



COSMOS MACHINERY
Enterprises Limited



ANNUAL REPORT

2003

CONTENTS

| | |
|--|----|
| Corporate Information | 2 |
| Chairman's Statement | 3 |
| Management Discussion and Analysis | 7 |
| Directors and Senior Management | 14 |
| Report of the Directors | 17 |
| Auditors' Report | 26 |
| Consolidated Income Statement | 27 |
| Consolidated Balance Sheet | 28 |
| Balance Sheet | 30 |
| Consolidated Statement of Changes in Equity | 31 |
| Consolidated Cash Flow Statement | 32 |
| Notes to the Financial Statements | 35 |
| Financial Summary | 80 |
| Notice of Annual General Meeting | 81 |

CORPORATE INFORMATION

DIRECTORS

Executive

Tang To (*Chairman*)
Zhao Zhuoying
Wong Yiu Ming
Yan Wing Fai Richard
Li Tin Loi

Non-Executive

Tang Kwan (*Honorary Chairman*)
He Zhiqi (*Vice Chairman*)
Kan Wai Wah

Independent Non-Executive

Liang Shangli
Yip Jeffery

AUDIT COMMITTEE MEMBERS

Liang Shangli
Yip Jeffery

GENERAL MANAGER

Wong Yiu Ming

COMPANY SECRETARY

Wu Yuk Kwai

REGISTERED OFFICE

8th Floor, Tai Tung Industrial Building
29-33 Tsing Yi Road
Tsing Yi Island
New Territories
Hong Kong
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Fax: 2375-9626/2433-0130
Web Site: www.cosmel.com
E-mail: cmel@cosmel.com

PRINCIPAL BANKERS

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

SOLICITORS

Woo, Kwan, Lee & Lo

AUDITORS

Ting Ho Kwan & Chan

SHARE REGISTRARS

Secretaries Limited
G/F, Bank of East Asia Harbour View Centre
56 Gloucester Road
Wanchai
Hong Kong

LISTING INFORMATION

The Stock Exchange of Hong Kong Limited
Stock Code: 118



Two Platen Series

I am pleased to present to shareholders the annual report of Cosmos Machinery Enterprises Limited (the "Company") and its subsidiaries (the "Group") for the year ended 31st December, 2003.

RESULTS

The Group's consolidated turnover for the year of 2003 was approximately HK\$1,393,628,000, representing an increase of approximately 6% as compared to that of approximately HK\$1,313,484,000 in 2002. During the year, the profit before taxation amounting to approximately HK\$52,167,000, whereas the profit before taxation for the year of 2002 amounted to approximately HK\$56,350,000. For the year ended 31st December, 2003, profit attributable to the shareholders was approximately HK\$20,528,000.

DIVIDEND

The Board proposes that the profit for the period be retained and do not recommend the payment of any dividend for the year ended 31st December, 2003 (2002: Nil).

CHAIRMAN STATEMENT


The unexpected outbreak of serious atypical respiratory syndrome ("SARS") in 2003 was a major challenge for the Group. In addition to hygiene and safety issues, the flow of business and goods within provinces and cities in China and customers overseas all suffered to various degrees of severity. In response to this challenge, the Group's management implemented measures aimed at minimizing loss under the premise of hygiene and safety. At the same time, we also put in place initiatives designed to promote our business and improve our management. Ultimately, our team learned from and was strengthened as a result of this experience. Market conditions quickly returned to a vibrant level after the epidemic ended. Despite the twin pressures of unfavourable foreign exchange rates and raw material prices, the Group's consolidated results continued to remain in profit thanks to the unstinting efforts of its colleagues.

CHAIRMAN'S STATEMENT



The machinery manufacturing business was hard hit by the SARS epidemic and did not recover until the second half of the year. Nevertheless, the turnover for this business showed an increase of approximately 17% over last year. This was largely due to the hard work of colleagues. That said, as a result of the rising cost of raw materials in the fourth quarter last year, profit for this business dropped in comparison with the corresponding period last year. Our industrial competency in mechanical design, electronic control and hydraulics combined with experience in plastic processing, an alliance with technologically advanced foreign companies and recent addition

and expansion of new facilities and plant ensure our current injection moulding machines will become increasingly competitive. A new generation of products, including other plastic processing machinery such as blow-moulding, extrusion and rubber injection machines will all be introduced over the course of the next two years. There is a growing demand for plastic processing machinery in the maturing China market. Coupled with the solid marketing, the prospects for growth in this area look favorable.



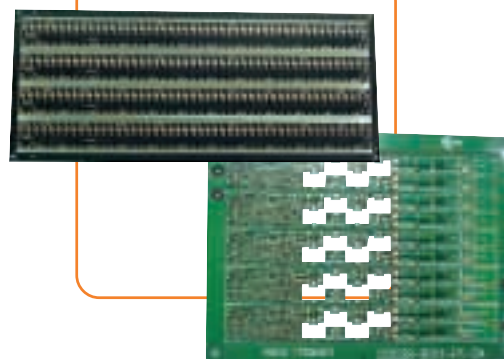
High Speed Recovery Direct Clamping Injection Machine

During the SARS crisis, many domestic customers became affected by stringent control of the flow of their goods. As a result, the supply of parts was disrupted and production came close to a standstill. This damaged the Group's plastic processing business. In the face of such difficulties, our fellow colleagues implemented a major initiative aimed at securing new customers. As a result, by the conclusion of the SARS crisis, we had a more wide-ranging and growing customer network and turnover had increased by 16% over the previous year. Unfortunately, fluctuations in plastic material prices meant this business recorded undesirable results and profit dropped. That said, the Group remains optimistic about the prospect of this business returning to profit in 2004.

The SARS epidemic led to a tightening of hygiene standards by food manufacturers in China. This was reflected in the increase of our customer base for plastic hygienic food containers. The production plant which suffered a delay in construction during 2003 is scheduled to commence operation this year. Consequently, the outlook for this business during 2004 remains good.

Our printed circuit board business was largely unaffected by SARS. Previously initiated market developments also began to deliver results during the year under review. As a result, sales revenue increased by 26%. In particular, orders for multi-layer printed circuit boards exceeded our

production capacity and the business was forced to outsource in order to satisfy demand. The period under review also saw the smooth development of printed circuit boards made of copper and aluminum. In view of the limited competition the business faces, market prospects in this area look favorable.



Printed Circuit Board

2003 saw the implementation of further cost retrenchment measures for audio products. The SARS epidemic caused the flow of customers visiting China from overseas come to a halt, seriously hampering the business' ability to promote new products. The resultant shortage of orders meant that this business' considerable loss persisted. The situation is expected to return to normal this year as retrenchment measures ensure the business achieve break-even.

CHAIRMAN'S STATEMENT

Despite the effects of the SARS crisis and the disruption caused by fluctuations in the exchange rates for the Euro and Yen, our trading business still managed to record a growth of approximately 19% in turnover during the year under review. The level of profit was maintained. The development of this business will continue on a stable basis and will be supported by our strong sales network and continued emphasis on recruitment and training. The Group remains confident that profits for its trading business will again show growth during 2004.



Spring Steel Wires

China is becoming the world's premier manufacturing centre. Foreign investment and the development of private enterprises have both reached new thresholds. Strong exports have triggered an accompanying boom within the domestic market. This growth represents an excellent business opportunity for the Group. Like all emerging markets, China will inevitably undergo certain stages of adjustments which our colleagues must watch very closely. Maintaining stability, focusing on investment in China and the active development of the China and overseas markets will remain the Group's core strategies.

The 2004 market looks set to be a vibrant one. All member companies had more orders on hand during the first quarter of 2004 than they did during the same period last year. Major management and marketing challenges facing the Group during the year ahead will include price wars, increases in material prices, power shortages in China and the decrease in exports tax refunds. Each challenge will be a new test of the Group's ability to turn adversities into opportunities. Ultimately, the Group firmly believes in a people-oriented principle in which the training and recruitment of manpower will all be the strategic development. At the end of the day, I firmly believe that our new board of directors will deliver better results in the development of the Group's business.

APPRECIATION

I am grateful that all our staff attained advancement as a result of the challenges we faced last year. On behalf of the Group's board of directors and shareholders, I would like to extend my sincere thanks to every one of our staff for all their efforts and hard work.

TANG To
Chairman

Hong Kong, 26th April, 2004



REVIEW OF OPERATIONS

During the first six months of 2003, both market confidence and the regional economy were hard hit by the outbreak of SARS. However, the second half of the year saw the market atmosphere gradually return to normal as SARS was brought under control. The recovery of the China market was especially rapid. As a whole, the Group's business remained stable during 2003, with the machinery, printed circuit board and electronic meter sections showing the most satisfactory results.

Manufacturing Business

Machinery

Last year, to reduce the dual challenges of increased market competition and rising material prices, the Group expanded its production scale and sales power. During the year under review, growth was once again recorded in sales figures for our machinery business, with a turnover of

approximately HK\$601,291,000, representing an increase of HK\$87,589,000 or approximately 17% over 2002. When increases in material costs, the expansion of our sales network and various promotion expenses are factored in, the Group's profit decreases to approximately HK\$24,272,000.

The Group is continually striving to minimize the adverse effects of increased material costs by reducing production expenses, implementing stringent cost control measures and optimizing product design, increasing production and tightening our control of logistics and storage. In 2003, the Group has also purchased a number of advanced machines which will enable it to produce its own mechanical parts, work of which was previously outsourced. This move will not only enable us to reduce part manufacturing costs but also improve the precision of parts and ensure faster delivery times.

MANAGEMENT DISCUSSION AND ANALYSIS



Blow Moulding Machine

As China is fast becoming the “world’s factory”, its industries are creating an enormous market for all kinds of advanced machinery products. In order to satisfy the growing demand, the Group intends to further expand its injection moulding machine business and introduce several new products in due course during 2004. The new additions will include plastic processing machinery such as plastic blow-moulding, large extrusion and rubber injection machines. These moves will enable us to satisfy the demands of China’s booming car industry, construction material and packaging industries. To ensure it can achieve this objective, the Group has sought design technology support

from a German company. The Group has acquired additional facilities and is expanding the size of its plants in order to add to its production capabilities. By enabling us to sharpen our machinery business’s competitive edge in the shortest possible time, this strategy will ensure we can establish and develop our customer base.



Hydraulic Drawing Press

MANAGEMENT DISCUSSION AND ANALYSIS

Plastic Products and Processing

During the year under review, sales of the Group's plastic business were approximately HK\$222,230,000. This figure represents an increase of approximately HK\$30,739,000 or 16% over 2002. The profit decreased to approximately HK\$10,180,000.

Development of the plastic business in 2003 was unsatisfactory. The SARS epidemic at the beginning of the year hampered the flow of both humans and goods and this affected the plastic processing business to a certain extent. That said, results began to pick up in the second half of the year as the SARS epidemic was brought under control. As a whole, the performance of the plastic business improved during 2003. There was a large increase in orders from the domestic market during the last six months of the year, and consequently, the business was able to meet its annual sales goal. However, the recovery of export sales remained sluggish. This was mainly due to a decrease in orders from existing customers and a delay in the receipt of orders from new customers.



Plastic Hygienic Food Containers



Plastic Hygienic Food Containers

High Power Magnifier

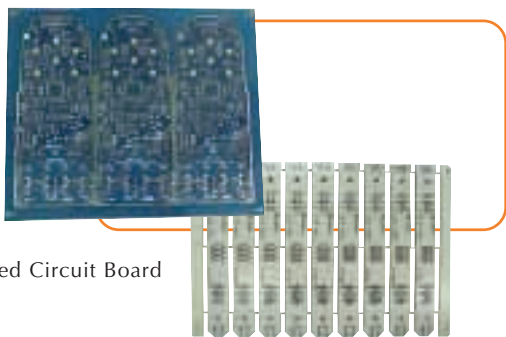
2003 saw raw material prices continue to rise, leading to an increase in production costs and a resultant decline in marginal profits. Due to construction delays, the new plant in Zhuhai was unable to commence operation during the year, a fact which affected our plastic packaging container business. It is expected that 2004 will see growth in the Group's plastic processing businesses in Wuxi, Hefei, Dalian, Dongguan of Guangdong Province, and Shenyang as our customer base is established and grows in those markets. The situation should improve still further when our new Zhuhai plant commences operations and export sales orders increase. Given the rapid development of the plastic processing business in eastern China, the Group plans to expand its processing capabilities at Shuofang Development Zone in Wuxi, Jiangsu Province. The Group will achieve this by acquiring land to build new plants and equipping them with new plastic machinery and painting equipments. Such steps will ensure the Group can provide processing services to manufacturers of large household electrical appliances and vehicle component parts in eastern China.

MANAGEMENT DISCUSSION AND ANALYSIS

Printed Circuit Board

2003 saw the sales of printed circuit board products continue to experience double-digit growth. Total sales were approximately HK\$253,072,000, an increase of approximately HK\$52,203,000 or 26% over 2002. The profit for this business was approximately HK\$11,763,000.

The Group's printed circuit board business was almost not affected by the SARS outbreak at the beginning of the year. Otherwise, the results for this business would have been far more promising. During this period, sales were primarily focused on printed circuit boards of one layer or two layers, while the market's development of multi-layer printed circuit boards continued. Ultimately, the printed circuit board business produced better results in 2003 because of the Group's expansion of its overseas sales network and the high level products quality. The successful commencement of operations at the Group's new plant last year also contributed to the development of the business by helping to increase production and improve both delivery times and product quality. It is expected that 2004 will see the Group deploy additional resources and purchase further advanced facilities which will enable it to increase productivity and reduce product costs. In the area of new products, the Group will focus on the development of high value-added printed circuit boards which will help to sharpen its competitive edge and increase its profit margin.



Printed Circuit Board

Audio Products

Sales of audio products during 2003 were approximately HK\$72,769,000. This figure represents a decrease of approximately HK\$101,215,000 or approximately 58% over 2002. The resultant loss was approximately HK\$15,943,000.

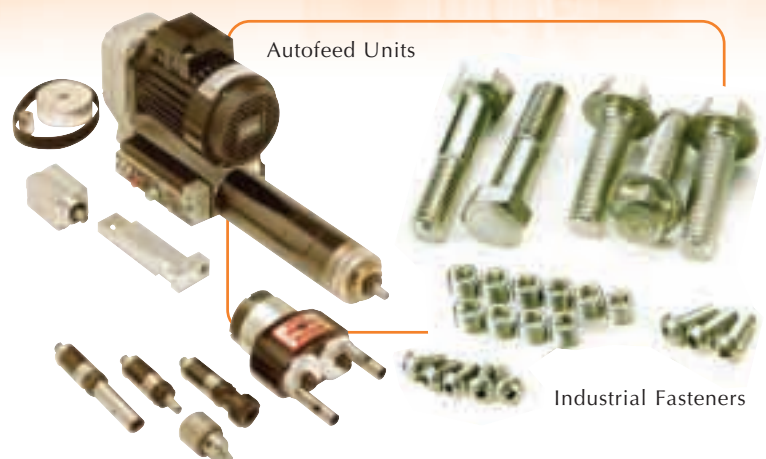
The Group's audio business was in the consolidation stage. In the year ahead, the Group will continue to implement cost retrenchment measures aimed at helping this business to break-even.



Work Site Audio



Precision Steel Balls and Bearings



Trading Business

Industrial Consumables

During the year under review, turnover for this business soared to HK\$244,266,000, representing an HK\$39,782,000 or approximately 19% increase over 2002. The profit stood at approximately HK\$16,249,000.

While sales of industrial consumables increased during 2003, the business' overall performance was not up to expectation. A key reason for this was suppliers' tendency to set up their own sales networks within the more open and transparent China market. Such moves had an adverse impact on businesses which play an intermediary role. Consequently, while this business' export and re-export results improved, its sales in Hong Kong declined. The fluctuation of foreign exchange rates also contributed to an increase in cost and decline in profits.

In the year ahead, the Group will continue to improve the expertise of its technical support team, and encourage closer co-operation with sales staff in order to further enhance customer service levels. 2004 will also see the Group focus on consolidating its customer base by paying close attention to new trends in the market; further enhancing communications between sales outlets; actively contacting its customers; and focusing on key brands.

PROSPECTS

The Group envisages that drastic rises in raw material costs, power shortages in China and a reduction in exports tax rebate will all impact on its product costs and affect the Group's profitability during 2004. Faced with such challenges, the Group will strive to develop high quality value-added products that will enable it to avoid disorderly, purely price-based competition. Training will be provided to management personnel at all levels in the Group's member companies, which will help to further enhance the Group's professional management capabilities, make better use of resources and control costs.

In general, the market looks set to remain strong during 2004. It is indisputable that China has become the world's premier factory. As an organization that engages in the manufacturing and trading of industrial machinery and accessories, the Group will remain focused primarily on the China market.

MANAGEMENT DISCUSSION AND ANALYSIS

To further sharpen its competitive edge, the Group is now planning to properly enlarge its production capabilities. Specific projects to be undertaken to achieve this goal include the construction of new plants at various cities in both Guangdong and Jiangsu provinces. The Group also plans to acquire new facilities for the introduction of new products, increase in production and further enhancement of product quality. At the same time, we will place increased emphasis on the nurturing of talent in the coming years. The Group strongly believes that the building of a professional management team will play a vital role in its sustainable development and continual success.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31st December, 2003, the Group's shareholders' funds were approximately HK\$631,803,000, compared with approximately HK\$601,177,000 as at 31st December, 2002.

The Group finances its operations with internally generated cash flow and banking facilities provided by its bankers in Hong Kong and China. The Group's gearing ratio as at 31st December, 2003 was approximately 3.8% (2002: 2.7%), and the liquidity ratio was approximately 1.29 (2002: 1.28), both were maintained at a healthy level. As at 31st December, 2003, cash, bank balances and time deposits amounted to approximately HK\$103,508,000. All these reflect that the Group is in sound financial position.

CONTINGENT LIABILITIES

Details of the contingent liabilities of the Group are set out in note 35 to the financial statements.

PLEDGE OF ASSETS

Details of the pledge of assets of the Group are set out in note 37 to the financial statements.

FOREIGN CURRENCIES AND TREASURY POLICY

Most of the Group's business transactions, assets and liabilities are denominated in Hong Kong Dollars, Renminbi or United States Dollars. It is the Group's treasury policy to manage its foreign currency exposure whenever its financial impact is material to the Group. During the year, the Group had certain fixed interest rate borrowings but had not engaged in any financial instruments for hedging or speculative activities.

EMPLOYEES AND REMUNERATION POLICY

As at 31st December, 2003, the Group has approximately 6,000 employees (2002: approximately 6,000), remunerations were formulated in accordance with market trends and performance of employees. Benefits have included schemes of insurance, retirement, share option and so on.



