

## 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\$
TURNOVER								
External sales	204,483,778	191,490,584	513,701,852	173,984,241	200,869,261	28,953,887	–	1,313,483,603
Inter-segment sales	4,146,298	26,449,631	4,718,692	–	–	–	(35,314,621)	–
Total revenue	208,630,076	217,940,215	518,420,544	173,984,241	200,869,261	28,953,887	(35,314,621)	1,313,483,603

Inter-segment sales are charged at prevailing market rates.

##### 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\$
TURNOVER								
External sales	210,392,056	190,742,658	445,715,725	254,664,876	170,556,522	22,674,957	–	1,294,746,794
Inter-segment sales	3,483,059	27,152,085	11,276,928	–	–	–	(41,912,072)	–
Total revenue	213,875,115	217,894,743	456,992,653	254,664,876	170,556,522	22,674,957	(41,912,072)	1,294,746,794

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							13,584,847
Consolidated total assets							1,395,069,101
<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							13,791,695
Consolidated total liabilities							673,188,343
<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:

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

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:

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

**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>	<b>2001</b>
	<b>HK\$</b>	<b>HK\$</b>
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>	<b>2001</b>
	<b>HK\$</b>	<b>HK\$</b>
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	<b>–</b>	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	<b>–</b>	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:

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

The emoluments of the employees were within the following bands:

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

**11. TAXATION**

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

**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

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>						
<b>COST OR VALUATION</b>						
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
<b>DEPRECIATION AND AMORTISATION</b>						
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
<b>NET BOOK VALUES</b>						
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>	<b>HK\$</b>
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>
	<b>HK\$</b>	<b>HK\$</b>	<b>HK\$</b>
<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\$
<b>COST</b>	
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)
At 31st December, 2002	25,076,907
<b>AMORTISATION</b>	
At 1st January, 2002	17,460,332
Charge for the year	3,091,571
Eliminated on disposals during the year	(313,935)
At 31st December, 2002	20,237,968
<b>NET BOOK VALUE</b>	
At 31st December, 2002	4,838,939
At 31st December, 2001	3,824,969

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

**16. NEGATIVE GOODWILL**

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

**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**

	<b>THE COMPANY</b>	
	<b>2002</b>	2001
	<b>HK\$</b>	<b>HK\$</b>
Unlisted shares/capital contribution, at cost less impairment loss	<b>40,781,151</b>	31,822,238
Amounts due from subsidiaries less allowance	<b>584,390,477</b>	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**

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

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

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:

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

**23. BORROWINGS**

	THE GROUP		THE COMPANY	
	2002 HK\$	2001 HK\$	2002 HK\$	2001 HK\$
Bank loans				
– secured	65,165,489	91,536,162	–	–
– unsecured	124,472,654	98,883,133	10,000,000	10,000,000
	<b>189,638,143</b>	190,419,295	<b>10,000,000</b>	10,000,000
Other loans				
– secured	836,978	–	–	–
– unsecured	312,796	1,054,806	–	–
	<b>1,149,774</b>	1,054,806	–	–
Total	<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>	
	<b>2002 HK\$</b>	<b>2001 HK\$</b>
Balance at 1st January	<b>244,281</b>	185,925
(Credit) charge for the year (note 11)	<b>(244,281)</b>	58,356
Balance at 31st December	<b>–</b>	244,281

**29. DEFERRED TAXATION** *continued*

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

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

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

	<b>2002</b>	2001
	<b>HK\$</b>	<b>HK\$</b>
<b>THE GROUP</b>		
Tax effect of timing differences because of:		
Tax loss utilised (arising)	<b>11,120,015</b>	(10,234,187)
(Shortfall) excess of tax allowances over depreciation	<b>(10,355,696)</b>	1,916,779
Other timing differences	<b>455,006</b>	(246,925)
	<b>1,219,325</b>	(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>	<b>2001</b>
	<b>HK\$</b>	<b>HK\$</b>
NET ASSETS DISPOSED OF:		
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
SATISFIED BY:		
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>	<b>2001</b>
	<b>HK\$</b>	<b>HK\$</b>
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>	<b>HK\$</b>
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>	<b>HK\$</b>
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 held by the Company*/ subsidiaries %	attributable to the Group %	Principal activities
Cosmos Machinery International Limited	Hong Kong	Hong Kong	HK\$32,000,000	100.0*	100.0	Trading in industrial machinery, equipment and supplies and investment holding
Dongguan Cosmos Machinery Limited (note b)	PRC	PRC	HK\$30,000,000	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		Principal activities
				held by the Company*/ subsidiaries %	attributable to the Group %	
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 held by the Company*/ attributable to the Group		Principal activities
				%	%	
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.