

COSMOS

2004

ANNUAL REPORT 年報

COSMOS MACHINERY ENTERPRISES LIMITED
大同機械企業有限公司

CONTENTS

2	Corporate Information
3	Chairman's Statement
6	Management Discussion and Analysis
13	Directors and Senior Management
17	Report of the Directors
25	Auditors' Report
26	Consolidated Income Statement
27	Consolidated Balance Sheet
29	Balance Sheet
30	Consolidated Statement of Changes in Equity
31	Consolidated Cash Flow Statement
34	Notes to the Financial Statements
76	Financial Summary

CORPORATE INFORMATION

DIRECTORS

Executive

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

Non-Executive

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

Independent Non-Executive

Liang Shangli
 Yip Jeffery
 Yeung Shuk Fan

AUDIT COMMITTEE MEMBERS

Liang Shangli
 Yip Jeffery
 Yeung Shuk Fan

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

AUDITORS

Ting Ho Kwan & Chan

SHARE REGISTRAR

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

LISTING INFORMATION

The Stock Exchange of Hong Kong Limited
 Stock Code: 118

CHAIRMAN'S STATEMENT

I am pleased to present to shareholders the annual report of Cosmos Machinery Enterprises Limited (the "Company") and its subsidiaries (the "Group") for the year ended 31st December, 2004.

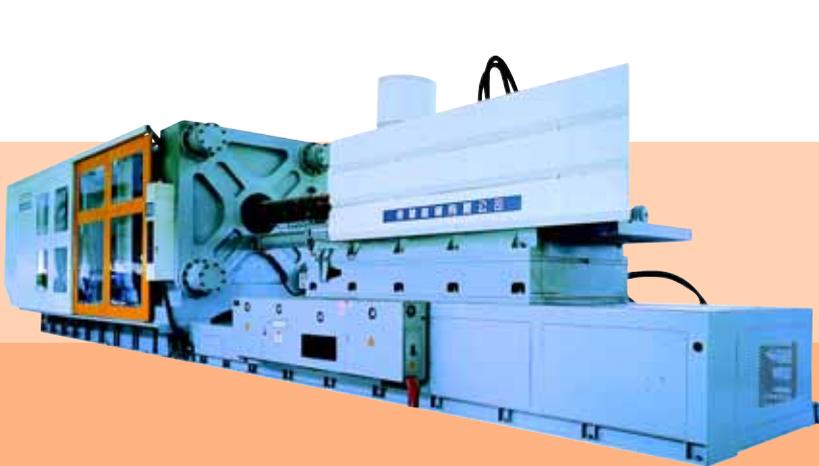
RESULTS

The Group's consolidated turnover for the year 2004 was approximately HK\$1,656,303,000, or about 19% higher than the approximate figure of HK\$1,393,628,000 for 2003. Our profit before taxation amounted to approximately HK\$70,282,000, increasing by about 35% over the approximate figure of HK\$52,167,000 for the previous year. For the year ended 31st December 2004, profit attributable to the shareholders was approximately HK\$41,849,000, representing an increase of 104% over that for the previous year.

Among our various businesses, plastic processing registered the most remarkable growth with a one-fold increase in profit. Achieving a profit of HK\$36,172,000, the machinery business continued to perform satisfactorily. Sales of audio products have picked up, substantially narrowing down last year's huge losses. Less desirable results were witnessed by the printed circuit board business which suffered a loss of approximately HK\$2,888,000 owing to the surge in the costs of raw materials.

CHAIRMAN STATEMENT

We were faced with quite some challenges in the year 2004. The spiraling material prices, the fluctuating and appreciating foreign currencies, the power shortages and economic macro adjustments on the Mainland have put the Group under a lot of pressure. Fortunately, having weathered the adversities of 2003, our management team has emerged to be more sophisticated and has succeeded in improving the Group's performance.



The First 2500 Ton Large Injection Moulding Machine built in China



Blow Moulding Machine

Chairman's Statement

To establish the Group as a key player in the industrial sector, the guiding principles of “industry-based, people-oriented, pragmatic and aggressive, and continuous learning” were put forward at our 2004 forum on overall strategies as our blueprint for management and development. Affirming the manufacturing of machinery as our core business to be supplemented by plastic processing and trading of industrial products, the Group aims to bond together our investments in other related industries in order to maintain our firm footing in the industrial sector. Mutual advancement will be sought through collaboration in the form of business exchanges and experience sharing among our various operations.

Machinery manufacturing being our focus, the Group dedicated more resources to the business in 2004 to expand our existing production plant and to acquire additional state-of-the-art processing facilities in anticipation of the phased launching of our new machinery products. As for the development of technology, to maintain our leading position in the fields of mechanical design, hydraulics and electronic control, the Group has recruited professionals both at home and abroad from countries like Germany and Switzerland to enhance our capability in producing machinery and applying technology so that advanced and quality service can be made available to meet the demands of both the market and our customers. We firmly believe that while injection moulding machines remain to be our primary products, new products like blow moulding machine, extrusion machine and CNC turret punching machine will constitute the new growth areas for the Group's profit.

In a bid to redefine machinery manufacturing as our core business, member companies engaging in such operations have been restructured so that production bases in various parts of the mainland and related products and brands can be centrally managed for maximizing resources and making room for expanding our machinery business.



Plastic Injection Moulding Machine (Food Container)



CNC Turret Punch Press

Chairman's Statement

Committed to our "people-oriented" principle, the Group firmly believes that our success hinges more on a professional, well-trained and crises-wise team than on expanded plants and additional facilities. It is such a team who loses no time in leading the Group out of plights with prompt actions in times of crises and who takes advantage of the good times to bring about drastic advances. As such, we set great store by staff training whilst recruiting talents. The vision is to ensure their advancement through continuous learning and growth through work so that they can make greater contribution towards a brighter future for the Group.

APPRECIATION

Last but not the least, I would like to congratulate and thank all our staff for their hard work and advancement and our shareholders and directors for their valuable support.

TANG To
Chairman

Hong Kong, 26th April, 2005



Heat Moulding Press



High Speed, High Precision Series Injection Moulding Machine

MANAGEMENT DISCUSSION AND ANALYSIS

REVIEW OF OPERATIONS

Manufacturing Business

Machinery

Affected by unfavorable conditions like the surge in steel prices, power shortages and macro-economic control and adjustment on the mainland, coupled with the unregulated competition in the injection moulding machine industry, sales as well as profit were under considerable pressure. Thanks to the hard work of our staff, the machinery manufacturing business performed strongly and maintained its growth. Turnover totaled approximately HK\$615,291,000, or a rise of 2% over last year of HK\$14,000,000, while profit was approximately HK\$36,172,000, increasing slightly by 49% over last year.

To prepare for the launching of our new machinery products, the Group began expanding its plant in Dongguan by stages and acquired additional key processing facilities to boost its productivity and to ensure product quality. Productivity is expected to increase by about 10% upon completion of the first phase of works. The new machinery processing and assembly workshop is expected to be operational in the second quarter of 2005. The main products will include the new precision injection moulding machine for export market, blow moulding machine, rubber injection moulding machine and CNC turret punching machine.

We are pleased to report that, in the year 2004, our member company Dong Hua Machinery Ltd., being one of the only three in Dongguan honored with the award, was included among the fifty finest enterprises of new and advanced technology in Guangdong. In collaboration with mainland universities, the Group also came out successful in bidding for two separate contracts for Guangdong-Hong Kong projects of major breakthroughs in key areas, namely network-based intelligent high-speed CNC flexible machining system for sheet metal fabrication and testing platform for high molecular weight polymer and its composite material. These serve to testify to the recognition gained by the Group in technological research and development as well as our commitment and contribution to society.



The 12th Int'l Packaging Exhibition
(Chang Ping, Dongguan)



COSMOS-UBE Series Injection Moulding Machine



The 13th Int'l Plastics Exhibition
(Chang Ping, Dongguan)

Management Discussion and Analysis

Plastic Products and Processing

During the year under review, sales for the Group's plastic business amounted to approximately HK\$285,239,000, representing an increase of approximately HK\$63,009,000 or 28% higher than that of last year. Profit stood at approximately HK\$23,721,000 or 133% over last year.

The outbreak of SARS in 2003 took its toll on export orders so much so that the profit for the plastic processing business dwindled to approximately HK\$10,180,000. Thanks to the efforts made by our staff throughout 2004, our customer network has expanded and the pressure of soaring plastic prices on production costs has eased. As a result, profit rebounded and even rose beyond the 2002 level which was approximately HK\$17,128,000.

During the year under review, the Group's plastic processing capabilities have been enhanced considerably through management optimization. Whether in terms of quality or delivery times, we have been able to satisfy the requirements of our customers. It is our hope to bring about greater growth in our sales of moulds, especially in exports, in the coming year.

The newly constructed Zhuhai plant officially commenced operation in June 2004. The new plant not only doubles the productivity of the Shunde plant but is also better equipped. The air filtering facility, for example, enables the plant to comply with the stringent hygienic requirements for the production of food and drug containers and will push operation further up the quality ladder.

Following the surge in oil prices which successively reached new heights, plastic resin prices have been on the rise for a prolonged period of time. This has been a source of pressure to the Group's plastic products and processing business which will be impacted to a certain extent if power and labor on the mainland continue to be in short supply.



On-Site Technical Coaching by Japanese Specialist



Five Face Plano-type Machining Center

Management Discussion and Analysis

Audio Products

During the year under review, sales of audio products totaled approximately HK\$140,204,000, increasing by HK\$67,435,000 or 93% as compared to last year, while loss fell substantially to approximately HK\$7,352,000.

Maximizing our existing resources, we have calculated our entry into the niche market with the identification and production of suitable specialty products like shock-proof and water-proof audio products for construction sites. Initial results have been promising and growth can hopefully be maintained in the coming year to achieve break-even.

Printed Circuit Board

In 2004, printed circuit board products continued to record double-digit growth. Sales totaled approximately HK\$348,862,000 while the year-on-year increase was approximately HK\$95,790,000 or 38%. Nevertheless, as selling prices could not be adjusted in time to reflect the drastic climb in circuit board prices in the latter half of the year, there was a loss of approximately HK\$2,888,000 at the end of the year.

In the light of the experiences gained, the Group has stepped up management and adjusted contingency measures with a view to promptly reflect the changes in material costs in our selling prices. The production portfolio remains to be primarily one-layer and two-layer boards with multi-layer ones next on the list. Through optimizing production management, reducing waste of scraps and introducing enterprise resources planning system, cost management has become more effective and resources can be spared for research and development of value-added products. The focus for the year ahead will be on markets like Europe and Japan where the marginal profits are higher so as to keep the gross profit rate at a stable level. With the gradual increase in the selling prices of our products, better profits can be envisaged for the coming year.



DVD Player Face Panel



Cordless Phone Casing



Plastic Food Container

Management Discussion and Analysis

Trading Business

Industrial Consumables

During the year under review, turnover for this business rose to HK\$266,707,000, representing an increase of approximately HK\$22,441,000 or 9%. The profit stood at approximately HK\$13,965,000.

The opening up of the mainland market has led to an increase in the supply of imported products. Mainland products improving in quality, productivity and supply as well as fluctuating and appreciating foreign currencies also pose possible competition. Faced with these challenges, the Group has responded by placing emphasis on training our sales team and streamlining logistics. With professional training, we aim to provide our customers with quality and professional technological applications and to sustain our development and profitability with high value-added products and service. To expand and consolidate our exporting business, we will continue to source quality mainland industrial products and distribute them through our highly efficient sales network.

PROSPECTS

Looking into the year ahead, the Group's business will benefit from the growing mainland market and the relatively promising overseas markets like South America and Eastern Europe. Nevertheless, the Group's engagement in machinery manufacturing and plastic processing means that we will inevitably be faced with the pressure of rising costs in view of the expected high prices of raw materials like steel and plastic in the coming year and scarce power supply. We may further be affected by the dampened interests of certain customers in reinvestment following the macro-economic control and adjustment measures taken by the mainland authorities in the third quarter of last year. The Group is confident, however, to be able to deal with and overcome any short-term difficulties that may arise in view of the enhancement we have achieved in overall management in recent years through training our management team and optimizing our management structure and system.



