

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2003

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. IMPACT OF REVISED STATEMENT OF STANDARD ACCOUNTING PRACTICE ("SSAP")

The revised SSAP 12 "Income taxes" is effective for the first time for the current year's financial statements, which became effective on 1st January, 2003. The principal effect of the implementation of SSAP 12 (Revised) is in relation to deferred tax. In previous years, partial provision was made for deferred tax using the income statement liability method, i.e. a liability was recognised in respect of timing differences arising, except where those timing differences were not expected to reverse in the foreseeable future. SSAP 12 (Revised) requires the adoption of a balance sheet liability method, whereby deferred tax is recognised in respect of all temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, with limited exceptions. Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, except where the Group is able to control the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future. In the absence of any specific transitional requirements in SSAP 12 (Revised), the new accounting policy has been applied retrospectively. Comparative amounts for 2002 have been restated accordingly. Opening retained profits at 1st January, 2002 and 1st January, 2003 have been increased by approximately HK\$7,398,000 and HK\$6,554,000, which are the cumulative effect of the change in policy on the results for periods prior to 2002 and 2003 respectively. The balances on the Group's asset revaluation reserve at 1st January, 2002 and 1st January, 2003 has been reduced by approximately HK\$3,127,000 and HK\$2,921,000 respectively, representing the deferred tax liabilities recognised in respect of the revaluation surplus on the Group's properties as at those dates. The change has also resulted in a decrease in profit of HK\$651,796 before minority interests (2002: HK\$544,100), and a decrease in asset revaluation reserve of HK\$67,430 (2002: increase of HK\$206,473) for the year ended 31st December, 2003.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2003

3. SIGNIFICANT ACCOUNTING POLICIES

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

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

Basis of consolidation

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

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

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

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

Goodwill

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

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2003

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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. 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.

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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2003

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Impairment

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately, unless the relevant asset is carried at a revalued amount under another SSAP, in which case the impairment loss is treated as a revaluation decrease under that SSAP.

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

Investment properties

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

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

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

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

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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2003

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Interests in subsidiaries

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

Interests in associates

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

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

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

Investments in securities

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

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

Inventories

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

Turnover

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2003

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Revenue recognition

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

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

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

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

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

Depreciation and amortisation

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

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

Leases

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

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2003

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Taxation

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

Deferred taxation

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

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

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

In prior years, deferred taxation was accounted for at the current taxation rate in respect of timing differences between profit as computed for taxation purposes and profit as stated in the financial statements to the extent that a liability or an asset was expected to be payable or recoverable in the foreseeable future. The adoption of the revised SSAP 12 represents a change in accounting policy, which has been applied retrospectively so that the comparatives presented have been restated to conform to the changed policy. Effects of the changes are detailed in note 2 to the financial statements.

Retirement benefits schemes

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

Foreign currencies

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

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2003

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:

2003

	Industrial consumables	Plastic processing products	Machinery	Audio products	Printed circuit boards	Other operations	Eliminations	Consolidated
	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$
TURNOVER								
External sales	244,266,379	222,229,560	601,290,577	72,769,318	253,072,375	–	–	1,393,628,209
Inter-segment sales	5,307,730	9,966,586	13,452,758	–	–	–	(28,727,074)	–
Total revenue	249,574,109	232,196,146	614,743,335	72,769,318	253,072,375	–	(28,727,074)	1,393,628,209
Inter-segment sales are charged at prevailing market rates.								
RESULTS								
Segment results	16,248,758	10,180,339	24,271,649	(15,942,808)	11,763,290	460,760	3,991,411	50,973,399
Unallocated corporate expenses								(21,948,507)
Profit from operations								29,024,892
Finance costs								(17,825,958)
Investment income								835,739
Loss on disposal of subsidiaries			(244,385)			(1,973,348)		(2,217,733)
Share of results of associates		(796,870)				29,147,899		28,351,029
Release of negative goodwill of an associate						13,998,675		13,998,675
Profit before taxation								52,166,644
Taxation								13,378,918
Profit before minority interests								38,787,726

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2003

4. BUSINESS AND GEOGRAPHICAL SEGMENTS (Continued)

Business segments (Continued)

