大同機械企業有限公司

COSMOS MACHINERY ENTERPRISES LIMITED

Stock Code 股份代號: 118

2010

Annual Report 年報

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CORPORATE INFORMATION

CHAIRMAN EMERITUS
Tang Kwan

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

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

Independent Non-Executive Directors and Audit Committee Members
Yeung Shuk Fan *CPA (US) ACIS*
Cheng Tak Yin
Ho Wei Sem

Remuneration Committee
Yeung Shuk Fan
Cheng Tak Yin
Ho Wei Sem
Tang To

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

CHIEF EXECUTIVE OFFICER
Wong Yiu Ming

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

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The Hongkong & Shanghai Banking Corporation Limited
Citic Bank International Limited
DBS Bank (Hong Kong) Limited

SOLICITORS
Woo, Kwan, Lee & Lo

AUDITORS
Ting Ho Kwan & Chan

SHARE REGISTRAR
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28 Queen's Road East
Wanchai
Hong Kong

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

CHAIRMAN'S STATEMENT

I am pleased to present to shareholders the annual report of Cosmos Machinery Enterprises Limited (the "Company") and its subsidiaries (the "Group") for the year ended 31st December, 2010.

RESULTS

The Group's consolidated turnover for the year was approximately HK$2,426,658,000, representing an increase of about 43% from the approximate HK$1,692,794,000 for 2009. Our profit after taxation stood at about HK$297,378,000 while the profit for the same period of last year was about HK$26,760,000. For the year ended 31st December, 2010, the profit attributable to shareholders was about HK$275,671,000. The above net profit included a gain in carrying amount of approximately HK$200,670,000 as recognized for the deemed disposal of interest in associate by the Company after the successful listing of A shares of Shenzhen Haoningda Meters Co., Ltd. ("Haoningda") on Shenzhen Stock Exchange during the year under review.

CHAIRMAN'S STATEMENT

Amid the global financial crisis, the basis of management systems of the Group's various businesses has been consolidated through active rectifications and reforms. During the year under review, the operation of various businesses has, building on the existing foundation, inherited and been optimized to inspire new driving forces. Management colleagues managed to maintain the awareness of hardship and the enterprising spirit to lead their teams to smooth out various difficulties and grasp opportunities in the external environment to achieve good results for businesses. As for the Group's total profits after tax net of gains from the listing of Haoningda during the period under review, earnings from business operation amounted to about HK$75,000,000, realizing desirable returns for shareholders.

During the year under review, the market recovered gradually. Various businesses of the Group faced with consequent pressures of increases in costs in different degrees. However, the State launched hosts of plans to invigorate the economy during the period, all of which provided good opportunities for businesses of the Group.

The Group insisted on paying much attention to research and development of products and optimizing product structure constantly. Under the policy of energy saving and emission reduction driven by the State, the direction of product development of machinery manufacturing business has been focused on environment-friendly and energy-saving products in recent years. As for our self-developed servo-driven energy saving Se-series injection moulding machines, its energy saving effect has been in a leading position in the industry. This series of products will be the focus of continuous growth of the business. For trading business and plastic processing business, we introduced environment-friendly and energy-saving product mixes and developed products and markets of degradable environment-friendly materials respectively, which became new driving forces for their results growth. Under the major trend of advocating environment protection, the environment-friendly product market will become a new field for the development of the Group's businesses.

Greenline JSe Series 2,800T Servo-driven Two-platen Injection Moulding Machine

CHAIRMAN'S STATEMENT

For the printed circuit board business, we established production lines of High Density Interconnect (HDI) circuit boards last year to create favorable conditions for securing more high value-added orders. In the future, we will still launch corresponding quality products for the business when appropriate in response to constant changes in market demands and continue to create good results.

Under the State's policies to fuel domestic demand consumption, Hefei City of Anhui Province has developed vigorously and became the third largest household appliance centre in China in recent years. After prudent study, the Group has made deployment to intensify investment in the plastic processing factory in Hefei for enlarging plants and production capacity scale, strengthening its cooperation with domestic renowned household appliance enterprises and building a new base for business development in this location. In addition, during the period, both machinery manufacturing business and trading business actively expanded sales network in second-tire cities in inland areas of China to make preparations in coordination with the adjustment in the development layout of manufacturing industry by the State.

While striving for growth in results, the Group also optimized and adjusted staff accommodation conditions of the factories in the PRC and organized recreational activities in spare time. We provided wireless broadband internet service to knowledge-based staff dormitory to improve the living conditions of staff.

Haoningda was successfully listed on Shenzhen Stock Exchange at the beginning of last year. Currently, its financial base is solid. Last year, it has acquired additional plants and expanded production capacity to cope with growing orders. Now it is actively preparing more aggressive investment plans to make deployment for new developments in the future.

In 2010, we achieved desirable performance. Our team steadily stepped upon a new step of results and they are bound to confront challenges in a new year with a prudent attitude. Looking forward to 2011, international prices of commodities and energy will be volatile and continue to rise, the inflation is expected to be aggravated. The State will commit to reforming income allocation and labor shortage is bound to be persistent, driving labor cost inevitably increase year by year. Meanwhile, the State will implement more prudent economic policies to curb inflation that makes corporate financing difficult. Together with other variables such as continuous appreciation of RMB, all of such factors are the issues which our team must prudently cope with in the next year. In spite of that, during the year as the beginning of the national 12th Five-Year Plan, the State will transform and improve manufacturing industry and has definitely proposed guiding principles including active promotion of technical innovation and improvement, proactive implementation of energy saving and emission reduction and environment protection and active promotion of prosperity of domestic demand market. All of such guiding policies will bring about opportunities of continuous growth for various businesses of the Group.

Servo-driven Energy Saving Hydraulic Press CMSe

Confronted with new challenges as well as opportunities in the future, we will continue to invest in human resources trainings, define and deepen visions, core missions and value concepts of the Group. Our aim is to become an efficient group of diversified businesses equipped with rapid coping capacity. We have confidence in conquering difficulties, embracing various challenges, grasping opportunities to develop sustainably and yielding good results constantly.

The desirable performance achieved by the Group during the past year is dependent on the creativity and diligent efforts of the management team and the staff. Thus, I would like to extend my highest appreciation and heartfelt gratitude to them. I would also like to show my appreciation to directors for their contributions and to shareholders, customers and business partners for their wholehearted support.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

Manufacturing Business

Machinery

Benefiting from continuous economic revival measures by the PRC government, this business recorded an overall sales of approximately HK$1.04 billion for the year with an increase of approximately 79% as compared with approximately HK$580 million for last year, which accounted for approximately 43% of the consolidated turnover of the Group. The profit in the period was approximately HK$42,447,000, representing a substantial improvement as compared with the same period of last year.

DEKUMA 2,800T RL Series Rubber Injection Moulding Machine

During the year, the central government introduced various revival programs including adjusting equipment manufacturing, energy saving and emission reduction, extension of home appliances and motor vehicles subsidy policy for rural areas, which have positive stimulation on domestic industrial production and consumption demand. These programs are especially beneficial to the sales of servo-driven energy saving machinery. Over the years, this business has gradually invested resources to concentrate on the research, production and sale of servo-driven energy saving GREENLINE Se-series injection moulding machines with high gross profit margin, therefore we can rapidly grasp and coordinate with the opportunity of policy launching. The percentage of the sales of Se servo-driven injection moulding machines increased from approximately 30% at the beginning of the year to approximately 70% for the last quarter. Overall consolidated gross profit margin also has been enhanced as some general purpose models with relatively low gross profit margin have been eliminated in addition to the effect of mass supply, production and sales of Se-series. For CNC sheet-metal processing and rubber machinery products, both benefited from the addition of domestic infrastructure projects and the consumption growth, the sales volume and the gross profit margin resumed its level in the past.

Regarding the development of product technology, servo-driven energy saving application technology of this business has established a leading position through the close strategic cooperation between our own engineering research and development team and suppliers of key OEM components. GREENLINE Se-series injection moulding machine is the only product among super-sized injection moulding machines (Clamping force of 1600T or above) for the whole industry being appraised as conforming to the highest grade energy-saving rating by the National Quality Supervision and Inspection Centre of Plastic Machinery.

During recent years, power transmission and transformation industry develops rapidly in respect of extra high voltage, bringing demands in the market for super-sized rubber processing machinery used for the production of insulating sleeves, lighting arresters and insulators. Thus the Group researched and produced the largest horizontal rubber injection machine, DKM-RL2800 (injection volume: 100,000cc; clamping force: 2800T), which filled in the lack of domestic supply of such products. This model has obtained two national patents and has been delivered to customers in middle 2010. This benchmark project not only establishes our leading technical position of rubber injection machines in power industry, but also is conducive to further expansion of markets.

MANAGEMENT DISCUSSION AND ANALYSIS

During the year, under the close coordination between Cosmos i-Tech Solutions Limited, a subsidiary of the Group and the technical team of communication control engineering, we researched and developed a set of innovative iSee remote ethernet group control software in respect of this business, which could provide instant overall information to the management for operating decision-making. This iSee system exhibited the iPAD version in K-Fair held in Dusseldorf of Germany in October 2010 and was recognized by customers, overseas agents and peers.

iSee Remote Ethernet Group Control Software

In respect of deepening and exploration of the market, this business has gradually increased coverage of pre-sale and after-sale services in second-tire cities in inland areas of China to match up with the trends of upgrading and transformation of coastal cities, the relocation of customers' production to inland cities and expansion of investment in equipments. In respect of export business, we established a joint venture engaging in this business in India in August 2010 to assemble and produce small and medium-sized Se-series servo-driven energy saving machines of less than 1000T in order to further improve the operating layout of moulding machine business in the world.

During the year under review, our grassroots staff at the production line was properly enlarged in production bases in South China and East China. During the period, the expansion project of Dongguan Dongcheng factory and the relocation of Nancheng factory have been completed and the newly equipped plants of a total of 20,000 square meters have been put into use in middle 2010. In addition, the construction project of the new factory at Wuxi National High-tech Industrial Development Zone is expected to be completed and put into use in the second quarter of 2011.

Dongguan Dongcheng Zhou Wu Factory

Plastic Products and Processing

During the period under review, sales of plastic products and processing business was approximately HK$414,523,000, representing an increase of about 16% as compared with the same period of last year and accounted for approximately 17% of the Group's consolidated turnover, while operating profit of the year was approximately HK$8,649,000.

MANAGEMENT DISCUSSION AND ANALYSIS

The plastic processing business in Dongguan recorded an increase of approximately 16% in the overall sales during the period under review. The production technology on high-gloss plastic products and LED lights has become mature and stable, and the volume of waste products has decreased substantially. Moreover, we have formally launched the environment-friendly kitchen ware, Biochef (its brand is designed by ourselves) into the market for sales. A majority of plastic components of this product is made of a kind of recyclable raw material which is refined from corns and beneficial to environment protection. It is estimated that the demand for such high-quality environment-friendly products from the market will be strong over the next years. However, this business encountered unprecedented pressure in costs and pricing with its customers during the year under review. Especially in the second half of the year, costs of plastic materials, purchased parts and wages increased constantly, directly weakening the profitability of this business. In addition, shortage in manpower also brought some puzzles to this business. Facing the increase in costs, we could only seek to raise prices of some products. Therefore, the performance of this business for the year was not satisfying.

Humidifier

Biochef Kitchen Ware

The sales of the plastic injection product of plastic cutlery and food packaging business in Zhuhai increased by approximately 13% as compared with the same period of last year. Extensive recognition and usage of low-carbon, degradable and environment-friendly materials by the customers in the markets of Japan and America enabled such products to develop quickly. During the year under review, we appropriately add different production equipments and expanded and adjusted the sales strategy of product lines based on existing customer base. On the other hand, through participating in the Food Packaging Exhibition held in Chicago of America in October 2010, we expanded a more extensive customer base in respect of this business and laid a foundation for the sales growth in next year.

Plastic Tablewares and Food Containers

As for production, with gradual implementation of automatic facilities and measures for energy saving and emission reduction, which enabled production efficiency to be enhanced, and quality of products was also improved substantially, bringing a positive effect on reduction of production cost. However, labor costs and prices of raw materials rose substantially in the year, so the earning of this business during the period was slightly lower than that for the same period of last year.

The Group's plastic processing factory in Hefei is engaged in the provision of streamlined supporting production and processing services from plastic processing to printing, welding and assembly for various domestic renowned household appliance brands. In recent years, with the strong promotion of various domestic demand stimulating policies by the PRC government, the household appliance market in China has been developing quickly. In succession to Qingdao and Shunde, Hefei became the third largest household appliance manufacturing centre in China. In the year under review, this business benefited from continuous development of national economy and recorded desirable growth in sales business and results.

MANAGEMENT DISCUSSION AND ANALYSIS

The Group has decided to expand the scale of investment in the plants in Hefei. Currently, we are conducting various tasks such as acquisition of lands and construction of plants, expansion of production lines and improvement of supporting services successfully. After new plants in Hefei are completed, it's expected that it will become the largest processing and manufacturing base of plastic products of the Group in East China.

For the optic products business, the turnover recorded in the year was only slightly higher than last year. Since the purchasing power of export markets including Europe and America was still very week and customer demands for gift products such as magnifiers were relatively low, together with continuous rising of production costs including wages and costs of raw materials, this business failed to take a favorable turn from loss to profit.

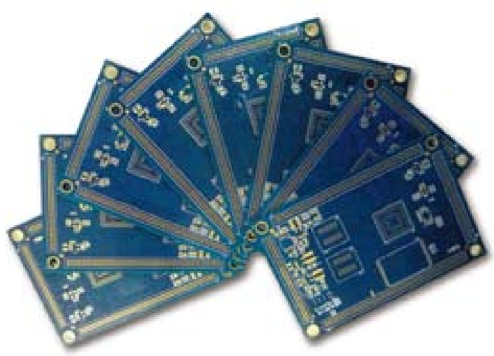
Printed Circuit Board

The printed circuit board business recorded a sales of approximately HK$531,117,000 in 2010, representing an increase of about 11% as compared with the same period of 2009, and accounted for approximately 22% of the Group's consolidated turnover, while operating profit for the period was approximately HK$42,474,000.

6" Bar Magnifier with LED 1.5X

Pocket Magnifier with LED 2X

At the beginning of 2010, with the recovery of electronic industry and the decrease in inventory of electronic products, customers enhanced production volumes in succession to meet market demands and made orders of this business greatly increase correspondingly. In the first half of the year, the sales could maintain stable growth. However, from the third quarter, due to some reasons such as the reduction of orders for old products and the inadequacy of development of new products, the sales in the second half of the year failed to achieve desirable results. During the year under review, the increase in prices of raw materials, the continuous appreciation of RMB and the adjustment in wages brought great pressure on this business in respect of operating costs. In order to cope with the increase in various production costs, we adopted response measures in respect of increasing income and decreasing expenditure for this business. We purchased materials in advance based on specific conditions of sales, and at the same time, we negotiated prices with customers to share some cost to reduce the impact arising from increase in prices of raw materials. In respect of human resource, we promoted the reform of production automation to reach the objective of reducing the staff and enhance production capacity and quality. In addition, according to operating plans established at the beginning of the year, investments in various equipments for this business were in place gradually. Meanwhile, we established the production lines for high-end products – High Density Interconnect (HDI) circuit boards to step into the transformation of high value-added products and further enhance competitiveness and profitability.



Six Layers HDI PCB

MANAGEMENT DISCUSSION AND ANALYSIS

Trading Business

Industrial Consumables

During the year under review, trading business accounted for a turnover of approximately HK$435,864,000, representing an increase of about 61% as compared with last year and accounted for approximately 18% of the Group's consolidated turnover, while operating profit for the period was approximately HK$32,789,000.

During the year under review, global economy recovered obviously, combined with domestic demand stimulating policies in China, arising strong overall market demand. Trading business successfully grasped the over-demand momentum of the market and also successfully expanded a new environment-friendly and energy-saving product – servo-driven hydraulic pump at the same time. Therefore, results rebounded remarkably, and both turnover and earning created record highs. Apart from actively expanding business, we also continuously implemented a prudent retrenchment policy, which has effectively reduced inventory and turnover of accounts receivable, with an aim to maintain good cash flow to meet requirements of future development.

Servo-driven Hydraulic Pump

Other businesses

Electronic Watt-Hour Meters and Related Businesses

Since Shenzhen Haoningda Meters Co., Ltd., an associate of the Group in Shenzhen was listed on Shenzhen Stock Exchange in February 2010, it successfully obtained large-scale construction contracts of the government by virtue of its stable financial base and aggressive development strategies. During the period, it recorded a steady return.

BUSINESS PROSPECTS

Looking forward to 2011, on the machinery front, domestic political and economic macro-situation and keynote have become stable, and we believe economic growth could be maintained at a relatively stable speed. However, increase in pressure of monetary inflation and macro-control measures implemented by the central government will further tighten up monetary policy and have certain impact on overall market demand. Under the major trend of implementation of energy saving and emission reduction, it is expected that the market demand for energy-saving machinery equipments may maintain a favorable momentum. We will adopt a steady growth strategy for core injection moulding machine business, enhance production and sales and increase market shares through further optimizing servo-driven energy saving Se-series and launching an upgraded version in middle 2011. In addition, we will also invest resources in research and development of specialized machinery aiming at designated industries to seek some share in segmental markets. Other product lines such as the rubber injection machine, extrusion line and sheet-metal processing machine product line will be dominated by a growth strategy and price/performance ratios of products will be enhanced through research and development of full servo-driven energy saving application technology.

Greenline HSe Series 50T High Precision Servo-driven Direct-clamping Injection Moulding Machine

MANAGEMENT DISCUSSION AND ANALYSIS

Urbanization of inland villages and towns and prosperity of equipment industry markets result in persistent labor shortage. Labor shortage occurs in manufacturing industry in various regions and the tight supply of first-line employees at the production level has not been improved. It is expected that labor cost will increase inevitably in the next year. We will further optimize product design and processes of production for this business. At the same time, we will provide more value-added services to maintain our competitive advantages. The Group is optimistic about the continuous growth of machinery manufacturing business.

For plastic processing business, in order to further strengthen production efficiency, management and financial control, the factory in Dongguan will implement proper internal reorganization and recruit additional members who have abundant management experiences. In 2011, we will be committed to measures such as optimizing cost control and improving processes and efficiency of production. The plastic cutlery and food packaging plastic injection products business in Zhuhai will continue technical development of degradable materials and products in the next year. In addition, in order to optimize costs and increase confidence of new and old customers, we will further strengthen production management and improve quality management system. In respect of market expansion, we will explore overseas markets for this business to continue with the success in the development of new customers last year. Increases in the prices of raw materials are expected to be relatively stable in 2011. With the combined effect of various conditions, we expect that this business is able to make desirable contributions to the Group's profit in 2011.

High Gloss Plastic Parts

Plastic Tablewares and Food Containers

On the optic product front, a major project in 2011 will be the development of domestic market in China. With the increase in the consuming capacity of the market in China and the gradual enhancement of its requirements for product quality in recent years, we believe that this market will be a growth point for increasing profits of this business. In respect of products, apart from increasing product types to enrich product offerings, we will also diversify business model, develop products on our own and even attempt processing accessory production, thereby augment the overall sales. Currently, we are considering on-line directly sale of certain products with brand effects in order to enhance market penetration.

Servo Driver

For trading business, looking forward to 2011, some hidden troubles still exist in the overall political and economic environment since debt issues of many countries in Europe and the US have not been resolved effectively and excessive hot money has resulted in a crisis of rapid expansion of asset bubbles. Although domestic market continues to grow, the speed of economic growth is expected to be slower when facing a series of domestic and foreign economic problems. Moreover, substantial rebound during the year under review has digested great demands of the market, it is expected that the

MANAGEMENT DISCUSSION AND ANALYSIS

growth of trading business will be slight in 2011. Facing with a year full of variables, trading business will still attach importance to domestic market in China, focus on new products and new industries related to environment protection and energy saving and accelerate developing new regional offices.

