

Notes to the Financial Statements

Year ended 31st December 2000

1. GENERAL

The Company is incorporated in Bermuda as an exempted company with limited liability and its ordinary shares are listed on The Stock Exchange of Hong Kong Limited.

2. PRINCIPAL ACCOUNTING POLICIES

These financial statements have been prepared in accordance with Statements of Standard Accounting Practice and Interpretations issued by the Hong Kong Society of Accountants, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. A summary of the principal accounting policies adopted by the Group is set out below.

Basis of preparation

The measurement basis used in the preparation of the financial statements is historical cost modified by the revaluation of land and buildings and construction-in-progress.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31st December 2000. The results of subsidiaries acquired or disposed of during the year are dealt with in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal as appropriate. Inter-company balances and transactions within the Group have been eliminated on consolidation.

Goodwill

Goodwill represents the excess of the purchase consideration over the fair value ascribed to the Group's share of the separable net assets at the date of acquisition of a subsidiary or an associate and is eliminated against reserves immediately on acquisition. Negative goodwill, which represents the excess of the fair value ascribed to the Group's share of the separable net assets at the date of acquisition of a subsidiary or an associate over the purchase consideration, is credited to reserves.

On the disposal of an investment in a subsidiary or an associate, the attributable amount of goodwill previously eliminated against or credited to reserves is included in the determination of the profit or loss on disposal.

Subsidiaries

A subsidiary is an enterprise, in which the Company, directly or indirectly, controls more than half of the voting power or issued share capital or controls the composition of the board of directors or equivalent governing body. In the Company's balance sheet, investments in subsidiaries are stated at cost less provision, if necessary, for any permanent diminution in value.

Associates

An associate is an enterprise, in which the Group has significant influence and which is neither a subsidiary nor a joint venture of the Group.

An investment in an associate is accounted for in the consolidated financial statements under the equity method and is initially recorded at cost and adjusted thereafter for the post acquisition change in the Group's share of the associate's net assets. The consolidated income statement reflects the Group's share of the post-acquisition results of the associates for the year.

Unrealised profits and losses resulting from transactions between the Group and its associates are eliminated to the extent of the Group's interests in the associate, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in the income statement.

2. PRINCIPAL ACCOUNTING POLICIES (continued)

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably.

Sale of goods is recognised when goods are delivered and title has passed.

Subcontracting fee is recognised in the period when services are rendered.

Interest income is accrued on a time proportion basis on the principal outstanding and at the interest rate applicable.

Rental income is recognised in the period in which the properties are let out and on a straight-line basis over the lease terms.

Taxation

The charge for taxation is based on the results for the year as adjusted for items which are non-assessable or disallowed. Timing differences arise from the recognition for tax purposes of certain items of income and expense in a different accounting period from that in which they are recognised in the financial statements. The tax effect of timing differences, computed using the liability method, is recognised as deferred taxation in the financial statements to the extent that it is probable that a liability or asset will crystallise in the foreseeable future. A deferred tax asset is not recognised unless its realisation is assured beyond reasonable doubt.

Pension costs

Contributions are recognised as expenses as they become payable in accordance with the rules of the schemes.

Fixed assets

Fixed assets, other than investment properties, are stated at cost or valuation less accumulated depreciation.

The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after the assets have been put into operation, such as repairs and maintenance and overhaul costs, is normally recognised as an expense in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the assets, the expenditure is capitalised as an additional cost of the assets.

Construction-in-progress represents factory buildings under construction, which includes cost of land, construction expenditure and other direct costs attributable to the construction. No depreciation is provided.

When the recoverable amount of an asset has declined below its carrying amount, the carrying amount is reduced to reflect the decline in value. In determining the recoverable amount of assets, expected future cash flows are discounted to their present values.

When assets are sold or retired, their cost or valuation and accumulated depreciation are eliminated from the accounts and any gain or loss resulting from their disposal is included in the income statement.

Land and buildings, including construction-in-progress, are stated in the balance sheet at their revalued amounts, being the fair value on the basis of their existing use at the date of revaluation less any subsequent accumulated depreciation. Independent valuation is performed every two years. In the intervening period, the directors review the carrying value of land and buildings and adjustments are made when in the opinion of the directors there has been a material change in value.

2. PRINCIPAL ACCOUNTING POLICIES (continued)

Fixed assets (continued)

Any surplus arising on revaluation of land and buildings, including construction in progress, 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, when it is recognised as income. A decrease in net carrying amount arising on revaluation of an asset is recognised 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. On the subsequent sale or retirement of a revalued asset, the attributable revaluation surplus is transferred to accumulated profits.

Depreciation is provided to write off the cost or valuation of fixed assets, other than investment properties, over their estimated useful lives from the date on which they become fully operational and after taking into account their estimated residual values, using the straight-line method, at the following rates per annum:

Land	2%
Buildings	4%
Machinery, furniture and equipment	10% – 33%
Motor vehicles	10% – 15%

Investment properties

Investment properties are interests in land and buildings in respect of which construction work and development have been completed and which are intended to be held on a long-term basis for their investment potential.

Investment properties are stated at their open market values on the basis of annual professional valuations. Changes in the values of investment properties are dealt with as movements in the investment property revaluation reserve. If the total of this reserve is insufficient to cover a deficit, on a portfolio basis, the excess is charged to the income statement.

Upon the disposal of an investment property, the relevant portion of the investment property revaluation reserve realised in respect of previous valuations will be released to the income statement.

