



Cosmos

Machinery

Enterprises

Limited

Annual

Report

2002



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## CORPORATE INFORMATION

### DIRECTORS

#### Executive

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

#### Non-Executive

Tang Kwan (*Honorary Chairman*)  
Shi Shanbo (*Vice Chairman*)  
Kan Wai Wah

#### Independent Non-Executive

Liang Shangli  
Yip Jeffery

### AUDIT COMMITTEE MEMBERS

Liang Shangli  
Yip Jeffery

### GENERAL MANAGER

Wong Yiu Ming

### COMPANY SECRETARY

Wu Yuk Kwai

### REGISTERED OFFICE

8th Floor, Tai Tung Industrial Building  
29-33 Tsing Yi Road  
Tsing Yi Island  
New Territories  
Hong Kong  
Tel: 2376-6188  
Fax: 2375-9626/2433-0130  
Web Site: [www.cosmel.com](http://www.cosmel.com)  
E-mail: [cmel@cosmel.com](mailto:cmel@cosmel.com)

### PRINCIPAL BANKERS

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

### SOLICITORS

Woo, Kwan, Lee & Lo

### JOINT AUDITORS

Deloitte Touche Tohmatsu  
Ting Ho Kwan & Chan

### SHARE REGISTRARS

Secretaries Limited  
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: 00118

I am pleased to present to shareholders the annual report of the Company and its subsidiaries (the "Group") for the year ended 31st December, 2002.

**RESULTS**

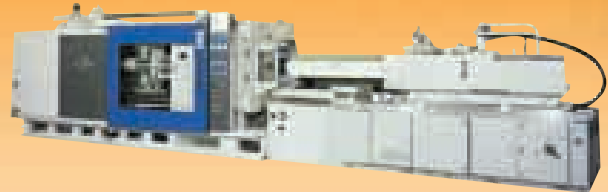
The Group's consolidated turnover for the year of 2002 was approximately HK\$1,313,484,000, representing an increase of approximately 1.45% as compared to that of approximately HK\$1,294,747,000 in 2001. During the year, the profit before taxation amounting to approximately HK\$56,350,000, whereas the loss before taxation for the year of 2001 amounted to approximately HK\$79,438,000. For the year ended 31st December, 2002, profit attributable to the shareholders was approximately HK\$23,305,000.

**DIVIDEND**

The Board propose that the profit for the period be retained and do not recommend the payment of any dividend for the year ended 31st December, 2002 (2001: Nil).

**OVERVIEW**

As the adverse market conditions in 2001 persisted, the management streamlined and strengthened its team through a vigorous and earnest business review, thereby further consolidating our corporate culture and team spirit. Meanwhile, under the effort made to enhance our management standards and to control cost, the



▲ 850 UBE Injection Moulding Machine

Group was yet able to register a total turnover roughly equal to that of last year and return to profit in the highly competitive year of 2002.

As compared with 2001, market conditions for the machinery business were relatively vibrant. However, competition remained fierce, putting much pressure on product prices. By virtue of the improvement of our management standards and realignment of our operating strategies, the Group was successful in making a turnaround. While our technical co-operation with Japan's UBE Machinery Corporation Ltd. ("UBE Japan") progressed smoothly, this had made significant contributions to the Group's market expansion and technical advancement. To better prepare for the anticipated keener market competition in the future, the R&D Center established at the year end would set the stage for integrating the Group's technical competencies and its research and development capabilities of new products.



◀ Team Building and Training Camp



◀ Plastic Hygienic Food Containers

During the year under review, plastic resin prices remained fluctuating, making it a difficult job to control the cost of our plastic processing business. As a result, the turnover dropped with profit slashed. Upon completion of business rationalization, the plastic hygienic food container business made headway towards market expansion. The new plant in Zhuhai will be ready for commercial operation in the middle of the year and is expected to bring new contribution to the Group's results.

The streamlining process in the audio product business was unable to make a turnaround yet, as the Group was not determined enough to implement its rationalization program and strategy to the full. In the year ahead, the Group will reaffirm its determination to carry out a pivotal reform.

In 2001, the printed circuit board business recorded an operating loss because of plant relocation. Yet in the year under review, we adhered to our high-end market policy and engage to invest in market expansion. As such, we managed to avoid the vicious price war in this sector. This business is now back on track to profit.

Since the hampering factor of having to make provisions for the trading business no longer existed, the Group focused on the expansion of the industrial consumable business and attached great importance to manpower training and steady expansion of its sales network during the year under review. As a result, the business made a turnaround as anticipated. We are confident that this business will be able to make long-term steady contribution.

Thanks to our restructuring and optimization efforts in 2002, we have successfully trained up and recruited a capable team on top of improvement of our business. Now that our management teams are more brilliant and dynamic, we have indeed laid a solid foundation for the even keener competition and tougher challenges ahead.



▲ Printed Circuit Board

With the domestic market in China getting to maturity and the recent accession of China to the WTO, more and more foreign investments have been spurred to set up and expand their production plants in the Mainland in recent years. China has become the de facto manufacturing centre of the world. Along with the robust development of the private enterprises, all these will bring forth valuable opportunities to the Group in developing its core businesses.

#### LIQUIDITY AND FINANCIAL RESOURCES

As at 31st December, 2002, the Group's shareholders' funds were approximately HK\$597,543,000, compared with approximately HK\$579,854,000 as at 31st December, 2001.

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, 2002 was approximately 2.7% (2001: 3.57%), and the liquidity ratio was approximately 1.28 (2001: 1.31), both were maintained at a healthy level. As at 31st December, 2002, cash, bank balances and time deposits amounted to approximately HK\$81,253,000. All these reflect that the Group is in sound financial position.

#### APPRECIATION

On behalf of the board of directors and the shareholders, I would like to extend my sincere thanks to all the employees for their efforts and hard work under the challenging market conditions.

**TANG To**  
*Chairman*

Hong Kong, 25th April, 2003



▲ Electronic Punch



# COMET





### REVIEW OF OPERATIONS

In 2002 the Group focused its efforts on developing the growing China market. We deployed necessary resources in time to increase operating efficiency and reduce cost, thereby achieving satisfactory results. The Group managed to register profit as a whole for the year ended 31st December, 2002, with particularly outstanding results in the growth in the machinery and printed circuit board businesses. Yet the audio business was hampered by the slowdown of overseas markets and undergoing a period of consolidation, hence resulting in an operating loss.

#### Manufacturing Business

##### *Machinery*

Turnover of the machinery business during the year was approximately HK\$513,702,000, representing an increase of HK\$67,986,000 or 15% over that of last year. The business in China accounted for substantial portion of the rise, while export sales showed a slight decline. Operating profit increased to approximately HK\$50,333,000.

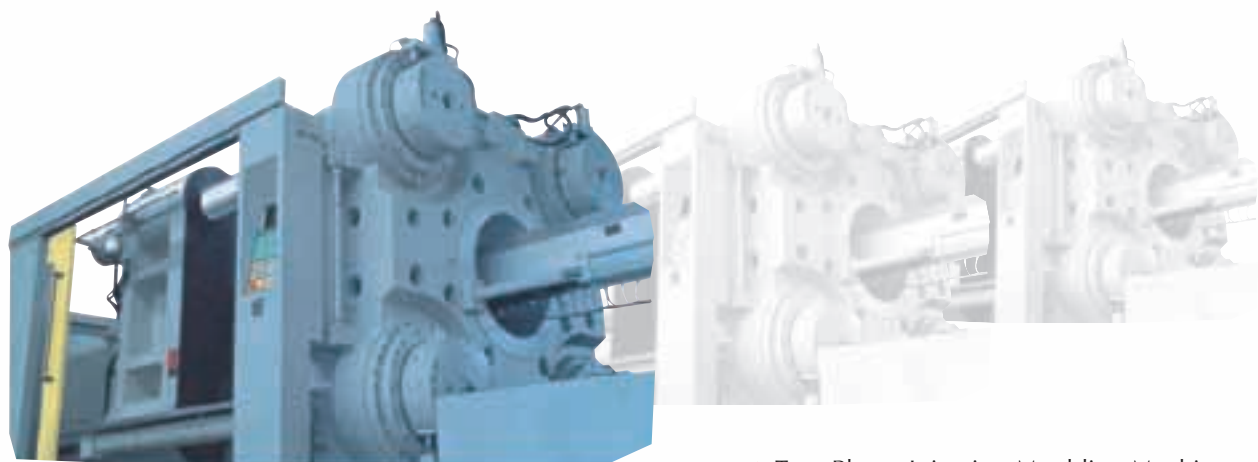
For the year under review, the machinery business has shown significant improvement, thanks to the optimization of our management teams and approach, enhancement of our sales network, and stronger customer relations management. Our new series of large-sized two-platen plastic injection moulding machines were well received in quality after their extensive use by our customers in the past year. While

sales are on a steady rise, these series now enjoy a good reputation in such sectors as automobile component processing and household appliances. It is envisaged that these series will become a core product of the Group.

In the coming year, we will inject an appropriate amount of capital to expand the scale of production and purchase additional processing facilities. Our objective for this is to manufacture quality products to meet the customers' requirements while at the same time making use of our competitive price and products to enlarge our market share gradually.

The first batch of the large injection moulding machine series manufactured in China under a technology transfer agreement with UBE Japan began delivery to our customers in late 2002. These series of technologically advanced large injection moulding machines will be the key product for the Group's development in the mainland China market.

Besides, to sustain the continuous development of our products, the Group has established a research and development centre in Dongguan, PRC with a specific responsibility of researching new products. This centre will capitalize on the Group's strength in designing machinery, electric and hydraulic machines for the purpose of developing new products to satisfy market demands.



▲ Two-Platen Injection Moulding Machine



▲ Battery-operated staplers



▲ "LUMAGNY" Plastic Illuminated Magnifier 10X & Money Detector

*Plastic Products and Processing*

The drastic upsurge in raw material prices had led to an increase in production cost and hence a cut in profit margin. In addition, external economic factors had also driven down product prices. These factors had adversely affected the export sales, both in terms of turnover and profit, making them fall short of target. For the year under review, sales of plastic processing business was approximately HK\$191,491,000, representing an increase of HK\$748,000 or 0.4% over that of last year. However, the profit was approximately HK\$17,128,000, a decline of 34% over that of last year.

The plastic hygienic food container and cutlery business focused mainly on the food packaging market in China and thus was not affected. It is anticipated that the business will post further growth when the new plant in Zhuhai becomes operational in mid-2003. As the main customers are within mainland China, the Group's plastic processing plants in Dongguan, Shuofang and Shenyang attained different degrees of development. The plastic processing plant in Dalian Development Zone also commenced operation late last year and started providing plastic processing services for household appliance and office stationery sectors in the area.