Water Proof CD Player



*Illuminated Magnifier
with Ruler and Compass*



Printed Circuit Board

Management Discussion and Analysis

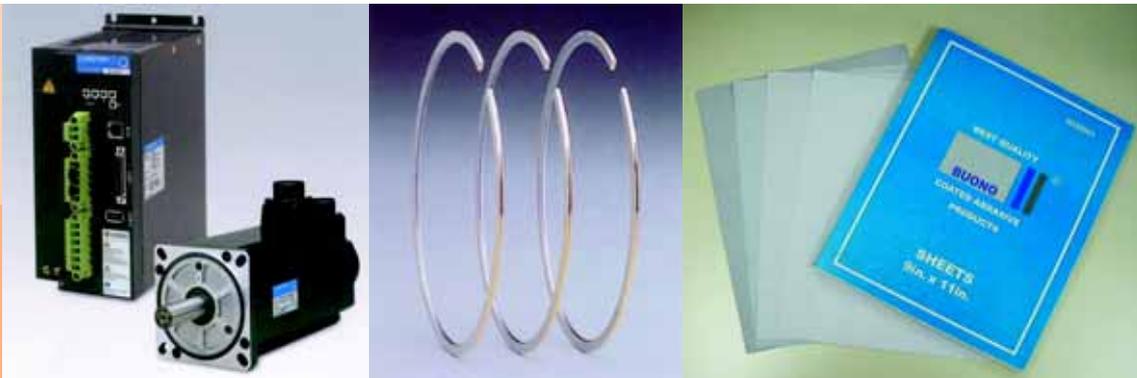
The machinery business will remain to be the thrust of our development in the future. With competition envisaged to become more intense for the injection moulding machine on the mainland market, the Group will focus on developing for our customers injection moulding machines with greater emphasis on technology and value-adding. Meanwhile, the Group strikes to develop the overseas markets. Our new products of blow moulding machine, extrusion machine and CNC turret punching machine are now ready for launch in 2005. With our well-established sales network, market branding, inherent productivity and sales and service systems, these new machinery products are expected to form the mainstay of our products after the injection moulding machine and will fuel new growths for our machinery business.

Changes and fluctuations in the economy and the market are unavoidable for any enterprise in the course of its development. The Group firmly believes that retaining and capitalizing on our talents will enable our team to face squarely any challenges that may arise, to devise contingency measures to overcome any short-term difficulties, and, more importantly, to formulate strategies for development in the long run in order to bring about greater returns for both our investors and staff.

FINAL DIVIDEND

The Board recommends the payment of a final dividend for the year ended 31st December, 2004 of 1 HK cent per share (2003: Nil) to shareholders of the Company (the "Shareholders") whose names appear on the register of members of the Company as at the date of the 2005 Annual General Meeting (the "AGM"). Such final dividend will be satisfied by way of a scrip dividend with an alternative to the Shareholders to elect to receive such final dividend (or part thereof) in cash in lieu of such scrip dividend (the "Scrip Dividend Scheme").

Subject to the approval by the Shareholders in the AGM, a circular containing details of the Scrip Dividend Scheme together with the relevant election form will be sent to the Shareholders as soon as practicable. The Scrip Dividend Scheme is conditional upon the granting by the Listing Committee of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") of the listing of and permission to deal in the new shares to be issued pursuant thereto.



*Sanyo Denki Q400V
Servo Motor*

*Special Shaped Wire
for Piston Ring*

BUONO-Sand Paper

Management Discussion and Analysis

FINANCIAL REVIEW

Liquidity and Financial Resources

As at 31st December, 2004, the Group's shareholders' funds were approximately HK\$680,593,000, compared with approximately HK\$631,803,000 as at 31st December, 2003.

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, 2004 was approximately 7.1% (2003: 3.8%), and the liquidity ratio was approximately 1.26 (2003: 1.29), both were maintained at a healthy level. As at 31st December, 2004, cash, bank balances and time deposits amounted to approximately HK\$107,536,000. All these reflect that the Group is in sound financial position.

Foreign Currencies and Treasury Policy

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

AUDIT COMMITTEE

The audit committee of the Company comprises the three independent non-executive directors. The audit committee members possess management and financial experience to advise on the Company's matters. During the last 12 months, the audit committee met twice to review with senior management the accounting practices adopted by the Group, and to discuss internal control and financial reporting matters, including the interim and annual financial statements before recommending the same to the Board for approval. The audit committee is of the opinion that the preparation of such statements complied with the applicable accounting standards and requirements and that adequate disclosure has been made.

EMPLOYEES AND REMUNERATION POLICY

As at 31st December, 2004, the Group has approximately 6,000 employees (2003: approximately 6,000), remunerations were formulated in accordance with market trends and performance of employees. Benefits have included schemes of insurance, retirement, share option and so on.

Management Discussion and Analysis

	2004	2003
	<u>HK\$'000</u>	<u>HK\$'000</u>
Financial Statistical Highlights		
Operating results		
Turnover	1,656,303	1,393,628
Profit from operations	47,925	29,025
Profit before taxation	70,282	52,167
Profit attributable to shareholders	41,849	20,528
Earning per share – Basic (<i>cents</i>)	5.93	2.91
Earning per share – Diluted (<i>cent</i>)	N/A	N/A
Dividend per share (<i>cent</i>)	1	–
Dividend payout	16.9%	–
Financial position at year end		
Total assets	1,836,996	1,691,715
Fixed assets	475,013	437,058
Quick assets	694,064	684,343
Net current assets	239,448	244,611
Shareholders' Funds	680,593	631,803
Net assets value per share (<i>cents</i>)	96	89
Financial statistics		
Current ratio	1.26	1.29
Quick asset ratio	0.74	0.80
Gearing ratio	0.07	0.04
Total debt ratio	1.46	1.41

DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

Mr. Tang To, aged 56, Chairman and Executive Director of the Company, has served on the Board since the listing of the Company in 1988 and was appointed as Chairman and Executive Director of the Company in September, 1997. Mr. Tang has over 31 years of experience in manufacturing and trading businesses in Hong Kong and the PRC. Mr. Tang is responsible for the overall policy making and significant investments of the Group. Mr. Tang is the son of Mr. Tang Kwan, Honorary Chairman and Non-Executive Director of the Company. Mr. Tang is a director of certain companies which are members of the Group and related to certain substantial shareholders of the Company within the meaning of Part XV of the SFO.

Mr. Zhao Zhuoying, aged 39, Executive Director of the Company, holds a Master's degree in Economics from Zhongshan University in China. Mr. Zhao joined the Company in March, 2004. He joined China Resources (Holdings) Co., Ltd. in 1986. He has over 10 years' experience in financial management. He had been the Manager of Finance Department of Teck Soon Hong Ltd. He is the Director and Deputy General Manager of China Resources Machinery & Minmetals (Holdings) Co., Ltd.

Mr. Wong Yiu Ming, aged 51, Executive Director of the Company, has more than 21 years of experience in sales, marketing and general management. Mr. Wong joined the Group in 1982. He holds a Bachelor of Science degree in Engineering and a Master degree in Business Administration. Mr. Wong was appointed as the General Manager of the Company on 1st February, 1999. He is responsible for the strategic planning and general management of the Group.

Mr. Yan Wing Fai Richard, aged 44, Executive Director of the Company, graduated from the University of Hong Kong in Social Sciences. He has over 19 years of experience in production and sales management of machines related business in the PRC. He joined the Group in April, 2002 as the Deputy General Manager and is responsible for the general management of machines related business.

Mr. Li Tin Loi, aged 41, Executive Director of the Company, 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 18 years of experience in marketing and management. Mr. Li joined the Group in 1992 and is currently responsible for the general management of subsidiary companies, which are engaged in trading of industrial consumables, machinery components and machineries.

Directors and Senior Management

NON-EXECUTIVE DIRECTORS

Mr. Tang Kwan, aged 81, Honorary Chairman and Non-Executive Director of the Company, is one of the founders of the Company. He has over 45 years of experience in machinery trading in Hong Kong and the PRC. Mr. Tang was appointed as the Honorary Chairman and Non-Executive Director on 18th September, 1997. Mr. Tang is the father of Mr. Tang To, Chairman and executive director of the Company. Mr. Tang is an administrator of a member company of the Group and a director of certain companies related to certain substantial shareholders of the Company within the meaning of Part XV of the SFO.

Mr. He Zhiqi, aged 47, the Vice-Chairman and Non-Executive Director of the Company, holds a Master's degree in Business Administration from University of San Francisco in USA. Mr. He joined China Resources (Holdings) Co., Ltd. in 1985. He has over 10 years' experience in corporate financial management. He had been the Deputy Manager of Finance Department of China Resources (Holdings) Co., Ltd. He is the Director and General Manager of China Resources Machinery & Minmetals (Holdings) Co., Ltd.

Mr. Kan Wai Wah, aged 47, Non-Executive Director of the Company, is an Executive Director and General Manager of Maritime Square Treasure Seafood Restaurant Limited. He has over 23 years of experience in the management of restaurant operations. Mr. Kan holds a Higher Diploma in Accountancy. He joined the Company in May, 1998. Mr. Kan is the son of Ms. Law Kit Fong, a substantial shareholder of the Company. Mr. Kan is a director of certain companies which are related to certain substantial shareholders of the Company within the meaning of Part XV of the SFO.

Mr. Liang Shangli, aged 85, Independent Non-Executive Director of the Company, graduated from the University of Canton. He joined the Company in 1988. Mr. Liang is the Honorary Vice-Chairman of both the All China Federation of Industry & Commerce and the Guangzhou Trust & Investment Corporation as well as an ex-member of CPPCC All China Standing Committee. He is also the Honorary President of both the Guangdong Federation of Industry and Commerce and the Guangzhou Federation of Industry and Commerce.

Mr. Yip Jeffery, aged 71, Independent Non-Executive Director of the Company, is a registered optometrist in Hong Kong. Mr. Yip is the President of the Hong Kong Eye Foundation Limited, the Past President of the Hong Kong Optometric Association Limited, the Past President and the Honorary Life President of the Hong Kong Contact Lens Research Association Limited. Mr. Yip joined the Company in August 1994.

Miss Yeung Shuk Fan, aged 39, Independent Non-Executive Director of the Company, has over 15 years of experience in the finance sector and holds a Master degree in Business Administration. She is a member of the American Institute of Certified Public Accountants and an associate of The Institute of Chartered Secretaries and Administrators. During the past ten years, Miss Yeung has served as financial controller and financial manager of various private groups of companies. She joined the Company with effect in June 2004.

Directors and Senior Management

SENIOR MANAGEMENT

Mr. Ho Kwong Sang, aged 49, joined the Group in 1982, is the Chief Financial Officer of the Group. He is responsible for the financial management and general administration of the Group. Mr. Ho holds a Master of Arts degree in Management and a Bachelor of Arts degree in Business Administration. He received the status of Certified Public Accountant and Chartered Secretary of the Hong Kong Institute of Certified Public Accountants and the Institute of Chartered Secretaries and Administrators respectively. He is also a member of the Australian and New Zealand Institute of Insurance and Finance, the Hong Kong Securities Institute and the Chartered Institute of Arbitrators.

Mr. So Kar Lun, aged 51, 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 the Group in 1982 and is currently the Managing Director of Karmay.

Mr. Wan Ming Sang, aged 60, 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 57, has over 30 years of experience in electronic manufacturing and management. Mr. Cheung holds a Diploma in Electrical Engineering from Hong Kong Technical College and a Certificate in Management from Hong Kong Management Association. He is also an Associate Member of The American Society of Quality Control Engineers. He joined the Group in 1996 and is currently the Operation Director of Glory Horse Industries Limited, which is engaged in the manufacture of electronic products.

Mr. Yip Kar Shun, aged 58, 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. Li Sik Hong, aged 44, has more than 20 years of experience in manufacturing and production management. Mr. Li holds a Bachelor of Science degree in Engineering and a Master of Science degree in Flexible Manufacturing Systems and Robotics. He joined the Group in 1984 and is currently the Deputy General Manager of Dong Hua Machinery Limited.