No depreciation is provided in respect of investment properties with an unexpired lease term of over 20 years since the valuation take into account the state of each property at the date of valuation.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost, which comprises all costs of purchase and, where applicable, costs of conversion and other costs that have been incurred in bringing the inventories to their present location and condition, is calculated using the weighted average cost method. Net realisable value represents the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

Obligations under finance leases

Leases are classified as finance leases when the terms of the leases 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 date of acquisition. The corresponding liabilities 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 leasing commitments and the fair value of the assets acquired, are recognised as expenses over the term of the relevant leases so as to produce a constant periodic rate of charge on the remaining balance of the obligations for each accounting period.

All other leases are classified as operating leases.

2. PRINCIPAL ACCOUNTING POLICIES (continued)

Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the leasing company are accounted for as operating leases. Rentals payable and receivable under operating leases are recognised as expenses and revenue on the straight-line basis over the lease terms.

Foreign currencies

Transactions in foreign currencies are translated at the approximate rates of exchange ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are retranslated at the approximate rates of exchange ruling at that date. Translation differences are included in the income statement.

On consolidation, the financial statements of overseas subsidiaries and associates denominated in currencies other than Hong Kong dollars, are translated at the approximate rates of exchange ruling at the balance sheet date. All exchange differences arising on consolidation are dealt with in the exchange reserve.

Cash equivalents

Cash equivalents in the consolidated cash flow statement represent short-term highly liquid investments which are readily convertible into known amounts of cash and which were within three months of maturity when acquired; less advances from banks repayable within three months from the date of the advance.

Related party

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence.

3. TURNOVER, REVENUE AND SEGMENT INFORMATION

Turnover and revenue recognised by categories are analysed as follows:

	2000 HK\$'000	1999 HK\$'000
Turnover		
Sale of goods	917,665	742,348
Less: Mainland China value-added tax (Note)	(36,486)	(14,210)
	881,179	728,138
Subcontracting fees	20,062	1,947
	901,241	730,085
Other revenue		
Interest income	1,945	2,082
Rental income	50	-
	1,995	2,082
Revenue	903,236	732,167

3. TURNOVER, REVENUE AND SEGMENT INFORMATION (continued)

The analysis of the principal activities and geographical markets of the operations of the Group during the year are as follows:

	Turnover		Contributions to profit from operations	
	2000 HK\$'000	1999 HK\$'000	2000 HK\$'000	1999 HK\$'000
<i>By principal activities:</i>				
Sale of aluminium extrusion products and aluminium ingots	811,568	704,286	97,928	102,040
Sale of chemicals for electroplating and refining gold material	69,611	23,852	15,504	2,025
Subcontracting fees	20,062	1,947	4,468	165
Other activities	-	-	3,738	2,082
	901,241	730,085	121,638	106,312
<i>By geographical markets:</i>				
Mainland China	648,071	593,778	80,247	85,912
Hong Kong	172,513	23,852	31,659	4,107
Foreign trade corporations in Mainland China for export to overseas markets	80,657	112,455	9,732	16,293
	901,241	730,085	121,638	106,312

Note:

The Group's sales in Mainland China are carried out by Nanhai Xingye Shaped Bronze & Aluminium Products Company Ltd. ("Nanhai Xingye"), a subsidiary established and operating in Nanhai, Guangdong Province, Mainland China. Such sales revenue is subject to Mainland China value-added tax ("VAT") at a rate of 17% on the selling price. An input credit is available whereby input VAT previously paid on purchases can be used to offset the output VAT on sales revenue to determine the net VAT payable. During the year ended 31 December 1999, the net VAT paid/payable by Nanhai Xingye was determined at a rate of 2% on the selling price, as confirmed by the local State Tax Bureau, which was substantially lower than the standard rate. In current year, the net VAT paid/payable by Nanhai Xingye of approximately HK\$36,486,000 was determined, as confirmed by the local State Tax Bureau, at a rate of 17% on its gross sales revenue less gross purchases incurred during the year. If Nanhai Xingye had to pay VAT at the standard basis of calculation according to the Mainland China tax law, its net VAT payable for the year would be increased substantially.

4. PROFIT FROM ORDINARY ACTIVITIES BEFORE TAXATION

This is stated after charging:

	2000	1999
	HK\$'000	HK\$'000
(a) Finance costs		
Interest on bank overdrafts and borrowings wholly repayable within five years	2,552	6,129
Interest on bank borrowings wholly repayable after five years	1,048	554
Interest on other borrowings	32	1,454
Finance charges on obligations under finance leases	44	22
	3,676	8,159
(b) Other items		
Staff costs	16,153	17,189
Cost of inventories	628,716	591,275
Auditors' remuneration	931	968
Depreciation:		
Owned assets	24,100	23,410
Assets held under finance leases	180	85
Loss on disposals of plant and equipment	3,455	-
Operating lease charges on premises	1,996	3,144
Provision for bad and doubtful debts	-	153

5. DIRECTORS' AND SENIOR EXECUTIVES' REMUNERATIONS

Directors' remunerations disclosed pursuant to Section 161 of the Hong Kong Companies Ordinance is as follows:

	2000	1999
	HK\$'000	HK\$'000
Fees	800	769
Salaries, other emoluments and other benefits in kind	4,485	6,061
	5,285	6,830

Included in the directors' remuneration were fees of HK\$800,000 (1999: HK\$769,000) paid to the independent non-executive directors during the year.

In addition to the above emoluments, certain directors were granted share options under the Company's Employee Share Option Scheme. Details of these benefits in kind are disclosed under the paragraph "Directors' rights to acquire shares or debentures" in the Report of the Directors.

