

COSMOS MACHINERY ENTERPRISES LIMITED



ANNUAL REPORT 2001

2001

Contents

COSMOS

2	Corporate Information
3	Chairman's Statement
6	Management Discussion and Analysis
16	Directors and Senior Management
19	Report of the Directors
27	Joint Auditors' Report
28	Consolidated Income Statement
29	Consolidated Balance Sheet
31	Balance Sheet
32	Consolidated Statement of Recognised Gains and Losses
33	Consolidated Cash Flow Statement
35	Notes to the Financial Statements
83	Financial Summary
84	Notice of Annual General Meeting

Directors

Executive

Tang To (*Chairman*)
Zhou Junqing
Wong Yiu Ming

Non-Executive

Tang Kwan (*Honorary Chairman*)
Wu Jun (*Vice Chairman*)
Kan Wai Wah

Independent Non-Executive

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
Tel: 2376-6188
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

Joint Auditors

Deloitte Touche Tohmatsu
Ting Ho Kwan & Chan

Share Registrars

Secretaries Limited
5th Floor, Wing On Centre
111 Connaught Road Central
Hong Kong

I am pleased to present the annual report of the Company and its subsidiaries (the "Group") for the year ended 31st December, 2001.

Results

The Group's consolidated turnover for the year of 2001 was approximately HK\$1,294,747,000, representing a decrease of approximately 20.2% as compared to that of approximately HK\$1,622,796,000 in 2000. During the year, the Group adopted assets rationalization and streamlined the businesses of its member companies, inducing considerable provisions for obsolete inventories and bad and doubtful debts and write-off of bad debts. This resulted in a loss before taxation amounting to approximately HK\$79,438,000, whereas the profit before taxation for the year of 2000 amounted to approximately HK\$28,497,000. The aggregate provisions for obsolete inventories, bad and doubtful debts and write-off of bad debts amounted to approximately HK\$69,260,000, of which the provisions for obsolete inventories were approximately HK\$28,075,000, and write-off of bad debts and the provisions for bad and doubtful debts amounted to approximately HK\$41,185,000. For the year ended 31st December, 2001, loss attributable to the shareholders was approximately HK\$89,128,000.

Dividend

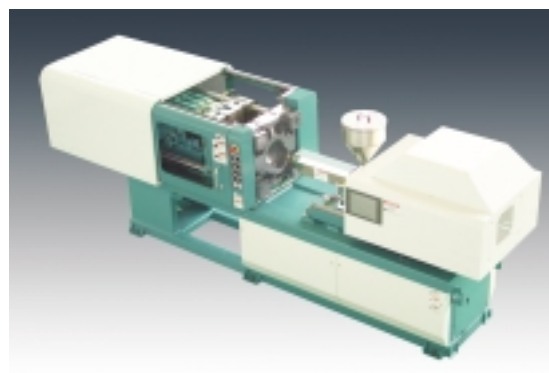
The directors of the Company do not recommend the payment of any dividend for the year ended 31st December, 2001 (2000: Nil).

Review of Operations

Amid global economic downturn in the year of 2001, the Group's results were not quite satisfactory under the unfavourable impacts of slowdown of growth in China's exports, decrease in Hong Kong's exports, causing cooling off of investment sentiments, shrinking production scale, and sluggish consumption. Orders and sales were satisfactory in the first quarter in 2001, but the markets shrank remarkably since the second quarter. The Group implemented contingency measures with a view to minimize the impact, yet the tardiness in reaction was a good lesson for the management for further review and improvement of management standard. By making long-term development strategies and adopting a prudent approach, the Group is prepared for tougher challenges through continuous assets rationalization and effective enrichment of cashflows.



Multi-Materials injection Moulding Machine



Zeus 50 All electric injection Moulding Machine

Chairman's Statement

Amid cooling off of clients' investment sentiments, and still adopting cautious credit policy, the results of the machinery business were not so good as expected. Moreover, to put into effect the policy of assets rationalization, provisions for inventories and doubtful debts were made, amounting in aggregate to approximately HK\$35,454,000. As the Group has long been concerned with products' research and development, a new series of plastic injection moulding machines with features of high efficiency and energy saving was launched to the market in late 2001, the design of all electrically driven plastic injection moulding machine had been rationalized with quite competitive price and would be launched in 2002. Besides, in March 2002, the Group signed a technology transfer agreement with Japan's UBE Machinery Corporation Ltd. ("UBE") for the manufacture of the series of large plastic injection moulding machines presently manufactured in Japan with UBE's technology and sale under its brand in China and other markets during the year. The new challenges from China's accession to the WTO will provide new stimulus of competition for the Group.



Printed Circuit Board

In the adverse market environment, provisions for obsolete inventories of approximately HK\$4,237,000 made for the plastic products and plastic processing business has caused the results being not so satisfactory as expected. However, profits were still sustained. The business will be part of the Group's strategic planning to be expanded in a timely pace. The building of a new plant in Zhuhai will be completed and put into use at the end of the year 2002, and will make new profit contribution to the Group.

As for the business of printed circuit board, in order to develop towards the direction of multi-layer boards, we have moved into the new plant in the middle of the year 2001. Coincidentally, loss was recorded in light of a shrinking market. Nevertheless, the Group is confident to see a turnaround to profit in the near term after prudent analysis.

Due to global sluggish consumption and decline in price of electronic parts, provision had to be made for inventories of the audio and electronic business and price had to be reduced to push sale, which resulted in a loss of approximately HK\$10,282,000. However, with the reorganization well underway, results are expected to improve in the year 2002.

As for industrial consumables, the results were less than satisfactory as the expenses of new office led to an upsurge in costs owing to shrinking production scales of customers and under the strategy of developing the market of Northwestern China. The machinery and trading business, moreover, recorded loss due to the aggregate provisions for doubtful debts and inventories of in aggregate to approximately HK\$26,087,000. However, as the consolidation period was completed, we are confident that profits will be achieved in the year 2002.

The year ahead will be filled with uncertainties. The market environment in early 2002 was better than that of late 2001. By adopting a highly cautious approach to cope with market changes, with the experience of the previous years and recovery of last year, we have confidence in meeting the challenges of the new year.

Liquidity and Financial Resources

As at 31st December 2001, the Group's shareholders' funds were approximately HK\$579,854,000, compared with approximately HK\$671,181,000 as at 31st December 2000.

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, 2001 was approximately 3.57% (2000: 1.29%), and the liquidity ratio was approximately 1.31 (2000: 1.37), both were maintained at a healthy level. As at 31st December 2001, cash, bank balances and time deposits amounted to approximately HK\$54,061,000. All these reflect that the Group is in sound financial position.

Appreciation

On behalf of the Group, I would like to express my gratitude towards our staff for their contribution and hard work, and the suppliers, clients, bankers and shareholders for their utmost support.

TANG To
Chairman

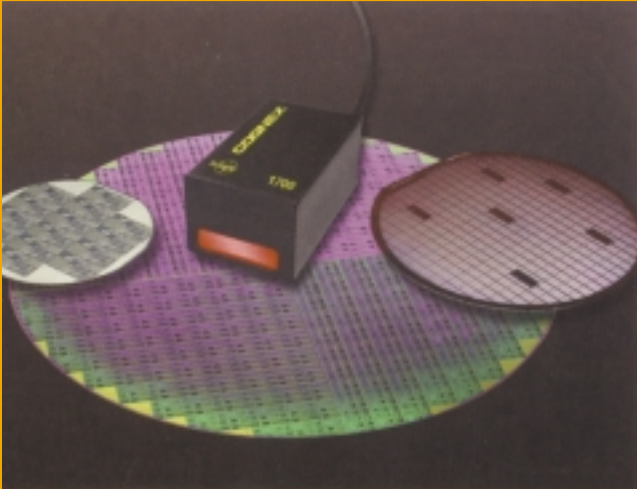
Hong Kong, 23rd April, 2002



• NORI TAKE Grinding Wheel



COSMOS



• COGNEX Wafer Reader



• NAS Stainless Spring Wire

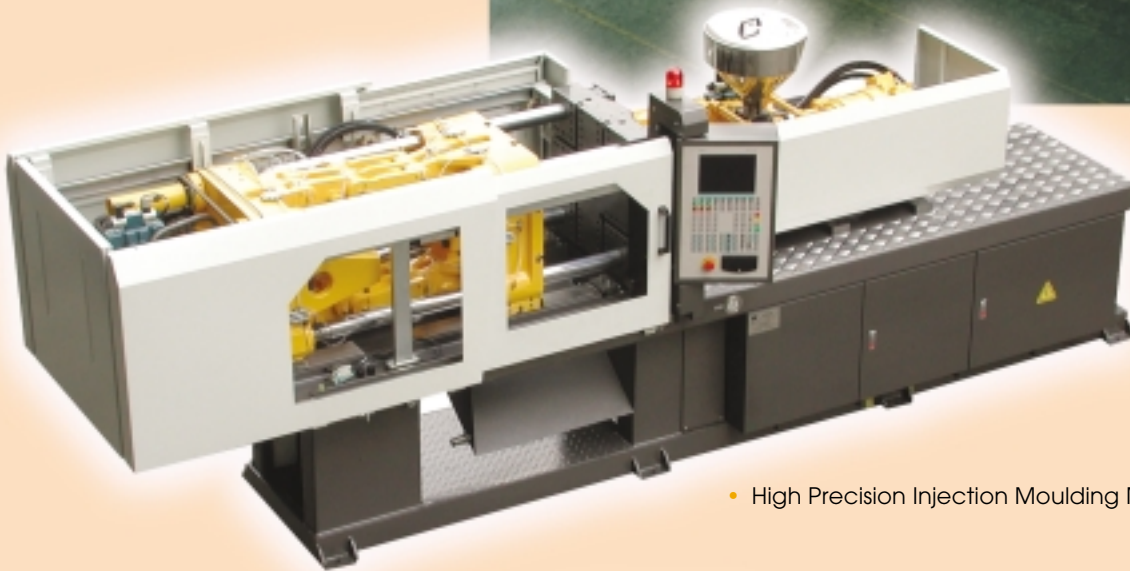
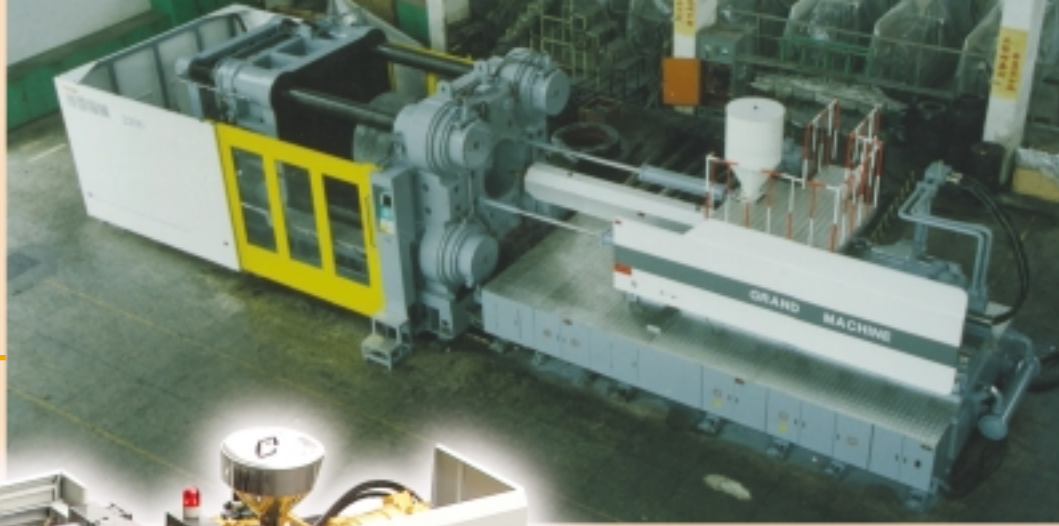


• COGNEX Machine Vision System

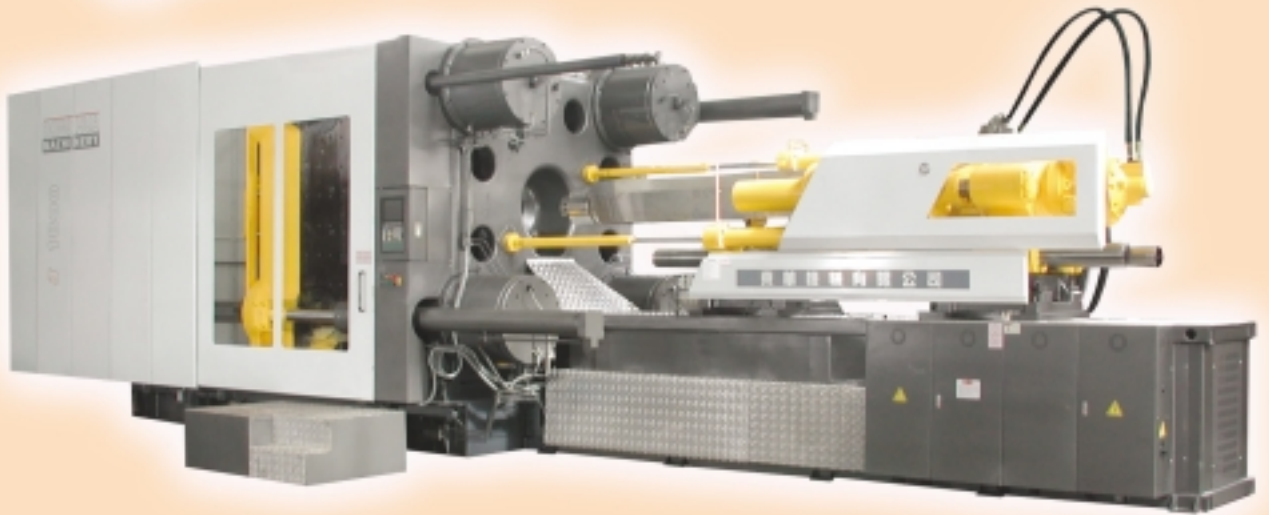
• SANYO DENKI Linear Servo System

- Two Platens Injection Moulding Machine

COSMOS



- High Precision Injection Moulding Machine



- Two Platens Injection Moulding Machine



- C Series Injection Moulding Machine

Management Discussion and Analysis

Financial Statistical Highlights

	2001 HK\$'000	2000 HK\$'000 (restated)
Operating results		
Turnover	1,294,747	1,622,796
(Loss) profit from operations	(74,911)	36,132
(Loss) profit before taxation	(79,438)	28,497
(Loss) profit attributable to shareholders	(89,189)	6,315
(Loss) earning per share – Basic (cents)	(13.91)	0.99
(Loss) earning per share – diluted (cents)	N/A	N/A
Dividends per share (cents)	–	–
Dividend payout	–	–
Financial position at year end		
Total assets	1,395,069	1,645,859
Fixed assets	466,486	441,956
Quick assets	470,573	639,042
Net current assets	201,893	304,897
Shareholders' funds	579,854	671,181
Net asset value per share (cents)	90	105
Financial statistics		
Current ratio	1.31	1.37
Quick asset ratio	0.72	0.78
Gearing ratio	0.04	0.01
Total debt ratio	1.16	1.23

