

Notes to the Financial Statements

Year ended 31st December 2001

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 ("SSAP") 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 investment properties, land and buildings and construction-in-progress, and the marking to fair value of investments in securities as explained in the accounting policies set out below.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries made up to 31st December 2001.

The results of subsidiaries acquired and disposed of during the year are accounted for from the effective dates of acquisition or to the effective dates of disposal respectively.

All significant inter-company transactions and balances have been eliminated in the preparation of the consolidated financial statements.

Goodwill on consolidation

Positive goodwill arising on consolidation represents the excess of the cost of the acquisition over the Group's share of the fair value of the identifiable assets and liabilities acquired.

In respect of subsidiaries and associates acquired before 1st January 2001, the related positive goodwill has been eliminated against reserves and, as permitted by SSAP 30, has not been restated. Provision for impairment losses has been made against such goodwill in accordance with SSAP 31. For subsidiaries and associates acquired on or after 1st January 2001, the related positive goodwill is amortised to the consolidated income statement on a straight-line basis over its estimated useful life. Positive goodwill is carried as an asset in the consolidated balance sheet at cost less any accumulated amortisation and any impairment losses.

Negative goodwill arising on acquisitions of subsidiaries and associates represents the excess of the Group's share of the fair value of the identifiable assets and liabilities acquired over the cost of the acquisition. In respect of subsidiaries and associates acquired before 1st January 2001, the related negative goodwill has been credited to capital reserve. For subsidiaries and associates acquired on or after 1st January 2001, to the extent that negative goodwill relates to an expectation of future losses and expenses that are identified in the plan of acquisition and can be measured reliably, it is recognised in the consolidated income statement when the future losses and expenses are recognised. Any remaining negative goodwill up to the fair values of the non-monetary assets acquired, is recognised in the consolidated income statement over the weighted average useful life of depreciable non-monetary assets. Negative goodwill in excess of the fair values of the non-monetary assets acquired is recognised immediately in the consolidated income statement.

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2. PRINCIPAL ACCOUNTING POLICIES (continued)

Goodwill on consolidation (continued)

On disposal of a subsidiary or an associate during the year, any attributable amount of purchased goodwill not previously amortised through the consolidated income statement or which has previously been dealt with as a movement on Group reserves is included in the calculation of the profit or loss on disposal.

Subsidiaries

A subsidiary is an enterprise, in which the Group or the Company, directly or indirectly, has the power to govern the financial and operating policies so as to obtain benefits from its activities. In the Company's balance sheet, investments in subsidiaries are stated at cost less impairment loss.

Associates

An associate is an enterprise, in which the Group or Company has significant influence and which is neither a subsidiary nor a joint venture of the Company. In the Company's balance sheet, investments in associates are stated at cost less impairment loss.

Property, plant and equipment

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

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, which include the estimated cost for dismantling, removing the assets and restoring the site.

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

In situations where expenditure incurred to replace a separate component of an item of property, plant and equipment, including major inspection and overhaul expenditure, is capitalised and accounted for as a component of the assets. Other subsequent expenditure is capitalised as an additional cost of that asset only when 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 asset.

The gain or loss arising from the retirement or disposal of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised as an income or expense 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 at the date of revaluation less any subsequent accumulated depreciation. Revaluations are 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.

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.

2. PRINCIPAL ACCOUNTING POLICIES (continued)

Property, plant and equipment (continued)

Depreciation is provided to write off the cost or valuation of property, plant and equipment 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.

Investments in securities

Investments in securities are stated at fair value in the balance sheet. The unrealised holding gains and losses for investments in securities are included in the income statement.

The profit or loss on disposal of investments in securities is the difference between net sales proceeds and the carrying amount of the securities and is accounted for in the period in which the disposal occurs.

Impairment loss

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 any such indication exists, the recoverable amount of the asset is estimated, based on the higher of its net selling price and value in use, in order to determine the extent of the impairment loss. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the smallest group of assets that generates cash flows independently (i.e. a cash-generating unit).

If the recoverable amount of an asset or a cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount. Impairment losses are recognised as an expense immediately, unless the relevant asset is carried at revalued amount, in which case the impairment loss is treated as a revaluation decrease.

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

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Year ended 31st December 2001

2. PRINCIPAL ACCOUNTING POLICIES (continued)

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.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the leasee. All other leases are classified as operating leases.

Assets held under finance leases are recognised as assets at their fair value at the date of acquisition. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation. Finance costs, which represent the difference between the total leasing commitments and the fair value of the assets acquired, are charged to the income statement over the term of the relevant lease so as to produce a constant periodic rate of charge on the remaining balance of the obligations for each accounting period.

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue and costs, if applicable, can be measured reliably and on the following basis:

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.

Capitalisation of borrowing costs

Borrowing costs incurred, net of any investment income on the temporary investment of the specific borrowings, that are directly attributable to the acquisition, construction or production of qualifying assets, i.e. assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. Capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. All other borrowing costs are recognised as an expense in the period in which they are incurred.

Operating leases

Rentals payable under operating leases are recognised as an expense on the straight-line basis over the lease terms. Lease incentives received are recognised in the income statement as an integral part of the net consideration agreed for the use of the leased asset. Contingent rentals are recognised as expenses in the accounting period in which they are incurred.