5. DIRECTORS' AND SENIOR EXECUTIVES' REMUNERATIONS (continued)

In the absence of a ready market for the options granted on the shares of the Company, the directors are unable to arrive at an accurate assessment of the value of the options granted to the respective directors.

The remuneration of directors were within the following bands:

	Number of directors	
	2000	1999
Nil to \$1,000,000	11	11
\$1,000,001 to \$1,500,000	1	1
\$1,500,001 to \$2,000,000	-	1
	12	13

There was no arrangement under which a director waived or agreed to waive any remuneration during the year.

The five (1999: five) individuals with the highest emoluments were directors whose emoluments are disclosed above.

6. TAXATION

	2000 HK\$'000	1999 HK\$'000
Company and subsidiaries:		
Hong Kong Profits Tax:		
Current year	182	133
Underprovision in prior years	213	-
Overseas taxation	17,944	20,361
	18,339	20,494

The Company is exempted from taxation in Bermuda until March 2016.

Hong Kong Profits Tax has been provided at the rate of 16% (1999: 16%) on the estimated assessable profit for the year.

Nanhai Xingye is subject to Mainland China enterprise income taxes at a rate of 27% (24% state tax and 3% local tax). However, it is exempted from Mainland China state income tax and local income tax for two years starting from its first profit-making year of operation after offsetting prior year losses (years ended 31st December 1996 and 1997), followed by a 50% relief for the following three years (years ended 31st December 1998, 1999 and 2000). For the year ended 31st December 2000, Mainland China enterprise income taxes for Nanhai Xingye was provided at 14% (12% state tax and 2% local tax) as confirmed by Nanhai tax bureau, on its estimated taxable income. If the tax relief of Nanhai Xingye did not exist, the Group's provision for Mainland China enterprise income taxes for the year ended 31st December 2000 would have been increased by approximately HK\$15,367,000 (1999: HK\$15,437,000) (net of minority interests).

6. TAXATION (continued)

At the balance sheet date, the Group had an unprovided deferred tax liability of approximately HK\$12,753,000 (1999: HK\$12,753,000) representing the tax effect on the surpluses arising on the revaluation of the Group's land and buildings in Mainland China, of which an amount of HK\$12,013,000 (1999: HK\$12,013,000) should be recorded as reduction of property revaluation reserves and HK\$740,000 (1999: HK\$740,000) as reduction of minority interests. The deferred tax liability was not provided as the directors are of the view that the related land and buildings would not be disposed of in the foreseeable future and, accordingly, such deferred tax liability would not crystallise in the foreseeable future.

The other major components of deferred taxation not provided (credited) for the year are as follow:

	2000 HK\$'000	1999 HK\$'000
Excess of depreciation over tax allowances	(469)	–
Excess of tax allowances over depreciation	–	107
Tax losses arising	(1,889)	(3,016)
	(2,358)	(2,909)

7. NET PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The net profit attributable to shareholders includes a profit of the Company amounted to HK\$7,343,000 (1999: HK\$6,562,000) which has been dealt with in the consolidated income statement.

8. DIVIDEND

	2000 HK\$'000	1999 HK\$'000
Interim dividend paid at nil cent (1999: 0.6 cent) per share	–	4,734
Final dividend proposed at 0.2 cent (1999: Nil) per share	7,409	–

9. EARNINGS PER SHARE

The calculation of basic earnings per share for the year ended 31st December 2000 was based on the consolidated profit attributable to shareholders of approximately HK\$92,557,000 (1999: HK\$71,534,000) and on the weighted average number of 3,502,109,443 shares (1999: 1,966,282,563 shares).

The calculation of diluted earnings per share was based on the consolidated profit attributable to shareholders of approximately HK\$92,557,000 (1999: HK\$71,534,000) and the diluted weighted average of 3,603,278,014 shares (1999: 1,973,541,418 shares). It has been calculated after taking into account of all dilutive instruments. The effect of the dilutive potential ordinary shares resulting from the outstanding share options and warrants on the weighted average number of shares in issue during the year was 101,168,571 shares (1999: 7,258,855 shares), which were deemed to be issued at no consideration if all outstanding share options and warrants have been exercised on the date when the options and warrants were granted.

10. FIXED ASSETS

Group	Investment properties HK\$'000	Land and buildings HK\$'000	Construction -in-progress HK\$'000	Machinery, furniture and equipment HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
Cost or valuation						
At beginning of year	–	142,900	46,000	180,750	6,496	376,146
Additions	6,206	65	–	17,681	164	24,116
Disposals	–	–	–	(10,753)	–	(10,753)
At balance sheet date	6,206	142,965	46,000	187,678	6,660	389,509
Accumulated depreciation						
At beginning of year	–	–	–	59,974	3,877	63,851
Charge for the year	–	4,953	–	18,614	713	24,280
Eliminated on disposals	–	–	–	(4,774)	–	(4,774)
Write down to recoverable amount	–	–	–	5,000	–	5,000
At balance sheet date	–	4,953	–	78,814	4,590	88,357
Net book value						
At balance sheet date	6,206	138,012	46,000	108,864	2,070	301,152
At beginning of year	–	142,900	46,000	120,776	2,619	312,295
Analysis of cost or valuation at balance sheet date						
At cost	6,206	65	–	187,678	6,660	200,609
At valuation in 1999	–	142,900	46,000	–	–	188,900
Total cost or valuation	6,206	142,965	46,000	187,678	6,660	389,509

10. FIXED ASSETS (continued)**(a) Investment properties**

The investment properties, which were purchased during the year, were stated at cost at balance sheet date. No further revaluation has been carried out at the balance sheet date as the management considered that their carrying amount would not be materially different from their latest determined value of HK\$6,400,000 as appraised by Brooke International Appraisals Limited, independent qualified valuers, in August 2000.