MANAGEMENT DISCUSSION AND ANALYSIS

| Financial Statistical Highlights | 2003 HK\$'000 | As restated 2002 HK\$'000 |
|---|--------------------------|---------------------------------|
| Operating results | | |
| Turnover | 1,393,628 | 1,313,484 |
| Profit from operations | 29,025 | 55,929 |
| Profit before taxation | 52,167 | 56,350 |
| Profit attributable to shareholders | 20,528 | 22,461 |
| Earning per share – Basic (cents) | 3.20 | 3.50 |
| Earning per share – Diluted (cents) | N/A | N/A |
| Dividends per share (cents) | – | – |
| Dividend payout | – | – |
| Financial position at year end | | |
| Total assets | 1,691,715 | 1,586,135 |
| Fixed assets | 437,058 | 453,903 |
| Quick assets | 684,343 | 579,108 |
| Net current assets | 244,611 | 221,440 |
| Shareholders' Funds | 631,803 | 601,177 |
| Net asset value per share (cents) | 98 | 94 |
| Financial statistics | | |
| Current ratio | 1.29 | 1.28 |
| Quick asset ratio | 0.80 | 0.73 |
| Gearing ratio | 0.04 | 0.03 |
| Total debt ratio | 1.41 | 1.36 |

DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

Mr. Tang To, aged 55, Chairman of the Company, has served on the Board since the listing of the Company in 1988. He was appointed as Chairman and an Executive Director of the Company on 18th September, 1997. Mr. Tang has over 30 years of experience in manufacturing and trading businesses in Hong Kong and the PRC. Mr. Tang is responsible for the overall policy making and significant investments of the Group. Mr. Tang is the son of Mr. Tang Kwan.

Mr. Zhao Zhuoying, age 38, holds a Master's degree in Economics from Zhongshan University in China. Mr. Zhao joined China Resources (Holdings) Co., Ltd. in 1986. He has over 10 years' experience in financial management. He had been the Manager of Finance Department of Teck Soon Hong Ltd. He is the Director and Deputy General Manager of China Resources Machinery & Minmetals (Holdings) Co., Ltd.

Mr. Wong Yiu Ming, aged 50, has more than 20 years of experience in sales, marketing and general management. Mr. Wong joined Welltec in 1982. He holds a Bachelor of Science degree in Engineering and a Master degree in Business Administration. Mr. Wong was appointed as the General Manager of the Company on 1st February, 1999. He is responsible for the strategic planning and general management of the Group.

Mr. Yan Wing Fai Richard, aged 43, graduated from the University of Hong Kong in Social Sciences. He has over 18 years of experience in production and sales management of machines related business and has managed one of the biggest plastics machinery company in the PRC. He joined the Group in April, 2002 as the Deputy General Manager and is responsible for the general management of machines related business.

Mr. Li Tin Loi, aged 40, graduated from the Hong Kong Polytechnic University in Electrical Engineering. He also holds a Diploma in Management Studies and a Master degree in Business Administration. He has 17 years of experience in marketing and management. Mr. Li joined the Group in 1992 and is currently the General Manager of a subsidiary, which is engaged in the trading of industrial equipment and components.

NON-EXECUTIVE DIRECTORS

Mr. Tang Kwan, aged 80, is one of the founders of the Company. He has over 40 years of experience in machinery trading in Hong Kong and the PRC. Mr. Tang was appointed as a Honorary Chairman and Non-Executive Director on 18th September, 1997. Mr. Tang is the father of Mr. Tang To.

Mr. He Zhiqi, age 46, the Vice-Chairman of the Company, holds a Master's degree in Business Administration from University of San Francisco in USA. Mr. He joined China Resources (Holdings) Co., Ltd. in 1985. He has over 10 years' experience in corporate financial management. He had been the Deputy Manager of Finance Department of China Resources (Holdings) Co., Ltd. He is the Director and General Manager of China Resources Machinery & Minmetals (Holdings) Co., Ltd.

DIRECTORS AND SENIOR MANAGEMENT

Mr. Liang Shangli, aged 84, graduated from the University of Canton. He has been an Independent Non-Executive Director of the Company since 1988. Mr. Liang is the Honorary Vice-Chairman of both the All China Federation of Industry & Commerce and the Guangzhou Trust & Investment Corporation as well as an ex-member of CPPCC All China Standing Committee. He is also the Honorary President of both the Guangdong Federation of Industry and Commerce and the Guangzhou Federation of Industry and Commerce.

Mr. Yip Jeffery, aged 70, is a registered optometrist in Hong Kong. Mr. Yip is the President of the Hong Kong Eye Foundation Limited, the Past President of the Hong Kong Optometric Association Limited, the Past President and the Honorary Life President of the Hong Kong Contact Lens Research Association Limited. Mr. Yip was appointed as an Independent Non-Executive Director of the Company in August 1994.

Mr. Kan Wai Wah, aged 46 is an Executive Director and General Manager of Maritime Square Treasure Seafood Restaurant Limited. He has over 22 years of experience in the management of restaurant operations. Mr. Kan holds a Higher Diploma in Accountancy. He was appointed as a Non-Executive Director of the Company on 22nd May, 1998.

SENIOR MANAGEMENT

Mr. Ho Kwong Sang, aged 48, joined Welltec in 1982, is the Chief Financial Officer of the Group. He is responsible for the financial management and general administration of the Group. Mr. Ho holds a Bachelor of Arts degree and a Diploma in Management Studies. He is an Associate Member of the Hong Kong Society of Accountants, a Fellow member of the Hong Kong Institute of Company Secretaries and a member of Hong Kong Securities Institute.

Mr. So Kar Lun, aged 50, has more than 20 years of experience in manufacturing, marketing and general administrative management. Mr. So holds a Bachelor of Science degree in Engineering and Master of Arts degree in Marketing. He joined Welltec in 1982 and is currently the Managing Director of Karmay.

Mr. Wan Ming Sang, aged 59, has more than 30 years of experience in the plastic processing industry. Mr. Wan joined Ming Sun Enterprises Limited in 1987 and is currently its Managing Director.

Mr. Cheung Kam Chow, aged 56, has over 30 years of experience in electronic manufacturing and management. Mr. Cheung holds a Diploma in Electrical Engineering from Hong Kong Technical College and a Certificate in Management from Hong Kong Management Association. He is also an Associate Member of The American Society of Quality Control Engineers. He joined the Group in 1996 and is currently the Operation Director of Glory Horse Industries Limited, which is engaged in the manufacture of electronic products.

Miss Sylvia Pau, aged 53, joined the Group in 1977. She holds a Higher Diploma in Business Management. Miss Pau is the General Manager of a subsidiary which is engaged in the manufacture of optical instruments.

Mr. Yip Kar Shun, aged 57, has over 25 years of experience in electronic production and management. He joined the Group in 1994. Mr. Yip is the General Manager of the subsidiaries which are engaged in the manufacture of printed circuit boards.

DIRECTORS AND SENIOR MANAGEMENT

Mr. Cheng Tak Yin, aged 65, has over 35 years of experience in business management. Mr. Cheng joined the Group in 1972 and is the General Manager of a subsidiary which is engaged in the trading of industrial consumables.

Mr. Li Sik Hong, aged 43, has more than 20 years of experience in manufacturing and production management. Mr. Li holds a Bachelor of Science degree in Engineering and a Master of Science degree in Flexible Manufacturing Systems and Robotics. He joined Welltec in 1984 and is currently the Deputy General Manager of Dong Hua Machinery Limited.

REPORT OF THE DIRECTORS

The directors of the Company (the “Directors”) have pleasure in presenting their annual report and the audited financial statements of the Company for the year ended 31st December, 2003.

PRINCIPAL ACTIVITIES

The Company acts as an investment holding company. The principal activities of its principal subsidiaries are set out in note 39 to the financial statements.

RESULTS

The results of the Group for the year ended 31st December, 2003 are set out in the consolidated income statement on page 27 of the annual report.

The Board do not recommend the payment of any dividend for the year.

FINANCIAL SUMMARY

A summary of the results, the assets and liabilities of the Group for the past five financial years is set out on page 80 of the annual report.

INVESTMENT PROPERTIES, PLANT AND EQUIPMENT

The investment properties, leasehold land and buildings of the Group were revalued on 31st December, 2003. The resulting deficit arising on revaluation of these properties attributable to the Group has been charged to the asset revaluation reserve and the consolidated income statement.

During the year, the Group spent, in aggregate, approximately HK\$65,099,000 on the acquisition of property, plant and equipment for the purpose of expanding business.

Details of these and other movements in investment properties, plant and equipment of the Group and of the Company during the year are set out in notes 13 and 14 to the financial statements respectively.

SHARE CAPITAL

Details of the share capital of the Company are set out in note 25 to the financial statements.

RESERVES

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

REPORT OF THE DIRECTORS

MAJOR CUSTOMERS AND SUPPLIERS

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

SHARE OPTION SCHEME

Details of the Company's share option scheme are set out in note 27 to the financial statements.

The following table discloses details of the Company's share options held by employees (including the Directors) at 31st December, 2003:

| Name | Date of grant | Exercise period | Exercise price HK\$ | Number of share options outstanding at 31.12.2002 | Number of share options exercised during the year | Number of share options lapsed during the year | Number of share options outstanding at 31.12.2003 |
|------------------------------|---------------|-------------------------|---------------------|---|---|--|---|
| Tang To | 23.6.2001 | 21.10.2001 to 19.7.2003 | 0.41 | 2,100,000 | - | 2,100,000 | - |
| Wong Yiu Ming | 23.6.2001 | 21.10.2001 to 19.7.2003 | 0.41 | 1,500,000 | - | 1,500,000 | - |
| Aggregate total of employees | 23.6.2001 | 21.10.2001 to 19.7.2003 | 0.41 | 8,600,000 | 1,100,000 | 7,500,000 | - |

All the remaining 11,100,000 share options granted on 23rd June, 2001 have lapsed on 19th July, 2003.

WARRANTS

Details of the warrants (Stock Code: 906) of the Company are set out in note 26 to the financial statements.

As at 10th June, 2003, 88,000 warrants have been exercised to subscribe for 88,000 shares of the Company (the "Shares"). All the subscription rights attaching to the remaining warrants have expired on the same date.

DIRECTORS

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

Executive Directors:

Tang To, *Chairman*

Wong Yiu Ming

Zhao Zhuoying (appointed on 22nd March, 2004)

Zhou Junqing (resigned on 22nd March, 2004)

Yan Wing Fai Richard (appointed on 22nd March, 2004)

Li Tin Loi (appointed on 22nd March, 2004)

Non-Executive Directors:

Tang Kwan, *Honorary Chairman*

He Zhiqi, *Vice Chairman* (appointed on 22nd March, 2004)

Shi Shanbo, *Vice Chairman* (resigned on 22nd March, 2004)

Kan Wai Wah

Independent Non-Executive Directors:

Liang Shangli

Yip Jeffery

In accordance with Articles 94 and 103 of the Company's Articles of Association, Messrs. Tang To, Tang Kwan, He Zhiqi, Zhao Zhuoying, Yan Wing Fai Richard, Li Tin Loi and Kan Wai Wah, retire and, being eligible, offer themselves for re-election.

None of the Directors has a service contract with the Company or any of its subsidiaries, which is not terminable within one year without payment of compensation (other than statutory compensation).

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

The Non-Executive Directors and Independent Non-Executive Directors were not appointed for a specific term but subject to retirement by rotation and re-appointment in accordance with Article 103 of the Company's Articles of Association.

REPORT OF THE DIRECTORS

DIRECTOR'S AND CHIEF EXECUTIVE'S INTERESTS IN SECURITIES

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

Interests in the Shares

| Name of Director | Personal interests | Family interests | Number of shares held | | Total | Approximate % of total issued shares (if 0.01% or more) |
|------------------|--------------------|--------------------|-----------------------|-------------------------|-------------|---|
| | | | Corporate interests | Other interests | | |
| Tang To | 2,700,000 | – | 3,145,824 (Note 1) | – | 5,845,824 | 0.91 |
| Wong Yiu Ming | 8,814,611 | – | – | – | 8,814,611 | 1.37 |
| Zhou Junqing | – | 20,000 (Note 2) | – | – | 20,000 | – |
| Tang Kwan | – | – | – | 270,086,411 (Note 3) | 270,086,411 | 42.07 |
| Kan Wai Wah | 124,000 | – | – | – | 124,000 | 0.02 |

Notes:

1. As at 31st December, 2003, 3,145,824 Shares were held by Ginta Company Limited ("Ginta") which is wholly owned by a company which in turn is owned as to 50% by Mr. Tang To and 50% by his spouse.
2. As at 31st December, 2003, 20,000 Shares were held by the spouse of Ms. Zhou Junqing.
3. As at 31st December, 2003, Mr. Tang Kwan was deemed to be interested in the block of 270,086,411 shares under the SFO through his deemed interests in Codo Development Limited ("Codo"). As at 31st December, 2003, Codo through its wholly owned subsidiaries, Cosmos Machinery (Holdings) Limited ("Cosmos Holdings") and Tai Shing Agencies Limited ("Tai Shing") was deemed to be interested in 270,086,411 shares. Codo is incorporated in Hong Kong and is owned as to (i) 25.06% by Keepsound Investments Limited, a Hong Kong company controlled by The Saniwell Trust, a trust established for the benefit of Mr. Tang Kwan's family, of which the spouse of Mr. Tang Kwan is one of the beneficiaries; (ii) 8.37% by Elegant Power Enterprises Limited ("Elegant Power"); (iii) 30.25% by Friendchain Investments Limited, a Hong Kong company controlled as to 40% by Elegant Power, as to 57.42% by The Saniwell Trust and as to 2.58% by Fullwin Limited; (iv) 16.09% by Yik Wan Company Limited; and (v) 20.23% by 7 individuals.

DIRECTOR'S AND CHIEF EXECUTIVE'S INTERESTS IN SECURITIES *(Continued)*

Interests in the underlying Shares

| Name of Director | Nature of interests | Number of underlying shares | | Total | Approximate % of total issued shares (if 0.01% or more) |
|------------------|---------------------|-----------------------------|----------------------|------------|---|
| | | pursuant to share options | pursuant to warrants | | |
| Tang To | Personal | 2,100,000 | 540,000 | 3,269,164 | 0.51 |
| | Corporate | – | 629,164 | – | – |
| | | | <i>(Note 1)</i> | | |
| Wong Yiu Ming | Personal | 1,500,000 | 1,762,922 | 3,262,922 | 0.51 |
| Zhou Junqing | Family | – | 4,000 | 4,000 | – |
| Tang Kwan | Other | – | 54,017,282 | 54,017,282 | 8.41 |
| | | | <i>(Note 2)</i> | | |
| Kan Wai Wah | Personal | – | 24,800 | 24,800 | – |

Notes:

1. Mr. Tang To is deemed to be beneficially interested in 629,164 warrants by virtue of his interest in Ginta.
2. The 54,017,282 warrants are beneficially owned as to 23,089,200 warrants by Cosmos Holdings, and as to 30,928,082 warrants by Tai Shing. Mr. Tang Kwan is deemed to be beneficially interested in the whole block of 54,017,282 warrants by virtue of his interests in Cosmos Holdings and Tai Shing.

The percentage shown was calculated based on the number of issued shares of the Company as at 31st December, 2003. Details of the share options and warrants are respectively shown in the previous sections under the headings "Share Option Scheme" and "Warrants".

As at 31st December, 2003, other than as disclosed above and certain nominee shares held in trust for the Group, none of the Directors or Chief Executive or their associates had any interests and short positions in the shares, underlying shares of the Company and its associated corporations (within the meaning of the SFO) to be notified to the Company and the Stock Exchange pursuant to Section 352 of the SFO, to be entered in the register referred to therein.

Save as disclosed herein, none of the Directors is materially interested in any contract or arrangement subsisting as at 31st December, 2003 which is significant in relation to the business of the Company and its subsidiaries.

As at 31st December, 2003, none of the Directors had any direct interests or indirect interests in any asset which had been acquired, or disposed of by, or leased to any member of the Group, or was proposed to be acquired, or disposed of by, or leased to any member of the Group.

REPORT OF THE DIRECTORS

SUBSTANTIAL SHAREHOLDERS

As at 31st December, 2003, the following interests in 5% or more in the shares and underlying shares of the Company have been notified to the Company and recorded in the register of substantial shareholders' interests and short positions required to be kept under Section 336 of Part XV of the SFO:

Interests in the Shares

| Name of Substantial Shareholder | Number of shares held | | | Approximate % of interests |
|--|-----------------------|--------------------------------|-------------|----------------------------|
| | Direct interests | Deemed interests | Total | |
| Cosmos Holdings | 115,446,000 | 154,640,411 <i>(Note 1)</i> | 270,086,411 | 42.07 |
| Law Kit Fong | – | 270,086,411 <i>(Note 2)</i> | 270,086,411 | 42.07 |
| Tai Shing | 154,640,411 | – | 154,640,411 | 24.09 |
| China Resources (Holdings) Company Limited ("CRC") | 154,226,406 | – | 154,226,406 | 24.02 |

Notes:

1. Cosmos Holdings is interested in 154,640,411 shares through its subsidiary, Tai Shing.
2. Ms. Law Kit Fong is deemed to be interested in the block of 270,086,411 shares through her indirect interests in Codo. As at 31st December, 2003, Codo through its wholly owned subsidiaries, Cosmos Holdings and Tai Shing, was deemed to be interested in 270,086,411 shares.

Interests in the underlying Shares

| Name of Substantial Shareholder | Nature of interests | Number of underlying shares | | | Approximate % of total issued shares (if 0.01% or more) |
|---------------------------------|---------------------|-----------------------------|----------------------|-------------------------------|---|
| | | pursuant to share options | pursuant to warrants | Total | |
| Cosmos Holdings | Direct | 23,089,200 | – | 54,017,282 <i>(Note 1)</i> | 8.41 |
| Law Kit Fong | Corporate | 30,928,082 | – | 54,017,282 <i>(Note 2)</i> | 8.41 |
| Tai Shing | Corporate | 54,017,282 | – | 54,017,282 <i>(Note 2)</i> | 8.41 |
| Tai Shing | Direct | 30,928,082 | – | 30,928,082 | 4.82 |
| CRC | Direct | 29,715,216 | – | 30,845,281 <i>(Note 3)</i> | 4.80 |
| | Corporate | 1,130,065 | – | | |

SUBSTANTIAL SHAREHOLDERS (Continued)

Notes:

1. Cosmos Holdings is interested in 30,928,082 warrants through its subsidiary, Tai Shing.
2. Ms. Law Kit Fong is deemed to be interested in the block of 54,017,282 warrants through her indirect interests in Codo which in turn is deemed to be interested in 54,017,282 warrants through its subsidiaries.
3. CRC is interested in 1,130,065 warrants through its subsidiary, China Resources Machinery Company Limited.

The percentage shown was calculated based on the number of issued shares of the Company as at 31st December, 2003. Details of the warrants held by substantial shareholders of the Company are shown respectively in the previous section under the heading "Warrants".

Save as disclosed above, as at 31st December, 2003, the Directors are not aware of any other persons who have interests or short positions in the shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which would be required to be disclosed to the Company and the Stock Exchange pursuant to Part XV of the SFO.

CONNECTED TRANSACTIONS

On 21st July, 2003, Welltec Industrial Equipment Limited ("WIEL"), a wholly-owned subsidiary of the Company, and Shenyang Bigtide Direction Group Co., Ltd. (沈陽北泰方向集團有限公司) ("Bigtide Direction"), a substantial shareholder of Shenyang Cosmos Bigtide Plactic-Infusing Co., Ltd. (沈陽大同北泰注塑有限公司) ("Cosmos Bigtide"), a non wholly-owned subsidiary of the Company, entered into an agreement. Pursuant to the agreement, WIEL agreed to purchase in cash the capital interest in the amount of RMB2,700,000 (equivalent to approximately HK\$2,559,242), representing 15% of the total registered capital in Cosmos Bigtide from Bigtide Direction for the consideration of RMB2,700,000 (equivalent to approximately HK\$2,559,242). As Bigtide Direction is a substantial shareholder of Cosmos Bigtide, therefore, entering into the agreement by WIEL and Bigtide Direction constitutes a connected transaction of the Company pursuant to the Listing Rules.