Review of Operations

Machinery

For the year ended 31st December, 2001, the consolidated turnover of the industrial machinery business of the Group amounted to approximately HK\$445,716,000, representing a decrease of 17% over last year. In the first quarter of 2001, the industrial machinery business still recorded a positive growth. However, the machinery market in the Mainland slid rapidly after the second quarter, particularly the market in the Guangdong Province. Sales of industrial machineries of the Group were directly affected by the unfavorable market conditions. In addition to the chaotic competition among the industry, the profit of machinery business was also affected. Accordingly, during the year, the Group adopted a number of measures, including streamlining some of the staff in China, stringent control on various charges and expenses, with a view to lower production costs and, being well-equipped, for facing the acute competition. The effect of the above measures will become observant over a period of time, therefore results of production cost cutting will only emerge until the fourth quarter. This reflects that the mechanism of the Group to adapt market changes should still be subject to further improvement.

During the year, the management through enhancing management of materials and account receivables improved and upgraded the quality of the assets, enriched part of the funds. Meanwhile, provisions had been made for inventories and bad and doubtful debts. As a result, the overall profit of the business has dropped to a lower level among recent years.

Looking ahead, the Group by absorbing professionals in China and overseas makes medium to long-term development plans for the industrial machinery business among which a technology transfer agreement has been entered in March 2002 between Wuxi Grand Tech Machinery Co., Ltd. of the Group and UBE Machinery Corporation Ltd. of Japan for a term of ten years to manufacture mega sized plastic injection moulding machines with twelve specifications under licence. As such industries like automobile and home appliances in China develop quickly, demand for high quality plastic parts produced by large-sized plastic injection moulding machines will be keen. The Group believes that through such co-operation, the large-sized plastic injection moulding machine business in the China will be enhanced. Meanwhile, the Group will be in a more advantageous position to participate in the international market competitions.

Following China's accession to the World Trade Organization ("WTO"), all industrial sectors undergo vigorous development, demand for advanced and good quality industrial machinery becomes gradually keen. The entry of foreign capital into the market of China generates potential demand for quality industrial equipment. The technological requirement of the market for plastic injection moulding machine and sheet metal forming and moulding machines for such features like high precision, energy saving, low noise will gradually be raised. The Group has made preparation accordingly. New moulding machine products will include all electrically driven plastic injection moulding machines, large-sized two-platen type large plastic injection moulding machines and multi-material co-injection plastic moulding

machines and so on. The content of sheet metal fabrication products will also include CNC turret type punching machine, precision press and hydraulic press machines. In addition, reforms of business flow will be conducted in sales series and after sales services in order to improve the supply chain management and enhance the level of satisfaction of customers.

Plastic Products and Plastic Processing

During the year under review, the Group's turnover of plastic business slightly increased by 10.4% over the same period of last year. Amid a difficult business environment, steady profit was still recorded. It was mainly attributable to the impact of both subjective and objective factors. Firstly, in respect of plastic processing business, improvement of processing means and decline of raw material prices have produced positive effect on costs. At the same time, apart from the processing plant in Dongguan, new plastic injection bases in Shenyang and Shuofang City in Jiangsu Province, China respectively established by the Group began to record profits since last year.



- Electric Stapler
- Electronic Punch with ruler

During the year under review, operating conditions for plastic food container and cutlery business improved significantly as a result of the business growth in the Mainland. As investment from food factories of foreign venture in China increased, demand for food containers will also soared substantially. The Group will strive to improve better hygiene conditions in production lines and good management to seek the confidence of customers. It is expected that the plastic container business will further develop. As the business develops relatively, a plan of investment in construction of a plant in the size of 16,000 sq.m. in Zhuhai with a clean room incorporated has been made so as to further expand the business. It is anticipated that production of the new plant will formally commence by the end of 2002. The facilities composed of more than eighty plastic injection moulding machines, extrusion machines, printing machines and packing machines will be installed.

During the year under review, the business of plastic optical products remained stable. However, since the United States (the "US") is the major market for such products, business prospect thus depends on economic recovery of the US market. In order to improve production quality and lower production costs, the Group will draw up plans to renew production facilities in the business to achieve further cost effectiveness. Planning ahead, the management prepares to use different materials to manufacture various new series of optical products to stimulate sales and seize market share.



The Group has focused on development of plastic products and plastic processing business. Our plastic processing business has always been export oriented, mainly by supplying plastic parts to foreign funded factories around the Pearl River Delta. Starting from 2001, the plastic processing business successfully extended directly to supply plastic parts to customers in the US and Japan. Therefore, the whole client network was enlarged. Moreover, the plastic injection mould workshop built for the purpose of plastic parts is also capable of providing good quality moulds to customers in Hong Kong and overseas. In view of a substantial increase in the number of foreign investors in the Yangtze River Delta and the northeastern provinces, many will need supply of plastic parts from the domestic plastic processing factories. With the experience in plastic processing, the Group believes it will seize the business



opportunity to expand the Group's plastic processing business in China. Currently, there are plans to construct large plastic processing bases in Dalian in Liaoning Province and Wuxi in Jiangsu Province, which will serve areas in the northeastern and eastern China by providing fine quality plastic processing services.

Audio Products

In 2001, strategic restructuring was conducted in the Group's audio business. Considerable obsolete inventories had been disposed of at price below cost and proper provisions had been made and hence additional losses were resulted. Furthermore, both sales volume and profit decreased due to the fact that customers were generally taking a hesitated attitude.

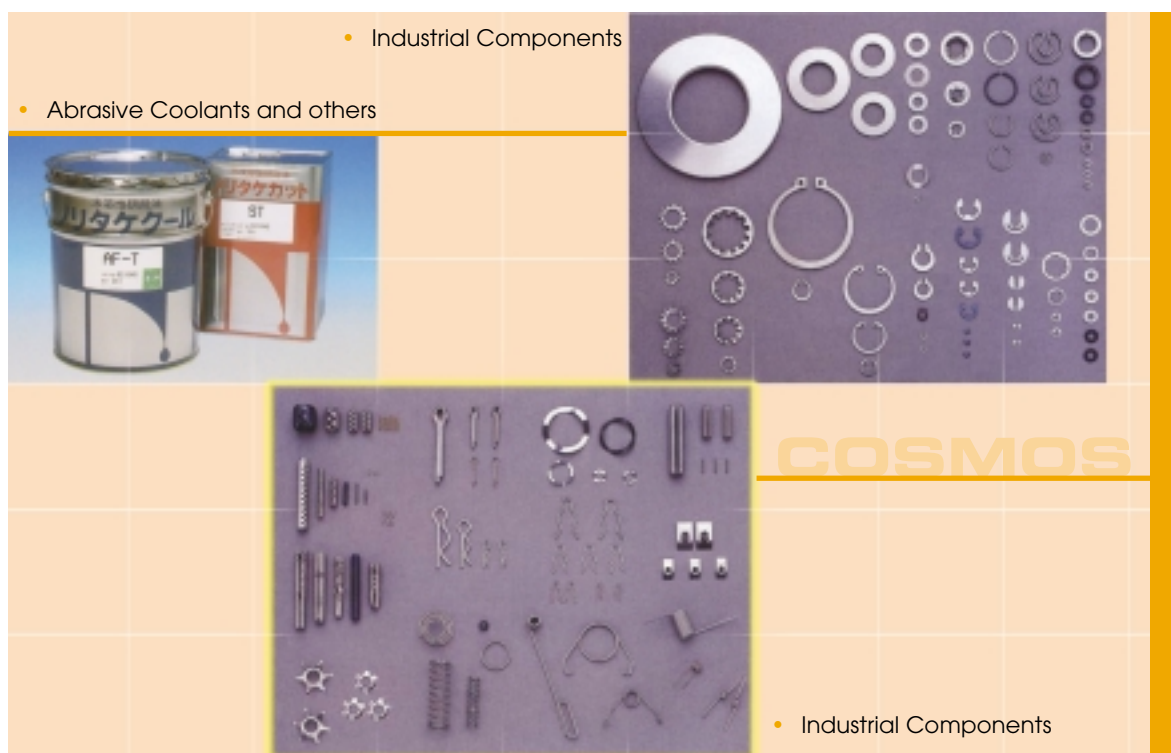
In the year under review, for the purpose of upgrading corporate quality, we underwent a structural reorganization, which involved management reshuffle. Slight increases in administration expenses had been resulted. Nevertheless, we believe a high quality management can boost operating efficiency and thus forge satisfactory return to shareholders in the future.



Conditions in the electronic markets have always been changing dynamically. Pressure will quickly mount on product demand once new technology or even new ancillary equipment launched. Operation problems will easily emerge especially when market demand becomes sluggish. Marketing strategy in the form of price competition is often needed to avoid cumulation of inventory and to discard the old and create novelty. Accordingly, a balance between the inventory level and cost must be struck to maintain competitiveness. It is expected that, after the business reorganization, market trends will be more closely projected and monitored while strengthening the internal corporate management. Brand new products will be launched from time to time. With the objective to improve the audio product business of the Group, strategic combinations of products should be able to meet the needs of different customers.

Printed Circuit Board Business

In the year of 2001, both sales volume and profit of printed circuit board business have not reach the anticipated targets. Owing to depression in the electronic sector, demand of printed circuit board was hit. In addition, as Gainbase Industrial Limited, which produced printed circuit board under the Group, was relocated to a newly built plant, expenditure has been increased accordingly. Profit of the Group was affected as a whole. However, the Group is convinced that, following the market recovery in 2002, the adequate utilization of facilities in the new plant, business input of large value added multi-layer printed circuit board, the Group's printed circuit board business will certainly develop in a steady tempo and reasonable return for the Group could be expected.



Trading Sector

In the year of 2001, the management conducted assets rationalization by sorting out non-performing assets. Bigger losses due to termination of machinery trading business in Guangzhou, China led to increased write-off of bad debts and provisions for doubtful debts and inventories. Trading business was further hit by customers' determination to reduce cost, increasing emphasis on knowledge of distributing channels than they used to be as well as enormous information provided by the Internet.

It is expected that industrial hardware, components and materials will remain as major trading products. With the accession to the WTO, China's economic growth will bring opportunity for taking in new customers. As a foreign venture, we anticipate that China will encourage import and export business by imposing low tax rates, which should improve business environment. At the same time, we do not underestimate the increasingly severe market competition and strict request for product quality. In order to understand market needs more quickly, the Group will actively participate in exhibitions, make use of trade magazines and information technology such as Internet effectively. Systematic analysis of different market needs will be carried out. Plans of building logistic centers in China to shorten flows of goods and reduce operation costs are underway.

Prospect

In the year ahead, manufacturing will still be the major business of the Group, of which the industrial machinery production, plastic products and plastic processing will continue to serve as the major sources of profit. While rationalizing trade business, the Group will act with caution on market needs and invest in the plastic and machinery business in a systematic way aiming at enhancing competitiveness of the Group. At the same time, the Group will broadly recruit professionals in China to enhance management of domestic business. Members of senior management of the Group will be added to ensure that the business strategy of the Group will be implemented effectively.



Contract signing ceremony of Grand and UBE

Directors and Senior Management

Executive Directors

Mr. Tang To, aged 53, Chairman of the Company, has served on the Board of Directors since the listing of the Company in 1988. He was appointed as an Executive Director and Chairman of the Company on 18th September, 1997 following resignation as a Non-Executive Director on the same date. Mr. Tang has over 28 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.

Ms. Zhou Junqing, aged 49, holds a Bachelor degree in Wireless Technology from Chinghua University. Ms. Zhou joined the China Resources Group in 1986. She is the Deputy Managing Director of China Resources Machinery and Minmetals (Holdings) Co., Ltd. She has over 10 years' experience in international trade and investment management.

Mr. Wong Yiu Ming, aged 48, has more than 18 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.

Non-executive Directors

Mr. Tang Kwan, aged 78, 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 Non-Executive Director and Honorary Chairman on 18th September, 1997 following resignation as an Executive Director on the same date.

Mr. Wu Jun, aged 40, Vice-Chairman of the Company, holds a Master degree in Machinery Design and Manufacturing as well as a Master degree in Business Administration from the University of San Francisco in the U.S.. Mr. Wu joined the China Resources Group in 1986. He has over 10 years' experience in international trade and administration. He is the Managing Director of China Resources Machinery and Minmetals (Holdings) Co., Ltd.

