

**1. GENERAL**

The Company is a public limited company incorporated in Hong Kong and its shares are listed on The Stock Exchange of Hong Kong Limited.

The Company acts as an investment holding company. The principal activities of its subsidiaries are set out in note 32.

**2. ADOPTION OF STATEMENTS OF STANDARD ACCOUNTING PRACTICE**

In the current year, the Group has adopted for the first time a number of new and revised Statements of Standard Accounting Practice ("SSAPs") issued by the Hong Kong Society of Accountants. Adoption of these SSAPs has led to a number of changes in the Group's accounting policies. The revised accounting policies are set out in note 3. In addition, the adoption of these SSAPs has resulted in a change in the format of presentation of cash flow statement and the inclusion of the statement of changes in equity. Comparative amounts for the prior year have been restated in order to achieve a consistent presentation.

The adoption of these new and revised SSAPs has resulted in the following changes to the Group's accounting policies, but has had no significant effect on the results for the current or prior accounting periods. Accordingly, no prior year adjustment has been required.

**Foreign currencies**

The revisions to SSAP 11 "Foreign Currency Translation" have eliminated the choice of translating the income statements of overseas subsidiaries and operations at the closing rate for the period, the policy previously followed by the Group. They are now required to be translated at an average rate.

**Cash flow statements**

In the current year, the Group has adopted SSAP 15 (Revised) "Cash Flow Statements". Under SSAP15 (Revised), cash flows are classified under three headings - operating, investing and financing, rather than the previous five headings. Interest and dividends, which were previously presented under operating activities, are classified as appropriate cash flows this year. Cash flows arising from taxes on income are classified as operating activities, unless they can be separately identified with investing or financing activities. In addition, the amounts presented for cash and cash equivalents have been amended to exclude short-term loans that are financing in nature. Cash flows of overseas subsidiaries and operations have been re-translated at the rates prevailing at the dates of cash flows rather than the rate of exchange ruling on the balance sheet date. The re-definition of cash and cash equivalents has resulted in a restatement of the comparative amount shown in the cash flow statement.

**Employee benefits**

In the current year, the Group has adopted SSAP 34 "Employee Benefits", which introduces measurement rules for employee benefits, including retirement benefit plans. Because the Group participates only in defined contribution retirement benefit schemes, the adoption of SSAP 34 has not had any significant impact on the financial statements.

**3. SIGNIFICANT ACCOUNTING POLICIES**

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

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 incorporated the financial statements of the Company and its subsidiaries made up to 31st December, each year.

## Notes to the Financial Statements

For the year ended 31st December, 2002

### 3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

#### **Basis of consolidation** *(Continued)*

The results of 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 inter-company transactions and balances within the Group have been eliminated on consolidation.

#### **Goodwill**

Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary or associate at the date of acquisition.

Goodwill arising on acquisitions of subsidiaries or associates is capitalised and amortised on a straight line basis over its useful economic life. Goodwill arising on the acquisition of an associate is included within the carrying amount of the associate. Goodwill arising on the acquisition of subsidiaries is presented separately in the balance sheet.

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

#### **Negative goodwill**

Negative goodwill represents the excess of the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary at the date of acquisition over the cost of acquisition.

Negative goodwill arising on acquisitions of subsidiaries is presented as deduction from assets and will be released to income based on an analysis of the circumstances from which the balance resulted.

To the extent that the negative goodwill is attributable to losses or expenses anticipated at the date of acquisition, it is released to income in the period in which those losses or expenses arise. The remaining negative goodwill is recognised as income on a straight line basis over the remaining average useful life of the identifiable acquired depreciable assets. To the extent that such negative goodwill exceeds the aggregate fair value of the acquired identifiable non-monetary assets, it is recognised in income immediately.

#### **Revenue recognition**

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

Commission income is recognised when services are rendered.

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

Dividend income from investments is recognised when the Group's right to receive payment is established.

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

#### **Investment properties**

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

### 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### Investment properties (Continued)

Investment properties are stated at their open market value based on independent professional valuations at the balance sheet date. Any surplus or deficit arising on the revaluation of investment properties is credited or charged to the investment property revaluation reserve unless the balance of the reserve is insufficient to cover a deficit, in which case the excess of the deficit over the balance of 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 subsequent disposal of an investment property, any revaluation surplus attributable to that property is included in the determination of the profit or loss on disposal.

No depreciation is provided in respect of investment properties which are held on leases with unexpired terms, including the renewable period, of more than twenty years.

#### Property, plant and equipment

Property, plant and equipment are stated at cost or valuation less depreciation, amortisation and any identified impairment loss.

The gain or loss arising from 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.

Certain of the Group's leasehold land and buildings were revalued at 31st December, 1991. The surplus arising on revaluation of land and buildings was credited to the property revaluation reserve. The Group has adopted the transitional relief provided by paragraph 80 of the SSAP 17 (Revised) "Property, Plant and Equipment" issued by the Hong Kong Society of Accountants from the requirement to make revaluations on a regular basis of the Group's leasehold land and buildings and, accordingly, no further revaluation of leasehold land and buildings will be carried out. On the subsequent disposal of such properties, the attributable revaluation surplus not yet transferred to retained profits in prior years is transferred to retained profits.

