

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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For the year ended 31st December, 2011

1. GENERAL

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

The Company is an investment holding company. The address of its registered office is Units 1217-1223A, 12/F., Trade Square, No. 681 Cheung Sha Wan Road, Kowloon, Hong Kong. The principal activities of its principal subsidiaries are set out in note 44.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

(a) Basis of preparation

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

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

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For the year ended 31st December, 2011

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(b) Basis of consolidation

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

(i) *Subsidiaries and non-controlling interests*

Subsidiaries are 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 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 CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2011

2. 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 2(q) or 2(r) depending on the nature of the liability.

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

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

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

(ii) *Associates*

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 2(g) and 2(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.

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For the year ended 31st December, 2011

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(b) Basis of consolidation (Continued)

(ii) Associates (Continued)

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

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

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

In the Company's balance sheet, the investments in associates are stated at cost less any accumulated impairment losses. The results of the 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 consolidated financial statements, are identified from the financial information provided regularly to the Group's top management for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

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

(d) Foreign currency translation

(i) Functional and presentation currency

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2011

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(d) Foreign currency translation (Continued)

(ii) Transactions and balances

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

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

(iii) Group companies

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

- (i) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- (ii) income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- (iii) all resulting exchange differences are recognised in other comprehensive income and accumulated separately in equity in the translation reserve.

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

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

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For the year ended 31st December, 2011

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(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 2(h)).

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

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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For the year ended 31st December, 2011

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(e) Property, plant and equipment (Continued)

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

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

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

(f) Leasehold land and land use rights

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

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

(g) Goodwill

Goodwill represents the excess of

- (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.

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For the year ended 31st December, 2011

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(g) Goodwill (Continued)

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

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

(h) Impairment of assets

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

Investments in equity securities (other than investments in subsidiaries: see note 2(h)(ii)) and other current and non-current receivables that are stated at cost or amortised cost or are classified as available-for-sale financial assets are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. Objective evidence of impairment includes observable data that comes to the attention of the Group about one or more of the following loss events:

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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For the year ended 31st December, 2011

2. 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 2(b)(ii)), the impairment loss is measured by comparing the recoverable amount of the investment as a whole with its carrying amount in accordance with note 2(h)(ii). The impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount in accordance with note 2(h)(ii).
- For unquoted equity securities carried at cost, the impairment loss is measured as the difference between the carrying amount of the financial asset and the estimated future cash flows, discounted at the current market rate of return for a similar financial asset where the effect of discounting is material. Impairment losses for equity securities are not reversed.
- 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.

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For the year ended 31st December, 2011

2. 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);
- 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 CONSOLIDATED FINANCIAL STATEMENTS

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For the year ended 31st December, 2011

2. 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.

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For the year ended 31st December, 2011

2. 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, by reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models, making maximum use of market inputs and relying as little as possible on entity-specific inputs.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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For the year ended 31st December, 2011

2. 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 2(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.

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For the year ended 31st December, 2011

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(I) Financial guarantees issued, provisions and contingent liabilities

(i) *Financial guarantees issued*

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

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

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

(ii) *Contingent liabilities acquired in business combinations*

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

(iii) *Other provisions and contingent liabilities*

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

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

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For the year ended 31st December, 2011

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(m) Inventories

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

(n) Trade and other receivables

Trade and other receivables are initially 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.

(p) Share capital

Ordinary shares are classified as equity.

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

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

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For the year ended 31st December, 2011

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(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 2(l)(i), trade and other payables are subsequently stated at amortised cost, except for the following payables:

- short-term payables with no stated interest rate and the effect of discounting being immaterial, that are measured at their original invoiced amount.
- interest-free loans from related parties without any fixed repayment terms or the effect of discounting being immaterial, that are measured at cost.

(r) Bank and other borrowings

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

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

(s) Income tax

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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For the year ended 31st December, 2011

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(s) Income tax (Continued)

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

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

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

(t) Employee benefits

(i) Retirement benefit costs

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

(ii) Profit-sharing and bonus plans

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

(iii) Share-based compensation

The fair value of share options granted to employees is recognised as an employee cost with a corresponding increase in share option reserve within equity. The fair value is measured at grant date using the 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).

62 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2011

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(u) Revenue recognition

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

- (i) Sales of goods are recognised when a Group entity has delivered products to the customer and the customer has accepted the products and recovery of the related receivables is reasonably assured.
- (ii) Rental income, including rentals invoiced in advance from properties under operating leases, is recognised on a straight-line basis over the period of the leases.
- (iii) Commission income, handling and services income are recognised when services are provided.
- (iv) Interest income is recognised as it accrues using the effective interest method.
- (v) Dividend income is recognised when the right to receive payment is established prior to the balance sheet date.

(v) Leases

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

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

(i) *Leases of land and buildings*

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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For the year ended 31st December, 2011

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(v) Leases (Continued)

(i) *Leases of land and buildings (Continued)*

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

(ii) *Finance leases*

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

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

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

(iii) *Operating leases*

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

(w) Dividend distribution

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

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

64 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2011

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(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

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

- (1) has control or joint control over the Group;
- (2) has significant influence over the Group; or
- (3) is a member of the key management personnel of the Group or the Group's parent.

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

- (1) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
- (2) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
- (3) Both entities are joint ventures of the same third party.
- (4) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
- (5) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group.
- (6) The entity is controlled or jointly controlled by a person identified in (i).
- (7) A person identified in (i)(1) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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For the year ended 31st December, 2011

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(z) Government grants

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

3. CHANGES IN ACCOUNTING POLICIES

The HKIPCA has issued a number of amendments to HKFRSs and one new Interpretation that are first effective for the current accounting period of the Company and the Group. Of these, the following developments are relevant to the Group's financial statements:

- HKAS 24 (revised 2009), *Related party disclosures*
- Improvements to HKFRSs (2010)
- HK(IFRIC) 19, *Extinguishing financial liabilities with equity instruments*
- Amendments to HK(IFRIC) 14, HKAS 19 – *The limit on a defined benefit asset, minimum funding requirements and their interaction – Prepayments of a minimum funding requirement*

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period (see note 45).

The amendments to HK(IFRIC) 14 have had no material impact on the Group's financial statements as they were consistent with policies already adopted by the Group. HK(IFRIC) 19 has not yet had a material impact on Group's financial statements as these changes will first be effective as and when the Group enters a relevant transaction (for example, a debt for equity swap).

The impact of other developments are discussed below:

- HKAS 24 (revised 2009) revises the definition of a related party. As a result, the Group has re-assessed the identification of related parties and concluded that the revised definition does not have any material impact on the Group's related party disclosure in the current and previous periods. HKAS 24 (revised 2009) also introduces modified disclosure requirements for government-related entities. This does not impact the Group because the Group is not a government-related entity.
- Improvements to HKFRSs (2010) omnibus standard introduces a number of amendments to the disclosure requirements in HKFRS 7, *Financial instruments: Disclosures*. The disclosures about the Group's financial instruments in note 42 has been conformed to the amended disclosure requirements. These amendments do not have any material impact on the classification, recognition and measurements of the amounts recognised in the consolidated financial statements in the current and previous periods.

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For the year ended 31st December, 2011

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 (the "PRC"). Significant judgement is required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

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

(iii) Provision for inventories

The Group reviews the carrying amounts of inventories at each balance sheet date to determine whether the inventories are carried at lower of cost and net realisable value in accordance with the accounting policy set out in note 2(m). The directors estimate the net realisable value based on the current market situation and historical experience on similar inventories. Any change in the assumptions would increase or decrease the amount of inventories write-down or the related reversals of write-down and affect the Group's net asset value.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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For the year ended 31st December, 2011

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (Continued)

(a) Critical accounting estimates and assumptions (Continued)

(iv) Impairment of goodwill

The Group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated in note 2(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).

(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.

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For the year ended 31st December, 2011

5. SEGMENT REPORTING (Continued)**Segment results, assets and liabilities (Continued)**

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.