Mr. Liang Shangli, aged 82, 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 a 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 68, is a registered optometrist in Hong Kong. Mr. Yip is 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, the Vice President of the Hong Kong Eye Foundation Limited and is also a director and one of the founders of the Hong Kong Society for the Prevention of Blindness. Mr. Yip was appointed as an Independent Non-Executive Director of the Company in August 1994.

Mr. Kan Wai Wah, aged 44, is an Executive Director and General Manager of Treasure Restaurant Company Limited. He has over 15 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. Won Sau Yan, aged 63, joined the Group in 1959. Mr. Won resigned as an Executive Director of the Company and was appointed as Adviser to the Board on 20th January, 2000. He has over 35 years of experience in machinery manufacturing and trading businesses.

Mr. Ho Kwong Sang, aged 46, joined Welltec in 1981, 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 from the University of Wolverhampton, U.K.. He is an Associate Member of the Hong Kong Society of Accountants and a Fellow Member of the Hong Kong Institute of Company Secretaries.

Mr. Ma Kei Fat, 61 years old, has obtained a university degree in 1963. He has 18 years of experience in international trading of machinery and investment management and is familiar with the economy and law of China. He is presently the Assistant General Manager of the Company.

Mr. So Kar Lun, aged 48, 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 Welltec.

Mr. Wan Ming Sang, aged 57, 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 54, 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 General Manager of Glory Horse Industries Limited, which is engaged in the manufacture of electronic products.

Directors and Senior Management

Mr. Chan Kwok Hing, aged 56, joined the Group in 1975. He holds a Higher Diploma in Production Engineering. Mr. Chan is the General Manager of a subsidiary which is engaged in the manufacture of optical instruments.

Mr. Yip Kar Shun, aged 55, 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.

Mr. Cheng Tak Yin, aged 63, 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. Chu Yuen Chong, aged 48, joined the Group in 1994. He has over 20 years of experience in machinery production and management. Mr. Chu is the General Manager of a subsidiary which is engaged in the manufacture of injection moulding machines.

Mr. Chick Wing Kay, aged 42, has more than 18 years of experience in the mechanical and control system design of injection moulding machine. Mr. Chick holds a Bachelor of Science degree and a Master of Science degree in Mechanical Engineering. He is currently the Deputy General Manager of Welltec Industrial Equipment Limited and is the General Manager of Dong Hua Machinery Limited.

Mr. Li Sik Hong, aged 41, has more than 18 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.

Mr. Li Tin Loi, aged 38, 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 15 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.

The directors have pleasure in presenting their annual report and the audited financial statements of the Company for the year ended 31st December, 2001.

Principal Activities

The Company acts as an investment holding company. The principal activities of its principal subsidiaries are set out in note 41 to the financial statements.

Results

The results of the Group for the year ended 31st December, 2001 are set out in the consolidated income statement on page 28 of the annual report.

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

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.

Investment Properties and Property, Plant and Equipment

The investment properties and leasehold land and buildings of the Group were revalued on 31st December, 2001. The resulting deficit arising on revaluation of these properties attributable to the Group has been charged to the consolidated income statement and the asset revaluation reserve.

During the year, the Group spent, in aggregate, approximately HK\$99 million on the acquisition of property, plant and equipment for the purpose of expanding the Group's business.

Details of these and other movements in investment properties and property, plant and equipment of the Group and of the Company during the year are set out in notes 12 and 13 to the financial statements, respectively.

Share Capital and Warrants

Details of the movements in the share capital and warrants of the Company during the year are set out in notes 25 and 26 to the financial statements, respectively.

Share Options 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, invites 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.

As at 31st December, 2001, the number of shares in respect of which options had been granted under the Scheme was 12,200,000, representing 1.9 per cent. of the shares of the Company in issue at that date. No option might be granted to any one employee which if exercised in full would result in the total number of shares of the Company already issued and issuable to him under all the options previously granted to him and the said option exceeding 25 per cent. of the maximum aggregate number of shares in the capital of the Company in respect of which options might at the time be granted under the Scheme.

A consideration of HK\$1.00 was payable on the grant of an option. Option granted must be taken up within 28 days from the date of grant. Options would be exercised during the twenty one months commencing on the expiry of three months after the date on which the option is accepted, and shall expire at the end of the two years period or 19th July, 2003, whichever is earlier. The exercise price will not be less than the higher of the average of the closing prices of the Company's issued shares on the five trading days immediately preceding the date of offer of the options or the nominal value of the shares of the Company.

The fair value of the options granted in the year ended 31st December, 2001 totalled approximately HK\$2,232,600. The following significant assumptions were used to derive the fair values using the Black-Scholes option pricing model:

1. an expected volatility of 63.68% based on historical volatility;
2. no annual dividend; and
3. the Hong Kong Exchange Fund Notes rates of 4.28% for a 2 year period.

The Black-Scholes option pricing model requires the input of highly subjective assumptions, including the volatility of share price. Because changes in subjective input assumptions can materially affect the fair value estimate, in the directors' opinion, the existing model does not necessarily provide a reliable single measure of the fair value of the share options.

Share Option Scheme (continued)

No charge is recognised in the income statement in respect of the value of options granted in the period.

The following table discloses movements in the Company's share options during the year:

Name	Outstanding as at 1.1.2001	Granted during the year	Exercised during the year	Exercise price	Outstanding as at 31.12.2001
Mr. Tang To	-	2,100,000	-	0.41	2,100,000
Mr. Wong Yiu Ming	-	1,500,000	-	0.41	1,500,000
Aggregate total of employees	-	8,600,000	-	0.41	8,600,000

The closing price of the Company's share immediately before 23rd June, 2001, the date of grant, was HK\$0.43.

The option period during which the above share options may be exercised is the period from 21st October, 2001 to 19th July, 2003.

Directors

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

Executive directors:

Mr. Tang To, *Chairman*
Mr. Wong Yiu Ming
Ms. Zhou Junqing

Non-executive directors:

Mr. Tang Kwan, *Honorary Chairman*
Mr. Wu Jun, *Vice Chairman*
Mr. Kan Wai Wah

Independent non-executive directors:

Mr. Liang Shangli
Mr. Yip Jeffery

In accordance with Article 103 of the Company's Articles of Association, Mr. Tang Kwan, Ms. Zhou Junqing and Mr. Wu Jun 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).

Report of the Directors

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.

Directors' and Chief Executive's Interests in Shares, Options and Warrants

As at 31st December, 2001, according to the register required to be maintained under section 29 of the Securities (Disclosure of Interests) Ordinance ("SDI Ordinance"), the interests of directors, chief executive and their associates in the share capital of the Company (within the meaning of the SDI Ordinance) were as follows:

(i) Interests in shares of the Company

Name of director	Number of shares held			
	Personal interests	Family interests	Corporate interests	Other interests
Mr. Tang To	2,700,000		3,145,824 (Note 1)	
Mr. Wong Yiu Ming	8,814,611		-	-
Ms. Zhou Junqing	-	20,000	-	-
Mr. Tang Kwan	-	-	270,086,411 (Note 2)	-
Mr. Kan Wai Wah	124,000	-	-	-

Notes:

- (1) As at the Latest Practicable Date, 3,145,824 Shares were held by Ginta Company Limited ("Ginta") which is beneficially owned as to 10% by the spouse of Mr. Tang To and 90% by a company which in turn is owned as to 50% by Mr. Tang To and 50% by his spouse.
- (2) Mr. Tang Kwan is deemed to be interested in the block of 270,086,411 Shares under the SDI Ordinance through his beneficial interests in Codo Development Limited ("Codo"). As at the Latest Practicable Date, Codo through its wholly owned subsidiary, Cosmos Machinery (Holdings) Limited ("Cosmos Holdings"), a substantial shareholder of the Company, was the beneficial owner of 270,086,411 Shares. Codo is incorporated in Hong Kong and is owned as to (i) 25.06% by Keepsound Investments Limited ("Keepsound"), a Hong Kong company controlled by The Saniwell Trust, a trust established for the benefit of Mr. Tang Kwan's family, (ii) 8.37% by Elegant Power Enterprises Limited ("Elegant Power"), (iii) 30.25% by Friendchain Investments Limited ("Friendchain"), a Hong Kong company controlled as to 40% by Elegant Power, as to 57.42% by The Saniwell Trust and as to 2.58% by Fullwin Limited, (iv) 16.09% by Yik Wan Company Limited ("Yik Wan"), and (v) 20.23% by 7 individuals.

Directors' and Chief Executive's Interests in Shares, Options and Warrants (continued)

(ii) Interests in options to subscribe for Shares

Name of Directors	Number of share options granted during the year	Number of share options exercised during the year	Number of share options outstanding as at 31st December, 2001	Exercise price	Exercise period of share options
Mr. Tang To	2,100,000	—	2,100,000	0.41	21.10.01 to 19.07.03
Mr. Wong Yiu Ming	1,500,000	—	1,500,000	0.41	21.10.01 to 19.07.03

(iii) Interests in warrants of the Company (the "Warrants")

Name of Directors	Number of Warrants
Mr. Tang To (<i>Note 1</i>)	1,169,164
Mr. Wong Yiu Ming	1,762,922
Ms. Zhou Junqing	4,000
Mr. Tang Kwan (<i>Note 2</i>)	54,017,282
Mr. Kan Wai Wah	24,800

Notes:

- The 1,169,164 Warrants are beneficially owned as to 629,164 Warrants by Ginta and as to 540,000 Warrants by Mr. Tang To. Mr. Tang To is deemed to be beneficially interested in the whole block of 1,169,164 Warrants by virtue of his interest in Ginta.
- The 54,017,282 Warrants are beneficially owned as to 22,503,600 Warrants by Cosmos Holdings, as to 585,600 Warrants by Mr. Tang Kwan and as to 30,928,082 Warrants by Tai Shing Agencies Limited ("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.

Report of the Directors

Substantial Shareholders

Other than the interests disclosed above in respect of certain directors and their associates, details of the interests representing 10% or more of the issued share capital of the Company as at 31st December, 2001 recorded in the register of substantial shareholders maintained by the Company pursuant to section 16(1) of the SDI Ordinance are as follows:-

Name of shareholder	Number of shares held		Percentage of issued share capital
	Direct interest	Deemed interest	
Cosmos Holdings	115,446,000	154,640,411 (Note 1)	42.15
Ms. Law Kit Fong	-	270,086,411 (Note 2)	42.15
China Resources (Holdings) Company Limited ("CRC")	148,576,081	5,650,325 (Note 3)	24.07

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 beneficial interests in Codo. As at the Latest Practicable Date, Codo through its wholly owned subsidiary, Cosmos Holdings, was the beneficial owner of 270,086,411 Shares. Codo is a Hong Kong company and is owned as to (i) 25.06% by Keepsound, a Hong Kong company controlled by The Saniwell Trust, (ii) 8.37% by Elegant Power, a company controlled by Ms. Law Kit Fong; (iii) 30.25% by Friendchain, a Hong Kong company controlled as to 40% by Elegant Power; (iv) 16.09% by Yik Wan, a Hong Kong company in which Ms. Law Kit Fong's late spouse, Mr. Kan Woon Cheung, had 14.29% beneficial holding, and (v) 20.23% by 7 individuals.
- (3) CRC is interested in 5,650,325 Shares through its subsidiary, China Resources Machinery Company Limited.

Save as disclosed above, the Company has not been notified of any other interests representing 10% or more of the issued share capital of the Company as at 31st December, 2001.

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.

Directors' 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 of the Company to acquire benefits by means of the acquisition of shares in or debt securities, including debentures, of the Company or any other body corporate; and none of the directors, their spouses or children under the age of 18, had any right to subscribe for the securities of the Company, or had exercised any such rights.

Post Balance Sheet Events

Details of significant post balance sheet events are set out in note 42 to the financial statements.

Employees and Remuneration Policy

As at 31st December, 2001, the Group has approximately 6,000 employees (2000: approximately 7,000), remunerations were formulated in accordance with market trends and performance of employees. Benefits have included schemes of insurance, retirement, share option and so on.

Purchase, Sale or Redemption of the Company's Listed Securities

There was no purchase, sale or redemption of the Company's listed securities by the Company or any of its subsidiaries during the year.

Audit Committee

The Company has an audit committee which was established in accordance with the requirements of the Code of Best Practice, for the purposes of reviewing and providing supervision over the Group's financial reporting process and internal controls. The audit committee comprises the two independent non-executive Directors.

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 Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") except that 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 the Company's Articles of Association.

Joint Auditors

A resolution will be submitted to the annual general meeting of the Company to re-appoint Messrs. Deloitte Touche Tohmatsu and Messrs. Ting Ho Kwan & Chan as joint auditors.

On behalf of the Board

TANG To

Chairman

Hong Kong, 23rd April, 2002

DELOITTE TOUCHE TOHMATSU
Certified Public Accountants
26th Floor, Wing On Centre
111 Connaught Road Central
Hong Kong

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

Hong Kong, 23rd April, 2002

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 28 to 82 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

Respective responsibilities of directors and auditors

The 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.

It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

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 judgments 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, 2001 and of the loss and cash flows of the Group for the year then ended and have been properly prepared in accordance with the Companies Ordinance.

