

Notes to the Financial Statements

Year ended 31 December 2002

35

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 (the "Stock Exchange").

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 certain investments in securities, land and buildings, investment properties and construction-in-progress 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 31 December 2002.

The results of subsidiaries acquired in 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 within the Group 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 1 January 2001, the related positive goodwill has been eliminated against reserves and, as permitted by the 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 1 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 recognised 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 1 January 2001, the related negative goodwill has been credited to capital reserve. For subsidiaries and associates acquired on or after 1 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.

On disposal of a subsidiary or an associate, 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.

Notes to the Financial Statements

Year ended 31 December 2002

36

2. PRINCIPAL ACCOUNTING POLICIES (continued)

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. The carrying amount of the investment is reduced to its recoverable amount on an individual basis.

Associates

An associate is an enterprise in which the Group has significant influence and which is neither a subsidiary nor a joint venture. The consolidated income statement includes the Group's share of the results of the associates for the year, and the consolidated balance sheet includes the Group's share of net assets of the associates and also goodwill or negative goodwill on acquisition net of accumulated amortisation.

Equity accounting is discontinued when the Group ceases to have significant influence in an associate but retains either in whole or in part of its investment. The carrying amount of the investment at that date is regarded as cost thereafter and accounted for as investment in securities.

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 item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Major costs incurred in restoring assets to their normal working conditions are charged to the income statements. Improvements are capitalised and depreciated over their expected useful lives.

Construction-in-progress of factory buildings are stated at valuation. Construction-in-progress of machinery under construction/installation are stated at cost less any accumulated impairment losses. Cost comprises cost of land, construction/installation expenditure and other direct costs, including interest costs, attributable to the construction/installation. Costs on completed construction/installation works are transferred to the appropriate asset category. No depreciation is provided in respect of construction-in-progress until it is completed and put into commercial operation.

The gain or loss arising from the retirement or disposal of property, plant and equipment is determined as the difference between the estimated net sales proceeds and the carrying amount of the assets and is recognised as an income or expense in the income statement.

Land and buildings are stated in the balance sheet at their revalued amounts, being the fair value at the date of revaluation less any subsequent accumulated depreciation and impairment losses.

Any surplus arising on revaluation of land and buildings and construction-in-progress of factory building 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 retained 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 other than construction-in-progress over their estimated useful lives from the date on which they become fully operational and after taking into account their estimated residual values, using the straight-line method at the following rates per annum:

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

Investment properties

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

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

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

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

Investments in securities

Investment securities held on a continuing basis with an identified long-term purpose are stated at cost and subject to impairment review at each reporting date to reflect any diminution in their value, which is expected to be other than temporary. The amount of provisions is recognised in the income statement in the period in which the decline occurs.

Securities not classified as investment securities are classified as other investments, which are stated at fair value in the balance sheet. The unrealised holding gains and losses for other investments are included in the income statement.

The profit or loss on disposal of investment securities and other investments 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 internal and external sources of information to determine whether the carrying amounts of its tangible and intangible assets have suffered an impairment loss or impairment loss previously recognised no longer exist or may be reduced. 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 recoverable amount of the smallest group of assets that generates cash flows independently (i.e. a cash-generating unit).

Notes to the Financial Statements

Year ended 31 December 2002

38

2. PRINCIPAL ACCOUNTING POLICIES (continued)

Impairment loss (continued)

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, except where the relevant asset is carried at valuation in which case the impairment loss is treated as a revaluation decrease.

A reversal of impairment losses is limited to the carrying amount of the asset or cash-generating unit that would have been determined had no impairment loss been recognised in prior years. Reversal of impairment losses is recognised as income immediately, except where the relevant asset is carried at valuation, in which case the reversal of impairment loss is treated as a revaluation increase.

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 lessee. All other leases are classified as operating leases.

Assets held under finance leases are recognised as assets at the lower of the fair value of the leased asset and the present value of the minimum lease payments. 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.

Rental payable under operating leases are recognised as an expense on the straight-line basis over the lease terms.

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 bases:

Sale of goods is recognised on transfer of risks and rewards of ownership, which generally coincides with the time when goods are delivered and title has passed.