For printed circuit board business, it will continue to face with pressures arising from increases in wages and prices of raw materials and appreciation of RMB in 2011. We will continue to explore new markets for this business and strengthen development and production of high-end products to adjust product structure, improve competitiveness and lay a foundation for sustainable development of this business.

Six Layers PCB

In conclusion, with the gradual stabilization of global economy, a majority of the Group's businesses could achieve encouraging results during the period under review. Looking forward to 2011, it is expected that the PRC government will continue to implement local economic development measures to drive overall economic development and lead comprehensive recovery of global economy. In addition, environmental issues are concerned increasingly in the world, therefore, demands for energy-saving products, products made of degradable materials and products with environmental concepts are increasing day after day. It is expected that products combined with environmental concepts will form an emerging market with tremendous potential. We have explored in this aspect for various businesses of the Group to different extent and we believe that such explorations are bound to bring infinite business opportunities for the Group's businesses in the future.

On the other hand, the monetary inflation arising from economic recovery caused the Group to have to face with increasing operating costs such as prices of raw materials and increase in wages. In addition, in order to cope with monetary inflation, economic and financial policies in China could be tightened up gradually, which also could bring negative effect on customers of the Group. The slow recovery of European and American markets also limits the development of the Group's overseas markets and export business. What is more, disasters in the wake of the recent earthquakes, tsunamis and nuclear radiation in Japan will certainly spoil her economy and market, which is expected to beset the Group to some extent. In spite of above-mentioned hidden troubles, the Group has made many strategic deployments in various aspects during these years, including successful entry into domestic market by many businesses, the exploration of products and markets with environmental concepts, constant development of scientific research and making various products to obtain leading advantages in the industry, all of which have further consolidated strengths of the Group for the purpose of cope with any challenges. In respect of operating work, we will continue to be committed to improving production processes of each business. With the successful application of ERP in each operating unit, the gradual improvement in analysis and control of businesses' production cost contributes to reducing operating costs and enhancing production efficiency and competitiveness. On the other hand, the Group will continue to establish and consolidate an efficient operation and management team through trainings of human resource. Just as in the past, we will deploy future development strategies with an active and prudent attitude. We firmly believe that the Group's strength and the excellent team are enough for us to cope with future challenges and we can grasp business opportunities to develop persistently and bring desirable returns to stockholders.

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Statistical Highlights

	2010 HK$'000	2009 HK$'000 (Restated)
Operating results		
Turnover	**2,426,658**	1,692,794
Profit from operations	**105,274**	23,980
Profit before taxation	**310,727**	35,324
Profit attributable to equity holders of the Company	**275,671**	7,301
Earning per share – Basic (cents)	**38.82**	1.03
Earning per share – Diluted (cents)	**38.73**	N/A
Dividend per share (cents)	**1.50**	–
Dividend payout	**4%**	0%
Financial position at year end		
Total assets	**2,699,588**	2,208,321
Fixed assets	**565,830**	414,252
Quick assets	**1,133,109**	1,025,582
Net current assets	**543,470**	519,889
Shareholders' funds	**1,310,315**	1,000,061
Net asset value per share (cents)	**184**	141
Financial statistics		
Current ratio	**1.45**	1.51
Quick asset ratio	**0.95**	1.00
Gearing ratio	**0.01**	0.02
Total debt ratio	**0.45**	0.47

DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

Mr. Tang To, aged 62, Chairman and Executive Director of the Company, has served on the Board since the listing of the Company in 1988 and was appointed as Chairman and Executive Director of the Company in September, 1997. Mr. Tang has over 37 years of experience in manufacturing and trading businesses in Hong Kong and the PRC. Mr. Tang is responsible for the overall policy making and significant investments of the Group. Mr. Tang is the father of Mr. Tang Yu, Freeman, Executive Director of the Company. Mr. Tang is a director of certain companies which are members of the Group and related to certain substantial shareholders of the Company within the meaning of Part XV of the Securities and Futures Ordinance. Mr. Tang is a director of Shenzhen Haoningda Meters Co., Ltd., which is an associate of the Company with its shares listed and commenced trading on the Shenzhen Stock Exchange on 9th February, 2010.

Mr. Jiang Wei, aged 48, was appointed as an Executive Director of the Company on 1st June, 2007, holds a bachelor degree in International Trade and a master degree in International Business and Finance, both from the University of International Business and Economics in Beijing China. Mr. Jiang has been with China Resources National Corporation since 1988, and joined China Resources (Holdings) Company Limited in 1990. Mr. Jiang is at present the Director and the Deputy General Manager of China Resources (Holdings) Company Limited, a substantial shareholder of the Company within the meaning of Part XV of the Securities and Futures Ordinance. He has extensive experiences in financial and business planning, budgeting and controlling, legal and statutory tax planning, risk management and investment feasibility studies and decision making. Mr. Jiang is also a Non-Executive Director of China Resources Enterprises, Limited, China Resources Power Holdings Company Limited, China Resources Land Ltd. and China Resources Microelectronics Limited. The securities of these four companies are listed on the main board of the Stock Exchange of Hong Kong Limited (the "Stock Exchange") and they are also subsidiaries of China Resources (Holdings) Company Limited. Mr. Jiang is also at present a Non-Executive Director of China Asset (Holdings) Limited and an Independent Non-Executive Director of Greentown China Holdings Limited, the securities of both companies are listed on the main board of the Stock Exchange. He is also a Director of China Vanke Company Limited which is a company listed in the PRC.

Mr. Wong Yiu Ming, aged 57, Executive Director and Chief Executive Officer of the Company, has 33 years of experience in sales, marketing and general management. Mr. Wong joined the Group in 1978. He holds a Bachelor of Science degree in Engineering and a Master degree in Business Administration. Mr. Wong was appointed as the General Manager of the Company on 1st February, 1999 and has been re-designated as Chief Executive Officer of the Company with effect from 12th September, 2005. He is responsible for the strategic planning and general management of the Group. Mr. Wong is a director of Shenzhen Haoningda Meters Co., Ltd., which is an associate of the Company with its shares listed and commenced trading on the Shenzhen Stock Exchange on 9th February, 2010.

Mr. Tang Yu, Freeman, aged 33, Executive Director of the Company. He is the son of Mr. Tang To, the Chairman and Executive Director of the Board. He joined the Group in 2006 and is at present the Managing Director of a subsidiary of the Company which is engaged in plastic products and processing. He is responsible for the overall management and strategic planning of this subsidiary. Besides, he also holds directorship in two other subsidiaries of the Company. Prior to joining the Group, he worked in the Commercial Banking Division of HSBC (HK) and as an associate investment advisor in Royal Bank of Canada from 2001 to 2006. Mr. Tang graduated from the University of Western Ontario (Canada) and holds a Bachelor of Arts degree in Economics and holds a Diploma in Financial Planning.

DIRECTORS AND SENIOR MANAGEMENT

NON-EXECUTIVE DIRECTORS

Mr. Wu Ding, aged 45, was appointed as the Vice-Chairman and Non-Executive Director of the Company on 1st June, 2007, holds a bachelor degree in Economics from the Shan Xi University of Finance and Economics. Mr. Wu joined China Resources Group since August 1988 and joined the Enterprises Development Department of China Resources Group between November 1993 and March 1999. During this period, he had been acted as director and deputy general manager of several companies of China Resources Group. Mr. Wu is at present the general manager of China Resource Investment & Asset Management Company, Limited which is a subsidiary of China Resources (Holdings) Company, Limited, a substantial shareholder of the Company within the meaning of Part XV of the Securities and Futures Ordinance. He is also at present the chairman and general manager of China Resources Shanghai Co., Ltd., deputy general manager of China Resources Land Ltd. as well as the Chairman of China Resources Sun Hung Kai Properties (WuXi) Ltd.

Mr. Kan Wai Wah, aged 53, Non-Executive Director of the Company, is the Managing Director of 綽餘飲食顧問有限公司. He has over 29 years of experience in the management of restaurant operations. Mr. Kan holds a Higher Diploma in Accountancy. He joined the Company in May, 1998. Mr. Kan is the son of Ms. Law Kit Fong, a substantial shareholder of the Company. Mr. Kan is a director of certain companies which are related to certain substantial shareholders of the Company within the meaning of Part XV of the Securities and Futures Ordinance.

Mr. Qu Jinping, aged 54, Non-Executive Director of the Company, was granted a Bachelor's degree in Engineering in 1982 by South China Institute of Technology (currently South China University of Technology), a Master's degree in Engineering in 1987 by South China University of Technology and a Doctoral degree in Engineering in 1999 by Sichuan University and was promoted to professor in 1992. He was recognized as a tutor of doctoral candidates in macromolecular material processing and light industry machinery in 1996. Since 1998, he has been serving as the chief officer of the National Engineering Research Center of Novel Equipment for Polymer Processing in South China University of Technology. He was the Vice President of South China University of Technology from December 1998 to November 2007. In March 1999, he was appointed as the special-term professor in Material Processing of the South China University of Technology by the Ministry of Education of the People's Republic of China under the Changjiang Scholars Award Program. He also served as the chief officer of the Key Laboratory of Polymer Processing Engineering of the Ministry of Education of the People's Republic of China in South China University of Technology since 2000. He is concurrently a standing council member of Chinese Material Research Society, council member of Plastic Processing Association of China, council member of China Plastic Machine Association, Deputy Chairman of China Altered-Properties Plastics Association, academic committee member of State Key Laboratory of Macromolecular Materials, Deputy Chairman of Guangdong Material Research Society, council member of Guangdong Inventor Association, Deputy Chief Editor of certain publications namely the World Plastics and Plastics Machinery, member of editorial committee of the Journal of South China University of Technology, the China Plastics, the Plastic Industry, the Plastics, the Engineering Plastics Application. Mr. Qu was appointed as Non-Executive Director of the Company on 8th September, 2006.

DIRECTORS AND SENIOR MANAGEMENT

INDEPENDENT NON-EXECUTIVE DIRECTORS

Ms. Yeung Shuk Fan, aged 45, Independent Non-Executive Director of the Company, has over 21 years of experience in the finance sector and holds a Master degree in Business Administration. She is a member of the American Institute of Certified Public Accountants and an associate of The Institute of Chartered Secretaries and Administrators. During the past 16 years, Ms. Yeung has served as financial controller and financial manager of various private groups of companies. She was appointed as Independent Non-Executive Director of the Company with effect from June 2004.

Mr. Cheng Tak Yin, aged 72, Independent Non-Executive Director of the Company, has over 39 years of experience in business management. Currently, he is the Vice-Chairman and director of Hong Kong and Kowloon Machinery and Instrument Merchants Association Limited. He was appointed as Independent Non-Executive Director of the Company with effect from 30th January, 2007.

Mr. Ho Wei Sem, aged 63, Independent Non-Executive Director of the Company. Mr. Ho has been working in various government institutions in Dongguan during the past 40 years and has extensive experience in management. He was the director-general of Dongguan City Municipal and Public Utilities Management Bureau (東莞市市政公用事業管理局) and Dongguan City Urban Integrated Management Bureau (東莞市城市綜合管理局) from 2000 to August, 2007 before his retirement. During the period from 1996 to 2000, he was the officer of Dongguan City Management Committee (東莞市城市管理委員會). From 1990 to 1996, he was the deputy chief of Dongguan City Urban and Rural Construction Planning Bureau (東莞市城鄉建設規劃局), and was the deputy supervisor of the Preparation Committee of Dongguan City Government (東莞市城區政府籌備組) during the period from 1988 to 1990. He was appointed as Independent Non-Executive Director of the Company with effect from 21st December 2010.

SENIOR MANAGEMENT

Mr. Ho Kwong Sang, aged 55, joined the Group in 1981, is the Chief Financial Officer of the Group. He is responsible for the financial management of the Group. Mr. Ho holds a Bachelor of Arts degree in Business Administration and a Master of Arts degree in Management. He is a Certified Public Accountant (Hong Kong), Chartered Certified Accountant (United Kingdom), Certified Tax Adviser (Hong Kong) and Chartered Secretary (United Kingdom). He is also a Fellow member of the Hong Kong Institute of Chartered Secretaries and a Member of the Chartered Institute for Securities and Investment.

Mr. Li Tin Loi, aged 47, graduated from the Hong Kong Polytechnic University in Electrical Engineering. He also holds a Diploma in Management Studies, a Professional Diploma in Corporate Governance and a Master degree in Business Administration. He has 24 years of experience in marketing and management. Mr. Li joined the Group in 1992 and is currently responsible for the strategic planning and general management of subsidiary companies which are engaged in machinery business.

Mr. Yip Kar Shun, aged 64, has over 31 years of experience in electronic production and management. He joined the Group in 1994. Mr. Yip is the Managing Director of the subsidiaries which are engaged in the manufacture of printed circuit boards.

DIRECTORS AND SENIOR MANAGEMENT

Mr. Man Wai Hong Bernard, aged 48, joined the Group in 2000. He has 24 years of experience in manufacturing, marketing and general administrative management. He graduated from the Hong Kong Polytechnic University in Electrical Engineering. He also holds a Diploma in Computer Programming, a Diploma in Management Studies and a Master degree in Business Administration. He is currently the General Manager of a subsidiary of the Group which is engaged in the trading of industrial consumables and machinery components.

Mr. Tong Shui Yuk, aged 42, joined the Group in 2006. He has over 20 years of experience in plastic technology and production of precise components manufacture, marketing and management. He graduated from the Hong Kong Polytechnic University in Manufacturing Engineering. He holds an Honors degree in Polymer Engineering, a master degree of science in Industrial Automation and a master degree in Business Administration. Mr. Tong is currently the General Manager of Ming Sun Enterprises Limited which is our main subsidiary in plastic products and processing.

REPORT OF THE DIRECTORS

The directors of the Company (the "Directors") have pleasure in presenting their annual report and the audited financial statements of the Company for the year ended 31st December, 2010.

PRINCIPAL ACTIVITIES

The Company acts as an investment holding company. The principal activities of its principal subsidiaries are set out in note 43 to the financial statements.

RESULTS

The results of the Group for the year ended 31st December, 2010 are set out in the consolidated income statement on page 35 of the annual report.

FINAL DIVIDEND

After taking into consideration of various factors of the Group during the year, such as the net profits excluding the gain in carrying amount from the listing of Haoningda, cash flow and capital requirements, the Board recommends the payment of a final dividend of HK1.5 cents per share (2009: Nil) for the year ended 31st December, 2010. Upon sharesholders' approval at the forthcoming annual general meeting, the proposed final dividend will be paid on or about 30th June, 2011 to shareholders whose names appear on the register of members of the Company as at the date of the 2011 Annual General Meeting.

FINANCIAL REVIEW

Liquidity and Financial Resources

As at 31st December, 2010, the Group's shareholders' funds were approximately HK$1,310,315,000, compared with approximately HK$1,000,061,000 (Restated) as at 31st December, 2009.

The Group finances its operations with internally generated cash flow and banking facilities provided by its bankers in Hong Kong and China. The Group's debt ratio as at 31st December, 2010 was approximately 0.45 (2009: 0.47), and the liquidity ratio was approximately 1.45 (2009: 1.51 (Restated)), both were maintained at a healthy level. As at 31st December, 2010, cash, bank balances and time deposits amounted to approximately HK$320,836,000. All these reflect that the Group is in sound financial position.

Foreign Currencies and Treasury Policy

Most of the Group's business transactions, assets and liabilities are denominated in Hong Kong Dollars, Renminbi or United States Dollars. It is the Group's treasury policy to manage its foreign currency exposure whenever its financial impact is material to the Group. During the year, the Group had no fixed interest rate borrowings. Foreign exchange risks arising from fluctuation of exchange rates of foreign currencies are managed by the Group using foreign exchange forward contracts when necessary.

FINANCIAL SUMMARY

A summary of the results, the assets and liabilities of the Group for the past five financial years is set out on page 132 of the annual report.

REPORT OF THE DIRECTORS

INVESTMENT PROPERTIES, LEASEHOLD LAND AND BUILDINGS, PLANT AND EQUIPMENT

The investment properties and leasehold land and buildings of the Group were revalued on 31st December, 2010. The resulting surplus arising on revaluation of investment properties attributable to the Group has been credited to the consolidated income statement. The resulting surplus and deficit arising on revaluation of leasehold land and buildings held for own use attributable to the Group have been recognised in other comprehensive income and accumulated separately in the property revaluation reserve or consolidated income statement as appropriate.

During the year, the Group spent, in aggregate approximately HK$198,107,000 on the acquisition of property, plant and equipment for the purpose of expanding business.

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

SHARE CAPITAL

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

RESERVES

Details of the movements in the reserves of the Company during the year under review are set out in note 29 to the financial statements.

MAJOR CUSTOMERS AND SUPPLIERS

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

DIRECTORS

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

Executive Directors
Tang To *(Chairman)*
Wong Yiu Ming *(Chief Executive Officer)*
Jiang Wei
Tang Yu, Freeman (Appointed on 18th March, 2011)

Non-Executive Directors
Tang Kwan *(Honorary Chairman)* (Resigned on 18th March, 2011)
Wu Ding *(Vice Chairman)*
Kan Wai Wah
Qu Jinping

Independent Non-Executive Directors
Yip Jeffery (Resigned on 3rd December, 2010)
Yeung Shuk Fan
Cheng Tak Yin
Ho Wei Sem (Appointed on 21st December, 2010)

REPORT OF THE DIRECTORS

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

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

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

The Non-Executive Directors and the Independent Non-Executive Directors were appointed for a specific term of three years commencing from 8th September, 2009, 30th January, 2010, 1st June, 2010, 21st December, 2010 and 1st January, 2011 respectively. Every director including those appointed for a specific term is subject to retirement by rotation and re-appointment at least once every three years.

DIRECTOR'S AND CHIEF EXECUTIVE'S INTERESTS IN SECURITIES

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

(a) Interests in the Shares

	Number of shares held					Approximate % of total Issued Shares
Name of Directors	Personal Interests	Family Interests	Corporate Interests	Others Interests	Total	of the Company
Tang To	2,970,000	2,000 *(Note 2)*	300,617,458 *(Note 1)*	224,000 *(Note 3)*	303,813,458	42.73
Wong Yiu Ming	11,696,072	–	–	–	11,696,072	1.64
Tang Kwan	–	297,157,052 *(Note 4)*	–	–	297,157,052	41.79
Kan Wai Wah	136,400	–	–	–	136,400	0.02
Cheng Tak Yin	1,406,000	–	–	4,400	1,410,400	0.20

REPORT OF THE DIRECTORS

Notes:

1. As at 31st December, 2010, 3,460,406 Shares of those 300,617,458 Shares were held by Ginta Company Limited ("Ginta") which is wholly owned by a company which in turn is owned as to 50% by Mr. Tang and 50% by his spouse. Mr. Tang was deemed to be interested in the remaining 297,157,052 Shares of those 300,617,458 Shares under the SFO through his deemed interests in Codo Development Limited ("Codo").

   As at 31st December, 2010, Codo through its wholly owned subsidiaries, Cosmos Machinery (Holdings) Limited ("Cosmos Holdings") and Tai Shing Agencies Limited ("Tai Shing"), was deemed to be interested in 297,157,052 Shares. Codo is incorporated in Hong Kong and is owned as to (i) 25.06% by Keepsound Investments Limited ("Keepsound"), a Hong Kong company controlled by Saniwell Holding Inc., a trustee of The Saniwell Trust, (ii) 8.37% by Elegant Power Enterprises Limited ("Elegant Power"); (iii) 30.25% by Friendchain Investments Limited ("Friendchain"), a Hong Kong company controlled as to 40% by Elegant Power, as to 57.42% by Saniwell Holding Inc. and as to 2.58% by Fullwin Limited ("Fullwin"); (iv) 16.09% by Yik Wan Company Limited ("Yik Wan"); and (v) 20.23% by 5 individuals and 2 limited companies.