The segment results for the year ended 31st December, 2011 are as follows:

	Industrial consumables HK\$	Plastic processing products HK\$	Machinery HK\$	Printed circuit boards HK\$	Other operations HK\$	Eliminations HK\$	Consolidated HK\$
TURNOVER							
External sales	417,944,603	466,494,466	1,092,910,513	435,723,112	3,616,986	-	2,416,689,680
Inter-segment sales	22,874,281	386,052	9,978,919	-	7,449,089	(40,688,341)	-
Total revenue	440,818,884	466,880,518	1,102,889,432	435,723,112	11,066,075	(40,688,341)	2,416,689,680
Inter-segment sales are charged at prevailing market rates.							
RESULTS							
Segment results	30,962,844	1,640,029	48,318,726	7,416,108	266,315	(670,806)	87,933,216
Unallocated corporate expenses							(28,176,357)
Profit from operations							59,756,859
Finance costs							(23,147,747)
Investment income, net							3,575,150
Share of results of associates		(786,335)	2,566,969		7,700,569		9,481,203
Profit before taxation							49,665,465
Taxation							(15,152,028)
Profit before non-controlling interests							34,513,437

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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For the year ended 31st December, 2011

5. SEGMENT REPORTING (Continued)

Segment results, assets and liabilities (Continued)

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

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.

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For the year ended 31st December, 2011

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.

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 CONSOLIDATED FINANCIAL STATEMENTS

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For the year ended 31st December, 2011

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						<u>2,699,588,344</u>
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						<u>1,205,827,866</u>
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

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For the year ended 31st December, 2011

5. SEGMENT REPORTING (Continued)**Geographical information**

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

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

	Sales revenue by geographical market	
	2011 HK\$	2010 HK\$
Hong Kong	528,645,477	636,193,910
PRC	1,554,322,243	1,529,161,826
Other Asia-Pacific countries	277,695,164	199,729,609
North America	13,415,047	18,342,962
Europe	42,611,749	43,230,076
	2,416,689,680	2,426,658,383

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	
	2011 HK\$	2010 HK\$	2011 HK\$	2010 HK\$
Hong Kong	685,266,526	650,642,861	2,917,555	716,457
PRC	2,120,275,298	2,027,228,606	250,322,711	197,390,473
Other Asia-Pacific countries	19,817,688	9,996,596	-	-
North America	3,205,708	5,028,453	-	-
Europe	348,578	6,691,828	-	-
	2,828,913,798	2,699,588,344	253,240,266	198,106,930

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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For the year ended 31st December, 2011

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:

	2011 HK\$	2010 HK\$
Turnover		
Sales of goods	2,416,689,680	2,426,658,383
Other income		
Commission income	-	4,286
Gross rental income from properties	2,431,989	1,460,876
Handling, tooling and sales of scrapped materials	7,477,203	6,805,014
Government grants	5,704,094	-
Sundry income	9,208,844	6,474,664
	24,822,130	14,744,840
Gains, net		
Exchange gain	7,027,333	1,420,728
	31,849,463	16,165,568

7. FINANCE COSTS

	2011 HK\$	2010 HK\$
Interest on:		
Borrowings wholly repayable within 5 years		
– bank loans and overdrafts	22,806,487	13,151,509
– other loans	-	153,553
Finance leases	341,260	454,992
Total interest expense on financial liabilities not at fair value through profit or loss	23,147,747	13,760,054

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For the year ended 31st December, 2011

8. INVESTMENT INCOME, NET

	2011 HK\$	2010 HK\$
Interest income	3,554,706	2,385,006
Dividend income from		
– unlisted available-for-sale financial asset	–	2,558,367
– listed available-for-sale financial asset	20,444	–
	3,575,150	4,943,373

9. PROFIT BEFORE TAXATION

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

	2011 HK\$	2010 HK\$
Charging:		
Directors' remuneration (note 10)	14,935,904	7,171,087
Salaries and other benefits	320,961,838	290,712,078
Retirement benefits scheme contributions	12,895,551	5,714,125
Share-based payments	–	334,447
	348,793,293	303,931,737
Depreciation and amortisation on:		
– Owned assets	64,043,462	49,757,990
– Assets held under finance leases	3,142,989	3,496,655
– Leasehold land held for own use under finance leases (note 16)	414,811	242,145
– Leasehold land and land use rights (note 17)	881,548	703,769
Impairment losses on goodwill (included in other operating expenses) (note 18)	–	100,000
Loss on disposal of property, plant and equipment	239,350	5,172,685
Auditors' remuneration		
– Current year	2,251,868	2,139,399
– Under(Over)provision in prior years	8,659	(13,712)
Operating lease payments (note 37)	23,692,748	19,345,234
and crediting:		
Rental income net of direct outgoings (note 37)	2,431,989	1,428,486

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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For the year ended 31st December, 2011

10. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

(a) Directors' emoluments

Directors' remuneration for the year ended 31st December, 2011, disclosed pursuant to the Rules Governing the Listing of Securities on the Stock Exchange and Section 161 of the Hong Kong Companies Ordinance, is as follows:

Name of directors	Directors' fees HK\$	Salaries and allowances HK\$	Retirement benefits scheme contributions HK\$	Share-based payments HK\$	2011 Total HK\$
<i>Executive directors</i>					
Mr. Tang To	4,549,132	1,226,000	159,525	-	5,934,657
Mr. Wong Yiu Ming	5,666,842	1,890,000	202,500	-	7,759,342
Mr. Jiang Wei	60,000	-	-	-	60,000
Mr. Tang Yu, Freeman ⁽²⁾	-	642,000	10,000	-	652,000
<i>Non-executive directors</i>					
Mr. Tang Kwan ⁽¹⁾	-	113,400	8,505	-	121,905
Mr. Kan Wai Wah	60,000	-	-	-	60,000
Mr. Ho Wei Sem	60,000	-	-	-	60,000
Miss. Yeung Shuk Fan	168,000	-	-	-	168,000
Mr. Cheng Tak Yin	60,000	-	-	-	60,000
Mr. Wu Ding	60,000	-	-	-	60,000
Mr. Qu Jinping	-	-	-	-	-
Total	10,683,974	3,871,400	380,530	-	14,935,904

Notes:

(1) Resigned on 18th March, 2011

(2) Appointed on 18th March, 2011

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

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For the year ended 31st December, 2011

10. DIRECTORS' AND EMPLOYEES' EMOLUMENTS (Continued)**(a) Directors' emoluments (Continued)**

Directors' remuneration for the year ended 31st December, 2010, 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\$
<i>Executive directors</i>					
Mr. Tang To	1,298,044	1,196,000	157,500	-	2,651,544
Mr. Wong Yiu Ming	1,332,058	1,660,000	186,750	201,305	3,380,113
Mr. Jiang Wei	40,000	-	-	-	40,000
<i>Non-executive directors</i>					
Mr. Tang Kwan	40,000	680,400	51,030	-	771,430
Mr. Kan Wai Wah	40,000	-	-	-	40,000
Mr. Yip Jeffery ⁽¹⁾	40,000	-	-	-	40,000
Mr. Ho Wei Sem ⁽²⁾	-	-	-	-	-
Miss. Yeung Shuk Fan	168,000	-	-	-	168,000
Mr. Cheng Tak Yin	40,000	-	-	-	40,000
Mr. Wu Ding	40,000	-	-	-	40,000
Mr. Qu Jinping	-	-	-	-	-
Total	3,038,102	3,536,400	395,280	201,305	7,171,087

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 2(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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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For the year ended 31st December, 2011

10. DIRECTORS' AND EMPLOYEES' EMOLUMENTS (Continued)

(b) Employees' emoluments

The five highest paid individuals included two (2010: two) directors, details of whose emoluments are set out above. The emoluments of the remaining three (2010: three) individuals are as follows:

	2011 HK\$	2010 HK\$
Salaries and other benefits	5,176,400	10,635,700
Retirement benefits scheme contributions	244,143	229,725
	5,420,543	10,865,425

The emoluments of the employees were within the following bands:

	Number of employees	
	2011	2010
HK\$1,000,001 to HK\$2,000,000	2	1
HK\$2,000,001 to HK\$3,000,000	1	1
HK\$7,000,001 to HK\$8,000,000	-	1
	3	3

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For the year ended 31st December, 2011

11. TAXATION

The provision for Hong Kong Profits Tax for 2011 is calculated at 16.5% (2010: 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.