	Industrial consumables	Plastic processing products	Machinery	Audio products	Printed circuit boards	Other operations	Consolidated
	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$
ASSETS							
Segment assets	121,737,425	247,336,086	869,190,301	82,101,572	157,245,064	57,955,843	1,535,566,291
Interests in associates							119,490,882
Investments in securities							10,698,471
Unallocated corporate assets							25,959,732
Consolidated total assets							1,691,715,376
LIABILITIES							
Segment liabilities	60,057,834	57,308,903	353,542,540	28,949,311	92,943,985	2,664,646	595,467,219
Tax payable							9,838,254
Borrowings							248,783,946
Unallocated corporate liabilities							35,340,645
Consolidated total liabilities							889,430,064
OTHER INFORMATION							
Addition of goodwill	–	219,662	–	–	–	–	219,662
Capital additions	721,751	26,287,091	25,226,820	579,564	11,720,899	562,473	65,098,598
Depreciation and amortisation	821,777	20,257,245	21,473,837	10,174,388	9,425,844	1,386,171	63,539,262
Other non-cash expenses	18,800	226,470	9,000,000	–	59,625	323,047	9,627,942

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2003

4. BUSINESS AND GEOGRAPHICAL SEGMENTS (Continued)

Business segments (Continued)

2002 (As restated)

	Industrial consumables	Plastic processing products	Machinery	Audio products	Printed circuit boards	Other operations	Eliminations	Consolidated
	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$
TURNOVER								
External sales	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.

RESULTS

Segment results	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								16,377,209
Profit before minority interests								39,972,750

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2003

4. BUSINESS AND GEOGRAPHICAL SEGMENTS *(Continued)*

Business segments *(Continued)*

	Industrial consumables	Plastic processing products	Machinery	Audio products	Printed circuit boards	Other operations	Consolidated
	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$
ASSETS							
Segment assets	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							20,169,162
Consolidated total assets							1,586,135,154
LIABILITIES							
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							16,984,151
Consolidated total liabilities							820,522,553
OTHER INFORMATION							
Additions 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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2003

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	
	2003 HK\$	2002 HK\$
Hong Kong	492,211,488	350,955,038
PRC	727,082,820	681,036,467
Other Asia-Pacific countries	94,733,524	112,213,694
Europe	35,934,453	82,359,380
North America	43,665,924	86,919,024
	1,393,628,209	1,313,483,603

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	
	2003 HK\$	2002 HK\$	2003 HK\$	2002 HK\$
Hong Kong	89,173,436	203,511,319	655,444	9,604,047
PRC	1,558,865,344	1,335,743,065	64,662,816	59,957,844
Other Asia-Pacific countries	19,563,429	18,357,014	—	—
Europe	9,091,542	15,139,327	—	—
North America	15,021,625	13,384,429	—	—
	1,691,715,376	1,586,135,154	65,318,260	69,561,891

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2003

5. COST OF SALES

The cost of sales includes an allowance for obsolete inventories amounting to HK\$4,000,000 (2002: HK\$5,919,558).

6. OTHER OPERATING INCOME

	2003 HK\$	2002 HK\$
Other operating income included the following items:		
Commission income	8,363,370	8,952,856
Exchange gain	–	1,153,878
Handling and services income	2,243,711	1,500,435
Property rental income	3,879,345	3,330,619
Release of negative goodwill to income	289,012	701,230

7. PROFIT FROM OPERATIONS

	2003 HK\$	2002 HK\$
Profit from operations has been arrived at after charging:		
Staff costs		
Directors' remuneration (Note 10)	7,103,710	5,311,713
Salaries and other benefits	181,847,836	181,388,412
Retirement benefits schemes contributions	6,190,884	5,216,327
	195,142,430	191,916,452
Depreciation and amortisation		
Depreciation and amortisation on:		
– Owned assets	54,787,499	54,898,681
– Assets held under finance leases	5,653,564	5,102,567
Amortisation of goodwill (included in other operating expenses)	3,098,199	3,091,571
	63,539,262	63,092,819
Auditors' remuneration	2,348,458	2,348,390
Deficit arising on revaluation of leasehold land and buildings	627,942	565,434
Exchange loss	1,071,725	–
Loss on disposal of property, plant and equipment	930,823	2,278,044

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2003

8. FINANCE COSTS

	2003 HK\$	2002 HK\$
Interest on:		
Borrowings wholly repayable within five years		
– bank loans and overdrafts	15,058,527	15,746,452
– other loans	2,536,287	2,666,211
Finance leases	231,144	726,771
	17,825,958	19,139,434

9. INVESTMENT INCOME

	2003 HK\$	2002 HK\$
Interest income	527,648	1,408,333
Dividends received and receivable from investments in securities	308,091	233,647
Loss on disposal of investments in securities	–	(117,515)
	835,739	1,524,465

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For the year ended 31st December, 2003

10. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

Directors

	2003 HK\$	2002 HK\$
Fees:		
Executive directors	40,000	40,000
Non-executive directors	200,000	200,000
	240,000	240,000
Other emoluments:		
Executive directors		
Salaries and other benefits	5,848,960	4,092,400
Retirement benefits schemes contributions	283,320	247,883
	6,132,280	4,340,283
Non-executive directors		
Salaries and other benefits	680,400	680,400
Retirement benefits schemes contributions	51,030	51,030
	731,430	731,430
	7,103,710	5,311,713

The amounts disclosed above included directors' fees of HK\$80,000 (2002: HK\$80,000) payable to independent non-executive directors.