Depreciation and amortisation is provided to write off the cost or valuation of items of property, plant and equipment over their estimated useful lives, using the straight line method, at the following rates per annum:

Leasehold land	Over the remaining term of the lease
Buildings	2% to 2.5% or over the remaining term of the lease, whichever is the shorter
Furniture, fixtures and equipment	16% to 20%
Motor vehicles	16% to 25%
Plant and machinery	20%
Computer equipment	20% to 33 $\frac{1}{3}$ %

#### Subsidiaries

Investments in subsidiaries are included in the Company's balance sheet at cost, less any identified impairment loss.

#### Associates

The consolidated income statement includes the Group's share of the post-acquisition results of its associate for the year. In the consolidated balance sheet, interests in associates are stated at the Group's share of the net assets of the associates plus the premium paid on acquisition in so far as it has not already been written off or amortised, less any identified impairment loss.

When the Group transacts with its associates, unrealised profits and losses are eliminated to the extent of the Group's interest in the relevant associates, except where unrealised loss provide evidence of an impairment of the asset transferred.

## Notes to the Financial Statements

For the year ended 31st December, 2002

### 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### Investments in securities

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

Investment are classified as investment securities and other investments.

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.

Other investments are measured at fair value, with unrealised gains and losses included in net profit or loss for the year.

#### Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the first-in, first-out method. Net realisable value represents the estimated selling price in the ordinary course of business less the estimated costs necessary to make the sale.

#### 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 these 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. Impairment losses are 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 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, such 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.

#### Taxation

The charge for taxation is based on the results for the year after adjusting for items which are non-assessable or disallowed. Certain items of income and expense are recognised for tax purposes in a different accounting period from that in which they are recognised in the financial statements. The tax effect of the resulting timing differences, computed using the liability method, is recognised as deferred taxation in the financial statements to the extent that it is probable that a liability or an asset will crystallise in the foreseeable future.

#### Operating leases

Rentals payable under operating leases are charged to the income statement on a straight line basis over the terms of the relevant leases.

#### Foreign currencies

Transactions in foreign currencies are translated at the rates ruling on the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are re-translated at the rates ruling on the balance sheet date. Gains and losses arising on exchange are dealt with in the income statement.

On consolidation, the assets and liabilities of the Group's overseas subsidiaries are translated at exchange rates ruling on the balance sheet date. Income and expense items are translated at the average rates for the year. All exchange differences arising on consolidation are dealt with in reserves. Such translation differences are recognised as income or as expenses in the period in which the operation is disposed of.

#### Retirement benefits schemes

The retirement benefit costs charged in the income statement represent the contributions payable in respect of the current year to the Group's Mandatory Provident Fund Scheme.

#### 4. BUSINESS AND GEOGRAPHICAL SEGMENTS

##### Business Segments

For management purposes, the Group is currently organised into three operating divisions - sales of chemicals and metals, property investment and security investment. These divisions are the basis on which the Group reports its primary segment information.

Segment information about these businesses is presented below:

For the year ended 31st December, 2002

	Sales of chemicals and metals HK\$'000	Property Investment HK\$'000	Security investment HK\$'000	Other Activities HK\$'000	Eliminations HK\$'000	Consolidated HK\$'000
<i>Revenue</i>						
External Sales	1,054,684	14,940	2,619	578	—	1,072,821
Inter-segment sales	22,526	1,531	—	37,179	(61,236)	—
<b>Total revenue</b>	<b>1,077,210</b>	<b>16,471</b>	<b>2,619</b>	<b>37,757</b>	<b>(61,236)</b>	<b>1,072,821</b>

Inter-segment sales are charged at prevailing market rates.

<i>Results</i>						
Segment result	30,699	8,724	(14,614)	30	—	24,839
Interest income from bank deposits						2,322
Unallocated other operating income						916
Unallocated corporate expenses						(10,535)
Profit from operations						17,542
Finance costs						(4,363)
Share of loss of associates				(1,235)		(1,235)
Amortisation of premium arising on acquisition of an associate				(3,417)		(3,417)
Profit before taxation						8,527
Taxation						(3,884)
Profit before minority interests						4,643
Minority interests						(491)
<b>Net Profit for the year</b>						<b>4,152</b>

## Notes to the Financial Statements

For the year ended 31st December, 2002

### 4. BUSINESS AND GEOGRAPHICAL SEGMENTS (Continued)

At 31st December, 2002

#### Balance sheet

	Sales of chemicals and metals HK\$'000	Property investment HK\$'000	Security investment HK\$'000	Other activities HK\$'000	Consolidated HK\$'000
<i>Assets</i>					
Segment assets	180,102	239,372	145,507	98	565,079
Interests in associates	453	—	—	49,333	49,786
Unallocated corporate assets					211,843
Consolidated total assets					826,708
<i>Liabilities</i>					
Segment liabilities	19,902	20,686	219	12	40,819
Unallocated corporate liabilities					183,562
Consolidated total liabilities					224,381