In the year ahead, it is expected that the price of plastic resin will remain unstable and have an impact on the overall profit. The Group will actively explore new overseas markets while at the same time endeavoring to improve quality and production management, including the utilization of enterprises resources planning system, so as to achieve higher efficiency and effectiveness.



▲ Plastic Hygienic Food Containers

*Printed Circuit Board*

Both the production facilities and technical levels were greatly enhanced after relocating to the new plant in mid-2001. Product quality and quantity were raised while internal communication was strengthened. These had led to better co-ordination between production and sales, resulting in successful penetration into the European and Southeast Asian markets. For the year under review, sales of the export-oriented printed circuit board had increased. Total sales amounted to HK\$200,869,000, representing an increase of HK\$30,313,000 or 18% over last year. Profit increased to approximately HK\$11,104,000. Looking forward, we will keep our two-layer printed circuit boards as our core products, targeting principally the U.S. and European markets.

In line with the expanding needs in production, we recruited additional engineers and introduced such specialized ancillary facilities as metal precipitation production line and circuit board cutting machine. The objective is to produce printed circuit board of high quality and competitiveness to meet market demand.

## MANAGEMENT DISCUSSION AND ANALYSIS

While maintaining two-layer printed circuit boards as our core product, we will gradually expand into the multi-layer printed circuit board market. It is anticipated that sales of multi-layer printed circuit boards will experience a steady growth in the coming year.



▲ Printed Circuit Board

### Audio Products

As this business was still in consolidation stage, along with drastic changes in the overseas audio market, sales of audio products suffered a direct blow. Performance at such major markets as Europe and Japan was not satisfactory. Market conditions were harsher than last year. During the year under review, sale of audio products was approximately HK\$173,984,000, representing a decrease of HK\$80,681,000 or 32% as compared with that of last year. Operation loss was approximately HK\$12,104,000.

In the future, we will uphold the strategy of stringent supervision and control of material cost with the goal of reducing operating loss and reaching breakeven ultimately. In the area of production, measures will be implemented to localize production and streamline manpower needs to control cost and reduce expenses.



▲ Micro Music Centre with Vertical CD Player & PLL Tuner

### Trading Business

#### Industrial Consumables

Turnover declined slightly over that of last year, mainly because the Group had reduced the scale of machine business that operated with low gross profit margin. Sales volume of industrial consumables such as steel wire and fasteners was marginally better than anticipated. After completion of the asset rationalization, the business made a turnaround. During the year under review, turnover was HK\$204,484,000, representing a decrease of HK\$5,908,000 or 3% over last year. Operating profit increased to approximately HK\$15,473,000.



▲ Industrial Fasteners

Adhering to our trading principles of fully understanding the current and future needs of our customers and meeting and even surpassing their expectations, we worked hard to enhance our employees' understanding of the application technology of our products and their service standards during the year under review; and set up additional sales points in Beijing, Chengdu and Qingdao to expand our sales network and supply centres. It is envisaged that the industrial consumables business will achieve a fairly satisfactory growth in the year ahead.

### PROSPECTS

In the years ahead, China will remain its economic momentum despite the sluggish recovery of the global economy as a whole. This is attributable to China's persistent policy in stimulating domestic demand, its proactive yet healthy macroeconomic policy and the

prime opportunities brought forward by the accession to the WTO. The Group's target markets will be the Yangtze Delta, Pearl River Delta and Baohai Bay regions where the Group will try its best to enhance the quality standards and competitiveness of its key products to meet market demands.

To realize the above objectives, the Group will spare no efforts in strengthening its management by retaining the right professionals from the mainland and overseas as well as providing ongoing training for existing employees, so as to lay a solid foundation for the sustainable development of the Group's core businesses.

The Group's principal business remains to be machinery. The Group will inject capital as and when necessary to purchase advanced processing facilities and to enlarge production capacity to an appropriate level so that it can keep in line with market development. Through the introduction of advanced technology from overseas and based on the Group's R&D strength, we will strive to offer machinery products that are really efficient and high quality at reasonable prices which, in turn, will strengthen the Group's competitive edge and profit-making capability.

Meanwhile our plastic business will be focusing on the mainland China market, with foreign enterprises, and large and medium-sized private enterprises as target customers. By virtue of the brand name built on plastic injection moulding machinery and the well-established sales network, the Group envisages that there will be more satisfactory development for the plastic business in the mainland China market.



▲ AC Servo System



▲ F Series Injection Moulding Machine

## MANAGEMENT DISCUSSION AND ANALYSIS

<b>Financial Statistical Highlights</b>	<b>2002 HK\$'000</b>	<b>2001 HK\$'000</b>
<b>Operating results</b>		
Turnover	1,313,484	1,294,747
Profit (loss) from operations	55,929	(74,911)
Profit (loss) before taxation	56,350	(79,438)
Profit (loss) attributable to shareholders	23,305	(89,128)
Earning (loss) per share – Basic (cents)	3.64	(13.91)
Earning (loss) per share – Diluted (cents)	N/A	N/A
Dividends per share (cents)	–	–
Dividend payout	–	–
<b>Financial position at year end</b>		
Total assets	1,570,527	1,395,069
Fixed assets	453,903	466,486
Quick assets	579,108	470,573
Net current assets	221,440	201,893
Shareholders' Funds	597,543	579,854
Net asset value per share (cents)	93	90
<b>Financial statistics</b>		
Current ratio	1.28	1.31
Quick asset ratio	0.73	0.72
Gearing ratio	0.03	0.04
Total debt ratio	1.36	1.16

### EXECUTIVE DIRECTORS

**Mr. Tang To**, aged 54, Chairman of the Company, has served on the Board of Directors since the listing of the Company in 1988. He was appointed as an Executive Director and Chairman of the Company on 18th September, 1997. Mr. Tang has over 29 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.

**Ms. Zhou Junqing**, aged 49, holds a Bachelor's degree in Wireless Technology from Tsinghua University in China. Ms. Zhou joined China Resources (Holdings) Co., Ltd. in 1986. She has over 10 years' experience in international trade and corporate management in cement industry. She is the Executive Director and Deputy General Manager of China Resources Machinery and Minmetals (Holdings) Co., Ltd. as well as a standing member of the 5th Executive Committee of China Cement Association.

**Mr. Wong Yiu Ming**, aged 49, has more than 19 years of experience in sales, marketing and general management. Mr. Wong joined Welltec in 1982. He holds a Bachelor of Science degree in Engineering and a Master degree in Business Administration. Mr. Wong was appointed as the General Manager of the Company on 1st February, 1999. He is responsible for the strategic planning and general management of the Group.

### NON-EXECUTIVE DIRECTORS

**Mr. Tang Kwan**, aged 79, is one of the founders of the Company. He has over 40 years of experience in machinery trading in Hong Kong and the PRC. Mr. Tang was appointed as a Non-Executive Director and Honorary Chairman on 18th September, 1997. Mr. Tang is the father of Mr. Tang To.

**Mr. Shi Shanbo**, aged 37, the Vice Chairman of the Company, holds a Master's degree in Economics from Dongbei University of Finance and Economics. Mr. Shi joined China Resources (Holdings) Co., Ltd. in 1991. He has years of experience in corporate financial management. He had been the Deputy Manager of Finance Department of China Resources (Holdings) Co., Ltd. He is the Executive Director and General Manager of China Resources Machinery & Minmetals (Holdings) Co., Ltd.

**Mr. Liang Shangli**, aged 83, graduated from the University of Canton. He has been an Independent Non-Executive Director of the Company since 1988. Mr. Liang is the Honorary Vice-Chairman of both the All China Federation of Industry & Commerce and the Guangzhou Trust & Investment Corporation as well as an ex-member of CPPCC All China Standing Committee. He is also the Honorary President of both the Guangdong Federation of Industry and Commerce and the Guangzhou Federation of Industry and Commerce.

**Mr. Yip Jeffery**, aged 69, is a registered optometrist in Hong Kong. Mr. Yip is the President of the Hong Kong Eye Foundation Limited, the Past President of the Hong Kong Optometric Association Limited, the Past President and the Honorary Life President of the Hong Kong Contact Lens Research Association Limited. Mr. Yip was appointed as an Independent Non-Executive Director of the Company in August 1994.

**Mr. Kan Wai Wah**, aged 45 is an Executive Director and General Manager of Maritime Square Treasure Seafood Restaurant Limited. He has over 21 years of experience in the management of restaurant operations. Mr. Kan holds a Higher Diploma in Accountancy. He was appointed as a Non-Executive Director of the Company on 22nd May, 1998.

## DIRECTORS AND SENIOR MANAGEMENT

### SENIOR MANAGEMENT

**Mr. Ho Kwong Sang**, aged 47, joined Welltec in 1982, is the Chief Financial Officer of the Group. He is responsible for the financial management and general administration of the Group. Mr. Ho holds a Bachelor of Arts degree and a Diploma in Management Studies. He is an Associate Member of the Hong Kong Society of Accountants, a Fellow member of the Hong Kong Institute of Company Secretaries and a member of Hong Kong Securities Institute.

**Mr. Ma Kei Fat**, 62 years old, has obtained a university degree in 1963. He has 19 years of experience in international trading of machinery and investment management and is familiar with the economy and law of China. He is presently the Assistant General Manager of the Company.

**Mr. Yan Wing Fai**, aged 42, graduated from the University of Hong Kong in Social Sciences. He has over 17 years of experience in production and sales management of machines related business and has managed one of the biggest plastics machinery company in the PRC. He joined the Group in April, 2002 as the Deputy General Manager and is responsible for the general management of machines related business.

**Mr. So Kar Lun**, aged 49, has more than 20 years of experience in manufacturing, marketing and general administrative management. Mr. So holds a Bachelor of Science degree in Engineering and Master of Arts degree in Marketing. He joined Welltec in 1982 and is currently the Managing Director of Welltec.

**Mr. Wan Ming Sang**, aged 58, 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 55, has over 30 years of experience in electronic manufacturing and management. Mr. Cheung holds a Diploma in Electrical Engineering from Hong Kong Technical College and a Certificate in Management from Hong Kong Management Association. He is also an Associate Member of The American Society of Quality Control Engineers. He joined the Group in 1996 and is currently the General Manager of Glory Horse Industries Limited, which is engaged in the manufacture of electronic products.

**Mr. Chan Kwok Hing**, aged 57, joined the Group in 1975. He holds a Higher Diploma in Production Engineering. Mr. Chan is the General Manager of a subsidiary which is engaged in the manufacture of optical instruments.

**Mr. Yip Kar Shun**, aged 56, has over 25 years of experience in electronic production and management. He joined the Group in 1994. Mr. Yip is the General Manager of the subsidiaries which are engaged in the manufacture of printed circuit boards.

**Mr. Cheng Tak Yin**, aged 64, has over 35 years of experience in business management. Mr. Cheng joined the Group in 1972 and is the General Manager of a subsidiary which is engaged in the trading of industrial consumables.