On 5th December, 2003, two agreements were entered into between (i) WIEL; (ii) Dongguan City Foreign Economic Industrial Company Limited ("Dongguan Foreign Economic"); (iii) Dongguan City Hua Ying Trading Company Limited ("Hua Ying Trading"); and (iv) China National Light Industrial Machinery Corporation ("China Machinery"). On the same date, another agreement was entered into between (i) WIEL; (ii) Dongguan Foreign Economic; (iii) Hua Ying Trading; (iv) China Machinery; and (v) Dong Hua Machinery Ltd. ("Dong Hua"). The purpose of entering into the agreements is to restructure the Group's shareholding interests in three subsidiaries of the Company, namely Dong Hua, Dongguan Welltec Machinery Ltd. and Dongguan Cosmos Machinery Ltd.. Since (i) Dongguan Foreign Economic and Hua Ying Trading are substantial shareholders of each of Dong Hua and Dongguan Welltec; and (ii) Dong Hua is a substantial shareholder of Dongguan Cosmos, the transactions contemplated under the agreements constitute connected transactions of the Company under the Listing Rules.

REPORT OF THE DIRECTORS

POST BALANCE SHEET EVENTS

On 24th March, 2004, Fair Friend (Hong Kong) Enterprise Co., Limited (“Fair Friend”) and 無錫市新區運昌電子經營部 (“Yunchang Electronics”) have entered into an agreement. Pursuant to the agreement, Fair Friend has agreed to subscribe in cash for the capital interest in the amount of US\$510,000 (equivalent to approximately HK\$3,978,000), representing 51% in the proposed total registered capital of Wuxi Cosmos Yunchang Plastic Co., Ltd. (the “New Company”), at a subscription price of US\$510,000 (equivalent to approximately HK\$3,978,000) and Yunchang Electronics has agreed to subscribe in cash for the capital interest in the amount of US\$490,000 (equivalent to approximately HK\$3,822,000), representing 49% in the proposed total registered capital of the New Company at a subscription price of US\$490,000 (equivalent to approximately HK\$3,822,000). As Yunchang Electronics is a substantial shareholder of Wuxi GL Precision Plastic Products Co., Ltd. which is a non wholly-owned subsidiary of the Company, the entering into of the Agreement by Fair Friend and Yunchang Electronics constitutes a connected transaction of the Company under the Listing Rules.

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

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

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

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

AUDIT COMMITTEE

The audit committee of the Company comprises the two independent non-executive directors. The audit committee members possess management and financial experience to advise on the Company's matters. During the last 12 months, the audit committee met twice to review with senior management the accounting practices adopted by the Group, and to discuss internal control and financial reporting matters, including the interim and annual financial statements before recommending the same to the Board for approval.

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

During the year ended 31st December, 2003, there has been no purchase, sale or redemption by the Company or any of its subsidiaries of the Company's listed securities.

CODE OF BEST PRACTICE

The Company has complied throughout the year with the Code of Best Practice as set out in Appendix 14 of the Listing Rules.

AUDITORS

A resolution will be submitted at the forthcoming annual general meeting of the Company to re-appoint Messrs. Ting Ho Kwan & Chan, the retiring auditors, who were also appointed by the Board to fill the casual vacancy following the resignation of Messrs. Deloitte Touche Tohmatsu, as auditors.

PROPOSED AMENDMENTS TO THE ARTICLES OF ASSOCIATION

The Company shall, subject to the approval of shareholders of the Company (the "Shareholders") at the forthcoming annual general meeting (the "AGM"), amend its articles of association to cope with certain amendments made to the Companies Ordinance and the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"). Details of the proposed amendments will be set out in the notice of the AGM to be published on 30th April, 2004 when the 2003 annual report of the Company and a circular to be despatched to the Shareholders on the same day.

On behalf of the Board
TANG To
Chairman

Hong Kong, 26th April, 2004

AUDITORS' REPORT

TING HO KWAN & CHAN

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



Hong Kong, 26th April, 2004

TO THE MEMBERS OF COSMOS MACHINERY ENTERPRISES LIMITED

大同機械企業有限公司

(incorporated in Hong Kong with limited liability)

We have audited the financial statements on pages 27 to 79 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Hong Kong Companies Ordinance requires the directors to prepare financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently, that judgements and estimates are made which are prudent and reasonable and that the reasons for any significant departure from applicable accounting standards are stated.

It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion solely to you, as a body, in accordance with section 141 of the Hong Kong Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other persons for the contents of this report.

BASIS OF OPINION

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of the Company and of the Group, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

OPINION

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31st December, 2003 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the Hong Kong Companies Ordinance.

TING HO KWAN & CHAN

Certified Public Accountants

CONSOLIDATED INCOME STATEMENT

For the year ended 31st December, 2003

| | Notes | 2003 HK\$ | As restated 2002 HK\$ |
|--|-------|------------------------|-----------------------------|
| Turnover | | 1,393,628,209 | 1,313,483,603 |
| Cost of sales | 5 | (1,101,255,266) | (1,006,499,127) |
| Gross profit | | 292,372,943 | 306,984,476 |
| Other operating income | 6 | 27,844,931 | 37,067,533 |
| Distribution costs | | (93,503,444) | (83,546,119) |
| Administrative expenses | | (188,963,397) | (197,060,264) |
| Other operating expenses | | (3,726,141) | (3,657,005) |
| Allowance for bad and doubtful debts | | (5,000,000) | (3,860,061) |
| Profit from operations | 7 | 29,024,892 | 55,928,560 |
| Finance costs | 8 | (17,825,958) | (19,139,434) |
| Investment income | 9 | 835,739 | 1,524,465 |
| Loss on disposal of subsidiaries | | (2,217,733) | (2,824,013) |
| Share of results of associates | | 28,351,029 | 18,654,370 |
| Release of negative goodwill of an associate | | 13,998,675 | 2,206,011 |
| Profit before taxation | | 52,166,644 | 56,349,959 |
| Taxation | 11 | 13,378,918 | 16,377,209 |
| Profit before minority interests | | 38,787,726 | 39,972,750 |
| Minority interests | | 18,259,441 | 17,512,000 |
| Net profit for the year | | 20,528,285 | 22,460,750 |
| Earnings per share – basic | 12 | 3.20 cents | 3.50 cents |

CONSOLIDATED BALANCE SHEET

At 31st December, 2003

| | Notes | 2003 HK\$ | As restated 2002 HK\$ |
|----------------------------------|-------|----------------------|-----------------------------|
| Non-current Assets | | | |
| Investment properties | 13 | 24,400,000 | 24,400,000 |
| Property, plant and equipment | 14 | 412,657,652 | 429,503,425 |
| Goodwill | 15 | 1,960,402 | 4,838,939 |
| Negative goodwill | 16 | (792,971) | (242,053) |
| Interests in associates | 18 | 128,314,924 | 85,987,768 |
| Investments in securities | 19 | 10,698,471 | 10,605,075 |
| Deferred tax assets | 29 | 16,149,952 | 15,607,898 |
| | | 593,388,430 | 570,701,052 |
| Current Assets | | | |
| Inventories | 20 | 413,984,376 | 436,326,308 |
| Trade and other receivables | 21 | 555,501,951 | 470,971,218 |
| Bills receivable | | 10,076,673 | 6,223,384 |
| Tax recoverable | | 1,287,041 | 2,483,556 |
| Pledged bank deposits | | 13,969,104 | 18,176,157 |
| Bank balances and cash | | 103,507,801 | 81,253,479 |
| | | 1,098,326,946 | 1,015,434,102 |
| Current Liabilities | | | |
| Trade and other payables | 22 | 480,860,235 | 477,631,869 |
| Bills payable | | 98,445,508 | 96,700,413 |
| Amounts due to associates | | 1,440,584 | 1,440,584 |
| Tax payable | | 9,838,254 | 10,130,919 |
| Borrowings – due within one year | 23 | 221,208,941 | 178,787,445 |
| Obligations under finance leases | | | |
| – due within one year | 24 | 3,543,358 | 4,246,239 |
| Bank overdrafts | | 38,379,149 | 25,056,386 |
| | | 853,716,029 | 793,993,855 |
| Net Current Assets | | | |
| | | 244,610,917 | 221,440,247 |
| | | 837,999,347 | 792,141,299 |

CONSOLIDATED BALANCE SHEET

At 31st December, 2003

| | Notes | 2003 HK\$ | As restated 2002 HK\$ |
|----------------------------------|-------|--------------------|-----------------------------|
| Capital and Reserves | | | |
| Share capital | 25 | 256,810,494 | 256,335,294 |
| Reserves | | 374,992,699 | 344,841,472 |
| | | 631,803,193 | 601,176,766 |
| Minority Interests | | | |
| | | 170,482,119 | 164,435,835 |
| Non-current Liabilities | | | |
| Borrowings – due after one year | 23 | 20,931,086 | 12,000,472 |
| Obligations under finance leases | | | |
| – due after one year | 24 | 3,100,561 | 4,127,233 |
| Deferred tax liabilities | 29 | 11,682,388 | 10,400,993 |
| | | 35,714,035 | 26,528,698 |
| | | 837,999,347 | 792,141,299 |

The financial statements on pages 27 to 79 were approved and authorised for issue by the Board of Directors on 26th April, 2004 and are signed on its behalf by:

TANG To
DIRECTOR

WONG Yiu Ming
DIRECTOR

BALANCE SHEET

At 31st December, 2003

| | Notes | 2003 HK\$ | 2002 HK\$ |
|----------------------------------|-------|---------------------|--------------|
| Non-current Assets | | | |
| Property, plant and equipment | 14 | 3,948,794 | 4,694,529 |
| Interests in subsidiaries | 17 | 629,553,286 | 625,171,628 |
| Interests in associates | 18 | 2,464,143 | 2,593,272 |
| Investments in securities | 19 | 4,579,544 | 4,518,758 |
| | | 640,545,767 | 636,978,187 |
| Current Assets | | | |
| Trade and other receivables | | 4,856,273 | 3,357,387 |
| Tax recoverable | | – | 1,149,335 |
| Bank balances and cash | | 360,855 | 63,562 |
| | | 5,217,128 | 4,570,284 |
| Current Liabilities | | | |
| Trade and other payables | | 4,236,786 | 3,335,557 |
| Amounts due to subsidiaries | | 13,414,272 | 10,219,521 |
| Amount due to an associate | | 357,318 | 357,318 |
| Borrowings – due within one year | 23 | 10,000,000 | 10,000,000 |
| Bank overdrafts | | 19,064,153 | 2,890,283 |
| | | 47,072,529 | 26,802,679 |
| Net Current Liabilities | | (41,855,401) | (22,232,395) |
| | | 598,690,366 | 614,745,792 |
| Capital and Reserves | | | |
| Share capital | 25 | 256,810,494 | 256,335,294 |
| Reserves | 28 | 341,879,872 | 358,410,498 |
| | | 598,690,366 | 614,745,792 |

TANG To
DIRECTOR

WONG Yiu Ming
DIRECTOR

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31st December, 2003

| | Share capital HK\$ | Share premium HK\$ | Asset revaluation reserve HK\$ | Translation reserve HK\$ | Statutory reserve HK\$ | Retained profits HK\$ | Total HK\$ |
|--|--------------------------|--------------------------|---|--------------------------------|------------------------------|-----------------------------|---------------|
| At 1st January, 2002 | | | | | | | |
| As previously stated | 256,335,294 | 267,148,838 | 49,965,213 | (12,162,536) | 594,457 | 17,972,485 | 579,853,751 |
| Prior period adjustment – Effect of adopting SSAP 12 (revised) | – | – | (3,127,192) | – | – | 7,398,532 | 4,271,340 |
| As restated | 256,335,294 | 267,148,838 | 46,838,021 | (12,162,536) | 594,457 | 25,371,017 | 584,125,091 |
| Exchange differences arising from translation of overseas operations | – | – | – | (976,267) | – | – | (976,267) |
| Deficit arising on revaluation | | | | | | | |
| – gross | – | – | (4,639,783) | – | – | – | (4,639,783) |
| – taxation | – | – | 206,473 | – | – | – | 206,473 |
| Net losses not recognised in the income statement | – | – | (4,433,310) | (976,267) | – | – | (5,409,577) |
| Realised on disposal of subsidiaries | – | – | – | 502 | – | – | 502 |
| Profit for the year | – | – | – | – | – | 22,460,750 | 22,460,750 |
| | – | – | – | 502 | – | 22,460,750 | 22,461,252 |
| At 31st December, 2002 and 1st January, 2003 | 256,335,294 | 267,148,838 | 42,404,711 | (13,138,301) | 594,457 | 47,831,767 | 601,176,766 |
| Exchange differences arising from translation of overseas operations | – | – | – | (3,437,038) | – | – | (3,437,038) |
| Deficit arising on revaluation | | | | | | | |
| – gross | – | – | (1,430,974) | – | – | – | (1,430,974) |
| – taxation | – | – | (67,430) | – | – | – | (67,430) |
| Net losses not recognised in the income statement | – | – | (1,498,404) | (3,437,038) | – | – | (4,935,442) |
| Issue of shares on exercise of | | | | | | | |
| – share options | 440,000 | 11,000 | – | – | – | – | 451,000 |
| – warrants | 35,200 | – | – | – | – | – | 35,200 |
| Realised on disposal of subsidiaries | – | – | – | 15,141,841 | (594,457) | – | 14,547,384 |
| Profit for the year | – | – | – | – | – | 20,528,285 | 20,528,285 |
| | 475,200 | 11,000 | – | 15,141,841 | (594,457) | 20,528,285 | 35,561,869 |
| At 31st December, 2003 | 256,810,494 | 267,159,838 | 40,906,307 | (1,433,498) | – | 68,360,052 | 631,803,193 |

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31st December, 2003

| | 2003 HK\$ | 2002 HK\$ |
|---|--------------------|--------------|
| OPERATING ACTIVITIES | | |
| Profit from operations | 29,024,892 | 55,928,560 |
| Adjustments for: | | |
| Depreciation and amortisation of property, plant and equipment | 60,441,063 | 60,001,248 |
| Amortisation of goodwill | 3,098,199 | 3,091,571 |
| Release of negative goodwill | (289,012) | (701,230) |
| Loss on disposal of property, plant and equipment | 930,823 | 2,278,044 |
| Deficit arising on revaluation of leasehold land and buildings | 627,942 | 565,434 |
| Allowance for bad and doubtful debts | 5,000,000 | 3,860,061 |
| Allowance for obsolete inventories | 4,000,000 | 5,919,558 |
| Operating cash flows before movements in working capital | 102,833,907 | 130,943,246 |
| Decrease (increase) in inventories | 6,678,495 | (61,569,612) |
| Increase in trade and other receivables | (93,282,457) | (74,083,818) |
| Increase in bills receivable | (3,923,281) | (2,178,373) |
| Increase in trade and other payables | 24,670,859 | 110,312,789 |
| Increase in bills payable | 1,787,736 | 33,172,849 |
| Cash generated from operations | 38,765,259 | 136,597,081 |
| Tax outside Hong Kong paid | (9,858,569) | (4,634,730) |
| Hong Kong Profits Tax refunded (paid) | 1,000,847 | (2,493,055) |
| NET CASH FROM OPERATING ACTIVITIES | 29,907,537 | 129,469,296 |

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31st December, 2003

| | Note | 2003 HK\$ | 2002 HK\$ |
|---|------|---------------------|---------------------|
| INVESTING ACTIVITIES | | | |
| Purchase of property, plant and equipment | | (61,220,058) | (64,762,957) |
| Decrease (increase) in pledged bank deposits | | 4,207,053 | (17,069,448) |
| Acquisition of associates | | – | (10,198,595) |
| Acquisition of additional shareholding in subsidiaries from minority shareholders | | (4,057,115) | (468,949) |
| Disposal of subsidiaries | 31 | 47,893 | (1,069,318) |
| Amounts advanced to associates | | (6,216,750) | (130,537) |
| Proceeds from disposal of property, plant and equipment | | 16,172,639 | 5,760,544 |
| Dividend received from an associate | | 2,200,026 | 1,980,378 |
| Interest received | | 527,648 | 1,408,333 |
| Proceeds from disposal of investments in securities | | – | 1,323,775 |
| Dividends received from investments in securities | | 308,091 | 233,647 |
| Amounts (advanced to) repaid by investee companies | | (87,186) | 69,246 |
| NET CASH USED IN INVESTING ACTIVITIES | | (48,117,759) | (82,923,881) |
| FINANCING | | | |
| Repayment of bank loans | | (95,749,785) | (175,354,120) |
| Interest paid | | (17,825,958) | (19,139,434) |
| Repayment of obligations under finance leases | | (5,583,415) | (7,960,913) |
| Dividends paid to minority shareholders of subsidiaries | | (2,411,928) | (4,607,903) |
| Repayment of other loans | | (329,297) | (985,306) |
| Bank loans raised | | 140,845,275 | 180,525,899 |
| Capital contributed by minority shareholders of subsidiaries | | 748 | 4,713,669 |
| Other loans raised | | 8,405,334 | 1,081,940 |
| Amounts advanced from associates | | – | 861,093 |
| Proceeds from issue of shares | | 486,200 | – |
| NET CASH FROM (USED IN) FINANCING | | 27,837,174 | (20,865,075) |
| INCREASE IN CASH AND CASH EQUIVALENTS | | 9,626,952 | 25,680,340 |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR | | 56,197,093 | 30,457,964 |
| EFFECT OF FOREIGN EXCHANGE RATE CHANGES | | (695,393) | 58,789 |
| CASH AND CASH EQUIVALENTS AT END OF THE YEAR | | 65,128,652 | 56,197,093 |

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31st December, 2003

| | 2003 HK\$ | 2002 HK\$ |
|--|---------------------|--------------|
| ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS | | |
| Bank balances and cash | 103,507,801 | 81,253,479 |
| Bank overdrafts | (38,379,149) | (25,056,386) |
| | 65,128,652 | 56,197,093 |

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2003

1. GENERAL

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

The Company is an investment holding company. The principal activities of its principal subsidiaries are set out in note 39.

2. IMPACT OF REVISED STATEMENT OF STANDARD ACCOUNTING PRACTICE ("SSAP")

The revised SSAP 12 "Income taxes" is effective for the first time for the current year's financial statements, which became effective on 1st January, 2003. The principal effect of the implementation of SSAP 12 (Revised) is in relation to deferred tax. In previous years, partial provision was made for deferred tax using the income statement liability method, i.e. a liability was recognised in respect of timing differences arising, except where those timing differences were not expected to reverse in the foreseeable future. SSAP 12 (Revised) requires the adoption of a balance sheet liability method, whereby deferred tax is recognised in respect of all temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, with limited exceptions. Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, except where the Group is able to control the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future. In the absence of any specific transitional requirements in SSAP 12 (Revised), the new accounting policy has been applied retrospectively. Comparative amounts for 2002 have been restated accordingly. Opening retained profits at 1st January, 2002 and 1st January, 2003 have been increased by approximately HK\$7,398,000 and HK\$6,554,000, which are the cumulative effect of the change in policy on the results for periods prior to 2002 and 2003 respectively. The balances on the Group's asset revaluation reserve at 1st January, 2002 and 1st January, 2003 has been reduced by approximately HK\$3,127,000 and HK\$2,921,000 respectively, representing the deferred tax liabilities recognised in respect of the revaluation surplus on the Group's properties as at those dates. The change has also resulted in a decrease in profit of HK\$651,796 before minority interests (2002: HK\$544,100), and a decrease in asset revaluation reserve of HK\$67,430 (2002: increase of HK\$206,473) for the year ended 31st December, 2003.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2003

3. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention as modified for the revaluation of certain properties.