2. As at 31st December, 2010, 2,000 Shares were held by the spouse of Mr. Tang.

3. As at 31st December, 2010, 224,000 Shares were jointly held by Mr. Tang and his spouse.

4. As at 31st December, 2010, Mr. Tang Kwan was deemed to be interested in the block of 297,157,052 Shares under the SFO through his deemed interests in Codo. As at 31st December, 2010, Codo through its wholly owned subsidiaries, Cosmos Holdings and Tai Shing, was deemed to be interested in 297,157,052 shares. Codo is incorporated in Hong Kong and is owned as to (i) 25.06% by Keepsound, a Hong Kong company controlled by The Saniwell Trust, a trust established for the benefit of Mr. Tang Kwan's family, of which the spouse of Mr. Tang Kwan is one of the beneficiaries; (ii) 8.37% by Elegant Power; (iii) 30.25% by Friendchain, a Hong Kong company controlled as to 40% by Elegant Power, as to 57.42% by The Saniwell Trust and as to 2.58% by Fullwin; (iv) 16.09% by Yik Wan Company Limited; and (v) 20.23% by 5 individuals and 2 limited companies.

(b) Interests in Share Options

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

The percentage shown was calculated based on the number of issued shares of the Company as at 31st December, 2010.

As at 31st December, 2010, other than as disclosed above and certain nominee shares held in trust for the Group, none of the Directors or Chief Executive or their associates had any interests and short positions in the shares, underlying shares of the Company and its associated corporations (within the meaning of the SFO) to be notified to the Company and the Stock Exchange pursuant to Section 352 of the SFO, to be entered in the register referred to therein.

Save as disclosed herein, none of the Directors is materially interested in any contract or arrangement subsisting as at 31st December, 2010 which is significant in relation to the business of the Company and its subsidiaries.

As at 31st December, 2010, none of the Directors had any direct interests or indirect interests in any asset which had been acquired, or disposed of by, or leased to any member of the Group, or was proposed to be acquired, or disposed of by, or leased to any member of the Group.

REPORT OF THE DIRECTORS

SUBSTANTIAL SHAREHOLDERS

As at 31st December, 2010, the following interests in 5% or more in the shares and underlying shares of the Company have been notified to the Company and recorded in the register of substantial shareholders' interests and short positions required to be kept under Section 336 of Part XV of the SFO:

Interests in the Shares

Name of Substantial Shareholders	Number of shares held Direct Interests	Deemed Interests	Total	Approximate % of total Issued Shares of the Company
Law Kit Fong	–	297,157,052 *(Note 1)*	297,157,052	41.79
Codo	–	297,157,052 *(Note 2)*	297,157,052	41.79
Cosmos Holdings	127,052,600	170,104,452 *(Note 3)*	297,157,052	41.79
Tai Shing	170,104,452	–	170,104,452	23.92
Saniwell Holding Inc.	–	297,157,052 *(Note 4)*	297,157,052	41.79
China Resources (Holdings) Company Limited	169,649,046 *(Note 5)*	–	169,649,046	23.86

Notes:

1. Ms. Law Kit Fong is deemed to be interested in the block of 297,157,052 Shares through her direct and indirect interests in Elegant Power and Codo. As at 31st December, 2010, Codo through its wholly owned subsidiaries, Cosmos Holdings and Tai Shing, was deemed to be interested in 297,157,052 Shares. As at 31st December, 2010, Codo is owned as to 30.25% by Friendchain (which is owned as to 40% by Elegant Power) and 8.37% by Elegant Power (which is wholly owned by Ms. Law Kit Fong).

2. As at 31st December, 2010, Codo is interested in 297,157,052 Shares through its wholly owned subsidiaries, Cosmos Holdings and Tai Shing. As at 31st December, 2010, Codo is owned as to (i) 25.06% by Keepsound, a Hong Kong company controlled by Saniwell Holding Inc., a trustee of The Saniwell Trust; (ii) 8.37% by Elegant Power, which is wholly-owned by Ms. Law Kit Fong; (iii) 30.25% by Friendchain, which is owned as to 40% by Elegant Power, as to 57.42% by Saniwell Holding Inc. and as to 2.58% by Fullwin; (iv) 16.09% by Yik Wan; and (v) 20.23% by 5 individuals and 2 limited companies.

REPORT OF THE DIRECTORS

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

4. As at 31st December, 2010, Saniwell Holding Inc. was deemed to be interested in the block of 297,157,052 Shares under the SFO through its deemed interests in Codo. Codo is owned as to (i) 25.06% by Keepsound, a Hong Kong company controlled by Saniwell Holding Inc., a trustee of The Saniwell Trust; (ii) 8.37% by Elegant Power; (iii) 30.25% by Friendchain which is owned as to 40% by Elegant Power, as to 57.42% by Saniwell Holding Inc. and as to 2.58% by Fullwin; (iv) 16.09% by Yik Wan; and (v) 20.23% by 5 individuals and 2 limited companies.

5. As shown by the latest interest disclosure information maintained pursuant to Part XV of the SFO provided to the Company by China Resources Corporation, China Resources Co., Limited and CRC Bluesky Limited, the above three companies were deemed to be interested in the Shares owned by China Resources (Holdings) Company Limited.

The percentage shown was calculated based on the number of issued shares of the Company as at 31st December, 2010.

Save as disclosed above, as at 31st December, 2010, the Directors are not aware of any other persons who have interests or short positions in the shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which would be required to be disclosed to the Company and the Stock Exchange pursuant to Part XV of the SFO.

DIRECTOR'S AND CHIEF EXECUTIVE'S RIGHTS TO ACQUIRE SHARES OR DEBT SECURITIES

Other than as disclosed above, at no time during the year under review was the Company or any of its holding companies, subsidiaries or fellow subsidiaries a party to any arrangements to enable the Directors and Chief Executive to acquire benefits by means of the acquisition of shares or any underlying shares or debentures of the Company or any associated corporations (within the meaning of Part XV of SFO); and none of the Directors, their spouses or children under the age of 18, had any right to subscribe for the shares of the Company, or had exercised any such rights.

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

No contracts of significance to which the Company or any of its controlling shareholders, subsidiaries or fellow subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, that subsisted at the end of the year under review or at any time during the year under review.

SHARE OPTION SCHEME

In order to provide the Company with a flexible means of giving incentive to, rewarding, remunerating, compensating and/or providing benefits to the Participants for their contributions and/or potential contributions to the Group and for such other purposes as the Board may approve from time to time, the Company has adopted the share option scheme at the Annual General Meeting of the Company held on 30th May, 2005, and unless otherwise terminated or amended, this scheme will remain in force for 10 years from that date.

The exercise price of the share options is determinable by the directors, but shall not be less than the highest of (i) the closing price of the Company's shares as quoted on the Stock Exchange's daily quotation sheets on the date of the offer of the share options; (ii) the average closing price of the Company's shares as quoted on the Stock Exchange's daily quotation sheets for the five trading days immediately preceding the date of offer; and (iii) the nominal value of the Company's shares.

REPORT OF THE DIRECTORS

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

Further details of share option scheme are set out in note 28 to the financial statements.

On 24th May, 2010, the Company offered to grant 21,000,000 share options to the Company's directors and employees under the share option scheme at exercise price of HK$0.66 per share. The period opened for the grantees to accept the options is from 24th May, 2010 to 20th June, 2010. At the close of the acceptance period of the options, an aggregate of 21,000,000 share options offered by the Company were accepted by the grantees. The share options granted and so accepted by grantees are exercisable within a period of three years commencing from the respective dates of acceptance of each grantee.

The following table disclosed movements in the Company's share options during the period:

				Number of share options				
Grantee(s)	Date of grant	Exercisable period	Exercise price per share HK$	Outstanding at 1.1.2010	Granted during the period	Exercised during the period	Cancelled/ Lapsed during the period	Outstanding at 31.12.2010
Director								
Wong Yiu Ming	24.5.2010	15.6.2010 to 14.6.2013	0.66	–	6,000,000	–	–	6,000,000
Employees								
(in aggregate)	24.5.2010	25.5.2010 to 19.6.2013	0.66	–	15,000,000	(1,100,000)	–	13,900,000
Total				–	21,000,000	(1,100,000)	–	19,900,000

REPORT OF THE DIRECTORS

Notes:

1. The closing price of Company's shares on the trading day immediately before 24th May, 2010, being the date of grant of options was HK$0.59;

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

3. During the period, the weighted average closing price of the Company's shares on the trade day immediately before the respective dates on which the share options were exercised was HK$0.90;

4. 1,100,000 shares options were exercised during the period and 1,100,000 ordinary shares of HK$0.40 each of the Company was issued and allotted during the period resulted in new share capital of HK$440,000 and share premium of HK$286,000 (before issue expenses);

5. As at 31st December, 2010, the Company had 19,900,000 share options outstanding representing approximately 2.79% of the issued share capital of the Company as at the date of this report. The exercise in full of the share options outstanding would, under the present capital structure of the Company, result in the issue of 19,900,000 additional ordinary shares of HK$0.40 each of the Company and additional share capital of approximately HK$7,960,000 and share premium of approximately HK$5,174,000 (before issue expenses).

Further details of the share option scheme including the valuation of the share options are set out in note 28 to the financial statements.

AUDIT COMMITTEE

The audit committee of the Company comprises the three Independent Non-Executive Directors. It has adopted terms of reference which are in line with the code provisions of the Code on Corporate Governance Practices in Appendix 14 of the Listing Rules. The audited financial statements of the Company for the year ended 31st December, 2010 have been reviewed by the audit committee who is of the opinion that such statements comply with the applicable accounting standards, legal requirements and the Listing Rules, and that adequate disclosures have been made.

REMUNERATION COMMITTEE

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

COMMITTEE OF EXECUTIVE DIRECTORS

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

EMPLOYEES AND REMUNERATION POLICY

As at 31st December, 2010, the Group has approximately 6,000 employees (2009: approximately 5,500), remunerations were formulated in accordance with market trends and performance of employees. Benefits have included schemes of insurance, retirement, share option and so on.

REPORT OF THE DIRECTORS

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

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

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

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's shares during the year ended 31st December, 2010.

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

The directors consider that the Company has complied with the Code on Corporate Governance Practices as set out in Appendix 14 of the Listing Rules throughout the year ended 31st December, 2010.

COMPLIANCE WITH MODEL CODE

Throughout the year ended 31st December, 2010, the Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules and all Directors have confirmed that they have fully complied with the required standard as set out in the Model Code based on the enquiry of all the directors of the Company.

INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

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

PUBLIC FLOAT

The Company has maintained a sufficient public float throughout the year ended 31st December, 2010.

PUBLICATION OF ANNUAL REPORT

This annual report is published on the Company's website at www.cosmel.com and the website of The Stock Exchange of Hong Kong Limited at www.hkexnews.hk.

On behalf of the Board
TANG To
Chairman

Hong Kong, 29th March, 2011

CORPORATE GOVERNANCE REPORT

COMPLIANCE WITH CODE ON CORPORATE GOVERNANCE

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

The Company has adopted the code provisions set out in the Code of Corporate Governance Practices (the "CG Code") contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), which became effective on 1st January, 2005 as its own code of corporate governance practices. The Directors consider that the Company has complied with the CG Code during the financial year ended 31st December, 2010.

THE BOARD

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

The Board has at least four scheduled meetings a year at quarterly interval and meets as and when required. During the financial year ended 31st December, 2010, the Board held six meetings. The attendance of the Directors at the Board meetings are as follows:

Name of Directors	**Number of attendance/ Number of meetings held**
Executive Directors	
Tang To *(Chairman)*	6/6
Jiang Wei	4/6
Wong Yiu Ming *(Chief Executive Officer)*	6/6
Non-Executive Directors	
Tang Kwan *(Honorary Chairman)*	4/6
Wu Ding *(Vice Chairman)*	4/6
Kan Wai Wah	6/6
Qu Jinping	5/6
Independent Non-Executive Directors	
Yip Jeffery (Resigned on 3rd December, 2010)	6/6
Yeung Shuk Fan	6/6
Cheng Tak Yin	5/6
Ho Wei Sem (Appointed on 21st December, 2010)	N/A

CORPORATE GOVERNANCE REPORT

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

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

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

CHAIRMAN AND CHIEF EXECUTIVE OFFICER ("CEO")

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

BOARD COMPOSITION

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

Except Mr. Tang To, the Chairman and Executive Director and Mr. Tang Yu, Freeman, an Executive Director are father and son, the other Board members have no financial, business, family or other material/relevant relationships with each other. Such balanced board composition is formed to ensure strong independence exists across the Board. The biographies of the Directors are set out in pages 13 to 15 to the annual report, which demonstrates a diversity of skills, expertise, experience and qualifications.

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

APPOINTMENTS, RE-ELECTION, REMOVAL AND NOMINATION OF DIRECTORS

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

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

CORPORATE GOVERNANCE REPORT

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

Meeting of the Board regarding the nomination of Directors shall be held at least once a year or when necessary. During the year of 2010, one meeting in relation to nomination of Directors is held with the attendance of the Directors setting out as follows:

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

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

RESPONSIBILITIES OF DIRECTORS

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

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

DELEGATION BY THE BOARD

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

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

CORPORATE GOVERNANCE REPORT

DIRECTORS' SECURITIES TRANSACTIONS

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

SUPPLY OF AND ACCESS TO INFORMATION

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

REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT

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

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

(ii) To oversee performance of the Executive Directors;

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

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

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

The Remuneration Committee annually sets out its recommendation on the remuneration package of the Executive Directors. For the financial year ended 31st December, 2010, the Remuneration Committee has reviewed and recommended to the Board the salaries and bonuses of the Executive Directors and the senior management of the Company.

CORPORATE GOVERNANCE REPORT

The Remuneration Committee held one meeting during the financial year ended 31st December, 2010 and the attendance of each member's attendance at this meeting is set out as follows:

Directors	Number of attendance/ Number of meetings held
Mr. Yip Jeffery (Resigned on 3rd December, 2010)	1/1
Ms. Yeung Shuk Fan	1/1
Mr. Tang To	1/1
Mr. Cheng Tak Yin	1/1
Mr. Ho Wei Sem (Appointed on 21st December, 2010)	N/A

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

Details of the amount of Directors emoluments are set out in note 10 to the accounts and details of the 2005 Share Option Scheme are set out in the Report of the Directors and note 28 to the accounts.

FINANCIAL REPORTING

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

The Directors acknowledge their responsibility to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Group and in presenting the interim and annual financial statement, and announcements to shareholders. The responsibilities of the Directors in relation to the financial statement, should be read in conjunction with, but distinguished from, the Report of the Auditors on page 33 which acknowledges the reporting responsibilities of the Group's auditors. The Directors aim to present a balanced and understandable assessment of the Group's, position and prospects. The Board is not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Group's ability to continue as a going concern, the Board therefore continues to adopt the going concern approach in preparing the accounts.

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

CORPORATE GOVERNANCE REPORT

INTERNAL CONTROLS

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

The Board monitors its internal control systems through a programme of internal audits. The internal audit function set up by the Company reviews the major operational and financial control of the Group on a continuing basis and aims to cover all major operations of the Group on a rotational basis. It also reviews regularly the adequacy of resources, qualifications and experience of staff of the Group's accounting and financial reporting function, and their training programmes and budget. The internal audit function reports to the Chairman of the Audit Committee.

AUDIT COMMITTEE

During the year under review and up to the date of this report, the Audit Committee comprises all three Independent Non-Executive Directors namely, Ms. Yeung Shuk Fan (being the Chairman of the Audit Committee), Mr. Yip Jeffery (resigned on 3rd December, 2010), Mr. Cheng Tak Yin and Mr. Ho Wei Sem (appointed on 21st December, 2010), who among themselves possess a great deal of management experience in the accounting profession and commercial sectors.

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

For the financial year ended 31st December, 2010, the Audit Committee has performed the following duties:

1. reviewed with the management the accounting principles and practices adopted by the Group;

2. reviewed the audited financial statement for the year ended 31st December, 2009 and the unaudited interim financial statement for the six months ended 30th June, 2010 with recommendation to the Board for approval; and

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

CORPORATE GOVERNANCE REPORT

The Audit Committee held two meetings during the financial year ended 31st December, 2010. The attendance of each member's attendance at such meetings is set out as follows:

Directors	Number of attendance/ Number of meetings held
Ms. Yeung Shuk Fan *(Chairman of the Audit Committee)*	2/2
Mr. Yip Jeffery (resigned on 3rd December, 2010)	2/2
Mr. Cheng Tak Yin	2/2
Mr. Ho Wei Sem (appointed on 21st December, 2010)	N/A

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

AUDITORS' REMUNERATION

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

	Fee paid/payable HK$
Services rendered	
Audit services	2,125,687
Non-audit services	–
	2,125,687

COMMITTEE OF EXECUTIVE DIRECTORS

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

COMMUNICATIONS WITH SHAREHOLDERS

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

Our corporate website www.cosmel.com contains an investor relations section which offers timely access to the Company's corporate information, interim and annual reports, announcements and circulars issued by the Company.

INDEPENDENT AUDITOR'S REPORT

TING HO KWAN & CHAN
Certified Public Accountants
9th Floor, Tung Ning Building
249-253 Des Voeux Road Central
Hong Kong

Hong Kong, 29th March, 2011

TO THE MEMBERS OF COSMOS MACHINERY ENTERPRISES LIMITED
大同機械企業有限公司
(incorporated in Hong Kong with limited liability)

We have audited the consolidated financial statements of Cosmos Machinery Enterprises Limited (the "Company") set out on pages 35 to 131, which comprise the consolidated and Company balance sheets as at 31st December, 2010, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' responsibility for the financial statements

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

Auditor's responsibility

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

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

INDEPENDENT AUDITOR'S REPORT

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

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31st December, 2010 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the Hong Kong Companies Ordinance.

TING HO KWAN & CHAN
Certified Public Accountants (practising)

CONSOLIDATED INCOME STATEMENT

For the year ended 31st December, 2010

	Notes	2010 HK$	2009 HK$
Turnover	6	**2,426,658,383**	1,692,794,123
Cost of sales		**(1,994,388,120)**	(1,409,480,292)
Gross profit		**432,270,263**	283,313,831
Other income and gains, net	6	**16,165,568**	17,582,559
Distribution costs		**(130,039,410)**	(88,016,637)
Administrative expenses		**(199,934,654)**	(187,300,579)
Other operating expenses		**(635,752)**	–
Allowance for impairment of bad and doubtful debts		**(12,551,697)**	(1,598,785)
Profit from operations		**105,274,318**	23,980,389
Finance costs	7	**(13,760,054)**	(15,492,503)
Investment income, net	8	**4,943,373**	2,948,592
Gain on deregistration of a subsidiary		**453,483**	1,400,403
Gain on dilution of interest in an associate		**200,670,330**	–
Gain on disposal of an associate		**86,569**	–
Share of results of associates		**13,058,503**	22,487,191
Profit before taxation	9	**310,726,522**	35,324,072
Taxation	11	**(13,348,871)**	(8,563,612)
Profit for the year		**297,377,651**	26,760,460
Attributable to:			
– Equity holders of the Company	12	**275,671,070**	7,301,451
– Non-controlling interests		**21,706,581**	19,459,009
		297,377,651	26,760,460
Earnings per share for profit attributable to the equity holders of the Company during the year	14		
– Basic		**HK 38.82 cents**	HK 1.03 cents
– Diluted		**HK 38.73 cents**	N/A

The notes on pages 44 to 131 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31st December, 2010

	Note	2010 HK$	2009 HK$ (Restated)
Profit for the year		**297,377,651**	26,760,460
Other comprehensive income (expense) for the year:	*13*		
Cash flow hedges		**–**	(5,751)
Change in fair value of available-for-sale financial assets		**411,372**	(55,793)
Share of other comprehensive income (expense) of associates		**8,290,387**	(1,346,456)
Surplus on revaluation of properties held for own use		**12,195,904**	7,580,914
Exchange differences: net movement in translation reserve		**17,885,635**	(207,696)
		38,783,298	5,965,218
Total comprehensive income for the year, net of tax		**336,160,949**	32,725,678
Attributable to:			
– Equity holders of the Company		**311,321,873**	12,017,333
– Non-controlling interests		**24,839,076**	20,708,345
Total comprehensive income for the year		**336,160,949**	32,725,678

The notes on pages 44 to 131 are an integral part of these consolidated financial statements.