**Mr. Li Sik Hong**, aged 42, has more than 19 years of experience in manufacturing and production management. Mr. Li holds a Bachelor of Science degree in Engineering and a Master of Science degree in Flexible Manufacturing Systems and Robotics. He joined Welltec in 1984 and is currently the Deputy General Manager of Dong Hua Machinery Limited.

**Mr. Li Tin Loi**, aged 39, 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 16 years of experience in marketing and management. Mr. Li joined the Group in 1992 and is currently the General Manager of a subsidiary, which is engaged in the trading of industrial equipment and components.

The directors have pleasure in presenting their annual report and the audited financial statements of the Company for the year ended 31st December, 2002.

#### PRINCIPAL ACTIVITIES

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

#### RESULTS

The results of the Group for the year ended 31st December, 2002 are set out in the consolidated income statement on page 21 of the annual report.

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

#### MAJOR CUSTOMERS AND SUPPLIERS

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

#### INVESTMENT PROPERTIES AND PROPERTY, PLANT AND EQUIPMENT

The investment properties, leasehold land and buildings of the Group were revalued on 31st December, 2002. The resulting deficit arising on revaluation of these properties attributable to the Group has been charged to the asset revaluation reserve and the consolidated income statement.

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

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

#### SHARE CAPITAL AND WARRANTS

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



## REPORT OF THE DIRECTORS

### SHARE OPTIONS SCHEME

Particulars of the Company's share option scheme (the "Scheme") are set out in note 27 to the financial statements.

The following table discloses details of the Company's share options held by employees (including directors) at 31st December, 2002:

Name	Date of grant	Exercise period	Exercise price	Number of share options outstanding at 31.12.2001 and 31.12.2002
			HK\$	
Mr. Tang To	23.6.2001	21.10.2001 to 19.7.2003	0.41	2,100,000
Mr. Wong Yiu Ming	23.6.2001	21.10.2001 to 19.7.2003	0.41	1,500,000
Aggregate total of employees	23.6.2001	21.10.2001 to 19.7.2003	0.41	8,600,000
				12,200,000

### DIRECTORS

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

*Executive directors:*

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

*Non-executive directors:*

Mr. Tang Kwan, Honorary Chairman  
Mr. Shi Shanbo, Vice Chairman (appointed on 17th September, 2002)  
Mr. Wu Jun, Vice Chairman (resigned on 17th September, 2002)  
Mr. Kan Wai Wah

*Independent non-executive directors:*

Mr. Liang Shangli  
Mr. Yip Jeffery

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

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

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

The non-executive directors and independent non-executive directors were not appointed for a specific term but subject to retirement by rotation and re-appointment in accordance with Article 103 of the Company's Articles of Association.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS IN SHARES, OPTIONS AND WARRANTS

As at 31st December, 2002, according to the register required to be maintained under section 29 of the Securities (Disclosure of Interests) Ordinance ("SDI Ordinance"), the interests of directors, chief executive and their associates in the share capital of the Company (within the meaning of the SDI Ordinance) were as follows:

(i) Interests in shares of the Company

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

Notes:

- (1) As at 31st December, 2002, 3,145,824 shares were held by Ginta Company Limited ("Ginta") which is wholly owned by a company which in turn is owned as to 50% by Mr. Tang To and 50% by his spouse.
- (2) As at 31st December, 2002, Mr. Tang Kwan was deemed to be interested in the block of 270,086,411 shares under the SDI Ordinance through his deemed interests in Codo Development Limited ("Codo"). As at 31st December, 2002, Codo through its wholly owned subsidiaries, Cosmos Machinery (Holdings) Limited ("Cosmos Holdings") and Tai Shing Agencies Limited ("Tai Shing") was deemed to be interested in 270,086,411 shares. Codo is incorporated in Hong Kong and is owned as to (i) 25.06% by Keepsound Investments Limited ("Keepsound"), a Hong Kong company controlled by The Saniwell Trust, a trust established for the benefit of Mr. Tang Kwan's family, of which the spouse of Mr. Tang Kwan is one of the beneficiaries; (ii) 8.37% by Elegant Power Enterprises Limited ("Elegant Power"); (iii) 30.25% by Friendchain Investments Limited ("Friendchain"), a Hong Kong company controlled as to 40% by Elegant Power, as to 57.42% by The Saniwell Trust and as to 2.58% by Fullwin Limited; (iv) 16.09% by Yik Wan Company Limited ("Yik Wan"); and (v) 20.23% by 7 individuals.

(ii) Interests in options to subscribe for shares

Name of directors	Number of share options outstanding at 31.12.2001 and 31.12.2002	Exercise price	Exercise period
Mr. Tang To	2,100,000	0.41	21.10.2001 to 19.07.2003
Mr. Wong Yiu Ming	1,500,000	0.41	21.10.2001 to 19.07.2003

## REPORT OF THE DIRECTORS

### (iii) Interests in warrants of the Company

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

Notes:

1. The 1,169,164 warrants are beneficially owned as to 629,164 warrants by Ginta and as to 540,000 warrants by Mr. Tang To. Mr. Tang To is deemed to be beneficially interested in the whole block of 1,169,164 warrants by virtue of his interest in Ginta.
2. The 54,017,282 warrants are beneficially owned as to 23,089,200 warrants by Cosmos Holdings, and as to 30,928,082 warrants by Tai Shing. Mr. Tang Kwan is deemed to be beneficially interested in the whole block of 54,017,282 warrants by virtue of his interests in Cosmos Holdings and Tai Shing.

### SUBSTANTIAL SHAREHOLDERS

Other than the interests disclosed above in respect of certain directors and their associates, details of the interests representing 10% or more of the issued share capital of the Company as at 31st December, 2002 recorded in the register of substantial shareholders maintained by the Company pursuant to section 16(1) of the SDI Ordinance were as follows:

Name of shareholders	Number of shares held		Percentage of issued share capital
	Direct interest	Deemed interest	
Cosmos Holdings	115,446,000	154,640,411 (Note 1)	42.15
Ms. Law Kit Fong	–	270,086,411 (Note 2)	42.15
Tai Shing	150,640,411 (Note 1)	–	24.13
China Resources (Holdings) Company Limited ("CRC")	148,576,081	5,650,325 (Note 3)	24.07

Notes:

- (1) Cosmos Holdings is interested in 154,640,411 shares through its subsidiary, Tai Shing.
- (2) Ms. Law Kit Fong is deemed to be interested in the block of 270,086,411 shares through her indirect interests in Codo. As at 31st December, 2002, Codo through its wholly owned subsidiaries, Cosmos Holdings and Tai Shing, was deemed to be interested in 270,086,411 shares.
- (3) CRC is interested in 5,650,325 shares through its subsidiary, China Resources Machinery Company Limited.

Save as disclosed above, the Company has not been notified by any shareholders of any other interests representing 10% or more of the issued share capital of the Company as at 31st December, 2002.

#### DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

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

#### DIRECTORS' AND CHIEF EXECUTIVES' RIGHTS TO ACQUIRE SHARES OR DEBT SECURITIES

Other than as disclosed above, at no time during the year was the Company or any of its holding companies, subsidiaries or fellow subsidiaries a party to any arrangements to enable the directors of the Company to acquire benefits by means of the acquisition of shares in or debt securities, including debentures, of the Company or any other body corporate; and none of the directors, their spouses or children under the age of 18, had any right to subscribe for the securities of the Company, or had exercised any such rights.

#### EMPLOYEES AND REMUNERATION POLICY

As at 31st December, 2002, the Group has approximately 6,000 employees (2001: 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

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

#### AUDIT COMMITTEE

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

#### CODE OF BEST PRACTICE

The Company has complied throughout the year with the Code of Best Practice as set out in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited.

#### JOINT AUDITORS

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

On behalf of the Board  
**TANG To**  
*Chairman*

Hong Kong, 25th April, 2003

## JOINT AUDITORS' REPORT

### DELOITTE TOUCHE TOHMATSU

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

### TING HO KWAN & CHAN

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

Hong Kong, 25th April, 2003

### 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 21 to 62 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

### RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Companies Ordinance requires the directors to prepare financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

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

### BASIS OF OPINION

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

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

### OPINION

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31st December, 2002 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the Companies Ordinance.

### DELOITTE TOUCHE TOHMATSU

*Certified Public Accountants*

### TING HO KWAN & CHAN

*Certified Public Accountants*

## CONSOLIDATED INCOME STATEMENT

	Notes	2002 HK\$	2001 HK\$
Turnover		<b>1,313,483,603</b>	1,294,746,794
Cost of sales	5	<b>(1,006,499,127)</b>	(1,057,917,955)
Gross profit		<b>306,984,476</b>	236,828,839
Other operating income	6	<b>37,067,533</b>	37,922,342
Distribution costs		<b>(83,546,119)</b>	(87,319,108)
Administrative expenses		<b>(197,060,264)</b>	(213,555,080)
Other operating expenses		<b>(3,657,005)</b>	(7,603,213)
Allowance for bad and doubtful debts		<b>(3,860,061)</b>	(41,184,726)
Profit (loss) from operations	7	<b>55,928,560</b>	(74,910,946)
Finance costs	8	<b>(19,139,434)</b>	(24,222,026)
Investment income	9	<b>1,524,465</b>	602,125
(Loss) gain on disposal of subsidiaries		<b>(2,824,013)</b>	5,301,123
Loss on disposal of associates		–	(615,174)
Share of results of associates		<b>18,654,370</b>	14,407,053
Release of negative goodwill of an associate		<b>2,206,011</b>	–
Profit (loss) before taxation		<b>56,349,959</b>	(79,437,845)
Taxation	11	<b>15,833,109</b>	7,751,293
Profit (loss) before minority interests		<b>40,516,850</b>	(87,189,138)
Minority interests		<b>17,211,868</b>	1,939,232
Net profit (loss) for the year		<b>23,304,982</b>	(89,128,370)
Earnings (loss) per share – basic	12	<b>3.64 cents</b>	(13.91) cents

# CONSOLIDATED BALANCE SHEET

At 31st December, 2002

	Notes	2002 HK\$	2001 HK\$
<b>Non-current Assets</b>			
Investment properties	13	24,400,000	24,400,000
Property, plant and equipment	14	429,503,425	442,085,553
Goodwill	15	4,838,939	3,824,969
Negative goodwill	16	(242,053)	(1,061,831)
Interests in associates	18	85,987,768	59,539,404
Investments in securities	19	10,605,075	12,115,611
		<b>555,093,154</b>	<b>540,903,706</b>
<b>Current Assets</b>			
Inventories	20	436,326,308	383,592,006
Trade and other receivables	21	470,971,218	409,003,144
Bills receivable		6,223,384	4,045,011
Tax recoverable		2,483,556	2,357,404
Pledged bank deposits		18,176,157	1,106,709
Bank balances and cash		81,253,479	54,061,121
		<b>1,015,434,102</b>	<b>854,165,395</b>
<b>Current Liabilities</b>			
Trade and other payables	22	477,631,869	374,306,806
Bills payable		96,700,413	63,527,564
Amounts due to associates		1,440,584	579,491
Tax payable		10,130,919	3,374,234
Borrowings – due within one year	23	178,787,445	179,080,141
Obligations under finance leases – due within one year	24	4,246,239	7,800,576
Bank overdrafts		25,056,386	23,603,157
		<b>793,993,855</b>	<b>652,271,969</b>
<b>Net Current Assets</b>		<b>221,440,247</b>	<b>201,893,426</b>
		<b>776,533,401</b>	<b>742,797,132</b>

