 31st December, 2009, if HK$ had strengthened/weakened by 10% against the YEN, with all other variables held constant, post-tax profit for the year would have been approximately HK$724,504 (2008: HK$1,101,620), higher or lower. There will be no impact on other components of equity.

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

The stated changes represent management's assessment of reasonably possible changes in foreign exchange rates over the period until the next annual balance sheet date. In this respect, it is assumed that the pegged rate between the HK$ and the US$ would be materially unaffected by any changes in movement in value of the US$ against other currencies. Results of the analysis as presented in above represent an aggregation of the effects on each of the Group entities' profit after tax and equity measured in the respective functional currencies, translated into HK$ at the exchange rate ruling at the balance sheet date for presentation purposes. The analysis is performed on the same basis for 2008.

## 39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

### (b) Financial risk factors (Continued)

#### *(ii) Interest rate risk*

Except for pledged bank deposits (note 38) and cash and cash equivalents (note 25), the Group has no other significant interest-bearing assets. The Group's income and operating cash flows are substantially independent of changes in market interest rates. Management does not anticipate significant impact on interest-bearing assets resulted from the changes in interest rates because the interest rates of bank deposits are not expected to change significantly.

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

Borrowings at variable rates expose the Group to cash flow interest-rate risk. Borrowings at fixed rates expose the Group to fair value interest-rate risk. Details of the Group's borrowings have been disclosed in note 29.

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

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

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

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

The sensitivity analysis above has been determined assuming that the change in interest rates had occurred at the balance sheet date and had been applied to the exposure to interest rate risk for financial instruments in existence at that date. The above changes in interest rates represent management's assessment of a reasonably possible change in interest rates over the period until the next annual balance sheet date. The analysis is performed on the same basis for 2008.

## 39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

### (b) Financial risk factors (Continued)

*(iii) Price risk*

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

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

*(iv) Credit risk*

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

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

The maximum exposure to credit risk without taking account of any collateral held is represented by the carrying amount of each of financial assets in the consolidated balance sheet after deducting any impairment allowance. Further quantitative disclosure in respect of the Group's exposure to credit risk arising from trade and other receivables are set out in note 22.

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

*(v) Liquidity risk*

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

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

## 39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

### (b) Financial risk factors (Continued)

*(v) Liquidity risk (Continued)*

| | Less than 1 year HK$ | Between 1 and 2 years HK$ | Between 2 and 5 years HK$ | Over 5 years HK$ | Total HK$ |
|---|---|---|---|---|---|
| **At 31st December, 2009** | | | | | |
| Trade and other payables | **673,317,605** | **–** | **–** | **–** | **673,317,605** |
| Amounts due to associates | **53,263,201** | **–** | **–** | **–** | **53,263,201** |
| Obligations under finance leases | **10,721,461** | **10,775,963** | **990,216** | **–** | **22,487,640** |
| Derivative financial instruments | **1,427,250** | **–** | **–** | **–** | **1,427,250** |
| Bank and other borrowings | **269,268,382** | **15,504,304** | **1,522,875** | **147,643** | **286,443,204** |
| | **1,007,997,899** | **26,280,267** | **2,513,091** | **147,643** | **1,036,938,900** |
| At 31st December, 2008 | | | | | |
| Trade and other payables | 666,428,196 | – | – | – | 666,428,196 |
| Amounts due to associates | 61,742,160 | – | – | – | 61,742,160 |
| Obligations under finance leases | 7,237,263 | 7,183,173 | 1,824,200 | – | 16,244,636 |
| Derivative financial instruments | 167,215 | – | – | – | 167,215 |
| Bank and other borrowings | 335,275,716 | 48,599,252 | 13,422,432 | 147,409 | 397,444,809 |
| | 1,070,850,550 | 55,782,425 | 15,246,632 | 147,409 | 1,142,027,016 |