The emoluments of the directors were within the following bands:

	Number of directors	
	2003	2002
Nil to HK\$1,000,000	6	6
HK\$2,000,001 to HK\$2,500,000	–	2
HK\$2,500,001 to HK\$3,000,000	–	–
HK\$3,000,001 to HK\$3,500,000	2	–
	8	8

NOTES TO THE FINANCIAL STATEMENTS

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10. DIRECTORS' AND EMPLOYEES' EMOLUMENTS (Continued)

Employees

The five highest paid individuals included two (2002: two) directors, details of whose emoluments are set out above. The emoluments of the remaining three (2002: three) individuals are as follows:

	2003 HK\$	2002 HK\$
Salaries and other benefits	7,307,569	6,264,660
Retirement benefits schemes contributions	118,980	152,880
	7,426,549	6,417,540

The emoluments of the employees were within the following bands:

	Number of employees	
	2003	2002
HK\$1,000,001 to HK\$1,500,000	–	–
HK\$1,500,001 to HK\$2,000,000	2	2
HK\$2,000,001 to HK\$2,500,000	–	–
HK\$2,500,001 to HK\$3,000,000	–	–
HK\$3,000,001 to HK\$3,500,000	–	1
HK\$3,500,001 to HK\$4,000,000	–	–
HK\$4,000,001 to HK\$4,500,000	1	–
	3	3

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2003

11. TAXATION

Hong Kong Profits Tax is calculated at 17.5% (2002: 16%) on the estimated assessable profit for the year. In 2003, the government enacted a change in the profits tax rate from 16% to 17.5% for the fiscal year 2003/2004.

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

	2003 HK\$	(As restated) 2002 HK\$
Hong Kong Profits Tax		
Current year	1,078,917	3,395,066
Underprovision in prior years	93,010	54,953
	1,171,927	3,450,019
Taxation outside Hong Kong	8,722,972	10,303,556
Deferred taxation relating to the origination and reversal of temporary differences (Note 29)		
Current year	632,535	299,819
Effect of increase in tax rate	19,261	–
	651,796	299,819
Taxation attributable to the Company and its subsidiaries	10,546,695	14,053,394
Share of tax on results of associates	2,832,223	2,323,815
Taxation charge	13,378,918	16,377,209

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2003

11. TAXATION (Continued)

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

	2003 HK\$	2002 HK\$
Profit before taxation	52,166,644	56,349,959
Tax at the domestic income tax rate of 17.5% (2002: 16%)	9,129,163	9,015,993
Tax effect of expenses that are not deductible in determining taxable profit	11,086,234	15,702,533
Tax effect of income that is not taxable in determining taxable profit	(9,190,745)	(9,472,672)
Underprovision of Hong Kong Profits Tax in prior years	93,010	54,953
Decrease in opening net deferred tax assets resulting from changes in applicable tax rates	19,261	–
Tax effect of tax losses not recognised	6,267,005	5,662,879
Utilisation of tax losses previously not recognised	(1,309,035)	(1,845,503)
Effect of different tax rates of associates and subsidiaries operating in other jurisdictions	(2,715,975)	(2,740,974)
Taxation charge	13,378,918	16,377,209

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2003

12. EARNINGS PER SHARE

The calculation of the basic earnings per share for the year is based on the net profit for the year of HK\$20,528,285 (2002: HK\$22,460,750) and on the weighted average number of shares in issue during the year of 641,387,933 (2002: 640,838,234).

The computation of diluted earnings per share for 2002 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 the year.