Subcontracting fee, net of People's Republic of China ("PRC") taxes deducted at source, is recognised in the period when services are rendered.

Income in respect of automatic teller machine support services is recognised when the 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.

2. PRINCIPAL ACCOUNTING POLICIES (continued)

Taxation

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

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 rates of exchange ruling at that date. Translation differences are included in the income statement.

On consolidation, the balance sheet of overseas subsidiaries denominated in currencies other than Hong Kong dollars is translated at the rates of exchange ruling at the balance sheet date while the income statement is translated at average rates for the year. 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 are subject to an insignificant risk of change in value, net of bank overdrafts. For balance sheet classification, cash equivalents represent assets similar in nature to cash which are not restricted as to use.

Related parties

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.

Defined contribution plans

The obligations for contributions to defined contribution retirement schemes are recognised as expenses in the income statement as incurred. The assets of the schemes are held separately from those of the Group in independently administered funds.

Notes to the Financial Statements

Year ended 31 December 2002

3. TURNOVER AND REVENUE

The Company is an investment holding company. Its subsidiaries are principally engaged in manufacturing of aluminium extrusion products and chemicals for use in electroplating process.

Turnover and revenue recognised by category are analysed as follows:

	2002 HK\$'000	2001 HK\$'000
Turnover		
Sale of goods (<i>Note</i>)	1,379,171	987,667
Subcontracting fees	44,763	29,210
	1,423,934	1,016,877
Other revenue		
Service fees	9,209	–
Interest income	5,141	3,259
Rental income	–	212
	14,350	3,471
Revenue	1,438,284	1,020,348

Note:

The Group's sales in the PRC are carried out by Nanhai Xingye Shaped Bronze & Aluminium Products Company Ltd. ("Nanhai Xingye"), a subsidiary established and operating in Nanhai, Guangdong Province, the PRC. Such sales revenue is subject to PRC 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\$28,551,000 (2001: HK\$19,766,000) was determined, as confirmed by the local State Tax Bureau, at a rate of 17% on its gross sales revenue less gross purchases incurred during the year. If Nanhai Xingye had to pay VAT at the standard basis of calculation according to the PRC tax law, its net VAT payable for the year would be increased substantially.

4. OTHER NET INCOME

	2002 HK\$'000	2001 HK\$'000
Gain on deemed disposal of subsidiary	19,076	–
Unrealised holding gain on other investments	18,496	–
Gain on disposal of investment	–	21,141
Sundry income	4,045	7
	41,617	21,148

5. FINANCE COSTS

	2002 HK\$'000	2001 HK\$'000
Interest on bank overdrafts and borrowings wholly repayable within five years	24,806	10,932
Interest on bank borrowings wholly repayable after five years	-	1,534
Interest on other borrowings wholly repayable within five years	148	264
Finance charges on obligations under finance leases	598	156
Other borrowing costs	4,049	5,031
Total borrowing costs	29,601	17,917
Less: Borrowing costs capitalised into construction-in-progress	(672)	(6,939)
	28,929	10,978

6. PROFIT FROM ORDINARY ACTIVITIES BEFORE TAXATION

	2002 HK\$'000	2001 HK\$'000
This is stated after charging:		
Amortisation of positive goodwill included in share of results of associates	2,923	1,462
Auditors' remuneration	966	1,000
Cost of inventories and services provided	1,202,715	844,191
Depreciation:		
Owned assets	29,299	24,532
Assets held under finance leases	2,100	1,318
Loss on disposals of property, plant and equipment	4,443	4,216
Loss on deemed disposal of associate (Note 16)	35,745	-
Operating lease charges on premises	4,515	2,216
Provision for doubtful debts	3,114	3,414
Revaluation deficit on investment properties	700	706
Staff costs, including directors' emoluments		
– Wages and salaries	28,011	19,151
– Contributions to retirement schemes	386	365

Notes to the Financial Statements

Year ended 31 December 2002

42

7. DIRECTORS' AND SENIOR EXECUTIVES' REMUNERATION

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

	2002 HK\$'000	2001 HK\$'000
Fees	600	600
Salaries, other emoluments and other benefits in kind	8,557	6,584
Contributions to pension scheme	60	80
	9,217	7,264

Included in the directors' remuneration were fees of HK\$600,000 (2001: HK\$600,000) paid to the Independent Non-Executive Directors during the year.