DELOITTE TOUCHE TOHMATSU
Certified Public Accountants

TING HO KWAN & CHAN
Certified Public Accountants

Consolidated Income Statement

For the year ended 31st December, 2001

	Notes	2001 HK\$	2000 HK\$ (As restated)
Turnover		1,294,746,794	1,622,795,787
Cost of sales	5	<u>(1,057,917,955)</u>	<u>(1,283,307,105)</u>
Gross profit		236,828,839	339,488,682
Other revenue		37,922,342	38,213,972
Distribution costs		(87,319,108)	(122,322,535)
Administrative expenses		(213,555,080)	(184,745,736)
Other operating expenses		(7,603,213)	(5,221,979)
Allowance for bad and doubtful debts		<u>(41,184,726)</u>	<u>(29,280,471)</u>
(Loss) profit from operations	6	(74,910,946)	36,131,933
Finance costs	7	(24,222,026)	(24,288,729)
Investment income	8	602,125	1,012,479
Gain on disposal of subsidiaries		5,301,123	5,917,433
(Loss) gain on disposal of associates		(615,174)	640,392
Share of results of associates		<u>14,407,053</u>	<u>9,083,425</u>
(Loss) profit before taxation		(79,437,845)	28,496,933
Taxation	10	<u>7,751,293</u>	<u>11,392,182</u>
(Loss) profit before minority interests		(87,189,138)	17,104,751
Minority interests		<u>1,939,232</u>	<u>10,789,545</u>
Net (loss) profit for the year		<u><u>(89,128,370)</u></u>	<u><u>6,315,206</u></u>
(Loss) earnings per share – basic	11	<u><u>(13.91) cents</u></u>	<u><u>0.99 cent</u></u>

Consolidated Balance Sheet

At 31st December, 2001

	Notes	2001 HK\$	2000 HK\$ (As restated)
Non-current Assets			
Investment properties	12	24,400,000	12,050,000
Property, plant and equipment	13	442,085,553	429,906,239
Goodwill	14	3,824,969	5,971,259
Negative goodwill	15	(1,061,831)	(7,487,265)
Interests in associates	17	59,539,404	62,546,707
Investments in securities	18	12,115,611	16,585,747
Loans to investee companies	19	-	460,622
		<u>540,903,706</u>	<u>520,033,309</u>
Current Assets			
Inventories	20	383,592,006	486,784,161
Trade and other receivables	21	409,003,144	544,198,771
Bills receivable		4,045,011	2,132,902
Tax recoverable		2,357,404	1,871,651
Pledged bank deposits		1,106,709	1,871,697
Bank balances and cash		54,061,121	88,966,542
		<u>854,165,395</u>	<u>1,125,825,724</u>
Current Liabilities			
Trade and other payables	22	374,306,806	493,534,865
Bills payable		63,527,564	108,742,355
Amounts due to associates		579,491	1,423,081
Tax payable		3,374,234	8,599,257
Borrowings – due within one year	23	179,080,141	169,390,078
Obligations under finance leases and hire purchase contracts – due within one year	24	7,800,576	11,085,740
Bank overdrafts		23,603,157	28,153,515
		<u>652,271,969</u>	<u>820,928,891</u>
Net Current Assets		<u>201,893,426</u>	<u>304,896,833</u>
		<u>742,797,132</u>	<u>824,930,142</u>

Consolidated Balance Sheet

At 31st December, 2001

	Notes	2001 HK\$	2000 HK\$ (As restated)
Capital and Reserves			
Share capital	25	256,335,294	256,332,574
Reserves	28	323,518,457	414,848,267
		<u>579,853,751</u>	<u>671,180,841</u>
Minority Interests		<u>142,027,007</u>	<u>144,895,764</u>
Non-current Liabilities			
Borrowings – due after one year	23	12,393,960	2,448,222
Obligations under finance leases and hire purchase contracts – due after one year	24	8,278,133	6,219,390
Deferred taxation	29	244,281	185,925
		<u>20,916,374</u>	<u>8,853,537</u>
		<u>742,797,132</u>	<u>824,930,142</u>

The financial statements on pages 28 to 82 were approved and authorised for issue by the Board of Directors on 23rd April, 2002 and are signed on its behalf by:

TANG To
Director

WONG Yiu Ming
Director

Balance Sheet

At 31st December, 2001

	Notes	2001 HK\$	2000 HK\$
Non-current Assets			
Property, plant and equipment	13	5,526,935	5,768,397
Interests in subsidiaries	16	638,676,825	608,962,622
Interests in associates	17	2,538,401	3,825,713
Investments in securities	18	4,581,794	4,579,439
		<u>651,323,955</u>	<u>623,136,171</u>
Current Assets			
Trade and other receivables		5,703,383	1,114,112
Dividends receivable from subsidiaries		-	39,659,020
Tax recoverable		1,149,335	1,149,335
Bank balances and cash		72,201	336,619
		<u>6,924,919</u>	<u>42,259,086</u>
Current Liabilities			
Trade and other payables		3,146,670	2,045,564
Amounts due to subsidiaries		9,201,801	24,018,587
Amount due to an associate		357,707	147,262
Borrowings – due within one year	23	10,000,000	10,000,000
Bank overdrafts		10,287,318	8,624,841
		<u>32,993,496</u>	<u>44,836,254</u>
Net Current Liabilities		<u>(26,068,577)</u>	<u>(2,577,168)</u>
		<u>625,255,378</u>	<u>620,559,003</u>
Capital and Reserves			
Share capital	25	256,335,294	256,332,574
Reserves	28	368,920,084	364,226,429
		<u>625,255,378</u>	<u>620,559,003</u>

TANG To
Director

WONG Yiu Ming
Director

Consolidated Statement of Recognised Gains and Losses

For the year ended 31st December, 2001

	2001 HK\$	2000 HK\$
Exchange differences arising from translation of overseas operations	3,683,555	(8,598,691)
Revaluation (deficit) surplus arising from revaluation of leasehold land and buildings	<u>(5,911,454)</u>	<u>5,961,003</u>
Net loss not recognised in the consolidated income statement	(2,227,899)	(2,637,688)
Net (loss) profit for the year	<u>(89,128,370)</u>	<u>6,315,206</u>
Net recognised (losses) gains for the year	<u><u>(91,356,269)</u></u>	<u><u>3,677,518</u></u>
Prior period adjustments arising from the effects of changes in accounting policies (Note 2)		
- increase in retained profits at 1st January, 2000		7,479,750
- decrease in capital reserve at 1st January, 2000		<u>(11,468,789)</u>
		<u><u>(3,989,039)</u></u>

Consolidated Cash Flow Statement

For the year ended 31st December, 2001

	Notes	2001 HK\$	2000 HK\$
NET CASH INFLOW FROM OPERATING ACTIVITIES	30	65,267,868	66,824,626
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE			
Interest paid		(23,349,644)	(22,430,626)
Dividends paid to minority shareholders of subsidiaries		(9,215,735)	(5,371,503)
Finance charges paid		(872,382)	(1,858,103)
Interest received		1,437,509	2,698,308
Dividends received from investments in securities		838,068	379,611
Dividends received from associates		-	1,742,361
NET CASH OUTFLOW FROM RETURNS ON INVESTMENTS AND SERVICING OF FINANCE		(31,162,184)	(24,839,952)
TAXATION			
Tax outside Hong Kong paid		(8,316,593)	(5,068,521)
Hong Kong Profits Tax paid		(3,432,936)	(3,761,384)
		(11,749,529)	(8,829,905)
INVESTING ACTIVITIES			
Purchase of property, plant and equipment		(88,128,158)	(50,872,750)
Acquisition of associates		(4,800,000)	(2,029,355)
Acquisition of additional shareholding in subsidiaries from minority shareholders		(3,428,749)	(6,179,757)
Acquisition of investments in securities		(354,531)	(5,552,403)
Amounts repaid by (advanced to) associates		19,056,093	(2,251,131)
Proceeds from disposal of property, plant and equipment		10,619,577	5,941,435
Proceeds from disposal of investments in securities		3,151,215	-
Proceeds from disposal of associates		1,853,079	564,469
Proceeds from disposal of subsidiaries (net of cash and cash equivalents)	32	1,426,523	11,183,411
Decrease in pledged bank deposits		764,988	739,593
Amounts repaid by investee companies		460,622	3,044,596
NET CASH OUTFLOW FROM INVESTING ACTIVITIES		(59,379,341)	(45,411,892)
NET CASH OUTFLOW BEFORE FINANCING		(37,023,186)	(12,257,123)

Consolidated Cash Flow Statement

For the year ended 31st December, 2001

	Notes	2001 HK\$	2000 HK\$
FINANCING	33		
Bank loans raised		45,278,006	205,375,745
Capital contributed by minority shareholders of subsidiaries		3,132,467	2,161,664
Proceeds from issue of shares		2,720	4,944,896
Repayment of bank loans		(27,136,967)	(209,212,861)
Repayment of obligations under finance leases and hire purchase contracts		(12,332,738)	(12,383,192)
Amounts repaid to associates		(843,590)	(8,920,675)
Repayment of other loans		(810,697)	(124,873)
Other loans raised		-	92,764
		<u>7,289,201</u>	<u>(18,066,532)</u>
NET CASH INFLOW (OUTFLOW) FROM FINANCING			
		<u>7,289,201</u>	<u>(18,066,532)</u>
DECREASE IN CASH AND CASH EQUIVALENTS		(29,733,985)	(30,323,655)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		60,813,027	94,414,963
EFFECT OF FOREIGN EXCHANGE RATE CHANGES		(621,078)	(3,278,281)
		<u>(621,078)</u>	<u>(3,278,281)</u>
CASH AND CASH EQUIVALENTS AT END OF THE YEAR		<u>30,457,964</u>	<u>60,813,027</u>
ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS			
Bank balances and cash		54,061,121	88,966,542
Bank overdrafts		(23,603,157)	(28,153,515)
		<u>30,457,964</u>	<u>60,813,027</u>

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 41.

2. ADOPTION OF STATEMENTS OF STANDARD ACCOUNTING PRACTICE/CHANGES IN ACCOUNTING POLICIES

In the current year, the Group has adopted for the first time a number of new and revised Statements of Standard Accounting Practice ("SSAP(s)") issued by the Hong Kong Society of Accountants. Adoption of these SSAPs has led to a number of changes in the Group's accounting policies. The revised accounting policies are set out in note 3. In addition, the new and revised SSAPs have introduced additional and revised disclosure requirements which have been adopted in these financial statements. Comparative amounts for the prior year have been restated in order to achieve a consistent presentation.

The adoption of these new and revised SSAPs has resulted in the following changes to the Group's accounting policies that have affected the amounts reported for the current or prior periods.

Leases

SSAP 14 (Revised) "Leases" has introduced some amendments to the basis of accounting for finance and operating leases, and to the disclosures specified for the Group's leasing arrangements. These changes have not had any effect on the results for the current or prior accounting periods and, accordingly, no prior period adjustment has been required. Disclosures for the Group's leasing arrangements have been modified so as to comply with the requirements of SSAP 14 (Revised). Comparative amounts have been restated in order to achieve a consistent presentation.

Segment reporting

In the current year, the Group has changed the basis of identification of reportable segments to that required by SSAP 26 "Segment Reporting". Segment disclosures for the year ended 31st December, 2000 have been amended so that they are presented on a consistent basis.

Notes to the Financial Statements

For the year ended 31st December, 2001

2. ADOPTION OF STATEMENTS OF STANDARD ACCOUNTING PRACTICE/CHANGES IN ACCOUNTING POLICIES (continued)

Goodwill

In the current year, the Group has adopted SSAP 30 "Business Combinations" and has elected to restate goodwill and negative goodwill previously eliminated against or credited to reserves. Accordingly, the amount of such goodwill and negative goodwill has been remeasured in accordance with the requirements of SSAP 30. Accumulated amortisation in respect of goodwill between the date of acquisition of the relevant subsidiary or associate and the date of adoption of SSAP 30 has been recognised retrospectively. Negative goodwill which would have been recognised as income between the date of acquisition of the relevant subsidiary or associate and the date of adoption of SSAP 30 has been recognised retrospectively. Following restatement, goodwill is presented as an asset in the balance sheet and negative goodwill is presented as a deduction from assets. Goodwill is amortised over its estimated useful life. Negative goodwill will be released to income based on an analysis of the circumstances from which the balance resulted.

The financial effect of the adoption of the new/revised accounting policies described above is summarised below:

	Capital reserve HK\$	Retained profits HK\$	Total HK\$
Balance at 1st January, 2000			
As previously stated	11,468,789	93,304,206	104,772,995
Restatement as an asset of goodwill held in reserves with retrospective recognition of accumulated amortisation	20,659,053	(11,251,563)	9,407,490
Restatement of negative goodwill held in reserves with retrospective release to other revenue	(32,127,842)	18,731,313	(13,396,529)
As restated	<u> -</u>	<u>100,783,956</u>	<u>100,783,956</u>

Notes to the Financial Statements

For the year ended 31st December, 2001

2. ADOPTION OF STATEMENTS OF STANDARD ACCOUNTING PRACTICE/CHANGES IN ACCOUNTING POLICIES (continued)

Goodwill (continued)

The effect of these changes in accounting policies on the results of the current and prior periods is as follows:

	2001 HK\$	2000 HK\$
Release of negative goodwill to other revenue	6,425,434	6,425,432
Amortisation of goodwill	(5,541,778)	(4,305,706)
	<u>883,656</u>	<u>2,119,726</u>

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. 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.

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 or an associate at the date of acquisition.

Goodwill is capitalised and amortised on a straight-line basis over its useful economic life. Goodwill arising on the acquisition of an associate is included within the carrying amount of the associate. Goodwill arising on the acquisition of subsidiaries is presented separately in the balance sheet.

Notes to the Financial Statements

For the year ended 31st December, 2001

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Goodwill (continued)

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

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 and is released to income based on an analysis of the circumstances from which the balance resulted.

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 that 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 or 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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment (continued)

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.