The adjustment to the comparative basic earnings per share, arising from the changes in accounting policies as described in note 2 above, is as follows:

	HK cents
Reconciliation of 2002 earnings per share:	
Reported figure before adjustments	3.64
Adjustments arising from the adoption of SSAP 12	(0.14)
As restated	3.50

13. INVESTMENT PROPERTIES

	HK\$
THE GROUP	
VALUATION	
At 1st January, 2003 and 31st December, 2003	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, 2003 on a open market existing use basis by Messrs. Knight Frank, an independent firm of professional valuers.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2003

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\$
THE GROUP						
COST OR VALUATION						
At 1st January, 2003	191,016,628	119,828,284	398,345,477	35,918,681	27,789,272	772,898,342
Currency realignment	(812,856)	(516,584)	(2,298,703)	(262,110)	(263,429)	(4,153,682)
On disposal of subsidiaries	(206,628)	(95,665)	(523,291)	(278,636)	(14,122)	(1,118,342)
Reclassifications	3,662,484	1,441,988	18,925,403	348,709	(24,378,584)	–
Additions	296,148	8,826,282	24,107,784	6,381,882	25,486,502	65,098,598
Disposals	(5,400,000)	(2,367,883)	(17,118,980)	(3,616,814)	(495,010)	(28,998,687)
Adjustment on revaluation	(8,025,776)	–	–	–	–	(8,025,776)
At 31st December, 2003	180,530,000	127,116,422	421,437,690	38,491,712	28,124,629	795,700,453
Comprising:						
At cost	–	127,116,422	421,437,690	38,491,712	28,124,629	615,170,453
At valuation – 2003	180,530,000	–	–	–	–	180,530,000
	180,530,000	127,116,422	421,437,690	38,491,712	28,124,629	795,700,453
DEPRECIATION AND AMORTISATION						
At 1st January, 2003	–	68,817,619	251,523,221	23,054,077	–	343,394,917
Currency realignment	(32,040)	(234,953)	(1,184,295)	(161,599)	–	(1,612,887)
On disposal of subsidiaries	–	(77,852)	(444,026)	(198,862)	–	(720,740)
Provided for the year	6,735,867	11,347,668	38,284,549	4,072,979	–	60,441,063
Eliminated on disposals	(139,500)	(1,199,979)	(7,729,456)	(2,826,290)	–	(11,895,225)
Eliminated on revaluation	(6,564,327)	–	–	–	–	(6,564,327)
At 31st December, 2003	–	78,652,503	280,449,993	23,940,305	–	383,042,801
NET BOOK VALUES						
At 31st December, 2003	180,530,000	48,463,919	140,987,697	14,551,407	28,124,629	412,657,652
At 31st December, 2002	191,016,628	51,010,665	146,822,256	12,864,604	27,789,272	429,503,425

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2003

14. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

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

	2003 HK\$	2002 HK\$
In Hong Kong:		
– under medium-term leases	17,050,000	17,940,000
Outside Hong Kong:		
– under long leases	1,580,000	1,760,000
– under medium-term leases	161,900,000	171,316,628
	180,530,000	191,016,628

The leasehold land and buildings of the Group were revalued as at 31st December, 2003 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\$133,510,000 (2002: HK\$147,162,000).

The net book value of the Group's plant and machinery includes an amount of HK\$9,228,584 (2002: HK\$13,727,985) in respect of assets held under finance leases.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2003

14. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

	Furniture, fixtures and equipment HK\$	Motor vehicles HK\$	Total HK\$
THE COMPANY			
COST			
At 1st January, 2003	8,979,363	417,111	9,396,474
Additions	174,364	—	174,364
At 31st December, 2003	9,153,727	417,111	9,570,838
DEPRECIATION			
At 1st January, 2003	4,331,620	370,325	4,701,945
Provided for the year	873,314	46,785	920,099
At 31st December, 2003	5,204,934	417,110	5,622,044
NET BOOK VALUES			
At 31st December, 2003	3,948,793	1	3,948,794
At 31st December, 2002	4,647,743	46,786	4,694,529

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2003

15. GOODWILL

	THE GROUP HK\$
COST	
At 1st January, 2003	25,076,907
Arising on acquisition of additional interests in subsidiaries during the year	219,662
Eliminated on deregistration of subsidiaries during the year	(1,944,176)
At 31st December, 2003	23,352,393
AMORTISATION	
At 1st January, 2003	20,237,968
Charge for the year	3,098,199
Eliminated on deregistration of subsidiaries during the year	(1,944,176)
At 31st December, 2003	21,391,991
NET BOOK VALUE	
At 31st December, 2003	1,960,402
At 31st December, 2002	4,838,939

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2003

16. NEGATIVE GOODWILL

	THE GROUP HK\$
GROSS AMOUNT	
At 1st January, 2003	30,849,971
Arising on acquisition of additional interests in subsidiaries during the year	839,930
Eliminated on disposals during the year	(844,172)
At 31st December, 2003	30,845,729
RELEASED TO INCOME	
At 1st January, 2003	30,607,918
Released in the year	289,012
Eliminated on disposals during the year	(844,172)
At 31st December, 2003	30,052,758
CARRYING AMOUNT	
At 31st December, 2003	792,971
At 31st December, 2002	242,053