2. PRINCIPAL ACCOUNTING POLICIES (continued)**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 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

For the purpose of consolidated cash flow statement, cash equivalents 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. For balance sheet classification, cash equivalents represent assets similar in nature to cash which are not restricted as to use.

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 AND REVENUE

Turnover and revenue recognised by category are analysed as follows:

	2001 HK\$'000	2000 HK\$'000
Turnover		
Sale of goods (Note)	987,667	881,179
Subcontracting fees	29,210	20,062
	1,016,877	901,241
Other revenue		
Interest income	3,259	1,945
Rental income	212	50
	3,471	1,995
Revenue	1,020,348	903,236

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, the net VAT paid/payable by Nanhai Xingye of approximately HK\$19,766,000 (2000: 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 and after adjusting for overprovision in the previous 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.

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4. OTHER NET INCOME

	2001 HK\$'000	2000 HK\$'000
Gain on disposal of investment	21,141	–
Sundry income	7	1,743
	21,148	1,743

The gain on disposal of investment arose from the disposal of King Glass Engineering Limited, details of which are described in note 20 to the financial statements.

5. FINANCE COSTS

	2001 HK\$'000	2000 HK\$'000
Interest on bank overdrafts and borrowings wholly repayable within five years	15,963	2,552
Interest on bank borrowings wholly repayable after five years	1,534	1,048
Interest on other borrowings wholly repayable within five years	264	32
Finance charges on obligations under finance leases	156	44
Total borrowing costs	17,917	3,676
Less: Borrowing costs capitalised into construction-in-progress	(6,939)	–
	10,978	3,676

6. PROFIT FROM ORDINARY ACTIVITIES BEFORE TAXATION

This is stated after charging:

	2001 HK\$'000	2000 HK\$'000
Amortisation of goodwill included in general and administrative expenses	1,462	–
Auditors' remuneration	1,000	931
Cost of inventories and services provided	844,191	719,136
Depreciation:		
Owned assets	24,532	24,100
Assets held under finance leases	1,318	180
Impairment loss on plant and equipment included in general and administrative expenses	–	5,000
Loss on disposals of plant and equipment	4,216	3,455
Operating lease charges on premises	2,216	1,996
Provision for doubtful debts	3,414	–
Revaluation deficit on investment properties	706	–
Staff costs	19,516	16,153

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7. DIRECTORS' AND SENIOR EXECUTIVES' REMUNERATION

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

	2001 HK\$'000	2000 HK\$'000
Fees	600	800
Salaries, other emoluments and other benefits in kind	6,584	4,485
Contributions to pension scheme	80	–
	7,264	5,285

Included in the Directors' remuneration were fees of HK\$600,000 (2000: HK\$800,000) paid to the Independent Non-Executive Directors during the year.

In additions 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.

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 2001	2000
HK\$		
Nil to \$1,000,000	8	11
\$1,000,001 to \$1,500,000	2	1
\$1,500,001 to \$2,000,000	1	–
	11	12

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

The five (2000: five) individuals with the highest emoluments were Directors whose emoluments are disclosed above.

8. TAXATION

	2001 HK\$'000	2000 HK\$'000
Company and subsidiaries:		
Hong Kong Profits Tax:		
– Current year	4,317	182
– (Over) Underprovision in prior years	(46)	213
Overseas taxation	21,441	17,944
	25,712	18,339

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

Notes to the Financial Statements

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8. TAXATION (continued)

Hong Kong Profits Tax has been provided at the rate of 16% (2000: 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 2001, Mainland China enterprise income taxes for Nanhai Xingye was provided at 27% on its estimated taxable income.

At the balance sheet date, the Group had an unprovided deferred tax liability of approximately HK\$13,000,000 (2000: HK\$13,000,000) 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\$12,000,000 (2000: HK\$12,000,000) should be recorded as reduction of property revaluation reserves and HK\$1,000,000 (2000: HK\$1,000,000) 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 credited for the year are as follow:

	2001 HK\$'000	2000 HK\$'000
Excess of tax allowances over depreciation	(506)	(469)
Tax losses arising	(2,489)	(1,889)
	(2,995)	(2,358)

9. NET PROFIT (LOSS) ATTRIBUTABLE TO SHAREHOLDERS

The net profit (loss) attributable to shareholders includes a profit of HK\$7,884,000 (2000 (restated): HK\$5,343,000) which has been dealt with in the financial statements of the Company.

10. DIVIDENDS

(a) Dividends attributable to the year

	2001 HK\$'000	2000 HK\$'000
Final dividend proposed after the balance sheet date of Nil cent (2000: HK0.2 cent) per share	-	7,409

(b) Dividends attributable to the previous financial year, approved and paid during the year

	2001 HK\$'000	2000 HK\$'000
Final dividend in respect of the previous financial year, approved and paid during the year, of HK0.2 cent (2000: Nil) per share	7,409	-

11. EARNINGS (LOSS) PER SHARE

The calculation of basic earnings (loss) per share was based on the consolidated profit attributable to shareholders of approximately HK\$113,613,000 (2000 *(restated)*: loss of HK\$13,970,000) and on the weighted average number of 3,707,017,639 (2000: 3,502,109,443) ordinary shares.

The diluted earnings per share for 2001 is not shown as it is not materially different from the basic earnings per share. The diluted loss per share for 2000 is not shown because the potential ordinary shares would decrease the loss per share and would be regarded as anti-dilutive.