The financial statements have been prepared in accordance with accounting principles generally accepted in Hong Kong. The principal accounting policies adopted are as follows:

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31st December each year. Subsidiaries are those entities in which the Group, directly or indirectly, controls the composition of the board of directors, or controls more than half of the voting power or holds more than half of the issued share capital. The results of the subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

All significant intercompany transactions and balances within the Group are eliminated on consolidation.

The gain or loss on the disposal of a subsidiary represents the difference between the proceeds of the sale and the Group's share of its net assets together with any unamortised goodwill or negative goodwill or goodwill/negative goodwill taken to reserves and which was not previously charged or recognised in the consolidated income statement and any related accumulated foreign currency translation reserve.

Minority interests represent the interests of outside shareholders in the operating results and net assets of subsidiaries.

Goodwill

Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary at the date of acquisition. Goodwill is recognised as an asset and amortised on a straight line basis over its useful economic life. Goodwill arising on the acquisition of subsidiaries is presented separately in the balance sheet.

On disposal of a subsidiary, the attributable amount of unamortised goodwill is included in the determination of the profit or loss on disposal.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Negative goodwill

Negative goodwill represents the excess of the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary or an associate at the date of acquisition over the cost of acquisition.

Negative goodwill is presented as a deduction from assets. To the extent that the negative goodwill is attributable to losses or expenses anticipated at the date of acquisition, it is released to income in the period in which those losses or expenses arise. The remaining negative goodwill is recognised as income on a straight line basis over the remaining average useful life of the identifiable acquired depreciable assets. To the extent that such negative goodwill exceeds the aggregate fair value of the acquired identifiable non-monetary assets, it is recognised in income immediately.

Negative goodwill arising on the acquisition of an associate is deducted from the carrying value of the associate. Negative goodwill arising on the acquisition of subsidiaries is presented separately in the balance sheet as a deduction from assets.

Property, plant and equipment

Property, plant and equipment, other than properties under construction, is stated at cost or valuation less depreciation and amortisation and accumulated impairment losses.

Land and buildings are stated in the balance sheet at their revalued amount, being the fair value on the basis of their existing use at the date of revaluation less any subsequent accumulated depreciation and amortisation and any subsequent impairment losses. Revaluations are performed with sufficient regularity such that the carrying amounts do not differ materially from that which would be determined using fair values at the balance sheet date.

Any surplus arising on the revaluation of land and buildings is credited to the revaluation reserve, except to the extent that it reverses a revaluation decrease of the same asset previously recognised as an expense, in which case this surplus is credited to the income statement to the extent of the deficit previously charged. A decrease in the net carrying amount arising on the revaluation of an asset is dealt with as an expense to the extent that it exceeds the balance, if any, on the revaluation reserve relating to a previous revaluation of that asset.

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the income statement. The revaluation surplus attributable to a revalued asset is transferred to retained profits on disposal.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2003

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Impairment

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately, unless the relevant asset is carried at a revalued amount under another SSAP, in which case the impairment loss is treated as a revaluation decrease under that SSAP.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately, unless the relevant asset is carried at a revalued amount under another SSAP, in which case the reversal of the impairment loss is treated as a revaluation increase under that SSAP.

Investment properties

Investment properties are completed properties which are held for their investment potential, any rental income being negotiated at arm's length.

Investment properties are stated at their open market value based on independent professional valuations at the balance sheet date. Any surplus or deficit arising on the revaluation of investment properties is credited or charged to the investment property revaluation reserve unless the balance of this reserve is insufficient to cover a deficit, in which case the excess of the deficit over the balance on the investment property revaluation reserve is charged to the income statement. Where a deficit has previously been charged to the income statement and a revaluation surplus subsequently arises, this surplus is credited to the income statement to the extent of the deficit previously charged.

On the disposal of an investment property, the balance on the revaluation reserve attributable to that property is transferred to the income statement.

No amortisation is provided on investment properties except where the unexpired term of the relevant lease is twenty years or less.

Properties under construction

Properties under construction are stated at cost, which includes land cost and the related construction and borrowing costs, as appropriate, less accumulated impairment losses.

No depreciation or amortisation is provided for properties under construction until the construction is completed and the properties are ready for their intended use, when the cost of the completed properties under construction is transferred to the appropriate categories of property, plant and equipment.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Interests in subsidiaries

Interests in subsidiaries are included in the Company's balance sheet at cost less any identified impairment loss. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable during the year.

Interests in associates

An associate is an entity, not being a subsidiary or a joint venture, in which an equity interest is held for long term and significant influence is exercised in its management.

The consolidated income statement includes the Group's share of the post-acquisition results of its associates for the year. In the consolidated balance sheet, interests in associates are stated at the Group's share of net assets of the associates less any negative goodwill arising on acquisition in so far as it has not already been released to income, less any identified impairment loss.

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

Investments in securities

Investments in securities are recognised on a trade date basis and are initially measured at cost.

Investment securities, which are securities held for an identified long-term strategic purpose, are measured at subsequent reporting dates at cost, as reduced by any impairment loss that is other than temporary.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average method.

Turnover

Turnover represents the net amounts received and receivable for goods supplied by the Group to outside customers during the year.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2003

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Revenue recognition

Sales of goods are recognised when goods are delivered and title has passed.

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.

Commission income, handling and services income are recognised when services are provided.

Interest income is accrued on a time basis, by reference to the principal amounts outstanding and the interest rates applicable.

Dividend income from investments is recognised when the shareholders' rights to receive payment have been established prior to the balance sheet date.

Depreciation and amortisation

Depreciation and amortisation are provided to write off the cost or valuation of items of property, plant and equipment, other than properties under construction, less any accumulated impairment losses, using the straight line method, over their estimated useful lives which are as follows:

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

Leases

A lease is classified as a finance lease when the terms of the lease transfer substantially all the risks and rewards of ownership of the assets concerned to the Group. Assets held under finance leases are capitalised at their fair values at the dates of acquisition. The corresponding liability to the lessor, net of interest charges, is included in the balance sheet as a finance lease. Finance costs, which represent the difference between the total commitments and the fair value of the assets acquired, are charged to the income statement over the period of the relevant leases so as to produce a constant periodic rate of charge on the remaining balances of the obligations for each accounting period.

All other leases are classified as operating leases and their rentals are charged to the income statement on a straight line basis over the period of the relevant leases.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Taxation

The charge for taxation is based on the results for the year as adjusted for items which are non-assessable or disallowed.

Deferred taxation

Deferred taxation 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 financial statements. Taxation rates enacted or substantively enacted by the balance sheet date are used to determine deferred taxation.

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 taxation is provided on temporary differences arising on investments in subsidiaries, associates, except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

In prior years, deferred taxation was accounted for at the current taxation rate in respect of timing differences between profit as computed for taxation purposes and profit as stated in the financial statements to the extent that a liability or an asset was expected to be payable or recoverable in the foreseeable future. The adoption of the revised SSAP 12 represents a change in accounting policy, which has been applied retrospectively so that the comparatives presented have been restated to conform to the changed policy. Effects of the changes are detailed in note 2 to the financial statements.

Retirement benefits schemes

Payments to defined contribution retirement plans, state-managed retirement benefits schemes and the Mandatory Provident Fund Scheme are charged as expenses as they fall due.

Foreign currencies

Transactions in foreign currencies are initially recorded at the rates of exchange prevailing on the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are re-translated at the rates prevailing on the balance sheet date. Profits and losses arising on exchange are included in the net profit for the year.

In preparing consolidated financial statements, the assets and liabilities of the Group's overseas operations are translated at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the year. Exchange differences arising, if any, are classified as equity and transferred to the Group's translation reserve. Such translation differences are recognised as income or as expenses in the period in which the operation is disposed of.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2003

4. BUSINESS AND GEOGRAPHICAL SEGMENTS

Business segments

For management purposes, the Group is currently organised into five operating divisions – trading of industrial consumables, manufacture of plastic processing products, manufacture of machinery, manufacture of audio products and manufacture of printed circuit boards. These divisions are the basis on which the Group reports its primary segment information.

Segment information about these businesses is presented below:

2003

| | Industrial consumables | Plastic processing products | Machinery | Audio products | Printed circuit boards | Other operations | Eliminations | Consolidated |
|---|---------------------------|-----------------------------------|--------------------|-------------------|------------------------------|---------------------|---------------------|----------------------|
| | HK\$ | HK\$ | HK\$ | HK\$ | HK\$ | HK\$ | HK\$ | HK\$ |
| TURNOVER | | | | | | | | |
| External sales | 244,266,379 | 222,229,560 | 601,290,577 | 72,769,318 | 253,072,375 | – | – | 1,393,628,209 |
| Inter-segment sales | 5,307,730 | 9,966,586 | 13,452,758 | – | – | – | (28,727,074) | – |
| Total revenue | 249,574,109 | 232,196,146 | 614,743,335 | 72,769,318 | 253,072,375 | – | (28,727,074) | 1,393,628,209 |
| Inter-segment sales are charged at prevailing market rates. | | | | | | | | |
| RESULTS | | | | | | | | |
| Segment results | 16,248,758 | 10,180,339 | 24,271,649 | (15,942,808) | 11,763,290 | 460,760 | 3,991,411 | 50,973,399 |
| Unallocated corporate expenses | | | | | | | | (21,948,507) |
| Profit from operations | | | | | | | | 29,024,892 |
| Finance costs | | | | | | | | (17,825,958) |
| Investment income | | | | | | | | 835,739 |
| Loss on disposal of subsidiaries | | | (244,385) | | | (1,973,348) | | (2,217,733) |
| Share of results of associates | | (796,870) | | | | 29,147,899 | | 28,351,029 |
| Release of negative goodwill of an associate | | | | | | 13,998,675 | | 13,998,675 |
| Profit before taxation | | | | | | | | 52,166,644 |
| Taxation | | | | | | | | 13,378,918 |
| Profit before minority interests | | | | | | | | 38,787,726 |

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2003

4. BUSINESS AND GEOGRAPHICAL SEGMENTS *(Continued)*

Business segments *(Continued)*

| | Industrial consumables | Plastic processing products | Machinery | Audio products | Printed circuit boards | Other operations | Consolidated |
|--------------------------------------|---------------------------|-----------------------------------|-------------|-------------------|------------------------------|---------------------|---------------|
| | HK\$ | HK\$ | HK\$ | HK\$ | HK\$ | HK\$ | HK\$ |
| ASSETS | | | | | | | |
| Segment assets | 121,737,425 | 247,336,086 | 869,190,301 | 82,101,572 | 157,245,064 | 57,955,843 | 1,535,566,291 |
| Interests in associates | | | | | | | 119,490,882 |
| Investments in securities | | | | | | | 10,698,471 |
| Unallocated corporate assets | | | | | | | 25,959,732 |
| Consolidated total assets | | | | | | | 1,691,715,376 |
| LIABILITIES | | | | | | | |
| Segment liabilities | 60,057,834 | 57,308,903 | 353,542,540 | 28,949,311 | 92,943,985 | 2,664,646 | 595,467,219 |
| Tax payable | | | | | | | 9,838,254 |
| Borrowings | | | | | | | 248,783,946 |
| Unallocated corporate liabilities | | | | | | | 35,340,645 |
| Consolidated total liabilities | | | | | | | 889,430,064 |
| OTHER INFORMATION | | | | | | | |
| Addition of goodwill | - | 219,662 | - | - | - | - | 219,662 |
| Capital additions | 721,751 | 26,287,091 | 25,226,820 | 579,564 | 11,720,899 | 562,473 | 65,098,598 |
| Depreciation and amortisation | 821,777 | 20,257,245 | 21,473,837 | 10,174,388 | 9,425,844 | 1,386,171 | 63,539,262 |
| Other non-cash expenses | 18,800 | 226,470 | 9,000,000 | - | 59,625 | 323,047 | 9,627,942 |

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2003

4. BUSINESS AND GEOGRAPHICAL SEGMENTS (Continued)

Business segments (Continued)

2002 (As restated)

| | Industrial consumables | Plastic processing products | Machinery | Audio products | Printed circuit boards | Other operations | Eliminations | Consolidated |
|---------------------|---------------------------|-----------------------------------|-------------|-------------------|------------------------------|---------------------|--------------|---------------|
| | HK\$ | HK\$ | HK\$ | HK\$ | HK\$ | HK\$ | HK\$ | HK\$ |
| TURNOVER | | | | | | | | |
| External sales | 204,483,778 | 191,490,584 | 513,701,852 | 173,984,241 | 200,869,261 | 28,953,887 | – | 1,313,483,603 |
| Inter-segment sales | 4,146,298 | 26,449,631 | 4,718,692 | – | – | – | (35,314,621) | – |
| Total revenue | 208,630,076 | 217,940,215 | 518,420,544 | 173,984,241 | 200,869,261 | 28,953,887 | (35,314,621) | 1,313,483,603 |

Inter-segment sales are charged at prevailing market rates.

RESULTS

| | | | | | | | | |
|--|------------|------------|------------|--------------|------------|-------------|-----------|--------------|
| Segment results | 15,473,195 | 17,128,434 | 50,333,064 | (12,104,482) | 11,103,718 | (2,701,561) | 1,701,965 | 80,934,333 |
| Unallocated corporate expenses | | | | | | | | (25,005,773) |
| Profit from operations | | | | | | | | 55,928,560 |
| Finance costs | | | | | | | | (19,139,434) |
| Investment income | | | | | | | | 1,524,465 |
| Loss on disposal of subsidiaries | (945,181) | | (581,843) | (894,427) | | (402,562) | | (2,824,013) |
| Share of results of associates | | | | | | 18,654,370 | | 18,654,370 |
| Release of negative goodwill of an associate | | | | | | 2,206,011 | | 2,206,011 |
| Profit before taxation | | | | | | | | 56,349,959 |
| Taxation | | | | | | | | 16,377,209 |
| Profit before minority interests | | | | | | | | 39,972,750 |

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2003

4. BUSINESS AND GEOGRAPHICAL SEGMENTS *(Continued)*

Business segments *(Continued)*

| | Industrial consumables | Plastic processing products | Machinery | Audio products | Printed circuit boards | Other operations | Consolidated |
|--------------------------------------|---------------------------|-----------------------------------|-------------|-------------------|------------------------------|---------------------|---------------|
| | HK\$ | HK\$ | HK\$ | HK\$ | HK\$ | HK\$ | HK\$ |
| ASSETS | | | | | | | |
| Segment assets | 100,260,454 | 193,342,144 | 886,266,862 | 98,548,298 | 128,574,549 | 62,380,842 | 1,469,373,149 |
| Interests in associates | | | 6,017,966 | | | 79,969,802 | 85,987,768 |
| Investments in securities | | | | | | 10,605,075 | 10,605,075 |
| Unallocated corporate assets | | | | | | | 20,169,162 |
| Consolidated total assets | | | | | | | 1,586,135,154 |
| LIABILITIES | | | | | | | |
| Segment liabilities | 53,518,599 | 47,403,371 | 342,332,234 | 71,420,559 | 64,864,104 | 14,707,227 | 594,246,094 |
| Tax payable | | | | | | | 10,130,919 |
| Borrowings | | | | | | | 199,161,389 |
| Unallocated corporate liabilities | | | | | | | 16,984,151 |
| Consolidated total liabilities | | | | | | | 820,522,553 |
| OTHER INFORMATION | | | | | | | |
| Additions of goodwill | – | – | 859,593 | – | – | 3,654,981 | 4,514,574 |
| Capital additions | 478,253 | 32,439,979 | 22,918,172 | 3,293,008 | 5,665,594 | 252,311 | 65,047,317 |
| Depreciation and amortisation | 822,588 | 19,057,911 | 20,045,619 | 11,543,660 | 10,123,141 | 1,499,900 | 63,092,819 |
| Other non-cash expenses | 1,977,362 | – | 5,274,318 | 2,608,830 | 218,584 | 265,959 | 10,345,053 |

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2003

4. BUSINESS AND GEOGRAPHICAL SEGMENTS (Continued)

Geographical segments

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

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

| | Sales revenue by geographical market | |
|------------------------------|--------------------------------------|---------------|
| | 2003 HK\$ | 2002 HK\$ |
| Hong Kong | 492,211,488 | 350,955,038 |
| PRC | 727,082,820 | 681,036,467 |
| Other Asia-Pacific countries | 94,733,524 | 112,213,694 |
| Europe | 35,934,453 | 82,359,380 |
| North America | 43,665,924 | 86,919,024 |
| | 1,393,628,209 | 1,313,483,603 |

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

| | Carrying amount of segment assets | | Additions to property, plant and equipment and intangible assets | |
|------------------------------|-----------------------------------|---------------|--|--------------|
| | 2003 HK\$ | 2002 HK\$ | 2003 HK\$ | 2002 HK\$ |
| Hong Kong | 89,173,436 | 203,511,319 | 655,444 | 9,604,047 |
| PRC | 1,558,865,344 | 1,335,743,065 | 64,662,816 | 59,957,844 |
| Other Asia-Pacific countries | 19,563,429 | 18,357,014 | – | – |
| Europe | 9,091,542 | 15,139,327 | – | – |
| North America | 15,021,625 | 13,384,429 | – | – |
| | 1,691,715,376 | 1,586,135,154 | 65,318,260 | 69,561,891 |

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2003

5. COST OF SALES

The cost of sales includes an allowance for obsolete inventories amounting to HK\$4,000,000 (2002: HK\$5,919,558).