	2011 HK\$	2010 HK\$
Current tax:		
Hong Kong profits tax		
Current year	1,904,676	984,316
Overprovision in prior years	(85,879)	(11)
	1,818,797	984,305
Overseas tax		
Current year	13,736,667	12,963,822
Underprovision in prior years	-	12,725
	13,736,667	12,976,547
Deferred tax:		
Deferred taxation relating to the origination and reversal of temporary differences (<i>note 32</i>)	(268,549)	(611,981)
Overprovision in prior years (<i>note 32</i>)	(134,887)	-
	(403,436)	(611,981)
Taxation charge	15,152,028	13,348,871

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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For the year ended 31st December, 2011

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:

	2011 HK\$	2010 HK\$
Profit before taxation	49,665,465	310,726,522
Tax at the domestic income tax rate of 16.5% (2010: 16.5%)	8,194,802	51,269,876
Tax effect of expenses that are not deductible in determining taxable profit	10,072,770	16,784,310
Tax effect of income that is not taxable in determining taxable profit	(7,484,261)	(51,039,586)
Overprovision of current tax in current year, net	624,752	–
(Over) Under-provision of current tax in prior years, net	(85,879)	12,714
Overprovision of deferred tax in prior years, net	(134,887)	–
Tax effect of tax losses not recognised	5,296,721	2,384,271
Tax effect of temporary differences not recognised	(978,817)	744,008
Tax effect of utilisation of tax losses not previously recognised	(3,645,273)	(10,908,012)
Effect of tax exemptions granted to the PRC subsidiaries	(542,838)	–
Effect of different tax rates of subsidiaries operating in other jurisdictions	3,834,938	4,101,290
Taxation charge	15,152,028	13,348,871

12. PROFIT ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF THE COMPANY

The profit attributable to equity shareholders of the Company dealt with in the financial statements of the Company is HK\$32,528,412 (2010: HK\$78,753,315).

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For the year ended 31st December, 2011

13. OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX**(a) Tax effects relating to each component of other comprehensive income**

	2011			2010		
	Before tax	Tax	Net-of-tax	Before tax	Tax	Net-of-tax
	amount	expenses	amount	amount	expenses	amount
	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$
Cash flow hedges	5,751	-	5,751	-	-	-
Change in fair value of available-for-sale financial assets (note 21)	357,426	-	357,426	411,372	-	411,372
Share of other comprehensive income of associates	21,365,603	-	21,365,603	8,290,387	-	8,290,387
Surplus on revaluation of properties held for own use	5,839,906	(456,655)	5,383,251	14,012,102	(1,816,198)	12,195,904
Exchange differences: net movement in translation reserve (note (b) below)	49,786,823	-	49,786,823	17,885,636	-	17,885,636
	77,355,509	(456,655)	76,898,854	40,599,497	(1,816,198)	38,783,299

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

	2011	2010
	HK\$	HK\$
Translation reserve: Exchange differences on translation of financial statements of overseas subsidiaries	49,786,823	18,339,119
Reclassification adjustment: Realisation of translation reserve on deregistration of an overseas subsidiary	-	(453,483)
Net movement in the translation reserve during the year recognised in other comprehensive income	49,786,823	17,885,636

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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For the year ended 31st December, 2011

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 shareholders of the Company divided by the weighted average number of ordinary shares in issue during the year.

	2011	2010
Weighted average number of ordinary shares in issue during the year	715,174,472	710,056,446
Profit attributable to the equity shareholders of the Company	HK\$26,578,969	HK\$275,671,070
Basic earnings per share	HK3.72 cents	HK38.82 cents

(b) Diluted earnings per share

The calculation of diluted earnings per ordinary share is based on the Group's profit attributable to equity shareholders 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.

	2011	2010
Weighted average number of ordinary shares in issue during the year	715,174,472	710,056,446
Effect of deemed issue of ordinary shares under the Company's share option scheme for nil consideration	3,155,942	1,800,061
Weighted average number of ordinary shares for diluted earnings per share	718,330,414	711,856,507
Diluted earnings per share	HK3.70 cents	HK38.73 cents

82 **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS***For the year ended 31st December, 2011***15. DIVIDEND****(1) Dividend payable to equity shareholders of the Company attributable to the year**

	2011	2010
	HK\$	HK\$
Dividend proposed after the balance sheet date of HK\$0.005 (2010: HK\$0.015) per share	3,584,653	10,688,860

The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting and has not been recognised as a liability at the balance sheet date.

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

	2011	2010
	HK\$	HK\$
Final dividend in respect of the previous financial year, approved and paid during the year, of HK\$0.015 (2010: HK\$Nil) per share	10,705,961	–

In respect of dividend attributable to the year ended 31st December, 2010, the difference between the final dividend proposed and the amount approved and paid during the year represents the additional dividends to the ordinary shareholders upon the exercise of share options before the closing date of the register of members.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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For the year ended 31st December, 2011

16. PROPERTY, PLANT AND EQUIPMENT

	Leasehold land held for own use under finance leases HK\$	Buildings held for own use HK\$	Furniture, fixtures and equipment HK\$	Plant and machinery HK\$	Motor vehicles HK\$	Assets under construction HK\$	Total HK\$
THE GROUP							
COST OR VALUATION							
At 1st January, 2010	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
Additions	-	5,071,026	20,718,444	81,530,707	5,598,107	84,153,585	197,071,869
Reclassifications	-	44,469,118	(602,605)	9,449,406	(277,500)	(53,038,419)	-
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 and 1st January, 2011	25,938,000	152,987,000	175,907,978	593,085,512	41,591,381	52,736,620	1,042,246,491
Currency realignment	-	7,641,066	5,070,964	17,231,227	1,615,535	3,083,407	34,642,199
Additions	-	4,143,222	36,472,447	30,822,651	6,309,040	153,399,344	231,146,704
Reclassifications	-	21,143,717	148,512	19,253,680	216,457	(40,762,366)	-
Disposals	(5,840,000)	(1,100,567)	(8,936,565)	(18,006,690)	(3,991,891)	-	(37,875,713)
Adjustment on revaluation	1,490,000	(1,505,438)	-	-	-	-	(15,438)
At 31st December, 2011	21,588,000	183,309,000	208,663,336	642,386,380	45,740,522	168,457,005	1,270,144,243
Analysis of cost or valuation:							
At 31st December, 2011							
At cost	-	-	208,663,336	642,386,380	45,740,522	168,457,005	1,065,247,243
At valuation	21,588,000	183,309,000	-	-	-	-	204,897,000
	21,588,000	183,309,000	208,663,336	642,386,380	45,740,522	168,457,005	1,270,144,243
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

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For the year ended 31st December, 2011

16. PROPERTY, PLANT AND EQUIPMENT (Continued)

	Leasehold land held for own use under finance leases HK\$	Buildings held for own use HK\$	Furniture, fixtures and equipment HK\$	Plant and machinery HK\$	Motor vehicles HK\$	Assets under construction HK\$	Total HK\$
THE GROUP							
ACCUMULATED DEPRECIATION, AMORTISATION AND IMPAIRMENT							
At 1st January, 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 and 1st January, 2011	-	-	127,815,811	352,100,436	30,474,147	-	510,390,394
Currency realignment	-	417,472	3,375,919	10,944,661	1,146,615	-	15,884,667
Reclassifications	-	-	(96,259)	23,294	72,965	-	-
Depreciation provided for the year	414,811	5,536,486	14,319,460	43,156,290	4,174,215	-	67,601,262
Written back on disposals	-	(513,425)	(8,108,185)	(14,982,798)	(3,613,404)	-	(27,217,812)
Eliminated on revaluation	(414,811)	(5,440,533)	-	-	-	-	(5,855,344)
At 31st December, 2011	-	-	137,306,746	391,241,883	32,254,538	-	560,803,167
NET BOOK VALUES							
At 31st December, 2011	21,588,000	183,309,000	71,356,590	251,144,497	13,485,984	168,457,005	709,341,076
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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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For the year ended 31st December, 2011

16. PROPERTY, PLANT AND EQUIPMENT (Continued)

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

	2011		2010	
	Land HK\$	Buildings HK\$	Land HK\$	Buildings HK\$
In Hong Kong:				
– under medium-term leases	21,588,000	1,722,000	25,938,000	1,962,000
Outside Hong Kong:				
– under long-term leases	-	430,000	-	11,775,000
– under medium-term leases	-	181,157,000	-	139,250,000
	21,588,000	183,309,000	25,938,000	152,987,000

The leasehold land and buildings of the Group were revalued as at 31st December, 2011 and 31st December, 2010 on the open market existing use basis by Knight Frank Petty Limited, an independent firm of professional valuers. The surplus arising on revaluation attributable to the Group has been credited to the other comprehensive income for the year and is accumulated separately in equity in property revaluation reserve.