The comparative amount of the basic loss per share have been adjusted for the effect of the prior year adjustment as disclosed in note 12 to the financial statements.

12. CHANGES IN ACCOUNTING POLICIES AND PRIOR YEAR ADJUSTMENTS

(a) Dividends

In prior years, dividends proposed or declared were recognised as a liability in the accounting period to which they related. With effect from 1st January 2001, in order to comply with SSAP 9 (revised) issued by the Hong Kong Society of Accountants, the Group recognises dividends declared or proposed as a liability in the accounting period in which they are declared by the Directors (in the case of interim dividends) or approved by the shareholders (in the case of final dividends). Consequently, dividend income from subsidiaries is recognised as income in the Company's income statement in the accounting period in which the dividend is proposed. Dividend paid by the Company is recognised as appropriation of reserves in the accounting period in which the dividend is declared.

As a result of the new accounting policy, the Group's net assets as at 31st December 2000 have been increased by HK\$7,409,000. There is no impact on the Group's profit attributable to shareholders for the periods presented. The new accounting policy has been adopted retrospectively, with the opening balance of accumulated profits and the comparative information adjusted for the amounts relating to prior periods.

(b) Goodwill

In prior years, positive or negative goodwill arising on acquisition of subsidiaries was eliminated against reserves or was credited to capital reserve respectively. With effect from 1st January 2001, in order to comply with SSAP 30 issued by the Hong Kong Society of Accountants, the Group adopted a new accounting policy for goodwill as set out in note 2 to the financial statements. As a result of the new accounting policy, the Group's profit for the year has been reduced by an amortisation of goodwill of HK\$1,462,000 (2000: Nil) and the net assets as at the year end have been increased by HK\$57,009,000 (2000: Nil).

In respect of goodwill previously eliminated against reserves, the Group has applied the transitional provision in SSAP 30 and the relevant goodwill previously eliminated against reserves has not been restated.

In accordance with the transitional provisions of SSAP 30 and SSAP 31, where an impairment loss has arisen since the date of acquisition on goodwill previously written off against reserves, and previously there was not a policy to recognise such impairment losses, this change in accounting policy should be applied retrospectively and the impairment losses should be recognised as a prior year adjustment to opening accumulated profits in accordance with SSAP 2 "Net profit or loss for the period, fundamental errors and changes in accounting policies".

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12. CHANGES IN ACCOUNTING POLICIES AND PRIOR YEAR ADJUSTMENTS (continued)

(b) Goodwill (continued)

As at the balance sheet date, the Group performed an assessment of the fair value of its intangible assets, including goodwill that had previously been eliminated against reserves. As a result of this assessment, it was determined that an impairment in value of HK\$106,527,000 in respect of the acquisition of an associate engaging in Internet-related businesses in the year ended 31st December 2000 had occurred. In accordance with the transitional provisions of SSAP 30, the Group has retrospectively restated and reduced the reported results for the year ended 31st December 2000 by HK\$106,527,000. The adjustment has no effect on the net assets of the Group as at 31st December 2000 or its results in 2001.

13. 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	6,206	142,965	46,000	187,678	6,660	389,509
Additions	–	10,001	10,053	46,927	2,262	69,243
Revaluation	(706)	(10,266)	1,000	–	–	(9,972)
Disposals	–	–	–	(5,614)	(3,956)	(9,570)
At balance sheet date	5,500	142,700	57,053	228,991	4,966	439,210
Accumulated depreciation						
At beginning of year	–	4,953	–	78,814	4,590	88,357
Charge for the year	–	4,967	–	20,048	835	25,850
Revaluation	–	(9,920)	–	–	–	(9,920)
Eliminated on disposals	–	–	–	(1,929)	(3,247)	(5,176)
At balance sheet date	–	–	–	96,933	2,178	99,111
Net book value						
At balance sheet date	5,500	142,700	57,053	132,058	2,788	340,099
At beginning of year	6,206	138,012	46,000	108,864	2,070	301,152
Analysis of cost or valuation at balance sheet date						
At cost	–	–	10,053	228,991	4,966	244,010
At valuation in 2001	5,500	142,700	47,000	–	–	195,200
Total cost or valuation	5,500	142,700	57,053	228,991	4,966	439,210

(a) Investment properties

The investment properties were situated in Hong Kong and are held on medium-term leases. They were valued at their open market value at the balance sheet date by BMI Appraisals Limited, independent Chartered Surveyors.

13. FIXED ASSETS (continued)**(b) Land and buildings**

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

	2001 HK\$'000	Group 2000 HK\$'000
Hong Kong	2,700	2,842
Mainland China	140,000	135,170
	142,700	138,012

At the balance sheet date, approximately HK\$140,000,000 (2000: HK\$135,170,000) 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 in Hong Kong and Mainland China were valued at open market value at the balance sheet date by BMI Appraisals Limited, independent Chartered Surveyors.

The carrying amount of the land and buildings at the balance sheet date would have been HK\$113,199,000 (2000: HK\$118,451,000) had they been stated at cost less accumulated depreciation.

(c) Construction-in-progress

	2001 HK\$'000	Group 2000 HK\$'000
At construction cost	46,105	42,991
Interest capitalised	6,939	–
Revaluation surpluses	4,009	3,009
	57,053	46,000

The land and factory buildings under construction are located in Dongguan and Zhuhai, Mainland China. The land use rights of the properties are granted for a term of 50 years from the date of signing the Contracts for Transfer of Land Use Rights.