	Notes	2002 HK\$	2001 HK\$
<b>Capital and Reserves</b>			
Share capital	25	256,335,294	256,335,294
Reserves		341,207,891	323,518,457
		<b>597,543,185</b>	579,853,751
<b>Minority Interests</b>			
		<b>162,862,511</b>	142,027,007
<b>Non-current Liabilities</b>			
Borrowings – due after one year	23	12,000,472	12,393,960
Obligations under finance leases – due after one year	24	4,127,233	8,278,133
Deferred taxation	29	–	244,281
		<b>16,127,705</b>	20,916,374
		<b>776,533,401</b>	742,797,132

The financial statements on pages 21 to 62 were approved and authorised for issue by the Board of Directors on 25th April, 2003 and are signed on its behalf by:

**TANG To**  
DIRECTOR

**WONG Yiu Ming**  
DIRECTOR



# BALANCE SHEET

At 31st December, 2002

	Notes	2002 HK\$	2001 HK\$
<b>Non-current Assets</b>			
Property, plant and equipment	14	4,694,529	5,526,935
Interests in subsidiaries	17	625,171,628	638,676,825
Interests in associates	18	2,593,272	2,538,401
Investments in securities	19	4,518,758	4,581,794
		<b>636,978,187</b>	651,323,955
<b>Current Assets</b>			
Trade and other receivables		3,357,387	5,703,383
Tax recoverable		1,149,335	1,149,335
Bank balances and cash		63,562	72,201
		<b>4,570,284</b>	6,924,919
<b>Current Liabilities</b>			
Trade and other payables		3,335,557	3,146,670
Amounts due to subsidiaries		10,219,521	9,201,801
Amount due to an associate		357,318	357,707
Borrowings – due within one year	23	10,000,000	10,000,000
Bank overdrafts		2,890,283	10,287,318
		<b>26,802,679</b>	32,993,496
<b>Net Current Liabilities</b>		<b>(22,232,395)</b>	(26,068,577)
		<b>614,745,792</b>	625,255,378
<b>Capital and Reserves</b>			
Share capital	25	256,335,294	256,335,294
Reserves	28	358,410,498	368,920,084
		<b>614,745,792</b>	625,255,378

**TANG To**  
DIRECTOR

**WONG Yiu Ming**  
DIRECTOR

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital HK\$	Share premium HK\$	Asset revaluation reserve HK\$	Translation reserve HK\$	Statutory reserve HK\$	Retained profits HK\$	Total HK\$
At 1st January, 2001	256,332,574	267,148,838	55,876,667	(15,872,550)	594,457	107,100,855	671,180,841
Exchange differences arising from translation of overseas operations	–	–	–	3,683,555	–	–	3,683,555
Deficit arising on revaluation	–	–	(5,911,454)	–	–	–	(5,911,454)
Net (losses) gains not recognised in the income statement	–	–	(5,911,454)	3,683,555	–	–	(2,227,899)
Issue of shares	2,720	–	–	–	–	–	2,720
Realised on disposal of subsidiaries	–	–	–	26,459	–	–	26,459
Loss for the year	–	–	–	–	–	(89,128,370)	(89,128,370)
	2,720	–	–	26,459	–	(89,128,370)	(89,099,191)
At 31st December, 2001 and 1st January, 2002	256,335,294	267,148,838	49,965,213	(12,162,536)	594,457	17,972,485	579,853,751
Exchange differences arising from translation of overseas operations	–	–	–	(976,267)	–	–	(976,267)
Deficit arising on revaluation	–	–	(4,639,783)	–	–	–	(4,639,783)
Net losses not recognised in the income statement	–	–	(4,639,783)	(976,267)	–	–	(5,616,050)
Realised on disposal of subsidiaries	–	–	–	502	–	–	502
Profit for the year	–	–	–	–	–	23,304,982	23,304,982
	–	–	–	502	–	23,304,982	23,305,484
At 31st December, 2002	256,335,294	267,148,838	45,325,430	(13,138,301)	594,457	41,277,467	597,543,185

# CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31st December, 2002

Notes	2002 HK\$	2001 HK\$
<b>OPERATING ACTIVITIES</b>		
Profit (loss) from operations	<b>55,928,560</b>	(74,910,946)
Adjustments for:		
Depreciation and amortisation of property, plant and equipment	<b>60,001,248</b>	54,826,055
Amortisation of goodwill	<b>3,091,571</b>	5,541,778
Release of negative goodwill	<b>(701,230)</b>	(6,425,434)
Loss on disposal of property, plant and equipment	<b>2,278,044</b>	3,423,592
Deficit arising on revaluation of investment properties	<b>–</b>	1,350,000
Deficit arising on revaluation of leasehold land and buildings	<b>565,434</b>	711,435
Allowance for bad and doubtful debts	<b>3,860,061</b>	41,184,726
Allowance for obsolete inventories	<b>5,919,558</b>	28,075,161
Operating cash flows before movements in working capital	<b>130,943,246</b>	53,776,367
(Increase) decrease in inventories	<b>(61,569,612)</b>	69,883,098
(Increase) decrease in trade and other receivables	<b>(74,083,818)</b>	91,008,795
Increase in bills receivable	<b>(2,178,373)</b>	(1,912,109)
Increase (decrease) in trade and other payables	<b>110,312,789</b>	(102,273,492)
Increase (decrease) in bills payable	<b>33,172,849</b>	(45,214,791)
Cash generated from operations	<b>136,597,081</b>	65,267,868
Tax outside Hong Kong paid	<b>(4,634,730)</b>	(8,316,593)
Hong Kong Profits Tax paid	<b>(2,493,055)</b>	(3,432,936)
<b>NET CASH FROM OPERATING ACTIVITIES</b>	<b>129,469,296</b>	53,518,339
<b>INVESTING ACTIVITIES</b>		
Purchase of property, plant and equipment	<b>(64,762,957)</b>	(88,128,158)
(Increase) decrease in pledged bank deposits	<b>(17,069,448)</b>	764,988
Acquisition of associates	<b>(10,198,595)</b>	(4,800,000)
Disposal of subsidiaries	<b>(1,069,318)</b>	1,426,523
Acquisition of additional shareholding in subsidiaries from minority shareholders	<b>(468,949)</b>	(3,428,749)
Amounts (advanced to) repaid by associates	<b>(130,537)</b>	19,056,093
Proceeds from disposal of property, plant and equipment	<b>5,760,544</b>	10,619,577
Dividend received from an associate	<b>1,980,378</b>	–
Interest received	<b>1,408,333</b>	1,437,509
Proceeds from disposal of investments in securities	<b>1,323,775</b>	3,151,215
Dividends received from investments in securities	<b>233,647</b>	838,068
Amounts repaid by investee companies	<b>69,246</b>	460,622
Acquisition of investments in securities	<b>–</b>	(354,531)
Proceeds from disposal of associates	<b>–</b>	1,853,079
<b>NET CASH USED IN INVESTING ACTIVITIES</b>	<b>(82,923,881)</b>	(57,103,764)

## CONSOLIDATED CASH FLOW STATEMENT

Notes	2002 HK\$	2001 HK\$
<b>FINANCING</b>		
Repayment of bank loans	(175,354,120)	(27,136,967)
Interest paid	(19,139,434)	(24,222,026)
Repayment of obligations under finance leases	(7,960,913)	(12,332,738)
Dividends paid to minority shareholders of subsidiaries	(4,607,903)	(9,215,735)
Repayment of other loans	(985,306)	(810,697)
Bank loans raised	180,525,899	45,278,006
Capital contributed by minority shareholders of subsidiaries	4,713,669	3,132,467
Other loans raised	1,081,940	–
Amounts advanced from (repaid to) associates	861,093	(843,590)
Proceeds from issue of shares	–	2,720
<b>NET CASH USED IN FINANCING</b>	<b>(20,865,075)</b>	<b>(26,148,560)</b>
<b>INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>25,680,340</b>	<b>(29,733,985)</b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR</b>	<b>30,457,964</b>	<b>60,813,027</b>
<b>EFFECT OF FOREIGN EXCHANGE RATE CHANGES</b>	<b>58,789</b>	<b>(621,078)</b>
<b>CASH AND CASH EQUIVALENTS AT END OF THE YEAR</b>	<b>56,197,093</b>	<b>30,457,964</b>
<b>ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS</b>		
Bank balances and cash	81,253,479	54,061,121
Bank overdrafts	(25,056,386)	(23,603,157)
	<b>56,197,093</b>	<b>30,457,964</b>

## 1. GENERAL

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

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

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

In the current year, the Group adopted, for the first time, a number of new and revised Statements of Standard Accounting Practice ("SSAP(s)") issued by the Hong Kong Society of Accountants, which has resulted in the adoption of the following new and revised accounting policies. The adoption of these new and revised SSAPs resulted in a change in the format of presentation of the cash flow statement and the presentation of a statement of changes in equity, but has had no material effect on the results for the current or prior accounting periods. Accordingly, no prior period adjustment is required.

### Foreign currencies

The revisions to SSAP 11 "Foreign Currency Translation" have eliminated the choice of translating the income statements of overseas operations at the closing rate for the year, the policy previously followed by the Group. They are now required to be translated at an average rate. This change in accounting policy has not had any material effect on the results for the current or prior accounting periods.

### Cash flow statements

Under SSAP 15 (Revised) "Cash Flow Statements", cash flows are now classified under three headings – operating, investing and financing, rather than the previous five headings. Interest and dividends received or paid, which were previously presented under a separate heading, are classified as investing or financing cash flows. Cash flows arising from taxation are classified as operating activities, unless they can be separately identified with investing or financing activities.

### Employee benefits

SSAP 34 "Employee Benefits" introduces measurement rules for employee benefits, including retirement benefit plans. Because the Group participates only in defined contribution retirement benefit schemes, the adoption of SSAP 34 has not had any material impact on the financial statements.

### 3. SIGNIFICANT ACCOUNTING POLICIES

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

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

#### **Basis of consolidation**

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31st December each year. The results of the subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

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

#### **Goodwill**

Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary at the date of acquisition.

Goodwill is capitalised and amortised on a straight-line basis over its useful economic life. Goodwill arising on the acquisition of 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.