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 2003 HK\$	2002 HK\$
Unlisted shares/capital contribution, at cost less impairment loss	40,781,145	40,781,151
Amounts due from subsidiaries less allowance	588,772,141	584,390,477
	629,553,286	625,171,628

Details of the Company's principal subsidiaries at 31st December, 2003 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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2003

18. INTERESTS IN ASSOCIATES

	2003 HK\$	2002 HK\$
THE GROUP		
Share of net assets	111,293,929	84,007,565
Negative goodwill (<i>Note</i>)	–	(8,824,042)
Amounts due from associates	17,020,995	10,804,245
	128,314,924	85,987,768
THE COMPANY		
Unlisted shares, at cost	–	–
Amounts due from associates	2,464,143	2,593,272
	2,464,143	2,593,272

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

Note:

Negative goodwill arising on acquisition of additional interest in an associate:

	HK\$
GROSS AMOUNT	
At 1st January, 2003	(11,030,053)
Negative goodwill arising on acquisition of additional interest in an associate during the year	(5,174,633)
At 31st December, 2003	(16,204,686)
RELEASED TO INCOME	
At 1st January, 2003	2,206,011
Released in the year	13,998,675
At 31st December, 2003	16,204,686
CARRYING VALUE	
At 31st December, 2003	–
At 31st December, 2002	(8,824,042)

During the year, negative goodwill was fully released to the income statement.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2003

18. INTERESTS IN ASSOCIATES *(Continued)*

Details of the principal associates of the Group at 31st December, 2003 are as follows:

Name of associate	Place of incorporation/ registration and operation	Proportion of nominal value of issued share capital/registered capital attributable to the Group %	Principal activities
Dalian Huada Plastics Co Ltd	PRC	30.0	Plastic processing
East Right Enterprises Limited	Hong Kong	40.0	Investment holding
Shenzhen Hao Ning Da Meters Manufacturing Company Limited	PRC	42.0	Manufacturing and trading of electronic meters
Suzhou Sodick San-Guang Machinery Electric Co., Ltd.	PRC	25.0	Manufacturing of industrial machinery, equipment and supplies
Welltec Far East Limited	Hong Kong	40.0	Trading in industrial machinery

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

19. INVESTMENTS IN SECURITIES

	THE GROUP		THE COMPANY	
	2003 HK\$	2002 HK\$	2003 HK\$	2002 HK\$
Unlisted investment securities, at cost	13,665,620	13,578,434	5,474,904	5,414,118
Impairment loss	(2,967,149)	(2,973,359)	(895,360)	(895,360)
	10,698,471	10,605,075	4,579,544	4,518,758

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2003

20. INVENTORIES

	THE GROUP	
	2003 HK\$	2002 HK\$
Trading inventories and finished goods	169,485,560	173,323,142
Work in progress	66,082,571	62,349,910
Raw materials	178,416,245	200,653,256
	413,984,376	436,326,308

Included above are trading inventories and finished goods of HK\$150,682,841 (2002: HK\$154,131,359), work in progress of HK\$56,298,195 (2002: HK\$56,349,524) and raw materials of HK\$160,813,609 (2002: HK\$181,764,816) 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\$444,023,610 (2002: HK\$397,598,726) and their aged analysis at the balance sheet date is as follows:

	THE GROUP	
	2003 HK\$	2002 HK\$
0 to 3 months	302,305,328	248,317,922
4 to 6 months	49,587,238	56,295,065
7 to 9 months	27,776,134	34,674,791
Over 9 months	64,354,910	58,310,948
	444,023,610	397,598,726

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2003

22. TRADE AND OTHER PAYABLES

Included in trade and other payables are trade payables of HK\$287,960,543 (2002: HK\$294,103,461) and their aged analysis at the balance sheet date is as follows:

	THE GROUP	
	2003 HK\$	2002 HK\$
0 to 3 months	230,002,038	207,615,237
4 to 6 months	33,004,988	49,733,373
7 to 9 months	6,335,876	10,917,411
Over 9 months	18,617,641	25,837,440
	287,960,543	294,103,461

23. BORROWINGS

	THE GROUP		THE COMPANY	
	2003 HK\$	2002 HK\$	2003 HK\$	2002 HK\$
Bank loans				
– secured	90,025,801	65,165,489	–	–
– unsecured	142,891,932	124,472,654	10,000,000	10,000,000
	232,917,733	189,638,143	10,000,000	10,000,000
Other loans				
– secured	9,006,736	836,978	–	–
– unsecured	215,558	312,796	–	–
	9,222,294	1,149,774	–	–
Total	242,140,027	190,787,917	10,000,000	10,000,000