The investment properties were situated in Hong Kong and are held on medium-term leases.

(b) Land and buildings

The Group's land and buildings are held under medium-term leases and their net book value is analysed as follows:

	2000 HK\$'000	1999 HK\$'000
Hong Kong	2,842	2,900
Mainland China	135,170	140,000
	138,012	142,900

At the balance sheet date, approximately HK\$135,170,000 (1999: HK\$140,000,000) of the net book value of the land and buildings located in Mainland China were held under land use rights of 30 and 50 years expiring in 2027 and 2046.

The Group's land and buildings were valued at open market value at 31st December 1999 by Brooke International (China) Limited, independent qualified valuers, on an open market existing use basis.

(c) Construction-in-progress

	2000 HK\$'000	1999 HK\$'000
At cost	42,991	42,991
Revaluation surpluses	3,009	3,009
	46,000	46,000

The land and the factory buildings under construction are located on land in Mainland China for which the Group is in the process of applying for formal land use rights. The land use rights of the property are granted for a term of 50 years from the date of signing the Contract for Transfer of Land Use Rights dated 20th September 1999.

The Group's construction-in-progress were valued at their open market value at 31st December 1999 by Brooke International (China) Limited, independent qualified valuers, on an open market value continued existing basis.

10. FIXED ASSETS (continued)**(d) Finance leases**

The net book value of the Group's fixed assets includes an amount of HK\$9,146,000 (1999: HK\$484,000) in respect of assets held under finance leases.

11. INTERESTS IN SUBSIDIARIES

	2000 HK\$'000	1999 HK\$'000
Unlisted shares, at cost	200,023	200,023
Due from subsidiaries	567,523	242,507
Due to subsidiaries	(146,500)	–
	621,046	442,530

The amounts due from (to) subsidiaries are unsecured, interest-free and have no fixed repayment terms.

Details of the subsidiaries at the balance sheet date are as follows:

Name of subsidiary	Place of incorporation and operations	Issued and fully paid capital	Percentage of capital held by the Company		Principal activities
			Directly	Indirectly	
Toowomba Holdings Limited	British Virgin Islands	US\$100	100%	–	Investment holding
Ocean Grand Technology Company Limited	Hong Kong	HK\$2	100%	–	Investment holding
Successful Gold Profits Limited	British Virgin Islands	US\$1	100%	–	Investment holding
Jinbocho Holdings Limited	British Virgin Islands	US\$1	100%	–	Inactive
Harvest Fortune Limited	Hong Kong	HK\$2	–	100%	Property sub-letting
Hing Yip Holdings (China) Limited	Hong Kong	HK\$2	–	100%	Inactive
Hing Yip Holdings (Hong Kong) Limited	Hong Kong	HK\$100 ordinary HK\$100 non-voting deferred (Note)	–	100%	Investment holding and trading of aluminium products and aluminium ingots
Jorki Profits Limited	British Virgin Islands	US\$1	–	100%	Investment holding

11. INTERESTS IN SUBSIDIARIES (continued)

Name of subsidiary	Place of incorporation and operations	Issued and fully paid capital	Percentage of capital held by the Company		Principal activities
			Directly	Indirectly	
Kenlap P.G.C. Manufacturer Company Limited	Hong Kong	HK\$1,000,000	–	100%	Manufacturing chemicals for electroplating and trading and refining of gold material
Nanghai Xingye Shaped Bronze & Aluminium Products Company Ltd	Mainland China	US\$12,000,000	–	93.75%	Manufacturing and selling aluminium extrusion products and trading aluminium ingots
北京海城東方科技有限公司	Mainland China	HK\$919,800	–	100%	Inactive
Chinacin.com Limited	Hong Kong	HK\$100	–	100%	Inactive

Nanghai Xingye Shaped Bronze & Aluminium Products Co., Ltd. is an equity joint venture established in Mainland China for a period of 30 years expiring in 2025.

None of the subsidiaries had any loan capital in issue at any time during the year.

Note:

The non-voting deferred shares of Hing Yip Holdings (Hong Kong) Limited are not owned by the Group. These shares have no voting rights, are not entitled to dividends unless the net profit of Hing Yip Holdings (Hong Kong) Limited exceeds HK\$1,000,000,000,000 and are not entitled to any distributions upon winding up unless a sum of HK\$5,000,000,000 has been distributed by Hing Yip Holdings (Hong Kong) Limited to the holders of ordinary shares.

12. INTERESTS IN AN ASSOCIATE

	2000 HK\$'000	Group 1999 HK\$'000
Share of net assets	948	–
Due from an associate	3,839	–
	4,787	–

The amount due from an associate is unsecured, interest-free and has no fixed repayment terms.