Mr. Yeung Kam Hing, Rex, aged 41, graduated from the Hong Kong Polytechnic University in Mechanical Engineering, has more than 18 years of experience in sales and marketing as well as drive and control system and engineering. He also holds a Diploma in Management Studies, a Bachelor of Business degree in Economics and Finance and a Post-Graduate Diploma in Marketing. He is a Chartered Marketer of the Chartered Institute of Marketing, U.K. He joined Welltec in 2003 and is currently the Deputy General Manager of Dong Hua Machinery Limited.

Directors and Senior Management

SENIOR MANAGEMENT *(Continued)*

Mr. Man Wai Hong Bernard, aged 42, joined the Group in 2000. He has 18 years of experience in manufacturing, marketing and general administrative management. He graduated from the Hong Kong Polytechnic University in Electrical Engineering. He also holds a Diploma in Computer Programming, a Diploma in Management Studies and a Master degree in Business Administration. He is currently the General Manager of a subsidiary which is engaged in the trading of industrial consumables and machinery components.

Mr. Andreas Brenner, aged 38, German nationality, graduated from the RWTH Aachen University (Institute for Plastic Processing – IKV) in Mechanical Engineering. He has more than 8 years experience in the research and development of extrusion systems for plastic and rubber machines and in the development of high-precision moulds for the injection moulding process. He joined the Group in April 2005 as the Technical Director with focus on research & development in Plastic Processing Technology and the related applications.

Mr. Karl-Heinz Roesing, aged 61, German nationality, graduated from the Hamburg University of Applied Science in Mechanical Engineering. He has more than 30 years industrial experience in project management, production and service for blow moulding machinery and blow moulds. Mr. Roesing worked for more than 3 years in the management of a Sino German joint venture for the production of blow moulding machines. He joined the Group in year 2003, and is currently the Technical Chief Consultant of a subsidiary DEKUMA, which is engaged in manufacture of Blow Moulding Machines, Rubber Injection Machines and Extrusion Lines.

REPORT OF THE DIRECTORS

The directors of the Company (the "Directors") have pleasure in presenting their annual report and the audited financial statements of the Company for the year ended 31st December, 2004.

PRINCIPAL ACTIVITIES

The Company acts as an investment holding company. The principal activities of its principal subsidiaries are set out in note 37 to the financial statements.

RESULTS

The results of the Group for the year ended 31st December, 2004 are set out in the consolidated income statement on page 26 of the annual report.

FINANCIAL SUMMARY

A summary of the results, the assets and liabilities of the Group for the past five financial years is set out on page 76 of the annual report.

INVESTMENT PROPERTIES, PLANT AND EQUIPMENT

The investment properties, leasehold land and buildings of the Group were revalued on 31st December, 2004. The resulting surplus arising on revaluation of those properties attributable to the Group has been credited to the asset revaluation reserve and the consolidated income statement.

During the year, the Group spent, in aggregate, approximately HK\$96,664,000 on the acquisition of property, plant and equipment for the purpose of expanding business.

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

SHARE CAPITAL

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

RESERVES

Details of the movements in the reserves of the Company during the year are set out in note 26 to the financial statements.

Report of the Directors

MAJOR CUSTOMERS AND SUPPLIERS

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

DIRECTORS

The Directors during the year were:

Executive Directors:

Tang To, *Chairman*

Wong Yiu Ming

Zhao Zhuoying

(appointed on 22nd March, 2004)

Zhou Junqing

(resigned on 22nd March, 2004)

Yan Wing Fai Richard

(appointed on 22nd March, 2004)

Li Tin Loi

(appointed on 22nd March, 2004)

Non-Executive Directors:

Tang Kwan, *Honorary Chairman*

He Zhiqi, *Vice Chairman*

(appointed on 22nd March, 2004)

Shi Shanbo, *Vice Chairman*

(resigned on 22nd March, 2004)

Kan Wai Wah

Independent Non-Executive Directors:

Liang Shangli

Yip Jeffery

Yeung Shuk Fan

(appointed on 18th June, 2004)

In accordance with Articles 94 and 103 of the Company's Articles of Association, Mr. Wong Yiu Ming, Mr. Liang Shangli, Mr. Yip Jeffery and Miss Yeung Shuk Fan, retire and, being eligible, offer themselves for re-election.

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

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

The Non-Executive Directors and two of the Independent Non-Executive Directors were not appointed for a specific term as set out in Appendix 14 of the Listing Rules but subject to retirement by rotation and re-appointment in accordance with Article 103 of the Company's Articles of Association.

Report of the Directors

DIRECTOR'S AND CHIEF EXECUTIVE'S INTERESTS IN SECURITIES

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

Interests in the Shares

Name of Director	Number of shares held				Total	Approximate % of total issued shares
	Personal interests	Family interests	Corporate interests	Other interests		
Tang To	2,970,000	-	3,460,406 (Note 1)	-	6,430,406	0.91
Wong Yiu Ming	9,696,072	-	-	-	9,696,072	1.37
Zhou Junqing	-	22,000	-	-	22,000	-
Tang Kwan	-	-	-	297,095,052 (Note 3)	297,095,052	42.07
Kan Wai Wah	136,400	-	-	-	136,400	0.02

Notes:

- As at 31st December, 2004, 3,460,406 Shares were held by Ginta Company Limited ("Ginta") which is wholly owned by a company which in turn is owned as to 50% by Mr. Tang To and 50% by his spouse.
- As at 31st December, 2004, 22,000 Shares were held by the spouse of Ms. Zhou Junqing.
- As at 31st December, 2004, Mr. Tang Kwan was deemed to be interested in the block of 297,095,052 shares under the SFO through his deemed interests in Codo Development Limited ("Codo"). As at 31st December, 2004, Codo through its wholly owned subsidiaries, Cosmos Machinery (Holdings) Limited ("Cosmos Holdings") and Tai Shing Agencies Limited ("Tai Shing") was deemed to be interested in 297,095,052 shares. Codo is incorporated in Hong Kong and is owned as to (i) 25.06% by Keepsound Investments Limited, a Hong Kong company controlled by The Saniwell Trust, a trust established for the benefit of Mr. Tang Kwan's family, of which the spouse of Mr. Tang Kwan is one of the beneficiaries; (ii) 8.37% by Elegant Power Enterprises Limited ("Elegant Power"); (iii) 30.25% by Friendchain Investments Limited, a Hong Kong company controlled as to 40% by Elegant Power, as to 57.42% by The Saniwell Trust and as to 2.58% by Fullwin Limited; (iv) 16.09% by Yik Wan Company Limited; and (v) 20.23% by 7 individuals.

Report of the Directors

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

The percentage shown was calculated based on the number of issued shares of the Company as at 31st December, 2004.

As at 31st December, 2004, other than as disclosed above and certain nominee shares held in trust for the Group, none of the Directors or Chief Executive or their associates had any interests and short positions in the shares, underlying shares of the Company and its associated corporations (within the meaning of the SFO) to be notified to the Company and the Stock Exchange pursuant to Section 352 of the SFO, to be entered in the register referred to therein.

Save as disclosed herein, none of the Directors is materially interested in any contract or arrangement subsisting as at 31st December, 2004 which is significant in relation to the business of the Company and its subsidiaries.

As at 31st December, 2004, none of the Directors had any direct interests or indirect interests in any asset which had been acquired, or disposed of by, or leased to any member of the Group, or was proposed to be acquired, or disposed of by, or leased to any member of the Group.

SUBSTANTIAL SHAREHOLDERS

As at 31st December, 2004, the following interests in 5% or more in the shares and underlying shares of the Company have been notified to the Company and recorded in the register of substantial shareholders' interests and short positions required to be kept under Section 336 of Part XV of the SFO:

Interests in the Shares

Name of Substantial Shareholder	Number of shares held			Approximate % of interests
	Direct interests	Deemed interests	Total	
Cosmos Holdings	126,990,600	170,104,452 <i>(Note 1)</i>	297,095,052	42.07
Law Kit Fong	–	297,095,052 <i>(Note 2)</i>	297,095,052	42.07
Tai Shing	170,104,452	–	170,104,452	24.09
China Resources (Holdings) Company Limited	169,649,046	–	169,649,046	24.02

Report of the Directors

SUBSTANTIAL SHAREHOLDERS (Continued)

Notes:

1. Cosmos Holdings is interested in 170,104,452 shares through its subsidiary, Tai Shing.
2. Ms. Law Kit Fong is deemed to be interested in the block of 297,095,052 shares through her indirect interests in Codo. As at 31st December, 2004, Codo through its wholly owned subsidiaries, Cosmos Holdings and Tai Shing, was deemed to be interested in 297,095,052 shares.

The percentage shown was calculated based on the number of issued shares of the Company as at 31st December, 2004.

Save as disclosed above, as at 31st December, 2004, the Directors are not aware of any other persons who have interests or short positions in the shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which would be required to be disclosed to the Company and the Stock Exchange pursuant to Part XV of the SFO.

CONNECTED TRANSACTIONS

On 24 March 2004, Fair Friend (Hong Kong) Enterprise Co., Limited ("Fair Friend") and Wuxi City Xinqu Yunchang Electronics Trading Ministry ("Yunchang Electronics") have entered into an agreement. Pursuant to such agreement, Fair Friend has agreed to subscribe in cash for the capital interest in the amount of USD510,000 (equivalent to approximately HKD3,978,000), representing 51% in the proposed total registered capital of Wuxi Cosmos Yunchang Plastic Co., Ltd. (the "New Company"), at a subscription price of USD510,000 (equivalent to approximately HKD3,978,000) and Yunchang Electronics has agreed to subscribe in cash for the capital interest in the amount of USD490,000 (equivalent to approximately HKD3,822,000), representing 49% in the proposed total registered capital of the New Company at a subscription price of USD490,000 (equivalent to approximately HKD3,822,000).

As the Group envisages that there will be satisfactory growth of the plastic processing business in the PRC market, the Board considers that subscription of the capital interest in the New Company is in line with the Group's current business strategy and that it will enhance the profitability of the Company by further implementing the Group's strategic development of its plastic processing business.

Yunchang Electronics is a substantial shareholder of Wuxi GL Precision Plastic Products Co., Ltd, a non wholly-owned subsidiary of the Company, the entering into of such agreement by Fair Friend and Yunchang Electronics constitutes a connected transaction of the Company under the Listing Rules.

Report of the Directors

CONNECTED TRANSACTIONS (Continued)

On 4 June 2004, Shenzhen Haoningda Electronic Meters Manufacturing Co., Ltd. ("Shenzhen HND"), Hon Kiu Machine Factory Ltd. ("Hon Kiu"), Silver International Investment Limited ("Silver International"), Nanjing Dingneng Power Equipment Co., Ltd. ("Dingneng Power") and Success Silver Development Limited ("Success Silver") have entered into an agreement. Pursuant to such agreement, (i) Shenzhen HND has agreed to subscribe in cash for 30.0% in the proposed total registered capital of Nanjing Haoningda Electronic Meters Manufacturing Co., Ltd. (the "Nanjing HND") at an aggregate consideration of USD360,000 (equivalent to approximately HKD2,808,000); (ii) Hon Kiu has agreed to subscribe in cash for 29.4% in the proposed total registered capital of the Nanjing HND at an aggregate consideration of USD352,800 (equivalent to approximately HKD2,752,000); (iii) Silver International has agreed to subscribe in cash for 12.6% in the proposed total registered capital of the Nanjing HND at an aggregate consideration of USD151,200 (equivalent to approximately HKD1,179,000); (iv) Dingneng Power has agreed to subscribe in cash for 18.0% in the proposed total registered capital of the Nanjing HND at an aggregate consideration of USD216,000 (equivalent to approximately HKD1,685,000); and (v) Success Silver has agreed to subscribe in cash for 10.0% in the proposed total registered capital of the Nanjing HND at an aggregate consideration of USD120,000 (equivalent to approximately HKD936,000).

As the Company envisages that there will be satisfactory growth of the electronic meter business in the PRC market by reference to the rate of growth of the market in 2003, the Board considers that subscription of the capital interest in Nanjing HND is in line with the Group's current business strategy that enhance the profitability of the Company by further implementing the Group's strategic development.

