

# REPORT OF THE DIRECTORS

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

## PRINCIPAL ACTIVITIES

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

## RESULTS

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

## FINANCIAL SUMMARY

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

## INVESTMENT PROPERTIES, PLANT AND EQUIPMENT

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

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

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

## SHARE CAPITAL

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

## RESERVES

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

## Report of the Directors

### MAJOR CUSTOMERS AND SUPPLIERS

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

### DIRECTORS

The Directors during the year were:

#### *Executive Directors:*

Tang To, *Chairman*

Wong Yiu Ming

Zhao Zhuoying

(appointed on 22nd March, 2004)

Zhou Junqing

(resigned on 22nd March, 2004)

Yan Wing Fai Richard

(appointed on 22nd March, 2004)

Li Tin Loi

(appointed on 22nd March, 2004)

#### *Non-Executive Directors:*

Tang Kwan, *Honorary Chairman*

He Zhiqi, *Vice Chairman*

(appointed on 22nd March, 2004)

Shi Shanbo, *Vice Chairman*

(resigned on 22nd March, 2004)

Kan Wai Wah

#### *Independent Non-Executive Directors:*

Liang Shangli

Yip Jeffery

Yeung Shuk Fan

(appointed on 18th June, 2004)

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

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

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

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

## Report of the Directors

### DIRECTOR'S AND CHIEF EXECUTIVE'S INTERESTS IN SECURITIES

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

#### Interests in the Shares

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

#### Notes:

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

## Report of the Directors

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

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

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

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

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

### SUBSTANTIAL SHAREHOLDERS

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

#### Interests in the Shares

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

## Report of the Directors

### SUBSTANTIAL SHAREHOLDERS (Continued)

*Notes:*

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

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

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

### CONNECTED TRANSACTIONS

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

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

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

## Report of the Directors

### CONNECTED TRANSACTIONS (Continued)

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

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

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

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

## Report of the Directors

### CONNECTED TRANSACTIONS (Continued)

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

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

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

### DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

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

### SHARE OPTION SCHEME

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

### AUDIT COMMITTEE

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

## Report of the Directors

### EMPLOYEES AND REMUNERATION POLICY

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

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

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

### CORPORATE GOVERNANCE

None of the directors is aware of any information that would reasonably indicate that the Company had not been for any part of the year ended 31st December, 2004, in compliance with the Code of Best Practice as set out in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"), except that the non-executive directors and independent non-executive directors of the Company are not appointed for specific terms but are subject to retirement by rotation and re-election in accordance with Articles 94 and 103 of the Company's Articles of Association.

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

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

### PUBLIC FLOAT

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

On behalf of the Board

**TANG To**

*Chairman*

Hong Kong, 26th April, 2005