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 a revalued amount under another SSAP, in which case the impairment loss is treated as 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.

Investment properties

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

Notes to the Financial Statements

For the year ended 31st December, 2001

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Investment properties (continued)

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 are transferred to the appropriate categories of property, plant and equipment.

Investments in subsidiaries

Investments 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

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 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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments in securities

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

Investments other than held-to-maturity debt securities are classified as investment securities or other investments.

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.

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 outstanding and at the interest rate applicable.

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

Notes to the Financial Statements

For the year ended 31st December, 2001

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Depreciation and amortisation

Depreciation and amortisation is provided to write off the cost or valuation of items of property, plant and equipment, other than properties under construction, 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.

Taxation

The charge for taxation is based on the results for the year as adjusted for items which are non-assessable or disallowed. Timing differences arise from the recognition for tax purposes of certain items of income and expense in a different accounting period from that in which they are recognised in the financial statements. The tax effect of timing differences, computed using the liability method, is recognised as deferred taxation in the financial statements to the extent that it is probable that a liability or an asset will crystallise in the foreseeable future.

Retirement benefits schemes

The retirement benefit costs charged in the income statement represent the contributions payable in respect of the current year to the Group's defined contribution retirement benefits schemes and Mandatory Provident Fund Scheme.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currencies

Transactions in foreign currencies are translated at the rates ruling on the dates of the transactions or at the contracted settlement rate. Monetary assets and liabilities denominated in foreign currencies are re-translated at the rates ruling on the balance sheet date. Profits and losses arising on exchange are dealt with in the income statement.

In preparing consolidated financial statements, the financial statements of subsidiaries which are denominated in currencies other than Hong Kong dollars are translated at the rates ruling on the balance sheet date. All exchange differences arising on consolidation are dealt with in the translation reserve.

Notes to the Financial Statements

For the year ended 31st December, 2001

4. BUSINESS AND GEOGRAPHICAL SEGMENTS

Business segments

For management purposes, the Group is currently organised into five operating divisions – trading of industrial consumables, manufacturing of plastic processing/products, manufacturing of industrial machinery, manufacturing of electronic products and manufacturing 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:

2001

	Industrial consumables	Plastic processing/ products	Industrial machinery	Electronic products	Printed circuit boards	Other operations	Eliminations	Consolidated
	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$
TURNOVER								
External sales	210,392,056	190,742,658	445,715,725	254,664,876	170,556,522	22,674,957	-	1,294,746,794
Inter-segment sales	3,483,059	27,152,085	11,276,928	-	-	-	(41,912,072)	-
Total revenue	<u>213,875,115</u>	<u>217,894,743</u>	<u>456,992,653</u>	<u>254,664,876</u>	<u>170,556,522</u>	<u>22,674,957</u>	<u>(41,912,072)</u>	<u>1,294,746,794</u>

Inter-segment sales are charged at prevailing market rates.

RESULT

Segment result	<u>(25,838,440)</u>	<u>26,091,830</u>	<u>(20,127,230)</u>	<u>(18,743,312)</u>	<u>(420,575)</u>	<u>(21,737,975)</u>	<u>13,708,003</u>	<u>(47,067,699)</u>
Unallocated corporate expenses								<u>(27,843,247)</u>
Loss from operations								(74,910,946)
Finance costs								(24,222,026)
Investment income								602,125
Gain on disposal of subsidiaries								5,301,123
Loss on disposal of associates								(615,174)
Share of results of associates								<u>14,407,053</u>
Loss before taxation								(79,437,845)
Taxation								<u>7,751,293</u>
Loss before minority interests								<u>(87,189,138)</u>

Notes to the Financial Statements

For the year ended 31st December, 2001

4. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

Business segments (continued)

BALANCE SHEET

	Industrial consumables	Plastic processing/ products	Industrial machinery	Electronic products	Printed circuit boards	Other operations	Consolidated
	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$
ASSETS							
Segment assets	108,688,165	174,262,386	745,605,686	115,978,212	109,315,269	55,979,521	1,309,829,239
Interests in associates			6,389,314			53,150,090	59,539,404
Investments in securities						12,115,611	12,115,611
Unallocated corporate assets							13,584,847
Consolidated total assets							<u>1,395,069,101</u>
LIABILITIES							
Segment liabilities	55,376,032	18,876,468	250,073,755	68,708,722	46,942,842	8,247,504	448,225,323
Unallocated corporate liabilities							<u>224,963,020</u>
Consolidated total liabilities							<u>673,188,343</u>
OTHER INFORMATION							
Capital additions	2,291,403	20,197,971	30,798,636	8,580,916	36,580,008	734,227	99,183,161
Depreciation and amortisation	2,116,663	17,971,001	19,324,010	10,848,921	7,129,705	2,977,533	60,367,833

Notes to the Financial Statements

For the year ended 31st December, 2001

4. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

Business segments (continued)

2000

	Industrial consumables	Plastic processing/ products	Industrial machinery	Electronic products	Printed circuit boards	Other operations	Eliminations	Consolidated
	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$
TURNOVER								
External sales	314,602,361	203,146,533	533,951,739	323,937,807	204,470,879	42,686,468	-	1,622,795,787
Inter-segment sales	4,250,289	36,087,669	15,447,339	-	-	-	(55,785,297)	-
Total revenue	<u>318,852,650</u>	<u>239,234,202</u>	<u>549,399,078</u>	<u>323,937,807</u>	<u>204,470,879</u>	<u>42,686,468</u>	<u>(55,785,297)</u>	<u>1,622,795,787</u>

Inter-segment sales are charged at prevailing market rates.

RESULT

Segment result	<u>(9,181,011)</u>	<u>23,075,351</u>	<u>44,971,241</u>	<u>(5,393,685)</u>	<u>7,253,163</u>	<u>(7,865,135)</u>	<u>4,967,136</u>	57,827,060
Unallocated corporate expenses								<u>(21,695,127)</u>
Profit from operations								36,131,933
Finance costs								(24,288,729)
Investment income								1,012,479
Gain on disposal of subsidiaries								5,917,433
Gain on disposal of associates								640,392
Share of results of associates								<u>9,083,425</u>
Profit before taxation								28,496,933
Taxation								<u>11,392,182</u>
Profit before minority interests								<u>17,104,751</u>

Notes to the Financial Statements

For the year ended 31st December, 2001

4. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

Business segments (continued)

BALANCE SHEET

	Industrial consumables	Plastic processing/ products	Industrial machinery	Electronic products	Printed circuit boards	Other operations	Consolidated
	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$
ASSETS							
Segment assets	168,972,933	188,224,957	826,048,066	167,418,391	118,761,072	87,446,333	1,556,871,752
Interests in associates	5,423,229					57,123,478	62,546,707
Investments in securities						16,585,747	16,585,747
Unallocated corporate assets							9,854,827
Consolidated total assets							<u>1,645,859,033</u>
LIABILITIES							
Segment liabilities	87,470,223	44,864,986	289,587,703	107,431,174	75,015,478	16,666,585	621,036,149
Unallocated corporate liabilities							<u>208,746,279</u>
Consolidated total liabilities							<u>829,782,428</u>
OTHER INFORMATION							
Capital additions	6,633,818	11,029,598	26,777,608	5,564,518	4,356,769	1,946,543	56,308,854
Depreciation and amortisation	1,475,867	15,144,721	23,904,703	9,185,731	5,893,342	3,800,805	59,405,169

Notes to the Financial Statements

For the year ended 31st December, 2001

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, industrial machinery, electronic products and printed circuit boards divisions are located in the PRC.

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

	Sales revenue by geographical market		Contribution to (loss) profit from operations	
	2001 HK\$	2000 HK\$	2001 HK\$	2000 HK\$
Hong Kong	348,254,027	437,352,422	17,007,756	34,426,150
Other regions in the PRC	600,824,161	648,068,589	(54,236,909)	13,189,415
Other Asia-Pacific countries	142,798,547	154,452,034	(3,109,583)	2,789,057
Europe	123,181,733	255,689,921	(573,769)	6,071,866
North America	79,688,326	127,232,821	(6,155,194)	1,350,572
	<u>1,294,746,794</u>	<u>1,622,795,787</u>	<u>(47,067,699)</u>	<u>57,827,060</u>
Unallocated corporate expenses			<u>(27,843,247)</u>	<u>(21,695,127)</u>
(Loss) profit from operations			<u><u>(74,910,946)</u></u>	<u><u>36,131,933</u></u>

Notes to the Financial Statements

For the year ended 31st December, 2001

4. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

Geographical segments (continued)

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	
	2001 HK\$	2000 HK\$	2001 HK\$	2000 HK\$
Hong Kong	429,428,135	464,348,474	2,502,944	1,654,076
Other regions in the PRC	873,662,993	980,885,880	96,680,217	54,654,778
Other Asia-Pacific countries	41,131,931	98,757,811	-	-
Europe	38,168,046	69,986,392	-	-
North America	12,677,996	31,880,476	-	-
	<u>1,395,069,101</u>	<u>1,645,859,033</u>	<u>99,183,161</u>	<u>56,308,854</u>

5. COST OF SALES

The cost of sales include an allowance for obsolete inventories amounting to HK\$28,075,161 (2000: HK\$18,907,043).

Notes to the Financial Statements

For the year ended 31st December, 2001

6. (LOSS) PROFIT FROM OPERATIONS

	2001 HK\$	2000 HK\$
(Loss) profit from operations has been arrived at after charging:		
Staff costs		
Directors' remuneration (note 9)	6,422,800	7,687,407
Salaries and other benefits	181,094,240	205,738,678
Retirement benefits schemes contributions	4,254,983	3,910,133
	<u>191,772,023</u>	<u>217,336,218</u>
Depreciation and amortisation		
Depreciation and amortisation on:		
– Owned assets	49,917,816	47,985,128
– Assets held under finance leases and hire purchase contracts	4,908,239	7,114,335
Amortisation of goodwill (included in other operating expenses)	5,541,778	4,305,706
	<u>60,367,833</u>	<u>59,405,169</u>
Auditors' remuneration	2,976,491	2,374,296
Deficit arising on revaluation of investment properties	1,350,000	500,000
Deficit arising on revaluation of leasehold land and buildings	711,435	416,273
Loss on disposal of property, plant and equipment	3,423,592	2,023,326
and after crediting:		
Commission income	5,323,058	10,971,461
Exchange gain	5,091,197	3,421,243
Handling and services income	758,679	4,298,679
Release of negative goodwill to income (included in other revenue)	6,425,434	6,425,432
	<u><u>6,425,434</u></u>	<u><u>6,425,432</u></u>

Notes to the Financial Statements

For the year ended 31st December, 2001

7. FINANCE COSTS

	2001 HK\$	2000 HK\$
Interest on:		
Borrowings wholly repayable within five years		
– bank loans and overdrafts	20,961,288	20,585,012
– other loans	2,051,743	1,845,614
Finance leases and hire purchase contracts	1,208,995	1,858,103
	<u>24,222,026</u>	<u>24,288,729</u>

8. INVESTMENT INCOME

	2001 HK\$	2000 HK\$
Interest income	1,437,509	2,698,308
Dividends received and receivable from investments in securities	838,068	379,611
Impairment loss recognised on investment in securities	(818,000)	(2,065,440)
Loss on disposal of investments in securities	(855,452)	–
	<u>602,125</u>	<u>1,012,479</u>

Notes to the Financial Statements

For the year ended 31st December, 2001

9. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

Directors

	2001 HK\$	2000 HK\$
Fees:		
Executive directors	40,000	40,000
Non-executive directors	200,000	200,000
	<u>240,000</u>	<u>240,000</u>
Other emoluments:		
Executive directors		
Salaries and other benefits	4,975,300	6,340,614
Performance related incentive payments	240,000	240,000
Retirement benefits schemes contributions	236,070	145,803
	<u>5,451,370</u>	<u>6,726,417</u>
Non-executive directors		
Salaries and other benefits	680,400	680,400
Retirement benefits schemes contributions	51,030	40,590
	<u>731,430</u>	<u>720,990</u>
	<u>6,422,800</u>	<u>7,687,407</u>

The amounts disclosed above include directors' fees of HK\$80,000 (2000: HK\$80,000) payable to independent non-executive directors.

The emoluments of the directors were within the following bands:

	Number of directors	
	2001	2000
Nil to HK\$1,000,000	6	11
HK\$2,500,001 to HK\$3,000,000	2	2
	<u>8</u>	<u>13</u>

Notes to the Financial Statements

For the year ended 31st December, 2001

9. DIRECTORS' AND EMPLOYEES' EMOLUMENTS (continued)

Employees

The five highest paid individuals included two (2000: two) directors, details of whose emoluments are set out above. The emoluments of the remaining three (2000: three) individuals are as follows:

	2001 HK\$	2000 HK\$
Salaries and other benefits	4,701,080	5,400,430
Retirement benefits schemes contributions	166,530	154,344
	<u>4,867,610</u>	<u>5,554,774</u>

The emoluments of the employees were within the following bands:

	Number of employees	
	2001 HK\$	2000 HK\$
HK\$1,000,001 to HK\$1,500,000	2	1
HK\$1,500,001 to HK\$2,000,000	-	1
HK\$2,000,001 to HK\$2,500,000	1	-
HK\$2,500,001 to HK\$3,000,000	-	1
	<u>3</u>	<u>3</u>

Notes to the Financial Statements

For the year ended 31st December, 2001

10. TAXATION

	2001 HK\$	2000 HK\$
The charge comprises:		
Hong Kong Profits Tax		
Current year	2,090,082	3,772,006
Overprovision in prior years	(88,275)	(321,157)
	<u>2,001,807</u>	<u>3,450,849</u>
Taxation outside Hong Kong	3,886,650	7,121,886
Deferred taxation (note 29)	58,356	(226,266)
	<u>5,946,813</u>	<u>10,346,469</u>
Taxation attributable to the Company and its subsidiaries	1,804,480	1,045,713
Share of tax on results of associates		
	<u>7,751,293</u>	<u>11,392,182</u>

Hong Kong Profits Tax is calculated at 16% on the estimated assessable profit for the year.