In addition to the above emoluments, certain directors were granted share options under the Company's Employee Share Option Scheme. Details of these benefits in kind are disclosed under the paragraph "Information on share options" 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:

<i>HK\$</i>	Number of Directors 2002	2001
Nil to 1,000,000	6	8
1,000,001 to 1,500,000	1	2
1,500,001 to 2,000,000	1	1
4,000,000 to 4,500,000	1	–
	9	11

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

7. DIRECTORS' AND SENIOR EXECUTIVES' REMUNERATION (continued)

Of the five (2001: five) individuals with the highest emoluments, three (2001: five) were Directors whose emoluments are disclosed above. The aggregate of the emoluments in respect of the other two (2001: Nil) individuals were as follows:

	2002 HK\$'000	2001 HK\$'000
Salaries and other emoluments	3,149	–
Contributions to defined contribution plans	36	–
	3,185	–

HK\$	Number of individuals 2002	2001
1,000,001 – 1,500,000	2	–

8. TAXATION

	2002 HK\$'000	2001 HK\$'000
Company and subsidiaries:		
Hong Kong Profits Tax:		
– Current year	2,867	4,317
– Overprovision in prior years	(899)	(46)
Overseas taxation	27,394	21,441
	29,362	25,712

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

Hong Kong Profits Tax has been provided at the rate of 16% (2001: 16%) on the estimated assessable profit for the year.

Nanhai Xingye is subject to PRC enterprise income taxes at a rate of 27% (24% state tax and 3% local tax). However, it is exempted from PRC 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 31 December 1996 and 1997), followed by a 50% relief for the following three years (years ended 31 December 1998, 1999 and 2000). For the year ended 31 December 2002, PRC 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 \$13,000,000 (2001: HK\$13,000,000) representing the tax effect on the surpluses arising on the revaluation of the Group's land and buildings in the PRC, of which an amount of HK\$12,000,000 (2001: HK\$12,000,000) should be recorded as reduction of property revaluation reserves and HK\$1,000,000 (2001: 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.

Notes to the Financial Statements

Year ended 31 December 2002

8. TAXATION (continued)

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

	2002 HK\$'000	2001 HK\$'000
Excess of tax allowances over depreciation	343	(506)
Tax losses arising	(4,461)	(2,489)
	<u>(4,118)</u>	<u>(2,995)</u>

9. NET PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The net profit attributable to shareholders includes a profit of HK\$6,765,000 (2001: HK\$7,884,000) which has been dealt with in the financial statements of the Company.

10. DIVIDENDS

	2002 HK\$'000	2001 HK\$'000
Final dividend proposed after the balance sheet date of HK 7 cents (2001: Nil) per share	<u>27,897</u>	<u>—</u>

11. EARNINGS PER SHARE

The calculation of basic earnings per share for the year ended 31 December 2002 was based on the consolidated profit attributable to shareholders of approximately HK\$104,463,000 (2001: HK\$113,613,000) and on the weighted average number of 398,535,316 (2001: 370,701,764) ordinary shares.

The diluted earnings per share for 2002 and 2001 is not shown as it is not materially different from the basic earnings per share.

The comparative amount of the earnings per share have been adjusted for the effect of the share consolidation on the basis of every 10 issued shares of HK\$0.10 each being consolidated into 1 share of HK\$1.00 on 29 November 2002.