Negative goodwill is presented as a deduction from assets and is released to income based on an analysis of the circumstances from which the balance resulted.

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

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

### 3. SIGNIFICANT ACCOUNTING POLICIES *continued*

#### **Property, plant and equipment**

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

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

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

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

#### **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.

### 3. SIGNIFICANT ACCOUNTING POLICIES continued

#### **Investment properties** continued

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

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

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

#### **Properties under construction**

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

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

#### **Investments in subsidiaries**

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

#### **Interests in associates**

The consolidated income statement includes the Group's share of the post-acquisition results of its associates for the year. In the consolidated balance sheet, interests in associates are stated at the Group's share of net assets of the associates less any 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.



**3. SIGNIFICANT ACCOUNTING POLICIES** *continued***Investments in securities**

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

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

**Inventories**

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

**Turnover**

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

**Revenue recognition**

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

Rental income, including rentals invoiced in advance from properties under operating leases, is recognised on a straight line basis over the period of the leases.

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

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

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

**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, 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

### 3. SIGNIFICANT ACCOUNTING POLICIES *continued*

#### **Leases**

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

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

#### **Taxation**

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

#### **Retirement benefits schemes**

Payments to defined contribution retirement plans, state-managed retirement benefit 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.

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:

**2002**

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

Inter-segment sales are charged at prevailing market rates.

**RESULT**

Segment result	15,473,195	17,128,434	50,333,064	(12,104,482)	11,103,718	(2,701,561)	1,701,965	80,934,333
Unallocated corporate expenses								(25,005,773)
Profit from operations								55,928,560
Finance costs								(19,139,434)
Investment income								1,524,465
Loss on disposal of subsidiaries	(945,181)		(581,843)	(894,427)		(402,562)		(2,824,013)
Share of results of associates						18,654,370		18,654,370
Release of negative goodwill of an associate						2,206,011		2,206,011
Profit before taxation								56,349,959
Taxation								15,833,109
Profit before minority interests								40,516,850

**4. BUSINESS AND GEOGRAPHICAL SEGMENTS** *continued***Business segments** *continued***BALANCE SHEET**

	Industrial consumables HK\$	Plastic processing products HK\$	Machinery HK\$	Audio products HK\$	Printed circuit boards HK\$	Other operations HK\$	Consolidated HK\$
<b>ASSETS</b>							
Segment assets	100,260,454	193,342,144	886,266,862	98,548,298	128,574,549	62,380,842	1,469,373,149
Interests in associates			6,017,966			79,969,802	85,987,768
Investments in securities						10,605,075	10,605,075
Unallocated corporate assets							4,561,264
Consolidated total assets							1,570,527,256
<b>LIABILITIES</b>							
Segment liabilities	53,518,599	47,403,371	342,332,234	71,420,559	64,864,104	14,707,227	594,246,094
Tax payable							10,130,919
Borrowings							199,161,389
Unallocated corporate liabilities							6,583,158
Consolidated total liabilities							810,121,560
<b>OTHER INFORMATION</b>							
Addition of goodwill	–	–	859,593	–	–	3,654,981	4,514,574
Capital additions	478,253	32,439,979	22,918,172	3,293,008	5,665,594	252,311	65,047,317
Depreciation and amortisation	822,588	19,057,911	20,045,619	11,543,660	10,123,141	1,499,900	63,092,819
Other non-cash expenses	1,977,362	–	5,274,318	2,608,830	218,584	265,959	10,345,053

4. BUSINESS AND GEOGRAPHICAL SEGMENTS *continued*

**Business segments** *continued*

2001

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

Inter-segment sales are charged at prevailing market rates.

**RESULT**

Segment result	(25,838,440)	26,091,830	(20,127,230)	(18,743,312)	(420,575)	(21,737,975)	13,708,003	(47,067,699)
Unallocated corporate expenses								(27,843,247)
Loss from operations								(74,910,946)
Finance costs								(24,222,026)
Investment income								602,125
Gain (loss) on disposal of subsidiaries	1,327,688		(222,057)			4,195,492		5,301,123
Loss on disposal of associates						(615,174)		(615,174)
Share of results of associates						14,407,053		14,407,053
Loss before taxation								(79,437,845)
Taxation								7,751,293
Loss before minority interests								(87,189,138)

4. BUSINESS AND GEOGRAPHICAL SEGMENTS *continued***Business segments** *continued**BALANCE SHEET*

	Industrial consumables HK\$	Plastic processing products HK\$	Machinery HK\$	Audio products HK\$	Printed circuit boards HK\$	Other operations HK\$	Consolidated HK\$
<b>ASSETS</b>							
Segment assets	108,688,165	174,262,386	745,605,686	115,978,212	109,315,269	55,979,521	1,309,829,239
Interests in associates			6,389,314			53,150,090	59,539,404
Investments in securities						12,115,611	12,115,611
Unallocated corporate assets							<u>13,584,847</u>
Consolidated total assets							<u>1,395,069,101</u>
<b>LIABILITIES</b>							
Segment liabilities	55,376,032	18,876,468	250,073,755	68,708,722	46,942,842	8,247,504	448,225,323
Tax payable							3,618,515
Borrowings							207,552,810
Unallocated corporate liabilities							<u>13,791,695</u>
Consolidated total liabilities							<u>673,188,343</u>
<b>OTHER INFORMATION</b>							
Addition of goodwill	229,000	–	–	–	–	4,076,166	4,305,166
Capital additions	2,291,403	20,197,971	30,798,636	8,580,916	36,580,008	734,227	99,183,161
Depreciation and amortisation	2,116,663	17,971,001	19,324,010	10,848,921	7,129,705	2,977,533	60,367,833
Other non-cash expenses	15,469,020	–	44,141,639	3,481,743	232,200	7,996,720	71,321,322

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	
	2002 HK\$	2001 HK\$
Hong Kong	350,955,038	348,254,027
PRC	681,036,467	600,824,161
Other Asia-Pacific countries	112,213,694	142,798,547
Europe	82,359,380	123,181,733
North America	86,919,024	79,688,326
	<b>1,313,483,603</b>	<b>1,294,746,794</b>

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	
	2002 HK\$	2001 HK\$	2002 HK\$	2001 HK\$
Hong Kong	203,511,319	429,428,135	9,604,047	6,808,110
PRC	1,320,135,167	873,662,993	59,957,844	96,680,217
Other Asia-Pacific countries	18,357,014	41,131,931	–	–
Europe	15,139,327	38,168,046	–	–
North America	13,384,429	12,677,996	–	–
	<b>1,570,527,256</b>	<b>1,395,069,101</b>	<b>69,561,891</b>	<b>103,488,327</b>

5. COST OF SALES

The cost of sales include an allowance for obsolete inventories amounting to HK\$5,919,558 (2001: HK\$28,075,161).

**6. OTHER OPERATING INCOME**

	<b>2002</b>	2001
	<b>HK\$</b>	HK\$
Other operating income included the following items:		
Commission income	<b>8,952,856</b>	5,323,058
Exchange gain	<b>1,153,878</b>	5,091,197
Handling and services income	<b>1,500,435</b>	758,679
Property rental income	<b>3,330,619</b>	3,587,721
Release of negative goodwill to income	<b>701,230</b>	6,425,434

**7. PROFIT (LOSS) FROM OPERATIONS**

	<b>2002</b>	2001
	<b>HK\$</b>	HK\$
Profit (loss) from operations has been arrived at after charging:		
Staff costs		
Directors' remuneration (note 10)	<b>5,311,713</b>	6,422,800
Salaries and other benefits	<b>181,388,412</b>	181,094,240
Retirement benefits schemes contributions	<b>5,216,327</b>	4,254,983
	<b>191,916,452</b>	191,772,023
Depreciation and amortisation		
Depreciation and amortisation on:		
– Owned assets	<b>54,898,681</b>	49,917,816
– Assets held under finance leases	<b>5,102,567</b>	4,908,239
Amortisation of goodwill (included in other operating expenses)	<b>3,091,571</b>	5,541,778
	<b>63,092,819</b>	60,367,833
Auditors' remuneration	<b>2,348,390</b>	2,976,491
Deficit arising on revaluation of investment properties	–	1,350,000
Deficit arising on revaluation of leasehold land and buildings	<b>565,434</b>	711,435
Loss on disposal of property, plant and equipment	<b>2,278,044</b>	3,423,592



**8. FINANCE COSTS**

	<b>2002</b>	2001
	<b>HK\$</b>	HK\$
Interest on:		
Borrowings wholly repayable within five years		
– bank loans and overdrafts	<b>15,746,452</b>	20,961,288
– other loans	<b>2,666,211</b>	2,051,743
Finance leases	<b>726,771</b>	1,208,995
	<b>19,139,434</b>	24,222,026

**9. INVESTMENT INCOME**

	<b>2002</b>	2001
	<b>HK\$</b>	HK\$
Interest income	<b>1,408,333</b>	1,437,509
Dividends received and receivable from investments in securities	<b>233,647</b>	838,068
Loss on disposal of investments in securities	<b>(117,515)</b>	(855,452)
Impairment loss recognised on investments in securities	<b>–</b>	(818,000)
	<b>1,524,465</b>	602,125

**10. DIRECTORS' AND EMPLOYEES' EMOLUMENTS****Directors**

	<b>2002</b>	2001
	<b>HK\$</b>	HK\$
Fees:		
Executive directors	<b>40,000</b>	40,000
Non-executive directors	<b>200,000</b>	200,000
	<b>240,000</b>	240,000
Other emoluments:		
Executive directors		
Salaries and other benefits	<b>4,092,400</b>	4,975,300
Performance related incentive payments	–	240,000
Retirement benefits schemes contributions	<b>247,883</b>	236,070
	<b>4,340,283</b>	5,451,370
Non-executive directors		
Salaries and other benefits	<b>680,400</b>	680,400
Retirement benefits schemes contributions	<b>51,030</b>	51,030
	<b>731,430</b>	731,430
	<b>5,311,713</b>	6,422,800

The amounts disclosed above include directors' fees of HK\$80,000 (2001: HK\$80,000) payable to independent non-executive directors.