CONSOLIDATED BALANCE SHEET

At 31st December, 2010

	Notes	**2010 HK$**	2009 HK$ (Restated)	2008 HK$ (Restated)
Non-current Assets				
Property, plant and equipment	*16*	**531,856,097**	381,178,924	356,953,583
Leasehold land and land use rights	*17*	**33,974,039**	33,072,858	33,503,624
Interests in associates	*20*	**384,692,036**	240,348,760	234,903,019
Available-for-sale financial assets	*21*	**5,085,023**	4,673,651	4,729,444
Deferred tax assets	*32*	**5,351,944**	3,854,387	4,385,509
		960,959,139	663,128,580	634,475,179
Current Assets				
Inventories	*22*	**605,520,645**	519,611,140	597,411,553
Leasehold land and land use rights	*17*	**703,769**	580,029	686,571
Trade and other receivables	*23*	**754,237,211**	672,659,564	735,153,954
Derivative financial instruments	*25*	**591,125**	1,421,499	–
Current tax recoverable		**587,322**	2,143,017	2,542,886
Pledged bank deposits	*40*	**56,153,362**	39,750,142	120,697,909
Cash and cash equivalents	*26*	**320,835,771**	309,027,423	189,369,411
		1,738,629,205	1,545,192,814	1,645,862,284
Current Liabilities				
Trade and other payables	*24*	**894,400,983**	673,317,605	666,428,196
Amounts due to associates		**1,317,178**	53,263,201	61,742,160
Derivative financial instruments	*25*	**596,876**	1,427,250	167,215
Bank and other borrowings				
– due within one year	*30*	**284,518,626**	280,782,211	389,393,112
Obligations under finance leases				
– due within one year	*31*	**7,246,208**	10,262,297	6,919,984
Current tax payable		**7,079,542**	6,250,861	4,452,725
		1,195,159,413	1,025,303,425	1,129,103,392
Net Current Assets		**543,469,792**	519,889,389	516,758,892
Total Assets less Current Liabilities		**1,504,428,931**	1,183,017,969	1,151,234,071

CONSOLIDATED BALANCE SHEET

At 31st December, 2010

	Notes	2010 HK$	2009 HK$ (Restated)	2008 HK$ (Restated)
Non-current Liabilities				
Bank and other borrowings				
– due after one year	*30*	**151,497**	147,643	147,409
Obligations under finance leases				
– due after one year	*31*	**3,300,544**	11,453,731	8,753,792
Deferred tax liabilities	*32*	**7,216,412**	4,515,232	1,268,539
Total Non-current Liabilities		**10,668,453**	16,116,606	10,169,740
Net Assets		**1,493,760,478**	1,166,901,363	1,141,064,331
Equity				
Capital and reserves attributable to the Company's equity holders:				
Share capital	*27*	**284,412,277**	283,972,277	283,972,277
Reserves		**1,015,214,171**	716,089,133	704,071,800
Proposed final dividend	*15*	**10,688,860**	–	–
		1,310,315,308	1,000,061,410	988,044,077
Non-controlling interests		**183,445,170**	166,839,953	153,020,254
Total Equity		**1,493,760,478**	1,166,901,363	1,141,064,331

The financial statements on pages 35 to 131 were approved and authorised for issue by the Board of Directors on 29th March, 2011 and are signed on its behalf by:

TANG TO	**WONG YIU MING**
DIRECTOR	*DIRECTOR*

The notes on pages 44 to 131 are an integral part of these consolidated financial statements.

BALANCE SHEET

At 31st December, 2010

	Notes	2010 HK$	2009 HK$	2008 HK$ (Restated)
Non-current Assets				
Property, plant and equipment	16	**1,965,149**	2,477,618	3,002,955
Interests in subsidiaries	19	**702,815,492**	701,207,608	711,233,747
		704,780,641	703,685,226	714,236,702
Current Assets				
Trade and other receivables		**9,254,232**	442,249	722,441
Amount due from an associate		**8,425,636**	–	–
Cash and cash equivalents	26	**16,567,503**	9,145,528	17,096,505
		34,247,371	9,587,777	17,818,946
Current Liabilities				
Trade and other payables		**4,098,605**	3,014,322	4,059,757
Amounts due to subsidiaries		**47,277,410**	48,532,631	34,997,948
Amounts due to associates		**233,912**	52,173,935	60,652,894
Derivative financial instruments	25	**–**	–	167,215
Bank and other borrowings				
– due within one year	30	**77,387,935**	79,537,032	102,320,624
		128,997,862	183,257,920	202,198,438
Net Current Liabilities		**(94,750,491)**	(173,670,143)	(184,379,492)
Total Assets less Current Liabilities		**610,030,150**	530,015,083	529,857,210
Net Assets		**610,030,150**	530,015,083	529,857,210
Capital and Reserves				
Share capital	27	**284,412,277**	283,972,277	283,972,277
Reserves	29	**325,617,873**	246,042,806	245,884,933
Total Equity		**610,030,150**	530,015,083	529,857,210

TANG TO
DIRECTOR

WONG YIU MING
DIRECTOR

The notes on pages 44 to 131 are an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31st December, 2010

	Attributable to equity holders of the Company												
	Share capital HK$	Share premium HK$	Capital redemption reserve HK$	Share options reserve HK$	(Restated) Property revaluation reserve HK$	Translation reserve HK$	Hedging reserve HK$	Others HK$	Proposed final dividend HK$	Retained profits HK$	(Restated) Total HK$	(Restated) Non-controlling interests HK$	(Restated) Total equity HK$
Balance at 1st January, 2009 (Restated)	283,972,277	244,118,039	36,800	–	12,238,208	89,449,151	–	481,091	–	357,748,511	988,044,077	153,020,254	1,141,064,331
Profit for the year	–	–	–	–	–	–	–	–	–	7,301,451	7,301,451	19,459,009	26,760,460
Other comprehensive income (expense) for the year:													
Cash flow hedges	–	–	–	–	–	–	(5,751)	–	–	–	(5,751)	–	(5,751)
Fair value loss:													
– Available-for-sale financial assets	–	–	–	–	–	–	–	(55,793)	–	–	(55,793)	–	(55,793)
Share of reserves of associates	–	–	–	–	–	752,582	–	(2,099,038)	–	–	(1,346,456)	–	(1,346,456)
Surplus on revaluation of properties held for own use (Restated)	–	–	–	–	7,748,220	–	–	–	–	–	7,748,220	1,349,039	9,097,259
Deferred taxation adjustment (Restated)	–	–	–	–	(1,292,040)	–	–	–	–	–	(1,292,040)	(224,305)	(1,516,345)
Exchange differences:													
Net movement in translation reserve	–	–	–	–	–	(332,298)	–	–	–	–	(332,298)	124,602	(207,696)
Total other comprehensive income (expense) for the year	–	–	–	–	6,456,180	420,284	(5,751)	(2,154,831)	–	–	4,715,882	1,249,336	5,965,218
Total comprehensive income (expense) for the year	–	–	–	–	6,456,180	420,284	(5,751)	(2,154,831)	–	7,301,451	12,017,333	20,708,345	32,725,678
Transactions with owners:													
Dividend paid to non-controlling shareholders	–	–	–	–	–	–	–	–	–	–	–	(6,888,646)	(6,888,646)
Balance at 31st December, 2009 (Restated)	283,972,277	244,118,039	36,800	–	18,694,388	89,869,435	(5,751)	(1,673,740)	–	365,049,962	1,000,061,410	166,839,953	1,166,901,363

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31st December, 2010

	Attributable to equity holders of the Company												
	Share capital HK$	Share premium HK$	Capital redemption reserve HK$	Share options reserve HK$	Property revaluation reserve HK$	Translation reserve HK$	Hedging reserve HK$	Others HK$	Proposed final dividend HK$	Retained profits HK$	Total HK$	Non-controlling interests HK$	Total equity HK$
Balance at 1st January, 2010 (Restated)	283,972,277	244,118,039	36,800	-	18,694,388	89,869,435	(5,751)	(1,673,740)	-	365,049,962	1,000,061,410	166,839,953	1,166,901,363
Profit for the year	-	-	-	-	-	-	-	-	-	275,671,070	275,671,070	21,706,581	297,377,651
Other comprehensive income (expense) for the year:													
Fair value gains:													
– Available-for-sale financial assets	-	-	-	-	-	-	-	411,372	-	-	411,372	-	411,372
Share of reserves of associates	-	-	-	-	-	8,290,387	-	-	-	-	8,290,387	-	8,290,387
Surplus on revaluation of properties held for own use	-	-	-	-	12,051,143	-	-	-	-	-	12,051,143	1,960,959	14,012,102
Deferred taxation adjustment	-	-	-	-	(1,660,657)	-	-	-	-	-	(1,660,657)	(155,541)	(1,816,198)
Deemed acquisition of additional interest in a subsidiary	-	-	-	-	-	-	-	744,381	-	-	744,381	(744,381)	-
Exchange differences:													
Net movement in translation reserve	-	-	-	-	-	15,814,178	-	-	-	-	15,814,178	2,071,458	17,885,636
Total other comprehensive income for the year	-	-	-	-	10,390,486	24,104,565	-	1,155,753	-	-	35,650,804	3,132,495	38,783,299
Total comprehensive income for the year	-	-	-	-	10,390,486	24,104,565	-	1,155,753	-	275,671,070	311,321,874	24,839,076	336,160,950
Transactions with owners:													
Realised on liquidation of a subsidiary	-	-	-	-	-	-	-	-	-	-	-	(711,692)	(711,692)
Realised on liquidation of an associate	-	-	-	-	-	(89,183)	-	-	-	-	(89,183)	-	(89,183)
Realised on dilution of interest in an associate	-	-	-	-	-	(2,240,545)	-	-	-	-	(2,240,545)	-	(2,240,545)
Recognition on grant of share options	-	-	-	535,752	-	-	-	-	-	-	535,752	-	535,752
Shares issued upon exercise of share options	440,000	310,526	-	(24,526)	-	-	-	-	-	-	726,000	-	726,000
Dividend paid to non-controlling shareholders	-	-	-	-	-	-	-	-	-	-	-	(7,522,167)	(7,522,167)
Proposed final dividend	-	-	-	-	-	-	-	-	10,688,860	(10,688,860)	-	-	-
Balance at 31st December, 2010	284,412,277	244,428,565	36,800	511,226	29,084,874	111,644,272	(5,751)	(517,987)	10,688,860	630,032,172	1,310,315,308	183,445,170	1,493,760,478

The notes on pages 44 to 131 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31st December, 2010

	Notes	2010 HK$	2009 HK$ (Restated)
OPERATING ACTIVITIES			
Profit from operations		**105,274,318**	23,980,389
Adjustments for:			
Depreciation of property, plant and equipment	*16*	**53,496,790**	50,550,816
Amortisation of leasehold land and land use rights	*17*	**703,769**	580,029
Impairment losses on goodwill	*18*	**100,000**	–
Share-based payments		**535,752**	–
Loss on disposal of property, plant and equipment and leasehold land and land use rights		**5,172,685**	4,921,103
Revaluation surplus on properties held for own use		**–**	(429,785)
Allowance for impairment of bad and doubtful debts		**12,551,697**	1,598,785
Write-down of inventories	*22*	**13,038,826**	9,180,371
OPERATING CASH FLOWS BEFORE MOVEMENTS IN WORKING CAPITAL		**190,873,837**	90,381,708
(Increase) Decrease in inventories		**(88,220,141)**	69,282,959
(Increase) Decrease in trade and other receivables		**(89,518,306)**	61,590,540
Increase in trade and other payables		**215,665,495**	6,095,450
Cash generated from operations		**228,800,885**	227,350,657
Hong Kong profits tax paid		**(1,004,574)**	(579,240)
Overseas tax paid		**(10,660,125)**	(3,525,022)
NET CASH GENERATED FROM OPERATING ACTIVITIES		**217,136,186**	223,246,395

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31st December, 2010

	Notes	2010 HK$	2009 HK$
INVESTING ACTIVITIES			
Amounts advanced from associates		**59,499,172**	19,345,784
(Increase) Decrease in pledged bank deposits		**(13,870,123)**	81,101,813
Acquisition of a subsidiary		**(100,000)**	–
Capital contribution to an associate		**–**	(3,650,791)
Purchase of property, plant and equipment and leasehold land and land use rights		**(198,106,930)**	(55,778,262)
Proceeds from liquidation of an associate		**1,361,963**	–
Proceeds from disposal of property, plant and equipment and leasehold land and land use rights		**7,721,942**	1,048,153
Interest received	8	**2,385,006**	2,942,700
Dividend received from an associate		**14,571,650**	–
Dividend received from an available-for-sale financial asset	8	**2,558,367**	5,892
NET CASH (USED IN) GENERATED FROM INVESTING ACTIVITIES		**(123,978,953)**	45,015,289
FINANCING ACTIVITIES			
Repayment of bank loans		**(194,563,915)**	(347,952,742)
Interest paid	7	**(13,760,054)**	(15,492,503)
Repayment of obligations under finance leases		**(11,238,057)**	(9,060,801)
Dividends paid to non-controlling shareholders of subsidiaries		**(7,522,167)**	(6,888,646)
Bank loans raised		**211,158,615**	225,008,615
Amounts advanced to associates		**(51,946,023)**	(8,478,959)
Proceeds from issue of shares		**726,000**	–
NET CASH USED IN FINANCING ACTIVITIES		**(67,145,601)**	(162,865,036)
NET INCREASE IN CASH AND CASH EQUIVALENTS		**26,011,632**	105,396,648
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		**282,728,627**	177,208,790
EFFECT OF FOREIGN EXCHANGE RATE CHANGES		**1,993,002**	123,189
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	26	**310,733,261**	282,728,627

The notes on pages 44 to 131 are an integral part of these consolidated financial statements.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2010

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 changed to on Units 1217-1223A, 12/F., Trade Square, No. 681 Cheung Sha Wan Road, Kowloon, Hong Kong with effect from 21st March, 2011. The principal activities of its principal subsidiaries are set out in note 43.

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 HKFRS that are first effective for the current accounting period of the Group and the Company.

HKFRS 3 (revised 2008)	Business combinations
Amendments to HKAS 27	Consolidated and separate financial statements
Amendments to HKFRS 5	Non-current assets held for sale and discontinued operations – plan to sell the controlling interest in a subsidiary
Amendments to HKAS 39	Financial instruments:Recognition and measurement – Eligible hedged items
Improvements to HKFRSs (2009)	
HK(IFRIC) Int-17	Distributions of non-cash assets to owners
HK(Int) 5	Presentation of Financial Statements – Classification by the Borrower of a Term Loan that contains a Repayment on Demand Clause

The adoption of these new and revised HKFRS has no material impact on the results and financial position of the Group and the Company. Except as described below, the above amendments and interpretations are consistent with the accounting policies already adopted by the Group on preparation of the financial statements in prior years.

(a) **Amendments to HKAS 17, Leases**

As part of *Improvements to HKFRSs* issued in 2009, the amendment to HKAS 17, Leases, made under "Improvements to HKFRSs 2009" removes the specific guidance which stated that land held under a lease should be classified as an operating lease unless title to land is expected to pass at the end of the lease term. It provides new guidance which indicates that entities should use judgement to decide whether the lease transfers the significant risks and rewards of ownership of the land in accordance with the criteria set out in HKAS 17. An entity shall reassess the classification of land elements of unexpired leases at the date it adopts the amendments on the basis of information existing at the inception of the lease. It shall recognise a lease newly classified as a finance lease retrospectively in accordance with HKAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors" if the criteria of a finance lease is met.

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

(a) Amendments to HKAS 17, Leases (Continued)

On the adoption of this amendment, the Group has made a reassessment of the existing land lease arrangement and concluded that such arrangement has substantially transferred all risks and rewards incidental to ownership of the leased land to the Group not-withstanding that at the end of the lease term, title will not be passed to the Group. As a result, certain leasehold land and land use rights of the Group, especially those located in Hong Kong, have been reclassified to property, plant and equipment and amortisation of these leasehold land and land use rights has been reclassified to depreciation on property, plant and equipment retrospectively. The effect of such reclassification on the results and financial position of the Group for the current and prior years is shown in (i) to (v) below.

As a result of the adoption of this amendment by the Group which has resulted in the retrospective application of an accounting policy and reclassification of certain items in the consolidated financial statements, in accordance with HKAS 1 (Revised) "Presentation of Financial Statements", the Group has presented an additional consolidated balance sheet and related notes as at 31st December, 2008 that reflect the financial position of the Group at the beginning of the earliest comparative period being presented.

The following tables disclose the adjustments that have been made in accordance with the amendment to each of the line items in the consolidated balance sheets as previously reported as at 31st December, 2008 and 31st December, 2009 and in the consolidated statement of comprehensive income as previously reported for the year ended 31st December, 2009.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2010

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

(a) Amendments to HKAS 17, Leases (Continued)

(i) Effect on consolidated balance sheet as at 31st December, 2008

	The Group		
	At 31st December, 2008 (as previously reported) HK$	Effect of new policy (increase/ (decrease)) HK$	At 31st December, 2008 (as restated) HK$
Non-current Assets			
Property, plant and equipment	340,735,583	16,218,000	356,953,583
Leasehold land and land use rights	43,325,391	(9,821,767)	33,503,624
Other non-current assets	244,017,972	–	244,017,972
	628,078,946	6,396,233	634,475,179
Current Assets			
Leasehold land and land use rights	784,383	(97,812)	686,571
Other current assets	1,645,175,713	–	1,645,175,713
	1,645,960,096	(97,812)	1,645,862,284
Current Liabilities	(1,067,992,280)	–	(1,067,992,280)
Net Current Assets	577,967,816	(97,812)	577,870,004
Non-current Liabilities			
Deferred tax liabilities	(229,299)	(1,039,240)	(1,268,539)
Other non-current liabilities	(70,012,313)	–	(70,012,313)
	(70,241,612)	(1,039,240)	(71,280,852)
Net Assets	1,135,805,150	5,259,181	1,141,064,331
Total Equity			
Share capital	283,972,277	–	283,972,277
Property revaluation reserve	7,015,401	5,222,807	12,238,208
Retained profits	357,748,511	–	357,748,511
Other reserves	334,085,081	–	334,085,081
	982,821,270	5,222,807	988,044,077
Non-controlling interests	152,983,880	36,374	153,020,254
	1,135,805,150	5,259,181	1,141,064,331

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

(a) Amendments to HKAS 17, Leases (Continued)

(ii) Effect on consolidated balance sheet as at 31st December, 2009

	The Group		
	At 31st December, 2009 (as previously reported) HK$	Effect of new policy (increase/(decrease)) HK$	At 31st December, 2009 (as restated) HK$
Non-current Assets			
Property, plant and equipment	361,600,924	19,578,000	381,178,924
Leasehold land and land use rights	42,508,147	(9,435,289)	33,072,858
Other non-current assets	248,876,798	–	248,876,798
	652,985,869	10,142,711	663,128,580
Current Assets			
Leasehold land and land use rights	822,174	(242,145)	580,029
Other current assets	1,544,612,785	–	1,544,612,785
	1,545,434,959	(242,145)	1,545,192,814
Current Liabilities	(1,008,470,089)	–	(1,008,470,089)
Net Current Assets	536,964,870	(242,145)	536,722,725
Non-current Liabilities			
Deferred tax liabilities	(2,881,638)	(1,633,594)	(4,515,232)
Other non-current liabilities	(28,434,710)	–	(28,434,710)
	(31,316,348)	(1,633,594)	(32,949,942)
Net Assets	1,158,634,391	8,266,972	1,166,901,363
Total Equity			
Share capital	283,972,277	–	283,972,277
Property revaluation reserve	10,524,001	8,170,387	18,694,388
Retained profits	365,049,962	–	365,049,962
Other reserves	332,344,783	–	332,344,783
	991,891,023	8,170,387	1,000,061,410
Non-controlling interests	166,743,368	96,585	166,839,953
	1,158,634,391	8,266,972	1,166,901,363

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2010

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

(a) Amendments to HKAS 17, Leases (Continued)

(iii) Effect on consolidated statement of comprehensive income for the year ended 31st December, 2009

	The Group		
	2009 (as previously reported) HK$	Effect of new policy (increase/ (decrease)) in profit for the year HK$	2009 (as restated) HK$
Turnover	1,692,794,123	–	1,692,794,123
Cost of sales	(1,409,480,292)	–	(1,409,480,292)
Gross profit	283,313,831	–	283,313,831
Other income and gains, net	17,582,559	–	17,582,559
	300,896,390	–	300,896,390
Expenses			
Depreciation and amortisation:			
– Owned assets	(46,034,510)	–	(46,034,510)
– Assets held under finance leases	(4,274,161)	–	(4,274,161)
– Leasehold land held for own use under finance leases	–	(242,145)	(242,145)
– Leasehold land and land use rights	(822,174)	242,145	(580,029)
Others	(236,928,664)	–	(236,928,664)
	(288,059,509)	–	(288,059,509)
Share of results of associates	22,487,191	–	22,487,191
Profit before taxation	35,324,072	–	35,324,072
Taxation	(8,563,612)	–	(8,563,612)
Profit for the year	26,760,460	–	26,760,460
Other comprehensive income			
– Surplus on revaluation of properties held for own use	4,573,123	3,007,791	7,580,914
– Others	(1,615,696)	–	(1,615,696)
	2,957,427	3,007,791	5,965,218
Total comprehensive income	29,717,887	3,007,791	32,725,678

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2010

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

(a) Amendments to HKAS 17, Leases (Continued)

(iii) Effect on consolidated statement of comprehensive income for the year ended 31st December, 2009 (Continued)

	The Group		
	2009 (as previously reported) HK$	Effect of new policy (increase/ (decrease)) in profit for the year HK$	2009 (as restated) HK$
Attributable to:			
– Equity holders of the Company	9,069,753	2,947,580	12,017,333
– Non-controlling interests	20,648,134	60,211	20,708,345
	29,717,887	3,007,791	32,725,678

The following tables provide the extent to which each of the line items in the consolidated balance sheet as at 31st December, 2010 and consolidated statement of comprehensive income for the year ended 31st December, 2010 is higher or lower than it would have been had the previous policy still been applied in the year.