12. 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	5,500	142,700	57,053	228,991	4,966	439,210
Additions	–	13,931	50,001	44,838	763	109,533
Revaluation	(700)	9,190	–	–	–	8,490
Disposals	–	–	(47,000)	(394)	(570)	(47,964)
Reclassification	–	15,579	(15,579)	–	–	–
At balance sheet date	4,800	181,400	44,475	273,435	5,159	509,269
Accumulated depreciation						
At beginning of year	–	–	–	96,933	2,178	99,111
Charge for the year	–	5,335	–	25,451	613	31,399
Revaluation	–	(5,335)	–	–	–	(5,335)
Eliminated on disposals	–	–	–	(275)	(256)	(531)
At balance sheet date	–	–	–	122,109	2,535	124,644
Net book value at balance sheet date	4,800	181,400	44,475	151,326	2,624	384,625
At beginning of year	5,500	142,700	57,053	132,058	2,788	340,099
Analysis of cost or valuation at balance sheet date						
At cost	–	–	44,475	273,435	5,159	323,069
At valuation in 2002	4,800	181,400	–	–	–	186,200
Total cost or valuation	4,800	181,400	44,475	273,435	5,159	509,269

(a) Investment properties

The investment properties are situated at offices A and B on 14th and 15th Floors, Hilltop Plaza, No. 49 Hollywood Road, Central, Hong Kong and are currently vacant. They were valued at their open market value at the balance sheet date by Messrs. BMI Appraisal Limited, independent Chartered Surveyors.

Notes to the Financial Statements

Year ended 31 December 2002

12. 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:

	2002 HK\$'000	Group 2001 HK\$'000
Hong Kong	2,900	2,700
PRC	178,500	140,000
	181,400	142,700

At the balance sheet date, approximately HK\$178,500,000 (2001: HK\$140,000,000) of the carrying amount of the land and buildings located in the PRC were held under land use rights of 30 years expiring in 2027, and 50 years expiring in 2046 and 2051.

The Group's land and buildings in Hong Kong and the PRC were valued at open market value at balance sheet date by Messrs. BMI Appraisals Limited, independent Chartered Surveyors.

The carrying amount of the land and buildings at the balance sheet date would have been HK\$146,174,000 (2001: HK\$123,199,000) had they been stated at cost less accumulated depreciation and impairment losses.

(c) Construction-in-progress

	2002 HK\$'000	Group 2001 HK\$'000
At cost or valuation:		
Factory buildings	–	50,114
Machinery	42,292	–
	42,292	50,114
Borrowing costs capitalised	2,183	6,939
	44,475	57,053

(d) Finance leases

The carrying amount of the Group's machinery and equipment includes an amount of HK\$32,211,605 (2001: HK\$10,273,439) in respect of assets held under finance leases.

13. INTERESTS IN SUBSIDIARIES

	2002 HK\$'000	Company 2001 HK\$'000
Unlisted shares, at cost	200,415	200,023
Due from subsidiaries	883,204	650,594
Provision for doubtful debts	(120,000)	–
	963,619	850,617
Due to subsidiaries	(305,491)	(192,694)
	658,128	657,923

The amounts due from 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
Dynamic Market Trading Limited	British Virgin Islands	US\$1	–	89.82%	Inactive
Harvest Fortune Limited	Hong Kong	HK\$2	–	100%	Property sub-letting
Hing Yip Holdings (China) Limited	Hong Kong	Hk\$2	–	100%	Inactive
Hing Yip Holdings (Hong Kong) Limited	Hong Kong	HK\$100 ordinary HK\$100 non-voting deferred (Note)	–	100%	Investment holding and trading of aluminium products and aluminium ingots
Jinbocho Holdings Limited	British Virgin Islands	US\$1	100%	–	Investment holding
Jorki Profits Limited	British Virgin Islands	US\$1	–	100%	Investment holding
Kenlap Chemicals Limited (formerly Trilink Global Resources Company Limited)	Hong Kong	HK\$100	–	89.82%	Trading electroplating chemicals
Kenlap P.G.C. Manufacturer Company Limited	Hong Kong	HK\$1,113,352	–	89.82%	Manufacturing chemicals for electroplating and trading and refining of precious metal material