#### Other information

	Sales of chemicals and metals HK\$'000	Property investment HK\$'000	Security investment HK\$'000	Other activities HK\$'000	Consolidated HK\$'000
Capital expenditure	287	637	—	221	1,145
Depreciation and amortisation	1,305	1,024	—	3,583	5,912
Other non-cash expenses	—	1,000	19,371	—	20,371
Impairment loss recognised in respect of investment securities	—	—	1,300	—	1,300

For the year ended 31st December, 2002

## Notes to the Financial Statements

### 4. BUSINESS AND GEOGRAPHICAL SEGMENTS (Continued)

For the year ended 31st December, 2001

	Sales of chemicals and metals HK\$'000	Property Investment HK\$'000	Security investment HK\$'000	Other Activities HK\$'000	Eliminations HK\$'000	Consolidated HK\$'000
<i>Revenue</i>						
External Sales	833,771	20,282	6,594	273	—	860,920
Inter-segment sales	17,258	2,308	—	6,762	(26,328)	—
<b>Total revenue</b>	<b>851,029</b>	<b>22,590</b>	<b>6,594</b>	<b>7,035</b>	<b>(26,328)</b>	<b>860,920</b>

Inter-segment sales are charged at prevailing market rates.

#### Results

Segment result	28,211	32,494	(16,859)	47	—	43,893
Interest income from bank deposits						5,223
Unallocated other operating income						466
Unallocated corporate expenses						(9,991)
Profit from operations						39,591
Finance costs						(5,883)
Gain on dilution of interest in an associate				4,113		4,113
Share of profit of associates				1,725		1,725
Amortisation of premium arising on acquisition of an associate				(3,022)		(3,022)
Profit before taxation						36,524
Taxation						(4,640)
Profit before minority interests						31,884
Minority interests						(1,128)
<b>Net profit for the year</b>						<b>30,756</b>

## Notes to the Financial Statements

For the year ended 31st December, 2002

### 4. BUSINESS AND GEOGRAPHICAL SEGMENTS (Continued)

At 31st December, 2001

Balance sheet

	Sales of chemicals and metals <i>HK\$'000</i>	Property investment <i>HK\$'000</i>	Security investment <i>HK\$'000</i>	Other activities <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
<i>Assets</i>					
Segment assets	128,316	242,363	183,285	59	554,023
Interests in associates	453	—	—	54,026	54,479
Unallocated corporate assets					187,500
Consolidated total assets					796,002
<i>Liabilities</i>					
Segment liabilities	26,849	20,389	158	5	47,401
Unallocated corporate liabilities					140,601
Consolidated total liabilities					188,002

*Other information*

	Sales of chemicals and metals <i>HK\$'000</i>	Property investment <i>HK\$'000</i>	Security investment <i>HK\$'000</i>	Other activities <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
Capital expenditure	96	132	—	185	413
Depreciation and amortisation	1,331	1,278	—	3,306	5,915
Other non-cash expenses	1,178	—	21,936	35	23,149

#### 4. BUSINESS AND GEOGRAPHICAL SEGMENTS (Continued)

##### Geographical segments

The Group's operations are located in Hong Kong, Taiwan and elsewhere in the People's Republic of China.

The Group's sales of chemicals and metals are carried out in Hong Kong, Taiwan and elsewhere in the People's Republic of China. Property investment is carried out in Hong Kong and elsewhere in the People Republic of China. Security investment is carried out in Hong Kong.

The following table provides an analysis of the Group's sales by geographical market:

	Revenue by geographical market		Contribution to profit from operations	
	2002	2001	2002	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Hong Kong	769,329	565,078	7,955	2,690
Taiwan	123,299	140,676	2,661	5,028
Elsewhere in the People's Republic of China	106,112	102,109	14,018	35,297
Others	74,081	53,057	205	878
	<b>1,072,821</b>	<b>860,920</b>	<b>24,839</b>	<b>43,893</b>
Interest income from bank deposits			2,322	5,223
Unallocated other revenue			916	466
Unallocated corporate expenses			(10,535)	(9,991)
Profit from operations			<b>17,542</b>	<b>39,591</b>

The following is an analysis of the carrying amount of segment assets, and additions to property, plant and equipment, analysed by the geographical area in which the assets are located:

	Carrying amount of segment assets		Additions to property, plant and equipment	
	At 31.12.2002	At 31.12.2001	Year ended 31.12.2002	Year ended 31.12.2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Hong Kong	445,604	430,175	869	274
Taiwan	26,718	12,103	—	—
Elsewhere in the People's Republic of China	263,039	259,737	276	132
Others	91,347	93,987	—	7
	<b>826,708</b>	<b>796,002</b>	<b>1,145</b>	<b>413</b>

## Notes to the Financial Statements

For the year ended 31st December, 2002

### 5. OTHER OPERATING INCOME

Other operating income comprises:

	2002 HK\$'000	2001 HK\$'000
Interest income form bank deposits	2,322	5,223
Sundry income	916	466
	<u>3,238</u>	<u>5,689</u>

### 6. IMPAIRMENT LOSS RECOGNISED IN RESPECT OF INVESTMENT SECURITIES

The directors of the Company have reviewed the carrying amounts of the assets of the Group as at 31st December, 2002 and have determined that the investment securities amounting to HK\$1,300,000 to be impaired as the available market value of such investment securities has been less than its carrying value for a prolonged period.