(iv) Effect on consolidated balance sheet as at 31st December, 2010

	The Group
	Effect of new policy (increase/(decrease)) HK$
Non-current Assets	
Property, plant and equipment	**25,938,000**
Leasehold land and land use rights	**(9,471,860)**
Deferred tax assets	**378,859**
	16,844,999
Current Assets	
Leasehold land and land use rights	**36,571**
Net Current Assets	**36,571**
Non-current Liabilities	
Deferred tax liabilities	**2,722,948**
Net Assets	**14,158,622**
Total Equity	
Property revaluation reserve	**13,216,555**
Retained profits	**197,007**
Non-controlling interests	**745,060**
	14,158,622

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2010

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

(a) Amendments to HKAS 17, Leases (Continued)

(v) *Effect on consolidated statement of comprehensive income for the year ended 31st* December, 2010

	The Group
	Effect of new policy (increase/(decrease)) in profit for the year HK$
Income (Expenses)	
– Depreciation on owned assets and leased assets	(242,145)
– Amortisation of leasehold land and land use rights	242,145
	–
Deferred tax	378,859
Profit for the year	378,859
Other comprehensive income	
– Surplus on revaluation of properties held for own use	5,512,791
	5,512,791
Total comprehensive income	5,891,650
Attributable to:	
– Equity holders of the Company	5,243,175
– Non-controlling interests	648,475
	5,891,650

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

(b) **HK(Int) 5 Presentation of Financial Statements–Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause**

HK(Int) 5, *Presentation of Financial Statements–Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause,* clarifies that term loans that include a clause that gives the lender the unconditional right to call the loans at any time ("repayment on demand clause") should be classified by the borrower as current liabilities. The Group and the Company have applied HK (Int) 5 for the first time in the current year. Hong Kong Interpretation 5 requires retrospective application.

In order to comply with the requirements set out in HK (Int) 5, the Group and the Company have changed their accounting policy on classification of term loans with a repayment on demand clause. In the past, the classification of such term loans was determined based on the agreed scheduled repayment dates set out in the loan agreements. Under HK (Int) 5, term loans with a repayment on demand clause are classified as current liabilities.

The aggregate carrying amount of the Group's loans as at 31st December, 2010 (that are repayable more than one year after the balance sheet date but contain a repayment on demand clause), that have been reclassified as current liabilities is HK$30,451,848 (2009: HK$16,833,336; 2008: HK$61,111,112).

The aggregate carrying amount of the Company's loans as at 31st December, 2010 (that are repayable more than one year after the balance sheet date but contain a repayment on demand clause), that have been reclassified as current liabilities is HK$12,300,000 (2009: HK$ Nil; 2008: HK$28,000,000).

(c) **As a result of the adoption of HKFRS 3 (revised 2008), any business combination acquired on or after 1st January, 2010 will be recognised in accordance with the new requirements and detailed guidance contained in HKFRS 3 (revised 2008). These include the following changes in accounting policies:**

– Transaction costs that the Group incurs in connection with a business combination, such as finder's fees, legal fees, due diligence fees, and other professional and consulting fees, will be expensed as incurred, whereas previously they were accounted for as part of the cost of the business combination and therefore impacted the amount of goodwill recognised.

– If the Group holds interests in the acquiree immediately prior to obtaining control, these interests will be treated as if disposed of and re-acquired at fair value on the date of obtaining control. Previously, the step-up approach would have been applied, whereby goodwill was computed as if accumulated at each stage of the acquisition.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2010

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

(c) **As a result of the adoption of HKFRS 3 (revised 2008), any business combination acquired on or after 1st January, 2010 will be recognised in accordance with the new requirements and detailed guidance HKFRS 3 (revised 2008). These include the following changes in accounting policies (continued):**

– Contingent consideration will be measured at fair value at the acquisition date. Subsequent changes in the measurement of that contingent consideration unrelated to facts and circumstances that existed at the acquisition date will be recognised in profit or loss, whereas previously these changes were recognised as an adjustment to the cost of the business combination and therefore impacted the amount of goodwill recognised.

– If the acquiree has accumulated tax losses or other temporary deductible differences and these fail to meet the recognition criteria for deferred tax assets at date of acquisition, then any subsequent recognition of these assets will be recognised in profit or loss, rather than as an adjustment to goodwill as was previously the policy.

– In addition to the Group's existing policy of measuring the non-controlling interests (previously known as the "minority interests") in the acquiree at the non-controlling interest's proportionate share of the acquiree's net identifiable assets, in future the Company's and the Group's may elect, on a transaction by transaction basis, to measure the non-controlling interest at fair value.

In accordance with the transitional provisions in HKFRS 3 (revised 2008), these new accounting policies will be applied prospectively to any business combinations in the current or future periods. The new policy in respect of recognition in the movement of deferred tax assets will also be applied prospectively to accumulated tax losses and other temporary deductible differences acquired in previous business combinations. No adjustments have been made to the carrying values of assets and liabilities that arose from business combinations whose acquisition dates preceded the application of this revised standard.

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

(d) As a result of the adoption of HKAS 27 (amended 2008), the following changes in policies will be applied as from 1st January, 2010.

– If the Group acquires an additional interest in a non-wholly owned subsidiary, the transaction will be accounted for as a transaction with equity shareholders (the non-controlling interests) in their capacity as owners and therefore no goodwill will be recognised as a result of such transactions. Similarly, if the Group disposes of part of its interest in a subsidiary but still retains control, this transaction will also be accounted for as a transaction with equity shareholders (the non-controlling interests) in their capacity as owners and therefore no profit or loss will be recognised as a result of such transactions. Previously the Group treated such transactions as step-up transactions and partial disposal, respectively.

– If the Group loses control of a subsidiary, the transactions will be accounted for as a disposal of the entire interest in that subsidiary, with any remaining interest retained by the Group being recognised at fair value as if reacquired. In addition, as a result of the adoption of the amendment to HKFRS 5, if at the balance sheet date the Group has the intention to dispose of a controlling interest in a subsidiary, the entire interest in that subsidiary will be classified as held for sale (assuming that the held for sale criteria in HKFRS 5 are met) irrespective of the extent to which the Group will retain an interest. Previously such transactions were treated as partial disposals.

In accordance with the transitional provisions in HKAS 27, these new accounting policies will be applied prospectively to transactions in current or future periods and therefore previous periods have not been restated.

In order to be consistent with the above amendments to HKFRS 3 and HKAS 27, and as a result of amendments to HKAS 28, Investments in associates, and HKAS 31, Interests in joint ventures, the following policies will be applied as from 1st January, 2010.

– If the Group holds interests in the acquiree immediately prior to obtaining significant influence or joint control, these interests will be treated as if disposed of and reacquired at fair value on the date of obtaining significant influence or joint control. Previously, the step-up approach would have been applied, whereby goodwill was computed as if accumulated at each stage of the acquisition.

– If the Group loses significant influence or joint control, the transaction will be accounted for as a disposal of the entire interest in that investee, with any remaining interest being recognised at fair value as if reacquired. Previously such transactions were treated as partial disposals.

Consistent with the transitional provisions in HKFRS 3 and HKAS 27, these new accounting policies will be applied prospectively to transactions in current or future periods and therefore previous periods have been restated.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2010

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

(e) **Other changes in accounting policies which are relevant to the Group's financial statements are as follows:**

– As a result of the amendments to HKAS 27, as from 1st January, 2010 any losses incurred by a non-wholly owned subsidiary will be allocated between the controlling and non-controlling interests in proportion to their interests in that entity, even if this results in a deficit balance within consolidated equity being attributed to the non-controlling interests. Previously, if the allocation of losses to the non-controlling interests would have resulted in a deficit balance, the losses were only allocated to the non-controlling interests if the non-controlling interests were under a binding obligation to make good the losses. In accordance with the transitional provisions in HKAS 27, this new accounting policy is being applied prospectively and therefore 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 requirements of 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 properties held for own use, 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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2010

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(b) Basis of consolidation

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

(i) Subsidiaries and non-controlling interests

Subsidiaries are all entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. 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. 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 non-controlling 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 consolidated income statement as a gain on a bargain purchase.

Inter-company balances and transactions and any unrealised gains arising from inter-company transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from inter-company transactions are eliminated in the same way for as unrealised gains but only to the extent that there is no evidence of impairment.

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

Non-controlling interests (previously known as "minority interests") represent the equity in a subsidiary not attributable directly or indirectly to the Company and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. For each business combination, the Group can elect to measure any non-controlling interest either at fair value or at their proportionate share of the subsidiary's net identifiable assets. Non-controlling interests are presented in the consolidated balance sheet within equity, separately from equity attributable to the equity shareholders of the Company. Non-controlling interests in the results of the Group are presented on the face of the consolidated income statement and the consolidated statement of comprehensive income as an allocation of the total profit or loss and total comprehensive income for the year between non-controlling interests and the equity shareholders of the Company.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2010

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(b) Basis of consolidation (Continued)

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

Loan from holders of non-controlling interests and other contractual obligations towards these holders are presented as financial liabilities in the consolidated balance sheet in accordance with note 3(q) or 3(r) depending on the nature of the liability.

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

When the Group loses control of a subsidiary, it is accounted for as a disposal of the entire interest in that subsidiary, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former subsidiary at the date when control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset (see note 3(i)) or, when appropriate, the cost on initial recognition of an investment in an associate (see note 3(b)(ii)).

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, over its management, including participation in the financing and operating policy decisions, and generally accompanying a shareholding of between 20% and 50% of the voting rights.

An investment in an associate is accounted for in the consolidated financial statements under the equity method, unless it is classified as held for sale (or included in a disposal group that is classified as held for sale). Under the equity method, the investment is initially recorded at cost, adjusted for any excess of the Group's share of the acquisition-date fair values of the investee's identifiable net assets over the cost of the investment (if any). Thereafter, the investment is adjusted for the post-acquisition change in the Group's share of investee's net assets and any impairment loss relating to the investment (see notes 3(g) and 3(h)). Any acquisition-date excess over cost, the Group's share of the post-acquisition, post-tax results of the investees and any impairment losses for the year are recognised in the consolidated income statement, whereas the Group's share of the post-acquisition post-tax items of the investees' other comprehensive income is recognised in the consolidated statement of comprehensive income.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(b) Basis of consolidation (Continued)

(ii) Associates (Continued)

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

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

When the Group ceases to have significant influence over an associate, it is accounted for as a disposal of the entire interest in that investee, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former investee at the date when significant influence is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset (see note 3(i)) or, when appropriate, the cost on initial recognition of an investment in an associate.

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

(c) Segment reporting

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. A discontinued segment is separately presented from continuing segments.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2010

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(d) Foreign currency translation

(i) Functional and presentation currency

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

(ii) Transactions and balances

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

Properties held for own use are stated at their revalued amount, being their fair value at the date of revaluation less any subsequent accumulated depreciation. Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. All other items of property, plant and equipment are stated at cost less accumulated depreciation and any impairment losses (see note 3(h)).

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2010

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(e) Property, plant and equipment (Continued)

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

Leasehold land held for own use under finance leases	Unexpired term of the leases
Buildings held for own use	40 years or unexpired term of the leases, if shorter
Furniture, fixtures and equipment	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.

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

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

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (note 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 certain lessee-occupied properties.

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(g) Goodwill

Goodwill represents the excess of

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

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

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

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

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

(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 is 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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2010

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(h) Impairment of assets (Continued)

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

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.

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(h) Impairment of assets (Continued)

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

Impairment losses are written off against the corresponding assets directly, except for impairment losses recognised in respect of trade debtors and bills receivables included within trade and other receivables, whose recovery is considered doubtful but not remote. In this case, the allowance for impairment of bad and doubtful debts 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 leasehold land held for own use under finance leases and properties carried at revalued amounts);

– leasehold 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).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2010

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, which are classified as non-current assets. Trade and other receivables, pledged bank deposits and cash and cash equivalents in the balance sheet are classified as loans and receivables.

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2010

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(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)).

(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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(l) Financial guarantees issued, provisions and contingent liabilities

(i) Financial guarantees issued

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

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

The amount of the guarantee initially recognised as deferred income is amortised in profit or loss over the term of the guarantee as income from financial guarantees issued. In addition, provisions are recognised in accordance with note 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.

(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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2010

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

(iii) Other provisions and contingent liabilities (Continued)

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 statement of cash flows.

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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2010

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(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.

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(t) Employee benefits

(i) Retirement benefit costs

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

(ii) Profit-sharing and bonus plans

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

(iii) Share-based compensation

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

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2010

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(v) Leases (Continued)

(i) Leases of land and buildings (Continued)

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

(ii) Finance leases

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

Depreciation and impairment losses are calculated and recognised in the same manner as the depreciation and impairment losses on property, plant and equipment as set out in note 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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2010

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(w) Dividend distribution

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

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

(x) Borrowing costs

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

(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

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

(a) **Critical accounting estimates and assumptions**

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

(i) Allowance for impairment of trade and other receivables

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

(ii) Income taxes

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

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

(iii) Provision for inventories

The Group reviews the carrying amounts of inventories at each balance sheet date to determine whether the inventories are carried at lower of cost and net realisable value in accordance with the accounting policy set out in note 3(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 18).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2010

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (Continued)

(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 top executive management monitors the results, assets and liabilities attributable to each reportable segment on the following basis:

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

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

Unallocated items mainly comprise financial and corporate assets, interest-bearing loans, borrowings, tax balances, corporate and financing expenses.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2010

5. SEGMENT REPORTING (Continued)

Segment results, assets and liabilities (Continued)

The segment results for the year ended 31st December, 2010 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	435,863,744	414,523,424	1,043,162,131	531,117,497	1,991,587	-	2,426,658,383
Inter-segment sales	22,324,329	183,571	9,089,388	-	5,465,601	(37,062,889)	-
Total revenue	458,188,073	414,706,995	1,052,251,519	531,117,497	7,457,188	(37,062,889)	2,426,658,383

Inter-segment sales are charged at prevailing market rates.

	Industrial consumables HK$	Plastic processing products HK$	Machinery HK$	Printed circuit boards HK$	Other operations HK$	Eliminations HK$	Consolidated HK$
RESULTS							
Segment results	32,789,218	8,648,787	42,447,257	42,474,215	(2,244,214)	(465,448)	123,649,815
Unallocated corporate expenses							(18,375,497)
Profit from operations							105,274,318
Finance costs							(13,760,054)
Investment income, net							4,943,373
Gain on deregistration of a subsidiary							453,483
Gain on dilution of interest in an associate							200,670,330
Gain on disposal of an associate							86,569
Share of results of associates		203,099	2,949,241		9,906,163		13,058,503
Profit before taxation							310,726,522
Taxation							(13,348,871)
Profit before non-controlling interests							297,377,651

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2010

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	257,258,839	391,186,202	1,179,801,096	363,836,768	55,885,474	2,247,968,379
Interests in associates						384,692,036
Available-for-sale financial assets						5,085,023
Unallocated corporate assets						61,842,906
Consolidated total assets						2,699,588,344
LIABILITIES						
Segment liabilities	108,677,579	49,533,156	582,049,577	145,477,250	5,766,902	891,504,464
Current tax payable						7,079,542
Borrowings						295,216,875
Unallocated corporate liabilities						12,026,985
Consolidated total liabilities						1,205,827,866
OTHER INFORMATION						
Capital additions	1,256,963	11,942,789	110,664,625	74,098,609	143,944	198,106,930
Depreciation and amortisation	1,194,282	15,240,340	16,556,907	20,281,791	927,239	54,200,559
Other non-cash expenses	1,816,157	336,505	19,034,830	600,000	2,795,285	24,582,777

5. SEGMENT REPORTING (Continued)

Segment results, assets and liabilities (Continued)

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

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

Inter-segment sales are charged at prevailing market rates.