Notes to the Financial Statements

Year ended 31 December 2002

13. 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	
Nanhai Hongli Aluminium Products Company Limited	PRC	HK\$4,000,000	–	90%	Plating of aluminium extrusion products
Nanhai Xingye Shaped Bronze & Aluminium Products Co., Ltd.	PRC	US\$12,000,000	–	93.75%	Manufacturing and selling aluminium extrusion products and trading aluminium ingots
Ocean Grand Chemicals (BVI) Limited	British Virgin Islands	US\$0.01	–	100%	Investment holding
Ocean Grand Chemicals Holdings Limited	Bermuda	HK\$100,000	–	100%	Investment holding
Ocean Grand (China) Limited	Hong Kong	HK\$1,000	100%	–	Investment holding
Ocean Grand Development Holdings Limited	British Virgin Islands	US\$50,000	100%	–	Investment holding
Ocean Grand Finance Limited	Hong Kong	HK\$1,000	100%	–	Financing
Ocean Grand Technology Company Limited	Hong Kong	HK\$2	100%	–	Investment holding and trading
OG Development Company Limited (formerly Hing Yip Trading (Hong Kong) Limited)	Hong Kong	HK\$1,000	–	100%	Trading aluminium products and aluminium ingots
Sky Leader Industries Limited	Hong Kong	HK\$1,000	–	100%	Investment holding
Successful Gold Profits Limited	British Virgin Islands	US\$1	100%	–	Investment holding
Toowomba Holdings Limited	British Virgin Islands	US\$100	100%	–	Investment holding
僑立精細化工(珠海) 科技有限公司 (“Kenlap Zhuhai”)	PRC	HK\$69,788,412	–	89.82%	Manufacturing chemicals for electroplating and trading and refining of precious metal material
廣州倫帕理維信息 科技有限公司	PRC	HK\$10,000,000	–	100%	Trading of electronic products

13. INTERESTS IN SUBSIDIARIES (continued)

Nanhai Hongli Aluminium Products Company Limited is an equity joint venture established in the PRC for a period of 30 years expiring in 2032.

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

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

廣州倫帕理維信息科技有限公司 is a wholly foreign-owned entity established in the PRC for a period of 15 years expiring in 2016.

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

Note:

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

14. INTERESTS IN ASSOCIATES

	2002 HK\$'000	Group 2001 HK\$'000
Share of net assets	168,675	95,968
Advances to associates	149,327	32,689
Goodwill	55,802	57,009
	373,804	185,666

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	US\$100	49%	Investment holding
Asia Pacific Holdings (Panzhihua) Iron & Steel Co., Ltd.	PRC	RMB28,000,000	49%	Manufacturing and selling stainless steel

Notes to the Financial Statements

Year ended 31 December 2002

50

14. INTERESTS IN ASSOCIATES (continued)

Details of the operating results and financial position of Asia Pacific Holdings (China) Limited based on the audited financial statements are as follows:

	2002 HK\$'000	2001 HK\$'000
Operating results for the year ended 31 December		
Turnover	668,815	607,270
Profit from ordinary activities before taxation	88,590	84,776
Profit from ordinary activities before taxation attributable to the Group	35,436	20,270
Financial position at 31 December		
Total non-current assets	195,292	152,700
Total current assets	378,635	189,832
Total current liabilities	(80,366)	(106,156)
Total non-current liabilities	(149,327)	(11,880)
Shareholders' funds	344,234	224,496
Amount attributable to the Group	168,675	89,798

The advances to associates are unsecured, interest-free and have no fixed repayment terms, except for an amount of HK\$15,888,000, which borne interest at market rate and was fully repaid in 2002. Interest income received during the year amounted to HK\$1,129,000 (2001: Nil).

15. INVESTMENTS IN SECURITIES

	2002 HK\$'000	Group 2001 HK\$'000
Equity securities		
Unlisted investment securities, at cost	8,000	—
Unlisted other investments, at fair value	3,019	3,019
	11,019	3,019

16. OTHER INVESTMENTS

Other investments represented investments in securities listed in Hong Kong and was stated at market value, out of which HK\$31,879,000 represented approximately 18.17% interests in Linefan Technology Holdings Limited ("Linefan").

In January 2002, Chineseroad Incorporated ("Chineseroad"), a then 23.81% held associate of the Group, underwent a pre-IPO group reorganisation which subsequently led to the listing of Chineseroad on the Growth Enterprises Market of the Stock Exchange on 5 February 2002 by way of placement under the new name, Linefan. The Group's effective shareholdings in this associate was diluted from 23.81% to approximately 18.17% because of the placement. Subsequently, the Group ceased to have any representations on the board of directors of Linefan. As a result, the Group's investments in Linefan were transferred from Investments in Associate to Other Investments. The dilution was deemed as a disposal of the associate and the resultant loss of HK\$35,745,000 has been charged to the current year's income statement.