6. OTHER OPERATING INCOME

| | 2003 HK\$ | 2002 HK\$ |
|--|--------------|--------------|
| Other operating income included the following items: | | |
| Commission income | 8,363,370 | 8,952,856 |
| Exchange gain | – | 1,153,878 |
| Handling and services income | 2,243,711 | 1,500,435 |
| Property rental income | 3,879,345 | 3,330,619 |
| Release of negative goodwill to income | 289,012 | 701,230 |

7. PROFIT FROM OPERATIONS

| | 2003 HK\$ | 2002 HK\$ |
|---|--------------------|--------------|
| Profit from operations has been arrived at after charging: | | |
| Staff costs | | |
| Directors' remuneration (<i>Note 10</i>) | 7,103,710 | 5,311,713 |
| Salaries and other benefits | 181,847,836 | 181,388,412 |
| Retirement benefits schemes contributions | 6,190,884 | 5,216,327 |
| | 195,142,430 | 191,916,452 |
| Depreciation and amortisation | | |
| Depreciation and amortisation on: | | |
| – Owned assets | 54,787,499 | 54,898,681 |
| – Assets held under finance leases | 5,653,564 | 5,102,567 |
| Amortisation of goodwill (included in other operating expenses) | 3,098,199 | 3,091,571 |
| | 63,539,262 | 63,092,819 |
| Auditors' remuneration | 2,348,458 | 2,348,390 |
| Deficit arising on revaluation of leasehold land and buildings | 627,942 | 565,434 |
| Exchange loss | 1,071,725 | – |
| Loss on disposal of property, plant and equipment | 930,823 | 2,278,044 |

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2003

8. FINANCE COSTS

| | 2003 HK\$ | 2002 HK\$ |
|---|-------------------|-------------------|
| Interest on: | | |
| Borrowings wholly repayable within five years | | |
| – bank loans and overdrafts | 15,058,527 | 15,746,452 |
| – other loans | 2,536,287 | 2,666,211 |
| Finance leases | 231,144 | 726,771 |
| | 17,825,958 | 19,139,434 |

9. INVESTMENT INCOME

| | 2003 HK\$ | 2002 HK\$ |
|---|----------------|------------------|
| Interest income | 527,648 | 1,408,333 |
| Dividends received and receivable from investments in securities | 308,091 | 233,647 |
| Loss on disposal of investments in securities | – | (117,515) |
| | 835,739 | 1,524,465 |

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2003

10. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

Directors

| | 2003 HK\$ | 2002 HK\$ |
|---|------------------|--------------|
| Fees: | | |
| Executive directors | 40,000 | 40,000 |
| Non-executive directors | 200,000 | 200,000 |
| | 240,000 | 240,000 |
| Other emoluments: | | |
| Executive directors | | |
| Salaries and other benefits | 5,848,960 | 4,092,400 |
| Retirement benefits schemes contributions | 283,320 | 247,883 |
| | 6,132,280 | 4,340,283 |
| Non-executive directors | | |
| Salaries and other benefits | 680,400 | 680,400 |
| Retirement benefits schemes contributions | 51,030 | 51,030 |
| | 731,430 | 731,430 |
| | 7,103,710 | 5,311,713 |

The amounts disclosed above included directors' fees of HK\$80,000 (2002: HK\$80,000) payable to independent non-executive directors.

The emoluments of the directors were within the following bands:

| | Number of directors | |
|--------------------------------|---------------------|------|
| | 2003 | 2002 |
| Nil to HK\$1,000,000 | 6 | 6 |
| HK\$2,000,001 to HK\$2,500,000 | – | 2 |
| HK\$2,500,001 to HK\$3,000,000 | – | – |
| HK\$3,000,001 to HK\$3,500,000 | 2 | – |
| | 8 | 8 |

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2003

10. DIRECTORS' AND EMPLOYEES' EMOLUMENTS (Continued)

Employees

The five highest paid individuals included two (2002: two) directors, details of whose emoluments are set out above. The emoluments of the remaining three (2002: three) individuals are as follows:

| | 2003 HK\$ | 2002 HK\$ |
|---|--------------|--------------|
| Salaries and other benefits | 7,307,569 | 6,264,660 |
| Retirement benefits schemes contributions | 118,980 | 152,880 |
| | 7,426,549 | 6,417,540 |

The emoluments of the employees were within the following bands:

| | Number of employees | |
|--------------------------------|---------------------|------|
| | 2003 | 2002 |
| HK\$1,000,001 to HK\$1,500,000 | – | – |
| HK\$1,500,001 to HK\$2,000,000 | 2 | 2 |
| HK\$2,000,001 to HK\$2,500,000 | – | – |
| HK\$2,500,001 to HK\$3,000,000 | – | – |
| HK\$3,000,001 to HK\$3,500,000 | – | 1 |
| HK\$3,500,001 to HK\$4,000,000 | – | – |
| HK\$4,000,001 to HK\$4,500,000 | 1 | – |
| | 3 | 3 |

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2003

11. TAXATION

Hong Kong Profits Tax is calculated at 17.5% (2002: 16%) on the estimated assessable profit for the year. In 2003, the government enacted a change in the profits tax rate from 16% to 17.5% for the fiscal year 2003/2004.

Taxation arising in other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions.

| | 2003 HK\$ | (As restated) 2002 HK\$ |
|--|-------------------|-------------------------------|
| Hong Kong Profits Tax | | |
| Current year | 1,078,917 | 3,395,066 |
| Underprovision in prior years | 93,010 | 54,953 |
| | 1,171,927 | 3,450,019 |
| Taxation outside Hong Kong | 8,722,972 | 10,303,556 |
| Deferred taxation relating to the origination and reversal of temporary differences (<i>Note 29</i>) | | |
| Current year | 632,535 | 299,819 |
| Effect of increase in tax rate | 19,261 | – |
| | 651,796 | 299,819 |
| Taxation attributable to the Company and its subsidiaries | 10,546,695 | 14,053,394 |
| Share of tax on results of associates | 2,832,223 | 2,323,815 |
| Taxation charge | 13,378,918 | 16,377,209 |

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2003

11. TAXATION (Continued)

The taxation on the Group's profit before taxation differs from the theoretical amount that would arise using the taxation rate of the home country of the Group as follows:

| | 2003 HK\$ | 2002 HK\$ |
|---|--------------|--------------|
| Profit before taxation | 52,166,644 | 56,349,959 |
| Tax at the domestic income tax rate of 17.5% (2002: 16%) | 9,129,163 | 9,015,993 |
| Tax effect of expenses that are not deductible in determining taxable profit | 11,086,234 | 15,702,533 |
| Tax effect of income that is not taxable in determining taxable profit | (9,190,745) | (9,472,672) |
| Underprovision of Hong Kong Profits Tax in prior years | 93,010 | 54,953 |
| Decrease in opening net deferred tax assets resulting from changes in applicable tax rates | 19,261 | – |
| Tax effect of tax losses not recognised | 6,267,005 | 5,662,879 |
| Utilisation of tax losses previously not recognised | (1,309,035) | (1,845,503) |
| Effect of different tax rates of associates and subsidiaries operating in other jurisdictions | (2,715,975) | (2,740,974) |
| Taxation charge | 13,378,918 | 16,377,209 |

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2003

12. EARNINGS PER SHARE

The calculation of the basic earnings per share for the year is based on the net profit for the year of HK\$20,528,285 (2002: HK\$22,460,750) and on the weighted average number of shares in issue during the year of 641,387,933 (2002: 640,838,234).

The computation of diluted earnings per share for 2002 does not assume the exercise of options and warrants because the exercise prices of the Company's options and warrants were higher than the average market price of shares for the year.

The adjustment to the comparative basic earnings per share, arising from the changes in accounting policies as described in note 2 above, is as follows:

| | HK cents |
|--|----------|
| <hr/> | |
| Reconciliation of 2002 earnings per share: | |
| Reported figure before adjustments | 3.64 |
| Adjustments arising from the adoption of SSAP 12 | (0.14) |
| <hr/> | |
| As restated | 3.50 |
| <hr/> | |

13. INVESTMENT PROPERTIES

| | HK\$ |
|--|------------|
| <hr/> | |
| THE GROUP | |
| VALUATION | |
| At 1st January, 2003 and 31st December, 2003 | 24,400,000 |
| <hr/> | |

The investment properties of the Group are situated in Hong Kong and held under medium-term leases. They are held for rental purposes under operating leases. The investment properties of the Group were revalued as at 31st December, 2003 on an open market existing use basis by Messrs. Knight Frank, an independent firm of professional valuers.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2003

14. PROPERTY, PLANT AND EQUIPMENT

| | Leasehold land and buildings HK\$ | Furniture, fixtures and equipment HK\$ | Plant and machinery HK\$ | Motor vehicles HK\$ | Properties under construction HK\$ | Total HK\$ |
|-------------------------------|--|---|--------------------------------|---------------------------|---|---------------|
| THE GROUP | | | | | | |
| COST OR VALUATION | | | | | | |
| At 1st January, 2003 | 191,016,628 | 119,828,284 | 398,345,477 | 35,918,681 | 27,789,272 | 772,898,342 |
| Currency realignment | (812,856) | (516,584) | (2,298,703) | (262,110) | (263,429) | (4,153,682) |
| On disposal of subsidiaries | (206,628) | (95,665) | (523,291) | (278,636) | (14,122) | (1,118,342) |
| Reclassifications | 3,662,484 | 1,441,988 | 18,925,403 | 348,709 | (24,378,584) | - |
| Additions | 296,148 | 8,826,282 | 24,107,784 | 6,381,882 | 25,486,502 | 65,098,598 |
| Disposals | (5,400,000) | (2,367,883) | (17,118,980) | (3,616,814) | (495,010) | (28,998,687) |
| Adjustment on revaluation | (8,025,776) | - | - | - | - | (8,025,776) |
| At 31st December, 2003 | 180,530,000 | 127,116,422 | 421,437,690 | 38,491,712 | 28,124,629 | 795,700,453 |
| Comprising: | | | | | | |
| At cost | - | 127,116,422 | 421,437,690 | 38,491,712 | 28,124,629 | 615,170,453 |
| At valuation – 2003 | 180,530,000 | - | - | - | - | 180,530,000 |
| | 180,530,000 | 127,116,422 | 421,437,690 | 38,491,712 | 28,124,629 | 795,700,453 |
| DEPRECIATION AND AMORTISATION | | | | | | |
| At 1st January, 2003 | - | 68,817,619 | 251,523,221 | 23,054,077 | - | 343,394,917 |
| Currency realignment | (32,040) | (234,953) | (1,184,295) | (161,599) | - | (1,612,887) |
| On disposal of subsidiaries | - | (77,852) | (444,026) | (198,862) | - | (720,740) |
| Provided for the year | 6,735,867 | 11,347,668 | 38,284,549 | 4,072,979 | - | 60,441,063 |
| Eliminated on disposals | (139,500) | (1,199,979) | (7,729,456) | (2,826,290) | - | (11,895,225) |
| Eliminated on revaluation | (6,564,327) | - | - | - | - | (6,564,327) |
| At 31st December, 2003 | - | 78,652,503 | 280,449,993 | 23,940,305 | - | 383,042,801 |
| NET BOOK VALUES | | | | | | |
| At 31st December, 2003 | 180,530,000 | 48,463,919 | 140,987,697 | 14,551,407 | 28,124,629 | 412,657,652 |
| At 31st December, 2002 | 191,016,628 | 51,010,665 | 146,822,256 | 12,864,604 | 27,789,272 | 429,503,425 |

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2003

14. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

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

| | 2003 | 2002 |
|----------------------------|--------------------|-------------|
| | HK\$ | HK\$ |
| In Hong Kong: | | |
| – under medium-term leases | 17,050,000 | 17,940,000 |
| Outside Hong Kong: | | |
| – under long leases | 1,580,000 | 1,760,000 |
| – under medium-term leases | 161,900,000 | 171,316,628 |
| | 180,530,000 | 191,016,628 |

The leasehold land and buildings of the Group were revalued as at 31st December, 2003 on the open market existing use basis by Messrs. Knight Frank, an independent firm of professional valuers. The deficit arising on revaluation attributable to the Group has been charged to the asset revaluation reserve and the consolidated income statement.

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 approximately HK\$133,510,000 (2002: HK\$147,162,000).

The net book value of the Group's plant and machinery includes an amount of HK\$9,228,584 (2002: HK\$13,727,985) in respect of assets held under finance leases.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2003

14. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

| | Furniture, fixtures and equipment HK\$ | Motor vehicles HK\$ | Total HK\$ |
|------------------------|--|-----------------------------------|----------------------|
| THE COMPANY | | | |
| COST | | | |
| At 1st January, 2003 | 8,979,363 | 417,111 | 9,396,474 |
| Additions | 174,364 | – | 174,364 |
| At 31st December, 2003 | 9,153,727 | 417,111 | 9,570,838 |
| DEPRECIATION | | | |
| At 1st January, 2003 | 4,331,620 | 370,325 | 4,701,945 |
| Provided for the year | 873,314 | 46,785 | 920,099 |
| At 31st December, 2003 | 5,204,934 | 417,110 | 5,622,044 |
| NET BOOK VALUES | | | |
| At 31st December, 2003 | 3,948,793 | 1 | 3,948,794 |
| At 31st December, 2002 | 4,647,743 | 46,786 | 4,694,529 |

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2003

15. GOODWILL

| | THE GROUP |
|--|------------------|
| | HK\$ |
| <hr/> | |
| COST | |
| At 1st January, 2003 | 25,076,907 |
| Arising on acquisition of additional interests in subsidiaries during the year | 219,662 |
| Eliminated on deregistration of subsidiaries during the year | (1,944,176) |
| <hr/> | |
| At 31st December, 2003 | 23,352,393 |
| <hr/> | |
| AMORTISATION | |
| At 1st January, 2003 | 20,237,968 |
| Charge for the year | 3,098,199 |
| Eliminated on deregistration of subsidiaries during the year | (1,944,176) |
| <hr/> | |
| At 31st December, 2003 | 21,391,991 |
| <hr/> | |
| NET BOOK VALUE | |
| At 31st December, 2003 | 1,960,402 |
| <hr/> | |
| At 31st December, 2002 | 4,838,939 |
| <hr/> | |

The amortisation periods adopted for goodwill are three to five years.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2003

16. NEGATIVE GOODWILL

| | THE GROUP |
|--|------------------|
| | HK\$ |
| GROSS AMOUNT | |
| At 1st January, 2003 | 30,849,971 |
| Arising on acquisition of additional interests in subsidiaries during the year | 839,930 |
| Eliminated on disposals during the year | (844,172) |
| At 31st December, 2003 | 30,845,729 |
| RELEASED TO INCOME | |
| At 1st January, 2003 | 30,607,918 |
| Released in the year | 289,012 |
| Eliminated on disposals during the year | (844,172) |
| At 31st December, 2003 | 30,052,758 |
| CARRYING AMOUNT | |
| At 31st December, 2003 | 792,971 |
| At 31st December, 2002 | 242,053 |

The negative goodwill is released to other operating income on a straight line basis over five years based on the weighted average useful life of the identifiable acquired depreciable non-monetary assets.

17. INTERESTS IN SUBSIDIARIES

| | THE COMPANY | |
|--|--------------------|-------------|
| | 2003 | 2002 |
| | HK\$ | HK\$ |
| Unlisted shares/capital contribution, at cost less impairment loss | 40,781,145 | 40,781,151 |
| Amounts due from subsidiaries less allowance | 588,772,141 | 584,390,477 |
| | 629,553,286 | 625,171,628 |

Details of the Company's principal subsidiaries at 31st December, 2003 are set out in note 39.

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2003

18. INTERESTS IN ASSOCIATES

| | 2003 HK\$ | 2002 HK\$ |
|-----------------------------------|--------------------|-------------------|
| THE GROUP | | |
| Share of net assets | 111,293,929 | 84,007,565 |
| Negative goodwill (<i>Note</i>) | – | (8,824,042) |
| Amounts due from associates | 17,020,995 | 10,804,245 |
| | 128,314,924 | 85,987,768 |
| THE COMPANY | | |
| Unlisted shares, at cost | – | – |
| Amounts due from associates | 2,464,143 | 2,593,272 |
| | 2,464,143 | 2,593,272 |

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

Note:

Negative goodwill arising on acquisition of additional interest in an associate:

| | HK\$ |
|---|--------------|
| GROSS AMOUNT | |
| At 1st January, 2003 | (11,030,053) |
| Negative goodwill arising on acquisition of additional interest in an associate during the year | (5,174,633) |
| At 31st December, 2003 | (16,204,686) |
| RELEASED TO INCOME | |
| At 1st January, 2003 | 2,206,011 |
| Released in the year | 13,998,675 |
| At 31st December, 2003 | 16,204,686 |
| CARRYING VALUE | |
| At 31st December, 2003 | – |
| At 31st December, 2002 | (8,824,042) |

During the year, negative goodwill was fully released to the income statement.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2003

18. INTERESTS IN ASSOCIATES *(Continued)*

Details of the principal associates of the Group at 31st December, 2003 are as follows:

| Name of associate | Place of incorporation/ registration and operation | Proportion of nominal value of issued share capital/registered capital attributable to the Group % | Principal activities |
|---|--|--|---|
| Dalian Huada Plastics Co Ltd | PRC | 30.0 | Plastic processing |
| East Right Enterprises Limited | Hong Kong | 40.0 | Investment holding |
| Shenzhen Hao Ning Da Meters Manufacturing Company Limited | PRC | 42.0 | Manufacturing and trading of electronic meters |
| Suzhou Sodick San-Guang Machinery Electric Co., Ltd. | PRC | 25.0 | Manufacturing of industrial machinery, equipment and supplies |
| Welltec Far East Limited | Hong Kong | 40.0 | Trading in industrial machinery |

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

19. INVESTMENTS IN SECURITIES

| | THE GROUP | | THE COMPANY | |
|--|-------------------|--------------|------------------|--------------|
| | 2003 HK\$ | 2002 HK\$ | 2003 HK\$ | 2002 HK\$ |
| Unlisted investment securities, at cost | 13,665,620 | 13,578,434 | 5,474,904 | 5,414,118 |
| Impairment loss | (2,967,149) | (2,973,359) | (895,360) | (895,360) |
| | 10,698,471 | 10,605,075 | 4,579,544 | 4,518,758 |

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2003

20. INVENTORIES

| | THE GROUP | |
|--|--------------------|--------------|
| | 2003 HK\$ | 2002 HK\$ |
| Trading inventories and finished goods | 169,485,560 | 173,323,142 |
| Work in progress | 66,082,571 | 62,349,910 |
| Raw materials | 178,416,245 | 200,653,256 |
| | 413,984,376 | 436,326,308 |

Included above are trading inventories and finished goods of HK\$150,682,841 (2002: HK\$154,131,359), work in progress of HK\$56,298,195 (2002: HK\$56,349,524) and raw materials of HK\$160,813,609 (2002: HK\$181,764,816) which are carried at net realisable value.

21. TRADE AND OTHER RECEIVABLES

The Group allows an average credit period of 90 days to 120 days to its customers.