Mr. Wang Rongan ("Mr. Wang") and Mr. Or Leung Chit ("Mr. Or") are directors of Hon Kiu which is an indirect non wholly-owned subsidiary of the Company. As Mr. Wang and Mr. Or each owns 50% interest in Silver International, Silver International is a connected person by virtue of its being an associate of Mr. Wang and Mr. Or. Hence, the entering into such agreement by Shenzhen HND, Hon Kiu, Silver International, Dingneng Power and Success Silver constitutes a connected transaction of the Company under the Listing Rules.

On 29th December, 2004, (i) an agreement (the "Sunford Agreement") was entered into between Jackson Equities Incorporated ("JEI") and Mr. SO Kar Lun ("Mr. So"); and (ii) another agreement (the "Karmay Agreement") was entered into between Welltec Machinery Limited ("WML") and Mr. So. The purpose of entering into such agreements is to achieve a more effective financial planning and resources allocation of the Group. Pursuant to the Sunford Agreement, Mr. So agreed to dispose of 40 shares representing his entire 4% interest of the total issued share capital in Sunford Enterprises Limited ("Sunford") to JEI at the consideration of HKD3,365,987. After completion of the Sunford Agreement, Sunford will become a wholly-owned subsidiary of JEI. Pursuant to the Karmay Agreement, Mr. So agreed to dispose of 333,333 shares representing his entire 2.23% interest of the total issued share capital in Karmay Industrial Limited ("Karmay") to WML at the consideration of HKD164,066. After completion of the Karmay Agreement, Karmay will be 100% owned by WML.

Report of the Directors

CONNECTED TRANSACTIONS *(Continued)*

As Mr. So is a director of Karmay and WML both of which are subsidiaries of the Company, the entering into the Sunford Agreement between Mr. So and JEI and the Karmay Agreement between Mr. So and WML constitute connected transactions of the Company under the Listing Rules.

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

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

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

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

SHARE OPTION SCHEME

In order to provide the Company with a flexible means of giving incentive to, rewarding, remunerating, compensating and/or providing benefits to the Participants for their contributions and/or potential contributions to the Group and for such other purposes as the Board may approve from time to time, the Board proposes that the share option scheme be approved and adopted at the forthcoming annual general meeting of the Company.

AUDIT COMMITTEE

The audit committee of the Company comprises the three independent non-executive directors. The audit committee members possess management and financial experience to advise on the Company's matters. During the last 12 months, the audit committee met twice to review with senior management the accounting practices adopted by the Group, and to discuss internal control and financial reporting matters, including the interim and annual financial statements before recommending the same to the Board for approval. The audit committee is of the opinion that the preparation of such statements complied with the applicable accounting standards and requirements and that adequate disclosure has been made.

Report of the Directors

EMPLOYEES AND REMUNERATION POLICY

As at 31st December, 2004, the Group has approximately 6,000 employees (2003: approximately 6,000), remunerations were formulated in accordance with market trends and performance of employees. Benefits have included schemes of insurance, retirement, share option and so on.

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

During the year ended 31st December, 2004, there has been no purchase, sale or redemption by the Company or any of its subsidiaries of the Company's listed shares.

CORPORATE GOVERNANCE

None of the directors is aware of any information that would reasonably indicate that the Company had not been for any part of the year ended 31st December, 2004, in compliance 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 of the Company are not appointed for specific terms but are subject to retirement by rotation and re-election in accordance with Articles 94 and 103 of the Company's Articles of Association.

Throughout the year ended 31st December, 2004, the Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules as its own code of conduct regarding directors' securities transactions based on the enquiry of all the directors of the Company.

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

PUBLIC FLOAT

The Company has maintained a sufficient public float throughout the year ended 31st December, 2004.

On behalf of the Board

TANG To
Chairman

Hong Kong, 26th April, 2005

AUDITORS' REPORT

TING HO KWAN & CHAN

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



Hong Kong, 26th April, 2005

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 26 to 75 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

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

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

BASIS OF OPINION

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

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

OPINION

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31st December, 2004 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the Hong Kong Companies Ordinance.

TING HO KWAN & CHAN

Certified Public Accountants

CONSOLIDATED INCOME STATEMENT

For the year ended 31st December, 2004

		2004	2003
	<i>Notes</i>	HK\$	HK\$
Turnover		1,656,302,908	1,393,628,209
Cost of sales		(1,328,939,190)	(1,101,255,266)
Gross profit		327,363,718	292,372,943
Other operating income	5	32,853,677	27,844,931
Distribution costs		(100,086,383)	(93,503,444)
Administrative expenses		(198,423,476)	(188,963,397)
Other operating expenses		(1,280,717)	(3,726,141)
Allowance for bad and doubtful debts		(12,502,318)	(5,000,000)
Profit from operations	6	47,924,501	29,024,892
Finance costs	7	(19,967,833)	(17,825,958)
Investment (deficit) income	8	(606,339)	835,739
Gain (loss) on partial disposal/disposal of interests in subsidiaries		3,561,010	(2,217,733)
Share of results of associates		39,370,639	28,351,029
Release of negative goodwill of an associate		–	13,998,675
Profit before taxation		70,281,978	52,166,644
Taxation	10	13,507,592	13,378,918
Profit before minority interests		56,774,386	38,787,726
Minority interests		14,925,027	18,259,441
Net profit for the year		41,849,359	20,528,285
Proposed dividend	11	7,062,289	–
Earnings per share – basic	12	5.93 cents	2.91 cents

CONSOLIDATED BALANCE SHEET

At 31st December, 2004

	Notes	2004 <u>HK\$</u>	2003 <u>HK\$</u>
Non-current Assets			
Investment properties	13	24,400,000	24,400,000
Property, plant and equipment	14	450,613,460	412,657,652
Goodwill	15	1,345,375	1,960,402
Negative goodwill	16	(1,175,170)	(792,971)
Interests in associates	18	164,785,287	128,314,924
Investments in securities	19	7,589,720	10,698,471
Deferred tax assets	27	15,946,247	16,149,952
		<u>663,504,919</u>	<u>593,388,430</u>
Current Assets			
Inventories	20	479,427,789	413,984,376
Trade and other receivables	21	571,589,920	555,501,951
Bills receivable		10,114,025	10,076,673
Tax recoverable		863,056	1,287,041
Pledged bank deposits		3,961,106	13,969,104
Bank balances and cash		107,535,639	103,507,801
		<u>1,173,491,535</u>	<u>1,098,326,946</u>
Current Liabilities			
Trade and other payables	22	490,301,830	480,860,235
Bills payable		149,813,650	98,445,508
Amounts due to associates		13,577,507	1,440,584
Tax payable		12,981,901	9,838,254
Borrowings – due within one year	23	243,462,644	221,208,941
Obligations under finance leases – due within one year	24	5,373,852	3,543,358
Bank overdrafts		18,531,989	38,379,149
		<u>934,043,373</u>	<u>853,716,029</u>
Net Current Assets		<u>239,448,162</u>	<u>244,610,917</u>
		<u>902,953,081</u>	<u>837,999,347</u>

Consolidated Balance Sheet

At 31st December, 2004

	Notes	<u>2004</u>	<u>2003</u>
		<i>HK\$</i>	<i>HK\$</i>
Capital and Reserves			
Share capital	25	282,491,543	256,810,494
Reserves		391,039,170	374,992,699
Proposed dividend		7,062,289	–
		<u>680,593,002</u>	<u>631,803,193</u>
Minority Interests		<u>162,221,204</u>	<u>170,482,119</u>
Non-current Liabilities			
Borrowings – due after one year	23	47,307,864	20,931,086
Obligations under finance leases – due after one year	24	1,035,295	3,100,561
Deferred tax liabilities	27	11,795,716	11,682,388
		<u>60,138,875</u>	<u>35,714,035</u>
		<u>902,953,081</u>	<u>837,999,347</u>

The financial statements on pages 26 to 75 were approved and authorised for issue by the Board of Directors on 26th April, 2005 and are signed on its behalf by:

TANG To
DIRECTOR

WONG Yiu Ming
DIRECTOR

BALANCE SHEET

At 31st December, 2004

	<i>Notes</i>	<u>2004</u> <i>HK\$</i>	<u>2003</u> <i>HK\$</i>
Non-current Assets			
Property, plant and equipment	14	3,612,661	3,948,794
Interests in subsidiaries	17	617,430,528	629,553,286
Interests in associates	18	2,003,003	2,464,143
Investments in securities	19	4,579,544	4,579,544
		<u>627,625,736</u>	<u>640,545,767</u>
Current Assets			
Trade and other receivables		2,206,768	4,856,273
Bank balances and cash		691,524	360,855
		<u>2,898,292</u>	<u>5,217,128</u>
Current Liabilities			
Trade and other payables		4,571,723	4,236,786
Amounts due to subsidiaries		23,511,134	13,414,272
Amount due to an associate		357,318	357,318
Borrowings – due within one year	23	10,000,000	10,000,000
Bank overdrafts		11,381,178	19,064,153
		<u>49,821,353</u>	<u>47,072,529</u>
Net Current Liabilities		<u>(46,923,061)</u>	<u>(41,855,401)</u>
		<u>580,702,675</u>	<u>598,690,366</u>
Capital and Reserves			
Share capital	25	282,491,543	256,810,494
Reserves	26	291,148,843	341,879,872
Proposed dividend		7,062,289	–
		<u>580,702,675</u>	<u>598,690,366</u>

TANG To
DIRECTOR

WONG Yiu Ming
DIRECTOR

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31st December, 2004

	Share capital	Share premium	Asset revaluation reserve	Translation reserve	Statutory reserve	Retained profits	Proposed dividend	Total
	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$
At 1st January, 2003	256,335,294	267,148,838	42,404,711	(13,138,301)	594,457	47,831,767	-	601,176,766
Exchange differences arising from translation of overseas operations	-	-	-	(3,437,038)	-	-	-	(3,437,038)
Deficit arising on revaluation								
- gross	-	-	(1,430,974)	-	-	-	-	(1,430,974)
- taxation	-	-	(67,430)	-	-	-	-	(67,430)
Net losses not recognised in the income statement	-	-	(1,498,404)	(3,437,038)	-	-	-	(4,935,442)
Issue of shares on exercise of								
- share options	440,000	11,000	-	-	-	-	-	451,000
- warrants	35,200	-	-	-	-	-	-	35,200
Realised on disposal of subsidiaries	-	-	-	15,141,841	(594,457)	-	-	14,547,384
Profit for the year	-	-	-	-	-	20,528,285	-	20,528,285
	475,200	11,000	-	15,141,841	(594,457)	20,528,285	-	35,561,869
At 31st December, 2003 and 1st January, 2004	256,810,494	267,159,838	40,906,307	(1,433,498)	-	68,360,052	-	631,803,193
Exchange differences arising from translation of overseas operations	-	-	-	1,101,150	-	-	-	1,101,150
Surplus arising on revaluation								
- gross	-	-	6,856,637	-	-	-	-	6,856,637
- taxation	-	-	(736,968)	-	-	-	-	(736,968)
Net gains not recognised in the income statement	-	-	6,119,669	1,101,150	-	-	-	7,220,819
Bonus issue of shares	25,681,049	(25,681,049)	-	-	-	-	-	-
Realised on partial disposal of interests in subsidiaries	-	-	-	(280,369)	-	-	-	(280,369)
Profit for the year	-	-	-	-	-	41,849,359	-	41,849,359
Proposed dividend	-	-	-	-	-	(7,062,289)	7,062,289	-
	25,681,049	(25,681,049)	-	(280,369)	-	34,787,070	7,062,289	41,568,990
At 31st December, 2004	282,491,543	241,478,789	47,025,976	(612,717)	-	103,147,122	7,062,289	680,593,002