The Group is considering the disposal of the property in Dongguan and the application for formal land use right is put on hold. For the property in Zhuhai, the Group is in the process of applying for formal land use right.

The Group's construction-in-progress were valued at their open market value at the balance sheet date by BMI Appraisals Limited, independent Chartered Surveyors.

(d) Finance leases

The net book value of the Group's fixed assets includes an amount of HK\$10,224,000 (2000: HK\$9,146,000) in respect of assets held under finance leases.

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14. GOODWILL

	2001 HK\$'000	Group 2000 HK\$'000
Acquisition of associates	58,471	–
Amortisation charge	(1,462)	–
Closing carrying amount	57,009	–
At balance sheet date		
Cost	58,471	–
Accumulated amortisation	(1,462)	–
Closing carrying amount	57,009	–

15. INTERESTS IN SUBSIDIARIES

	2001 HK\$'000	Company 2000 HK\$'000
Unlisted shares, at cost	200,023	200,023
Due from subsidiaries	650,594	567,523
Due to subsidiaries	(192,694)	(146,500)
	657,923	621,046

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/ operation	Issued and fully paid up capital	Percentage of capital held by the Company		Principal activities
			Directly	Indirectly	
Chinacin.com Limited	Hong Kong	HK\$100	–	100%	Inactive
Harvest Fortune Limited	Hong Kong	HK\$2	–	100%	Property sub-letting
Hing Yip Holdings (China) Limited	Hong Kong	HK\$2	–	100%	Inactive

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15. INTERESTS IN SUBSIDIARIES (continued)

Name of subsidiary	Place of incorporation/ operation	Issued and fully paid up capital	Percentage of capital held by the Company		Principal activities
			Directly	Indirectly	
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
Jinbocho Holdings Limited	British Virgin Islands	USD1	100%	–	Investment holding
Jorki Profits Limited	British Virgin Islands	USD1	–	100%	Investment holding
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
Nanhai Xingye Shaped Bronze & Aluminium Products Company Ltd.	Mainland China	USD12,000,000	–	93.75%	Manufacturing and selling aluminum extrusion products and trading aluminum ingots
Ocean Grand Technology Company Limited	Hong Kong	HK\$2	100%	–	Investment holding
Successful Gold Profits Limited	British Virgin Islands	USD1	100%	–	Investment holding
Toowomba Holdings Limited	British Virgin Islands	USD100	100%	–	Investment holding
北京海域東方科技有限公司	Mainland China	HK\$919,800	–	100%	Inactive
僑立精細化工(珠海)科技有限公司	Mainland China	HK\$9,500,000	–	100%	Manufacturing chemicals for electroplating and trading and refining of gold material

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

北京海域東方科技有限公司 is a wholly foreign-owned entity established in Mainland China for a period of 30 years expiring in 2030.

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15. INTERESTS IN SUBSIDIARIES (continued)

僑立精細化工(珠海)科技有限公司 is a wholly foreign-owned entity established in Mainland China for a period of 30 years expiring in 2031.

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.

16. INTERESTS IN ASSOCIATES

	2001 HK\$'000	Group 2000 HK\$'000
Share of net assets	95,968	948
Due from associates	32,689	3,839
	128,657	4,787

The amounts due from associates are unsecured, interest-free and have no fixed repayment terms.

Details of the principal associates, all of which were unlisted corporate entities at the balance sheet date, are as follows:

Name of associate	Place of incorporation/ operation	Issued and fully paid up capital	Percentage of capital held by the Company indirectly	Principal activities
Asia Pacific Holdings (China) Limited	Commonwealth of the Bahamas	USD100	40%	Investment holding
Asia Pacific Holdings (Panzhihua) Iron & Steel Co. Ltd.	Mainland China	RMB28,000,000	40%	Manufacturing and selling stainless steel
Chineseroad Incorporated	British Virgin Islands	USD67,200	23.8%	Investment holding

Notes to the Financial Statements

Year ended 31st December 2001

16. INTERESTS IN ASSOCIATES (continued)

Details of the operating results and financial position of Asia Pacific Holdings (China) Limited and its subsidiary, Asia Pacific Holdings (Panzhihua) Iron & Steel Co. Ltd., which were acquired by the Group during the year, based on the audited financial statements are as follows:

	2001 HK\$'000
Operating results for the year ended 31st December	
Turnover	607,270
Profit from ordinary activities before taxation	84,776
Profit from ordinary activities before taxation attributable to the Group	20,270
Financial position at balance sheet date	
Total non-current assets	152,700
Total current assets	213,940
Total current liabilities	(142,144)
Shareholders' funds	224,496
Amount attributable to the Group	89,798

17. INVESTMENTS IN SECURITIES

	2001 HK\$'000	Group 2000 HK\$'000
At fair value:		
Mutual funds, unlisted	3,019	—

The mutual funds are made up of listed securities, which are stated at their market values at the balance sheet date.