Included in trade and other receivables are trade receivables of HK\$444,023,610 (2002: HK\$397,598,726) and their aged analysis at the balance sheet date is as follows:

| | THE GROUP | |
|---------------|--------------------|--------------|
| | 2003 HK\$ | 2002 HK\$ |
| 0 to 3 months | 302,305,328 | 248,317,922 |
| 4 to 6 months | 49,587,238 | 56,295,065 |
| 7 to 9 months | 27,776,134 | 34,674,791 |
| Over 9 months | 64,354,910 | 58,310,948 |
| | 444,023,610 | 397,598,726 |

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2003

22. TRADE AND OTHER PAYABLES

Included in trade and other payables are trade payables of HK\$287,960,543 (2002: HK\$294,103,461) and their aged analysis at the balance sheet date is as follows:

| | THE GROUP | |
|---------------|--------------------|--------------|
| | 2003 HK\$ | 2002 HK\$ |
| 0 to 3 months | 230,002,038 | 207,615,237 |
| 4 to 6 months | 33,004,988 | 49,733,373 |
| 7 to 9 months | 6,335,876 | 10,917,411 |
| Over 9 months | 18,617,641 | 25,837,440 |
| | 287,960,543 | 294,103,461 |

23. BORROWINGS

| | THE GROUP | | THE COMPANY | |
|-------------|--------------------|--------------|-------------------|--------------|
| | 2003 HK\$ | 2002 HK\$ | 2003 HK\$ | 2002 HK\$ |
| Bank loans | | | | |
| – secured | 90,025,801 | 65,165,489 | – | – |
| – unsecured | 142,891,932 | 124,472,654 | 10,000,000 | 10,000,000 |
| | 232,917,733 | 189,638,143 | 10,000,000 | 10,000,000 |
| Other loans | | | | |
| – secured | 9,006,736 | 836,978 | – | – |
| – unsecured | 215,558 | 312,796 | – | – |
| | 9,222,294 | 1,149,774 | – | – |
| Total | 242,140,027 | 190,787,917 | 10,000,000 | 10,000,000 |

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2003

23. BORROWINGS *(Continued)*

The above amounts bear interest at prevailing market rates and are repayable as follows:

| | THE GROUP | | THE COMPANY | |
|---|--------------------|--------------|-------------------|--------------|
| | 2003 HK\$ | 2002 HK\$ | 2003 HK\$ | 2002 HK\$ |
| Within one year | 221,208,941 | 178,787,445 | 10,000,000 | 10,000,000 |
| Between one and two years | 18,444,577 | 7,324,250 | – | – |
| Between two and five years | 2,486,509 | 4,676,222 | – | – |
| | 242,140,027 | 190,787,917 | 10,000,000 | 10,000,000 |
| <i>Less: Amount due within one year shown under current liabilities</i> | 221,208,941 | 178,787,445 | 10,000,000 | 10,000,000 |
| Amount due after one year | 20,931,086 | 12,000,472 | – | – |

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2003

24. OBLIGATIONS UNDER FINANCE LEASES

The Group

| | Minimum lease payments | | Present value of minimum lease payments | |
|---|------------------------|--------------|---|--------------|
| | 2003 HK\$ | 2002 HK\$ | 2003 HK\$ | 2002 HK\$ |
| Amounts payable under finance leases: | | | | |
| Within one year | 3,836,068 | 4,692,205 | 3,543,358 | 4,246,239 |
| In the second to fifth year inclusive | 3,180,049 | 4,358,749 | 3,100,561 | 4,127,233 |
| | 7,016,117 | 9,050,954 | 6,643,919 | 8,373,472 |
| Less: Future finance charges | 372,198 | 677,482 | N/A | N/A |
| Present value of lease payments | 6,643,919 | 8,373,472 | 6,643,919 | 8,373,472 |
| Less: Amount due for settlement within one year shown under current liabilities | | | 3,543,358 | 4,246,239 |
| Amount due for settlement after one year | | | 3,100,561 | 4,127,233 |

It is the Group's policy to lease certain of its fixtures and equipment under finance leases. The average lease term is 4 years. For the year ended 31st December, 2003, the average effective borrowing rate was 6.75% (2002: 6.75%). Interest rates are fixed at the contract date. All leases are on a fixed repayment basis and no arrangement has been entered into for contingent rental payments.

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

The Company

The Company had no finance lease obligations at both year end dates.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2003

25. SHARE CAPITAL

| | Number of ordinary shares | Value HK\$ |
|--|------------------------------|---------------|
| Ordinary shares of HK\$0.40 each | | |
| Authorised: | | |
| At 1st January, 2002, 31st December, 2002 and 31st December, 2003 | 1,000,000,000 | 400,000,000 |
| Issued and fully paid: | | |
| At 1st January, 2002 and 31st December, 2002 | 640,838,234 | 256,335,294 |
| Exercise of share options | 1,100,000 | 440,000 |
| Exercise of warrants | 88,000 | 35,200 |
| At 31st December, 2003 | 642,026,234 | 256,810,494 |

All the shares issued by the Company during the year rank pari passu with the then existing shares in all respects.

26. WARRANTS

In accordance with the conditions attaching to the warrants of the Company, each of the warrants confers rights to the registered holder to subscribe for one new share of the Company in cash at an initial subscription price of HK\$0.40 per share, subject to adjustment, at any time from the date of issue to 10th June, 2003.

As at 10th June, 2003, 88,000 warrants have been exercised to subscribe for 88,000 shares. All the subscription rights attaching to the remaining warrants have expired on the same date.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2003

27. SHARE OPTION SCHEME

On 13th June, 1997, a share option scheme (the "Scheme") was approved at an extraordinary general meeting of the Company as an incentive to the employees under which the board of directors may, at their discretion, invite employees including executive directors of any member of the Group to take up options to subscribe for shares in the Company.

The maximum number of shares in respect of which options may be granted (together with shares in respect of which any options remain outstanding) under the Scheme may not exceed 10 per cent of the issued share capital of the Company from time to time, excluding for this purpose shares issued on exercise of options granted pursuant to the Scheme.

At 31st December, 2003, no option remained outstanding under the Scheme and all the remaining 11,100,000 share options granted have lapsed on 19th July, 2003.

Details of the Company's outstanding share options during the year are as follows:

| Name | Date of grant | Exercise period | Exercise price HK\$ | Number of share options outstanding at 31.12.2002 | Number of share options exercised on 11.07.2003 and 17.07.2003 | Number of share options lapsed on 19.07.2003 |
|---------------------------------|---------------|-------------------------|------------------------|--|---|---|
| Mr. Tang To | 23.6.2001 | 21.10.2001 to 19.7.2003 | 0.41 | 2,100,000 | - | 2,100,000 |
| Mr. Wong Yiu Ming | 23.6.2001 | 21.10.2001 to 19.7.2003 | 0.41 | 1,500,000 | - | 1,500,000 |
| Aggregate total of employees | 23.6.2001 | 21.10.2001 to 19.7.2003 | 0.41 | 8,600,000 | 1,100,000 | 7,500,000 |
| | | | | 12,200,000 | 1,100,000 | 11,100,000 |

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2003

28. RESERVES

| | Share premium HK\$ | Retained profits HK\$ | Total HK\$ |
|---|--------------------------|-----------------------------|---------------|
| THE COMPANY | | | |
| At 1st January, 2002 | 267,148,838 | 101,771,246 | 368,920,084 |
| Loss for the year | – | (10,509,586) | (10,509,586) |
| <hr/> | | | |
| At 31st December, 2002 and 1st January, 2003 | 267,148,838 | 91,261,660 | 358,410,498 |
| On issue of shares | 11,000 | – | 11,000 |
| Loss for the year | – | (16,541,626) | (16,541,626) |
| <hr/> | | | |
| At 31st December, 2003 | 267,159,838 | 74,720,034 | 341,879,872 |

The Company's retained profits of HK\$74,720,034 as at 31st December, 2003 (2002: HK\$91,261,660) are available for distribution to shareholders.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2003

29. DEFERRED TAXATION

The Group

Deferred taxation is calculated in full on temporary differences under the liability method using a principal taxation rate of 17.5% (2002: 16%).

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

| | Decelerated (accelerated) tax depreciation HK\$ | Revaluation of properties HK\$ | Tax losses HK\$ | Others HK\$ | Total HK\$ |
|--|--|---|-----------------------|----------------|---------------|
| At 1st January, 2002 | | | | | |
| – as previously reported | – | – | – | – | – |
| – adjustment on adoption of SSAP 12 (Revised) | 250,554 | (4,397,487) | 300 | 9,329,171 | 5,182,538 |
| – as restated | 250,554 | (4,397,487) | 300 | 9,329,171 | 5,182,538 |
| (Charged) credited to income statement | (770,743) | 2,793 | (300) | 468,431 | (299,819) |
| Credited to equity | – | 324,186 | – | – | 324,186 |
| At 1st January, 2003 | (520,189) | (4,070,508) | – | 9,797,602 | 5,206,905 |
| Exchange differences | (816) | – | – | (2,442) | (3,258) |
| (Charged) credited to income statement | (1,121,368) | 72,295 | – | 416,538 | (632,535) |
| Charged to equity | – | (84,287) | – | – | (84,287) |
| Effect of change in tax rate | | | | | |
| – (Charged) credited to income statement | (22,407) | – | – | 3,146 | (19,261) |
| At 31st December, 2003 | (1,664,780) | (4,082,500) | – | 10,214,844 | 4,467,564 |

The deferred taxation charged (credited) to equity during the year is as follows:

| | 2003 HK\$ | 2002 HK\$ |
|---|--------------|--------------|
| Fair value reserves in shareholders' equity | | |
| – Properties | 84,287 | (324,186) |

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2003

29. DEFERRED TAXATION (Continued)

The Group (Continued)

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

| | 2003 HK\$ | 2002 HK\$ |
|--------------------------|--------------|--------------|
| Deferred tax liabilities | (11,682,388) | (10,400,993) |
| Deferred tax assets | 16,149,952 | 15,607,898 |
| | 4,467,564 | 5,206,905 |

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

| | 2003 HK\$ | 2002 HK\$ |
|-------------------|--------------|--------------|
| Unused tax losses | 216,425,366 | 192,706,639 |

The tax losses do not expire under current tax legislation.

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

The Company

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2003

30. DISPOSAL OF SUBSIDIARIES

| | 2003 HK\$ | 2002 HK\$ |
|---|---------------------|--------------|
| NET (LIABILITIES) ASSETS DISPOSED OF: | | |
| Property, plant and equipment | 397,602 | 2,207,414 |
| Inventories | 8,217,560 | 2,961,738 |
| Trade and other receivables | 1,104,079 | 7,221,727 |
| Bank balances and cash | 1,182,268 | 1,082,817 |
| Trade and other payables | (17,837,735) | (6,738,701) |
| Borrowings | – | (4,775,549) |
| Minority interests | (4,163,264) | 587,079 |
| | (11,099,490) | 2,546,525 |
| Attributable goodwill realised upon disposal | – | 409,033 |
| Attributable negative goodwill released upon disposal | – | (118,548) |
| Statutory reserve realised upon disposal | (594,457) | – |
| Translation reserve realised upon disposal | 15,141,841 | 502 |
| Loss on disposal of subsidiaries | (2,217,733) | (2,824,013) |
| | 1,230,161 | 13,499 |
| SATISFIED BY: | | |
| Cash consideration | 1,230,161 | 13,499 |

The subsidiaries disposed of during the years ended 31st December, 2003 and 2002 did not contribute significantly to the results of the Group in those years up to their dates of disposal. The cash flows contributed or utilised by the subsidiaries disposed of during the years ended 31st December, 2003 and 2002 were not significant in those years.

31. ANALYSIS OF THE NET INFLOW (OUTFLOW) OF CASH AND CASH EQUIVALENTS IN RESPECT OF THE DISPOSAL OF SUBSIDIARIES

| | 2003 HK\$ | 2002 HK\$ |
|---|---------------|--------------|
| Cash consideration | 1,230,161 | 13,499 |
| Bank balances and cash disposed of | (1,182,268) | (1,082,817) |
| Net inflow (outflow) of cash and cash equivalents in respect of the disposal of subsidiaries | 47,893 | (1,069,318) |

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2003

32. MAJOR NON-CASH TRANSACTIONS

During the year, the Group entered into finance leases in respect of the acquisition of property, plant and equipment with a total capital value at the inception of the leases of HK\$3,878,540 (2002: HK\$284,360).

33. OPERATING LEASE COMMITMENTS

The Group as lessee

| | THE GROUP | |
|---|-------------------|--------------|
| | 2003 HK\$ | 2002 HK\$ |
| Minimum lease payments made during the year under operating leases in respect of: | | |
| Land and buildings | 14,252,265 | 13,243,912 |
| Plant and machinery | 455,705 | 370,375 |
| | 14,707,970 | 13,614,287 |

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 | |
|---------------------------------------|--------------------|--------------|
| | 2003 HK\$ | 2002 HK\$ |
| Within one year | 12,296,942 | 12,907,626 |
| In the second to fifth year inclusive | 40,788,937 | 46,393,328 |
| Over five years | 93,633,489 | 105,233,709 |
| | 146,719,368 | 164,534,663 |

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2003

33. OPERATING LEASE COMMITMENTS (Continued)

The Group as lessor

Property rental income earned during the year net of outgoings of HK\$435,586 (2002: HK\$465,719), was HK\$3,443,759 (2002: HK\$2,864,900). The remaining properties are expected to generate rental yields of 11% (2002: 10%) on an ongoing basis. All of the properties held have committed tenants for the next 1-3 years.

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

| | THE GROUP | |
|---------------------------------------|------------------|--------------|
| | 2003 HK\$ | 2002 HK\$ |
| Within one year | 2,513,603 | 2,538,499 |
| In the second to fifth year inclusive | 847,778 | 2,001,186 |
| | 3,361,381 | 4,539,685 |

The Company

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

34. OTHER COMMITMENTS

| | THE GROUP | |
|--|-------------------|--------------|
| | 2003 HK\$ | 2002 HK\$ |
| Capital expenditure contracted for but not provided in the financial statements in respect of: | | |
| Acquisition of property, plant and equipment | 9,755,206 | 11,674,134 |
| Investments | – | 4,007,200 |
| | 9,755,206 | 15,681,334 |
| Capital expenditure authorised but not contracted for in respect of the acquisition of property, plant and equipment | 18,661,814 | – |

The Company

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2003

35. CONTINGENT LIABILITIES

| | THE GROUP | | THE COMPANY | |
|---|------------------|--------------|--------------------|--------------|
| | 2003 HK\$ | 2002 HK\$ | 2003 HK\$ | 2002 HK\$ |
| Guarantees given to financial institutions in respect of credit facilities utilised by: | | | | |
| Subsidiaries | – | – | 369,121,143 | 332,434,000 |
| Outsiders | 6,091,846 | 12,132,701 | – | – |
| | 6,091,846 | 12,132,701 | 369,121,143 | 332,434,000 |

36. RETIREMENT BENEFITS SCHEMES

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

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

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

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

The total cost charged to the consolidated income statement of HK\$6,190,884 (2002: HK\$5,216,327) represents contributions payable to these schemes by the Group in respect of the current accounting period. As at 31st December, 2003, contributions of approximately HK\$220,869 (2002: HK\$190,000) due in respect of the reporting period had not been paid over to the schemes.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2003

37. PLEDGE OF ASSETS

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

| | Net book value | |
|-------------------------------|-------------------|--------------|
| | 2003 HK\$ | 2002 HK\$ |
| Investment properties | 13,500,000 | 13,500,000 |
| Leasehold land and buildings | 25,309,004 | 21,618,850 |
| Plant and machinery | 37,191,627 | 18,601,700 |
| Bank deposits (<i>Note</i>) | 13,969,104 | 18,176,157 |
| | 89,969,735 | 71,896,707 |

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2003

38. 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:

| | 2003 HK\$ | 2002 HK\$ |
|--|--------------|--------------|
| Substantial shareholders and its subsidiaries: | | |
| EDP charges received (<i>Note i</i>) | 183,600 | 165,600 |
| Licence fee paid (<i>Note i</i>) | – | 171,732 |
| Management fee paid (<i>Note i</i>) | 3,768,464 | 4,289,923 |
| Balances due from the Group as at the balance sheet date (<i>Note iii</i>) | 5,952,605 | 5,790,076 |
| Balances due to the Group as at the balance sheet date (<i>Note iii</i>) | 88,073 | 96,750 |
| Companies controlled by certain directors: | | |
| EDP charges received (<i>Note i</i>) | 51,600 | 51,600 |
| Management fee paid (<i>Note i</i>) | 996,000 | 996,000 |
| Minority shareholders: | | |
| Purchases of finished goods (<i>Note i</i>) | 16,880,689 | 7,236,537 |
| Consultancy fee paid (<i>Note i</i>) | – | 38,000 |
| Rental paid (<i>Note i</i>) | 4,358,718 | 1,893,850 |
| Interest paid (<i>Note ii</i>) | 1,695,643 | 1,541,494 |
| Balances due from the Group as at the balance sheet date (<i>Note iv</i>) | 20,640,288 | 19,648,834 |
| Balances due to the Group as at the balance sheet date (<i>Note iii</i>) | 11,593,329 | 16,717,448 |
| Associates: | | |
| Sales of finished goods (<i>Note i</i>) | 1,615,341 | – |
| Rental income (<i>Note i</i>) | 48,426 | 48,454 |
| Balances due from the Group as at the balance sheet date (<i>Note iii</i>) | 1,440,584 | 1,440,584 |
| Balances due to the Group as at the balance sheet date (<i>Note iii</i>) | 17,020,995 | 10,804,245 |

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2003

38. TRANSACTIONS AND BALANCES WITH RELATED PARTIES (Continued)

Notes:

- (i) The prices of the transactions were determined by the directors with reference to prices for similar transactions with unrelated third parties.
- (ii) The interest was charged at 10% (2002: 6% to 10%) per annum on the outstanding balances.
- (iii) The balances are unsecured, interest free and have no fixed repayment terms.
- (iv) The balances are unsecured and have no fixed repayment terms. Other than an amount of HK\$14,829,417 (2002: HK\$13,133,774) which bears interest at 10% (2002: 6% to 10%) per annum, the remaining balances are interest free.

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.

39. PARTICULARS OF PRINCIPAL SUBSIDIARIES

Details of the Company's principal subsidiaries at 31st December, 2003 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 | | Principal activities |
|--|---|--------------------|--|--|--------------------------------|--|
| | | | | held by the Company*/ subsidiaries % | attributable to the Group % | |
| Cosmos Machinery International Limited | Hong Kong | Hong Kong | HK\$32,000,000 | 100.0* | 100.0 | Trading in industrial machinery, equipment and supplies and investment holding |
| Dongguan Cosmos Machinery Limited (Note b) | PRC | PRC | HK\$30,000,000 | 100.0 | 91.75 | Manufacturing of industrial machinery |
| Dongguan Great Wall Optical Plastic Works Limited (Note a) | PRC | PRC | HK\$16,126,800 | 100.0 | 80.0 | Manufacturing of microscopes and magnifiers with acrylic lenses |
| Dong Hua Machinery Limited (Note b) | PRC | PRC | Rmb40,800,000 | 72.0 | 72.0 | Assembling and trading of machinery |

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2003

39. 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 % | |
| Dongguan Welltec Machinery Limited (Note b) | PRC | PRC | HK\$55,920,000 | 72.0 | 72.0 | Manufacturing and trading of machinery |
| Gainbase Industrial Limited | Hong Kong | Hong Kong | HK\$10,000 | 100.0 | 52.0 | Trading in printed circuit boards |
| Glory Horse Industries Limited | Hong Kong | PRC | HK\$46,765,174 | 99.29 | 92.38 | Manufacturing, assembling and designing of electronic products |
| Grand Technology Products Limited | Hong Kong | Hong Kong | HK\$9,500,000 | 100.0 | 100.0 | Trading of machinery and investment holding |
| Great Wall (Holding) Company Limited | Hong Kong | Hong Kong | HK\$9,900,000 | 80.0 | 80.0 | Investment holding |
| Karmay Industrial Limited | Hong Kong | Hong Kong | HK\$14,979,444 | 97.77 | 97.77 | General trading and investment holding |
| Melco Trading Company Limited | Hong Kong | Hong Kong | HK\$1,500,000 | 100.0 | 100.0 | Trading in industrial equipment and screws |
| Ming Sun Enterprises Limited | Hong Kong | Hong Kong | HK\$3,000,000 | 100.0 | 86.4 | Investment holding |
| Ming Sun Enterprises (China) Limited | Hong Kong | Hong Kong | HK\$1,000,000 | 100.0 | 86.4 | Manufacturing of moulds and trading of plasticwares |
| Shenzhen Gainbase Printed Circuit Board Co., Limited (Note b) | PRC | PRC | HK\$29,500,000 | 100.0 | 52.0 | Manufacturing of printed circuit boards |

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2003

39. PARTICULARS OF PRINCIPAL SUBSIDIARIES (Continued)

| Name of subsidiary | Place of incorporation/ registration | Place of operation | Issued and fully paid share capital/ registered capital | Proportion of nominal value of issued share capital/ registered capital held by the Company*/ subsidiaries % | Proportion of nominal value of issued share capital/ registered capital attributable to the Group % | Principal activities |
|--|---|--------------------|--|---|---|---|
| Shunde Jiamei Plastic Products Co., Ltd. (Note a) | PRC | PRC | US\$500,000 | 100.0 | 97.77 | Manufacturing of plastic products |
| Welltec Industrial Equipment Limited | Hong Kong | Hong Kong | HK\$10,000,000 | 100.0 | 100.0 | Investment holding |
| Welltec Machinery Limited | Hong Kong | Hong Kong | HK\$10,000,000 | 100.0 | 100.0 | Manufacturing and trading of machinery and investment holding |
| Wu Xi Grand Tech Machinery Group Co. Ltd. (Note b) | PRC | PRC | US\$6,586,000 | 51.0 | 51.0 | Manufacturing and trading of machinery and investment holding |
| Wu Xi Grand Plastic Machine Manufacture Co., Ltd. (Note b) | PRC | PRC | US\$2,850,000 | 76.0 | 51.0 | Manufacturing and trading of machinery |

Notes:

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2003

40. SUBSEQUENT EVENT

On 24th March 2004, Fair Friend (Hong Kong) Enterprise Co., Limited (“Fair Friend”), a wholly owned subsidiary of the Company, entered into an agreement (the “Agreement”) with Yunchang Electronics, a substantial shareholder of a non wholly owned subsidiary of the Company. Pursuant to the Agreement, Fair Friend has agreed to subscribe in cash for the capital interest in the amount of USD510,000 (equivalent to approximately HK\$3,978,000), representing 51% in the proposed total registered capital of Wuxi Cosmos Yunchang Plastic Co., Ltd, at a subscription price of USD510,000 (equivalent to approximately HK\$3,978,000) and Yunchang Electronics has agreed to subscribe in cash for the capital interest in the amount of USD490,000 (equivalent to approximately HK\$3,822,000), representing 49% in the proposed total registered capital of Wuxi Cosmos Yunchang Plastic Co., Ltd at a subscription price of USD490,000 (equivalent to approximately HK\$3,822,000). Details of the Agreement are set out in the Company’s announcement dated 24th March 2004.