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2003

23. BORROWINGS (Continued)

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

	THE GROUP		THE COMPANY	
	2003 HK\$	2002 HK\$	2003 HK\$	2002 HK\$
Within one year	221,208,941	178,787,445	10,000,000	10,000,000
Between one and two years	18,444,577	7,324,250	—	—
Between two and five years	2,486,509	4,676,222	—	—
	242,140,027	190,787,917	10,000,000	10,000,000
Less: Amount due within one year shown under current liabilities	221,208,941	178,787,445	10,000,000	10,000,000
Amount due after one year	20,931,086	12,000,472	—	—

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2003

24. OBLIGATIONS UNDER FINANCE LEASES

The Group

	Minimum lease payments		Present value of minimum lease payments	
	2003 HK\$	2002 HK\$	2003 HK\$	2002 HK\$
Amounts payable under finance leases:				
Within one year	3,836,068	4,692,205	3,543,358	4,246,239
In the second to fifth year inclusive	3,180,049	4,358,749	3,100,561	4,127,233
	7,016,117	9,050,954	6,643,919	8,373,472
Less: Future finance charges	372,198	677,482	N/A	N/A
Present value of lease payments	6,643,919	8,373,472	6,643,919	8,373,472
Less: Amount due for settlement within one year shown under current liabilities			3,543,358	4,246,239
Amount due for settlement after one year			3,100,561	4,127,233

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 31st December, 2003, the average effective borrowing rate was 6.75% (2002: 6.75%). Interest rates are fixed at the contract date. All leases are on a fixed repayment basis and no arrangement has been entered into for contingent rental payments.

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

The Company

The Company had no finance lease obligations at both year end dates.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2003

25. SHARE CAPITAL

	Number of ordinary shares	Value HK\$
Ordinary shares of HK\$0.40 each		
Authorised:		
At 1st January, 2002, 31st December, 2002 and 31st December, 2003	1,000,000,000	400,000,000
Issued and fully paid:		
At 1st January, 2002 and 31st December, 2002	640,838,234	256,335,294
Exercise of share options	1,100,000	440,000
Exercise of warrants	88,000	35,200
At 31st December, 2003	642,026,234	256,810,494

All the shares issued by the Company during the year rank pari passu with the then existing shares in all respects.

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.

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2003

27. SHARE OPTION 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.

At 31st December, 2003, no option remained outstanding under the Scheme and all the remaining 11,100,000 share options granted have lapsed on 19th July, 2003.

Details of the Company's outstanding share options during the year are as follows:

Name	Date of grant	Exercise period	Exercise price HK\$	Number of share options outstanding at 31.12.2002	Number of share options exercised on 11.07.2003 and 17.07.2003	Number of share options lapsed on 19.07.2003
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	1,100,000	7,500,000
				12,200,000	1,100,000	11,100,000

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2003

28. RESERVES

	Share premium HK\$	Retained profits HK\$	Total HK\$
THE COMPANY			
At 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 and 1st January, 2003	267,148,838	91,261,660	358,410,498
On issue of shares	11,000	–	11,000
Loss for the year	–	(16,541,626)	(16,541,626)
At 31st December, 2003	267,159,838	74,720,034	341,879,872

The Company's retained profits of HK\$74,720,034 as at 31st December, 2003 (2002: HK\$91,261,660) are available for distribution to shareholders.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2003

29. DEFERRED TAXATION

The Group

Deferred taxation is calculated in full on temporary differences under the liability method using a principal taxation rate of 17.5% (2002: 16%).

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

	Decelerated (accelerated) tax depreciation HK\$	Revaluation of properties HK\$	Tax losses HK\$	Others HK\$	Total HK\$
At 1st January, 2002					
– as previously reported	–	–	–	–	–
– adjustment on adoption of SSAP 12 (Revised)	250,554	(4,397,487)	300	9,329,171	5,182,538
– as restated	250,554	(4,397,487)	300	9,329,171	5,182,538
(Charged) credited to income statement	(770,743)	2,793	(300)	468,431	(299,819)
Credited to equity	–	324,186	–	–	324,186
At 1st January, 2003	(520,189)	(4,070,508)	–	9,797,602	5,206,905
Exchange differences	(816)	–	–	(2,442)	(3,258)
(Charged) credited to income statement	(1,121,368)	72,295	–	416,538	(632,535)
Charged to equity	–	(84,287)	–	–	(84,287)
Effect of change in tax rate					
– (Charged) credited to income statement	(22,407)	–	–	3,146	(19,261)
At 31st December, 2003	(1,664,780)	(4,082,500)	–	10,214,844	4,467,564