17. INVENTORIES

	2002 HK\$'000	Group 2001 HK\$'000
At cost:		
Raw materials	32,801	27,128
Work-in-progress	2,848	1,022
Finished goods	6,356	3,883
	42,005	32,033
Less: Provision for slow-moving and obsolete inventories	(934)	(934)
	41,071	31,099

Notes to the Financial Statements

Year ended 31 December 2002

52

18. TRADE AND OTHER RECEIVABLES

	Group		Company	
	2002	2001	2002	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Trade receivables (Note 18a)	381,926	227,421	-	-
Bills receivable	12,135	-	-	-
Other receivables				
Deposits, prepayments and other debtors	105,544	62,868	5,277	28
Due from a related company (Note 18b)	525	-	-	-
	106,069	62,868	5,277	28
	500,130	290,289	5,277	28

(a) Trade Receivables

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

	Group
	2002
	HK\$'000
	2001
	HK\$'000
Current (within 2 months)	277,203
2 to 3 months	50,089
More than 3 months but less than 12 months	53,882
More than 12 months but less than 24 months	752
	381,926
	227,421

(b) Due from a Related Company

This represents the amount due from Kenlap (Holding) Limited, a company which is beneficially owned and controlled by Mr. Yip Kim Po, a Director of the Company. The amount due is unsecured, interest-free and has no fixed repayment terms. The maximum amount outstanding during the year was HK\$11,100,000 (2001: HK\$8,700,000).

19. CASH AND CASH EQUIVALENTS

	Group		Company	
	2002	2001	2002	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Bank balances and cash	254,427	247,393	98	26
Deposits with financial institutions	55,436	62,563	-	-
Time deposits	101,005	7,992	-	-
Cash and cash equivalents in the balance sheet	410,868	317,948	98	26
Bank overdrafts	(4,691)	(1,011)	-	-
Cash and cash equivalents in the cash flow statement	406,177	316,937	-	-

20. SHORT-TERM BANK BORROWINGS

	Group		Company	
	2002	2001	2002	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Bank overdrafts	4,691	1,011	51	51
Trust receipts bank loans	224,492	119,679	-	-
Short-term bank loans	104,290	91,308	-	-
	333,473	211,998	51	51

21. TRADE AND OTHER PAYABLES

	Group		Company	
	2002	2001	2002	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Trade payables (Note 21a)	61,470	5,173	-	-
Bills payable	22,159	24,603	-	-
Other payables				
Accrued charges and other creditors	48,829	28,838	1,802	2,623
Due to a related company (Note 21b)	-	159	-	-
	48,829	28,997	1,802	2,623
	132,458	58,773	1,802	2,623

Notes to the Financial Statements

Year ended 31 December 2002

54

21. TRADE AND OTHER PAYABLES (continued)

(a) Trade Payables

The ageing analysis of trade payables is as follows:

	2002 HK\$'000	Group 2001 HK\$'000
Current (within 1 month)	43,333	5,173
1 to 3 months	15,059	–
More than 3 months but less than 12 months	3,078	–
	61,470	5,173

(b) Due to a Related Company

This represented the amount due to Kenlap (Holding) Limited, a company which is beneficially owned and controlled by Mr. Yip Kim Po, a Director of the Company. The amount due was unsecured, interest-free and had no fixed repayment terms. The maximum amount outstanding during the year was HK\$14,380,000 (2001: HK\$7,780,000).