Depreciation expense of HK\$48,073,361 (2010: HK\$38,051,055) has been expensed in cost of goods sold, HK\$1,937,261 (2010: HK\$1,427,079) in selling and distribution costs and HK\$17,590,640 (2010: HK\$14,018,656) 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\$145,991,850 (2010: HK\$129,922,326).

The net book value of the Group's plant and machinery includes an amount of HK\$62,137,726 (2010: HK\$37,697,665) in respect of assets held under finance leases (note 41).

At 31st December, 2011, certain of the Group's leasehold buildings with an aggregate carrying value of HK\$27,500,000 (2010: HK\$23,500,000) were pledged to secure certain bank borrowings granted to the Group (note 41).

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For the year ended 31st December, 2011

16. PROPERTY, PLANT AND EQUIPMENT (Continued)

	Furniture, fixtures and equipment HK\$	Motor vehicles HK\$	Total HK\$
THE COMPANY			
COST			
At 1st January, 2010	5,626,369	1,054,768	6,681,137
Additions	39,696	-	39,696
At 31st December, 2010 and 1st January, 2011	5,666,065	1,054,768	6,720,833
Additions	1,302,642	496,717	1,799,359
Disposals	(1,954,089)	-	(1,954,089)
At 31st December, 2011	5,014,618	1,551,485	6,566,103
ACCUMULATED DEPRECIATION			
At 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 and 1st January, 2011	3,907,697	847,987	4,755,684
Depreciation provided for the year	709,863	202,733	912,596
Written back on disposals	(1,590,769)	-	(1,590,769)
At 31st December, 2011	3,026,791	1,050,720	4,077,511
NET BOOK VALUES			
At 31st December, 2011	1,987,827	500,765	2,488,592
At 31st December, 2010	1,758,368	206,781	1,965,149

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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For the year ended 31st December, 2011

17. LEASEHOLD LAND AND LAND USE RIGHTS

	THE GROUP	
	2011	2010
	HK\$	HK\$
COST		
At 1st January	43,037,486	41,191,850
Currency realignment	1,923,431	810,575
Additions	22,093,562	1,035,061
At 31st December	67,054,479	43,037,486
ACCUMULATED AMORTISATION		
At 1st January	8,359,678	7,538,963
Currency realignment	289,508	116,946
Amortisation for the year	881,548	703,769
At 31st December	9,530,734	8,359,678
NET BOOK VALUE		
At 31st December	57,523,745	34,677,808
Portion classified as current assets	881,548	703,769
Long term portion	56,642,197	33,974,039
At 1st January	34,677,808	33,652,887

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:

	2011	2010
	HK\$	HK\$
Outside Hong Kong held on:		
Leases of over 50 years	625,813	5,848,491
Leases of between 10 to 50 years	56,897,932	28,829,317
	57,523,745	34,677,808

At 31st December, 2011, certain of the Group's land use rights with an aggregate carrying value of HK\$5,243,328 (2010: HK\$3,939,345) were pledged to secure certain bank borrowings granted to the Group (note 41).

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For the year ended 31st December, 2011

18. GOODWILL

	THE GROUP	
	2011 HK\$	2010 HK\$
COST		
At 1st January	17,283,008	17,183,008
Acquisition of a subsidiary (note 36)	-	100,000
At 31st December	17,283,008	17,283,008
ACCUMULATED IMPAIRMENT		
At 1st January	17,283,008	17,183,008
Impairment losses recognised in the year (note 9)	-	100,000
At 31st December	17,283,008	17,283,008
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 CONSOLIDATED FINANCIAL STATEMENTS

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For the year ended 31st December, 2011

19. INTERESTS IN SUBSIDIARIES

	THE COMPANY	
	2011	2010
	HK\$	HK\$
Unlisted shares/capital contributions, at cost	40,184,956	40,184,956
Less: impairment losses	5,160	3,005,160
	40,179,796	37,179,796
Amounts due from subsidiaries	694,583,094	717,354,133
Less: allowance for impairment of doubtful debts	15,545,606	51,718,437
	679,037,488	665,635,696
	719,217,284	702,815,492

Details of the Company's principal subsidiaries at 31st December, 2011 are set out in note 44.

Amounts due from subsidiaries are unsecured and have no fixed terms of repayment. Other than the carrying amounts of HK\$2,500,000 (2010: HK\$6,750,000) which are interest bearing, the remaining balances are interest free. In the opinion of the directors, the amounts will not be repayable within 12 months of the balance sheet date and are accordingly classified as non-current. The amounts due from subsidiaries of HK\$15,573,261 (2010: HK\$648,325,747) 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	
	2011	2010
	HK\$	HK\$
At 1st January	51,718,437	42,609,213
Impairment loss recognised	-	9,109,224
Unused amounts reversed	(36,172,831)	-
At 31st December	15,545,606	51,718,437

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	THE GROUP	
	2011	2010
	HK\$	HK\$
Unlisted shares, at cost	14,589,743	14,045,317
Share of post-acquisition profits and reserves, net of dividends received	16,810,178	14,859,524
Share of net assets	31,399,921	28,904,841
Listed shares in the PRC, at cost	8,360,510	8,360,510
Share of post-acquisition profits and reserves, net of dividends received	353,246,031	330,983,791
Share of net assets	361,606,541	339,344,301
Total share of net assets	393,006,462	368,249,142
Amounts due from associates (<i>note 43</i>)	21,574,498	16,442,894
	414,580,960	384,692,036
Market value of listed shares in the PRC	555,654,027	956,555,786

(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 (2010: HK\$312,724).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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For the year ended 31st December, 2011

20. INTERESTS IN ASSOCIATES (Continued)

Details of the principal associates of the Group at 31st December, 2011 are as follows:

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

- (a) On 9th February, 2010, an associate of the Group, Shenzhen Haoningda Meters Co., Ltd (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 was reduced from 41.99% to 31.50% approximately. Due to dilution of shareholding, the gain on deemed disposal of HK\$200,670,330 had been recognised in the consolidated income statement.

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

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

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For the year ended 31st December, 2011

20. INTERESTS IN ASSOCIATES (Continued)

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

	2011 HK\$	2010 HK\$
Total assets	1,819,128,193	1,646,878,050
Total liabilities	(539,697,959)	(475,415,796)
Net assets	1,279,430,234	1,171,462,254
Group's share of associates' net assets	393,006,462	368,249,142
Revenue	814,391,855	589,958,660
Profit for the year	36,269,018	481,318,838
Group's share of associates' profit for the year	9,481,203	13,058,503

21. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	THE GROUP	
	2011 HK\$	2010 HK\$
At 1st January	5,085,023	4,673,651
Additions	1,831,055	-
Revaluation surplus recognised in other comprehensive income (note 13(a))	357,426	411,372
At 31st December	7,273,504	5,085,023
Less: non-current portion	7,273,504	5,085,023
Current portion	-	-

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2011

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

Available-for-sale financial assets include the following:

	THE GROUP	
	2011	2010
	HK\$	HK\$
Unlisted securities, at cost	6,376,006	5,350,694
Impairment losses	(174,060)	(979,803)
	6,201,946	4,370,891
Listed securities, at market value		
Equity securities – Overseas	1,071,558	714,132
	7,273,504	5,085,023

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

	THE GROUP	
	2011	2010
	HK\$	HK\$
Renminbi	6,201,946	4,370,891
Japanese Yen	1,071,558	714,132
	7,273,504	5,085,023

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.