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

	2003 HK\$	2002 HK\$
Fair value reserves in shareholders' equity		
– Properties	84,287	(324,186)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2003

29. DEFERRED TAXATION (Continued)

The Group (Continued)

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

	2003 HK\$	2002 HK\$
Deferred tax liabilities	(11,682,388)	(10,400,993)
Deferred tax assets	16,149,952	15,607,898
	4,467,564	5,206,905

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

	2003 HK\$	2002 HK\$
Unused tax losses	216,425,366	192,706,639

The tax losses do not expire under current tax legislation.

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

The Company

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2003

30. DISPOSAL OF SUBSIDIARIES

	2003 HK\$	2002 HK\$
NET (LIABILITIES) ASSETS DISPOSED OF:		
Property, plant and equipment	397,602	2,207,414
Inventories	8,217,560	2,961,738
Trade and other receivables	1,104,079	7,221,727
Bank balances and cash	1,182,268	1,082,817
Trade and other payables	(17,837,735)	(6,738,701)
Borrowings	–	(4,775,549)
Minority interests	(4,163,264)	587,079
	(11,099,490)	2,546,525
Attributable goodwill realised upon disposal	–	409,033
Attributable negative goodwill released upon disposal	–	(118,548)
Statutory reserve realised upon disposal	(594,457)	–
Translation reserve realised upon disposal	15,141,841	502
Loss on disposal of subsidiaries	(2,217,733)	(2,824,013)
	1,230,161	13,499
SATISFIED BY:		
Cash consideration	1,230,161	13,499

The subsidiaries disposed of during the years ended 31st December, 2003 and 2002 did not contribute significantly to the results of the Group in those years up to their dates of disposal. The cash flows contributed or utilised by the subsidiaries disposed of during the years ended 31st December, 2003 and 2002 were not significant in those years.

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

	2003 HK\$	2002 HK\$
Cash consideration	1,230,161	13,499
Bank balances and cash disposed of	(1,182,268)	(1,082,817)
Net inflow (outflow) of cash and cash equivalents in respect of the disposal of subsidiaries	47,893	(1,069,318)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2003

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\$3,878,540 (2002: HK\$284,360).

33. OPERATING LEASE COMMITMENTS

The Group as lessee

	THE GROUP	
	2003	2002
	HK\$	HK\$
Minimum lease payments made during the year under operating leases in respect of:		
Land and buildings	14,252,265	13,243,912
Plant and machinery	455,705	370,375
	14,707,970	13,614,287

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

	THE GROUP	
	2003	2002
	HK\$	HK\$
Within one year	12,296,942	12,907,626
In the second to fifth year inclusive	40,788,937	46,393,328
Over five years	93,633,489	105,233,709
	146,719,368	164,534,663

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2003

33. OPERATING LEASE COMMITMENTS *(Continued)*

The Group as lessor

Property rental income earned during the year net of outgoings of HK\$435,586 (2002: HK\$465,719), was HK\$3,443,759 (2002: HK\$2,864,900). The remaining properties are expected to generate rental yields of 11% (2002: 10%) on an ongoing basis. All of the properties held have committed tenants for the next 1-3 years.

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

	THE GROUP	
	2003 HK\$	2002 HK\$
Within one year	2,513,603	2,538,499
In the second to fifth year inclusive	847,778	2,001,186
	3,361,381	4,539,685

The Company

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

34. OTHER COMMITMENTS

	THE GROUP	
	2003 HK\$	2002 HK\$
Capital expenditure contracted for but not provided in the financial statements in respect of:		
Acquisition of property, plant and equipment	9,755,206	11,674,134
Investments	–	4,007,200
	9,755,206	15,681,334
Capital expenditure authorised but not contracted for in respect of the acquisition of property, plant and equipment	18,661,814	–

The Company

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2003

35. CONTINGENT LIABILITIES

	THE GROUP		THE COMPANY	
	2003 HK\$	2002 HK\$	2003 HK\$	2002 HK\$
Guarantees given to financial institutions in respect of credit facilities utilised by:				
Subsidiaries	–	–	369,121,143	332,434,000
Outsiders	6,091,846	12,132,701	–	–
	6,091,846	12,132,701	369,121,143	332,434,000