22. LONG-TERM BANK BORROWINGS

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

	2002 HK\$'000	Group 2001 HK\$'000
Not exceeding 1 year	7,477	25,215
More than 1 year but not exceeding 2 years	90,941	35,461
More than 2 years but not exceeding 5 years	216,433	65,176
More than 5 years	–	500
	314,851	126,352
Portion classified as current liabilities	(7,477)	(25,215)
Long-term portion	307,374	101,137

23. OBLIGATIONS UNDER FINANCE LEASES

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

	Minimum lease payments		Group Present value of minimum lease payments	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Not exceeding 1 year	10,363	3,229	9,617	2,956
More than 1 year but not exceeding 2 years	7,799	3,045	7,382	2,807
More than 2 years but not exceeding 5 years	5,461	725	5,337	599
	13,260	3,770	12,719	3,406
	23,623	6,999	22,336	6,362
Future finance charge	(1,287)	(637)	-	-
Present value of lease obligations	22,336	6,362	22,336	6,362

24. ISSUED CAPITAL

	2002		2001	
	Number of shares '000	Amount HK\$'000	Number of shares '000	Amount HK\$'000
Authorised:				
Ordinary shares of HK\$1.00 (2001: HK\$0.10) each	1,000,000	1,000,000	10,000,000	1,000,000
Issued and fully paid:				
At beginning of year	3,985,353	398,535	3,690,330	369,033
Issue of ordinary shares	-	-	280,831	28,083
Exercise of warrants	-	-	20,000	2,000
Cancellation of shares	-	-	(5,808)	(581)
Consolidation of shares	(3,586,818)	-	-	-
At balance sheet date	398,535	398,535	3,985,353	398,535

By an ordinary resolution passed at a special general meeting held on 28 November 2002, every 10 issued and unissued shares of HK\$0.10 each of the Company were consolidated into 1 share of HK\$1.00 with effect from 29 November 2002 (the "Share Consolidation").

Notes to the Financial Statements

Year ended 31 December 2002

56

25. SHARE OPTIONS

The Company adopted a share option scheme on 4 September 1997 (the "Share Option Scheme – 1997"), under which it could 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 on the five trading days immediately preceding the date of offer of the options.

Following the amendment of the Listing Rules, the Company adopted a new share option scheme (the "Share Option Scheme – 2002") on 7 June 2002 to replace the Share Option Scheme – 1997 which was terminated. The terms of the Share Option Scheme – 2002 are contained in a circular sent to shareholders of the Company in April 2002. All options granted prior to the adoption of the Share Option Scheme – 2002 shall continue to be exercisable in accordance with the terms of the Share Option Scheme – 1997.

Share options granted under the Share Option Scheme – 1997 which remain outstanding at the balance sheet date were:

Date of grant	Exercise period	Subscription price per Share (Note) HK\$	Number of share options			End of year (Note) '000
			Beginning of year '000	Exercised '000	Lapsed '000	
27 March 1998	27 March 1998 to 3 September 2007	1.20	5,000	–	–	500
3 May 2000	2 May 2000 to 3 September 2007	1.128	9,000	–	–	900

Share options granted under the Share Option Scheme – 2002 which remain outstanding at the balance sheet date were:

Date of grant	Exercise period	Subscription price per Share (Note) HK\$	Number of share options			End of year (Note) '000
			Granted '000	Exercised '000	Lapsed '000	
1 August 2002	1 August 2002 to 6 June 2012	1.00	20,000	–	–	2,000

Note:

Adjustment has been made due to the Share Consolidation.

25. SHARE OPTIONS (continued)

Share options granted under the Share Option Scheme – 2002 subsequent to the balance sheet date were:

Date of grant	Exercise period	Subscription price per Share	Number of share options granted
16 January 2003	16 January 2003 to 6 June 2012	HK\$1.056	30,400,000

26. RESERVES

Group	Share premium HK\$'000	Statutory reserves (a) HK\$'000	Capital reserve (b) HK\$'000	Capital redemption reserve (d) HK\$'000	Subscription right reserve HK\$'000	Property revaluation reserve HK\$'000	Exchange reserve HK\$'000	Accumulated profits HK\$'000	Total HK\$'000
At 1 January 2001									
– as previously reported	105,662	15,079	27,206	–	418	40,098	(180)	70,431	258,714
– prior year adjustment in respect of dividends 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 of land and buildings (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 31 December 2001	112,963	15,079	27,206	581	418	40,774	(88)	183,463	380,396
Company and subsidiaries	112,963	15,079	27,206	581	418	40,774	(88)	158,038	354,971
Associates	–	–	–	–	–	–	–	25,425	25,425
At 31 December 2001	112,963	15,079	27,206	581	418	40,774	(88)	183,463	380,396