### 7. PROFIT FROM OPERATIONS

	2002 HK\$'000	2001 HK\$'000
Profit from operations has been arrived at after charging:		
Auditors' remuneration		
— current year	920	1,117
— overprovision in the prior year	(118)	—
Loss on disposal of property, plant and equipment	—	1,178
Rental payments in respect of properties under operating leases	1,484	1,571
Retirement benefits scheme contributions	547	557
and after crediting:		
Dividend income from listed investments	1,467	5,325
Gross rental income from properties under operating leases after outgoings of HK\$71,000 (2001: HK\$69,000)	14,869	20,213
Interest income from investments	1,152	1,269

### 8. FINANCE COSTS

The finance costs represent interest on bank borrowings wholly repayable within five years.



## Notes to the Financial Statements

For the year ended 31st December, 2002

### 11. TAXATION

	2002 HK\$'000	2001 HK\$'000
The tax charge attributable to the Company and its subsidiaries comprises:		
Current taxation		
Hong Kong Profits Tax	2,973	2,922
Profits tax outside Hong Kong	887	1,706
	<u>3,860</u>	<u>4,628</u>
Share of taxation attributable to associates	24	12
	<u>3,884</u>	<u>4,640</u>

Hong Kong Profits Tax is calculated at 16% of the estimated assessable profit for the year.

Taxation outside Hong Kong is calculated at the rates prevailing in the respective jurisdictions.

Details of the unrecognised deferred taxation are set out in note 23.

### 12. DIVIDENDS

	2002 HK\$'000	2001 HK\$'000
Interim dividend paid in respect of 2002 of 1 cent (2001: 1 cent) per ordinary share	4,455	4,455
Final dividend paid in respect of 2001 of 1.5 cents (2000: 3 cents) per ordinary share	6,683	13,365
	<u>11,138</u>	<u>17,820</u>

The final dividend of 1.5 cents for the year ended 31st December, 2002 (2001: 1.5 cents) per share has been proposed by the directors and is subject to approval by the shareholders in general meeting.

### 13. EARNINGS PER SHARE

The calculation of the earnings per share is based on the net profit for the year of HK\$4,152,000 (2001: HK\$30,756,000) and on 445,500,000 ordinary shares (2001: 445,500,000 ordinary shares) in issue during the year.

#### 14. INVESTMENT PROPERTIES

	THE GROUP HK\$'000
VALUATION	
At 1st January, 2002	238,140
Deficit arising on revaluation	(1,000)
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At 31st December, 2002	237,140
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The Group's investment properties comprise:

	2002 HK\$'000	2001 HK\$'000
Properties held under medium-term leases:		
— in Hong Kong	8,600	9,600
— elsewhere in the People's Republic of China	184,080	184,080
	<hr/>	<hr/>
	192,680	193,680
Properties held under long leases:		
— elsewhere in the People's Republic of China	44,460	44,460
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	237,140	238,140
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All of the investment properties of the Group were revalued at 31st December, 2002 by Knight Frank, an independent firm of professional valuers, on an open market value existing use basis. The resulting deficit arising on revaluation, which amounted to HK\$1,000,000, has been charged to the consolidated income statement.

All the investment properties of the Group are rented out under operating leases.

## Notes to the Financial Statements

For the year ended 31st December, 2002

## 15. PROPERTY, PLANT AND EQUIPMENT

	Leasehold land and buildings HK\$'000	Furniture, fixtures and equipment HK\$'000	Motor vehicles HK\$'000	Plant and machinery HK\$'000	Computer equipment HK\$'000	Total HK\$'000
<b>THE GROUP</b>						
COST OR VALUATION						
At 1st January, 2002	36,362	13,162	3,994	1,413	2,144	57,075
Currency realignment	549	17	91	—	10	667
Additions	—	880	—	107	158	1,145
Disposals	—	(22)	—	—	—	(22)
<b>At 31st December, 2002</b>	<b>36,911</b>	<b>14,037</b>	<b>4,085</b>	<b>1,520</b>	<b>2,312</b>	<b>58,865</b>
Comprising:						
At cost	9,111	14,037	4,085	1,520	2,312	31,065
At valuation - 1991	27,800	—	—	—	—	27,800
	36,911	14,037	4,085	1,520	2,312	58,865
DEPRECIATION AND AMORTISATION						
At 1st January, 2002	5,583	11,497	3,166	1,360	1,943	23,549
Currency realignment	87	16	86	—	9	198
Provided for the year	741	1,051	508	40	155	2,495
Eliminated on disposals	—	(22)	—	—	—	(22)
<b>At 31st December, 2002</b>	<b>6,411</b>	<b>12,542</b>	<b>3,760</b>	<b>1,400</b>	<b>2,107</b>	<b>26,220</b>
NET BOOK VALUES						
<b>At 31st December, 2002</b>	<b>30,500</b>	<b>1,495</b>	<b>325</b>	<b>120</b>	<b>205</b>	<b>32,645</b>
At 31st December, 2001	30,779	1,665	828	53	201	33,526

Certain of the leasehold land and buildings of the Group were revalued at 31st December, 1991. Had all the leasehold land and buildings been carried at cost less accumulated depreciation and amortisation, the carrying value of these properties would have been stated at HK\$19,939,000 (2001: HK\$19,823,000).