41. COMPARATIVE FIGURES

In the current year, the Group has adopted the revised SSAP 12, as mentioned in note 2 to the financial statements, for the first time. The presentation in the current year’s financial statements has been modified in order to conform with the requirements of this standard. Comparative figures have been restated in order to achieve a consistent presentation.

FINANCIAL SUMMARY

INCOME STATEMENT

| | For the year ended 31st December, | | | | 2003 HK\$'000 |
|--|-----------------------------------|------------------|------------------|------------------|------------------|
| | 1999 HK\$'000 | 2000 HK\$'000 | 2001 HK\$'000 | 2002 HK\$'000 | |
| Turnover | 1,529,758 | 1,622,796 | 1,294,747 | 1,313,484 | 1,393,628 |
| Profit (Loss) before taxation | 30,260 | 28,497 | (79,438) | 56,350 | 52,167 |
| Taxation | 8,606 | 11,392 | 7,751 | 16,377 | 13,379 |
| Profit (Loss) before minority interests | 21,654 | 17,105 | (87,189) | 39,973 | 38,788 |
| Minority interests | 17,237 | 10,790 | 1,939 | 17,512 | 18,260 |
| Profit (Loss) for the year | 4,417 | 6,315 | (89,128) | 22,461 | 20,528 |

BALANCE SHEET

| | At 31st December, | | | | 2003 HK\$'000 |
|---|-------------------|------------------|------------------|------------------|------------------|
| | 1999 HK\$'000 | 2000 HK\$'000 | 2001 HK\$'000 | 2002 HK\$'000 | |
| Total assets | 1,626,211 | 1,645,859 | 1,395,069 | 1,586,135 | 1,691,715 |
| Total liabilities and minority interests | 963,646 | 974,678 | 815,215 | 984,958 | 1,059,912 |
| Shareholders' funds | 662,565 | 671,181 | 579,854 | 601,177 | 631,803 |

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the annual general meeting of Cosmos Machinery Enterprises Limited (the "Company") will be held at Tang I, 3rd Floor, Sheraton Hong Kong Hotel & Towers, 20 Nathan Road, Kowloon, Hong Kong on Thursday, 3rd June, 2004 at 9:30 a.m. for the following purposes:-

1. To receive and consider the financial statements and the directors' and auditors' reports of the Company for the year ended 31st December, 2003.
2. To re-elect the retiring directors and to fix directors' fee.
3. To re-appoint auditors and to authorise the directors to fix their remuneration. A Special Notice has been given pursuant to Sections 116C and 132 of the Companies Ordinance of the intention to propose the following resolution as an ordinary resolution:-

"THAT Messrs. Ting Ho Kwan & Chan, the retiring auditors, who were appointed by the board of directors of the Company to fill the casual vacancy following the resignation of Messrs. Deloitte Touche Tohmatsu, be re-appointed auditors to hold office until the conclusion of the next annual general meeting at a remuneration to be agreed with the directors."

As special business, to consider and, if thought fit, to pass with or without amendments the following resolutions as ordinary resolutions of the Company:-

ORDINARY RESOLUTIONS

4. **"THAT:**
 - (a) subject to paragraph (b) of this resolution, the exercise by the directors of the Company during the Relevant Period (as hereinafter defined) of all powers of the Company to repurchase shares in the capital of the Company on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") or on any other stock exchange on which the securities of the Company may be listed and is recognised by the Securities and Futures Commission and the Stock Exchange for this purpose, subject to and in accordance with all applicable laws and/or the requirements of the Rules Governing the Listing of Securities on the Stock Exchange or of any other stock exchange as amended from time to time, be and is hereby generally and unconditionally approved;
 - (b) the aggregate nominal amount of shares to be repurchased by the Company pursuant to the approval of paragraph (a) of this resolution shall not exceed 10 per cent. of the aggregate nominal amount of the share capital of the Company in issue as at the date of the passing of this resolution and the authority pursuant to paragraph (a) of this resolution shall be limited accordingly; and
 - (c) for the purposes of this resolution:-

"Relevant Period" means the period from the passing of this resolution until whichever is the earliest of:-

 - (i) the conclusion of the next annual general meeting of the Company;
 - (ii) the expiration of the period within which the next annual general meeting of the Company is required by law to be held; and
 - (iii) the passing of an ordinary resolution by shareholders of the Company in general meeting revoking or varying the authority given to the directors of the Company by this resolution."

NOTICE OF ANNUAL GENERAL MEETING

5. **“THAT:**

- (a) subject to paragraph (c) of this resolution and pursuant to Section 57B of the Companies Ordinance, the exercise by the directors of the Company during the Relevant Period (as hereinafter defined) of all powers of the Company to allot, issue and deal with additional shares in the capital of the Company and to make and grant offers, agreements and options (including warrants, bonds, debentures, notes and other shares which carry rights to subscribe for or are convertible into shares of the Company) which would or might require shares to be allotted be and is hereby generally and unconditionally approved;
- (b) the approval in paragraph (a) of this resolution shall authorise the directors of the Company during the Relevant Period to make and grant offers, agreements and options (including warrants, bonds, debentures, notes and other shares which carry rights to subscribe for or are convertible into shares of the Company) which would or might require shares to be allotted after the end of the Relevant Period;
- (c) the aggregate nominal amount of share capital allotted or agreed conditionally or unconditionally to be allotted (whether pursuant to an option or otherwise) by the directors of the Company pursuant to the approval in paragraph (a) of this resolution, otherwise than pursuant to (i) a Rights Issue (as hereinafter defined); or (ii) the exercise of rights of subscription or conversion under the terms of any existing warrants, bonds, debentures, notes or other securities issued by the Company which carry rights to subscribe for or are convertible into shares of the Company; or (iii) the exercise of options granted under any option scheme or similar arrangement for the time being adopted for the grant or issue of shares or rights to acquire shares in the Company; or (iv) any scrip dividend or similar arrangement providing for the allotment of shares in lieu of the whole or part of a dividend on shares of the Company in accordance with the articles of association of the Company, shall not exceed 20 per cent. of the aggregate nominal amount of the share capital of the Company in issue as at the date of the passing of this resolution and the said approval shall be limited accordingly; and
- (d) for the purposes of this resolution:–

“Relevant Period” means the period from the passing of this resolution until whichever is the earliest of:–

- (i) the conclusion of the next annual general meeting of the Company;
- (ii) the expiration of the period within which the next annual general meeting of the Company is required by law to be held; and
- (iii) the passing of an ordinary resolution by shareholders of the Company in general meeting revoking or varying the authority given to the directors of the Company by this resolution.”

“Rights Issue” means an offer of shares or issue of options, warrants or other securities giving the right to subscribe for shares of the Company open for a period fixed by the directors of the Company to holders of shares whose names appear on the register of members of the Company (and, where appropriate, to holders of other securities of the Company entitled to the offer) on a fixed record date in proportion to their then holdings of such shares of the Company (or, where appropriate such other securities) (subject in all cases to such exclusions or other arrangements as the directors of the Company may deem necessary or expedient in relation to fractional entitlements or having regard to any restrictions or obligations under the laws of, or the requirements of any recognised regulatory body or any stock exchange in, any territory applicable to the Company).”

NOTICE OF ANNUAL GENERAL MEETING

6. "THAT subject to the passing of resolution nos. 4 and 5 set out in the notice convening this meeting, the general mandate granted to the directors of the Company to exercise the powers of the Company to allot, issue and deal with additional shares in the Company pursuant to resolution no. 5 set out in the notice convening this meeting be and is hereby extended by the addition thereto of an amount representing the aggregate nominal amount of the share capital of the Company repurchased by the Company under the authority granted pursuant to the resolution no. 4 set out in the notice convening this meeting, provided that such extended amount shall not exceed 10 per cent. of the aggregate nominal amount of the share capital of the Company in issue as at the date of the passing of this resolution."
7. As special business, to consider and, if thought fit, to pass the following resolution as a special resolution of the Company:—

SPECIAL RESOLUTION

"THAT the Articles of Association of the Company be and are hereby amended in the following manner:—

(a) Article 2

- (i) by deleting the definition of "Hong Kong" in Article 2 in its entirety and substituting therefor the following new definition and its marginal note:—

"Hong Kong" shall mean the Hong Kong Special Administrative Region of The People's Republic of China; Hong Kong.

- (ii) by adding the following new definition and its marginal note immediately after the definition of "shareholders" or "members" in Article 2:—

"clearing house" shall mean a recognized clearing house within the meaning of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong); clearing house.

- (iii) by deleting the definition of "associate" in Article 2 in its entirety and substituting therefor the following new definition and its marginal note:—

"associate" shall have the meaning ascribed to it under the Listing Rules; associate.

- (iv) by deleting the words "Chief Secretary" in the last line of the definition of "newspaper" and substituting therefor the words "Chief Secretary for Administration";

- (v) by adding the following definitions and their marginal notes immediately after the definition of "month" in Article 2:—

"electronic communication" shall mean a communication sent by electronic transmission in any form through any medium, cable and telex message; electronic communication.

"Entitled Person" shall mean an "entitled person" as defined under the Companies Ordinance; entitled person.

NOTICE OF ANNUAL GENERAL MEETING

- “the Listing Rules” shall mean the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and any amendments thereto for the time being in force; Listing Rules.
- “relevant financial documents” shall mean the “relevant financial documents” as defined under the Companies Ordinance; relevant financial documents.
- “summary financial report” shall mean the “summary financial report” as defined under the Companies Ordinance; summary financial report.
- (vi) by deleting the definition of “writing” or “printing” in Article 2 in its entirety and substituting therefor the following new definition and its marginal note:–
- “writing” and “printing” shall mean written or printed or printed by lithography or printed by photography or typewritten or produced by any other modes of representing words or figures in a visible form or, to the extent permitted by, and in accordance with the Companies Ordinance and other applicable laws, rules and regulations, any visible substitute for writing (including an electronic communication), or partly in one visible form and partly in another visible form; writing.
printing.
- (vii) by adding the following paragraph and its marginal note as the last paragraph of Article 2:–
- References to a document being executed include references to its being executed under hand or under seal or, to the extent permitted by, and in accordance with the Companies Ordinance and other applicable laws, rules and regulations, by electronic signature or by any other method. References to a document, to the extent permitted by, and in accordance with the Companies Ordinance and other applicable laws, rules and regulations, include references to any information in visible form whether having physical substance or not. document being executed and document.

NOTICE OF ANNUAL GENERAL MEETING

(b) Article 16

by deleting the existing Article 16 in its entirety and substituting therefor the following new Article and its marginal note:–

16. Every person whose name is entered as a member in the register shall be entitled to receive within such period of time as may be prescribed by the Companies Ordinance or the Listing Rules after allotment or lodgement of a transfer (or within such other period as the conditions of issue shall provide) one certificate for all his shares or, if he so requests, in a case where the allotment or transfer is of a number of shares in excess of the number for the time being forming the stock exchange board lot, upon payment, (i) in the case of an allotment, of a fee not exceeding such maximum amount as may from time to time be prescribed by the Listing Rules for every certificate after the first; or (ii) in the case of a transfer, of a fee not exceeding such maximum amount as may from time to time be prescribed by the Listing Rules for every certificate, such number of certificates for shares in stock exchange board lots or multiples thereof as he shall request and one for the balance (if any) of the shares in question, provided that in respect of a share or shares held jointly by several persons the Company shall not be bound to issue a certificate or certificates to each such person, and the issue and delivery of a certificate or certificates to one of several joint holders shall be sufficient delivery to all such holders.

Share certificates.

(c) Article 36

by inserting the words “provided that not until a call is made any payment in advance of a call shall not entitle the member to receive any dividend or to exercise any other rights or privileges as a member in respect of the shares or the due portion of the shares upon which payment has been advanced by such member before it is called up” after the word “decide” in the eighth line of Article 36.

(d) Article 37

by deleting the existing Article 37 in its entirety and substituting therefor the following new Article and its marginal note:–

37. All transfers of shares may be effected by an instrument of transfer in the usual or common form or in such other form as prescribed by The Stock Exchange of Hong Kong Limited or in such form as the Board may accept and may be under hand or, if the transferor or transferee is a clearing house (within the meaning of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)) or its nominee(s), by hand or by machine imprinted signature or by such other manner of execution as the Board may approve from time to time. All instruments of transfer must be left at the registered office or at such other place as the Board may appoint.

Form of transfer.

NOTICE OF ANNUAL GENERAL MEETING

(e) Article 38

by deleting the existing Article 38 in its entirety and substituting therefor the following new Article and its marginal note:—

38. The instrument of transfer of any share shall be executed by or on behalf of the transferor and the transferee provided that the Board may dispense with the execution of the instrument of transfer by the transferee in any case which it thinks fit in its discretion to do so. The Board may also resolve, either generally or in any particular case, upon request by either the transferor or transferee, to accept mechanically executed transfers. The transferor shall be deemed to remain the holder of the share until the name of the transferee is entered in the register in respect thereof. Nothing in these Articles shall preclude the Board from recognising a renunciation of the allotment or provisional allotment of any share by the allottee in favour of some other person.

Execution of
transfer.

(f) Article 43

by deleting the words “without charge” after the word “issued” in the fourth line and the word “him” in the eighth line of Article 43 and substituting therefor the words “with a fee not exceeding such maximum amount as may from time to time be prescribed by the Listing Rules”.

(g) Article 74

(i) by inserting the words “unless a poll is taken as may from time to time be required under the Listing Rules or any other applicable laws, rules or regulations or” before the word “unless” in the third line of the first paragraph of Article 74.

(ii) by inserting the words “a poll is so taken as required under the Listing Rules or any other applicable laws, rules or regulations or unless” after the word “Unless” at the beginning of the second paragraph of Article 74.

(h) Article 84

by adding the following new paragraph and its marginal note immediately after paragraph (B) of Article 84:—

“(C) Where the Company has knowledge that any member is, under any applicable laws or the Listing Rules, required to abstain from voting on any particular resolution or restricted to voting only for or only against any particular resolution, any votes cast by or on behalf of such member in contravention of such requirement or restriction shall not be counted.”

Voting in
contravention to
Listing Rules.

NOTICE OF ANNUAL GENERAL MEETING

(i) Article 91(B)

- (i) by deleting the words “a recognized clearing house within the meaning of Section 2 of the Securities and Futures (Clearing Houses) Ordinance of Chapter 420 of the Laws of Hong Kong” in the first sentence of Article 91(B) and substituting therefor the words “a clearing house”;
- (ii) by deleting the word “recognised” before the words “clearing house (or its nominee)” appearing in the second sentence of Article 91(B).

(j) Article 95

by adding the following new paragraph immediately after paragraph (D) of Article 95:–

“(E) An alternate Director shall be deemed to be the agent of the Director who appoints him. A Director who appoints an alternate Director shall be vicariously liable for any tort committed by the alternate Director while acting in the capacity of alternate Director.”

(k) Article 102

by deleting the existing paragraphs (H), (I), (J) and (K) of Article 102 in their entirety and substituting therefor the following new paragraphs:–

“102 (H) A Director shall not vote (nor be counted in the quorum) on any resolution of the Board approving any contract or arrangement or any other proposal in which he or any of his associate(s) to his knowledge is/are materially interested, but this prohibition shall not apply to any of the following matters namely:–

- (i) any contract or arrangement for the giving by the Company of any security or indemnity to the Director or his associate(s) in respect of money lent or obligations incurred or undertaken by him or any of his associates at the request of or for the benefit of the Company or any of its subsidiaries;
- (ii) any contract or arrangement for the giving by the Company of any security or indemnity to a third party in respect of a debt or obligation of the Company or any of its subsidiaries for which the Director or his associate(s) has himself/ themselves assumed responsibility in whole or in part and whether alone or jointly under a guarantee or indemnity or by the giving of security;
- (iii) any contract, arrangement or proposal concerning an offer of the shares or debentures or other securities of or by the Company or any other company which the Company may promote or be interested in for subscription or purchase where the Director or his associate(s) is/are or is/are to be interested as a participant in the underwriting or sub-underwriting of the offer;
- (iv) any contract or arrangement in which the Director or his associate(s) is/are interested in the same manner as other holders of shares or debentures or other securities of the Company by virtue only of his/their interest in shares or debentures or other securities of the Company;

NOTICE OF ANNUAL GENERAL MEETING

- (v) any contract, arrangement or proposal concerning any other company in which the Director or his associate(s) is/are interested only, whether directly or indirectly, as an officer or executive or shareholder or in which the Director or his associate(s) is/are beneficially interested in shares of that company, provided that the Director and any of his associates are not in aggregate beneficially interested in 5 per cent. or more of the issued shares of any class of shares of such company (or of any third company through which his interest or that of his associates is derived) or of the voting rights;
- (vi) any proposal or arrangement concerning the benefit of employees of the Company or its subsidiaries including the adoption, modification or operation of a pension fund or retirement, death or disability benefits scheme which relates both to the Directors, his associates and employees of the Company or any of its subsidiaries or its associated companies and does not provide in respect of the Director, or his associate(s), as such any privilege not generally accorded to the class of persons to which such scheme or fund relates; and
- (vii) any proposal or arrangement concerning the adoption, modification or operation of any employees' share scheme or any other share incentive or share option scheme under which the Director or his associate(s) may benefit.