The emoluments of the directors were within the following bands:

	<b>Number of directors</b>	
	<b>2002</b>	2001
Nil to HK\$1,000,000	<b>6</b>	6
HK\$2,000,001 to HK\$2,500,000	<b>2</b>	–
HK\$2,500,001 to HK\$3,000,000	–	2
	<b>8</b>	8

**10. DIRECTORS' AND EMPLOYEES' EMOLUMENTS** *continued*

**Employees**

The five highest paid individuals included two (2001: two) directors, details of whose emoluments are set out above. The emoluments of the remaining three (2001: three) individuals are as follows:

	2002 HK\$	2001 HK\$
Salaries and other benefits	6,264,660	4,701,080
Retirement benefits schemes contributions	152,880	166,530
	<b>6,417,540</b>	<b>4,867,610</b>

The emoluments of the employees were within the following bands:

	Number of employees	
	2002	2001
HK\$1,000,001 to HK\$1,500,000	–	2
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	1	–
	<b>3</b>	<b>3</b>

**11. TAXATION**

	2002 HK\$	2001 HK\$
The charge comprises:		
Hong Kong Profits Tax		
Current year	3,395,066	2,090,082
Under (over) provision in prior years	54,953	(88,275)
	<b>3,450,019</b>	<b>2,001,807</b>
Taxation outside Hong Kong	10,303,556	3,886,650
Deferred taxation ( <i>note 29</i> )	(244,281)	58,356
	<b>13,509,294</b>	<b>5,946,813</b>
Taxation attributable to the Company and its subsidiaries	13,509,294	5,946,813
Share of tax on results of associates	2,323,815	1,804,480
	<b>15,833,109</b>	<b>7,751,293</b>

**11. TAXATION** *continued*

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

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

Details of deferred taxation are set out in note 29.

**12. EARNINGS (LOSS) PER SHARE**

The calculation of the basic earnings (loss) per share for the year is based on the net profit (loss) for the year of HK\$23,304,982 (2001: net loss of HK\$89,128,370) and on the number of shares in issue during the year of 640,838,234 (2001: weighted average of 640,835,030).

The computation of diluted earnings (loss) per share for 2002 or 2001 does not assume the exercise of options and warrants because the exercise prices of the Company's options and warrants were higher than the average market price of shares for both years.

**13. INVESTMENT PROPERTIES**

HK\$

**THE GROUP**

## VALUATION

At 1st January, 2002 and 31st December, 2002	24,400,000
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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, 2002 on an open market existing use basis by Messrs. Knight Frank, an independent firm of professional valuers.

14. PROPERTY, PLANT AND EQUIPMENT

	Leasehold land and buildings HK\$	Furniture, fixtures and equipment HK\$	Plant and machinery HK\$	Motor vehicles HK\$	Properties under construction HK\$	Total HK\$
<b>THE GROUP</b>						
COST OR VALUATION						
At 1st January, 2002	196,441,324	116,536,477	384,604,110	31,964,108	12,862,638	742,408,657
Currency realignment	(524,086)	(258,483)	(1,172,815)	(119,072)	(64,952)	(2,139,408)
On disposal of subsidiaries	–	(905,690)	(2,229,707)	(675,412)	–	(3,810,809)
Reclassifications	798,511	192,509	1,323,764	392,178	(2,706,962)	–
Additions	7,007,417	8,058,506	26,163,840	5,962,104	17,855,450	65,047,317
Disposals	–	(3,795,035)	(10,343,715)	(1,605,225)	(156,902)	(15,900,877)
Adjustment on revaluation	(12,706,538)	–	–	–	–	(12,706,538)
At 31st December, 2002	191,016,628	119,828,284	398,345,477	35,918,681	27,789,272	772,898,342
Comprising:						
At cost	–	119,828,284	398,345,477	35,918,681	27,789,272	581,881,714
At valuation – 2002	191,016,628	–	–	–	–	191,016,628
	191,016,628	119,828,284	398,345,477	35,918,681	27,789,272	772,898,342
DEPRECIATION AND AMORTISATION						
At 1st January, 2002	–	61,341,316	217,454,116	21,527,672	–	300,323,104
Currency realignment	–	(89,959)	(446,717)	(62,217)	–	(598,893)
On disposal of subsidiaries	–	(479,783)	(863,749)	(259,863)	–	(1,603,395)
Provided for the year	6,864,858	10,793,561	39,003,680	3,339,149	–	60,001,248
Eliminated on disposals	–	(2,747,516)	(3,624,109)	(1,490,664)	–	(7,862,289)
Eliminated on revaluation	(6,864,858)	–	–	–	–	(6,864,858)
At 31st December, 2002	–	68,817,619	251,523,221	23,054,077	–	343,394,917
NET BOOK VALUES						
At 31st December, 2002	191,016,628	51,010,665	146,822,256	12,864,604	27,789,272	429,503,425
At 31st December, 2001	196,441,324	55,195,161	167,149,994	10,436,436	12,862,638	442,085,553

**14. PROPERTY, PLANT AND EQUIPMENT** *continued*

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

	<b>2002</b>	2001
	<b>HK\$</b>	HK\$
In Hong Kong:		
– under medium-term leases	<b>17,940,000</b>	19,870,000
Outside Hong Kong:		
– under long leases	<b>1,760,000</b>	1,080,000
– under medium-term leases	<b>171,316,628</b>	175,491,324
	<b>191,016,628</b>	196,441,324

The leasehold land and buildings of the Group were revalued as at 31st December, 2002 on the open market existing use basis by Messrs. Knight Frank, an independent firm of professional valuers. The deficit arising on revaluation attributable to the Group has been charged to the asset revaluation reserve and the consolidated income statement.

Had leasehold land and buildings been carried at cost less accumulated depreciation and amortisation, the carrying value of leasehold land and buildings would have been approximately HK\$147,162,000 (2001: HK\$156,873,000).

The net book value of the Group's plant and machinery includes an amount of HK\$13,727,985 (2001: HK\$20,374,145) in respect of assets held under finance leases.

	<b>Furniture, fixtures and equipment</b>	<b>Motor vehicles</b>	<b>Total</b>
	HK\$	HK\$	HK\$
<b>THE COMPANY</b>			
<b>COST</b>			
At 1st January, 2002	8,872,469	417,111	9,289,580
Additions	106,894	–	106,894
At 31st December, 2002	8,979,363	417,111	9,396,474
<b>DEPRECIATION</b>			
At 1st January, 2002	3,475,742	286,903	3,762,645
Provided for the year	855,878	83,422	939,300
At 31st December, 2002	4,331,620	370,325	4,701,945
<b>NET BOOK VALUES</b>			
At 31st December, 2002	4,647,743	46,786	4,694,529
At 31st December, 2001	5,396,727	130,208	5,526,935

**15. GOODWILL**

	<b>THE GROUP</b>
	HK\$
<hr/>	
COST	
At 1st January, 2002	21,285,301
Arising on acquisition of additional interests in subsidiaries during the year	4,514,574
Eliminated on disposals during the year	(722,968)
<hr/>	
At 31st December, 2002	25,076,907
<hr/>	
AMORTISATION	
At 1st January, 2002	17,460,332
Charge for the year	3,091,571
Eliminated on disposals during the year	(313,935)
<hr/>	
At 31st December, 2002	20,237,968
<hr/>	
NET BOOK VALUE	
At 31st December, 2002	4,838,939
<hr/>	
At 31st December, 2001	3,824,969
<hr/>	

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

**16. NEGATIVE GOODWILL**

	<b>THE GROUP</b>
	HK\$
<hr/>	
GROSS AMOUNT	
At 1st January, 2002	32,510,566
Eliminated on disposals during the year	(1,660,595)
<hr/>	
At 31st December, 2002	30,849,971
<hr/>	
RELEASED TO INCOME	
At 1st January, 2002	31,448,735
Released in the year	701,230
Eliminated on disposals during the year	(1,542,047)
<hr/>	
At 31st December, 2002	30,607,918
<hr/>	
CARRYING AMOUNT	
At 31st December, 2002	242,053
<hr/>	
At 31st December, 2001	1,061,831
<hr/>	

**16. NEGATIVE GOODWILL** *continued*

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

**17. INTERESTS IN SUBSIDIARIES**

	THE COMPANY	
	2002 HK\$	2001 HK\$
Unlisted shares/capital contribution, at cost less impairment loss	40,781,151	31,822,238
Amounts due from subsidiaries less allowance	584,390,477	606,854,587
	<b>625,171,628</b>	638,676,825

Details of the Company's principal subsidiaries at 31st December, 2002 are set out in note 39.

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

**18. INTERESTS IN ASSOCIATES**

	2002 HK\$	2001 HK\$
<b>THE GROUP</b>		
Share of net assets	84,007,565	48,865,696
Negative goodwill (note)	(8,824,042)	–
Amounts due from associates	10,804,245	10,673,708
	<b>85,987,768</b>	59,539,404
<b>THE COMPANY</b>		
Unlisted shares, at cost	–	–
Amounts due from associates	2,593,272	2,538,401
	<b>2,593,272</b>	2,538,401

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.



18. INTERESTS IN ASSOCIATES *continued*

Note:

	HK\$
Negative goodwill arising on acquisition of additional interest in an associate:	
<hr/>	
GROSS AMOUNT	
At 1st January, 2002	–
Negative goodwill arising on acquisition of additional interest in an associate during the year	(11,030,053)
<hr/>	
At 31st December, 2002	(11,030,053)
<hr/>	
RELEASED INCOME	
At 1st January, 2002	–
Released in the year	2,206,011
<hr/>	
At 31st December, 2002	2,206,011
<hr/>	
CARRYING VALUE	
At 31st December, 2002	(8,824,042)
<hr/>	
At 31st December, 2001	–
<hr/>	

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

Details of the principal associates of the Group at 31st December, 2002 are as follows:

Name of associates	Place of incorporation/ registration and operation	Proportion of nominal value of issued share capital/ registered capital attributable to the Group %	Principal activities
East Right Enterprises Limited	Hong Kong	40.0	Investment holding
Shenzhen Hao Ning Da Meters Manufacturing Company Limited	PRC	36.96	Manufacturing and trading of electronic meters
Suzhou Sodick San-Guang Machinery Electric Co., Ltd.	PRC	25.0	Manufacturing of industry machinery, equipment and supplies
Welltec Far East Limited	Hong Kong	40.0	Trading in industrial machinery

The above table lists the associates 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 associates would, in the opinion of the directors, result in particulars of excessive length.