For the year ended 31st December, 2002

## Notes to the Financial Statements

### 15. PROPERTY, PLANT AND EQUIPMENT (Continued)

	Furniture, fixtures and equipment <i>HK\$'000</i>	Computer equipment <i>HK\$'000</i>	Total <i>HK\$'000</i>
<b>THE COMPANY</b>			
<b>COST</b>			
At 1st January, 2002	2,541	1,624	4,165
Additions	126	95	221
Disposals	—	(7)	(7)
<b>At 31st December, 2002</b>	<b>2,667</b>	<b>1,712</b>	<b>4,379</b>
<b>DEPRECIATION</b>			
At 1st January, 2002	2,303	1,517	3,820
Provided for the year	72	89	161
Eliminated on disposals	—	(7)	(7)
<b>At 31st December, 2002</b>	<b>2,375</b>	<b>1,599</b>	<b>3,974</b>
<b>NET BOOK VALUE</b>			
<b>At 31st December, 2002</b>	<b>292</b>	<b>113</b>	<b>405</b>
At 31st December, 2001	238	107	345

The Group's leasehold land and buildings comprise:

	Leasehold land and buildings	
	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Properties held under medium-term leases: — in Hong Kong	22,924	23,488
Properties held under long leases: — overseas	7,576	7,291
	<b>30,500</b>	<b>30,779</b>

### 16. INVESTMENTS IN SUBSIDIARIES

	THE COMPANY	
	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Unlisted shares, at cost	38,587	38,587

Particulars of the subsidiaries at 31st December, 2002 are set out in note 32.

## Notes to the Financial Statements

For the year ended 31st December, 2002

### 17. INTERESTS IN ASSOCIATES

	THE GROUP	
	2002 HK\$'000	2001 HK\$'000
Share of net assets	25,865	27,141
Premium arising on acquisition, net	23,921	27,338
	<b>49,786</b>	<b>54,479</b>

Particulars of the associates at 31st December, 2002 are as follows:

Name of associate	Form of business structure	Country of incorporation	Principal place of operation	Class of shares held	Percentage of issued share capital held by the Group %	Principal activities
Asia Commercial Holdings Limited (note)	Incorporated	Bermuda	Hong Kong	Ordinary	16.5	Watch trading and retailing activities
KSIP (Thailand 1989) Co., Ltd.	Incorporated	Thailand	Thailand	Ordinary	49	Inactive

Note: This company has been accounted for as an associate as, in the opinion of the directors, the Group is in a position to exercise significant influence over the management of this company.

For the year ended 31st December, 2002

## Notes to the Financial Statements

### 18. INVESTMENTS IN SECURITIES THE GROUP

	Investment securities		Other investments		Total	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Equity securities:						
Listed — Hong Kong	—	—	74,917	103,093	74,917	103,093
Listed — overseas	3,132	3,132	8,136	7,913	11,268	11,045
Unlisted	—	—	3,701	3,701	3,701	3,701
	<b>3,132</b>	<b>3,132</b>	<b>86,754</b>	<b>114,707</b>	<b>89,886</b>	<b>117,839</b>
Mutual funds:						
Unlisted	10,628	9,116	16,914	30,100	27,542	39,216
Debt securities:						
Listed — overseas	—	—	8,639	3,363	8,639	3,363
Unlisted	7,800	7,800	11,203	14,779	19,003	22,579
	<b>7,800</b>	<b>7,800</b>	<b>19,842</b>	<b>18,142</b>	<b>27,642</b>	<b>25,942</b>
Total securities						
Listed	3,132	3,132	91,692	114,369	94,824	117,501
Unlisted	18,428	16,916	31,818	48,580	50,246	65,496
	<b>21,560</b>	<b>20,048</b>	<b>123,510</b>	<b>162,949</b>	<b>145,070</b>	<b>182,997</b>
Market value of listed securities	4,043	3,294	91,692	114,369	95,735	117,663
Carrying amount analysed for reporting purposes as:						
Non-current	21,560	20,048	3,701	3,701	25,261	23,749
Current	—	—	119,809	159,248	119,809	159,248
	<b>21,560</b>	<b>20,048</b>	<b>123,510</b>	<b>162,949</b>	<b>145,070</b>	<b>182,997</b>

Particulars of the Group's investments in equity securities which exceeds 20% of the nominal value of the issued shares of that class disclosed pursuant to Section 129 (1) of the Companies Ordinance are as follows:

Name of company	Place of registration	Type of investment held	Percentage of registered capital held by the Group
Hebei Varwin Gas Propellents Co., Ltd. (note)	People's Republic of China	Registered capital	30%
Shenzhen Far East Oil Tools Co., Ltd. (note)	People's Republic of China	Registered capital	25%

Note: These companies have not been accounted for as associates as, in the opinion of the directors, the Group is not in a position to exercise significant influence over the management of these companies.