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For the year ended 31st December, 2011

22. INVENTORIES

(a) Inventories in the consolidated balance sheet comprise:

	THE GROUP	
	2011	2010
	HK\$	HK\$
Trading inventories and finished goods	254,686,608	213,247,070
Work in progress	126,512,573	167,069,811
Raw materials	259,880,507	225,203,764
	641,079,688	605,520,645

At 31st December, 2011, the carrying amount of inventories that were stated at fair value less cost to sell is HK\$541,566,843 (2010: HK\$500,038,834).

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

	THE GROUP	
	2011	2010
	HK\$	HK\$
Carrying amount of inventories sold	1,998,075,412	1,957,277,587
Write-down of inventories	7,539,530	19,571,184
Reversal of write-down of inventories	(1,761,086)	(6,532,358)
	2,003,853,856	1,970,316,413

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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For the year ended 31st December, 2011

23. TRADE AND OTHER RECEIVABLES

	THE GROUP	
	2011	2010
	HK\$	HK\$
Trade and bills receivables	632,555,407	662,280,869
Less: allowance for impairment of bad and doubtful debts	80,134,369	81,860,603
Trade and bills receivables, net	552,421,038	580,420,266
Other receivables	145,277,451	174,731,972
Less: allowance for impairment of bad and doubtful debts	18,870,447	17,348,179
Other receivables, net	126,407,004	157,383,793
Prepayments	20,850,925	15,811,322
Amounts due from related parties (note 43)	651,431	621,830
	700,330,398	754,237,211

At 31st December, 2011, certain of the Group's trade receivables with an aggregate carrying value of HK\$13,395,831 (2010: HK\$Nil) were pledged to secure certain bank borrowings granted to the Group (note 41).

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	
	2011	2010
	HK\$	HK\$
0 to 3 months	367,298,716	421,189,337
4 to 6 months	73,341,526	73,303,076
7 to 9 months	42,998,666	28,449,209
Over 9 months	68,782,130	57,478,644
	552,421,038	580,420,266

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For the year ended 31st December, 2011

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	
	2011	2010
	HK\$	HK\$
At 1st January	81,860,603	71,526,782
Currency realignment	3,858,977	1,509,093
Impairment loss recognised	9,112,145	13,825,367
Unused amounts reversed	-	(1,184,723)
Uncollectible amounts written off	(14,697,356)	(3,815,916)
At 31st December	80,134,369	81,860,603
	Other receivables	
	2011	2010
	HK\$	HK\$
At 1st January	17,348,179	21,216,065
Currency realignment	1,025,406	495,854
Impairment loss recognised	707,046	-
Unused amounts reversed	(210,184)	(88,947)
Uncollectible amounts written off	-	(4,274,793)
At 31st December	18,870,447	17,348,179

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

At 31st December, 2011, trade and bills receivables of HK\$89,440,527 (2010: HK\$89,655,617) were impaired. The amount of allowance was HK\$80,134,369 as at 31st December, 2011 (2010: HK\$81,860,603). It is assessed that a portion of the receivables is expected to be recovered.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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For the year ended 31st December, 2011

23. TRADE AND OTHER RECEIVABLES (Continued)

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

	THE GROUP	
	2011	2010
	HK\$	HK\$
Less than 6 months past due	11,289,179	13,935,132
6 months to 1 year past due	382,000	1,093,700
1 year to 3 years past due	10,381,133	8,365,916
Over 3 years past due	67,388,215	66,260,869
	89,440,527	89,655,617

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

	THE GROUP	
	2011	2010
	HK\$	HK\$
Neither past due nor impaired	350,390,018	412,617,200
Less than 6 months past due	134,286,758	116,576,869
6 months to 1 year past due	33,841,430	16,681,390
1 year to 3 years past due	21,051,402	17,208,208
Over 3 years past due	3,545,272	9,541,585
	543,114,880	572,625,252

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.

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For the year ended 31st December, 2011

23. TRADE AND OTHER RECEIVABLES (Continued)

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	
	2011	2010
United States Dollars	12,960,010	15,168,378
Renminbi	410,653,154	450,702,992
Japanese Yen	16,558,528	111,359,266
Euro Dollars	-	112,411

24. TRADE AND OTHER PAYABLES

	THE GROUP	
	2011	2010
	HK\$	HK\$
Trade and bills payables	542,635,481	583,290,592
Accruals and other payables	301,890,088	310,727,841
Amounts due to related parties (note 43)	382,550	382,550
	844,908,119	894,400,983

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	
	2011	2010
	HK\$	HK\$
0 to 3 months	404,385,367	499,233,340
4 to 6 months	113,728,604	67,200,330
7 to 9 months	15,231,864	2,182,855
Over 9 months	9,289,646	14,674,067
	542,635,481	583,290,592

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2011

24. TRADE AND OTHER PAYABLES (Continued)

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	
	2011	2010
United States Dollars	5,664,533	4,745,145
Renminbi	545,552,443	616,142,350
Japanese Yen	164,423,035	500,561,691
Euro Dollars	348,050	247,699

25. DERIVATIVE FINANCIAL INSTRUMENTS

	THE GROUP			
	2011		2010	
	Assets HK\$	Liabilities HK\$	Assets HK\$	Liabilities HK\$
Forward foreign exchange contracts:				
– held as cash flow hedges	-	-	591,125	596,876
– other derivatives	-	-	-	-
	-	-	591,125	596,876

There was no notional principal amount of the outstanding forward foreign exchange contracts at 31st December, 2011 (2010: JPY6,194,979). As at 31st December, 2010, the hedged highly probable forecast transactions denominated in foreign currency were 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 were recognised in other comprehensive income in the period during which the hedged forecast transaction affected the profit or loss.

26. CASH AND CASH EQUIVALENTS

	THE GROUP		THE COMPANY	
	2011 HK\$	2010 HK\$	2011 HK\$	2010 HK\$
Bank balances and cash	227,253,772	320,835,771	14,196,262	16,567,503

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For the year ended 31st December, 2011

26. CASH AND CASH EQUIVALENTS (Continued)

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

	THE GROUP	
	2011	2010
	HK\$	HK\$
Bank balances and cash per above	227,253,772	320,835,771
Bank overdrafts (note 30)	(6,783,772)	(10,102,510)
	220,470,000	310,733,261

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	
	2011	2010	2011	2010
United States Dollars	3,592,234	5,178,306	3,315	3,315
Renminbi	116,523,715	192,187,914	-	-
Japanese Yen	24,188,141	41,328,549	-	-
Euro Dollars	171,067	132,123	-	-

27. SHARE CAPITAL

	Number of ordinary shares	Value HK\$
Ordinary shares of HK\$0.40 each		
Authorised:		
At 1st January, 2010, 31st December, 2010 and 31st December, 2011	1,000,000,000	400,000,000
Issued and fully paid:		
At 1st January, 2010	709,930,692	283,972,277
Shares issued upon the exercise of share options	1,100,000	440,000
At 31st December, 2010	711,030,692	284,412,277
Shares issued upon the exercise of share options	5,900,000	2,360,000
At 31st December, 2011	716,930,692	286,772,277

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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For the year ended 31st December, 2011

27. SHARE CAPITAL (Continued)

During the year, the subscription rights attaching to 5,900,000 (2010: 1,100,000) share options were exercised at the exercise price of HK\$0.66 per share, resulting in the issue of 5,900,000 (2010: 1,100,000) shares of HK\$0.66 each and new share capital of HK\$2,360,000 (2010: HK\$440,000) and share premium of HK\$1,534,000 (2010: HK\$286,000), together with a release of the share options reserve amounting to HK\$131,549 (2010: HK\$24,526) credited to the share premium account (note 29). Details of the 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.

All new ordinary shares issued during the year rank *pari passu* in all respects with the existing shares.

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 9.85% of the issued share capital of the Company as at the date of this annual report.

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

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

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For the year ended 31st December, 2011

28. SHARE OPTION SCHEME (Continued)

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.

The following table discloses details of the Company's share options held by directors and employees and movements in the Scheme during the year ended 31st December, 2011.