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2010

5. SEGMENT REPORTING (Continued)

Segment results, assets and liabilities (Continued)

	Industrial consumables HK$	Plastic processing products HK$	Machinery HK$	(Restated) Printed circuit boards HK$	(Restated) Other operations HK$	(Restated) Consolidated HK$
ASSETS						
Segment assets	179,950,397	333,273,343	1,045,118,683	322,075,249	38,410,782	1,918,828,454
Interests in associates						240,348,760
Available-for-sale financial assets						4,673,651
Unallocated corporate assets						44,470,529
Consolidated total assets						2,208,321,394
LIABILITIES						
Segment liabilities	50,075,392	54,055,375	431,320,714	131,391,538	5,664,478	672,507,497
Current tax payable						6,250,861
Borrowings						302,645,882
Unallocated corporate liabilities						60,015,791
Consolidated total liabilities						1,041,420,031
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 (income)	1,258,708	649,841	(790,553)	2,800,000	6,431,375	10,349,371

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	
	2010	2009
	HK$	HK$
Hong Kong	**636,193,910**	607,250,797
PRC	**1,529,161,826**	921,949,380
Other Asia-Pacific countries	**199,729,609**	125,407,342
North America	**18,342,962**	13,475,932
Europe	**43,230,076**	24,710,672
	2,426,658,383	1,692,794,123

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	
		(Restated)		
	2010	2009	**2010**	2009
	HK$	HK$	**HK$**	HK$
Hong Kong	**650,642,861**	717,727,315	**716,457**	146,540
PRC	**2,027,228,606**	1,471,907,573	**197,390,473**	70,734,775
Other Asia-Pacific countries	**9,996,596**	8,833,580	**–**	–
North America	**5,028,453**	4,430,697	**–**	–
Europe	**6,691,828**	5,422,229	**–**	–
	2,699,588,344	2,208,321,394	**198,106,930**	70,881,315

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2010

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:

	2010 HK$	2009 HK$
Turnover		
Sales of goods	**2,426,658,383**	1,692,794,123
Other income		
Commission income	**4,286**	39,272
Gross rental income from properties	**1,460,876**	601,148
Handling and services income	**2,215,678**	2,224,885
Sales of scrapped materials	**4,589,336**	436,952
Sundry income	**6,474,664**	11,755,155
	14,744,840	15,057,412
Gains, net		
Exchange gain	**1,420,728**	2,095,362
Revaluation surplus on properties held for own use	**–**	429,785
	1,420,728	2,525,147
	16,165,568	17,582,559

7. FINANCE COSTS

	2010 HK$	2009 HK$
Interest on:		
Borrowings wholly repayable within 5 years		
– bank loans and overdrafts	**13,151,509**	14,562,748
– other loans	**153,553**	398,793
Finance leases	**454,992**	530,962
Total interest expense on financial liabilities not at fair value through profit or loss	**13,760,054**	15,492,503

8. INVESTMENT INCOME, NET

	2010 HK$	2009 HK$
Interest income	**2,385,006**	2,942,700
Dividend income from an unlisted available-for-sale financial asset	**2,558,367**	–
Dividend income from a listed available-for-sale financial asset	**–**	5,892
	4,943,373	2,948,592

9. PROFIT BEFORE TAXATION

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

	2010 HK$	(Restated) 2009 HK$
Charging:		
Directors' remuneration *(note 10)*	**7,171,087**	9,480,151
Salaries and other benefits	**290,712,078**	230,452,791
Retirement benefits scheme contributions	**5,714,125**	4,854,171
Share-based payments	**334,447**	–
	303,931,737	244,787,113
Depreciation and amortisation on:		
– Owned assets	**49,757,990**	46,034,510
– Assets held under finance leases	**3,496,655**	4,274,161
– Leasehold land held for own use under finance leases *(note 16)*	**242,145**	242,145
– Leasehold land and land use rights *(note 17)*	**703,769**	580,029
Impairment losses on goodwill (included in other operating expenses) *(note 18)*	**100,000**	–
Loss on disposal of property, plant and equipment	**5,172,685**	4,921,103
Auditors' remuneration		
– Current year	**2,139,399**	2,190,020
– (Over) Under-provided in prior years	**(13,712)**	322,422
Operating lease payments *(note 36)*	**19,345,234**	18,916,399
Share of associates' taxation	**493,191**	4,074,801
and crediting:		
Rental income net of direct outgoings *(note 36)*	**1,428,486**	539,878

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2010

10. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

(a) Directors' emoluments

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

Name of directors	Directors' fees HK$	Salaries and allowances HK$	Retirement benefits scheme contributions HK$	Share-based payments [3] HK$	2010 Total HK$	2009 Total HK$
Executive directors						
Mr. Tang To	**1,298,044**	**1,196,000**	**157,500**	**-**	**2,651,544**	3,789,685
Mr. Wong Yiu Ming	**1,332,058**	**1,660,000**	**186,750**	**201,305**	**3,380,113**	4,551,036
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. Yip Jeffery [1]	**40,000**	**-**	**-**	**-**	**40,000**	40,000
Mr. Ho Wei Sem [2]	**-**	**-**	**-**	**-**	**-**	–
Miss. Yeung Shuk Fan	**168,000**	**-**	**-**	**-**	**168,000**	168,000
Mr. Cheng Tak Yin	**40,000**	**-**	**-**	**-**	**40,000**	40,000
Mr. Wu Ding	**40,000**	**-**	**-**	**-**	**40,000**	40,000
Total 2010	**3,038,102**	**3,536,400**	**395,280**	**201,305**	**7,171,087**	9,480,151
Total 2009	5,655,221	3,436,400	388,530	–		

Notes:

(1) Resigned on 3rd December, 2010

(2) Appointed on 21st December, 2010

(3) This represents the estimated value of share options granted to the directors under the Company's share option scheme. The value of these options is measured according to the Group's accounting policies for share-based payments as set out in note 3(t)(iii). The details of these benefits in kinds are also set out in note 28.

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

10. DIRECTORS' AND EMPLOYEES' EMOLUMENTS (Continued)

(b) Employees' emoluments

The five highest paid individuals included two (2009: two) directors, details of whose emoluments are set out above. The emoluments of the remaining three (2009: three) individuals are as follows:

	2010	2009
	HK$	HK$
Salaries and other benefits	**10,635,700**	10,324,500
Retirement benefits scheme contributions	**229,725**	198,900
	10,865,425	10,523,400

The emoluments of the employees were within the following bands:

	Number of employees	
	2010	2009
HK$1,000,001 to HK$2,000,000	**1**	2
HK$2,000,001 to HK$3,000,000	**1**	–
HK$7,000,001 to HK$8,000,000	**1**	1
	3	3

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2010

11. TAXATION

The provision for Hong Kong Profits Tax for 2010 is calculated at 16.5% (2009: 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.

	2010 **HK$**	2009 HK$
Current tax:		
Hong Kong profits tax		
Current year	**984,316**	1,379,954
(Over) Under-provision in prior years	**(11)**	247,490
	984,305	1,627,444
Overseas tax		
Current year	**12,963,822**	5,063,355
Under (Over)-provision in prior years	**12,725**	(389,541)
	12,976,547	4,673,814
Deferred tax:		
Deferred taxation relating to the origination and reversal of temporary differences *(note 32)*	**(611,981)**	2,262,354
Taxation charge	**13,348,871**	8,563,612

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:

	2010 **HK$**	2009 HK$
Profit before taxation	**310,726,522**	35,324,072
Tax at the domestic income tax rate of 16.5% (2009: 16.5%)	**51,269,876**	5,828,472
Tax effect of expenses that are not deductible in determining taxable profit	**16,784,310**	14,962,583
Tax effect of income that is not taxable in determining taxable profit	**(51,039,586)**	(19,489,384)
Under (Over)-provision of current tax in prior years, net	**12,714**	(142,051)
Tax effect of tax losses not recognised	**2,384,271**	10,955,574
Tax effect of temporary differences not recognised	**744,008**	461,331
Tax effect of utilisation of tax losses not previously recognised	**(10,908,012)**	(1,603,533)
Tax effect of write-down of deferred tax assets	**–**	1,968,917
Effect of different tax rates of subsidiaries operating in other jurisdictions	**4,101,290**	(4,378,297)
Taxation charge	**13,348,871**	8,563,612

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$78,753,315 (2009:HK$157,873).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2010

13. OTHER COMPREHENSIVE INCOME (EXPENSE)

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

	2010 Before tax amount HK$	**2010** Tax expenses HK$	**2010** Net-of-tax amount HK$	(Restated) 2009 Before tax amount HK$	(Restated) 2009 Tax expenses HK$	(Restated) 2009 Net-of-tax amount HK$
Cash flow hedges	**–**	**–**	**–**	(5,751)	–	(5,751)
Change in fair value of available-for-sale financial assets *(note 21)*	**411,372**	**–**	**411,372**	(55,793)	–	(55,793)
Share of other comprehensive income (expense) of associates	**8,290,387**	**–**	**8,290,387**	(1,346,456)	–	(1,346,456)
Surplus on revaluation of properties held for own use	**14,012,102**	**(1,816,198)**	**12,195,904**	9,097,259	(1,516,345)	7,580,914
Exchange differences: net movement in translation reserve (note (b) below)	**17,885,635**	**–**	**17,885,635**	(207,696)	–	(207,696)
	40,599,496	**(1,816,198)**	**38,783,298**	7,481,563	(1,516,345)	5,965,218

(b) Reclassification adjustment relating to component of other comprehensive income (expense)

	2010 HK$	2009 HK$
Translation reserve:		
Exchange differences on translation of financial statements of overseas subsidiaries	**18,339,118**	1,192,707
Reclassification adjustment:		
Realisation of translation reserve on deregistration of an overseas subsidiary	**(453,483)**	(1,400,403)
Net movement in the translation reserve during the year recognised in other comprehensive income (expense)	**17,885,635**	(207,696)

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For the year ended 31st December, 2010

14. EARNINGS PER SHARE

(a) Basic 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.

	2010	2009
Weighted average number of ordinary shares in issue during the year	**710,056,446**	709,930,692
Profit attributable to the equity holders of the Company	**HK$275,671,070**	HK$7,301,451
Earnings per share	**HK 38.82 cents**	HK 1.03 cents

(b) Diluted earnings per share

The calculation of diluted 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 after adjusting the effect of the deemed issue of shares under the Company's share option scheme for nil consideration.

	2010
Weighted average number of ordinary shares in issue during the year	710,056,446
Effect of deemed issue of ordinary shares under the Company's share option scheme for nil consideration	1,800,061
	711,856,507
Diluted earnings per share	HK 38.73 cents

15. DIVIDEND

	2010 **HK$**	2009 HK$
Dividend proposed after the balance sheet date of HK$0.015 (2009:HK$ Nil) per share	**10,688,860**	–

The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forth coming annual general meeting.

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For the year ended 31st December, 2010

16. PROPERTY, PLANT AND EQUIPMENT

	Leasehold land held for own use under finance leases HK$	Buildings held for own use HK$	Furniture, fixtures and equipment HK$	Plant and machinery HK$	Motor vehicles HK$	Assets under construction HK$	(Restated) Total HK$
THE GROUP							
COST OR VALUATION							
At 1st January, 2009 (Restated)	16,218,000	102,132,000	176,437,194	540,255,235	38,624,783	10,948,691	884,615,903
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 (Restated)	3,360,000	2,963,744	–	–	–	–	6,323,744
At 31st December, 2009 and 1st January, 2010 (Restated)	**19,578,000**	**101,052,000**	**174,497,888**	**533,255,890**	**38,195,038**	**21,071,400**	**887,650,216**
Currency realignment	**-**	**2,052,267**	**2,181,870**	**7,673,543**	**642,439**	**550,054**	**13,100,173**
Reclassifications	**-**	**44,469,118**	**(602,605)**	**9,449,406**	**(277,500)**	**(53,038,419)**	**-**
Additions	**-**	**5,071,026**	**20,718,444**	**81,530,707**	**5,598,107**	**84,153,585**	**197,071,869**
Disposals	**-**	**(1,830,449)**	**(20,887,619)**	**(38,824,034)**	**(2,566,703)**	**-**	**(64,108,805)**
Adjustment on revaluation	**6,360,000**	**2,173,038**	**-**	**-**	**-**	**-**	**8,533,038**
At 31st December, 2010	**25,938,000**	**152,987,000**	**175,907,978**	**593,085,512**	**41,591,381**	**52,736,620**	**1,042,246,491**
Analysis of cost or valuation:							
At 31st December, 2010							
At cost	**-**	**-**	**175,907,978**	**593,085,512**	**41,591,381**	**52,736,620**	**863,321,491**
At valuation	**25,938,000**	**152,987,000**	**-**	**-**	**-**	**-**	**178,925,000**
	25,938,000	**152,987,000**	**175,907,978**	**593,085,512**	**41,591,381**	**52,736,620**	**1,042,246,491**
At 31st December, 2009							
At cost	–	–	174,497,888	533,255,890	38,195,038	21,071,400	767,020,216
At valuation (Restated)	19,578,000	101,052,000	–	–	–	–	120,630,000
	19,578,000	101,052,000	174,497,888	533,255,890	38,195,038	21,071,400	887,650,216

16. PROPERTY, PLANT AND EQUIPMENT (Continued)

	Leasehold land held for own use under finance leases HK$	Buildings held for own use HK$	Furniture, fixtures and equipment HK$	Plant and machinery HK$	Motor vehicles HK$	Assets under construction HK$	(Restated) Total HK$
ACCUMULATED DEPRECIATION, AMORTISATION AND IMPAIRMENT							
At 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 (Restated)	242,145	5,007,421	9,851,856	32,297,024	3,152,370	–	50,550,816
Written back on disposals	–	(2,053,734)	(8,924,358)	(55,550,597)	(2,408,496)	–	(68,937,185)
Eliminated on revaluation (Restated)	(242,145)	(2,961,155)	–	–	–	–	(3,203,300)
At 31st December, 2009 and 1st January, 2010	-	-	130,129,357	347,492,386	28,849,549	-	506,471,292
Currency realignment	-	162,187	1,438,048	5,035,505	479,814	-	7,115,554
Reclassifications	-	-	(228,011)	359,385	(131,374)	-	-
Depreciation provided for the year	242,145	5,463,963	11,815,354	32,528,886	3,446,442	-	53,496,790
Written back on disposals	-	(389,231)	(15,338,937)	(33,315,726)	(2,170,284)	-	(51,214,178)
Eliminated on revaluation	(242,145)	(5,236,919)	-	-	-	-	(5,479,064)
At 31st December, 2010	-	-	127,815,811	352,100,436	30,474,147	-	510,390,394
NET BOOK VALUES							
At 31st December, 2010	25,938,000	152,987,000	48,092,167	240,985,076	11,117,234	52,736,620	531,856,097
At 31st December, 2009 (Restated)	19,578,000	101,052,000	44,368,531	185,763,504	9,345,489	21,071,400	381,178,924
At 31st December, 2008 (Restated)	16,218,000	102,132,000	47,289,522	169,792,950	10,572,420	10,948,691	356,953,583

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For the year ended 31st December, 2010

16. PROPERTY, PLANT AND EQUIPMENT (Continued)

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

	2010		(Restated) 2009		(Restated) 2008	
	Land	**Buildings**	Land	Buildings	Land	Buildings
	HK$	**HK$**	HK$	HK$	HK$	HK$
In Hong Kong:						
– under medium-term leases	**25,938,000**	**1,962,000**	19,578,000	1,962,000	16,218,000	1,922,000
Outside Hong Kong:						
– under long-term leases	**-**	**11,775,000**	–	11,720,000	–	11,900,000
– under medium-term leases	**-**	**139,250,000**	–	87,370,000	–	88,310,000
	25,938,000	**152,987,000**	19,578,000	101,052,000	16,218,000	102,132,000

The leasehold land and buildings of the Group were revalued as at 31st December, 2010 and 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 other comprehensive income for the year and accumulated separately in property revaluation reserve, respectively.

Depreciation expense of HK$38,051,055 (2009: HK$35,681,899) has been expensed in cost of goods sold, HK$1,427,079 (2009: HK$1,185,153) in selling and distribution costs and HK$14,018,656 (2009: HK$13,683,764 as restated) in administrative expenses.

Had leasehold land and buildings been carried at cost less accumulated depreciation and amortisation, the carrying value of leasehold land and buildings would have been HK$129,922,326 (2009: HK$83,824,056 as restated; 2008: HK$89,166,687 as restated).

The net book value of the Group's plant and machinery includes an amount of HK$37,697,665 (2009: HK$47,149,146; 2008: HK$34,715,509) in respect of assets held under finance leases (note 40).

At 31st December, 2010, certain of the Group's leasehold buildings with an aggregate carrying value of HK$23,500,000 (2009: HK$23,200,000; 2008: HK$ Nil) were pledged to secure certain bank borrowings granted to the Group (note 40).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2010

16. PROPERTY, PLANT AND EQUIPMENT (Continued)

	Furniture, fixtures and equipment HK$	Motor vehicles HK$	Total HK$
THE COMPANY			
COST			
At 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 and 1st January, 2010	**5,626,369**	**1,054,768**	**6,681,137**
Additions	**39,696**	**–**	**39,696**
At 31st December, 2010	**5,666,065**	**1,054,768**	**6,720,833**
ACCUMULATED DEPRECIATION			
At 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 and 1st January, 2010	**3,458,921**	**744,598**	**4,203,519**
Depreciation provided for the year	**448,776**	**103,389**	**552,165**
At 31st December, 2010	**3,907,697**	**847,987**	**4,755,684**
NET BOOK VALUES			
At 31st December, 2010	**1,758,368**	**206,781**	**1,965,149**
At 31st December, 2009	2,167,448	310,170	2,477,618
At 31st December, 2008	2,589,395	413,560	3,002,955

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2010

17. LEASEHOLD LAND AND LAND USE RIGHTS

	2010 HK$	(Restated) 2009 HK$	(Restated) 2008 HK$
THE GROUP			
COST			
At 1st January	**41,191,850**	41,142,556	43,481,830
Currency realignment	**810,575**	49,294	1,871,420
Additions	**1,035,061**	–	–
Disposals	**–**	–	(4,210,694)
At 31st December	**43,037,486**	41,191,850	41,142,556
ACCUMULATED AMORTISATION			
At 1st January	**7,538,963**	6,952,361	8,142,687
Currency realignment	**116,946**	6,573	311,928
Amortisation for the year	**703,769**	580,029	686,571
Written back on disposals	**–**	–	(2,188,825)
At 31st December	**8,359,678**	7,538,963	6,952,361
NET BOOK VALUE			
At 31st December	**34,677,808**	33,652,887	34,190,195
Portion classified as current assets	**703,769**	580,029	686,571
Long term portion	**33,974,039**	33,072,858	33,503,624
At 1st January	**33,652,887**	34,190,195	35,339,143

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:

	2010 HK$	(Restated) 2009 HK$	(Restated) 2008 HK$
Outside Hong Kong held on:			
Leases of over 50 years	**5,848,491**	5,964,644	6,145,967
Leases of between 10 to 50 years	**28,829,317**	27,688,243	28,044,228
	34,677,808	33,652,887	34,190,195

17. LEASEHOLD LAND AND LAND USE RIGHTS (Continued)

At 31st December, 2010, certain of the Group's land use rights with an aggregate carrying value of HK$3,939,345 (2009: HK$3,939,905; 2008: HK$ Nil) were pledged to secure certain bank borrowings granted to the Group (note 40).

18. GOODWILL

	THE GROUP		
	2010	2009	2008
	HK$	HK$	HK$
COST			
At 1st January	**17,183,008**	17,183,008	26,589,649
Acquisition of a subsidiary *(note 35)*	**100,000**	–	–
Acquisition of additional interest in a subsidiary	**–**	–	483,750
Elimination on deregistration of a subsidiary	**–**	–	(9,890,391)
At 31st December	**17,283,008**	17,183,008	17,183,008
ACCUMULATED IMPAIRMENT			
At 1st January	**17,183,008**	17,183,008	26,589,649
Impairment losses recognised in the year *(note 9)*	**100,000**	–	483,750
Elimination on deregistration of a subsidiary	**–**	–	(9,890,391)
At 31st December	**17,283,008**	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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2010

19. INTERESTS IN SUBSIDIARIES

	THE COMPANY		
	2010	2009	2008
	HK$	HK$	HK$
Unlisted shares/capital contributions, at cost	**40,184,956**	39,946,384	39,946,384
Less: impairment losses	**3,005,160**	3,005,160	1,150,366
	37,179,796	36,941,224	38,796,018
Amounts due from subsidiaries	**717,354,133**	706,875,597	713,657,909
Less: allowance for impairment of doubtful debts	**51,718,437**	42,609,213	41,220,180
	665,635,696	664,266,384	672,437,729
	702,815,492	701,207,608	711,233,747

Details of the Company's principal subsidiaries at 31st December, 2010 are set out in note 43.

Amounts due from subsidiaries are unsecured and have no fixed terms of repayment. Other than the carrying amounts of HK$6,750,000 (2009: 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$648,325,747 (2009: 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 age over three years. The other amounts due from subsidiaries do not contain impaired assets.