13. INVENTORIES

	2000 HK\$'000	Group 1999 HK\$'000
Raw materials	33,008	11,095
Work-in-progress	1,841	1,388
Finished goods	3,071	6,897
	37,920	19,380
Less: Provision for slow-moving and obsolete inventories	(934)	(934)
	36,986	18,446

14. TRADE AND OTHER RECEIVABLES

	Group		Company	
	2000 HK\$'000	1999 HK\$'000	2000 HK\$'000	1999 HK\$'000
Trade receivables				
From third parties (Note 14(a))	187,490	194,891	-	-
Other receivables				
Deposits, prepayment and other debtors	9,697	10,788	28	-
Due from a related company (Note 14(b))	233	-	-	-
Dividend receivable	-	-	12,000	10,000
	9,930	10,788	12,028	10,000
	197,420	205,679	12,028	10,000

14(a). TRADE RECEIVABLES

Majority of the Group's turnover is made on open account terms. The remaining balances of turnover are on cash on delivery basis or on letter of credit terms. The ageing analysis of trade receivables is as follows:

	2000 HK\$'000	Group 1999 HK\$'000
Current (within 2 months)	143,485	149,887
2 to 3 months	33,448	31,618
More than 3 months but less than 12 months	10,557	13,386
	187,490	194,891

14(b). DUE FROM A RELATED COMPANY

It represented amount due from Kenlap (Holding) Limited, a company which is beneficially owned and controlled by Mr. Yip Kim Po, a director of the Company. The amount due is unsecured, interest-free and has no fixed repayment terms.

15. INVESTMENT PENDING DISPOSAL

	2000 HK\$'000	Group 1999 HK\$'000
Unlisted shares, at cost	92,400	-
Due from the investee	6,448	-
	98,848	-

It represented 55% of the issued share capital of King Glass Engineering Limited ("KGE"), a company engaged in the design, manufacturing and installing bolted fixing building glass technology for large scale project works which is incorporated in Hong Kong. Consideration for the acquisition of KGE, which was completed in June 2000, shall be the lesser of HK\$115,500,000 or 3.5 times the audited consolidated profit of KGE for the year ended 31st December 2000.

In December 2000, the Group had entered into agreements to dispose of its 55% shareholdings in KGE at a consideration of HK\$130,000,000. Upon completion of the agreements in February 2001, the consideration was satisfied by purchaser's delivery of promissory notes with face value of HK\$130,000,000 and execution of a share mortgage in respect of the 55% shares of KGE in favour of the Group. The purchaser shall pay the promissory notes in full before the expiry of 90 days after completion of the agreements. As at the date of these financial statements, HK\$34,362,000 had been repaid and the directors considered it unlikely the remaining balance would not be settled by the due date in early May 2001.

As the directors considered its control in KGE is temporary in nature, the investment in KGE has been classified as investment pending for disposal and included in current assets. Upon completion of the disposal of KGE, the directors estimated that the Group would record a gain on disposal of approximately HK\$13,500,000, based on a maximum of HK\$115,500,000 investment cost. Such gain will be recognised in the 2001 financial statements.

16. CASH AND CASH EQUIVALENTS

	Group		Company	
	2000 HK\$'000	1999 HK\$'000	2000 HK\$'000	1999 HK\$'000
Cash and bank balances	104,519	53,607	1,028	29
Deposits with financial institutions	25,336	26,469	-	-
Time deposits	12,000	-	-	-
	141,855	80,076	1,028	29

17. SHORT-TERM BANK BORROWINGS

	Group		Company	
	2000 HK\$'000	1999 HK\$'000	2000 HK\$'000	1999 HK\$'000
Bank overdrafts	5,302	2,063	51	51
Trust receipts bank loans	62,472	7,299	-	-
Short-term bank loans	1,000	-	-	-
	68,774	9,362	51	51

18. TRADE AND OTHER PAYABLES

	Group		Company	
	2000 HK\$'000	1999 HK\$'000	2000 HK\$'000	1999 HK\$'000
Trade payables				
To third parties (Note 18(a))	4,247	6,729	-	-
Bills payable	1,682	-	-	-
Other payables				
Accrued charges and other creditors	35,486	32,702	4,026	5,114
Due to directors	-	1,669	-	1,573
Due to a related company	-	400	-	-
Other short-term borrowings (Note 18(b))	3,000	6,862	-	6,092
	38,486	41,633	4,026	12,779
	44,415	48,362	4,026	12,779

18(a). TRADE PAYABLES

The ageing analysis of trade payables is as follows:

	2000 HK\$'000	Group 1999 HK\$'000
Current (within 1 month)	4,235	6,687
More than 3 months but less than 12 months	12	42
	4,247	6,729

18(b). OTHER SHORT-TERM BORROWINGS

The borrowings are unsecured, bearing interest at Hong Kong prime rate plus 2% and have no fixed repayment terms.

19. LONG-TERM BANK BORROWINGS

The long-term bank borrowings, which were secured, are repayable within a period as follows:

	2000 HK\$'000	Group 1999 HK\$'000
Not exceeding one year	600	7,276
More than one year but not exceeding two years	763	1,308
More than two years but not exceeding five years	2,287	3,924
More than five years	450	11,699
	4,100	24,207
Portion classified as current liabilities	(600)	(7,276)
Long-term portion	3,500	16,931

Long-term bank borrowings represented installment loan denominated in Hong Kong dollars, bearing interest at Hong Kong prime rate plus 0.75% per annum.

20. OBLIGATIONS UNDER FINANCE LEASES

The obligations under finance leases are repayable within a period as follows:

	2000 HK\$'000	Group 1999 HK\$'000
Not exceeding one year	2,814	139
More than one year but not exceeding two years	2,228	139
More than two years but not exceeding five years	2,229	138
More than five years	-	-
	7,271	416
Portion classified as current liabilities	(2,814)	(139)
Long-term portion	4,457	277

21. ISSUED CAPITAL

	2000		1999	
	Number of shares '000	Amount HK\$'000	Number of shares '000	Amount HK\$'000
Authorised:				
Ordinary shares of HK\$0.10 each	10,000,000	1,000,000	10,000,000	1,000,000
Issued and fully paid:				
At beginning of year	2,792,097	279,210	563,200	56,320
Issued ordinary shares	325,000	32,500	260,000	26,000
Issued upon exercise of warrants	417,733	41,773	14,913	1,491
Issued upon exercise of share options	155,500	15,550	158,320	15,832
Issued bonus shares	-	-	1,795,664	179,567
At balance sheet date	3,690,330	369,033	2,792,097	279,210

In February 2000, 325,000,000 new shares of HK\$0.10 each of the Company were issued at HK\$0.351 per share as settlement of HK\$114,075,000 of the consideration for the acquisition of 40% interest in Beijing Linefan Technology Limited, a company incorporated in Mainland China.