Notes to the Financial Statements

Year ended 31st December 2001

18. INVENTORIES

	2001 HK\$'000	Group 2000 HK\$'000
At cost:		
Raw materials	27,128	33,008
Work-in-progress	1,022	1,841
Finished goods	3,883	3,071
	32,033	37,920
Less: Provision for slow-moving and obsolete inventories	(934)	(934)
	31,099	36,986

19. TRADE AND OTHER RECEIVABLES

	Group 2001 HK\$'000	2000 HK\$'000	Company 2001 HK\$'000	2000 HK\$'000
Trade receivables (Note 19a)	227,421	187,490	-	-
Other receivables				
Deposits, prepayments and other debtors	97,367	9,697	28	28
Due from a related company (Note 19b)	-	233	-	-
	97,367	9,930	28	28
	324,788	197,420	28	28

(a) Trade receivables

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

	Group 2001 HK\$'000	2000 HK\$'000
Current (within 2 months)	128,354	143,485
2 to 3 months	39,840	33,448
More than 3 months but less than 12 months	58,634	10,557
More than 12 months but less than 24 months	593	-
	227,421	187,490

Year ended 31st December 2001

19. TRADE AND OTHER RECEIVABLES (continued)**(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 and a shareholder of the Company. The amount due is unsecured, interest-free and has no fixed repayment terms. The maximum amount outstanding during the year was HK\$8,700,000 (2000: HK\$6,986,000).

20. INVESTMENT PENDING DISPOSAL

	2001 HK\$'000	Group 2000 HK\$'000
Unlisted shares, at cost	-	92,400
Due from the investee	-	6,448
	<u>-</u>	<u>98,848</u>

Last year's balance represented 55% of the issued share capital of King Glass Engineering Limited ("KGE"), a company incorporated in Hong Kong and engaged in the design, manufacturing and installing bolted building glass technology for large scale project works.

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. During the year, the total consideration of HK\$130,000,000 had been settled.

As the Directors considered its control in KGE was temporary in nature, the investment in KGE was classified as investment pending for disposal and included in current assets. Upon completion of the disposal of KGE, the Group recorded a gain on disposal of approximately HK\$21,141,000 and such gain had been included in other net income for the year.

21. CASH AND CASH EQUIVALENTS

	Group 2001 HK\$'000	2000 HK\$'000	Company 2001 HK\$'000	2000 HK\$'000
Bank balances and cash	247,393	104,519	26	1,028
Deposits with financial institutions	62,563	25,336	-	-
Time deposits	7,992	12,000	-	-
	<u>317,948</u>	<u>141,855</u>	<u>26</u>	<u>1,028</u>

Notes to the Financial Statements

Year ended 31st December 2001

22. SHORT-TERM BANK BORROWINGS

	Group		Company	
	2001	2000	2001	2000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Bank overdrafts	1,011	5,302	51	51
Trust receipts bank loans	119,679	62,472	-	-
Short-term bank loans	91,308	1,000	-	-
	211,998	68,774	51	51

23. TRADE AND OTHER PAYABLES

	Group		Company	
	2001	2000	2001	2000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Trade payables (Note 23a)	5,173	4,247	-	-
Bills payable	24,603	1,682	-	-
Other payables				
Accrued charges and other creditors	28,838	35,486	2,623	4,026
Due to a related company (Note 23b)	159	-	-	-
Other short-term borrowings	-	3,000	-	-
	28,997	38,486	2,623	4,026
	58,773	44,415	2,623	4,026

(a) Trade payables

The ageing analysis of trade payables is as follows:

	Group	
	2001	2000
	HK\$'000	HK\$'000
Current (within 1 month)	5,173	4,235
More than 3 months but less than 12 months	-	12
	5,173	4,247

(b) Due to a related company

The amount due is unsecured, interest-free and has no fixed repayment terms. The related company is beneficially owned and controlled by Mr. Yip Kim Po, a Director and a shareholder of the Company.

Notes to the Financial Statements

Year ended 31st December 2001

24. LONG-TERM BANK BORROWINGS

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

	2001 HK\$'000	Group 2000 HK\$'000
Not exceeding 1 year	25,215	600
More than 1 year but not exceeding 2 years	35,461	763
More than 2 years but not exceeding 5 years	65,176	2,287
More than 5 years	500	450
	126,352	4,100
Portion classified as current liabilities	(25,215)	(600)
Long-term portion	101,137	3,500

25. OBLIGATIONS UNDER FINANCE LEASES

The obligations under finance leases are repayable as follows:

	Group			
	Minimum lease payments		Present value of minimum lease payments	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Not exceeding 1 year	3,229	2,854	2,956	2,814
More than 1 year but not exceeding 2 years	3,045	2,746	2,807	2,228
More than 2 years but not exceeding 5 years	725	2,747	599	2,229
	3,770	5,493	3,406	4,457
	6,999	8,347	6,362	7,271
Future finance charge	(637)	(1,076)	-	-
Present value of lease obligations	6,362	7,271	6,362	7,271

Notes to the Financial Statements

Year ended 31st December 2001

26. ISSUED CAPITAL

	2001		2000	
	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	3,690,330	369,033	2,792,097	279,210
Issue of ordinary shares	280,831	28,083	325,000	32,500
Exercise of warrants (Note 27)	20,000	2,000	417,733	41,773
Exercise of share options (Note 28)	–	–	155,500	15,550
Cancellation of shares	(5,808)	(581)	–	–
At balance sheet date	3,985,353	398,535	3,690,330	369,033

In 2001, the Company issued a total of 280,830,936 ordinary shares of HK\$0.10 each at a subscription price of HK\$0.125 by way of placement. The net proceeds from the placement of shares were used as general working capital for the Group.