**19. INVESTMENTS IN SECURITIES**

	THE GROUP		THE COMPANY	
	2002 HK\$	2001 HK\$	2002 HK\$	2001 HK\$
Unlisted investment securities, at cost	<b>13,578,434</b>	15,082,760	<b>5,414,118</b>	5,477,154
Impairment loss	<b>(2,973,359)</b>	(2,967,149)	<b>(895,360)</b>	(895,360)
	<b>10,605,075</b>	12,115,611	<b>4,518,758</b>	4,581,794

**20. INVENTORIES**

	THE GROUP	
	2002 HK\$	2001 HK\$
Trading inventories and finished goods	<b>173,323,142</b>	166,097,249
Work in progress	<b>62,349,910</b>	49,683,166
Raw materials	<b>200,653,256</b>	167,811,591
	<b>436,326,308</b>	383,592,006

Included above are trading inventories and finished goods of HK\$154,131,359 (2001: HK\$120,635,760), work in progress of HK\$56,349,524 (2001: HK\$44,833,274) and raw materials of HK\$181,764,816 (2001: HK\$147,911,041) 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\$397,598,726 (2001: HK\$317,281,130) and their aged analysis at the balance sheet date is as follows:

	THE GROUP	
	2002 HK\$	2001 HK\$
0 to 3 months	<b>248,317,922</b>	199,796,603
4 to 6 months	<b>56,295,065</b>	38,336,806
7 to 9 months	<b>34,674,791</b>	17,996,831
Over 9 months	<b>58,310,948</b>	61,150,890
	<b>397,598,726</b>	317,281,130

**22. TRADE AND OTHER PAYABLES**

Included in trade and other payables are trade payables of HK\$294,103,461 (2001: HK\$215,760,600) and their aged analysis at the balance sheet date is as follows:

	<b>THE GROUP</b>	
	<b>2002</b> HK\$	2001 HK\$
0 to 3 months	<b>207,615,237</b>	119,475,579
4 to 6 months	<b>49,733,373</b>	40,408,413
7 to 9 months	<b>10,917,411</b>	19,521,174
Over 9 months	<b>25,837,440</b>	36,355,434
	<b>294,103,461</b>	215,760,600

**23. BORROWINGS**

	<b>THE GROUP</b>		<b>THE COMPANY</b>	
	<b>2002</b> HK\$	2001 HK\$	<b>2002</b> HK\$	2001 HK\$
Bank loans				
– secured	<b>65,165,489</b>	91,536,162	–	–
– unsecured	<b>124,472,654</b>	98,883,133	<b>10,000,000</b>	10,000,000
	<b>189,638,143</b>	190,419,295	<b>10,000,000</b>	10,000,000
Other loans				
– secured	<b>836,978</b>	–	–	–
– unsecured	<b>312,796</b>	1,054,806	–	–
	<b>1,149,774</b>	1,054,806	–	–
<b>Total</b>	<b>190,787,917</b>	191,474,101	<b>10,000,000</b>	10,000,000

**23. BORROWINGS** *continued*

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

	THE GROUP		THE COMPANY	
	2002 HK\$	2001 HK\$	2002 HK\$	2001 HK\$
Within one year	178,787,445	179,080,141	10,000,000	10,000,000
Between one and two years	7,324,250	12,174,285	–	–
Between two and five years	4,676,222	219,675	–	–
	190,787,917	191,474,101	10,000,000	10,000,000
Less: Amount due within one year shown under current liabilities	(178,787,445)	(179,080,141)	(10,000,000)	(10,000,000)
Amount due after one year	12,000,472	12,393,960	–	–

**24. OBLIGATIONS UNDER FINANCE LEASES**

	Minimum lease payments		Present value of minimum lease payments	
	2002 HK\$	2001 HK\$	2002 HK\$	2001 HK\$
Amounts payable under finance leases:				
Within one year	4,692,205	8,904,240	4,246,239	7,800,576
In the second to fifth year inclusive	4,358,749	8,887,240	4,127,233	8,278,133
	9,050,954	17,791,480	8,373,472	16,078,709
Less: future finance charges	(677,482)	(1,712,771)	N/A	N/A
Present value of lease payments	8,373,472	16,078,709	8,373,472	16,078,709
Less: Amount due for settlement within one year shown under current liabilities			(4,246,239)	(7,800,576)
Amount due for settlement after one year			4,127,233	8,278,133

It is the Group's policy to lease certain of its fixtures and equipment under finance leases. The average lease term is 4 years. For the year ended 31 December 2002, the average effective borrowing rate was 6.75% (2001: 6.75%). Interest rates are fixed at the contract date. All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments.

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

**25. SHARE CAPITAL**

	Number of ordinary shares	Value HK\$
Ordinary shares of HK\$0.40 each		
Authorised:		
At 1st January, 2001, 31st December, 2001 and 31st December, 2002	1,000,000,000	400,000,000
Issued and fully paid:		
At 1st January, 2001	640,831,434	256,332,574
Exercise of warrants	6,800	2,720
At 31st December, 2001 and 31st December, 2002	640,838,234	256,335,294

**26. WARRANTS**

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

At 31st December, 2002, the Company had outstanding warrants conferring rights to subscribe for up to HK\$51,263,794 in cash for shares. Exercise in full of these outstanding warrants would, under the share capital structure of the Company as of 31st December, 2002, resulting in the issue of 128,159,485 new shares of HK\$0.40 each in the Company.

**27. SHARE OPTIONS SCHEME**

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

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

As at 31st December, 2002, the number of shares in respect of which options had been granted and remained outstanding under the Scheme was 12,200,000 (2001: 12,200,000), representing 1.9 (2001: 1.9) per cent. of the shares of the Company in issue at that date. No option may be granted to any one employee which if exercised in full would result in the total number of shares of the Company already issued and issuable to him under all the options previously granted to him and the said option exceeding 25 per cent. of the maximum aggregate number of shares in the capital of the Company in respect of which options might at the time be granted under the Scheme.

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

**27. SHARE OPTIONS SCHEME** *continued*

Details of the Company's outstanding share options at 31st December, 2002 are as follows:

Name	Date of grant	Exercise period	Exercise price HK\$	Number of share options outstanding at 1.1.2001	Granted during the year ended 31.12.2001	Number of share options outstanding at 31.12.2001 and 31.12.2002
Mr. Tang To	23.6.2001	21.10.2001 to 19.7.2003	0.41	–	2,100,000	2,100,000
Mr. Wong Yiu Ming	23.6.2001	21.10.2001 to 19.7.2003	0.41	–	1,500,000	1,500,000
Aggregate total of employees	23.6.2001	21.10.2001 to 19.7.2003	0.41	–	8,600,000	8,600,000
				–	12,200,000	12,200,000

**28. RESERVES**

	Share premium HK\$	Retained profits HK\$	Total HK\$
<b>THE COMPANY</b>			
At 1st January, 2001	267,148,838	97,077,591	364,226,429
Profit for the year	–	4,693,655	4,693,655
At 31st December, 2001 and 1st January, 2002	267,148,838	101,771,246	368,920,084
Loss for the year	–	(10,509,586)	(10,509,586)
At 31st December, 2002	267,148,838	91,261,660	358,410,498

The Company's retained profits of HK\$91,261,660 as at 31st December, 2002 (2001: HK\$101,771,246) are available for distribution to shareholders.

**29. DEFERRED TAXATION**

	<b>THE GROUP</b>	
	2002 HK\$	2001 HK\$
Balance at 1st January	244,281	185,925
(Credit) charge for the year (note 11)	(244,281)	58,356
Balance at 31st December	–	244,281

29. DEFERRED TAXATION *continued*

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

	Provided		Unprovided	
	2002 HK\$	2001 HK\$	2002 HK\$	2001 HK\$
<b>THE GROUP</b>				
Tax effect of timing differences because of:				
Excess of tax allowances over depreciation	222,620	244,281	(2,161,693)	8,194,003
Unutilised tax losses	(222,620)	–	(20,683,748)	(31,803,763)
Other timing differences	–	–	455,006	–
	–	244,281	(22,390,435)	(23,609,760)

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

	2002 HK\$	2001 HK\$
<b>THE GROUP</b>		
Tax effect of timing differences because of:		
Tax loss utilised (arising)	11,120,015	(10,234,187)
(Shortfall) excess of tax allowances over depreciation	(10,355,696)	1,916,779
Other timing differences	455,006	(246,925)
	1,219,325	(8,564,333)

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

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

**30. DISPOSAL OF SUBSIDIARIES**

	<b>2002</b>	2001
	<b>HK\$</b>	HK\$
<b>NET ASSETS DISPOSED OF:</b>		
Property, plant and equipment	<b>2,207,414</b>	2,456,468
Inventories	<b>2,961,738</b>	614,697
Trade and other receivables	<b>7,221,727</b>	7,142,607
Bank balances and cash	<b>1,082,817</b>	1,374,975
Trade and other payables	<b>(6,738,701)</b>	(13,847,642)
Borrowings	<b>(4,775,549)</b>	–
Minority interests	<b>587,079</b>	(1,176,867)
	<b>2,546,525</b>	(3,435,762)
Attributable goodwill realised upon disposal	<b>409,033</b>	909,678
Attributable negative goodwill released upon disposal	<b>(118,548)</b>	–
Translation reserve realised upon disposal	<b>502</b>	26,459
(Loss) gain on disposal of subsidiaries	<b>(2,824,013)</b>	5,301,123
	<b>13,499</b>	2,801,498
<b>SATISFIED BY:</b>		
Cash consideration	<b>13,499</b>	2,801,498

The subsidiaries disposed of during the years ended 31st December, 2002 and 2001 did not contribute significantly to the results of the Group in those years up to their dates of disposal. The cashflows contributed or utilised by the subsidiaries disposed of during the years ended 31st December, 2002 and 2001 was not significant in those years.

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

	<b>2002</b>	2001
	<b>HK\$</b>	HK\$
Cash consideration	<b>13,499</b>	2,801,498
Bank balances and cash disposed of	<b>(1,082,817)</b>	(1,374,975)
Net (outflow) inflow of cash and cash equivalents in respect of the disposal of subsidiaries	<b>(1,069,318)</b>	1,426,523

**32. MAJOR NON-CASH TRANSACTIONS**

During the year, the Group entered into finance leases in respect of the acquisition of property, plant and equipment with a total capital value at the inception of the leases of HK\$284,360 (2001: HK\$11,055,003).



**33. OPERATING LEASE COMMITMENTS****The Group as lessee**

	<b>THE GROUP</b>	
	<b>2002</b>	2001
	<b>HK\$</b>	HK\$
Minimum lease payments made during the year under operating leases in respect of:		
Land and buildings	<b>13,243,912</b>	10,910,650
Plant and machinery	<b>370,375</b>	921,334
	<b>13,614,287</b>	11,831,984

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

	<b>THE GROUP</b>	
	<b>2002</b>	2001
	<b>HK\$</b>	HK\$
Within one year	<b>12,907,626</b>	8,972,171
In the second to fifth year inclusive	<b>46,393,328</b>	33,494,777
Over five years	<b>105,233,709</b>	73,622,198
	<b>164,534,663</b>	116,089,146

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

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

**The Group as lessor**

Property rental income earned during the year net of outgoings of HK\$465,719 (2001: HK\$820,012), was HK\$2,864,900 (2001: HK\$2,767,709). The remaining properties are expected to generate rental yields of 10% (2001: 10%) on an ongoing basis. All of the properties held have committed tenants for the next 1–2 years.