## Notes to the Financial Statements

For the year ended 31st December, 2002

### 19. INVENTORIES

	THE GROUP	
	2002 HK\$'000	2001 HK\$'000
Raw materials	790	863
Finished goods	57,633	46,072
	<b>58,423</b>	<b>46,935</b>

Included in inventories are finished goods of HK\$10,255,000 (2001: HK\$7,300,000) carried at net realisable value.

### 20. DEBTORS, DEPOSITS AND PREPAYMENTS

The Group allows an average credit period ranging from cash on delivery to 120 days to its trade debtors. The ageing analysis of trade debtors of HK\$95,986,000 (2001: HK\$60,002,000) which are included in the Group's debtors, deposits and prepayments are as follows:

	2002 HK\$'000	2001 HK\$'000
0 - 30 days	52,977	29,816
31 - 60 days	31,492	18,179
61 - 90 days	7,180	9,696
91 - 120 days	3,063	1,621
121 - 365 days	1,274	690
	<b>95,986</b>	<b>60,002</b>

The Company did not have any trade debtors at the balance sheet dates.

### 21. SHARE CAPITAL

	Number of shares	Amount HK\$'000
Ordinary shares of HK\$0.05 each		
<i>Authorised:</i>		
At beginning and at end of the years 2001 and 2002	700,000,000	35,000
<i>Issued and fully paid:</i>		
At beginning and at end of the years 2001 and 2002	445,500,000	22,275

For the year ended 31st December, 2002

## Notes to the Financial Statements

### 22. RESERVES

	Share premium HK\$'000	Capital reserve HK\$'000	Investment property revaluation reserve HK\$'000	Property revaluation reserve HK\$'000	Translation reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000
<b>THE GROUP</b>							
At 1st January, 2001	153,728	26,281	5,582	15,440	1,726	356,134	558,891
Exchange differences arising on translation of overseas operations	—	—	—	—	(1,195)	—	(1,195)
Share of an associate's movement in reserves	—	(189)	(151)	(79)	19	195	(205)
Net (loss) gain not recognised in the consolidated income statement	—	(189)	(151)	(79)	(1,176)	195	(1,400)
Goodwill released on disposal of a subsidiary	—	35	—	—	—	—	35
Reclassification on transfer of properties	—	—	1,580	(1,580)	—	—	—
Net profit for the year	—	—	—	—	—	30,756	30,756
Dividends paid (note 12)	—	—	—	—	—	(17,820)	(17,820)
At 31st December, 2001	153,728	26,127	7,011	13,781	550	369,265	570,462
Exchange differences arising on translation of overseas operations	—	—	—	—	522	—	522
Share of an associate's movement in reserves	—	—	(95)	8	68	2	(17)
Net (loss) gain not recognised in the consolidated income statement	—	—	(95)	8	590	2	505
Net Profit for the year	—	—	—	—	—	4,152	4,152
Dividends paid (note 12)	—	—	—	—	—	(11,138)	(11,138)
At 31st December, 2002	153,728	26,127	6,916	13,789	1,140	362,281	563,981
Attributable to:							
Company and subsidiaries	153,728	26,125	6,860	13,860	1,525	362,506	564,604
Associates	—	2	56	(71)	(385)	(225)	(623)
	153,728	26,127	6,916	13,789	1,140	362,281	563,981

## Notes to the Financial Statements

For the year ended 31st December, 2002

### 22. RESERVES (Continued)

	Share premium HK\$'000	Capital reserve HK\$'000	Investment property revaluation reserve HK\$'000	Property revaluation reserve HK\$'000	Translation reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000
<b>THE COMPANY</b>							
At 1st January, 2001	153,728	—	—	—	—	114,178	267,906
Net profit for the year	—	—	—	—	—	89,089	89,089
Dividends paid (note 12)	—	—	—	—	—	(17,820)	(17,820)
At 31st December, 2001	153,728	—	—	—	—	185,447	339,175
Net profit for the year	—	—	—	—	—	32,989	32,989
Dividends paid (note 12)	—	—	—	—	—	(11,138)	(11,138)
At 31st December, 2002	153,728	—	—	—	—	207,298	361,026

The balance of investment property revaluation reserve of the Group at 31st December, 2002 includes an amount of HK\$6,860,000 (2001: HK\$6,860,000), which represents the accumulated amount transferred from the property revaluation reserve as a result of the change in usage of certain previously self-occupied leasehold properties to investment properties. Such revaluation reserve has been frozen upon the transfer and will be transferred to retained profits when the relevant properties are disposed of.