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

Details of deferred taxation are set out in note 29.

Notes to the Financial Statements

For the year ended 31st December, 2001

11. (LOSS) EARNINGS PER SHARE

The calculation of the basic (loss) earnings per share for the year is based on the net loss for the year of HK\$89,128,370 (2000: net profit of HK\$6,315,206) and on the weighted average number of shares in issue during the year of 640,835,030 (2000: 639,978,812).

The computation of diluted (loss) earnings per share for 2001 or 2000 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 both years.

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 cent
Reconciliation of 2000 earnings per share:	
Reported figure before adjustments	0.68
Adjustments arising from the adoption of SSAP 30	<u>0.31</u>
Restated	<u><u>0.99</u></u>

12. INVESTMENT PROPERTIES

	HK\$
THE GROUP	
VALUATION	
At 1st January, 2001	12,050,000
Reclassification from leasehold land and buildings (note 13)	13,700,000
Deficit on revaluation	<u>(1,350,000)</u>
At 31st December, 2001	<u><u>24,400,000</u></u>

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, 2001 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 consolidated income statement.

Notes to the Financial Statements

For the year ended 31st December, 2001

13. 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, 2001	217,997,413	92,971,706	329,610,636	31,036,384	20,828,232	692,444,371
Currency realignment	1,993,571	856,636	3,404,865	311,158	303,289	6,869,519
Reclassification to investment properties (note 12)	(13,700,000)	-	-	-	-	(13,700,000)
On disposal of subsidiaries	-	(886,732)	(3,938,788)	(534,477)	-	(5,359,997)
Reclassifications	289,663	6,427,081	9,149,903	1,371,048	(17,237,695)	-
Additions	2,912,123	24,175,843	58,396,058	4,108,102	9,591,035	99,183,161
Disposals	(39,601)	(7,008,057)	(12,018,564)	(4,328,107)	(622,223)	(24,016,552)
Adjustment on revaluation	(13,011,845)	-	-	-	-	(13,011,845)
At 31st December, 2001	<u>196,441,324</u>	<u>116,536,477</u>	<u>384,604,110</u>	<u>31,964,108</u>	<u>12,862,638</u>	<u>742,408,657</u>
Comprising:						
At cost	-	116,536,477	384,604,110	31,964,108	12,862,638	545,967,333
At valuation - 2001	<u>196,441,324</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>196,441,324</u>
	<u>196,441,324</u>	<u>116,536,477</u>	<u>384,604,110</u>	<u>31,964,108</u>	<u>12,862,638</u>	<u>742,408,657</u>
DEPRECIATION AND AMORTISATION						
At 1st January, 2001	-	54,937,393	187,637,537	19,963,202	-	262,538,132
Currency realignment	-	367,187	1,308,936	415,648	-	2,091,771
On disposal of subsidiaries	-	(658,139)	(1,779,084)	(466,306)	-	(2,903,529)
Provided for the year	6,255,942	9,897,323	34,763,514	3,909,276	-	54,826,055
Eliminated on disposals	-	(3,202,448)	(4,476,787)	(2,294,148)	-	(9,973,383)
Eliminated on revaluation	(6,255,942)	-	-	-	-	(6,255,942)
At 31st December, 2001	<u>-</u>	<u>61,341,316</u>	<u>217,454,116</u>	<u>21,527,672</u>	<u>-</u>	<u>300,323,104</u>
NET BOOK VALUES						
At 31st December, 2001	<u>196,441,324</u>	<u>55,195,161</u>	<u>167,149,994</u>	<u>10,436,436</u>	<u>12,862,638</u>	<u>442,085,553</u>
At 31st December, 2000	<u>217,997,413</u>	<u>38,034,313</u>	<u>141,973,099</u>	<u>11,073,182</u>	<u>20,828,232</u>	<u>429,906,239</u>

Notes to the Financial Statements

For the year ended 31st December, 2001

13. PROPERTY, PLANT AND EQUIPMENT (continued)

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

	2001 HK\$	2000 HK\$
In Hong Kong:		
- under medium-term leases	19,870,000	36,740,000
Outside Hong Kong:		
- under long leases	1,080,000	820,000
- under medium-term leases	175,491,324	180,437,413
	<u>196,441,324</u>	<u>217,997,413</u>

The leasehold land and buildings of the Group were revalued as at 31st December, 2001 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\$156,873,000 (2000: HK\$177,854,000).

Notes to the Financial Statements

For the year ended 31st December, 2001

13. PROPERTY, PLANT AND EQUIPMENT (continued)

The net book value of the Group's plant and machinery includes an amount of HK\$20,374,145 (2000: HK\$20,455,488) in respect of assets held under finance leases and hire purchase contracts.

	Furniture, fixtures and equipment HK\$	Motor vehicles HK\$	Total HK\$
THE COMPANY			
COST			
At 1st January, 2001	8,185,321	417,111	8,602,432
Additions	687,148	-	687,148
At 31st December, 2001	8,872,469	417,111	9,289,580
DEPRECIATION			
At 1st January, 2001	2,630,554	203,481	2,834,035
Provided for the year	845,188	83,422	928,610
At 31st December, 2001	3,475,742	286,903	3,762,645
NET BOOK VALUES			
At 31st December, 2001	5,396,727	130,208	5,526,935
At 31st December, 2000	5,554,767	213,630	5,768,397

Notes to the Financial Statements

For the year ended 31st December, 2001

14. GOODWILL

	THE GROUP
	HK\$
<hr/>	
COST	
At 1st January, 2001	21,528,528
Arising on acquisition of additional interests in subsidiaries during the year	4,305,166
Eliminated on disposals during the year	<u>(4,548,393)</u>
At 31st December, 2001	<u>21,285,301</u>
AMORTISATION	
At 1st January, 2001	15,557,269
Charge for the year	5,541,778
Eliminated on disposals during the year	<u>(3,638,715)</u>
At 31st December, 2001	<u>17,460,332</u>
NET BOOK VALUE	
At 31st December, 2001	<u>3,824,969</u>
At 31st December, 2000	<u>5,971,259</u>

The amortisation period adopted for goodwill is three to five years.

Notes to the Financial Statements

For the year ended 31st December, 2001

15. NEGATIVE GOODWILL

	THE GROUP
	HK\$
GROSS AMOUNT	
At 1st January, 2001 and 31st December, 2001	<u>32,510,566</u>
RELEASED TO INCOME	
At 1st January, 2001	25,023,301
Released in the year	<u>6,425,434</u>
At 31st December, 2001	<u>31,448,735</u>
CARRYING AMOUNT	
At 31st December, 2001	<u>1,061,831</u>
At 31st December, 2000	<u>7,487,265</u>

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

16. INTERESTS IN SUBSIDIARIES

	THE COMPANY	
	2001 HK\$	2000 HK\$
Unlisted shares/capital contribution, at cost less impairment loss	31,822,238	49,054,644
Amounts due from subsidiaries less allowance	<u>606,854,587</u>	<u>559,907,978</u>
	<u>638,676,825</u>	<u>608,962,622</u>

Details of the Company's principal subsidiaries at 31st December, 2001 are set out in note 41.

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.

During the year, due to changes in the economic environment, the directors considered that certain subsidiaries would not generate any future income, therefore the investment costs in these subsidiaries have been written off in full.

Notes to the Financial Statements

For the year ended 31st December, 2001

17. INTERESTS IN ASSOCIATES

	2001 HK\$	2000 HK\$
THE GROUP		
Share of net assets	48,865,696	32,816,906
Amounts due from associates	10,673,708	29,729,801
	<u>59,539,404</u>	<u>62,546,707</u>
THE COMPANY		
Unlisted shares, at cost	-	1,000,000
Amounts due from associates	2,538,401	2,825,713
	<u>2,538,401</u>	<u>3,825,713</u>

Notes to the Financial Statements

For the year ended 31st December, 2001

17. INTERESTS IN ASSOCIATES (continued)

Details of the associates of the Group at 31st December, 2001 are as follows:

Name of associates	Place of incorporation/ registration and operation	Proportion of nominal value of issued share capital/registered capital attributable to the Group	Principal activities
		%	
Dongguan Sangiacomo Machinery Ltd.	PRC	40.0	Manufacturing of industrial machinery, equipment and supplies
East Right Enterprises Limited	Hong Kong	40.0	Investment holding
Shenzhen Hao Ning Da Meters Manufacturing Company Limited	PRC	40.0	Manufacturing and trading of electronic meters
Silangan Machinery & Equipment, Inc.	Philippines	40.0	Trading in industrial machinery, equipment and supplies
Suzhou Sodick San-Guang Machinery Electric Co., Ltd.	PRC	25.0	Manufacturing of industry machinery, equipment and supplies
Welltec Far East Limited	Hong Kong	40.0	Trading in industrial machinery
Welltec Industries (Thailand) Limited	Kingdom of Thailand	30.2	Property development
北京正寶紙製品有限公司	PRC	25.0	Manufacturing of paper pallet

Notes to the Financial Statements

For the year ended 31st December, 2001

18. INVESTMENTS IN SECURITIES

	THE GROUP		THE COMPANY	
	2001 HK\$	2000 HK\$	2001 HK\$	2000 HK\$
Unlisted investment securities, at cost	15,082,760	18,734,896	5,477,154	5,474,799
Impairment loss	(2,967,149)	(2,149,149)	(895,360)	(895,360)
	<u>12,115,611</u>	<u>16,585,747</u>	<u>4,581,794</u>	<u>4,579,439</u>

19. LOANS TO INVESTEE COMPANIES

The loans were unsecured, interest free and fully repaid during the year.

20. INVENTORIES

	THE GROUP	
	2001 HK\$	2000 HK\$
Trading inventories and finished goods	166,097,249	199,034,664
Work in progress	49,683,166	70,044,542
Raw materials	167,811,591	217,704,955
	<u>383,592,006</u>	<u>486,784,161</u>

Included above are trading inventories and finished goods of HK\$120,635,760 (2000: HK\$136,096,597), work in progress of HK\$44,833,274 (2000: HK\$66,199,125) and raw materials of HK\$147,911,041 (2000: HK\$166,032,429) which are carried at net realisable value.

Notes to the Financial Statements

For the year ended 31st December, 2001

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\$317,281,130 (2000: HK\$431,705,306) and their aged analysis at the balance sheet date is as follows:

	THE GROUP	
	2001 HK\$	2000 HK\$
0 to 3 months	199,796,603	272,868,608
4 to 6 months	38,336,806	55,998,489
7 to 9 months	17,996,831	25,750,709
Over 9 months	61,150,890	77,087,500
	<u>317,281,130</u>	<u>431,705,306</u>

22. TRADE AND OTHER PAYABLES

Included in trade and other payables are trade payables of HK\$215,760,600 (2000: HK\$347,648,678) and their aged analysis at the balance sheet date is as follows:

	THE GROUP	
	2001 HK\$	2000 HK\$
0 to 3 months	119,475,579	269,600,572
4 to 6 months	40,408,413	40,868,166
7 to 9 months	19,521,174	13,804,673
Over 9 months	36,355,434	23,375,267
	<u>215,760,600</u>	<u>347,648,678</u>

Notes to the Financial Statements

For the year ended 31st December, 2001

23. BORROWINGS

	THE GROUP		THE COMPANY	
	2001 HK\$	2000 HK\$	2001 HK\$	2000 HK\$
Bank loans				
- secured	91,536,162	84,097,340	-	-
- unsecured	98,883,133	85,881,774	10,000,000	10,000,000
	<u>190,419,295</u>	<u>169,979,114</u>	<u>10,000,000</u>	<u>10,000,000</u>
Other loans				
- secured	-	1,645,828	-	-
- unsecured	1,054,806	213,358	-	-
	<u>1,054,806</u>	<u>1,859,186</u>	<u>-</u>	<u>-</u>
Total	<u>191,474,101</u>	<u>171,838,300</u>	<u>10,000,000</u>	<u>10,000,000</u>

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

	THE GROUP		THE COMPANY	
	2001 HK\$	2000 HK\$	2001 HK\$	2000 HK\$
Within one year	179,080,141	169,390,078	10,000,000	10,000,000
Between one and two years	12,174,285	2,234,864	-	-
Between two and five years	219,675	213,358	-	-
	<u>191,474,101</u>	<u>171,838,300</u>	<u>10,000,000</u>	<u>10,000,000</u>
Less: Amount due within one year shown under current liabilities	<u>(179,080,141)</u>	<u>(169,390,078)</u>	<u>(10,000,000)</u>	<u>(10,000,000)</u>
Amount due after one year	<u>12,393,960</u>	<u>2,448,222</u>	<u>-</u>	<u>-</u>

Notes to the Financial Statements

For the year ended 31st December, 2001

24. OBLIGATIONS UNDER FINANCE LEASES AND HIRE PURCHASE CONTRACTS

	Minimum lease payments		Present value of minimum lease payments	
	2001 HK\$	2000 HK\$	2001 HK\$	2000 HK\$
Amounts payable under finance leases:				
Within one year	8,904,240	11,547,689	7,800,576	11,085,740
In the second to fifth year inclusive	8,887,240	7,773,173	8,278,133	6,219,390
	17,791,480	19,320,862	16,078,709	17,305,130
Less: future finance charges	(1,712,771)	(2,015,732)	N/A	N/A
Present value of lease payments	<u>16,078,709</u>	<u>17,305,130</u>	16,078,709	17,305,130
Less: Amount due for settlement within 12 months shown under current liabilities			(7,800,576)	(11,085,740)
Amount due for settlement after 12 months			<u>8,278,133</u>	<u>6,219,390</u>

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 31 December 2001, the average effective borrowing rate was 6.75% (2000: 6.75%). Interest rates are fixed at the contract date. All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments.