22. WARRANTS

On 15th October 1999, the Company issued warrants ("2000 Warrants") conferring rights to subscribe up to approximately HK\$31,561,000 for shares in the Company, at an initial subscription price of HK\$0.20 per share (subject to adjustment), on the basis of one warrant for every five shares in the Company then prevailing. The 2000 Warrants are exercisable during the period from 15th October 1999 to 31st December 2000.

In connection with the issuance of bonus shares in November 1999, the subscription price of the outstanding 2000 Warrants was adjusted from HK\$0.20 per share to HK\$0.07 per share with effect from 26th November 1999. As the subscription price was below the nominal par value of HK\$0.10 per share, pursuant to the warrant instrument dated 15th October 1999, a subscription right reserve of approximately HK\$13,328,000 was established by way of capitalising the Company's contributed surplus. The subscription right reserve will be applied in making up the shortfall in the nominal par value of the shares required to be issued upon exercise of the warrants. During the year, warrants were exercised to subscribe for 417,733,000 (1999: 14,913,000) shares of the Company at a consideration of approximately HK\$29,241,000 (1999: HK\$1,344,000) and in this connection subscription right reserve of approximately HK\$12,532,000 (1999: HK\$378,000) was applied to make up the shortfall in the nominal value of the shares.

The subscription rights attaching to the 2000 Warrants which had not been exercised were expired on 31st December 2000.

On 28th August 2000, the Company issued 630,000,000 units of warrants at a price of HK\$0.04 per unit. Each warrant is entitled to subscribe 1 share of the Company at a subscription price of HK\$0.16 per share. The warrants are exercisable during the period from 28th August 2000 to 31st December 2001.

23. SHARE OPTIONS

The Company has a share option scheme, under which it may grant options to employees (including executive directors of the Company) to subscribe for shares in the Company, subject to a maximum of 10% of the nominal value of the issued share capital of the Company from time to time excluding for this purpose shares issued on exercise of options. The subscription price will be determined by the Company's board of directors, and will be the higher of the nominal value of the shares and 80% of the average of the closing prices of the shares quoted on The Stock Exchange of Hong Kong Limited on the five trading days immediately preceding the date of offer of the options.

Movements of share options during the year were:

Date of grant	Exercise period	Subscription price HK\$	Beginning of year HK'000	Number of shares		Lapsed HK'000	At balance sheet date HK'000
				Granted during the year HK'000	Exercised during the year HK'000		
27th March 1998	27th March 1998 to 3rd September 2007	0.12	14,500	-	(9,500)	-	5,000
14th December 1999	14th December 1999 to 3rd September 2007	0.10	96,000	-	(96,000)	-	-
3rd May 2000	2nd May 2000 to 3rd September 2007	0.1128	-	59,000	(50,000)	-	9,000
			110,500	59,000	(155,500)	-	14,000

24. RESERVES

Group	Share premium HK\$'000	Statutory reserve (a) HK\$'000	Capital reserve (b) HK\$'000	Subscription right reserve (d) HK\$'000	Property revaluation reserves HK\$'000	Exchange reserve HK\$'000	Accumulated profits HK\$'000	Total HK\$'000
At 1st January 1999	66,400	15,079	27,206	-	26,710	(180)	157,672	292,887
Establishment of subscription right reserve	-	-	-	13,328	-	-	(13,328)	-
Premium arising from issue of shares upon								
- exercise of share options	15,697	-	-	-	-	-	-	15,697
- exercise of warrants	231	-	-	(378)	-	-	-	(147)
- share placements	30,000	-	-	-	-	-	-	30,000
- acquisition of a subsidiary	28,000	-	-	-	-	-	-	28,000
Capitalisation for issuance of bonus shares	(138,690)	-	-	-	-	-	(40,877)	(179,567)
Expenditures of share placements	(1,638)	-	-	-	-	-	-	(1,638)
Surplus on revaluation of land and buildings (net of minority interests)	-	-	-	-	13,388	-	-	13,388
Elimination of goodwill	-	-	-	-	-	-	(37,937)	(37,937)
Profit for 1999	-	-	-	-	-	-	71,534	71,534
Dividend	-	-	-	-	-	-	(4,734)	(4,734)
At 31st December 1999	-	15,079	27,206	12,950	40,098	(180)	132,330	227,483
Premium arising from issue of shares upon								
- exercise of share options	830	-	-	-	-	-	-	830
- exercise of warrants	25,200	-	-	(12,532)	-	-	-	12,668
- acquisition of an associate	81,575	-	-	-	-	-	-	81,575
Expenditures of warrant placements	(1,943)	-	-	-	-	-	-	(1,943)
Elimination of goodwill	-	-	-	-	-	-	(147,047)	(147,047)
Profit for 2000	-	-	-	-	-	-	92,557	92,557
Dividend	-	-	-	-	-	-	(7,409)	(7,409)
At balance sheet date	105,662	15,079	27,206	418	40,098	(180)	70,431	258,714

Included in the accumulated profits is an amount of HK\$22,000 (1999: Nil) being the accumulated loss attributable to an associate.