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

Notes:

- (1) The closing price of the Company's shares on the trading day, 24th May, 2010, being the date of grant of options was HK\$0.62.
- (2) The exercisable period of share options granted to employees is 3 years commencing from the respective dates of acceptance of each particular employee which varied from 25th May, 2010 to 20th June, 2010.
- (3) During the year, the weighted average closing price of the Company's shares on the trading dates immediately before the respective dates on which the share options were exercised was HK\$1.11.
- (4) The options outstanding at 31st December, 2011 had a weighted average remaining contractual life of 1.5 years (2010: 2.5 years).

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For the year ended 31st December, 2011

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.

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

Notes:

- (1) The closing price of the Company's shares on the trading day, 24th May, 2010, being the date of grant of options was HK\$0.62.
- (2) The exercisable period of share options granted to employees is 3 years commencing from the respective dates of acceptance of each particular employee which varied from 25th May, 2010 to 20th June, 2010.
- (3) During the year, the weighted average closing price of the Company's shares on the trading dates immediately before the respective dates on which the share options were exercised was HK\$0.90.
- (4) The options outstanding at 31st December, 2010 had a weighted average remaining contractual life of 2.5 years.

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.

104 **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS***For the year ended 31st December, 2011***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 14,000,000 (2010: 19,900,000) share options outstanding under the Scheme which represent approximately 1.95% (2010: 2.80%) of the Company's shares in issue at that date. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 14,000,000 (2010: 19,900,000) additional shares of HK\$0.4 each of the Company and additional share capital of HK\$5,600,000 (2010: HK\$7,960,000) and share premium of HK\$3,640,000 (2010: HK\$5,174,000) (before issue expenses).

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For the year ended 31st December, 2011

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, 2010	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 (note 15(1))	-	-	-	(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
Profit for the year	-	-	-	32,528,412	-	32,528,412
Exercise of share options	1,665,549	-	(131,549)	-	-	1,534,000
2010 final dividend paid (note 15(2))	-	-	-	(17,101)	(10,688,860)	(10,705,961)
Proposed final dividend (note 15(1))	-	-	-	(3,584,653)	3,584,653	-
Balance at 31st December, 2011	246,094,114	36,800	379,677	98,879,080	3,584,653	348,974,324

30. BANK AND OTHER BORROWINGS

	THE GROUP		THE COMPANY	
	2011 HK\$	2010 HK\$	2011 HK\$	2010 HK\$
Non-current				
Other loans – unsecured	160,355	151,497	-	-
Current				
Bank borrowings				
– secured	55,236,215	65,483,476	-	-
– unsecured	279,186,888	208,932,640	45,762,500	67,300,000
Bank overdrafts (note 26)				
– unsecured	6,783,772	10,102,510	-	10,087,935
	341,206,875	284,518,626	45,762,500	77,387,935
Total borrowings	341,367,230	284,670,123	45,762,500	77,387,935

106 **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS***For the year ended 31st December, 2011***30. BANK AND OTHER BORROWINGS (Continued)**

The maturity of borrowings is as follows:

	THE GROUP		THE COMPANY	
	2011 HK\$	2010 HK\$	2011 HK\$	2010 HK\$
Within 1 year	341,206,875	284,518,626	45,762,500	77,387,935
Between 1 and 2 years	-	-	-	-
Between 2 and 5 years	-	-	-	-
Over 5 years	160,355	151,497	-	-
	341,367,230	284,670,123	45,762,500	77,387,935

The aggregate carrying amount of the Group's loans as at 31st December, 2011 (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\$27,680,753 (2010: HK\$30,451,848).

The aggregate carrying amount of the Company's loans as at 31st December, 2011 (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\$4,612,500 (2010: HK\$12,300,000).

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, 2011 for bank borrowings and overdrafts is 4.57% per annum (2010: 3.62% 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	
	2011 HK\$	2010 HK\$	2011 HK\$	2010 HK\$
Other loans	160,355	151,497	116,711	105,674

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

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For the year ended 31st December, 2011

30. BANK AND OTHER BORROWINGS (Continued)

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

	THE GROUP		THE COMPANY	
	2011	2010	2011	2010
	HK\$	HK\$	HK\$	HK\$
Hong Kong Dollars	202,092,531	172,999,295	45,762,500	77,387,935
Renminbi	139,274,699	111,670,828	-	-
	341,367,230	284,670,123	45,762,500	77,387,935

The Group has the following undrawn borrowing facilities:

	2011	2010
	HK\$	HK\$
Floating rate		
– expiring within one year	395,186,652	678,563,130

The facilities expiring within one year are annual facilities subject to review at various dates during 2011.

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

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For the year ended 31st December, 2011

31. OBLIGATIONS UNDER FINANCE LEASES
THE GROUP

	Minimum lease payments		Present value of minimum lease payments	
	2011 HK\$	2010 HK\$	2011 HK\$	2010 HK\$
Amounts payable under finance lease:				
Within 1 year	15,580,454	7,482,784	14,544,949	7,246,208
Between 2 to 5 years	25,591,259	3,349,544	24,608,641	3,300,544
	41,171,713	10,832,328	39,153,590	10,546,752
Less: Future finance charges	2,018,123	285,576	N/A	N/A
Present value of lease payments	39,153,590	10,546,752	39,153,590	10,546,752
Less: Amount due for settlement within 1 year under current liabilities			14,544,949	7,246,208
Amount due for settlement after 1 year			24,608,641	3,300,544

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, 2011, the average effective borrowing rate was 2.72% per annum (2010: 2.71% per annum). Interest is charged at one month HIBOR or HIBOR plus 2% to 2.5% per annum (2010: 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 CONSOLIDATED FINANCIAL STATEMENTS

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For the year ended 31st December, 2011

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% (2010: 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, 2010	(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 (<i>note 11</i>)	(499,756)	-	529,845	581,892	611,981
At 31st December, 2010 and 1st January, 2011	(2,777,428)	(4,499,710)	1,470,775	3,941,895	(1,864,468)
Currency realignment	(166,474)	(85,057)	35,909	189,300	(26,322)
Charged to equity	-	(456,655)	-	-	(456,655)
Credited to income statement (<i>note 11</i>)	202,517	-	-	66,032	268,549
(Under)over-provision in prior years (<i>note 11</i>)	(217,684)	352,571	-	-	134,887
At 31st December, 2011	(2,959,069)	(4,688,851)	1,506,684	4,197,227	(1,944,009)

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:

	2011 HK\$	2010 HK\$
Deferred tax assets	4,515,601	5,351,944
Deferred tax liabilities	(6,459,610)	(7,216,412)
	(1,944,009)	(1,864,468)

110 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2011

32. DEFERRED TAXATION (Continued)

THE GROUP (Continued)

Deferred tax assets are recognised for tax losses carried forward to the extent that the realisation of the related tax benefit through the future taxable profits is probable. At 31st December, 2011, the Group has unrecognised tax losses of HK\$287,434,412 (2010: HK\$257,887,103) available for offset against future profits. Included in unrecognised tax losses are losses of HK\$49,204,721 (2010: HK\$35,126,455) that will expire in five years and the remaining balance does not expire under the current tax legislation. Temporary differences arising in connection with interests in associates are insignificant.

THE COMPANY

At 31st December, 2011, the Company has unutilised tax losses of HK\$158,070,996 (2010: HK\$148,410,397) 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 STATEMENT OF CASH FLOWS

Deregistration of a subsidiary

	2011 HK\$	2010 HK\$
NET LIABILITIES DISPOSED OF:		
Translation reserve realised upon deregistration	-	(453,483)
Gain on deregistration of a subsidiary	-	453,483
	-	-
SATISFIED BY:		
Cash consideration	-	-

34. MAJOR NON-CASH TRANSACTIONS

During the year, the Group acquired property, plant and equipment with an aggregate cost of HK\$253,240,266 of which HK\$38,523,825 was acquired by means of finance leases. (2010: HK\$Nil) Cash payments of HK\$214,716,441 were made to purchase property, plant and equipment. (2010:HK\$198,106,930)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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For the year ended 31st December, 2011

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

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

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

	2011 HK\$	2010 HK\$
Carrying amount of non-controlling interests disposed of	(374,614)	–
Consideration received from non-controlling interests	259,155	–
Loss on disposal within equity	(115,459)	–

36. ACQUISITION OF A SUBSIDIARY

The Group has not acquired any subsidiary during the year ended 31st December, 2011.