During the year, the Company repurchased a total of 5,808,000 ordinary shares of HK\$0.10 each of the Company on the Stock Exchange of Hong Kong Limited. The repurchases of the Company's shares during the year were effected by the Directors, pursuant to the general repurchase mandate from shareholders, with a view to benefiting shareholders as a whole by enhancing the net assets value and earnings per share of the Company. Details of the repurchase transactions are as follows:

Date of repurchases	Number of shares repurchased '000	Repurchase price per share		Aggregate price paid HK\$'000
		Highest HK\$	Lowest HK\$	
16th March 2001	1,294	0.110	0.106	140
19th March 2001	1,176	0.110	0.105	127
20th March 2001	3,338	0.112	0.104	359
	5,808			

The repurchased shares were cancelled and accordingly the issued share capital of the Company was reduced by the nominal value of these shares.

27. WARRANTS

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

During the year, warrants were exercised to subscribe for 20,000,000 (2000: 417,733,000) shares of the Company at a consideration of approximately HK\$3,200,000 (2000: HK\$29,241,000). The remaining 2001 Warrants expired on 31st December 2001.

28. 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.

Share options granted and remained outstanding at the balance sheet date were:

Date of grant	Exercise period	Subscription price HK\$	At beginning of year and at balance sheet date '000
27th March 1998	27th March 1998 to 3rd September 2007	0.12	5,000
3rd May 2000	2nd May 2000 to 3rd September 2007	0.1128	9,000
			14,000

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29. RESERVES

Group	Share premium HK\$'000	Statutory reserves (a) HK\$'000	Capital reserve (b) HK\$'000	Capital redemption reserve (d) HK\$'000	Sub- scription right reserve (e) HK\$'000	Property revalu- ation reserves HK\$'000	Exchange reserve HK\$'000	Accumu- lated profits HK\$'000	Total HK\$'000
At 1st January 2000	–	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)
Goodwill on acquisition of an associate	–	–	–	–	–	–	–	(147,047)	(147,047)
Prior year adjustment in respect of provision for impairment of goodwill	–	–	–	–	–	–	–	106,527	106,527
Loss for the year, as restated	–	–	–	–	–	–	–	(13,970)	(13,970)
At 31st December 2000	105,662	15,079	27,206	–	418	40,098	(180)	77,840	266,123
Representing:									
At 31st December 2000 after proposed final dividend									258,714
2000 final dividend proposed									7,409
									266,123

At 1st January 2001	105,662	15,079	27,206	–	418	40,098	(180)	70,431	258,714
– as previously reported									
– prior year adjustment in respect of dividend proposed	–	–	–	–	–	–	–	7,409	7,409
– as restated	105,662	15,079	27,206	–	418	40,098	(180)	77,840	266,123
Dividend approved in respect of previous year	–	–	–	–	–	–	–	(7,409)	(7,409)
Premium arising from issue of shares upon									
– exercise of warrants	1,200	–	–	–	–	–	–	–	1,200
– share placement	7,021	–	–	–	–	–	–	–	7,021
Expenditures of share placement	(875)	–	–	–	–	–	–	–	(875)
Repurchase of shares	(45)	–	–	581	–	–	–	(581)	(45)
Surplus on revaluation (net of minority interests)	–	–	–	–	–	676	–	–	676
Exchange difference on translation of a foreign subsidiary	–	–	–	–	–	–	48	–	48
Share of exchange reserve of an associate	–	–	–	–	–	–	44	–	44
Profits for the year	–	–	–	–	–	–	–	113,613	113,613
At balance sheet date	112,963	15,079	27,206	581	418	40,774	(88)	183,463	380,396

Included in the accumulated profits is an amount of HK\$25,425,000 (2000: accumulated loss of HK\$22,000) being the accumulated profits attributable to associates.

Notes to the Financial Statements

Year ended 31st December 2001

29. RESERVES (continued)

Company	Share premium HK\$'000	Contributed surplus (c) HK\$'000	Capital redemption reserve (d) HK\$'000	Subscription right reserve (e) HK\$'000	Accumulated profits (losses) HK\$'000	Total HK\$'000
At 1st January 2000						
– as previously reported	–	145,517	–	12,950	2,052	160,519
– prior year adjustment in respect of dividend income from subsidiary	–	–	–	–	(10,000)	(10,000)
– as restated	–	145,517	–	12,950	(7,948)	150,519
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)
Profits for the year	–	–	–	–	5,343	5,343
At 31st December 2000	105,662	145,517	–	418	(2,605)	248,992
Representing:						
At 31st December 2000 after proposed final dividend						241,583
2000 final dividend proposed						7,409
At 31st December 2000						248,992
At 1st January 2001						
– as previously reported	105,662	145,517	–	418	1,986	253,583
– prior year adjustment in respect of dividend income from subsidiary	–	–	–	–	(12,000)	(12,000)
– prior year adjustment in respect of dividend proposed	–	–	–	–	7,409	7,409
– as restated	105,662	145,517	–	418	(2,605)	248,992
Dividend approved in respect of previous year	–	–	–	–	(7,409)	(7,409)
Premium arising from issue of shares upon						
– exercise of warrants	1,200	–	–	–	–	1,200
– share placement	7,021	–	–	–	–	7,021
Expenditures of share placement	(875)	–	–	–	–	(875)
Repurchase of shares	(45)	–	581	–	(581)	(45)
Profits for the year	–	–	–	–	7,884	7,884
At balance sheet date	112,963	145,517	581	418	(2,711)	256,768

The Company's reserves as at the balance sheet date available for distribution to shareholders were approximately HK\$142,806,000 (2000: HK\$142,912,000).

