

REPORT OF THE DIRECTORS

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

PRINCIPAL ACTIVITIES

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

RESULTS

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

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

FINANCIAL SUMMARY

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

INVESTMENT PROPERTIES, PLANT AND EQUIPMENT

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

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

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

SHARE CAPITAL

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

RESERVES

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

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MAJOR CUSTOMERS AND SUPPLIERS

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

SHARE OPTION SCHEME

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

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

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

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

WARRANTS

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

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

DIRECTORS

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

Executive Directors:

Tang To, *Chairman*

Wong Yiu Ming

Zhao Zhuoying (appointed on 22nd March, 2004)

Zhou Junqing (resigned on 22nd March, 2004)

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

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

Non-Executive Directors:

Tang Kwan, *Honorary Chairman*

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

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

Kan Wai Wah

Independent Non-Executive Directors:

Liang Shangli

Yip Jeffery

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

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

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

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

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DIRECTOR'S AND CHIEF EXECUTIVE'S INTERESTS IN SECURITIES

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

Interests in the Shares

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

Notes:

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

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

Interests in the underlying Shares

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

Notes:

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

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

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

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

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

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SUBSTANTIAL SHAREHOLDERS

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

Interests in the Shares

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

Notes:

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

Interests in the underlying Shares

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

SUBSTANTIAL SHAREHOLDERS *(Continued)*

Notes:

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

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

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

CONNECTED TRANSACTIONS

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

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

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POST BALANCE SHEET EVENTS

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

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

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

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

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

AUDIT COMMITTEE

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

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

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

CODE OF BEST PRACTICE

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

AUDITORS

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

PROPOSED AMENDMENTS TO THE ARTICLES OF ASSOCIATION

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

On behalf of the Board
TANG To
Chairman

Hong Kong, 26th April, 2004