The Company's reserves available for distribution to shareholders as at 31st December, 2002 comprised the retained profits of HK\$207,298,000 (2001: HK\$185,447,000).

### 23. UNRECOGNISED DEFERRED TAXATION

The unrecognised deferred tax charge of the Group for the year is HK\$83,000 (2001: tax credit of HK\$3,061,000), which comprise mainly the tax effect of timing differences arising from tax losses utilised/incurred.

At 31st December, 2002, the Group had an unrecognised deferred tax asset of approximately HK\$17,672,000 (2001: HK\$17,755,000) relating to unutilised tax losses of certain subsidiaries. The deferred tax asset has not been recognised as it is uncertain whether the benefit will crystallise in the foreseeable future.

A deferred tax liability has not been provided on the surplus arising on revaluation of the Group's properties situated in Hong Kong as profits arising on the disposal of such properties, if any, would not be subject to taxation. Accordingly, the valuation does not constitute a timing difference for tax purposes.

Neither the Group nor the Company had any other significant unprovided deferred taxation for the year or at the balance sheet date.

## 24. CREDITORS AND ACCRUED CHARGES

The ageing analysis of the trade creditors of HK\$13,806,000 (2001: HK\$20,585,000) which are included in the Group's creditors and accrued charges are as follows:

	2002 HK\$'000	2001 HK\$'000
0 - 30 days	12,144	14,917
31 - 60 days	1,568	5,613
61 - 90 days	49	55
91 - 120 days	45	—
	<b>13,806</b>	<b>20,585</b>

The Company did not have any trade creditors at the balance sheet date.

## 25. BANK BORROWINGS

	THE GROUP		THE COMPANY	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
The bank borrowings, which are all due within one year, comprise:				
Bank overdrafts — unsecured	145	—	—	—
Bank loans — secured	—	4,112	—	—
— unsecured	27,697	15,489	15,000	10,000
Trust receipt loans — unsecured	151,198	117,715	—	—
	<b>179,040</b>	<b>137,316</b>	<b>15,000</b>	<b>10,000</b>

## 26. OPERATING LEASE COMMITMENTS

The Group as lessee:

At the balance sheet date, the Group and the Company had outstanding commitments for future minimum lease payment under non-cancellable operating leases in respect of rented premises which fall due as follows:

	THE GROUP		THE COMPANY	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Within one year	1,501	1,376	650	495
In the second to fifth year inclusive	1,222	874	60	290
	<b>2,723</b>	<b>2,250</b>	<b>710</b>	<b>785</b>

Operating lease payments represent rentals payable by the Group and the Company for certain of its office premises. Leases are negotiated for an average term of two years and rentals are fixed for an average of two years.

## Notes to the Financial Statements

For the year ended 31st December, 2002

### 26. OPERATING LEASE COMMITMENTS (Continued)

The Group as lessor:

Property rental income earned during the year was HK\$14,940,000 (2001: HK\$20,282,000). The properties held have committed tenants in the range from next half year to three years.

At the balance sheet date, the Group had contracted with tenants for the following future minimum lease payments under non-cancellable operating leases in respect of rented premises which fall due as follows:

	THE GROUP	
	2002 HK\$'000	2001 HK\$'000
Within one year	13,124	7,268
In the second to fifth year inclusive	16,954	224
	<b>30,078</b>	<b>7,492</b>

### 27. CONTINGENT LIABILITIES

	THE COMPANY	
	2002 HK\$'000	2001 HK\$'000
Extent of banking facilities utilised by subsidiaries in respect of which guarantees were given to banks by the Company	178,895	137,316

### 28. CAPITAL COMMITMENTS

	THE GROUP AND THE COMPANY	
	2002 HK\$'000	2001 HK\$'000
Capital expenditure in respect of the acquisition of property, plant and equipment contracted for but not provided for in the financial statements	440	—

### 29. PLEDGE OF ASSETS

At 31st December, 2002, certain leasehold properties and investments in securities with aggregate carrying values of HK\$7,577,000 (2001: HK\$7,286,000) and Nil (2001: HK\$33,898,000), respectively, were pledged to banks to secure banking facilities granted to the Group.

### 30. RETIREMENT BENEFITS SCHEME

The Group operates a Mandatory Provident Fund Scheme for all qualifying employees. The assets of the scheme are held separately from those of the Group, in funds under the control of trustees.

The retirement benefits cost charged to the consolidated income statement represents contributions payable to the scheme by the Group at rates specified in the rules of the scheme.

### 31. RELATED PARTY TRANSACTION

During the year, the Company entered into an agreement with a subsidiary of an associate of the Group for the software development services to be provided to the Group at the consideration of HK\$755,000. The Company has paid HK\$453,000 for this service up to 31st December, 2002.