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

	THE COMPANY		
	2010	2009	2008
	HK$	HK$	HK$
At 1st January	**42,609,213**	41,220,180	41,220,180
Impairment loss recognised	**9,109,224**	4,008,355	–
Unused amounts reversed	**–**	(2,619,322)	–
At 31st December	**51,718,437**	42,609,213	41,220,180

20. INTERESTS IN ASSOCIATES

	THE GROUP		
		(Restated)	(Restated)
	2010	2009	2008
	HK$	HK$	HK$
Unlisted shares, at cost	**14,045,317**	30,179,625	26,528,834
Share of post-acquisition profits and reserves, net of dividends received	**14,859,524**	134,227,069	113,086,335
Share of net assets	**28,904,841**	164,406,694	139,615,169
Listed shares in the PRC, at cost	**8,360,510**	–	–
Share of post-acquisition profits and reserves, net of dividends received	**330,983,791**	–	–
Share of net assets	**339,344,301**	–	–
Total share of net assets	**368,249,142**	164,406,694	139,615,169
Amounts due from associates *(note 42)*	**16,442,894**	75,942,066	95,287,850
	384,692,036	240,348,760	234,903,019
Fair value of listed shares in the PRC	**956,555,786**	N/A	N/A

(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 (2009: 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		
	2010	2009	2008
	HK$	HK$	HK$
At 1st January	**–**	–	15,250
Uncollectible amounts written off	**–**	–	(15,250)
At 31st December	**–**	–	–

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2010

20. INTERESTS IN ASSOCIATES (Continued)

Details of the principal associates of the Group at 31st December, 2010 are as follows:

Name of associate	Place of incorporation/ registration and operation	Proportion of nominal value of registered capital attributable to the Group %	Principal activities
Dalian Huada Plastics Co., Ltd	The PRC	30.00	Plastic processing
Suzhou Sanguang Science & Technology Co., Ltd.	The PRC	21.13	Manufacturing of industrial machinery, equipment and supplies
Shenzhen Haoningda Meters Company Limited *(note a)*	The PRC	31.50	Manufacturing and trading of electronic meters

(a) On 9th February, 2010, an associate of the Group, Shenzhen Haoningda Meters Company Limited (a company incorporated as a joint stock limited company in the PRC) completed its initial public offering of its A shares and commenced the trading on the Shenzhen Stock Exchange. As a result, the Group's shareholding in this associate is reduced from 41.99% to 31.50% approximately. Due to dilution of shareholding, the gain on deemed disposal of HK$200,670,330 has been recognised in the consolidated income statement.

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:

	2010 HK$	2009 HK$	2008 HK$
Total assets	**1,646,878,050**	786,105,348	751,433,211
Total liabilities	**(475,415,796)**	(418,416,796)	(439,330,328)
Net assets	**1,171,462,254**	367,688,552	312,102,883
Group's share of associates' net assets	**368,249,142**	164,406,694	139,615,169
Revenue	**589,958,660**	440,264,084	413,835,824
Profit for the year	**481,318,838**	52,979,948	51,052,310
Group's share of associates' profits for the year	**13,058,503**	22,487,191	13,118,446

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21. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	THE GROUP		
	2010	2009	2008
	HK$	HK$	HK$
At 1st January	**4,673,651**	4,729,444	5,055,010
Additions	**–**	–	171,254
Disposals	**–**	–	(593,623)
Revaluation surplus(deficit) recognised in other comprehensive income *(note 13(a))*	**411,372**	(55,793)	96,803
At 31st December	**5,085,023**	4,673,651	4,729,444
Less: non-current portion	**5,085,023**	4,673,651	4,729,444
Current portion	**–**	–	–

Available-for-sale financial assets include the following:

	THE GROUP		
	2010	2009	2008
	HK$	HK$	HK$
Unlisted securities, at cost	**5,350,694**	5,350,694	6,442,680
Impairment losses	**(979,803)**	(979,803)	(2,071,789)
	4,370,891	4,370,891	4,370,891
Listed securities, at market value			
Equity securities – Overseas	**714,132**	302,760	358,553
Current portion	**5,085,023**	4,673,651	4,729,444

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

	THE GROUP		
	2010	2009	2008
	HK$	HK$	HK$
Renminbi	**4,370,891**	4,370,891	4,370,891
Japanese Yen	**714,132**	302,760	358,553
	5,085,023	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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2010

22. INVENTORIES

(a) Inventories in the balance sheet comprise:

	THE GROUP		
	2010	2009	2008
	HK$	HK$	HK$
Trading inventories and finished goods	**213,247,070**	156,956,667	234,062,665
Work in progress	**167,069,811**	118,044,622	107,510,905
Raw materials	**225,203,764**	244,609,851	255,837,983
	605,520,645	519,611,140	597,411,553

At 31st December, 2010, the carrying amount of inventories that were stated at fair value less cost to sell is HK$500,038,834 (2009: HK$424,951,897; 2008: HK$483,389,176).

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

	THE GROUP		
	2010	2009	2008
	HK$	HK$	HK$
Carrying amount of inventories sold	**1,957,277,587**	1,374,240,265	1,585,788,332
Write down of inventories	**19,571,184**	9,395,786	11,031,033
Reversal of write-down of inventories	**(6,532,358)**	(215,415)	–
	1,970,316,413	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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2010

23. TRADE AND OTHER RECEIVABLES

	THE GROUP		
	2010	2009	2008
	HK$	HK$	HK$
Trade and bills receivables	**662,280,869**	565,694,571	571,778,683
Less: allowance for impairment of bad and doubtful debts	**81,860,603**	71,526,782	68,736,703
Trade and bills receivables, net	**580,420,266**	494,167,789	503,041,980
Other receivables	**174,731,972**	183,447,707	247,763,555
Less: allowance for impairment of bad and doubtful debts	**17,348,179**	21,216,065	23,094,761
Other receivables, net	**157,383,793**	162,231,642	224,668,794
Prepayments	**15,811,322**	15,416,997	6,604,792
Amounts due from related parties *(note 42)*	**621,830**	843,136	838,388
	754,237,211	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.

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		
	2010	2009	2008
	HK$	HK$	HK$
0 to 3 months	**421,189,337**	368,252,039	331,819,568
4 to 6 months	**73,303,076**	49,976,719	68,846,796
7 to 9 months	**28,449,209**	16,344,515	36,523,479
Over 9 months	**57,478,644**	59,594,516	65,852,137
	580,420,266	494,167,789	503,041,980

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2010

23. TRADE AND OTHER RECEIVABLES (Continued)

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

	Trade receivables			Other receivables		
	2010	2009	2008	**2010**	2009	2008
	HK$	HK$	HK$	**HK$**	HK$	HK$
At 1st January	**71,526,782**	68,736,703	64,101,498	**21,216,065**	23,094,761	21,511,974
Currency realignment	**1,509,093**	83,997	2,712,933	**495,854**	35,199	1,159,656
Impairment loss recognised	**13,825,367**	3,660,444	4,061,649	**–**	–	1,652,622
Unused amounts reversed	**(1,184,723)**	(147,764)	(1,059,428)	**(88,947)**	(1,913,895)	(122,146)
Uncollectible amounts written off	**(3,815,916)**	(806,598)	(1,079,949)	**(4,274,793)**	–	(1,107,345)
At 31st December	**81,860,603**	71,526,782	68,736,703	**17,348,179**	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, 2010, trade and bills receivables of HK$89,655,617 (2009: HK$92,414,448; 2008: HK$99,561,606) were impaired. The amount of allowance was HK$81,860,603 as at 31st December, 2010 (2009: HK$71,526,782; 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		
	2010	2009	2008
	HK$	HK$	HK$
Less than 6 months past due	**13,935,132**	13,904,334	22,857,967
6 months to 1 year past due	**1,093,700**	2,473,323	4,296,100
1 year to 3 years past due	**8,365,916**	10,323,311	7,469,118
Over 3 years past due	**66,260,869**	65,713,480	64,938,421
	89,655,617	92,414,448	99,561,606

23. TRADE AND OTHER RECEIVABLES (Continued)

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

	THE GROUP		
	2010	2009	2008
	HK$	HK$	HK$
Neither past due nor impaired	**412,617,200**	354,925,419	317,833,375
Less than 6 months past due	**116,576,869**	78,222,596	114,648,235
6 months to 1 year past due	**16,681,390**	10,711,513	22,487,698
1 year to 3 years past due	**17,208,208**	23,134,872	12,380,023
Over 3 years past due	**9,541,585**	6,285,723	4,867,746
	572,625,252	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 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		
	2010	2009	2008
United States Dollars	**15,168,378**	13,469,097	15,863,227
Renminbi	**450,702,992**	413,921,772	415,347,138
Japanese Yen	**111,359,266**	88,853,870	23,239,680
Euro Dollars	**112,411**	4,246	27,549

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For the year ended 31st December, 2010

24. TRADE AND OTHER PAYABLES

	THE GROUP		
	2010	2009	2008
	HK$	HK$	HK$
Trade and bills payables	**583,290,592**	427,771,914	448,014,449
Accruals and other payables	**310,727,841**	245,163,141	217,630,292
Amounts due to related parties *(note 42)*	**382,550**	382,550	783,455
	894,400,983	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		
	2010	2009	2008
	HK$	HK$	HK$
0 to 3 months	**499,233,340**	320,106,373	281,025,261
4 to 6 months	**67,200,330**	89,863,279	139,722,276
7 to 9 months	**2,182,855**	2,029,335	14,671,267
Over 9 months	**14,674,067**	15,772,927	12,595,645
	583,290,592	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		
	2010	2009	2008
United States Dollars	**4,745,145**	2,918,308	3,958,045
Renminbi	**616,142,350**	474,290,395	415,826,027
Japanese Yen	**500,561,691**	203,619,228	204,864,921
Euro Dollars	**247,699**	163,240	294,699

25. DERIVATIVE FINANCIAL INSTRUMENTS

	THE GROUP					
	2010		2009		2008	
	Assets	**Liabilities**	Assets	Liabilities	Assets	Liabilities
	HK$	**HK$**	HK$	HK$	HK$	HK$
Forward foreign exchange contracts:						
– held as cash flow hedges	**591,125**	**596,876**	1,421,499	1,427,250	–	–
– other derivatives	**-**	**-**	–	–	–	167,215
	591,125	**596,876**	1,421,499	1,427,250	–	167,215

The notional principal amount of the outstanding forward foreign exchange contracts at 31st December, 2010 was JPY6,194,979 (2009: 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, 2010 are recognised in other comprehensive income in the period during which the hedged forecast transaction affects the profit or loss.

	THE COMPANY		
	2010	2009	2008
	HK$	HK$	HK$
Forward foreign exchange forward contract – other derivative, at fair value	**-**	–	167,215

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

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

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31st December, 2010

26. CASH AND CASH EQUIVALENTS

	THE GROUP			THE COMPANY		
	2010	2009	2008	**2010**	2009	2008
	HK$	HK$	HK$	**HK$**	HK$	HK$
Bank balances and cash	**320,835,771**	309,027,423	189,369,411	**16,567,503**	9,145,528	17,096,505

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

	THE GROUP		
	2010	2009	2008
	HK$	HK$	HK$
Bank balances and cash per above	**320,835,771**	309,027,423	189,369,411
Bank overdrafts *(note 30)*	**(10,102,510)**	(26,298,796)	(12,160,621)
	310,733,261	282,728,627	177,208,790

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

	THE GROUP			THE COMPANY		
	2010	2009	2008	**2010**	2009	2008
United States Dollars	**5,178,306**	7,838,959	5,368,616	**3,315**	3,335	2,585
Renminbi	**192,187,914**	223,835,741	93,793,776	**-**	–	–
Japanese Yen	**41,328,549**	8,774,972	24,663,208	**-**	–	–
Euro Dollars	**132,123**	108,962	61,261	**-**	–	–

27. SHARE CAPITAL

	Number of ordinary shares	Value HK$
Ordinary shares of HK$0.40 each		
Authorised:		
At 1st January, 2009, 31st December, 2009 and 31st December, 2010	1,000,000,000	400,000,000
Issued and fully paid:		
At 1st January, 2009 and 31st December, 2009	709,930,692	283,972,277
Shares issued upon the exercise of share options	1,100,000	440,000
At 31 December, 2010	**711,030,692**	**284,412,277**

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2010

27. SHARE CAPITAL (Continued)

During the year, the subscription rights attaching to 1,100,000 share options were exercised at the exercise price of HK$0.66 per share, resulting in the issue of 1,100,000 shares of HK$0.66 each and new share capital of HK$440,000 and share premium of HK$286,000, together with a release of the share options reserve amounting to HK$24,526 credited to the share premium account (note 29). Details of share options outstanding and movements during the year are set out in note 28.

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

28. SHARE OPTION SCHEME

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

The exercise price is determined by the directors of the Company and will not be less than the highest of (i) the closing price of the shares on the date of grant, (ii) the average closing price of the shares for the 5 business days immediately preceding the date of grant, or (iii) the nominal value of the Company's shares.

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2010

28. SHARE OPTION SCHEME (Continued)

The following table discloses details of the Company's share options held by directors and employees and movements in the Scheme during the year ended 31st December, 2010.

					Number of share options			
Grantee	Date of grant [(1)]	Exercisable period	Exercise price per share HK$	Outstanding at 31.12.2009	Granted during the year	Exercised during the year [(3)]	Lapsed during the year	Outstanding at 31.12.2010
Directors								
Mr. Wong Yiu Ming	24.05.2010	15.06.2010–14.06.2013	0.66	–	6,000,000	–	–	**6,000,000**
Employees								
In aggregate	24.05.2010	25.05.2010–19.06.2013 [(2)]	0.66	–	15,000,000	1,100,000	–	**13,900,000**
				–	21,000,000	1,100,000	–	**19,900,000**

Notes:

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

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

(3) During the year, the weighted average closing price of the Company's share on the trading day immediately before the respective dates on which the share options were exercised was HK$0.90.

The fair value of the share options granted during the year was HK$535,752, of which the Company recognised the share – based payments of HK$535,752 for the year ended 31st December, 2010.

28. SHARE OPTION SCHEME (Continued)

In determining the share option benefit expense, management appointed RHL Appraisal Limited which used The Hull White Trinomial Model (the "Model") to provide a valuation report of the share option benefit expense. The Company has used the Model with the consideration of vesting period and possible exercise pattern to certain subjective assumptions. Any change in the variables so adopted may materially affect the estimation of the fair value of an option. Details of the fair values of share options determined at the date of grant on 24th May, 2010 using the Model with the inputs are as follows:

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

The expected volatility, which is based on the approximate weekly historical volatility of closing prices of the share of the Company in the past one year immediately before the date of grant, reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome. The risk free rates are based on 1 year yield of Hong Kong Exchange Fund Notes as at valuation date. Dividend yield is based on historical dividend trend and expected future dividend policy determined by the Company. Dilution effect is factored for the valuation of the Share Options based on the outstanding shares as of the valuation date. No other features of options grant were incorporated into the measurement of fair value.

At the balance sheet date, the Company had 19,900,000 share options outstanding under the Scheme which represent approximately 2.80% of the Company's share in issue at the date. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 19,900,000 additional shares of HK$0.40 each of the Company and additional share capital of HK$7,960,000 and share premium of HK$5,174,000 (before issue expenses).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2010

29. RESERVES

THE COMPANY

	Share premium HK$	Capital redemption reserve HK$	Share options reserve HK$	Retained profits HK$	Proposed final dividend HK$	Total HK$
Balance at 1st January, 2009	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**
Profit for the year	**-**	**-**	**-**	**78,753,315**	**-**	**78,753,315**
Recognition on grant of share options	**-**	**-**	**535,752**	**-**	**-**	**535,752**
Exercise of share options	**310,526**	**-**	**(24,526)**	**-**	**-**	**286,000**
Proposed final dividend	**-**	**-**	**-**	**(10,688,860)**	**10,688,860**	**-**
Balance at 31st December, 2010	**244,428,565**	**36,800**	**511,226**	**69,952,422**	**10,688,860**	**325,617,873**

30. BANK AND OTHER BORROWINGS

	THE GROUP			THE COMPANY		
	2010 HK$	(Restated) 2009 HK$	(Restated) 2008 HK$	**2010 HK$**	(Restated) 2009 HK$	(Restated) 2008 HK$
Non-current						
Other loans						
– unsecured	**151,497**	147,643	147,409	**-**	–	–
Current						
Bank borrowings						
– secured	**65,483,476**	81,539,253	122,624,240	**-**	–	–
– unsecured	**208,932,640**	172,944,162	254,608,251	**67,300,000**	63,000,000	94,000,000
Bank overdrafts *(note 26)*						
– unsecured	**10,102,510**	26,298,796	12,160,621	**10,087,935**	16,537,032	8,320,624
	284,518,626	280,782,211	389,393,112	**77,387,935**	79,537,032	102,320,624
Total borrowings	**284,670,123**	280,929,854	389,540,521	**77,387,935**	79,537,032	102,320,624

30. BANK AND OTHER BORROWINGS (Continued)

The maturity of borrowings is as follows:

	THE GROUP			THE COMPANY		
		(Restated)	(Restated)		(Restated)	(Restated)
	2010	2009	2008	**2010**	2009	2008
	HK$	HK$	HK$	**HK$**	HK$	HK$
Within 1 year	**284,518,626**	280,782,211	389,393,112	**77,387,935**	79,537,032	102,320,624
Between 1 and 2 years	**-**	–	–	**-**	–	–
Between 2 and 5 years	**-**	–	–	**-**	–	–
Over 5 years	**151,497**	147,643	147,409	**-**	–	–
	284,670,123	280,929,854	389,540,521	**77,387,935**	79,537,032	102,320,624

The aggregate carrying amount of the Group's loans as at 31 December 2010 (that are repayable more than one year after the balance sheet date but contain a repayment on demand clause) that have been reclassified as current liabilities is HK$30,451,848 (2009: HK$16,833,336; 2008: HK$61,111,112).

The aggregate carrying amount of the Company's loans as at 31 December 2010 (that are repayable more than one year after the balance sheet date but contain a repayment on demand clause) that have been reclassified as current liabilities is HK$12,300,000 (2009: HK$ Nil; 2008: HK$28,000,000).

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

The effective interest rate as at 31st December, 2010 for bank loans is 3.62% per annum (2009: 3.78% per annum; 2008: 3.61% per annum). Non-current other loans are not wholly repayable within 5 years and interest free.

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

	Carrying amounts			Fair values		
		(Restated)	(Restated)		(Restated)	(Restated)
	2010	2009	2008	**2010**	2009	2008
	HK$	HK$	HK$	**HK$**	HK$	HK$
Other loans	**151,497**	147,643	147,409	**105,674**	102,986	102,822

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2010

30. BANK AND OTHER BORROWINGS (Continued)

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

	THE GROUP			THE COMPANY		
	2010	2009	2008	**2010**	2009	2008
	HK$	HK$	HK$	**HK$**	HK$	HK$
Hong Kong Dollars	**172,999,295**	152,909,907	268,091,435	**77,387,935**	79,537,032	102,320,624
Renminbi	**111,670,828**	128,019,947	121,449,086	**–**	–	–
	284,670,123	280,929,854	389,540,521	**77,387,935**	79,537,032	102,320,624

The Group has the following undrawn borrowing facilities:

	2010	2009	2008
	HK$	HK$	HK$
Floating rate			
– expiring within one year	**678,563,130**	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 16 and 17).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2010

31. OBLIGATIONS UNDER FINANCE LEASES

THE GROUP

	Minimum lease payments			Present value of minimum lease payments		
	2010	2009	2008	**2010**	2009	2008
	HK$	HK$	HK$	**HK$**	HK$	HK$
Amounts payable under finance lease:						
Within 1 year	**7,482,784**	10,721,461	7,283,490	**7,246,208**	10,262,297	6,919,984
Between 2 to 5 years	**3,349,544**	11,766,180	8,961,146	**3,300,544**	11,453,731	8,753,792
	10,832,328	22,487,641	16,244,636	**10,546,752**	21,716,028	15,673,776
Less: Future finance charges	**285,576**	771,613	570,860	**N/A**	N/A	N/A
Present value of lease payments	**10,546,752**	21,716,028	15,673,776	**10,546,752**	21,716,028	15,673,776
Less: Amount due for settlement within 1 year under current liabilities				**7,246,208**	10,262,297	6,919,984
Amount due for settlement after 1 year				**3,300,544**	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 3 years. For the year ended 31st December, 2010, the average effective borrowing rate was 2.71% per annum (2009: 3.55% per annum; 2008: 3.64% per annum). Interest is charged at one month HIBOR or HIBOR plus 1.25% to 2% per annum (2009: 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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2010

32. DEFERRED TAXATION

THE GROUP

Deferred taxation is calculated in full on temporary difference under the liability method using a principal taxation rate of 16.5% (2009: 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 land and buildings HK$	Tax losses HK$	Others HK$	Total HK$
At 1st January, 2009 (Restated)	2,057,035	(1,559,945)	931,397	1,688,483	3,116,970
Currency realignment	(1,716)	–	–	2,600	884
Charged to equity	–	(1,516,345)	–	–	(1,516,345)
(Charged) Credited to income statement	(4,271,721)	414,450	1,481	1,593,436	(2,262,354)
At 31st December, 2009 and 1st January, 2010 (Restated)	**(2,216,402)**	**(2,661,840)**	**932,878**	**3,284,519**	**(660,845)**
Currency realignment	**(61,270)**	**(21,672)**	**8,052**	**75,484**	**594**
Charged to equity	**–**	**(1,816,198)**	**–**	**–**	**(1,816,198)**
(Charged) Credited to income statement	**(499,756)**	**–**	**529,845**	**581,892**	**611,981**
At 31st December, 2010	**(2,777,428)**	**(4,499,710)**	**1,470,775**	**3,941,895**	**(1,864,468)**

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:

	2010 HK$	(Restated) 2009 HK$	(Restated) 2008 HK$
Deferred tax assets	**5,351,944**	3,854,387	4,385,509
Deferred tax liabilities	**(7,216,412)**	(4,515,232)	(1,268,539)
	(1,864,468)	(660,845)	3,116,970

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, 2010, the Group has unrecognised tax losses of HK$257,887,103 (2009: HK$304,306,492; 2008: HK$ 254,188,143) available for offset against future profits. Included in unrecognised tax losses are losses of HK$35,126,455 (2009: 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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2010

32. DEFERRED TAXATION (Continued)

THE COMPANY

At 31st December, 2010, the Company has unutilised tax losses of HK$148,410,397 (2009: 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 the year end dates.