24. RESERVES (continued)

Company	Share premium HK\$'000	Contributed surplus (c) HK\$'000	Subscription right reserve (d) HK\$'000	Accumulated profits HK\$'000	Total HK\$'000
At 1st January 1999	66,400	199,722	–	224	266,346
Establishment of subscription right reserve	–	(13,328)	13,328	–	–
Premium arising from issue of shares upon					
– exercise of share options	15,697	–	–	–	15,697
– exercise of warrants	231	–	(378)	–	(147)
– share placements	30,000	–	–	–	30,000
– acquisition of a subsidiary	28,000	–	–	–	28,000
Capitalisation for issuance of bonus shares	(138,690)	(40,877)	–	–	(179,567)
Expenditures of share placements	(1,638)	–	–	–	(1,638)
Profit for 1999	–	–	–	6,562	6,562
Dividend	–	–	–	(4,734)	(4,734)
At 31st December 1999	–	145,517	12,950	2,052	160,519
Premium arising from issue of shares upon					
– exercise of share options	830	–	–	–	830
– exercise of warrants	25,200	–	(12,532)	–	12,668
– acquisition of an associate	81,575	–	–	–	81,575
Expenditures of warrant placements	(1,943)	–	–	–	(1,943)
Profit for 2000	–	–	–	7,343	7,343
Dividend	–	–	–	(7,409)	(7,409)
At balance sheet date	105,662	145,517	418	1,986	253,583

The Company's reserves (excluding accumulated profits) as at the balance sheet date available for distribution to shareholders are represented by the contributed surplus of approximately HK\$145,517,000 (1999: HK\$145,517,000).

24. RESERVES (continued)**(a) Statutory reserves**

Statutory reserves include discretionary surplus reserve, statutory reserve fund and enterprise development fund relating to Nanhai Xingye. As stipulated by Mainland China regulations and pursuant to the provisions of Nanhai Xingye's articles of association, the appropriations of profit to the statutory reserves are made pursuant to the recommendation of Nanhai Xingye's board of directors. Discretionary surplus reserve can be utilised to offset prior years' losses or for issuance of bonus shares, statutory reserve fund may be distributed to shareholders in the form of share bonus issues and/or cash dividends, and enterprise development fund is distributable only upon Nanhai Xingye's liquidation.

The directors of Nanhai Xingye decided not to make any appropriation to discretionary surplus reserve, statutory reserve fund and enterprise development fund for periods subsequent to 31st December 1995. The statutory reserves of the Group comprised:

	2000 HK\$'000	Group 1999 HK\$'000
Discretionary surplus reserve	5,799	5,799
Statutory reserve fund	4,640	4,640
Enterprise development fund	4,640	4,640
	15,079	15,079

(b) Capital reserve

Capital reserve comprised (i) capital reserve of the subsidiaries, and (ii) the difference between the aggregate nominal amount of the share capital issued by the Company in exchange for the aggregate nominal amount of the share capital of subsidiaries as at 4th September 1997.

(c) Contributed surplus

Contributed surplus represented the difference between the aggregate net assets value of subsidiaries acquired and the nominal amount of the Company's shares issued for the acquisition. Under The Companies Act 1981 of Bermuda (as amended), contributed surplus is distributable to shareholders, subject to the condition that the Company cannot declare or pay a dividend, or make a distribution out of contributed surplus if (i) it is, or would after the payment be, unable to pay its liabilities as they became due, or (ii) the realisable value of its assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium account.

(d) Subscription right reserve

Subscription right reserve is established for making up the shortfall between subscription price of warrants and the nominal par value of shares of the Company of HK\$0.10 each.

25. NOTES TO CONSOLIDATED CASH FLOW STATEMENT

- (a) Reconciliation of profit before taxation to net cash inflow from operating activities:

	2000 HK\$'000	1999 HK\$'000
Profit before taxation	117,940	98,153
Interest income	(1,945)	(2,082)
Interest expenses	3,676	8,159
Depreciation	24,280	23,495
Loss on disposals of plant and equipment	3,455	-
Write down of plant and equipment to recoverable amount	5,000	-
Share of results of an associate	22	-
Changes in working capital:		
Inventories	(18,540)	(3,148)
Trade and other receivables	8,259	(53,095)
Due from an investment pending disposal	(6,448)	-
Due from an associate	(3,839)	-
Trade and other payables	(141)	(38,720)
Net cash inflow from operating activities	131,719	32,762

- (b) Analysis of changes in financing was as follows:

	Share capital and share premium HK\$'000	Long- term bank borrowings HK\$'000	Trust receipts bank loans HK\$'000	Short term bank borrowings HK\$'000	Other short- term borrowings HK\$'000	Advances from related companies HK\$'000	Advances from directors HK\$'000	Obligations under finance leases HK\$'000	Pledged deposits HK\$'000
At 1st January 1999	122,720	54,174	-	-	5,238	1,726	3,688	-	-
Cash inflow (outflow) from financing	73,235	(48,208)	-	-	1,624	(1,326)	3,693	(180)	-
Capitalisation of subscription right reserves upon exercise of warrants	378	-	-	-	-	-	-	-	-
Shares issued for non-cash consideration	82,877	-	-	-	-	-	-	-	-
Acquisition of a subsidiary	-	18,241	-	-	-	-	(5,712)	27	-
Inception of new finance lease obligation	-	-	-	-	-	-	-	569	-
At 31st December 1999	279,210	24,207	-	-	6,862	400	1,669	416	-
Cash inflow (outflow) from financing	68,878	(20,107)	62,472	1,000	(3,862)	(400)	(1,669)	(138)	(5,000)
Shares issued for non-cash consideration	114,075	-	-	-	-	-	-	-	-
Exercise of warrants	12,532	-	-	-	-	-	-	-	-
Inception of new finance lease obligation	-	-	-	-	-	-	-	6,993	-
At balance sheet date	474,695	4,100	62,472	1,000	3,000	-	-	7,271	(5,000)