**33. OPERATING LEASE COMMITMENTS** *continued***The Group as lessor** *continued*

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

	THE GROUP	
	2002 HK\$	2001 HK\$
Within one year	2,538,499	1,809,826
In the second to fifth year inclusive	2,001,186	260,944
	<b>4,539,685</b>	<b>2,070,770</b>

**34. OTHER COMMITMENTS**

	THE GROUP	
	2002 HK\$	2001 HK\$
Capital expenditure contracted for but not provided in the financial statements in respect of:		
Acquisition of property, plant and equipment	11,674,134	2,268,444
Investments	4,007,200	712,500
	<b>15,681,334</b>	<b>2,980,944</b>
Capital expenditure authorised but not contracted for in respect of the acquisition of property, plant and equipment	–	1,598,281

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

**35. CONTINGENT LIABILITIES**

	THE GROUP		THE COMPANY	
	2002 HK\$	2001 HK\$	2002 HK\$	2001 HK\$
Guarantees given to financial institutions in respect of credit facilities utilised by:				
Subsidiaries	–	–	332,434,000	346,008,000
Outsiders	12,132,701	11,175,000	–	–
	<b>12,132,701</b>	<b>11,175,000</b>	<b>332,434,000</b>	<b>346,008,000</b>

**36. RETIREMENT BENEFITS SCHEMES**

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

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

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

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

The total cost charged to the consolidated income statement of HK\$5,216,327 (2001: HK\$4,254,983) represents contributions payable to these schemes by the Group in respect of the current accounting period. As at 31st December, 2002, contributions of approximately HK\$190,000 (2001: HK\$158,000) due in respect of the reporting period had not been paid over to the schemes.

**37. PLEDGE OF ASSETS**

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

	Net book value	
	2002 HK\$	2001 HK\$
Investment properties	13,500,000	13,500,000
Leasehold land and buildings	21,618,850	43,594,800
Plant and machinery	18,601,700	20,738,462
Bank deposits (note)	18,176,157	1,106,709
	<b>71,896,707</b>	<b>78,939,971</b>

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

**38. TRANSACTIONS AND BALANCES WITH RELATED PARTIES**

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

	<b>2002</b>	2001
	<b>HK\$</b>	HK\$
Substantial shareholder and its subsidiaries:		
EDP charges received (note i)	<b>165,600</b>	165,600
Licence fee paid (note i)	<b>171,732</b>	2,455,320
Management fee paid (note i)	<b>4,289,923</b>	2,986,095
Sales of goods (note ii)	–	934,615
Balance due by the Group as at the balance sheet date (note iv)	<b>5,790,076</b>	6,155,705
Balance due to the Group as at the balance sheet date (note iv)	<b>96,750</b>	139,455
Companies controlled by certain directors:		
EDP charges received (note i)	<b>51,600</b>	–
Management fee paid (note i)	<b>996,000</b>	1,512,000
Minority shareholders:		
Purchase of raw materials (note i)	<b>7,236,537</b>	–
Consultancy fee paid (note i)	<b>38,000</b>	228,000
Rental paid (note i)	<b>1,893,850</b>	1,912,801
Interest paid (note iii)	<b>1,541,494</b>	1,481,588
Acquisition of additional interest in a subsidiary (note ii)	–	3,429,000
Balance due by the Group as at the balance sheet date (note iv)	<b>19,648,834</b>	22,659,462
Balance due to the Group as at the balance sheet date (note v)	<b>16,717,448</b>	11,869,813
Associates:		
Purchase of raw materials (note i)	–	5,172,807
Rental income (note i)	<b>48,454</b>	8,050
Management fee paid (note i)	–	240,000
Balance due by the Group as at the balance sheet date (note iv)	<b>1,440,584</b>	579,491
Balance due to the Group as at the balance sheet date (note iv)	<b>10,804,245</b>	10,673,708

**38. TRANSACTIONS AND BALANCES WITH RELATED PARTIES** *continued*

Notes:

- (i) The prices of the transactions were determined by the directors with reference to prices for similar transactions with unrelated third parties.
- (ii) These transactions were carried out pursuant to the sale and purchase agreements entered into during the year.
- (iii) The interest was charged at 6% to 10% (2001: 6% to 10%) per annum on the outstanding balances.
- (iv) The balances are unsecured, interest free and have no fixed repayment terms.
- (v) The balances are unsecured and have no fixed repayment terms. Other than an amount of HK\$13,133,774 (2001: HK\$13,592,280) which bears interest at 6% to 10% (2001: 6% to 10%) per annum, the remaining balances are interest free.

Save as disclosed above, there were no other significant transactions with related parties during the year or significant balances with them at the end of the year.

**39. PARTICULARS OF PRINCIPAL SUBSIDIARIES**

Details of the Company's principal subsidiaries at 31st December, 2002 are as follows:

Name of subsidiary	Place of incorporation/ registration	Place of operation	Issued and fully paid share capital/ registered capital	Proportion of nominal value of issued share capital/ registered capital		Principal activities
				held by the Company*/ subsidiaries %	attributable to the Group %	
Cosmos Machinery International Limited	Hong Kong	Hong Kong	HK\$32,000,000	100.0*	100.0	Trading in industrial machinery, equipment and supplies and investment holding
Dongguan Cosmos Machinery Limited (note b)	PRC	PRC	HK\$30,000,000	100.0	91.75	Manufacturing of industrial machinery
Dongguan Great Wall Optical Plastic Works Limited (note a)	PRC	PRC	HK\$16,126,800	100.0	80.0	Manufacturing of microscopes and magnifiers with acrylic lenses
Dong Hua Machinery Limited (note b)	PRC	PRC	Rmb40,800,000	72.0	72.0	Assembling and trading of machinery
Dongguan Welltec Machinery Limited (note b)	PRC	PRC	HK\$55,920,000	72.0	72.0	Manufacturing and trading of machinery
Gainbase Industrial Limited	Hong Kong	Hong Kong	HK\$10,000	100.0	52.0	Trading in printed circuit boards

39. PARTICULARS OF PRINCIPAL SUBSIDIARIES *continued*

Name of subsidiary	Place of incorporation/ registration	Place of operation	Issued and fully paid share capital/ registered capital	Proportion of nominal value of issued share capital/ registered capital held by the Company*/ subsidiaries %	Proportion of nominal value of issued share capital/ registered capital attributable to the Group %	Principal activities
Glory Horse Industries Limited	Hong Kong	PRC	HK\$46,765,174	99.29	92.38	Manufacturing, assembling and designing of electronic products
Grand Technology Products Limited	Hong Kong	Hong Kong	HK\$9,500,000	100.0	100.0	Trading of machinery and investment holding
Great Wall (Holding) Company Limited	Hong Kong	Hong Kong	HK\$9,900,000	80.0	80.0	Trading of microscopes and magnifiers with acrylic lenses
Karmay Industrial Limited	Hong Kong	Hong Kong	HK\$14,979,444	97.77	97.77	General trading and investment holding
Melco Trading Company Limited	Hong Kong	Hong Kong	HK\$1,500,000	100.0	100.0	Trading in industrial equipment and screws
Ming Sun Enterprises Limited	Hong Kong	Hong Kong	HK\$3,000,000	100.0	86.4	Investment holding
Ming Sun Enterprises (China) Limited	Hong Kong	Hong Kong	HK\$1,000,000	100.0	86.4	Manufacturing of moulds and trading of plasticwares
Shenzhen Gainbase Printed Circuit Board Limited (note b)	PRC	PRC	HK\$9,500,000	100.0	52.0	Manufacturing of printed circuit boards
Shunde Jiamei Plastic Products Co., Ltd. (note a)	PRC	PRC	US\$500,000	100.0	97.77	Manufacturing of plastic products
Welltec Industrial Equipment Limited	Hong Kong	Hong Kong	HK\$10,000,000	100.0	100.0	Investment holding
Welltec Machinery Limited	Hong Kong	Hong Kong	HK\$10,000,000	100.0	100.0	Manufacturing and trading of machinery and investment holding

**39. PARTICULARS OF PRINCIPAL SUBSIDIARIES** *continued*

Name of subsidiary	Place of incorporation/ registration	Place of operation	Issued and fully paid share capital/ registered capital	Proportion of nominal value of issued share capital/ registered capital		Principal activities
				held by the Company*/ subsidiaries %	attributable to the Group %	
Wu Xi Grand Tech Machinery Group Co. Ltd. (formerly known as Wu Xi Grand Tech Machinery 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 form 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.

## INCOME STATEMENT

	For the year ended 31st December,				
	1998 HK\$'000	1999 HK\$'000	2000 HK\$'000	2001 HK\$'000	2002 HK\$'000
Turnover	1,602,189	1,529,758	1,622,796	1,294,747	<b>1,313,484</b>
(Loss) profit before taxation	(41,964)	30,260	28,497	(79,438)	<b>56,350</b>
Taxation	5,821	8,606	11,392	7,751	<b>15,833</b>
(Loss) profit before minority interests	(47,785)	21,654	17,105	(87,189)	<b>40,517</b>
Minority interests	13,642	17,237	10,790	1,939	<b>17,212</b>
(Loss) profit for the year	(61,427)	4,417	6,315	(89,128)	<b>23,305</b>

## BALANCE SHEET

	At 31st December,				
	1998 HK\$'000	1999 HK\$'000	2000 HK\$'000	2001 HK\$'000	2002 HK\$'000
Total assets	1,652,653	1,626,211	1,645,859	1,395,069	<b>1,570,527</b>
Total liabilities and minority interests	1,000,875	963,646	974,678	815,215	<b>972,984</b>
Shareholders' funds	651,778	662,565	671,181	579,854	<b>597,543</b>



## NOTICE OF ANNUAL GENERAL MEETING

**NOTICE IS HEREBY GIVEN** that the Annual General Meeting of the Company will be held at Tang I, 3rd Floor, Sheraton Hotel & Towers, 20 Nathan Road, Kowloon, Hong Kong on Tuesday, 3rd June, 2003 at 9:30 a.m. for the following purposes:

1. To receive and consider the audited financial statements and the reports of the directors and joint auditors for the year ended 31st December, 2002.
2. To re-elect directors.
3. To re-appoint joint auditors and authorise the directors to fix their remuneration.
4. To transact any other ordinary business.

By order of the Board

**TANG To**  
*Chairman*

Hong Kong, 25th April, 2003

Notes:

1. A member of the Company entitled to attend and vote at the meeting is entitled to appoint one or more proxies to attend and, on a poll, vote in his stead. A proxy need not be a member of the Company.
2. In order to be valid, a form of proxy, together with the power of attorney or other authority (if any) under which it is signed or a notarially certified copy of that power of attorney or authority must be deposited at the registered office of the Company, 8th Floor, Tai Tung Industrial Building, 29-33 Tsing Yi Road, Tsing Yi Island, New Territories, Hong Kong not less than 48 hours before the time appointed for holding the meeting.
3. The Register of Members of the Company will be closed from Friday, 30th May, 2003 to Tuesday, 3rd June, 2003 (both days inclusive) during which period no transfer of shares can be registered. In order to appear on the Register of Members on Tuesday, 3rd June, 2003, all share transfers, accompanied by the relevant share certificates, must be lodged for registration with the Company's Share Registrars, Secretaries Limited, at G/F, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong, not later than 4:00 p.m. on Thursday, 29th May, 2003.