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31st December, 2004

	2004	2003
	<i>HK\$</i>	<i>HK\$</i>
OPERATING ACTIVITIES		
Profit from operations	47,924,501	29,024,892
Adjustments for:		
Depreciation and amortisation of property, plant and equipment	58,639,127	60,441,063
Amortisation of goodwill	1,838,758	3,098,199
Release of negative goodwill	(6,755,992)	(289,012)
Loss on disposal of property, plant and equipment	444,501	930,823
(Surplus) deficit arising on revaluation of leasehold land and buildings	(558,041)	627,942
Allowance for bad and doubtful debts	12,502,318	5,000,000
Allowance for obsolete inventories	1,397,903	4,000,000
Operating cash flows before movements in working capital	115,433,075	102,833,907
(Increase) decrease in inventories	(66,001,275)	6,678,495
Increase in trade and other receivables	(27,823,844)	(93,282,457)
Increase in bills receivable	(8,942)	(3,923,281)
Increase in trade and other payables	8,637,250	24,670,859
Increase in bills payable	51,278,216	1,787,736
Cash generated from operations	81,514,480	38,765,259
Tax outside Hong Kong paid	(5,069,888)	(9,858,569)
Hong Kong Profits Tax (paid) refunded	(716,655)	1,000,847
NET CASH FROM OPERATING ACTIVITIES	75,727,937	29,907,537

Consolidated Cash Flow Statement

For the year ended 31st December, 2004

	2004	2003
Note	HK\$	HK\$
INVESTING ACTIVITIES		
Purchase of property, plant and equipment	(90,607,839)	(61,220,058)
Decrease in pledged bank deposits	10,007,998	4,207,053
Acquisition of associates	(4,929,570)	–
Acquisition of additional shareholding in subsidiaries from minority shareholders	(23,370,501)	(4,057,115)
Disposal of subsidiaries	–	47,893
Disposal of partial interests in subsidiaries	11,845,628	–
Amounts advanced to associates	(476,246)	(6,216,750)
Proceeds from disposal of property, plant and equipment	9,259,720	16,172,639
Dividend received from an associate	3,562,439	2,200,026
Interest received	760,803	527,648
Proceeds from disposal of investments in securities	1,631,343	–
Dividends received from investments in securities	110,266	308,091
Amounts advanced to investee companies	–	(87,186)
NET CASH USED IN INVESTING ACTIVITIES	(82,205,959)	(48,117,759)
FINANCING		
Repayment of bank loans	(237,748,238)	(95,749,785)
Interest paid	(19,967,833)	(17,825,958)
Repayment of obligations under finance leases	(6,294,230)	(5,583,415)
Dividends paid to minority shareholders of subsidiaries	(6,184,041)	(2,411,928)
Repayment of other loans	(8,747,269)	(329,297)
Bank loans raised	294,578,979	140,845,275
Capital contributed by minority shareholders of subsidiaries	2,311,629	748
Other loans raised	–	8,405,334
Amounts advanced from associates	12,136,923	–
Proceeds from issue of shares	–	486,200
NET CASH FROM FINANCING	30,085,920	27,837,174
INCREASE IN CASH AND CASH EQUIVALENTS	23,607,898	9,626,952
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	65,128,652	56,197,093
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	267,100	(695,393)
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	89,003,650	65,128,652

Consolidated Cash Flow Statement

For the year ended 31st December, 2004

	<u>2004</u>	<u>2003</u>
	<i>HK\$</i>	<i>HK\$</i>
ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS		
Bank balances and cash	107,535,639	103,507,801
Bank overdrafts	(18,531,989)	(38,379,149)
	<u>89,003,650</u>	<u>65,128,652</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2004

1. GENERAL

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

The Company is an investment holding company. The principal activities of its principal subsidiaries are set out in note 37.

2. IMPACT OF RECENTLY ISSUED ACCOUNTING STANDARDS

The Hong Kong Institute of Certified Public Accountants has issued a number of new and revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards ("new HKFRSs") which are effective for accounting periods beginning on or after 1st January 2005. The Group has already commenced an assessment of the impact of these new HKFRSs but is not yet in a position to state whether these new HKFRSs would have a significant impact on its results of operations and financial position.

3. SIGNIFICANT ACCOUNTING POLICIES

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

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

Basis of consolidation

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

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

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

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

Notes to the Financial Statements

For the year ended 31st December, 2004

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Goodwill

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

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

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. 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 as income immediately.

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

Property, plant and equipment

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

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

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

Notes to the Financial Statements

For the year ended 31st December, 2004

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property, plant and equipment (Continued)

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

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

Investment properties

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

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

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

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

Notes to the Financial Statements

For the year ended 31st December, 2004

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Properties under construction

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

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

Interests in subsidiaries

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

Interests in associates

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

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

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

Investments in securities

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

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

Inventories

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

Notes to the Financial Statements

For the year ended 31st December, 2004

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 amounts outstanding and the interest rates applicable.

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

Depreciation and amortisation

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

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

Leases

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

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

Notes to the Financial Statements

For the year ended 31st December, 2004

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Taxation

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

Deferred taxation

Deferred taxation is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Taxation rates enacted or substantively enacted by the balance sheet date are used to determine deferred taxation.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

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

Retirement benefits schemes

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

Foreign currencies

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

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

Notes to the Financial Statements

For the year ended 31st December, 2004

4. BUSINESS AND GEOGRAPHICAL SEGMENTS

Business segments

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

Segment information about these businesses is presented below:

2004

	Industrial consumables	Plastic processing products	Machinery	Audio products	Printed circuit boards	Other operations	Eliminations	Consolidated
	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$
TURNOVER								
External sales	266,707,052	285,238,625	615,290,689	140,204,253	348,862,289	-	-	1,656,302,908
Inter-segment sales	5,145,693	20,407,404	16,691,400	6,523	-	-	(42,251,020)	-
Total revenue	<u>271,852,745</u>	<u>305,646,029</u>	<u>631,982,089</u>	<u>140,210,776</u>	<u>348,862,289</u>	<u>-</u>	<u>(42,251,020)</u>	<u>1,656,302,908</u>
Inter-segment sales are charged at prevailing market rates.								
RESULTS								
Segment results	<u>13,964,868</u>	<u>23,721,511</u>	<u>36,171,931</u>	<u>(7,352,242)</u>	<u>(2,888,016)</u>	<u>(1,147,878)</u>	<u>(2,023,417)</u>	<u>60,446,757</u>
Unallocated corporate expenses								<u>(12,522,256)</u>
Profit from operations								47,924,501
Finance costs								(19,967,833)
Investment deficit								(606,339)
Gain on partial disposal of interests in subsidiaries			3,561,010					3,561,010
Share of results of associates		(277,147)	9,148,880			30,498,906		<u>39,370,639</u>
Profit before taxation								70,281,978
Taxation								<u>13,507,592</u>
Profit before minority interests								<u>56,774,386</u>

Notes to the Financial Statements

For the year ended 31st December, 2004

4. BUSINESS AND GEOGRAPHICAL SEGMENTS (Continued)

Business segments (Continued)

	Industrial consumables	Plastic processing products	Machinery	Audio products	Printed circuit boards	Other operations	Consolidated
	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$
ASSETS							
Segment assets	138,318,933	274,588,652	867,453,520	102,652,409	211,649,363	46,717,831	1,641,380,708
Interests in associates							164,785,287
Investments in securities							7,589,720
Unallocated corporate assets							23,240,739
Consolidated total assets							<u>1,836,996,454</u>
LIABILITIES							
Segment liabilities	62,074,645	53,703,927	317,173,479	50,803,746	141,351,352	30,790,272	655,897,421
Tax payable							12,981,901
Borrowings							297,179,655
Unallocated corporate liabilities							28,123,271
Consolidated total liabilities							<u>994,182,248</u>
OTHER INFORMATION							
Addition of goodwill	-	-	1,137,323	399,132	-	-	1,536,455
Capital additions	1,310,278	29,870,355	31,660,590	649,886	32,515,903	656,627	96,663,639
Depreciation and amortisation	1,112,655	18,818,131	21,368,847	7,030,942	10,705,280	1,442,030	60,477,885
Other non-cash expenses	1,369,942	2,906,060	8,865,195	-	360,000	500,000	14,001,197

Notes to the Financial Statements

For the year ended 31st December, 2004

4. BUSINESS AND GEOGRAPHICAL SEGMENTS (Continued)

Business segments (Continued)

2003

	Industrial consumables	Plastic processing products	Machinery	Audio products	Printed circuit boards	Other operations	Eliminations	Consolidated
	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$
TURNOVER								
External sales	244,266,379	222,229,560	601,290,577	72,769,318	253,072,375	-	-	1,393,628,209
Inter-segment sales	5,307,730	9,966,586	13,452,758	-	-	-	(28,727,074)	-
Total revenue	<u>249,574,109</u>	<u>232,196,146</u>	<u>614,743,335</u>	<u>72,769,318</u>	<u>253,072,375</u>	<u>-</u>	<u>(28,727,074)</u>	<u>1,393,628,209</u>
Inter-segment sales are charged at prevailing market rates.								
RESULTS								
Segment results	<u>16,248,758</u>	<u>10,180,339</u>	<u>24,271,649</u>	<u>(15,942,808)</u>	<u>11,763,290</u>	<u>460,760</u>	<u>3,991,411</u>	<u>50,973,399</u>
Unallocated corporate expenses								<u>(21,948,507)</u>
Profit from operations								29,024,892
Finance costs								(17,825,958)
Investment income								835,739
Loss on disposal of subsidiaries			(244,385)			(1,973,348)		(2,217,733)
Share of results of associates		(796,870)	4,772,315			24,375,584		28,351,029
Release of negative goodwill of an associate						13,998,675		<u>13,998,675</u>
Profit before taxation								52,166,644
Taxation								<u>13,378,918</u>
Profit before minority interests								<u>38,787,726</u>

Notes to the Financial Statements

For the year ended 31st December, 2004

4. BUSINESS AND GEOGRAPHICAL SEGMENTS (Continued)

Business segments (Continued)

	Industrial consumables	Plastic processing products	Machinery	Audio products	Printed circuit boards	Other operations	Consolidated
	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$
ASSETS							
Segment assets	121,737,425	247,336,086	869,190,301	82,101,572	157,245,064	49,131,801	1,526,742,249
Interests in associates							128,314,924
Investments in securities							10,698,471
Unallocated corporate assets							25,959,732
Consolidated total assets							<u>1,691,715,376</u>
LIABILITIES							
Segment liabilities	60,057,834	57,308,903	353,542,540	28,949,311	92,943,985	2,664,646	595,467,219
Tax payable							9,838,254
Borrowings							248,783,946
Unallocated corporate liabilities							35,340,645
Consolidated total liabilities							<u>889,430,064</u>
OTHER INFORMATION							
Addition of goodwill	-	219,662	-	-	-	-	219,662
Capital additions	721,751	26,287,091	25,226,820	579,564	11,720,899	562,473	65,098,598
Depreciation and amortisation	821,777	20,257,245	21,473,837	10,174,388	9,425,844	1,386,171	63,539,262
Other non-cash expenses	18,800	226,470	9,000,000	-	59,625	323,047	9,627,942

Notes to the Financial Statements

For the year ended 31st December, 2004

4. BUSINESS AND GEOGRAPHICAL SEGMENTS (Continued)

Geographical segments

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

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

	Sales revenue by geographical market	
	2004	2003
	HK\$	HK\$
Hong Kong	643,730,354	492,211,488
PRC	749,507,103	727,082,820
Other Asia-Pacific countries	85,293,226	94,733,524
Europe	40,686,874	35,934,453
North America	137,085,351	43,665,924
	1,656,302,908	1,393,628,209

Notes to the Financial Statements

For the year ended 31st December, 2004

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	
	2004	As restated* 2003	2004	2003
	HK\$	HK\$	HK\$	HK\$
Hong Kong	342,628,140	321,170,504	1,191,192	655,444
PRC	1,439,098,279	1,337,943,889	97,008,902	64,662,816
Other Asia-Pacific countries	25,974,996	14,840,856	-	-
Europe	19,277,377	6,654,447	-	-
North America	10,017,662	11,105,680	-	-
	1,836,996,454	1,691,715,376	98,200,094	65,318,260

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

5. OTHER OPERATING INCOME

	2004	2003
	HK\$	HK\$
Other operating income included the following items:		
Commission income	8,900,723	8,363,370
Exchange gain	94,306	-
Handling and services income	854,329	2,243,711
Rental income net of outgoings	2,869,478	3,443,759
Release of negative goodwill to income	6,755,992	289,012