33. NOTES TO CONSOLIDATED CASH FLOW STATEMENT

Deregistration of a subsidiary

	2010	2009
	HK$	HK$
NET LIABILITIES DISPOSED OF:		
Translation reserve realised upon deregistration	**(453,483)**	(1,400,403)
Gain on deregistration of a subsidiary	**453,483**	1,400,403
	–	–
SATISFIED BY:		
Cash consideration	**–**	–

34. MAJOR NON-CASH TRANSACTIONS

The Group has not entered into any finance lease in respect of the acquisition of property, plant and equipment during the year (2009: HK$15,103,053).

35. ACQUISITION OF A SUBSIDIARY

On 25th October, 2010, the Group acquired 100% of the issued capital of Summit Asia Investment Limited ("Summit Asia"), a company incorporated in Hong Kong, with a consideration of HK$100,000. This acquisition has been accounted for using the acquisition method, which the fair value of Summit Asia's net assets acquired is HK$ Nil at the date of acquisition. The newly acquired subsidiary did not contribute any revenue nor profit to the Group during the period from the date of acquisition to 31st December, 2010.

Had the acquisition of Summit Asia been effected at 1st January, 2010, there would not be any changes to the revenue and the profit of the Group for the year as Summit Asia has yet to commence business.

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For the year ended 31st December, 2010

36. OPERATING LEASE COMMITMENTS

The Group as lessee

	THE GROUP	
	2010	2009
	HK$	HK$
Minimum lease payments made during the year under operating leases in respect of:		
Land and buildings	**19,229,292**	18,875,299
Plant and machinery	**115,942**	41,100
	19,345,234	18,916,399

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	
	2010	2009
	HK$	HK$
Within 1 year	**17,909,077**	12,355,677
Between 2 to 5 years	**38,297,827**	26,072,145
Over 5 years	**19,315,686**	24,444,685
	75,522,590	62,872,507

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$32,391 (2009: HK$61,270) was HK$1,428,486 (2009: HK$539,878).

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	
	2010	2009
	HK$	HK$
Within 1 year	**752,435**	538,412
Between 2 to 5 years	**62,755**	294,165
	815,190	832,577

36. OPERATING LEASE COMMITMENTS (Continued)

The Company as lessee

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

	THE COMPANY	
	2010	2009
	HK$	HK$
Within 1 year	**4,381,465**	–
Between 2 to 5 years	**9,161,245**	–
	13,542,710	–

37. CAPITAL COMMITMENTS

	THE GROUP		THE COMPANY	
	2010	2009	**2010**	2009
	HK$	HK$	**HK$**	HK$
Capital expenditure:				
Authorised but not contracted for	**–**	–	**–**	–
Contracted but not provided for	**38,597,995**	6,384,160	**1,515,256**	–
	38,597,995	6,384,160	**1,515,256**	–

38. FINANCIAL GUARANTEES AND CONTINGENT LIABILITIES

	THE GROUP		THE COMPANY	
	2010	2009	**2010**	2009
	HK$	HK$	**HK$**	HK$
Guarantees given to financial institutions in respect of credit facilities utilised by subsidiaries	**–**	–	**1,028,589,499**	887,736,000

In the opinion of the directors, the fair value of the liabilities in relation to the above guarantees is insignificant as at 31st December, 2010 and 31st December, 2009.

39. 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.

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For the year ended 31st December, 2010

39. RETIREMENT BENEFITS SCHEMES (Continued)

For members of the MPF Scheme, the Group contributes 5.0% of relevant payroll costs to the Scheme, which contribution is matched by the employee.

The ORSO Scheme is funded by monthly contributions from both employees and the Group at rates ranging from 5.0% to 7.5% of the employee's basic salary, depending on the length of service with the Group.

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

The total cost charged to the consolidated income statement of HK$6,109,405 (2009: HK$5,242,701) represents contributions payable to these schemes by the Group in respect of the current accounting period. As at 31st December, 2010, contributions of approximately HK$251,938 (2009: HK$15,023) due in respect of the reporting period had not been paid over to the schemes.

40. PLEDGE OF ASSETS

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

	2010 **HK$**	(Restated) 2009 HK$	2008 HK$
Leasehold buildings	**23,500,000**	23,200,000	–
Leasehold land and land use rights	**3,939,345**	3,939,905	–
Plant and machinery	**37,697,665**	47,149,146	34,715,509
Bank deposits	**56,153,362**	39,750,142	120,697,909
	121,290,372	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 Renminbi ("RMB").

41. 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$	Derivatives HK$	Total HK$
Assets as per consolidated balance sheet				
31st December, 2010				
Available-for-sale financial assets *(note 21)*	**–**	**5,085,023**	**–**	**5,085,023**
Amounts due from associates *(note 20)*	**16,442,894**	**–**	**–**	**16,442,894**
Trade and other receivables *(note 23)*	**738,425,889**	**–**	**–**	**738,425,889**
Derivative financial instruments *(note 25)*	**–**	**–**	**591,125**	**591,125**
Pledged bank deposits *(note 40)*	**56,153,362**	**–**	**–**	**56,153,362**
Cash and cash equivalents *(note 26)*	**320,835,771**	**–**	**–**	**320,835,771**
Total	**1,131,857,916**	**5,085,023**	**591,125**	**1,137,534,064**
31st December, 2009				
Available-for-sale financial assets *(note 21)*	–	4,673,651	–	4,673,651
Amounts due from associates *(note 20)*	75,942,066	–	–	75,942,066
Trade and other receivables *(note 23)*	657,242,567	–	–	657,242,567
Derivative financial instruments *(note 25)*	–	–	1,421,499	1,421,499
Pledged bank deposits *(note 40)*	39,750,142	–	–	39,750,142
Cash and cash equivalents *(note 26)*	309,027,423	–	–	309,027,423
Total	1,081,962,198	4,673,651	1,421,499	1,088,057,348

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2010

41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

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

THE GROUP

	Financial liabilities measured at amortised cost HK$	Derivatives HK$	Total HK$
Liabilities as per consolidated balance sheet			
31st December, 2010			
Trade and other payables *(note 24)*	**894,400,983**	**–**	**894,400,983**
Derivative financial instruments *(note 25)*	**–**	**596,876**	**596,876**
Amounts due to associates	**1,317,178**	**–**	**1,317,178**
Bank and other borrowings *(note 30)*	**284,670,123**	**–**	**284,670,123**
Obligation under finance leases *(note 31)*	**10,546,752**	**–**	**10,546,752**
Total	**1,190,935,036**	**596,876**	**1,191,531,912**
31st December, 2009			
Trade and other payables *(note 24)*	673,317,605	–	673,317,605
Derivative financial instruments *(note 25)*	–	1,427,250	1,427,250
Amounts due to associates	53,263,201	–	53,263,201
Bank and other borrowings *(note 30)*	280,929,854	–	280,929,854
Obligation under finance leases *(note 31)*	21,716,028	–	21,716,028
Total	1,029,226,688	1,427,250	1,030,653,938

41. 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, 2010	
Amounts due from subsidiaries *(note 19)*	**665,635,696**
Amount due from an associate	**8,425,636**
Trade and other receivables	**9,082,232**
Cash and cash equivalents *(note 26)*	**16,567,503**
Total	**699,711,067**
31st December, 2009	
Amounts due from subsidiaries *(note 19)*	664,266,384
Trade and other receivables	270,249
Cash and cash equivalents *(note 26)*	9,145,528
Total	673,682,161

	Financial liabilities measured at amortised cost HK$
Liabilities as per balance sheet	
31st December, 2010	
Trade and other payables	**4,098,605**
Amounts due to subsidiaries	**47,277,410**
Amounts due to associates	**233,912**
Bank and other borrowings *(note 30)*	**77,387,935**
Total	**128,997,862**
31st December, 2009	
Trade and other payables	3,014,322
Amounts due to subsidiaries	48,532,631
Amounts due to associates	52,173,935
Bank and other borrowings *(note 30)*	79,537,032
Total	183,257,920

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2010

41. 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, 2010, 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$3,853,095 (2009: HK$3,217,149), higher or lower. At 31st December, 2010, if HK$ had strengthened/weakened by 10% against the RMB, equity would have been approximately HK$120,335,791 (2009: HK$87,455,407), lower or higher.

At 31st December, 2010, 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$2,847,411 (2009: HK$724,504), 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 2009.

41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

(b) Financial risk factors (Continued)

(ii) Interest rate risk

Except for pledged bank deposits and cash and cash equivalents (note 26), the Group has no other significant interest-bearing assets. The Group's income and operating cash flows are substantially independent of changes in market interest rates. Management does not anticipate significant impact on interest-bearing assets resulted from the changes in interest rates because the interest rates of bank deposits are not expected to change significantly.

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

Borrowings at variable rates expose the Group to cash flow interest-rate risk. Borrowings at fixed rates expose the Group to fair value interest-rate risk. Details of the Group's borrowings have been disclosed in note 30.

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

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

At 31st December, 2010, 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$805,000 (2009: HK$770,000) lower/higher, mainly as a result of higher/lower interest expense on floating rate borrowings.

At 31st December, 2010, 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$328,000 (2009: HK$485,000) 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 2009.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2010

41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

(b) Financial risk factors (Continued)

(iii) Price risk

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

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

(iv) Credit risk

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

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

The maximum exposure to credit risk without taking account of any collateral held is represented by the carrying amount of each of financial assets in the consolidated balance sheet after deducting any impairment allowance. Further quantitative disclosure in respect of the Group's exposure to credit risk arising from trade and other receivables are set out in note 23.

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

(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.

41. 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, 2010					
Trade and other payables	**894,400,983**	**-**	**-**	**-**	**894,400,983**
Amounts due to associates	**1,317,178**	**-**	**-**	**-**	**1,317,178**
Obligations under finance leases	**7,482,783**	**2,639,307**	**710,238**	**-**	**10,832,328**
Derivative financial instruments	**596,876**	**-**	**-**	**-**	**596,876**
Bank and other borrowings	**289,179,703**	**-**	**-**	**151,497**	**289,331,200**
Total	**1,192,977,523**	**2,639,307**	**710,238**	**151,497**	**1,196,478,565**
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 (Restated)	286,295,561	–	–	147,643	286,443,204
Total	1,025,025,078	10,775,963	990,216	147,643	1,036,938,900

(vi) Fair values

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2010

41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

(b) Financial risk factors (Continued)

(vi) Fair values (Continued)

2010

	The Group			
	Level 1 HK$	**Level 2 HK$**	**Level 3 HK$**	**Total HK$**
Assets:				
Available-for-sale investments				
– Listed	**714,132**	**–**	**–**	**714,132**
– Unlisted	**–**	**–**	**4,370,891**	**4,370,891**
Derivative financial instruments	**–**	**591,125**	**–**	**591,125**
	714,132	**591,125**	**4,370,891**	**5,676,148**
Liabilities:				
Derivative financial instruments	**–**	**596,876**	**–**	**596,876**

2009

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

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

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

All other financial instruments are carried at amounts not materially different from their fair values as at 31st December, 2010 and 2009.

41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

(c) Capital risk management

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

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

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

The total debts ratios at 31st December, 2010 and 2009 are as follows:

	2010 **HK$**	(Restated) 2009 HK$
Current liabilities	**1,195,159,413**	1,025,303,425
Non-current liabilities	**10,668,453**	16,116,606
Total borrowings	**1,205,827,866**	1,041,420,031
Total equity	**1,493,760,478**	1,166,901,363
Total capital	**2,699,588,344**	2,208,321,394
Total debts ratio	**45%**	47%

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2010

42. 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	**2010 HK$**	2009 HK$
Substantial shareholders and its subsidiaries:			
EDP charges received *(note i)*		**183,600**	183,600
Management fee paid *(note i)*		**2,707,764**	2,823,675
Balances due to the Group as at the balance sheet date *(note ii)*	*23*	**7,041**	12,312
Company controlled by certain directors:			
Management fee paid *(note i)*		**1,992,000**	996,000
EDP charges received *(note i)*		**51,600**	–
Balances due to the Group as at the balance sheet date *(note ii)*	*23*	**360**	4,598
Non-controlling shareholders:			
Balances due from the Group as at the balance sheet date *(note ii)*	*24*	**382,550**	382,550
Balances due to the Group as at the balance sheet date *(note ii)*	*23*	**614,429**	826,226
Associates:			
Sales of finished goods *(note i)*		**63,894**	51,565
Service fee received *(note i)*		**144,911**	127,099
Sub-contracting charge received *(note i)*		**–**	1,323,799
Purchases *(note i)*		**–**	5,930,151
Purchases of property, plant and equipment *(note i)*		**–**	3,232,902
Balances due from the Group as at the balance sheet date *(note ii)*		**1,317,178**	53,263,201
Balances due to the Group as at the balance sheet date *(note ii)*	*20*	**16,442,894**	75,942,066
Key management compensation of the Group:			
Salaries and other short-term employee benefits	*10*	**7,171,087**	9,480,151

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2010

42. 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.

43. PARTICULARS OF PRINCIPAL SUBSIDIARIES

Details of the Company's principal subsidiaries at 31st December, 2010 are as follows:

Name of subsidiary	Place of incorporation/ registration	Place of operation	Issued and fully paid share capital/ registered capital	Proportion of nominal value of issued share capital/ registered capital held by the Company*/ subsidiaries %	Proportion of nominal value of issued share capital/ registered capital attributable to the Group %	Principal activities
Cosmos Machinery Limited	Hong Kong	Hong Kong	HK$10,000,000	100.00	100.00	Investment holding
Cosmos Machinery International Limited	Hong Kong	Hong Kong	HK$32,000,000	100.00*	100.00	Trading in industrial machinery, equipment and supplies and investment holding
Cosmos Machinery (Dongguan) Trading Limited *(note a)*	The PRC	The PRC	HK$5,000,000	100.00	100.00	Trading of machinery
Cosmos Machinery (Wuxi) Trading Limited *(note a)*	The PRC	The PRC	HK$5,000,000	100.00	100.00	Trading of machinery
Dekuma Rubber and Plastic Technology (Dongguan) Limited *(note a)*	The PRC	The PRC	HK$4,000,000	100.00	100.00	Manufacturing and trading of machinery
Dongguan Great Wall Optical Plastic Works Limited *(note a)*	The PRC	The PRC	HK$16,126,800	100.00	100.00	Manufacturing of microscopes and magnifiers with acrylic lenses
Dong Hua Machinery Limited	The PRC	The PRC	RMB138,387,843	75.56	75.56	Manufacturing and trading of machinery

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For the year ended 31st December, 2010

43. PARTICULARS OF PRINCIPAL SUBSIDIARIES (Continued)

Name of subsidiary	Place of incorporation/ registration	Place of operation	Issued and fully paid share capital/ registered capital	Proportion of nominal value of issued share capital/ registered capital held by the Company*/ subsidiaries %	Proportion of nominal value of issued share capital/ registered capital attributable to the Group %	Principal activities
Gainbase Industrial Limited	Hong Kong	Hong Kong	HK$10,000	100.00	52.00	Trading of printed circuit boards
Grand Technology Products Limited	Hong Kong	Hong Kong	HK$9,500,000	100.00	100.00	Investment holding
Jackson Equities Incorporated	British Virgin Islands	Hong Kong	US$2	100.00*	100.00	Investment holding
Karmay Industrial Limited	Hong Kong	Hong Kong	HK$14,979,444	100.00	100.00	General trading and investment holding
Karmay Plastic Products (Zhuhai) Co., Ltd. *(note a)*	The PRC	The PRC	HK$16,800,000	100.00	100.00	Manufacturing of plastic products
Melco Industrial Supplies Co., Limited	Hong Kong	Hong Kong	HK$1,500,000	100.00	100.00	Trading of industrial equipment and screws
美而高國際貿易（上海）有限公司	The PRC	The PRC	US$600,000	100.00	100.00	Trading of industrial equipment and screws
Guangzhou Melco Industrial Supplies Co, Limited	The PRC	The PRC	US$400,000	100.00	100.00	Trading of industrial equipment and screws
MS Enterprises Limited	Hong Kong	Hong Kong	HK$3,000,000	100.00	100.00	Manufacturing of moulds and trading of plastic wares
Shenzhen Gainbase Printed Circuit Board Co., Limited *(note b)*	The PRC	The PRC	HK$140,000,000	100.00	52.00	Manufacturing of printed circuit boards
Welltec Machinery Limited	Hong Kong	Hong Kong	HK$10,000,000	100.00	100.00	Trading of machinery
Wu Xi Grand Tech Machinery Group Co. Ltd. *(note a)*	The PRC	The PRC	US$9,586,000	100.00	100.00	Manufacturing and trading of machinery
Wu Xi Grand Plastic Machine Manufacture Co., Ltd. *(note b)*	The PRC	The PRC	US$2,850,000	100.00	100.00	Manufacturing and trading of machinery
合肥大同格蘭塑業有限公司 *(note a)*	The PRC	The PRC	HK$56,000,000	100.00	100.00	Manufacturing of plastic products

43. PARTICULARS OF PRINCIPAL SUBSIDIARIES (Continued)

Notes:

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

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

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

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

44. 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 1st July, 2010 or 1st January, 2011
Improvements to HKFRSs 2010

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, 2012

Amendments to HKAS 12	Income taxes

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.

45. COMPARATIVE FIGURES

As a result of the application of Amendments to HKAS 17, Leases, and HK (Int) 5, Presentation of Financial Statements – Classification by the Borrower of a Term Loan that contain a Repayment on Demand Clause, 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 2010. Further details of these developments are disclosed in note 2.

FINANCIAL SUMMARY

INCOME STATEMENT

	For the year ended 31st December,				
	2006	2007	2008	2009	**2010**
	HK$'000	HK$'000	HK$'000	HK$'000	**HK$'000**
Turnover	2,022,632	2,093,377	1,939,383	1,692,794	**2,426,658**
Profit before taxation	100,160	147,626	63,932	35,324	**310,727**
Taxation	(11,544)	(9,934)	(7,627)	(8,564)	**(13,349)**
Profit for the year	88,616	137,692	56,305	26,760	**297,378**
Non-controlling interests	23,473	37,652	11,066	19,459	**21,707**
Profit attributable to equity holders of the Company	65,143	100,040	45,239	7,301	**275,671**

BALANCE SHEET

	At 31st December,				
			(Restated)	(Restated)	
	2006	2007	2008	2009	**2010**
	HK$'000	HK$'000	HK$'000	HK$'000	**HK$'000**
Total assets	2,107,424	2,261,339	2,280,337	2,208,321	**2,699,588**
Total liabilities	(1,151,466)	(1,132,820)	(1,139,273)	(1,041,420)	**(1,205,828)**
Total equity	955,958	1,128,519	1,141,064	1,166,901	**1,493,760**
Non-controlling interests	164,314	201,679	153,020	166,840	**183,445**

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