(I) A company shall be deemed to be a company in which a Director and/or his associate(s) own(s) 5 per cent. or more if and so long as (but only if and so long as) he and/or his associate(s) is/are (either directly or indirectly) the holder(s) of or beneficially interested in 5 per cent. or more of any class of the equity share capital of such company (or of any third company through which his interest or that of any of his associates is derived) or of the voting rights available to members of such company. For the purpose of this paragraph there shall be disregarded any shares held by a Director or his associate(s) as bare or custodian trustee and in which he or any of them has no beneficial interest, any shares comprised in a trust in which the interest of the Director or his associate(s) is/are in reversion or remainder if and so long as some other person is entitled to receive the income thereof, and any shares comprised in an authorised unit trust scheme in which the Director or his associate(s) is/are interested only as a unit holder and any shares which carry no voting right at general meetings and very restrictive dividend and return of capital right.

(J) Where a company in which a Director and/or his associate(s) hold(s) 5 per cent. or more is materially interested in a transaction, then that Director and/or his associate(s) shall also be deemed materially interested in such transaction.

(K) If any question shall arise at any meeting of the Board as to the materiality of the interest of a Director (other than the chairman of the meeting) or his associate(s) or as to the entitlement of any Director (other than such chairman) to vote or be counted in the quorum and such question is not resolved by his voluntarily agreeing to abstain from voting or not to be counted in the quorum, such question shall be referred to the chairman of the meeting and his ruling in relation to such other Director shall be final and conclusive except in a case where the nature or extent of the interest of the Director and/or his associate(s) concerned as known to such Director has not been fairly disclosed to the Board. If any question as aforesaid shall arise in respect of the chairman of the meeting such question shall be decided by a resolution of the Board (for which purpose such chairman shall be counted in the quorum but shall not vote thereon) and such resolution shall be final and conclusive except in a case where the nature or extent of the interest of such chairman as known to such chairman has not been fairly disclosed to the Board."

NOTICE OF ANNUAL GENERAL MEETING

(l) Article 107

by deleting the existing Article 107 in its entirety and substituting therefor the following Article and its marginal note:–

“107. No person other than a Director retiring at the meeting shall, unless recommended by the Board for election, be eligible for election as a Director at any general meeting unless a notice signed by a member (other than the person to be proposed) duly qualified to attend and vote at the meeting for which such notice is given of his intention to propose such person for election and also a notice signed by the person to be proposed for his willingness to be elected shall have been lodged at the registered office provided that the minimum length of the period, during which such notice(s) are given, shall be at least seven (7) days and that the period for lodgment of such notice(s) shall commence no earlier than the day after the despatch of the notice of the general meeting appointed for such election and end no later than seven (7) days prior to the date appointed for such general meeting.”

Notices to be given when person proposed for election.

(m) Article 109

by deleting the words “special resolution” in the first line of Article 109 and the marginal note of Article 109 and substituting therefor the words “ordinary resolution”.

(n) New Articles 159 to 161

(i) by adding the following new Article and its marginal note immediately after Article 158:–

“159. Any resolution declaring a dividend on shares of any class, whether a resolution of the Company in general meeting or a resolution of the Board, may specify that the same shall be payable or distributable to the persons registered as the holders of such shares on a particular date or at a point of time on a particular date, notwithstanding that it may be a date prior to that on which the resolution is passed, and thereupon the dividend shall be payable or distributable to them in accordance with their respective holdings so registered, but without prejudice to the rights inter se in respect of such dividend of transferors and transferees of any such shares. The provisions of this Article shall *mutatis mutandis* apply to bonuses, capitalisation issue, distributions of realised capital profits or offers or grants made by the Company to the members.”

Record dates.

NOTICE OF ANNUAL GENERAL MEETING

- (ii) by adding the following heading, new Articles and their marginal notes immediately after Article 159.

“Untraceable Members

160. Without prejudice to the rights of the Company under Article 158 and the provisions of Article 161, the Company may cease sending such cheques for dividend entitlements or dividend warrants by post if such cheques or warrants have been left uncashed on two consecutive occasions. However, the Company may exercise the power to cease sending cheques for dividend entitlements or dividend warrants after the first occasion on which such a cheque or warrant is returned undelivered.

Company may
cease sending
dividend warrants.

161. The Company shall have the power to sell, in such manner as the Board thinks fit, any shares of a member who is untraceable, but no such sale shall be made unless:–

Company may
sell shares of
untraceable
members.

- (i) all cheques or warrants, being not less than three in total number, for any sum payable in cash to the holder of such shares in respect of them sent during the relevant period in the manner authorized by the Articles of the Company have remained uncashed;
- (ii) so far as it is aware at the end of the relevant period, the Company has not at any time during the relevant period received any indication of the existence of the member who is the holder of such shares or of a person entitled to such shares by death, bankruptcy or operation of law; and
- (iii) the Company has caused an advertisement to be inserted in a leading English language daily newspaper and a leading Chinese language daily newspaper circulating in Hong Kong giving notice of its intention to sell such shares and has notified The Stock Exchange of Hong Kong Limited of such intention and a period of three months has elapsed since the date of such advertisement.

For the purpose of the foregoing, “relevant period” means the period commencing twelve years before the date of publication of the advertisement referred to in paragraph (iii) of this Article and ending at the expiry of the period referred to in that paragraph.

NOTICE OF ANNUAL GENERAL MEETING

To give effect to any such sale the Board may authorize any person to transfer the said shares and instrument of transfer signed or otherwise executed by or on behalf of such person shall be as effective as if it had been executed by the registered holder or the person entitled by transmission to such shares, and the purchaser shall not be bound to see to the application of the purchase money nor shall his title to the shares be affected by any irregularity or invalidity in the proceedings relating to the sale. The net proceeds of the sale will belong to the Company and upon receipt by the Company of such net proceeds it shall become indebted to the former member for an amount equal to such net proceeds. No trust shall be created in respect of such debt and no interest shall be payable in respect of it and the Company shall not be required to account for any money earned from the net proceeds which may be employed in the business of the Company or as it thinks fit. Any sale under this Article shall be valid and effective notwithstanding that the member holding the shares sold is dead, bankrupt or otherwise under any legal disability or incapacity."

- (o) by re-numbering the existing Articles 159 to 163 as Articles 162 to 166 respectively
- (p) Article 167

by deleting the existing Article 164 in its entirety and substituting therefor the following Article and its marginal note:-

167 (A) The Board shall from time to time in accordance with the provisions of the Companies Ordinance cause to be prepared and laid before the Company at its annual general meeting the relevant financial documents.

Relevant financial documents and summary financial report.

(B) Subject to paragraph (C) of this Article, the Company shall in accordance with the Companies Ordinance and other applicable laws, rules and regulations, deliver or send to every member of, and every holder of debentures of, the Company and to every Entitled Person a copy of the relevant financial documents of the Company or a copy of the summary financial report in place of a copy of the relevant financial documents from which the report is derived, not less than twenty-one days before the date of the general meeting of the Company concerned (or such other time as is permitted under the Companies Ordinance and other applicable laws, rules and regulations).

(C) Where any Entitled Person has, in accordance with the Companies Ordinance and other applicable laws, rules and regulations, agreed or is deemed to have agreed to his having access to the relevant financial documents and/or the summary financial report on the Company's computer network as mentioned

NOTICE OF ANNUAL GENERAL MEETING

in Article 172(v) or, to the extent permitted by, and in accordance with the Companies Ordinance and other applicable laws, rules and regulations, in any other manner (including any other form of electronic communication) instead of being sent the documents or report, as the case may be (an “assenting person”), the publication or making available by the Company, in accordance with the Companies Ordinance and other applicable laws, rules and regulations, on the Company’s computer network referred to above of the relevant financial documents and/or the summary financial report throughout the period beginning not less than twenty-one days before the date of the general meeting of the Company concerned and ending on such date in accordance with the Companies Ordinance and other applicable laws, rules and regulations (or such other period or time as is permitted under the Companies Ordinance and other applicable laws, rules and regulations) or in such other manner, shall be treated as having sent a copy of the relevant financial documents or a copy of the summary financial report to an assenting person in satisfaction of the Company’s obligations under paragraph (B) of this Article.

- (q) by re-numbering the existing Articles 165 to 167 as Articles 168 to 170 respectively
- (r) Articles 171, 172, 173 and 174

by deleting the existing Articles 168, 169, 170 and 171 in their entirety and substituting therefor the following new Articles and their marginal notes:–

“171. Every Entitled Person shall register with the Company an address either in Hong Kong or elsewhere to which notices can be sent and if any member shall fail so to do, notice may be given to such member by sending the same in any of the manners hereafter mentioned to his last known place of business or residence, or if there be none, by posting the same for one day at the registered office of the Company or by posting the same on the website of the Company or any other electronic means. In the case of joint holders of a share, all notices shall be given to that one of the joint holders whose name stands first in the register and notice so given shall be sufficient notice to all the joint holders.

Address of shareholders and service of notices to joint holders.

172. Any notice or document (including any “corporate communication” as defined in the Listing Rules), whether or not to be given or issued under the Companies Ordinance, other applicable laws, rules and regulations or these presents from the Company, may be served or delivered by the Company upon any Entitled Person:–

Service of notices.

- (i) personally;
- (ii) by sending it through the post in a prepaid envelope or wrapper addressed to such person at his registered place of address;

NOTICE OF ANNUAL GENERAL MEETING

- (iii) by advertisement in English in at least one English language newspaper and in Chinese in at least one Chinese language newspaper, and for such period as the Board shall think fit to the extent permitted by, and in accordance with the Companies Ordinance and other applicable laws, rules and regulations;
- (iv) by sending or transmitting it as an electronic communication to such person at any telex or facsimile transmission number or electronic number or electronic address or computer network or website supplied by him to the Company for the giving of notice or document from the Company to him to the extent permitted by, and in accordance with the Companies Ordinance and other applicable laws, rules and regulations;
- (v) by publishing it on the Company's computer network and giving to such person a notice in accordance with the Companies Ordinance, other applicable laws, rules and regulations stating that the notice or other document is available there (a "notice of publication") to the extent permitted by, and in accordance with the Companies Ordinance and other applicable laws, rules and regulations. The notice of publication may be given to such person by any of the means set out in paragraphs (i) to (iv) or (vi) of this Article; or
- (vi) by sending or otherwise making available to such person through such means to the extent permitted by, and in accordance with, the Companies Ordinance and other applicable laws, rules and regulations.

173. (A) Any notice or other document (including any corporate communication as defined in the Listing Rules) given or issued by or on behalf of the Company:—

When notice
deemed to be
served.

- (i) if served or delivered in person, shall be deemed to have been served or delivered at the time of personal service or delivery, and in proving such service or delivery, a certificate in writing signed by the Secretary (or other officer of the Company or such other person appointed by the Board) that the notice or document was so served or delivered shall be conclusive evidence thereof;
- (ii) if served or delivered by post, shall be deemed to have been served or delivered on the day following that on which the envelope or wrapper containing the same is put into a post box, and in proving such service

NOTICE OF ANNUAL GENERAL MEETING

or delivery, it shall be sufficient to prove that the envelope or wrapper containing the notice or document was properly prepaid, addressed and put into such post box. A certificate in writing signed by the Secretary (or such other officer of the Company or such other person appointed by the Board) that the envelope or wrapper containing the notice or other document was so prepaid, addressed and put into the post shall be conclusive evidence thereof;

- (iii) if sent or transmitted as an electronic communication in accordance with Article 172(iv) or through such means in accordance with Article 172(vi), shall be deemed to have been served or delivered at the time of the relevant despatch or transmission. A notice or document published in the Company's computer network in accordance with Article 172(v), shall be deemed to have been served or delivered on the day following that on which a notice of publication is sent to the Entitled Person. In proving such service or delivery, a certificate in writing signed by the Secretary (or such other officer of the Company or such other person appointed by the Board) as to the fact and time of such service, delivery, despatch, transmission or publication shall be conclusive evidence provided that no notification that the electronic communication has not reached its recipient has been received by the sender, except that any failure in transmission beyond the sender's control shall not invalidate the effectiveness of the notice or document being served; and
- (iv) if served by advertisement in a newspaper in accordance with Article 172(iii), shall be deemed to have been served on the day on which such notice or document is first published.

(B) Subject to the Companies Ordinance and other applicable laws, rules and regulations, any notice or other document (including but not limited to the documents referred to in Article 167 and corporate communication as defined in the Listing Rules) may be given by the Company in the English language only, in the Chinese language only or in both. Where a person has in accordance with the Companies Ordinance and other applicable laws, rules and regulations consented to receive notices and other documents (including but not limited to the documents referred to in Article 167 and any corporate communication as defined in the Listing Rules) from the Company in the English language only or the Chinese language only but not both, it shall be sufficient for the Company to serve on or deliver to him any such notice or document in such language only in accordance with these presents unless and until

Choice of language.

NOTICE OF ANNUAL GENERAL MEETING

there is a notice of revocation or amendment of such consent given or deemed to have been given by such person to the Company in accordance with the Companies Ordinance and other applicable laws, rules and regulations which shall have effect in respect of any notice or document to be served on or delivered to such person subsequent to the giving of such notice of revocation or amendment.

174. A notice or document may be given by or on behalf of the Company to the person(s) entitled to a share in consequence of death, mental disorder or bankruptcy of a member in such manner as provided in Article 172 in which the same might have been given if the death, mental disorder or bankruptcy had not occurred."

Service of notice to persons entitled on death, mental disorder or bankruptcy of a member.

- (s) by re-numbering the existing Article 172 as Article 175
- (t) Article 176
 - (i) by re-numbering the existing Article 173 as Article 176;
 - (ii) by deleting the words "by post to, or left at the registered address of any member in pursuance of these presents" in the first, second and third lines of Article 176 (after the re-numbering in (i) above) and substituting therefor the words "to any member in such manner as provided in Article 172".
- (u) Article 177
 - (i) by re-numbering the existing Article 174 as Article 177;
 - (ii) by deleting the words "written or printed" in Article 177 (after the re-numbering in (i) above) and substituting therefor the words "written, printed or made electronically".
- (v) by re-numbering the existing Article 175 as Article 178
- (w) new Articles 179 and 180

by adding the following heading, new Articles and their marginal notes immediately after Article 178 (after the re-numbering in (v) above):-

"DOCUMENTS

179. Any Director or the Secretary or any person appointed by the Board for the purpose shall have power to authenticate any documents affecting the constitution of the Company and any resolutions passed by the Company or the Board or any committee of the Board and books, records, documents and accounts, relating to the business of the Company, and to certify copies thereof or extracts therefrom as true copies or extracts; and, where any books, records, documents and accounts are elsewhere than at the registered office, the local manager or other officer of

Authentication of documents.

NOTICE OF ANNUAL GENERAL MEETING

the Company having the custody thereof shall be deemed to be a person appointed by the Board as aforesaid. A document purporting to be a copy of a resolution, or an extract from the minutes of a meeting, of the Company or of the Board or any committee of the Board which is certified as aforesaid shall be conclusive evidence in favour of all persons dealing with the Company upon the faith thereof that such resolution has been duly passed or, as the case may be, that such minutes or extract is a true and accurate record of proceedings at a duly constituted meeting.

180. The Company may destroy:—

Destruction of documents.

- (a) any share certificate which has been cancelled at any time after the expiry of one year from the date of such cancellation;
- (b) any dividend mandate or any variation or cancellation thereof or any notification of change of name or address at any time after the expiry of two years from the date such mandate, variation cancellation or notification was recorded by the Company;
- (c) any instrument of transfer of shares which has been registered at any time after the expiry of six years from the date of registration; and
- (d) any other document on the basis of which any entry in the register is made at any time after the expiry of six years from the date any entry in the register was first made in respect of it;

and it shall conclusively be presumed in favour of the Company that every share certificate so destroyed was a valid certificate duly and properly cancelled and that every instrument of transfer so destroyed was a valid and effective instrument duly and properly registered and that every other document destroyed hereunder was a valid and effective document in accordance with the recorded particulars thereof in the books and records of the Company. Provided always that:—

- (i) the foregoing provisions of this Article shall apply only to the destruction of a document in good faith and without express notice to the Company that the preservation of such document was relevant to a claim;

NOTICE OF ANNUAL GENERAL MEETING

- (ii) nothing contained in this Article shall be construed as imposing upon the Company any liability in respect of the destruction of any such document earlier than as aforesaid or in any case where the conditions of proviso (i) above are not fulfilled; and
 - (iii) references in this Article to the destruction of any document include reference to its disposal in any manner."
- (x) by re-numbering the existing Articles 176 to 178 as Articles 181 to 183 respectively
- (y) Article 184
- (i) by re-numbering the existing Article 179 as Article 184;
 - (ii) by adding the words "or Auditors" after the words "other officer" in the first and eighth lines of paragraph (A) of Article 184 (after the re-numbering in (i) above);
 - (iii) by deleting the words "paragraph (c) of the proviso to Section 165 of the Companies Ordinance" in the fourth line of paragraph (A) of Article 184 (after the re-numbering in (i) above) and substituting therefor the words "Section 165(2) of the Companies Ordinance".
- (z) new Article 185

by adding the following new Article and marginal notes immediately after Article 184:–

"185. The Company shall have power to purchase and maintain for any Director, or other officer or Auditors of the Company:–

- (a) insurance against any liability to the Company, a related company or any other party in respect of any negligence, default, breach of duty or breach of trust (save for fraud) of which he may be guilty in relation to the Company or a related company; and Liability insurance.
- (b) insurance against any liability incurred by him in defending any proceedings, whether civil or criminal, taken against him for any negligence, default, breach of duty or breach of trust (including fraud) of which he may be guilty in relation to the Company or a related company.

NOTICE OF ANNUAL GENERAL MEETING

For the purpose of this Article 185, "related company" means any company which is the Company's subsidiary or holding company or a subsidiary of the Company's holding company."

By order of the Board
TANG To
Chairman

Hong Kong, 30th April, 2004

Registered Office:

8th Floor, Tai Tung Industrial Building
29-33 Tsing Yi Road
Tsing Yi Island
New Territories
Hong Kong

Notes:

1. A member entitled to attend and vote at the meeting is entitled to appoint one or more proxies to attend and, on a poll, vote instead of him. A proxy need not be a member of the Company.
2. To be valid, a form of proxy, together with the power of attorney or other authority, if any, under which it is signed or a notarially certified copy of that power or authority must be deposited at the registered office of the Company at 8th Floor, Tai Tung Industrial Building, 29-33 Tsing Yi Road, Tsing Yi Island, New Territories, Hong Kong not less than 48 hours before the time for holding the meeting or adjourned meeting or poll (as the case may be).
3. With regard to items 4 to 7 of this notice, a circular giving details of the general mandates to repurchase shares and to issue shares and proposed amendments to the Articles of Association of the Company will be despatched to the shareholders together with the Annual Report 2003 of the Company on 30th April, 2004.
4. This notice is also available for viewing on the website of each of The Stock Exchange of Hong Kong Limited at <http://www.hkex.com.hk> and of the Company at <http://www.cosmel.com>.