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 had 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 ended 31st December, 2010 as Summit Asia has yet to commence business.

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For the year ended 31st December, 2011

37. OPERATING LEASE COMMITMENTS

The Group as lessee

	THE GROUP	
	2011	2010
	HK\$	HK\$
Minimum lease payments made during the year under operating leases in respect of:		
Land and buildings	23,653,148	19,229,292
Plant and machinery	39,600	115,942
	23,692,748	19,345,234

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	
	2011	2010
	HK\$	HK\$
Within 1 year	18,660,705	17,909,077
Between 2 to 5 years	40,987,797	38,297,827
Over 5 years	15,158,509	19,315,686
	74,807,011	75,522,590

Operating lease payments represent rentals payable by the Group for certain of its office properties, factories and plant and machinery. Leases are negotiated mostly for terms of ranging from 2 to 10 years and rentals are almost fixed for the said term.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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For the year ended 31st December, 2011

37. OPERATING LEASE COMMITMENTS (Continued)

The Group as lessor

Property rental income earned during the year net of direct outgoings of HK\$Nil (2010: HK\$32,390) was HK\$2,431,989 (2010: HK\$1,428,486).

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	
	2011 HK\$	2010 HK\$
Within 1 year	384,667	752,435
Between 2 to 5 years	642,861	62,755
	1,027,528	815,190

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	
	2011 HK\$	2010 HK\$
Within 1 year	4,779,780	4,381,465
Between 2 to 5 years	4,381,465	9,161,245
	9,161,245	13,542,710

38. CAPITAL COMMITMENTS

	THE GROUP		THE COMPANY	
	2011 HK\$	2010 HK\$	2011 HK\$	2010 HK\$
Capital expenditure:				
Authorised but not contracted for	-	-	-	-
Contracted but not provided for	40,732,479	38,597,995	-	1,515,256
	40,732,479	38,597,995	-	1,515,256

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For the year ended 31st December, 2011

39. FINANCIAL GUARANTEES AND CONTINGENT LIABILITIES

	THE GROUP		THE COMPANY	
	2011 HK\$	2010 HK\$	2011 HK\$	2010 HK\$
Guarantees given to financial institutions in respect of credit facilities utilised by				
– subsidiaries	-	-	1,200,259,647	1,028,589,499
– third party	2,407,460	-	-	-

In the opinion of the directors, the fair value of the liabilities in relation to the above guarantees is insignificant as at 31st December, 2011 and 31st December, 2010.

40. RETIREMENT BENEFITS SCHEMES

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

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

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

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

The total cost charged to the consolidated income statement of HK\$13,276,081 (2010: HK\$6,109,405) represents contributions payable to these schemes by the Group in respect of the current accounting period. As at 31st December, 2011, contributions of HK\$249,186 (2010: HK\$251,938) due in respect of the reporting period had not been paid over to the schemes.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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For the year ended 31st December, 2011

41. PLEDGE OF ASSETS

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

	2011 HK\$	2010 HK\$
Leasehold buildings	27,500,000	23,500,000
Leasehold land and land use rights	5,243,328	3,939,345
Plant and machinery	62,137,726	37,697,665
Bank deposits	67,015,054	56,153,362
Trade receivables	13,395,831	–
	175,291,939	121,290,372

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").

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For the year ended 31st December, 2011

42. 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, 2011				
Available-for-sale financial assets (note 21)	-	7,273,504	-	7,273,504
Amounts due from associates (note 20)	21,574,498	-	-	21,574,498
Trade and other receivables (note 23)	646,646,274	-	-	646,646,274
Pledged bank deposits (note 41)	67,015,054	-	-	67,015,054
Cash and cash equivalents (note 26)	227,253,772	-	-	227,253,772
Total	962,489,598	7,273,504	-	969,763,102
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 41)	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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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For the year ended 31st December, 2011

42. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

(a) Financial instruments by categories (Continued)

THE GROUP

	Financial liabilities at amortised cost HK\$	Derivatives HK\$	Total HK\$
Liabilities as per consolidated balance sheet			
31st December, 2011			
Trade and other payables (note 24)	720,131,117	-	720,131,117
Amounts due to associates	1,317,178	-	1,317,178
Bank and other borrowings (note 30)	341,367,230	-	341,367,230
Obligations under finance leases (note 31)	39,153,590	-	39,153,590
Total	1,101,969,115	-	1,101,969,115
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
Obligations under finance leases (note 31)	10,546,752	-	10,546,752
Total	1,190,935,036	596,876	1,191,531,912

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For the year ended 31st December, 2011

42. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)**(a) Financial instruments by categories (Continued)****THE COMPANY**

	Loans and receivables HK\$
<hr/>	
Assets as per balance sheet	
31st December, 2011	
Amounts due from subsidiaries (note 19)	679,037,488
Amount due from an associate	8,602,698
Trade and other receivables	4,681,810
Cash and cash equivalents (note 26)	14,196,262
	<hr/>
Total	706,518,258
	<hr/>
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
	<hr/>
Total	699,711,067
	<hr/>
	Financial liabilities at amortised cost HK\$
<hr/>	
Liabilities as per balance sheet	
31st December, 2011	
Trade and other payables	2,687,481
Amounts due to subsidiaries	65,067,930
Amount due to an associate	233,912
Bank and other borrowings (note 30)	45,762,500
	<hr/>
Total	113,751,823
	<hr/>
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
	<hr/>
Total	128,997,862
	<hr/>

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For the year ended 31st December, 2011

42. 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, 2011, 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\$527,000 (2010: HK\$3,853,000), lower or higher. At 31st December, 2011, if HK\$ had strengthened/weakened by 10% against the RMB, equity would have been approximately HK\$131,040,000 (2010: HK\$120,335,000), lower or higher.

At 31st December, 2011, 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\$989,000 (2010: HK\$2,847,000), higher or lower. There will be no impact on other components of equity.

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

The stated changes represent management's assessment of reasonably possible changes in foreign exchange rates over the period until the next annual balance sheet date. In this respect, it is assumed that the pegged rate between the HK\$ and the US\$ would be materially unaffected by any changes in movement in value of the US\$ against other currencies. Results of the analysis as presented in above represent an aggregation of the effects on each of the Group entities' profit after tax and equity measured in the respective functional currencies, translated into HK\$ at the exchange rate ruling at the balance sheet date for presentation purposes. The analysis is performed on the same basis for 2010.

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For the year ended 31st December, 2011

42. 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, 2011, 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\$956,000 (2010: HK\$805,000) lower/higher, mainly as a result of higher/lower interest expense on floating rate borrowings.

At 31st December, 2011, 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\$524,000 (2010: HK\$328,000) 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 2010.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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For the year ended 31st December, 2011

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

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For the year ended 31st December, 2011

42. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)**(b) Financial risk factors (Continued)***(v) Liquidity risk (Continued)***The Group**

	Less than 1 year HK\$	Between 1 and 2 years HK\$	Between 2 and 5 years HK\$	Over 5 years HK\$	Total HK\$
At 31st December, 2011					
Trade and other payables	720,131,117	-	-	-	720,131,117
Amounts due to associates	1,317,178	-	-	-	1,317,178
Obligations under finance leases	15,574,001	16,849,473	9,779,759	-	42,203,233
Bank and other borrowings	347,576,128	-	-	160,355	347,736,483
Total	1,084,598,424	16,849,473	9,779,759	160,355	1,111,388,011
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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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For the year ended 31st December, 2011

42. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

(b) Financial risk factors (Continued)

(v) Liquidity risk (Continued)

The Company

	Less than 1 year HK\$	Between 1 and 2 years HK\$	Between 2 and 5 years HK\$	Over 5 years HK\$	Total HK\$
At 31st December, 2011					
Trade and other payables	2,687,481	-	-	-	2,687,481
Amounts due to subsidiaries	65,067,930	-	-	-	65,067,930
Amounts due to associates	233,912	-	-	-	233,912
Bank and other borrowings	46,971,235	-	-	-	46,971,235
Total	114,960,558	-	-	-	114,960,558
At 31st December, 2010					
Trade and other payables	4,098,605	-	-	-	4,098,605
Amounts due to subsidiaries	47,277,410	-	-	-	47,277,410
Amounts due to associates	233,912	-	-	-	233,912
Bank and other borrowings	78,948,501	-	-	-	78,948,501
Total	130,558,428	-	-	-	130,558,428

(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

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For the year ended 31st December, 2011

42. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)**(b) Financial risk factors (Continued)***(vi) Fair values (Continued)***2011**

	The Group			Total HK\$
	Level 1 HK\$	Level 2 HK\$	Level 3 HK\$	
Assets				
Available-for-sale financial assets				
– Listed	1,071,558	–	–	1,071,558
– Unlisted	–	–	6,201,946	6,201,946
	1,071,558	–	6,201,946	7,273,504

2010

Assets				
Available-for-sale financial assets				
– 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

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, 2011 and 2010.