Notes to the Financial Statements

Year ended 31st December 2001

29. RESERVES (continued)

(a) Statutory reserves

Statutory reserves include discretionary surplus reserve, statutory reserve fund and enterprise development fund relating to Nanhai Xingye Shaped Bronze & Aluminum Products Co., Ltd. ("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:

	2001 HK\$'000	Group 2000 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 payable 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) Capital redemption reserve

Capital redemption reserve represented reserve created during share repurchased.

(e) 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.

Notes to the Financial Statements

Year ended 31st December 2001

30. NOTES TO CONSOLIDATED CASH FLOW STATEMENT

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

	2001 HK\$'000	2000 HK\$'000
Profit before taxation	144,727	11,413
Interest income	(3,259)	(1,945)
Interest expenses	10,978	3,676
Gain on disposal of investment	(21,141)	–
Depreciation	25,850	24,280
Loss on disposals of plant and equipment	4,216	3,455
Provision for impairment of goodwill	–	106,527
Provision for impairment of plant and equipment	–	5,000
Revaluation deficit on investment properties	706	–
Amortisation of goodwill	1,462	–
Provision for doubtful debts	3,414	–
Share of results of associates	(25,447)	22
Changes in working capital:		
Inventories	5,887	(18,540)
Trade and other receivables	(84,615)	8,259
Due from an investment pending disposal	6,448	(6,448)
Due from associates	(12,962)	(3,839)
Trade and other payables	19,369	(141)
Effect of exchange rate changes	48	–
Net cash inflow from operating activities	75,681	131,719

Notes to the Financial Statements

Year ended 31st December 2001

30. NOTES TO CONSOLIDATED CASH FLOW STATEMENT (continued)

(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 loans HK\$'000	Other short-term borrowings HK\$'000	Due to related companies HK\$'000	Advances from Directors HK\$'000	Obligations under finance leases HK\$'000	Pledged deposits HK\$'000
At 1st January 2000	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 31st December 2000	474,695	4,100	62,472	1,000	3,000	–	–	7,271	(5,000)
Cash inflow (outflow) from financing	36,803	122,252	57,207	90,308	(3,000)	159	–	(2,855)	(266)
Inception of new finance lease obligations	–	–	–	–	–	–	–	1,946	–
At balance sheet date	511,498	126,352	119,679	91,308	–	159	–	6,362	(5,266)

31. DEFERRED TAXATION

At the balance sheet date, the major components of the deferred taxation liabilities (assets) unprovided for were as follows:

	2001 HK\$'000	Group 2000 HK\$'000
Excess of tax allowances over depreciation	3,368	3,874
Tax losses carried forward	(16,437)	(13,948)
	(13,069)	(10,074)

Year ended 31st December 2001

32. COMMITMENTS AND CONTINGENT LIABILITIES**(a) Operating leases commitments payable**

At the balance sheet date, the Group had total outstanding commitments in respect of land and buildings under non-cancellable operating leases, which are payable as follow:

	2001 HK\$'000	Group 2000 HK\$'000
Within one year	2,723	423
Within two to five years	871	17
	3,594	440

(b) Operating leases commitments receivables

At balance sheet date, the Group had future aggregate minimum rental receivable under non-cancellable operating lease of HK\$13,000 (2000: HK\$94,000), which is receivable within the next year.

(c) Capital expenditure commitments

	2001 HK\$'000	Group 2000 HK\$'000
Contracted but not provided for, net of deposit paid	56,871	—
Authorised but not contracted for	12,426	—

(d) Contingent liabilities

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

	2001 HK\$'000	Company 2000 HK\$'000
Corporate guarantees given by the Company in respect of banking facilities of its subsidiaries	458,823	108,740

- (e) 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. 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.

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33. 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 2001 amounted to approximately HK\$135,000 (2000: HK\$99,000).

The other group companies operate two Mandatory Provident Fund ("MPF") plans for their Hong Kong employees. The assets of the MPF are held separately in provident funds managed by independent trustees. The Group's contributions to the MPF for the year ended 31st December 2001 were approximately HK\$365,000 (2000: Nil).

34. PLEDGE OF ASSETS

Certain banking facilities were secured by a corporate guarantee provided by the Company, a floating charge on the bank balances of a subsidiary amounting to HK\$5,260,000 (2000: HK\$5,000,000) and pledge of properties with net book value of approximately HK\$8,200,000 (2000: HK\$8,947,000).

35. CONNECTED TRANSACTIONS

As mentioned in note 20 to the financial statements, the Group's 55% interest in KGE was disposed of in February 2001. The purchaser was Mississippi Industrial Limited, an independent third party. The remaining 45% shareholdings of KGE were owned by Mr. Luo Ken Yi and Mr. Li Lee Cheung (both Directors of the Company at the time of the disposal), and the companies controlled by them. Mr. Luo Ken Yi resigned from the Board on 28th February 2001.