Notes to the Financial Statements

For the year ended 31st December, 2004

6. PROFIT FROM OPERATIONS

	2004	2003
	<i>HK\$</i>	<i>HK\$</i>
Profit from operations has been arrived at after charging:		
Staff costs		
Directors' remuneration (<i>note 9</i>)	9,169,158	7,103,710
Salaries and other benefits	188,729,246	181,847,836
Retirement benefits schemes contributions	7,271,625	6,190,884
	<u>205,170,029</u>	<u>195,142,430</u>
Depreciation and amortisation		
Depreciation and amortisation on:		
– Owned assets	54,918,517	54,787,499
– Assets held under finance leases	3,720,610	5,653,564
Amortisation of goodwill (included in other operating expenses)	1,838,758	3,098,199
	<u>60,477,885</u>	<u>63,539,262</u>
Auditors' remuneration		
– Current year	1,714,827	2,361,958
– Overprovided in prior years	(204,000)	(13,500)
Deficit arising on revaluation of leasehold land and buildings	–	627,942
Exchange loss	–	1,071,725
Loss on disposal of property, plant and equipment	444,501	930,823
Operating lease payments (<i>note 31</i>)	14,134,812	14,707,970
and crediting:		
Surplus arising on revaluation of leasehold land and buildings	<u>(558,041)</u>	<u>–</u>

Notes to the Financial Statements

For the year ended 31st December, 2004

7. FINANCE COSTS

	2004	2003
	<i>HK\$</i>	<i>HK\$</i>
Interest on:		
Borrowings wholly repayable within five years		
– bank loans and overdrafts	17,569,865	15,058,527
– other loans	2,277,832	2,536,287
Finance leases	120,136	231,144
	19,967,833	17,825,958

8. INVESTMENT (DEFICIT) INCOME

	2004	2003
	<i>HK\$</i>	<i>HK\$</i>
Interest income	760,803	527,648
Dividends received and receivable from investments in securities	110,266	308,091
Loss on disposal of investments in securities	(1,477,408)	–
	(606,339)	835,739

Notes to the Financial Statements

For the year ended 31st December, 2004

9. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

Directors

	2004	2003
	<i>HK\$</i>	<i>HK\$</i>
Fees:		
Executive directors	40,000	40,000
Non-executive directors	298,000	200,000
	<u>338,000</u>	<u>240,000</u>
Other emoluments:		
Executive directors		
Salaries and other benefits	7,759,275	5,848,960
Retirement benefits schemes contributions	340,453	283,320
	<u>8,099,728</u>	<u>6,132,280</u>
Non-executive directors		
Salaries and other benefits	680,400	680,400
Retirement benefits schemes contributions	51,030	51,030
	<u>731,430</u>	<u>731,430</u>
	<u>9,169,158</u>	<u>7,103,710</u>

The amounts disclosed above included directors' fees of HK\$178,000 (2003: HK\$80,000) payable to independent non-executive directors.

Notes to the Financial Statements

For the year ended 31st December, 2004

9. DIRECTORS' AND EMPLOYEES' EMOLUMENTS (Continued)

The emoluments of the directors were within the following bands:

	Number of directors	
	2004	2003
Nil to HK\$1,000,000	9	6
HK\$1,000,001 to HK\$1,500,000	2	–
HK\$1,500,001 to HK\$2,000,000	–	–
HK\$2,000,001 to HK\$2,500,000	–	–
HK\$2,500,001 to HK\$3,000,000	2	–
HK\$3,000,001 to HK\$3,500,000	–	2
	13	8

Employees

The five highest paid individuals included four (2003: two) directors, details of whose emoluments are set out above. The emoluments of the remaining one (2003: three) individual are as follows:

	2004	2003
	HK\$	HK\$
Salaries and other benefits	2,224,300	7,307,569
Retirement benefits schemes contributions	36,750	118,980
	2,261,050	7,426,549

The emoluments of the employee(s) were within the following bands:

	Number of employees	
	2004	2003
HK\$1,000,001 to HK\$1,500,000	–	–
HK\$1,500,001 to HK\$2,000,000	–	2
HK\$2,000,001 to HK\$2,500,000	1	–
HK\$2,500,001 to HK\$3,000,000	–	–
HK\$3,000,001 to HK\$3,500,000	–	–
HK\$3,500,001 to HK\$4,000,000	–	–
HK\$4,000,001 to HK\$4,500,000	–	1
	1	3

Notes to the Financial Statements

For the year ended 31st December, 2004

10. TAXATION

Hong Kong Profits Tax is calculated at 17.5% (2003: 17.5%) on the estimated assessable profits for the year.

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

	2004	2003
	<i>HK\$</i>	<i>HK\$</i>
Hong Kong Profits Tax		
Current year	1,432,913	1,078,917
Underprovision in prior years	62,867	93,010
	<u>1,495,780</u>	<u>1,171,927</u>
Taxation outside Hong Kong	<u>7,852,446</u>	<u>8,722,972</u>
Deferred taxation relating to the origination and reversal of temporary differences (<i>note 27</i>)		
Current year	(414,316)	632,535
Effect of increase in tax rate	-	19,261
	<u>(414,316)</u>	<u>651,796</u>
Taxation attributable to the Company and its subsidiaries	8,933,910	10,546,695
Share of tax on results of associates	4,573,682	2,832,223
Taxation charge	<u>13,507,592</u>	<u>13,378,918</u>

Notes to the Financial Statements

For the year ended 31st December, 2004

10. TAXATION (Continued)

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

	2004	2003
	<i>HK\$</i>	<i>HK\$</i>
Profit before taxation	70,281,978	52,166,644
Tax at the domestic income tax rate of 17.5% (2003: 17.5%)	12,299,346	9,129,163
Tax effect of expenses that are not deductible in determining taxable profit	11,339,090	11,086,234
Tax effect of income that is not taxable in determining taxable profit	(11,256,339)	(9,190,745)
Underprovision of Hong Kong Profits Tax in prior years	62,867	93,010
Underprovision of overseas tax in prior years	83,254	–
Decrease in opening net deferred tax assets resulting from changes in applicable tax rates	–	19,261
Tax effect of tax losses not recognised	5,577,135	6,267,005
Tax effect of utilisation of tax losses not previously recognised	(1,793,230)	(1,309,035)
Effect of different tax rates of associates and subsidiaries operating in other jurisdictions	(2,804,531)	(2,715,975)
Taxation charge	13,507,592	13,378,918

11. DIVIDENDS

	2004	2003
	<i>HK\$</i>	<i>HK\$</i>
Dividend proposed after the balance sheet date of HK\$0.01 (2003: Nil) per share	7,062,289	–

The Board recommends the payment of a final dividend for the year ended 31st December, 2004 of 1 HK cent per share (2003: Nil) to shareholders of the Company (the "Shareholders") whose names appear on the register of members of the Company as at the date of the 2005 Annual General Meeting (the "AGM"). Such final dividend will be satisfied by way of a scrip dividend with an alternative to the Shareholders to elect to receive such final dividend (or part thereof) in cash in lieu of such scrip dividend (the "Scrip Dividend Scheme").

Notes to the Financial Statements

For the year ended 31st December, 2004

11. DIVIDENDS (Continued)

Subject to the approval by Shareholders in the AGM, a circular containing details of the Scrip Dividend Scheme together with the relevant election form will be sent to Shareholders as soon as practicable. The Scrip Dividend Scheme is conditional upon the granting by the Listing Committee of the Stock Exchange of the listing of and permission to deal in the new shares to be issued pursuant thereto.

12. EARNINGS PER SHARE

The calculation of the basic earnings per share for the year is based on the net profit for the year of HK\$41,849,359 (2003: HK\$20,528,285) and on the weighted average number of shares in issue during the year of 706,228,857 (2003: as restated of 705,590,556).

The adjustment to the comparative basic earnings per share, arising from the bonus issue of shares is as follows:

	<i>HK cents</i>
Reconciliation of 2003 earnings per share:	
Reported figure before adjustments	3.20
Adjustments arising from the bonus issue of shares	(0.29)
	<hr/>
As restated	2.91
	<hr/>

13. INVESTMENT PROPERTIES

	<i>HK\$</i>
THE GROUP	
VALUATION	
At 1st January, 2004 and 31st December, 2004	24,400,000
	<hr/>

The investment properties of the Group are situated in Hong Kong and held under medium-term leases. They are held for rental purposes under operating leases. The investment properties of the Group were revalued as at 31st December, 2004 on the open market existing use basis by Messrs. Knight Frank, an independent firm of professional valuers.

Notes to the Financial Statements

For the year ended 31st December, 2004

14. PROPERTY, PLANT AND EQUIPMENT

	Leasehold land and buildings	Furniture, fixtures and equipment	Plant and machinery	Motor vehicles	Properties under construction	Total
	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$
THE GROUP						
COST OR VALUATION						
At 1st January, 2004	180,530,000	127,116,422	421,437,690	38,491,712	28,124,629	795,700,453
Currency realignment	197,358	156,227	615,457	75,056	67,243	1,111,341
Reclassifications	21,123,852	5,629,856	5,488,493	5,717	(32,247,918)	-
Additions	1,391,516	14,686,332	41,834,449	6,689,593	32,061,749	96,663,639
Disposals	(601,907)	(1,911,457)	(12,065,317)	(4,374,308)	(2,314,834)	(21,267,823)
Adjustment on revaluation	2,149,181	-	-	-	-	2,149,181
	<u>204,790,000</u>	<u>145,677,380</u>	<u>457,310,772</u>	<u>40,887,770</u>	<u>25,690,869</u>	<u>874,356,791</u>
At 31st December, 2004						
Comprising:						
At cost	-	145,677,380	457,310,772	40,887,770	25,690,869	669,566,791
At valuation - 2004	204,790,000	-	-	-	-	204,790,000
	<u>204,790,000</u>	<u>145,677,380</u>	<u>457,310,772</u>	<u>40,887,770</u>	<u>25,690,869</u>	<u>874,356,791</u>
DEPRECIATION AND AMORTISATION						
At 1st January, 2004	-	78,652,503	280,449,993	23,940,305	-	383,042,801
Currency realignment	(5,858)	62,036	257,229	33,706	-	347,113
Provided for the year	7,002,826	11,954,001	35,293,051	4,389,249	-	58,639,127
Reclassifications	-	36,575	(37,037)	462	-	-
Eliminated on disposals	(274,860)	(1,150,857)	(6,774,411)	(3,363,474)	-	(11,563,602)
Eliminated on revaluation	(6,722,108)	-	-	-	-	(6,722,108)
	<u>-</u>	<u>89,554,258</u>	<u>309,188,825</u>	<u>25,000,248</u>	<u>-</u>	<u>423,743,331</u>
At 31st December, 2004						
NET BOOK VALUES						
At 31st December, 2004	<u>204,790,000</u>	<u>56,123,122</u>	<u>148,121,947</u>	<u>15,887,522</u>	<u>25,690,869</u>	<u>450,613,460</u>
At 31st December, 2003	<u>180,530,000</u>	<u>48,463,919</u>	<u>140,987,697</u>	<u>14,551,407</u>	<u>28,124,629</u>	<u>412,657,652</u>

Notes to the Financial Statements

For the year ended 31st December, 2004

14. PROPERTY, PLANT AND EQUIPMENT (Continued)

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

	<u>2004</u>	<u>2003</u>
	<i>HK\$</i>	<i>HK\$</i>
In Hong Kong:		
– under medium-term leases	17,200,000	17,050,000
Outside Hong Kong:		
– under long leases	1,800,000	1,580,000
– under medium-term leases	185,790,000	161,900,000
	<u>204,790,000</u>	<u>180,530,000</u>

The leasehold land and buildings of the Group were revalued as at 31st December, 2004 on the open market existing use basis by Messrs. Knight Frank, an independent firm of professional valuers. The surplus arising on revaluation attributable to the Group have been credited 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\$139,869,000 (2003: HK\$133,510,000).

The net book value of the Group's plant and machinery includes an amount of HK\$11,490,321 (2003: HK\$9,228,584) in respect of assets held under finance leases.