*(vi) Fair values*

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

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

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

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

## 39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

### (b) Financial risk factors (Continued)

*(vi) Fair values (Continued)*

**2009**

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

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

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

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

### (c) Capital risk management

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

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

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

## 39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

### (c) Capital risk management (Continued)

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

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

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

## 40. TRANSACTIONS AND BALANCES WITH RELATED PARTIES

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

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

## 40. TRANSACTIONS AND BALANCES WITH RELATED PARTIES (Continued)

*Notes:*

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

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

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

## 41. PARTICULARS OF PRINCIPAL SUBSIDIARIES

Details of the Company's principal subsidiaries at 31st December, 2009 are as follows:

| Name of subsidiary | Place of incorporation/ registration | Place of operation | Issued and fully paid share capital/ registered capital | Proportion of nominal value of issued share capital/ registered capital held by the Company*/ subsidiaries % | attributable to the Group % | Principal activities |
|---|---|---|---|---|---|---|
| Cosmos Machinery Limited | Hong Kong | Hong Kong | HK$10,000,000 | 100.00 | 100.00 | Investment holding |
| Cosmos Machinery International Limited | Hong Kong | Hong Kong | HK$32,000,000 | 100.00* | 100.00 | Trading in industrial machinery, equipment and supplies and investment holding |
| Dekuma Rubber and Plastic Technology (Dongguan) Limited *(note a)* | PRC | PRC | HK$4,000,000 | 100.00 | 100.00 | Manufacturing and trading of machinery |
| Dongguan Great Wall Optical Plastic Works Limited *(note a)* | PRC | PRC | HK$16,126,800 | 100.00 | 100.00 | Manufacturing of microscopes and magnifiers with acrylic lenses |
| Dong Hua Machinery Limited *(note c)* | PRC | PRC | RMB138,387,843 | 75.56 | 75.56 | Manufacturing and trading of machinery |
| Gainbase Industrial Limited | Hong Kong | Hong Kong | HK$10,000 | 100.00 | 52.00 | Trading in printed circuit boards |
| Grand Technology Products Limited | Hong Kong | Hong Kong | HK$9,500,000 | 100.00 | 100.00 | Investment holding |
| Great Wall (Holding) Company Limited | Hong Kong | Hong Kong | HK$9,900,000 | 100.00 | 100.00 | Investment holding |

## 41. PARTICULARS OF PRINCIPAL SUBSIDIARIES (Continued)

| Name of subsidiary | Place of incorporation/ registration | Place of operation | Issued and fully paid share capital/ registered capital | Proportion of nominal value of issued share capital/ registered capital held by the Company*/ subsidiaries % | attributable to the Group % | Principal activities |
|---|---|---|---|---|---|---|
| Jackson Equities Incorporated | British Virgin Islands | Hong Kong | US$2 | 100.00* | 100.00 | Investment holding |
| Karmay Industrial Limited | Hong Kong | Hong Kong | HK$14,979,444 | 100.00 | 100.00 | General trading and investment holding |
| Karmay Plastic Products (Zhuhai) Co., Ltd. *(note a)* | PRC | PRC | HK$16,800,000 | 100.00 | 100.00 | Manufacturing of plastic products |
| Melco Industrial Supplies Co., Limited | Hong Kong | Hong Kong | HK$1,500,000 | 100.00 | 100.00 | Trading in industrial equipment and screws |
| Ming Sun Enterprises Limited | Hong Kong | Hong Kong | HK$3,000,000 | 100.00 | 100.00 | Investment holding |
| Ming Sun Enterprises (China) Limited | Hong Kong | Hong Kong | HK$1,000,000 | 100.00 | 100.00 | Manufacturing of moulds and trading of plasticwares |
| Shenzhen Gainbase Printed Circuit Board Co., Limited *(note b)* | PRC | PRC | HK$140,000,000 | 100.00 | 52.00 | Manufacturing of printed circuit boards |
| Welltec Machinery Limited | Hong Kong | Hong Kong | HK$10,000,000 | 100.00 | 100.00 | Trading of machinery |
| Wu Xi Grand Tech Machinery Group Co. Ltd. *(note a)* | PRC | PRC | US$9,586,000 | 100.00 | 100.00 | Manufacturing and trading of machinery |
| Wu Xi Grand Plastic Machine Manufacture Co., Ltd. *(note b)* | PRC | PRC | US$2,850,000 | 100.00 | 100.00 | Manufacturing and trading of machinery |

*Notes:*

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

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

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

## 41. PARTICULARS OF PRINCIPAL SUBSIDIARIES (Continued)

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

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

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

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

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

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

*Effective for transfers on or after 1st July, 2009*

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

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

Improvements to HKFRSs 2009

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

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

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

| | |
|---|---|
| HKAS 24 (Revised) | Related party disclosures |

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

| | |
|---|---|
| HKFRS 9 | Financial instruments |

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

## 43. EVENTS AFTER THE BALANCE SHEET DATE

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

## 44. COMPARATIVE FIGURES

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