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\$6,190,884 (2002: HK\$5,216,327) represents contributions payable to these schemes by the Group in respect of the current accounting period. As at 31st December, 2003, contributions of approximately HK\$220,869 (2002: HK\$190,000) due in respect of the reporting period had not been paid over to the schemes.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2003

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	
	2003 HK\$	2002 HK\$
Investment properties	13,500,000	13,500,000
Leasehold land and buildings	25,309,004	21,618,850
Plant and machinery	37,191,627	18,601,700
Bank deposits (<i>Note</i>)	13,969,104	18,176,157
	89,969,735	71,896,707

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2003

38. TRANSACTIONS AND BALANCES WITH RELATED PARTIES

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

	2003 HK\$	2002 HK\$
Substantial shareholders and its subsidiaries:		
EDP charges received (<i>Note i</i>)	183,600	165,600
Licence fee paid (<i>Note i</i>)	–	171,732
Management fee paid (<i>Note i</i>)	3,768,464	4,289,923
Balances due from the Group as at the balance sheet date (<i>Note iii</i>)	5,952,605	5,790,076
Balances due to the Group as at the balance sheet date (<i>Note iii</i>)	88,073	96,750
Companies controlled by certain directors:		
EDP charges received (<i>Note i</i>)	51,600	51,600
Management fee paid (<i>Note i</i>)	996,000	996,000
Minority shareholders:		
Purchases of finished goods (<i>Note i</i>)	16,880,689	7,236,537
Consultancy fee paid (<i>Note i</i>)	–	38,000
Rental paid (<i>Note i</i>)	4,358,718	1,893,850
Interest paid (<i>Note ii</i>)	1,695,643	1,541,494
Balances due from the Group as at the balance sheet date (<i>Note iv</i>)	20,640,288	19,648,834
Balances due to the Group as at the balance sheet date (<i>Note iii</i>)	11,593,329	16,717,448
Associates:		
Sales of finished goods (<i>Note i</i>)	1,615,341	–
Rental income (<i>Note i</i>)	48,426	48,454
Balances due from the Group as at the balance sheet date (<i>Note iii</i>)	1,440,584	1,440,584
Balances due to the Group as at the balance sheet date (<i>Note iii</i>)	17,020,995	10,804,245

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2003

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) The interest was charged at 10% (2002: 6% to 10%) per annum on the outstanding balances.
- (iii) The balances are unsecured, interest free and have no fixed repayment terms.
- (iv) The balances are unsecured and have no fixed repayment terms. Other than an amount of HK\$14,829,417 (2002: HK\$13,133,774) which bears interest at 10% (2002: 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, 2003 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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2003

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 %	attributable to the Group %	Principal activities
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
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	Investment holding
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 Co., Limited (Note b)	PRC	PRC	HK\$29,500,000	100.0	52.0	Manufacturing of printed circuit boards

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2003

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 %	attributable to the Group %	Principal activities
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
Wu Xi Grand Tech Machinery Group Co. Ltd. (Note b)	PRC	PRC	US\$6,586,000	51.0	51.0	Manufacturing and trading of machinery and investment holding
Wu Xi Grand Plastic Machine Manufacture Co., Ltd. (Note b)	PRC	PRC	US\$2,850,000	76.0	51.0	Manufacturing and trading of machinery

Notes:

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2003

40. SUBSEQUENT EVENT

On 24th March 2004, Fair Friend (Hong Kong) Enterprise Co., Limited (“Fair Friend”), a wholly owned subsidiary of the Company, entered into an agreement (the “Agreement”) with Yunchang Electronics, a substantial shareholder of a non wholly owned subsidiary of the Company. Pursuant to the Agreement, Fair Friend has agreed to subscribe in cash for the capital interest in the amount of USD510,000 (equivalent to approximately HK\$3,978,000), representing 51% in the proposed total registered capital of Wuxi Cosmos Yunchang Plastic Co., Ltd, at a subscription price of USD510,000 (equivalent to approximately HK\$3,978,000) and Yunchang Electronics has agreed to subscribe in cash for the capital interest in the amount of USD490,000 (equivalent to approximately HK\$3,822,000), representing 49% in the proposed total registered capital of Wuxi Cosmos Yunchang Plastic Co., Ltd at a subscription price of USD490,000 (equivalent to approximately HK\$3,822,000). Details of the Agreement are set out in the Company’s announcement dated 24th March 2004.

41. COMPARATIVE FIGURES

In the current year, the Group has adopted the revised SSAP 12, as mentioned in note 2 to the financial statements, for the first time. The presentation in the current year’s financial statements has been modified in order to conform with the requirements of this standard. Comparative figures have been restated in order to achieve a consistent presentation.