Notes to the Financial Statements

For the year ended 31st December, 2004

14. PROPERTY, PLANT AND EQUIPMENT (Continued)

	Furniture, fixtures and equipment	Motor vehicles	Total
	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>
THE COMPANY			
COST			
At 1st January, 2004	9,153,727	417,111	9,570,838
Additions	118,806	537,821	656,627
Disposals	–	(417,111)	(417,111)
	<u>9,272,533</u>	<u>537,821</u>	<u>9,810,354</u>
At 31st December, 2004	9,272,533	537,821	9,810,354
DEPRECIATION			
At 1st January, 2004	5,204,934	417,110	5,622,044
Provided for the year	885,195	107,564	992,759
Eliminated on disposals	–	(417,110)	(417,110)
	<u>6,090,129</u>	<u>107,564</u>	<u>6,197,693</u>
At 31st December, 2004	6,090,129	107,564	6,197,693
NET BOOK VALUES			
At 31st December, 2004	<u>3,182,404</u>	<u>430,257</u>	<u>3,612,661</u>
At 31st December, 2003	<u>3,948,793</u>	<u>1</u>	<u>3,948,794</u>

Notes to the Financial Statements

For the year ended 31st December, 2004

15. GOODWILL

	THE GROUP
	<i>HK\$</i>
COST	
At 1st January, 2004	23,352,393
Arising on acquisition of additional interests in subsidiaries during the year	<u>1,145,550</u>
At 31st December, 2004	<u>24,497,943</u>
AMORTISATION	
At 1st January, 2004	21,391,991
Charge for the year	<u>1,760,577</u>
At 31st December, 2004	<u>23,152,568</u>
NET BOOK VALUE	
At 31st December, 2004	<u>1,345,375</u>
At 31st December, 2003	<u>1,960,402</u>

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

Notes to the Financial Statements

For the year ended 31st December, 2004

16. NEGATIVE GOODWILL

	THE GROUP HK\$
GROSS AMOUNT	
At 1st January, 2004	30,845,729
Arising on acquisition of additional interests in subsidiaries during the year	<u>7,138,191</u>
At 31st December, 2004	<u>37,983,920</u>
RELEASED TO INCOME	
At 1st January, 2004	30,052,758
Released in the year	<u>6,755,992</u>
At 31st December, 2004	<u>36,808,750</u>
CARRYING AMOUNT	
At 31st December, 2004	<u>1,175,170</u>
At 31st December, 2003	<u>792,971</u>

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

17. INTERESTS IN SUBSIDIARIES

	THE COMPANY	
	2004	2003
	HK\$	HK\$
Unlisted shares/capital contributions, at cost less impairment loss	40,781,145	40,781,145
Amounts due from subsidiaries less allowance	576,649,383	588,772,141
	<u>617,430,528</u>	<u>629,553,286</u>

Details of the Company's principal subsidiaries at 31st December, 2004 are set out in note 37.

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

Notes to the Financial Statements

For the year ended 31st December, 2004

18. INTERESTS IN ASSOCIATES

	2004	2003
	HK\$	HK\$
THE GROUP		
Share of net assets	147,475,322	111,293,929
Goodwill (<i>note</i>)	312,724	–
Amounts due from associates less allowance	16,997,241	17,020,995
	<u>164,785,287</u>	<u>128,314,924</u>
THE COMPANY		
Unlisted shares, at cost	–	–
Amounts due from associates less allowance	2,003,003	2,464,143
	<u>2,003,003</u>	<u>2,464,143</u>

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

Note:

	HK\$
GROSS AMOUNT	
At 1st January, 2004	–
Goodwill arising on acquisition of additional interest in an associate during the year	390,905
	<u>390,905</u>
At 31st December, 2004	<u>390,905</u>
AMORTISATION	
At 1st January, 2004	–
Charge for the year	78,181
	<u>78,181</u>
At 31st December, 2004	<u>78,181</u>
CARRYING VALUE	
At 31st December, 2004	<u>312,724</u>
At 31st December, 2003	<u>–</u>

The amortisation period adopted for goodwill on interests in associates is five years.

Notes to the Financial Statements

For the year ended 31st December, 2004

18. INTERESTS IN ASSOCIATES (Continued)

Details of the principal associates of the Group at 31st December, 2004 are as follows:

Name of associate	Place of incorporation/ registration and operation	Proportion of nominal value of issued share capital/registered capital attributable to the Group %	Principal activities
Dalian Huada Plastics Co Ltd	PRC	30.0	Plastic processing
Shenzhen Hao Ning Da Meters Manufacturing Company Limited	PRC	42.0	Manufacturing and trading of electronic meters
Suzhou Sanguang Science & Technology Co., Ltd. (formerly Suzhou Sodick San-Guang Machinery Electric Co., Ltd.)	PRC	30.0	Manufacturing of industrial machinery, equipment and supplies

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

19. INVESTMENTS IN SECURITIES

	THE GROUP		THE COMPANY	
	2004 HK\$	2003 HK\$	2004 HK\$	2003 HK\$
Unlisted investment securities, at cost	9,661,509	13,665,620	4,579,544	5,474,904
Impairment loss	(2,071,789)	(2,967,149)	-	(895,360)
	7,589,720	10,698,471	4,579,544	4,579,544

Notes to the Financial Statements

For the year ended 31st December, 2004

20. INVENTORIES

	THE GROUP	
	2004	2003
	HK\$	HK\$
Trading inventories and finished goods	189,141,830	169,485,560
Work in progress	83,996,016	66,082,571
Raw materials	206,289,943	178,416,245
	479,427,789	413,984,376

Included above are trading inventories and finished goods of HK\$160,092,537 (2003: HK\$150,682,841), work in progress of HK\$59,147,435 (2003: HK\$56,298,195) and raw materials of HK\$169,119,361 (2003: HK\$160,813,609) which are carried at net realisable value.

21. TRADE AND OTHER RECEIVABLES

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

Included in trade and other receivables are trade receivables of HK\$476,722,571 (2003: HK\$444,023,610) and their aged analysis at the balance sheet date is as follows:

	THE GROUP	
	2004	2003
	HK\$	HK\$
0 to 3 months	327,431,607	302,305,328
4 to 6 months	50,976,608	49,587,238
7 to 9 months	29,665,864	27,776,134
Over 9 months	68,648,492	64,354,910
	476,722,571	444,023,610

Notes to the Financial Statements

For the year ended 31st December, 2004

22. TRADE AND OTHER PAYABLES

Included in trade and other payables are trade payables of HK\$323,783,270 (2003: HK\$287,960,543) and their aged analysis at the balance sheet date is as follows:

	THE GROUP	
	2004	2003
	HK\$	HK\$
0 to 3 months	249,729,334	230,002,038
4 to 6 months	41,617,321	33,004,988
7 to 9 months	8,304,796	6,335,876
Over 9 months	24,131,819	18,617,641
	323,783,270	287,960,543

23. BORROWINGS

	THE GROUP		THE COMPANY	
	2004	2003	2004	2003
	HK\$	HK\$	HK\$	HK\$
Bank loans				
– secured	147,819,027	90,025,801	–	–
– unsecured	142,476,456	142,891,932	10,000,000	10,000,000
	290,295,483	232,917,733	10,000,000	10,000,000
Other loans				
– secured	352,845	9,006,736	–	–
– unsecured	122,180	215,558	–	–
	475,025	9,222,294	–	–
Total	290,770,508	242,140,027	10,000,000	10,000,000

Notes to the Financial Statements

For the year ended 31st December, 2004

23. BORROWINGS (Continued)

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

	THE GROUP		THE COMPANY	
	2004	2003	2004	2003
	HK\$	HK\$	HK\$	HK\$
Within one year	243,462,644	221,208,941	10,000,000	10,000,000
Between one and two years	39,452,191	18,444,577	-	-
Between two and five years	7,855,673	2,486,509	-	-
	290,770,508	242,140,027	10,000,000	10,000,000
Less: Amount due within one year shown under current liabilities	243,462,644	221,208,941	10,000,000	10,000,000
Amount due after one year	47,307,864	20,931,086	-	-

24. OBLIGATIONS UNDER FINANCE LEASES

THE GROUP

	Minimum lease payments		Present value of minimum lease payments	
	2004	2003	2004	2003
	HK\$	HK\$	HK\$	HK\$
Amounts payable under finance leases:				
Within one year	5,608,933	3,836,068	5,373,852	3,543,358
In the second to fifth year inclusive	1,069,263	3,180,049	1,035,295	3,100,561
	6,678,196	7,016,117	6,409,147	6,643,919
Less: Future finance charges	269,049	372,198	N/A	N/A
Present value of lease payments	6,409,147	6,643,919	6,409,147	6,643,919
Less: Amount due for settlement within one year shown under current liabilities			5,373,852	3,543,358
Amount due for settlement after one year			1,035,295	3,100,561

Notes to the Financial Statements

For the year ended 31st December, 2004

24. OBLIGATIONS UNDER FINANCE LEASES (Continued)

It is the Group's policy to lease certain of its plant and machinery under finance leases. The average lease term is 4 years. For the year ended 31st December, 2004, the average effective borrowing rate was 6.75% (2003: 6.75%). Interest rates are fixed at the contract date. All leases are on a fixed repayment basis and no arrangement has been entered into for contingent rental payments.

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

THE COMPANY

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

25. SHARE CAPITAL

	Number of ordinary shares	Value
		HK\$
Ordinary shares of HK\$0.40 each		
Authorised:		
At 1st January, 2003, 31st December, 2003 and 31st December, 2004	1,000,000,000	400,000,000
Issued and fully paid:		
At 1st January, 2003	640,838,234	256,335,294
Exercise of share options	1,100,000	440,000
Exercise of warrants	88,000	35,200
At 31st December, 2003	642,026,234	256,810,494
Bonus issue of shares	64,202,623	25,681,049
At 31st December, 2004	706,228,857	282,491,543

Pursuant to an ordinary resolution passed on 19th October, 2004 at the extraordinary general meeting of the Company, an aggregate of 64,202,623 new ordinary shares of HK\$0.40 each were issued as fully paid bonus shares by capitalising the sum of HK\$25,681,049 to the credit of the Company's share premium account, on the basis of 1 bonus share for every 10 existing shares held by such shareholders on 19th October, 2004. The bonus shares rank pari passu in all respects with the shares then in issue.

Notes to the Financial Statements

For the year ended 31st December, 2004

26. RESERVES

	Share premium	Retained profits	Proposed dividend	Total
	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>
THE COMPANY				
At 1st January, 2003	267,148,838	91,261,660	-	358,410,498
On issue of shares	11,000	-	-	11,000
Loss for the year	-	(16,541,626)	-	(16,541,626)
At 31st December, 2003 and 1st January, 2004	267,159,838	74,720,034	-	341,879,872
Bonus issue of shares	(25,681,049)	-	-	(25,681,049)
Loss for the year	-	(17,987,691)	-	(17,987,691)
Proposed dividend	-	(7,062,289)	7,062,289	-
At 31st December, 2004	<u>241,478,789</u>	<u>49,670,054</u>	<u>7,062,289</u>	<u>298,211,132</u>

The Company's retained profits of HK\$56,732,343 as at 31st December, 2004 (2003: HK\$74,720,034) are available for distribution to shareholders.

Notes to the Financial Statements

For the year ended 31st December, 2004

27. DEFERRED TAXATION

THE GROUP

Deferred taxation is calculated in full on temporary difference under the liability method using a principal taxation rate of 17.5% (2003: 17.5%).