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

Notes to the Financial Statements

For the year ended 31st December, 2001

25. SHARE CAPITAL

	Number of ordinary shares	Value HK\$
Ordinary shares of HK\$0.40 each		
Authorised:		
At 1st January, 2001 and 31st December, 2001	<u>1,000,000,000</u>	<u>400,000,000</u>
Issued and fully paid:		
At 1st January, 2000	632,051,434	252,820,574
Exercise of share options	<u>8,780,000</u>	<u>3,512,000</u>
At 31st December, 2000	640,831,434	256,332,574
Exercise of warrants	<u>6,800</u>	<u>2,720</u>
At 31st December, 2001	<u>640,838,234</u>	<u>256,335,294</u>

During the year, 6,800 ordinary shares of HK\$0.40 each in the Company were issued upon the exercise of 6,800 warrants at a price of HK\$0.40. The shares issued during the year rank pari passu with the then existing shares in all respects.

26. WARRANTS

Pursuant to an ordinary resolution passed at an extraordinary general meeting of the Company held on 6th June, 2001, a bonus issue of warrants on the basis of one warrant for every five shares of HK\$0.40 each held by shareholders on the register of members of the Company as at 6th June, 2001 was approved. A total of 128,166,286 units of warrants with an aggregate subscription amount of HK\$51,266,514 were issued on 11th June, 2001. Each warrant 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 (both years inclusive).

At 31st December, 2001, the Company had outstanding warrants conferring rights to subscribe for up to HK\$51,263,794 in cash for shares. Exercise in full of these outstanding warrants would, under the share capital structure of the Company as of 31st December, 2001, resulting in the issue of 128,159,486 new shares of HK\$0.40 each in the Company.

Details of the exercise of the Company's warrants during the year are set out in note 25.

Notes to the Financial Statements

For the year ended 31st December, 2001

27. SHARE OPTIONS

At 31st December, 2001, the following options to subscribe for shares of the Company were outstanding under the Company's share option scheme:

Date of grant	Exercise price HK\$	Number of share options outstanding as at 31.12.2001
23.6.2001	0.41	12,200,000

The options granted can be exercised at any time during the period of twenty one months commencing on the expiry of three months after the date upon which the option is accepted and expiring on the last date of such two year period.

Notes to the Financial Statements

For the year ended 31st December, 2001

28. RESERVES

	Share premium HK\$	Asset revaluation reserve HK\$	Translation reserve HK\$	Capital reserve HK\$	Statutory reserve HK\$	Retained profits HK\$	Total HK\$
THE GROUP							
At 1st January, 2000							
- as originally stated	265,715,942	50,041,913	(7,266,459)	11,468,789	469,901	93,304,206	413,734,292
- prior period adjustments (note 2)	-	-	-	(11,468,789)	-	7,479,750	(3,989,039)
- as restated	265,715,942	50,041,913	(7,266,459)	-	469,901	100,783,956	409,745,253
Premium arising on issue of shares upon exercise of options	1,432,896	-	-	-	-	-	1,432,896
Exchange differences arising from translation of overseas operations	-	-	(8,598,691)	-	-	-	(8,598,691)
Realised on disposal of properties	-	(126,249)	-	-	-	126,249	-
Realised on disposal of subsidiaries	-	-	(7,400)	-	-	-	(7,400)
Surplus arising on revaluation	-	5,961,003	-	-	-	-	5,961,003
Transfer	-	-	-	-	124,556	(124,556)	-
Profit for the year	-	-	-	-	-	6,315,206	6,315,206
At 31st December, 2000 and 1st January, 2001	267,148,838	55,876,667	(15,872,550)	-	594,457	107,100,855	414,848,267
Exchange differences arising from translation of overseas operations	-	-	3,683,555	-	-	-	3,683,555
Realised on disposal of subsidiaries	-	-	26,459	-	-	-	26,459
Deficit arising on revaluation	-	(5,911,454)	-	-	-	-	(5,911,454)
Loss for the year	-	-	-	-	-	(89,128,370)	(89,128,370)
At 31st December, 2001	267,148,838	49,965,213	(12,162,536)	-	594,457	17,972,485	323,518,457
Attributable to:							
The Company and subsidiaries	267,148,838	49,965,213	(8,630,463)	-	594,457	(7,168,622)	301,909,423
Associates	-	-	(3,532,073)	-	-	25,141,107	21,609,034
	267,148,838	49,965,213	(12,162,536)	-	594,457	17,972,485	323,518,457
THE COMPANY							
At 1st January, 2000	265,715,942	-	-	-	-	95,266,950	360,982,892
Premium arising on issue of shares upon exercise of options	1,432,896	-	-	-	-	-	1,432,896
Profit for the year	-	-	-	-	-	1,810,641	1,810,641
At 31st December, 2000 and 1st January, 2001	267,148,838	-	-	-	-	97,077,591	364,226,429
Profit for the year	-	-	-	-	-	4,693,655	4,693,655
At 31st December, 2001	267,148,838	-	-	-	-	101,771,246	368,920,084

The Company's retained profits of HK\$101,771,246 as at 31st December, 2001 (2000: HK\$97,077,591) are available for distribution to shareholders.

Notes to the Financial Statements

For the year ended 31st December, 2001

29. DEFERRED TAXATION

	THE GROUP	
	2001 HK\$	2000 HK\$
Balance at 1st January	185,925	412,191
Charge (credit) for the year (note 10)	58,356	(226,266)
Balance at 31st December	<u>244,281</u>	<u>185,925</u>

At the balance sheet date, the major components of deferred taxation provided and unprovided for are as follows:

	Provided		Unprovided	
	2001 HK\$	2000 HK\$	2001 HK\$	2000 HK\$
THE GROUP				
Tax effect of timing differences because of:				
Excess of tax allowances over depreciation	244,281	172,581	8,194,003	6,277,224
Unutilised tax losses	-	13,344	(31,803,763)	(21,569,576)
Other timing differences	-	-	-	246,925
	<u>244,281</u>	<u>185,925</u>	<u>(23,609,760)</u>	<u>(15,045,427)</u>

The amount of the net unprovided deferred tax (credit) charge for the year is as follows:

	2001 HK\$	2000 HK\$
THE GROUP		
Tax effect of timing differences because of:		
Tax loss arising	(10,234,187)	(8,807,805)
Excess of tax allowances over depreciation	1,916,779	4,291,255
Other timing differences	(246,925)	134,925
	<u>(8,564,333)</u>	<u>(4,381,625)</u>

Notes to the Financial Statements

For the year ended 31st December, 2001

29. DEFERRED TAXATION (continued)

Deferred taxation has not been provided on the surplus arising on the revaluation of the Group's investment properties and leasehold land and buildings as profits arising on the disposal of these assets would not be subject to taxation. Accordingly, the valuation does not constitute a timing difference for tax purposes.

The Company had no significant unprovided deferred taxation for the year or at the balance sheet date.

30. RECONCILIATION OF (LOSS) PROFIT BEFORE TAXATION TO NET CASH INFLOW FROM OPERATING ACTIVITIES

	2001 HK\$	2000 HK\$
(Loss) profit before taxation	(79,437,845)	28,496,933
Share of results of associates	(14,407,053)	(9,083,425)
Interest income	(1,437,509)	(2,698,308)
Interest expenses on bank borrowings and other loans	23,013,031	22,430,626
Finance charges on finance leases and hire purchase contracts	1,208,995	1,858,103
Dividend income	(838,068)	(379,611)
Depreciation and amortisation on property, plant and equipment	54,826,055	55,099,463
Amortisation of goodwill	5,541,778	4,305,706
Release of negative goodwill	(6,425,434)	(6,425,432)
Loss on disposal of property, plant and equipment	3,423,592	2,023,326
Deficit arising on revaluation of investment properties	1,350,000	500,000
Deficit arising on revaluation of leasehold land and buildings	711,435	416,273
Loss on disposal of investments in securities	855,452	-
Gain on disposal of subsidiaries	(5,301,123)	(5,917,433)
Loss (gain) on disposal of associates	615,174	(640,392)
Amounts due from associates written off	-	601,297
Impairment loss recognised on investments in securities	818,000	2,065,440
Allowance for bad and doubtful debts	41,184,726	29,280,471
Allowance for obsolete inventories	28,075,161	18,907,043
Decrease (increase) in inventories	69,883,098	(104,047,135)
Decrease (increase) in trade and other receivables	91,008,795	(18,479,288)
Increase in bills receivable	(1,912,109)	(12,584)
(Decrease) increase in trade and other payables	(102,273,492)	45,776,194
(Decrease) increase in bills payable	(45,214,791)	2,747,359
Net cash inflow from operating activities	<u>65,267,868</u>	<u>66,824,626</u>

Notes to the Financial Statements

For the year ended 31st December, 2001

31. DISPOSAL OF SUBSIDIARIES

	2001 HK\$	2000 HK\$
NET ASSETS DISPOSED OF:		
Property, plant and equipment	2,456,468	1,479,726
Investments in securities	–	1,923,907
Inventories	614,697	3,039,310
Trade and other receivables	7,142,607	3,826,488
Bank balances and cash	1,374,975	624,465
Trade and other payables	(13,847,642)	(1,467,703)
Bank loans	–	(1,877,758)
Minority interests	(1,176,867)	(1,561,629)
	<u>(3,435,762)</u>	<u>5,986,806</u>
Attributable goodwill (negative goodwill) realised upon disposal	909,678	(88,963)
Translation reserve realised upon disposal	26,459	(7,400)
Gain on disposal of subsidiaries	5,301,123	5,917,433
	<u>2,801,498</u>	<u>11,807,876</u>
SATISFIED BY:		
Cash consideration	<u>2,801,498</u>	<u>11,807,876</u>

The subsidiaries disposed of during the years ended 31st December, 2001 and 2000 did not contribute significantly to the results of the Group up to their dates of disposal. The cashflow contributed or utilised by the subsidiaries disposed of during the years ended 31st December, 2001 and 2000 was not significant.

32. ANALYSIS OF THE NET INFLOW OF CASH AND CASH EQUIVALENTS IN RESPECT OF THE DISPOSAL OF SUBSIDIARIES

	2001 HK\$	2000 HK\$
Cash consideration	2,801,498	11,807,876
Bank balances and cash disposed of	<u>(1,374,975)</u>	<u>(624,465)</u>
Net inflow of cash and cash equivalents in respect of the disposal of subsidiaries	<u>1,426,523</u>	<u>11,183,411</u>

Notes to the Financial Statements

For the year ended 31st December, 2001

33. ANALYSIS OF CHANGES IN FINANCING DURING THE YEAR

	Share capital HK\$	Share premium HK\$	Bank loans HK\$	Other loans HK\$	Obligations under finance leases and hire purchase contracts HK\$	Amounts due to associates HK\$	Minority interests HK\$
Balance at 1st January, 2000	252,820,574	265,715,942	176,048,045	1,892,310	24,282,870	10,343,756	155,415,117
Proceeds from issue of shares	3,512,000	1,432,896	-	-	-	-	-
New loans raised	-	-	205,375,745	92,764	-	-	-
Capital contributed by minority shareholders	-	-	-	-	-	-	2,161,664
Dividends paid to minority shareholders	-	-	-	-	-	-	(5,371,503)
Repayments during the year	-	-	(209,212,861)	(124,873)	(12,383,192)	(8,920,675)	-
Non cash movements:							
Disposal of subsidiaries	-	-	(1,877,758)	-	-	-	(1,561,629)
Inception of finance leases and hire purchase contracts	-	-	-	-	5,436,104	-	-
Profit for the year attributable to minority shareholders	-	-	-	-	-	-	10,789,545
Revaluation surplus attributable to minority shareholders	-	-	-	-	-	-	2,025,142
Disposal of property, plant and equipment (note 34(b))	-	-	-	-	-	-	(7,187,715)
Partial disposal of interest in subsidiaries	-	-	-	-	-	-	(5,915,413)
Dividend payable to minority shareholders	-	-	-	-	-	-	(3,102,680)
Currency realignment	-	-	(354,057)	(1,015)	(30,652)	-	(2,356,764)
Balance at 1st January, 2001	256,332,574	267,148,838	169,979,114	1,859,186	17,305,130	1,423,081	144,895,764
Proceeds from issue of shares	2,720	-	-	-	-	-	-
New loans raised	-	-	45,278,006	-	-	-	-
Capital contributed by minority shareholders	-	-	-	-	-	-	3,132,467
Dividends paid to minority shareholders	-	-	-	-	-	-	(9,215,735)
Repayments during the year	-	-	(27,136,967)	(810,697)	(12,332,738)	(843,590)	-
Non cash movements:							
Disposal of subsidiaries	-	-	-	-	-	-	(1,176,867)
Inception of finance leases and hire purchase contracts	-	-	-	-	11,055,003	-	-
Profit for the year attributable to minority shareholders	-	-	-	-	-	-	1,939,232
Revaluation deficit attributable to minority shareholders	-	-	-	-	-	-	(133,014)
Partial disposal of interest in subsidiaries	-	-	-	-	-	-	876,417
Currency realignment	-	-	2,299,142	6,317	51,314	-	1,708,743
Balance at 31st December, 2001	<u>256,335,294</u>	<u>267,148,838</u>	<u>190,419,295</u>	<u>1,054,806</u>	<u>16,078,709</u>	<u>579,491</u>	<u>142,027,007</u>

Notes to the Financial Statements

For the year ended 31st December, 2001

34. MAJOR NON-CASH TRANSACTIONS

- (a) During the year, the Group entered into finance leases and hire purchase contracts in respect of the acquisition of property, plant and equipment with a total capital value at the inception of the leases and contracts of HK\$11,055,003 (2000: HK\$5,436,104).
- (b) During the year ended 31st December, 2000, certain property, plant and equipment of a subsidiary previously injected by a minority shareholder with a net book value of HK\$7,187,715 were disposed of to the minority shareholder.