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For the year ended 31st December, 2011

42. 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, 2011 and 2010 are as follows:

	2011 HK\$	2010 HK\$
Current liabilities	1,207,225,042	1,195,159,413
Non-current liabilities	31,228,606	10,668,453
Total borrowings	1,238,453,648	1,205,827,866
Total equity	1,590,460,150	1,493,760,478
Total capital	2,828,913,798	2,699,588,344
Total debts ratio	44%	45%

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

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For the year ended 31st December, 2011

43. 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	2011 HK\$	2010 HK\$
Substantial shareholders and its subsidiaries:			
EDP charges received (<i>note i</i>)		183,600	183,600
Management fee paid (<i>note i</i>)		558,396	2,707,764
Balances due to the Group as at the balance sheet date (<i>note ii</i>)	23	233	7,041
Company controlled by certain directors and its relatives:			
Management fee paid (<i>note i</i>)		996,000	1,992,000
EDP charges received (<i>note i</i>)		51,600	51,600
Balances due to the Group as at the balance sheet date (<i>note ii</i>)	23	843	360
Non-controlling shareholders:			
Balances due from the Group as at the balance sheet date (<i>note ii</i>)	24	382,550	382,550
Balances due to the Group as at the balance sheet date (<i>note ii</i>)	23	650,355	614,429
Associates:			
Sales of finished goods (<i>note i</i>)		-	63,894
Service fee received (<i>note i</i>)		-	144,911
Balances due from the Group as at the balance sheet date (<i>note ii</i>)		1,317,178	1,317,178
Balances due to the Group as at the balance sheet date (<i>note ii</i>)	20	21,574,498	16,442,894
Key management compensation of the Group:			
Salaries and other short-term employee benefits	10	14,935,904	7,171,087

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.

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For the year ended 31st December, 2011

44. PARTICULARS OF PRINCIPAL SUBSIDIARIES

Details of the Company's principal subsidiaries at 31st December, 2011 are as follows:

Name of subsidiary	Place of incorporation/ registration	Place of operation	Issued and fully paid share capital/ registered capital	Proportion of nominal value of issued share capital/ registered capital held by the Company*/ subsidiaries %	Proportion of nominal value of issued share capital/ registered capital attributable to the Group %	Principal activities
Cosmos Machinery Limited	Hong Kong	Hong Kong	HK\$10,000,000	100.00	100.00	Investment holding
Cosmos Machinery International Limited	Hong Kong	Hong Kong	HK\$32,000,000	100.00*	100.00	Trading in Industrial machinery, equipment and supplies and investment holding
Cosmos Machinery (Dongguan) Trading Co. Ltd. (note a)	The PRC	The PRC	HK\$5,000,000	100.00	100.00	Trading of machinery
Cosmos Machinery (Wuxi) Trading Co., Ltd. (note a)	The PRC	The PRC	HK\$5,000,000	100.00	100.00	Trading of machinery
Dekuma Rubber and Plastic Technology (Dongguan) Limited (note a)	The PRC	The PRC	HK\$24,000,000	100.00	100.00	Manufacturing and trading of machinery
Dongguan Great Wall Optical Plastic Works Co. Ltd. (note a)	The PRC	The PRC	HK\$20,000,000	100.00	100.00	Manufacturing of microscopes and magnifiers with acrylic lenses
Dong Hua Machinery Limited (note b)	The PRC	The PRC	RMB146,199,955	75.56	75.56	Manufacturing and trading of machinery
Gainbase Industrial Limited	Hong Kong	Hong Kong	HK\$10,000	100.00	52.00	Trading of printed circuit boards
Grand Technology Products Limited	Hong Kong	Hong Kong	HK\$9,500,000	100.00	100.00	Investment holding
Jackson Equities Incorporated	British Virgin Islands	Hong Kong	US\$2	100.00*	100.00	Investment holding
Karmay Industrial Limited	Hong Kong	Hong Kong	HK\$14,979,444	100.00	100.00	General trading and investment holding

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For the year ended 31st December, 2011

44. 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		Principal activities
				held by the Company*/ subsidiaries %	attributable to the Group %	
Karmay Plastic Products (Zhuhai) Co., Ltd. (note a)	The PRC	The PRC	HK\$16,800,000	100.00	100.00	Manufacturing of plastic products
Melco Industrial Supplies Company Limited	Hong Kong	Hong Kong	HK\$1,500,000	100.00	100.00	Trading of industrial equipment and screws
美高工業器材(上海)有限公司 (note a)	The PRC	The PRC	US\$600,000	100.00	100.00	Trading of industrial equipment and screws
Guangzhou Melco Industrial Supplies Co., Ltd. (note a)	The PRC	The PRC	US\$400,000	100.00	100.00	Trading of industrial equipment and screws
MS Enterprises Limited	Hong Kong	Hong Kong	HK\$3,000,000	100.00	100.00	Manufacturing of moulds and trading of plastic wares
Shenzhen Gainbase Printed Circuit Board Co., Ltd. (note a)	The PRC	The PRC	HK\$140,000,000	100.00	52.00	Manufacturing of printed circuit boards
Welltec Machinery Limited	Hong Kong	Hong Kong	HK\$10,000,000	100.00	100.00	Trading of machinery
Wu Xi Grand Tech Machinery Group Ltd. (note a)	The PRC	The PRC	US\$9,586,000	100.00	100.00	Manufacturing and trading of machinery
Wu Xi Grand Plastic Machine Manufacture Co., Ltd. (note b)	The PRC	The PRC	US\$2,850,000	100.00	100.00	Manufacturing and trading of machinery
合肥大同格蘭塑業有限公司 (note a)	The PRC	The PRC	HK\$56,000,000	100.00	100.00	Manufacturing of plastic products

Notes:

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

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

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44. PARTICULARS OF PRINCIPAL SUBSIDIARIES (Continued)

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

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

45. POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31ST DECEMBER, 2011

Up to the date of issue of these consolidated financial statements, the HKICPA has issued a number of amendments, new standards and interpretations which are not yet effective for the year ended 31st December, 2011 and which have not been early adopted in these consolidated financial statements.

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

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

	Effective for accounting periods beginning on or after
Amendments to HKAS 1, <i>Presentation of financial statements</i> – <i>Presentation of items of other comprehensive income</i>	1st July, 2012
Amendments to HKAS 12, <i>Income taxes-Deferred tax</i> : <i>Recovery of underlying assets</i>	1st January, 2012
Revised HKAS 19, <i>Employee benefits</i>	1st January, 2013
HKAS 27, <i>Separate financial statements (2011)</i>	1st January, 2013
HKAS 28, <i>Investments in associates and joint ventures</i>	1st January, 2013
Amendments to HKAS 32, <i>Financial Instruments</i> : <i>Disclosures-Offsetting financial assets and financial liabilities</i>	1st January, 2014
Amendments to HKFRS 7, <i>Financial instruments</i> : <i>Disclosures-Transfers of financial assets</i>	1st July, 2011
Amendments to HKFRS 7, <i>Financial instruments</i> : <i>Disclosures-Offsetting financial assets and financial liabilities</i>	1st January, 2013
HKFRS 9, <i>Financial instruments</i>	1st January, 2015
HKFRS 10, <i>Consolidated financial statements</i>	1st January, 2013
HKFRS 11, <i>Joint arrangements</i>	1st January, 2013
HKFRS 12, <i>Disclosure of interests in other entities</i>	1st January, 2013
HKFRS 13, <i>Fair value measurement</i>	1st January, 2013