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

	Decelerated (accelerated) tax depreciation	Revaluation of properties	Tax losses	Others	Total
	HK\$	HK\$	HK\$	HK\$	HK\$
At 1st January, 2003	(520,189)	(4,070,508)	-	9,797,602	5,206,905
Exchange differences	(816)	-	-	(2,442)	(3,258)
(Charged) credited to income statement	(1,121,368)	72,295	-	416,538	(632,535)
Charged to equity	-	(84,287)	-	-	(84,287)
Effect of change in tax rate - (Charged) credited to income statement	(22,407)	-	-	3,146	(19,261)
At 31st December, 2003 and 1st January, 2004	(1,664,780)	(4,082,500)	-	10,214,844	4,467,564
Exchange differences	19,558	(13,939)	-	-	5,619
(Charged) credited to income statement	1,881,674	(1,712,569)	159,600	85,611	414,316
Charged to equity	-	(736,968)	-	-	(736,968)
At 31st December, 2004	236,452	(6,545,976)	159,600	10,300,455	4,150,531

Notes to the Financial Statements

For the year ended 31st December, 2004

27. DEFERRED TAXATION (Continued)

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

	2004	2003
	<i>HK\$</i>	<i>HK\$</i>
Fair value reserve in shareholders' equity		
– Properties	736,968	84,287

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

	2004	2003
	<i>HK\$</i>	<i>HK\$</i>
Deferred tax liabilities	(11,795,716)	(11,682,388)
Deferred tax assets	15,946,247	16,149,952
	4,150,531	4,467,564

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

	2004	2003
	<i>HK\$</i>	<i>HK\$</i>
Unused tax losses	238,047,678	216,425,366

The tax losses do not expire under current tax legislation.

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

THE COMPANY

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

	2004	2003
	<i>HK\$</i>	<i>HK\$</i>
Unused tax losses	76,092,361	70,177,236

The tax losses do not expire under current tax legislation.

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

Notes to the Financial Statements

For the year ended 31st December, 2004

28. DISPOSAL OF SUBSIDIARIES

	2004	2003
	<i>HK\$</i>	<i>HK\$</i>
NET LIABILITIES DISPOSED OF:		
Property, plant and equipment	-	397,602
Inventories	-	8,217,560
Trade and other receivables	-	1,104,079
Bank balances and cash	-	1,182,268
Trade and other payables	-	(17,837,735)
Minority interests	-	(4,163,264)
	-	(11,099,490)
Statutory reserve realised upon disposal	-	(594,457)
Translation reserve realised upon disposal	-	15,141,841
Loss on disposal of subsidiaries	-	(2,217,733)
	-	1,230,161
SATISFIED BY:		
Cash consideration	-	1,230,161

The subsidiaries disposed of during the year ended 31st December, 2003 did not contribute significantly to the results of the Group in the year up to the date of disposal. The cash flows contributed or utilised by the subsidiaries disposed of during the year ended 31st December, 2003 were not significant.

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

	2004	2003
	<i>HK\$</i>	<i>HK\$</i>
Cash consideration	-	1,230,161
Bank balances and cash disposed of	-	(1,182,268)
Net inflow of cash and cash equivalents in respect of the disposal of subsidiaries	-	47,893

Notes to the Financial Statements

For the year ended 31st December, 2004

30. MAJOR NON-CASH TRANSACTIONS

During the year, the Group entered into finance leases in respect of the acquisition of property, plant and equipment with a total capital value at the inception of the leases of HK\$6,055,800 (2003: HK\$3,878,540).

31. OPERATING LEASE COMMITMENTS

The Group as lessee

	THE GROUP	
	2004	2003
	HK\$	HK\$
Minimum lease payments made during the year under operating leases in respect of:		
Land and buildings	12,414,167	14,252,265
Plant and machinery	1,720,645	455,705
	14,134,812	14,707,970

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	
	2004	2003
	HK\$	HK\$
Within one year	11,716,345	12,296,942
In the second to fifth year inclusive	36,057,655	40,788,937
Over five years	71,861,550	93,633,489
	119,635,550	146,719,368

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

Notes to the Financial Statements

For the year ended 31st December, 2004

31. OPERATING LEASE COMMITMENTS (Continued)

The Group as lessor

Property rental income earned during the year net of outgoings of HK\$507,171 (2003: HK\$435,586), was HK\$2,869,478 (2003: HK\$3,443,759). The remaining properties are expected to generate rental yields of 9% (2003: 11%) on an ongoing basis. All of the properties held have committed tenants for the next 1-3 years.

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

	THE GROUP	
	2004	2003
	HK\$	HK\$
Within one year	1,629,634	2,513,603
In the second to fifth year inclusive	196,692	847,778
	1,826,326	3,361,381

THE COMPANY

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

32. OTHER COMMITMENTS

	THE GROUP	
	2004	2003
	HK\$	HK\$
Capital expenditure contracted for but not provided in the financial statements in respect of:		
Acquisition of property, plant and equipment	9,284,097	9,755,206
Investments	18,841,191	–
	28,125,288	9,755,206
Capital expenditure authorised but not contracted for in respect of the acquisition of property, plant and equipment	–	18,661,814

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

Notes to the Financial Statements

For the year ended 31st December, 2004

33. CONTINGENT LIABILITIES

	THE GROUP		THE COMPANY	
	2004	2003	2004	2003
	HK\$	HK\$	HK\$	HK\$
Guarantees given to financial institutions in respect of credit facilities utilised by:				
Subsidiaries	-	-	511,049,811	369,121,143
Outsiders	6,109,023	6,091,846	-	-
	6,109,023	6,091,846	511,049,811	369,121,143

34. RETIREMENT BENEFITS SCHEMES

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

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

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

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

The total cost charged to the consolidated income statement of HK\$7,256,195 (2003: HK\$6,190,884) represents contributions payable to these schemes by the Group in respect of the current accounting period. As at 31st December, 2004, contributions of approximately HK\$59,491 (2003: HK\$220,869) due in respect of the reporting period had not been paid over to the schemes.

Notes to the Financial Statements

For the year ended 31st December, 2004

35. PLEDGE OF ASSETS

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

	Net book value	
	2004	2003
	HK\$	HK\$
Investment properties	13,500,000	13,500,000
Leasehold land and buildings	45,356,594	25,309,004
Plant and machinery	58,189,309	37,191,627
Bank deposits (<i>note</i>)	3,961,106	13,969,104
	121,007,009	89,969,735

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

36. TRANSACTIONS AND BALANCES WITH RELATED PARTIES

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

	2004	2003
	HK\$	HK\$
Substantial shareholders and its subsidiaries:		
EDP charges received (<i>note i</i>)	183,600	183,600
Management fee paid (<i>note i</i>)	3,470,766	3,768,464
Balances due from the Group as at the balance sheet date (<i>note iii</i>)	5,061,751	5,952,605
Balances due to the Group as at the balance sheet date (<i>note iii</i>)	56,922	88,073
Company controlled by certain directors:		
Management fee paid (<i>note i</i>)	996,000	996,000

Notes to the Financial Statements

For the year ended 31st December, 2004

36. TRANSACTIONS AND BALANCES WITH RELATED PARTIES (Continued)

	2004	2003
	HK\$	HK\$
Minority shareholders:		
Purchases of finished goods (note i)	22,150,864	16,880,689
Rental paid (note i)	2,200,106	4,358,718
Interest paid (note ii)	1,865,207	1,695,643
Balances due from the Group as at the balance sheet date (note iv)	21,023,983	20,640,288
Balances due to the Group as at the balance sheet date (note iii)	12,969,085	11,593,329
Associates:		
Sales of finished goods (note i)	10,467	1,615,341
Balances due from the Group as at the balance sheet date (note iii)	13,577,507	1,440,584
Balances due to the Group as at the balance sheet date (note iii)	16,997,241	17,020,995

Notes:

- (i) The prices of the transactions were determined by the directors with reference to prices for similar transactions with unrelated third parties.
- (ii) The interest was charged at 10% (2003: 10%) per annum on the outstanding balances.
- (iii) The balances are unsecured, interest free and have no fixed repayment terms.
- (iv) The balances are unsecured and have no fixed repayment terms. Other than an amount of HK\$16,694,624 (2003: HK\$14,829,417) which bears interest at 10% (2003: 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, 2004

37. PARTICULARS OF PRINCIPAL SUBSIDIARIES

Details of the Company's principal subsidiaries at 31st December, 2004 are as follows:

Name of subsidiary	Place of incorporation/ registration	Place of operation	Issued and fully paid share capital/ registered capital	Proportion of nominal value of issued share capital/ registered capital held by the attributable Company*/ to the subsidiaries Group		Principal activities
				%	%	
Cosmos Machinery International Limited	Hong Kong	Hong Kong	HK\$32,000,000	100.0*	100.0	Trading in industrial machinery, equipment and supplies and investment holding
Dongguan Cosmos Machinery Limited (note b)	PRC	PRC	HK\$30,000,000	75.56	75.56	Manufacturing of industrial machinery
Dongguan Great Wall Optical Plastic Works Limited (note a)	PRC	PRC	HK\$16,126,800	100.0	100.0	Manufacturing of microscopes and magnifiers with acrylic lenses
Dong Hua Machinery Limited (note b)	PRC	PRC	Rmb40,800,000	75.56	75.56	Assembling and trading of machinery
Dongguan Welltec Machinery Limited (note b)	PRC	PRC	HK\$55,920,000	75.56	75.56	Manufacturing and trading of machinery
Gainbase Industrial Limited	Hong Kong	Hong Kong	HK\$10,000	100.0	52.0	Trading in printed circuit boards
Glory Horse Industries Limited	Hong Kong	PRC	HK\$46,765,174	99.29	92.94	Manufacturing, assembling and designing of electronic products

Notes to the Financial Statements

For the year ended 31st December, 2004

37. PARTICULARS OF PRINCIPAL SUBSIDIARIES (Continued)

Name of subsidiary	Place of incorporation/ registration	Place of operation	Issued and fully paid share capital/ registered capital	Proportion of nominal value of issued share capital/ registered capital held by the attributable Company*/ to the Group		Principal activities
				%	%	
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	100.0	100.0	Investment holding
Karmay Industrial Limited	Hong Kong	Hong Kong	HK\$14,979,444	100.0	100.0	General trading and investment holding
Karmay Plastic Products (Zhuhai) Co., Ltd. (note a)	PRC	PRC	HK\$16,800,000	100.0	100.0	Manufacturing of plastic products
Melco Trading Company Limited	Hong Kong	Hong Kong	HK\$1,500,000	100.0	100.0	Trading in industrial equipment and screws
Ming Sun Enterprises Limited	Hong Kong	Hong Kong	HK\$3,000,000	100.0	100.0	Investment holding
Ming Sun Enterprises (China) Limited	Hong Kong	Hong Kong	HK\$1,000,000	100.0	100.0	Manufacturing of moulds and trading of plasticwares
Shenzhen Gainbase Printed Circuit Board Co., Limited (note b)	PRC	PRC	HK\$29,500,000	100.0	52.0	Manufacturing of printed circuit boards
Cosmos Machinery Limited (formerly Welltec Industrial Equipment Limited)	Hong Kong	Hong Kong	HK\$10,000,000	100.0	100.0	Investment holding

Notes to the Financial Statements

For the year ended 31st December, 2004

37. 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 %	
Welltec Machinery Limited	Hong Kong	Hong Kong	HK\$10,000,000	100.0	100.0	Manufacturing and trading of machinery and investment holding
Wu Xi Grand Tech Machinery Group Co. Ltd. (note b)	PRC	PRC	US\$6,586,000	51.0	51.0	Manufacturing and trading of machinery and investment holding
Wu Xi Grand Plastic Machine Manufacture Co., Ltd. (note b)	PRC	PRC	US\$2,850,000	76.0	51.0	Manufacturing and trading of machinery

Notes:

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

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

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

FINANCIAL SUMMARY

INCOME STATEMENT

	For the year ended 31st December,				2004
	2000	2001	2002	2003	
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Turnover	1,622,796	1,294,747	1,313,484	1,393,628	1,656,303
Profit (Loss) before taxation	28,497	(79,438)	56,350	52,167	70,282
Taxation	11,392	7,751	16,377	13,379	13,508
Profit (Loss) before minority interests	17,105	(87,189)	39,973	38,788	56,774
Minority interests	10,790	1,939	17,512	18,260	14,925
Profit (Loss) for the year	6,315	(89,128)	22,461	20,528	41,849

BALANCE SHEET

	At 31st December,				2004
	2000	2001	2002	2003	
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Total assets	1,645,859	1,395,069	1,586,135	1,691,715	1,836,996
Total liabilities and minority interests	974,678	815,215	984,958	1,059,912	1,156,403
Shareholders' funds	671,181	579,854	601,177	631,803	680,593