As mentioned in note 26 to the financial statements, the Company issued a total of 280,830,936 ordinary shares in 2001. 210,623,202 ordinary shares and 70,207,734 ordinary shares were issued to Holylake Resources Limited ("Holylake") and Grecian Resources Limited ("Grecian") respectively at HK\$0.125 per share. Holylake and Grecian are shareholders of approximately 14% and 6% respectively of the total issued share capital of the Company before this transaction. Grecian is controlled by Mr. Yip Kim Po, the Chairman and a shareholder of the Company.

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

36. SUBSEQUENT EVENTS

Chineseroad Incorporated ("Chineseroad"), a 23.8% held associate of the Group, underwent a group reorganisation in January 2002 whereby Chineseroad became a wholly-owned subsidiary of Linefan Technology Holdings Limited ("Linefan"). Linefan was listed on the Growth Enterprise Market of the Stock Exchange of Hong Kong Limited on 5th February 2002 by way of placement. The Group's effective shareholdings in Linefan has been diluted from 23.8% to approximately 18.6% because of the placement. It is not practicable to estimate the net financial effect of this transaction at the date of this report.

37. SEGMENT INFORMATION

The turnover and operating profit of the Group analysed by business segment and by geographical segment are as follows:

(a) By business segment

The Group comprises the following main business segments:

Aluminium: The manufacture and sale of aluminium extrusion products and aluminium ingots.

Chemicals: The manufacture and sale of chemicals for electroplating and refining gold material.

	Aluminium HK\$'000	Chemicals HK\$'000	Consolidated HK\$'000
Year ended 31st December 2001			
External sales	866,252	150,625	1,016,877
Other revenue	104	108	212
Total revenue in business segments	866,356	150,733	1,017,089
Segment result	94,910	25,677	120,587
Unallocated operating income and expenses			9,671
Profit from operations			130,258
Finance costs			(10,978)
Share of results of associates			25,447
Profit from ordinary activities before taxation			144,727
Taxation			(25,712)
Profit from ordinary activities after taxation			119,015
Minority interests			(5,402)
Net profit attributable to shareholders			113,613
OTHER INFORMATION			
Capital expenditure	59,041	56,294	115,335
Depreciation and amortisation	25,247	603	25,850
Other non-cash expenses other than depreciation and amortisation	6,721	909	7,630

Notes to the Financial Statements

Year ended 31st December 2001

37. SEGMENT INFORMATION (continued)

(a) By business segment (continued)

	Aluminium HK\$'000	Chemicals HK\$'000	Consolidated HK\$'000
Year ended 31st December 2000			
External sales	811,568	89,673	901,241
Other revenue	1,427	554	1,981
Total revenue in business segments	<u>812,995</u>	<u>90,227</u>	<u>903,222</u>
Segment result	<u>113,355</u>	<u>17,400</u>	130,755
Unallocated operating income and expenses			(9,117)
Profit from operations			121,638
Finance costs			(3,676)
Provision for impairment of goodwill			(106,527)
Share of results of associates			(22)
Profit from ordinary activities before taxation			11,413
Taxation			(18,339)
Loss from ordinary activities after taxation			(6,926)
Minority interests			(7,044)
Net loss attributable to shareholders			(13,970)
OTHER INFORMATION			
Capital expenditure	17,596	6,230	23,826
Depreciation and amortisation	23,683	597	24,280
Other non-cash expenses other than depreciation and amortisation (Note)	<u>8,455</u>	<u>–</u>	<u>8,455</u>

Note:

The other non-cash expenses other than depreciation and amortisation included the provision for impairment loss on plant and equipment recognised in the income statement in 2000.

Year ended 31st December 2001

37. SEGMENT INFORMATION (continued)**(a) By business segment (continued)**

	Aluminum HK\$'000	Chemicals HK\$'000	Consolidated HK\$'000
As at 31st December 2001			
Assets			
Segment assets	860,737	160,369	1,021,106
Interests in associates			128,657
Unallocated assets			58,122
Total assets			1,207,885
Liabilities			
Segment liabilities	287,274	119,435	406,709
Unallocated liabilities			7,586
Total liabilities			414,295
As at 31st December 2000			
Assets			
Segment assets	604,100	72,155	676,255
Interests in associates			4,787
Unallocated assets			105,006
Total assets			786,048
Liabilities			
Segment liabilities	123,403	7,461	130,864
Unallocated liabilities			7,906
Total liabilities			138,770

Notes to the Financial Statements

Year ended 31st December 2001

37. SEGMENT INFORMATION (continued)

(b) By geographical segment

	As at 31st December 2001 Carrying amount of segment assets HK\$'000	Year ended 31st December 2001 Capital expenditure incurred HK\$'000	Revenue from external customers HK\$'000	Contributions to profit from operation HK\$'000
Mainland China	1,080,515	112,707	649,238	128,619
Hong Kong	127,370	2,628	367,639	1,639
	1,207,885	115,335	1,016,877	130,258
	As at 31st December 2000 Carrying amount of segment assets HK\$'000	Year ended 31st December 2000 Capital expenditure incurred HK\$'000	Revenue from external customers HK\$'000	Contributions to profit from operation HK\$'000
Mainland China	579,952	17,083	728,728	144,639
Hong Kong	206,096	6,743	172,513	(23,001)
	786,048	23,826	901,241	121,638

38. 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.