## 32. SUBSIDIARIES

Particulars of the subsidiaries at 31st December, 2002 are as follows:

Name of subsidiary	Place of incorporation/ registration	Principal place of operation	Issued/ registered and fully paid capital		Percentage of issued/registered capital held by the Company		Principal activities
			Ordinary	Non- voting preferred (note)	%		
Asia Fame International Limited	Hong Kong	Hong Kong	HK\$1,000,000	—	100*	Securities investment	
Bright Star Limited	Cook Islands	Hong Kong	US\$1,000	—	100	Investment holding	
Charterway Developments Limited	Hong Kong	Hong Kong	HK\$1,000,000	—	100	Property investment	
E.P. Resources Limited	Hong Kong	Hong Kong	HK\$10,000	—	100*	Securities investment and trading	
Electrochemical Technologies Limited	Hong Kong	Hong Kong	HK\$2	—	100*	Securities investment	
EngoTech Limited	Hong Kong	Hong Kong	HK\$10,000	—	100*	Manufacturing of and trading in electroplating chemicals and solutions	
Ever Channel Properties Limited	Hong Kong	Elsewhere in the People's Republic of China	HK\$10,000	—	90	Property investment	
Global Trade Properties Limited	Hong Kong	Elsewhere in the People's Republic of China	HK\$10,000	—	90	Property investment	
Gold Asset Properties Limited	Hong Kong	Elsewhere in the People's Republic of China	HK\$10,000	—	90	Property investment	
Jollifair Investments Limited	Hong Kong	Hong Kong	HK\$10,000	—	100*	Investment holding	
Kee Shing (Coins) Limited	Hong Kong	Hong Kong	HK\$1,000,000	—	100*	Securities trading	
Kee Shing Hardware Supplies Limited	Hong Kong	Hong Kong	HK\$800,000	HK\$400,000	100	Trading in stainless steel	
Kee Shing Industrial Products Limited	Hong Kong	Hong Kong, Taiwan, South Korea and Thailand	HK\$200	HK\$1,000,000	100*	Investment holding and trading in electroplating chemicals and metals	
Kee Shing International Limited	Hong Kong	Hong Kong	HK\$2	—	100*	Securities investment	
Kee Shing (Investments) Limited	Cook Islands	Cook Islands	US\$1,000	—	100*	Investment holding	
Kee Shing Property Consultants (Shanghai) Co., Ltd.	People's Republic of China	People's Republic of China	RMB2,902,060	—	100*	Property management	
King Shen Industrial Products Company Limited	Taiwan	Taiwan	NT\$5,000,000	—	70	Trading in electroplating chemicals and metals	
Kingsview Properties Limited	Hong Kong	Elsewhere in the People's Republic of China	HK\$10,000	—	90	Property investment	

## Notes to the Financial Statements

For the year ended 31st December, 2002

## 32. SUBSIDIARIES (Continued)

Name of subsidiary	Place of incorporation/ registration	Principal place of operation	Issued/ registered and fully paid capital		Percentage of issued/registered capital held by the Company %	Principal activities
			Ordinary	Non- voting preferred (note)		
Klendo Limited	Hong Kong	Elsewhere in the People's Republic of China	HK\$10,000	—	90*	Property investment
KSIP (Singapore) Pte. Ltd.	Republic of Singapore	Republic of Singapore	S\$1,000,000	—	51	Trading in electroplating chemicals and metal plating products
Pacific Apex International Limited	Hong Kong	Hong Kong	HK\$10,000	—	100*	Investment holding
Pacific Wide Properties Limited	Hong Kong	Elsewhere in the People's Republic of China	HK\$10,000	—	90	Property investment
Pakwell Investment Limited	Hong Kong	Hong Kong	HK\$10,000	—	55*	Inactive
Sam Wing International Limited	Hong Kong	Elsewhere in the People's Republic of China	HK\$200	HK\$2,160,000	100*	Trading in chemicals and securities investment
Sam Wing Resources Limited	Hong Kong	Elsewhere in the People's Republic of China	HK\$3,000,000	—	55*	Trading in machinery and equipment
Sure Glory Ventures, Inc.	British Virgin Islands	Australia	US\$2	—	100*	Investment holding
Topbase Properties Limited	Hong Kong	Elsewhere in the People's Republic of China	HK\$10,000	—	90	Property investment
Top Image Properties Limited	Hong Kong	Elsewhere in the People's Republic of China	HK\$10,000	—	90	Property investment
Trendex Investment Limited	Hong Kong	Elsewhere in the People's Republic of China	HK\$10,000	—	100*	Property investment
Union Channel Properties Limited	Hong Kong	Elsewhere in the People's Republic of China	HK\$10,000	—	90	Property investment
Union Crown Properties Limited	Hong Kong	Elsewhere in the People's Republic of China	HK\$10,000	—	90	Property investment
Winbase Properties Limited	Hong Kong	Elsewhere in the People's Republic of China	HK\$10,000	—	90	Property investment

\* *Directly held by the Company*

None of the subsidiaries had any loan capital subsisting at 31st December, 2002 or at any time during the year.

Note: The non-voting preferred shares, which are not held by the Company, practically carry no rights to dividends or to receive notice of or to attend or vote at any general meeting of the respective companies or to participate in any distribution on winding up.