35. OPERATING LEASE COMMITMENTS

The Group as lessee

	THE GROUP	
	2001 HK\$	2000 HK\$
Minimum lease payments made during the year under operating leases in respect of:		
Land and buildings	10,910,650	9,329,272
Plant and machinery	921,334	239,976
	<u>11,831,984</u>	<u>9,569,248</u>

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	
	2001 HK\$	2000 HK\$
Within one year	8,972,171	4,543,389
In the second to fifth year inclusive	33,494,777	8,143,250
Over five years	73,622,198	25,848,516
	<u>116,089,146</u>	<u>38,535,155</u>

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

The Company had no operating lease commitments at the balance sheet date.

Notes to the Financial Statements

For the year ended 31st December, 2001

35. OPERATING LEASE COMMITMENTS (continued)

The Group as lessor

Property rental income earned during the year was HK\$3,587,721 (2000: HK\$5,368,833). The remaining properties are expected to generate rental yields of 10% (2000: 11%) on an ongoing basis. All of the properties held have committed tenants for the next 1 – 2 years.

At the balance sheet date, the Group had contracted with tenants for the following future minimum lease payments:

	THE GROUP	
	2001 HK\$	2000 HK\$
Within one year	1,809,826	1,645,725
In the second to fifth year inclusive	260,944	474,689
	<u>2,070,770</u>	<u>2,120,414</u>

36. OTHER COMMITMENTS

	THE GROUP	
	2001 HK\$	2000 HK\$
Capital expenditure contracted for but not provided in the financial statements in respect of:		
Acquisition of property, plant and equipment	2,268,444	25,887,000
Investments	712,500	14,458,000
	<u>2,980,944</u>	<u>40,345,000</u>
Capital expenditure authorised but not contracted for in respect of the acquisition of property, plant and equipment	<u>1,598,281</u>	<u>-</u>

The Company had no capital commitments at the balance sheet date.

Notes to the Financial Statements

For the year ended 31st December, 2001

37. CONTINGENT LIABILITIES

	THE GROUP		THE COMPANY	
	2001 HK\$	2000 HK\$	2001 HK\$	2000 HK\$
Guarantees given to financial institutions in respect of credit facilities utilised by:				
Subsidiaries	-	-	346,008,000	257,480,000
Outsiders	11,175,000	19,716,000	-	-
	<u>11,175,000</u>	<u>19,716,000</u>	<u>346,008,000</u>	<u>257,480,000</u>

38. RETIREMENT BENEFITS SCHEMES

The Group operates Mandatory Provident Fund ("MPF") scheme for qualifying employees of the Company and its subsidiaries in Hong Kong. The assets of the MPF scheme are held separately from those of the Group in funds under the control of trustees.

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 a certain percentage of their payroll 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.

39. PLEDGE OF ASSETS

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

	Net book value	
	2001 HK\$	2000 HK\$
Investment properties	13,500,000	-
Leasehold land and buildings	43,594,800	59,580,000
Plant and machinery	20,738,462	380,000
Bank deposits	1,106,709	1,871,697
	<u>78,939,971</u>	<u>61,831,697</u>

Notes to the Financial Statements

For the year ended 31st December, 2001

40. TRANSACTIONS AND BALANCES WITH RELATED PARTIES

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

	2001 HK\$	2000 HK\$
Substantial shareholder and its subsidiaries:		
EDP charges received (note i)	165,600	165,600
Licence fee paid (note i)	2,455,320	3,161,741
Management fee paid (note i)	2,986,095	2,733,790
Sales of goods (note iii)	934,615	-
Balance due by the Group as at the balance sheet date (note vi)	6,155,705	3,848,894
Balance due to the Group as at the balance sheet date (note vi)	139,455	4,682,106
Companies controlled by certain directors:		
Management fee paid (note i)	1,512,000	1,512,000
Minority shareholders:		
Consultancy fee paid (note i)	228,000	247,000
Rental paid (note i)	1,912,801	-
Interest paid (note iv)	1,481,588	1,359,495
Proceeds from disposal of a subsidiary (note ii)	-	1,879,213
Acquisition of additional interest in a subsidiary (note ii)	3,429,000	5,867,756
Balance due by the Group as at the balance sheet date (note vii)	22,659,462	19,093,593
Balance due to the Group as at the balance sheet date (note vi)	11,869,813	10,984,416

Notes to the Financial Statements

For the year ended 31st December, 2001

40. TRANSACTIONS AND BALANCES WITH RELATED PARTIES (continued)

	2001 HK\$	2000 HK\$
Associates:		
Sales of goods (note iii)	–	933,063
Purchase of raw materials (note iii)	5,172,807	19,365,219
Agency fee paid (note i)	–	455,952
Rental income (note i)	8,050	333,689
Dividend income	–	1,742,361
Management fee paid (note i)	240,000	480,000
Interest paid (note v)	–	164,624
Balance due by the Group as at the balance sheet date (note vi)	579,491	1,423,081
Balance due to the Group as at the balance sheet date (note vi)	10,673,708	29,729,801

Notes:

- (i) The prices of the transactions were determined by the directors with reference to prices for similar transactions with unrelated third parties.
- (ii) These transactions were carried out pursuant to the sale and purchase agreements entered into during the year.
- (iii) These transactions were carried out at cost plus a percentage profit markup.
- (iv) The interest was charged at 6% to 10% (2000: 10%) per annum on the outstanding balances.
- (v) The interest are charged at prime rate plus 0.5% per annum on the outstanding balances.
- (vi) The balances are unsecured, interest free and have no fixed repayment term.
- (vii) The balances are unsecured and have no fixed repayment term. Other than an amount of HK\$13,592,280 (2000: HK\$11,094,637) which bears interest at 6% to 10% (2000: 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.

Notes to the Financial Statements

For the year ended 31st December, 2001

41. PARTICULARS OF PRINCIPAL SUBSIDIARIES

Details of the Company's principal subsidiaries at 31st December, 2001 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 Consortium Enterprises Limited	British Virgin Islands	Hong Kong	US\$1	100.0 *	100.0	Investment holding
Cosmos Machinery International Limited	Hong Kong	Hong Kong	HK\$22,000,000	100.0 *	100.0	Trading in industrial machinery, equipment and supplies and investment holding
Dongguan Cosmos Machinery Limited	PRC	PRC	HK\$30,000,000	100.0	91.75	Manufacturing of industrial machinery
Dongguan Great Wall Optical Plastic Works Limited	PRC	PRC	HK\$16,126,800	100.0	80.0	Manufacturing of microscopes and magnifiers with acrylic lenses
Dong Hua Machinery Limited	PRC	PRC	Rmb40,800,000	72.0	72.0	Assembling and trading of machinery
Dongguan Welltec Machinery Limited	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
Gainbase Industrial (C.I.) Limited	Cook Islands	PRC	HK\$78,000	100.0	52.0	Manufacturing of printed circuit boards

Notes to the Financial Statements

For the year ended 31st December, 2001

41. PARTICULARS OF PRINCIPAL SUBSIDIARIES (continued)

Name of subsidiary	Place of incorporation/ registration	Place of operation	Issued and fully paid 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
Glory Horse Industries Limited	Hong Kong	PRC	HK\$21,765,174	90.4	75.6	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
Jackson Equities Incorporated	British Virgin Islands	Hong Kong	US\$2	100.0 *	100.0	Investment holding
Karmay Industrial Limited	Hong Kong	Hong Kong	HK\$4,979,444	78.8	78.8	General trading and investment holding
Melco Trading Company Limited	Hong Kong	Hong Kong	HK\$1,500,000	100.0	100.0	Trading in industrial consumables
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
MS Plasticorp	Cook Islands	PRC	US\$1	100.0	86.4	Manufacturing of plasticwares

Notes to the Financial Statements

For the year ended 31st December, 2001

41. PARTICULARS OF PRINCIPAL SUBSIDIARIES (continued)

Name of subsidiary	Place of incorporation/ registration	Place of operation	Issued and fully paid share capital/ registered capital	Proportion of nominal value of issued share capital/ registered capital		Principal activities
				held by the Company*/ subsidiaries %	attributable to the Group %	
Shenzhen Gainbase PrintedCircuit Board Limited	PRC	PRC	HK\$9,500,000	100.0	52.0	Manufacturing of printed circuit boards
Shunde Jiamei Plastic Products Co., Ltd.	PRC	PRC	US\$500,000	100.0	78.8	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	Trading of machinery and investment holding
Wu Xi Grand Tech Machinery Co., Ltd.	PRC	PRC	US\$4,700,000	51.0	51.0	Manufacturing and trading of machinery and investment holding
Wu Xi Grand Plastic Machine Manufacture Co., Ltd.	PRC	PRC	US\$750,000	51.0	51.0	Manufacturing and trading of machinery

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, 2001

42. POST BALANCE SHEET EVENTS

- (i) On 2nd January, 2002, Welltec Machinery Limited (“WML”) and Karmay Industrial Limited (“Karmay”), subsidiaries of the Company, entered into a subscription agreement. WML has agreed to subscribe in cash for a total of 10,000,000 new shares in the share capital of Karmay, representing approximately 67% in the enlarged issued share capital of Karmay, at a subscription price of HK\$1.00 each. Details of the agreement are set out in the Company’s announcement dated 2nd January, 2002.

- (ii) On 1st March, 2002, Grand Technology Products Limited (“GTPL”), a wholly owned subsidiary of the Company, and 無錫塑料機械廠 (“WX Factory”), a substantial shareholder of two non wholly owned subsidiaries of the Company, entered into a sale and purchase agreement (the “Agreement”) with Wuxi Grand Tech Machinery Co., Ltd. (the “Purchaser”), another non wholly owned subsidiary of the Company. Pursuant to the Agreement, GTPL and WX Factory have agreed to dispose of the capital interests in the respective amounts of US\$195,000 (equivalent to approximately HK\$1,509,000) and US\$187,500 (equivalent to approximately HK\$1,451,000), representing 26% and 25% of the total registered capital in Wuxi Grand Plastic Machine Manufacture Co., Ltd to the Purchaser for the respective considerations of US\$961,860 (equivalent to approximately HK\$7,439,000) and US\$924,865 (equivalent to approximately HK\$7,153,000). Details of the Agreement are set out in the Company’s announcement dated 1st March, 2002.

INCOME STATEMENT

For the year ended 31st December,

	1997	1998	1999	2000	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover	<u>1,383,624</u>	<u>1,602,189</u>	<u>1,529,758</u>	<u>1,622,796</u>	<u>1,294,747</u>
Profit (loss) before taxation	41,231	(41,964)	30,260	28,497	(79,438)
Taxation	<u>(209)</u>	<u>5,821</u>	<u>8,606</u>	<u>11,392</u>	<u>7,751</u>
Profit (loss) before minority interests	41,440	(47,785)	21,654	17,105	(87,189)
Minority interests	<u>7,175</u>	<u>13,642</u>	<u>17,237</u>	<u>10,790</u>	<u>1,939</u>
Profit (loss) for the year	<u>34,265</u>	<u>(61,427)</u>	<u>4,417</u>	<u>6,315</u>	<u>(89,128)</u>

BALANCE SHEET

At 31st December,

	1997	1998	1999	2000	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Total assets	1,961,323	1,652,653	1,626,211	1,645,859	1,395,069
Total liabilities and minority interests	<u>1,214,224</u>	<u>1,000,875</u>	<u>963,646</u>	<u>974,678</u>	<u>815,215</u>
Shareholders' funds	<u>747,099</u>	<u>651,778</u>	<u>662,565</u>	<u>671,181</u>	<u>579,854</u>

Note: Prior periods' figures have been adjusted to reflect the change in accounting policies for the adoption of several new and revised Statements of Standard Accounting Practice as described in note 2 to the financial statements.

Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that the Annual General Meeting of the Company will be held at Tang I, 3rd Floor, Sheraton Hotel & Towers, 20 Nathan Road, Kowloon, Hong Kong on Monday, 3rd June, 2002 at 9:30 a.m. for the following purposes:

1. To receive and consider the audited financial statements and the reports of the directors and joint auditors for the year ended 31st December, 2001.
2. To re-elect directors.
3. To re-appoint joint auditors and authorise the directors to fix their remuneration.
4. To transact any other ordinary business.

By Order of the Board
TANG To
Chairman

Hong Kong, 23rd April, 2002

Notes:

1. A member of the Company entitled to attend and vote at the meeting is entitled to appoint one or more proxies to attend and, on a poll, vote in his stead. A proxy need not be a member of the Company.
2. In order 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 of attorney or authority must be deposited at the registered office of the Company, 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 appointed for holding the meeting.
3. The Register of Members of the Company will be closed from Thursday, 30th May, 2002 to Monday, 3rd June 2002 (both days inclusive) during which period no transfer of shares can be registered. In order to appear on the Register of Members on Monday, 3rd June, 2002, all share transfers, accompanied by the relevant share certificates, must be lodged for registration with the Company's Share Registrars, Secretaries Limited, at 5th Floor, Wing On Centre, 111 Connaught Road Central, Hong Kong, not later than 4:00 p.m. on Wednesday, 29th May, 2002.