25. NOTES TO CONSOLIDATED CASH FLOW STATEMENT (continued)

- (c) Major non-cash transactions

During the year, the Group acquired 40% interest in Beijing Linefan Technology Limited at a consideration of \$148,000,000, of which HK\$114,075,000 was satisfied by the issuance of 325,000,000 new shares in the Company at HK\$0.351 per share and the remaining HK\$33,925,000 in cash.

26. COMMITMENTS AND CONTINGENT LIABILITIES

- (a) Operating lease commitments

At the balance sheet date, the portion of outstanding commitments in respect of land and buildings not provided for under non-cancellable operating leases which are payable in the following years is as follow:

	2000 HK\$'000	Group 1999 HK\$'000
Leases expiring:		
– within one year	323	–
– within two to five years	100	252
– over five years	–	470
	<u>423</u>	<u>722</u>

- (b) Contingent liabilities

Contingent liabilities not provided for in the financial statements were as follows:

	2000 HK\$'000	Company 1999 HK\$'000
Corporate guarantees given by the Company in respect of banking facilities of its subsidiaries	<u>108,740</u>	<u>15,568</u>

26. COMMITMENTS AND CONTINGENT LIABILITIES (continued)

- (c) As disclosed in note 3 to the financial statements, Nanhai Xingye has been paying VAT at a concessionary basis of calculation as agreed with the local State Tax Bureau. Nanhai Xingye is contingently liable to pay for the VAT at the standard basis of calculation. Had standard basis of calculation as stipulated by the Mainland China tax law been strictly enforced, the VAT liability of Nanhai Xingye would be significantly increased. However, in the opinion of the directors, such liability is unlikely to crystallise and it is not practicable to estimate the amount.

27. PENSION SCHEME

As stipulated by Mainland China regulations, Nanhai Xingye maintains a defined contribution retirement plan for all of its employees commencing from 1st January 1997. All retired employees of Nanhai Xingye are entitled to an annual pension equal to their basic annual salary upon retirement. Nanhai Xingye contributes to a state sponsored retirement plan approximately 15% of the basic salary of its employees, and has no further obligations for the actual pension payments or post-retirement benefits beyond the annual contributions. The state sponsored retirement plan is responsible for the entire pension obligations payable to retired employees. The Group's contributions for the year ended 31st December 2000 amounted to approximately HK\$99,000 (1999: \$327,000).

The other group companies did not operate any retirement plan before December 2000. Following the implementation of the Mandatory Provident Fund ("MPF") in Hong Kong with effect from December 2000, the other group companies operate two MPF plans for their Hong Kong employees. The assets of the MPF are held separately in provident funds managed by independent trustees. The other group companies are required to make contributions to the MPF in January 2001 and accordingly, no pension expenses have been incurred by them during the year ended 31st December 2000 and 1999.

28. PLEDGE OF ASSETS

Certain banking facilities of the Group were secured by a corporate guarantee provided by the Company, a floating charge on the bank balances of a subsidiary amounted to HK\$5,000,000 (1999: Nil) and pledge of properties with net book value of approximately HK\$8,947,000 (1999: Nil).

29. CONNECTED TRANSACTIONS

A wholly-owned subsidiary of the Company ("the Subsidiary") entered into an agreement in August 2000 with Pacific Rich Enterprises Limited ("Pacific Rich"), a wholly-owned subsidiary of Kenlap (Holding) Limited ("Kenlap"), for the purchase of properties situated in Hong Kong at a consideration of HK\$6,000,000. The properties are held for investment purposes and are included in the balance sheet as investment properties. The consideration was settled prior to the balance sheet date. Mr. Yip Kim Po, a director of the Company, is the controlling shareholder of Kenlap. Ms. Yip Wan Fung is a director of the Company, the Subsidiary and Pacific Rich.

As mentioned in note 15 to the financial statements, the Group's 55% interest in KGE was disposed in February 2001. The purchaser was Mississippi Industrial Limited, an independent third party. The remaining 45% shareholdings of KGE are owned by Mr. Luo Ken Yi, Mr. Li Lee Cheung, directors of the Company, and their controlled companies.

In the opinion of the directors, the above transactions were carried out on normal commercial terms.

30. SUBSEQUENT EVENTS

In December 2000, a wholly-owned subsidiary of the Company, entered into a conditional agreement with Grand Coliseum Profits Limited, an independent third party, for acquisition of 40% of the issued share capital of Asia Pacific Holdings (China) Ltd. ("APHC"). APHC owns Asia Pacific Holdings (Panzhuhua) Iron & Steel Co. Ltd., which is a wholly foreign-owned enterprise established in Mainland China conducting the business of manufacturing and selling of stainless steel and related products. APHC is also in the process of acquiring 100% interests of another company established in the Mainland China which is mainly engaged in the trading of steel products. Consideration for the acquisition shall be the lesser of HK\$128,000,000 or 40% of 4 times the audited consolidated profits of APHC for the year ended 31st December 2001. The acquisition has not yet been completed as at the date of these financial statements.

31. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform with the current year's presentation as the directors consider that the current year's presentation is more appropriate to reflect the Group's operating results and financial positions.