Notes to the Financial Statements

Year ended 31 December 2002

58

26. RESERVES (continued)

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 HK\$'000	Property revalu- ation reserve HK\$'000	Exchange reserve HK\$'000	Accumu- lated profits HK\$'000	Total HK\$'000
At 1 January 2002	112,963	15,079	27,206	581	418	40,774	(88)	183,463	380,396
Goodwill previously eliminated against accumulated profits now released upon									
- deemed disposal of subsidiary	-	-	-	-	-	-	-	3,862	3,862
- deemed disposal of associate	-	-	-	-	-	-	-	40,519	40,519
Surplus on revaluation (net of minority interests)	-	-	-	-	-	14,104	-	-	14,104
Revaluation surplus realised on disposal of construction-in-progress	-	-	-	-	-	(4,009)	-	4,009	-
Exchange difference on translation of foreign subsidiaries	-	-	-	-	-	-	(736)	-	(736)
Expiration of warrants	-	-	-	-	(418)	-	-	-	(418)
Share of reserves of associates	-	-	14,697	-	-	-	447	-	15,144
Transfer to statutory reserves	-	8,440	-	-	-	-	-	(8,440)	-
Profits for the year	-	-	-	-	-	-	-	104,463	104,463
At balance sheet date	<u>112,963</u>	<u>23,519</u>	<u>41,903</u>	<u>581</u>	<u>-</u>	<u>50,869</u>	<u>(377)</u>	<u>327,876</u>	<u>557,334</u>
Representing:									
At 31 December 2002 after proposed final dividend									529,437
2002 final dividend proposed									27,897
									<u>557,334</u>
Company and subsidiaries	112,963	23,519	27,206	581	-	50,869	(824)	272,171	486,485
Associates	-	-	14,697	-	-	-	447	55,705	70,849
At balance sheet date	<u>112,963</u>	<u>23,519</u>	<u>41,903</u>	<u>581</u>	<u>-</u>	<u>50,869</u>	<u>(377)</u>	<u>327,876</u>	<u>557,334</u>

26. RESERVES (continued)

Company	Share premium HK\$'000	Contributed surplus (c) HK\$'000	Capital redemption reserve (d) HK\$'000	Subscription right reserve HK\$'000	Accumulated profits (losses) HK\$'000	Total HK\$'000
At 1 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 31 December 2001	112,963	145,517	581	418	(2,711)	256,768
Expiration of warrants	–	–	–	(418)	–	(418)
Profits for the year	–	–	–	–	6,765	6,765
At balance sheet date	112,963	145,517	581	–	4,054	263,115
Representing:						
At 31 December 2002 after proposed final dividend						235,218
2002 final dividend proposed						27,897
						<u>263,115</u>

As at balance sheet date, the Company had the following reserves available for distribution to shareholders:

	2002 HK\$'000	2001 HK\$'000
Contributed surplus	145,517	145,517
Accumulated profits (losses)	4,054	(2,711)
	<u>149,571</u>	<u>142,806</u>

Notes to the Financial Statements

Year ended 31 December 2002

26. RESERVES (continued)

(a) Statutory reserves

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

The statutory reserves of the Group comprised:

	2002 HK\$'000	Group 2001 HK\$'000
Discretionary surplus reserve	5,799	5,799
Statutory reserve fund	13,080	4,640
Enterprise development fund	4,640	4,640
	23,519	15,079

(b) Capital reserve

The capital reserve of the Group amounting to HK\$27,206,000 (2001: HK\$27,206,000) comprised of (i) the 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 4 September 1997.

(c) Contributed surplus

The 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), the 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

The capital redemption reserve represented the reserve created in relation to share repurchased.

27. NOTES TO CONSOLIDATED CASH FLOW STATEMENT**(a) Cash generated from operations**

	2002 HK\$'000	Group 2001 HK\$'000
Profit from ordinary activities before taxation	140,801	144,727
Interest income	(5,141)	(3,259)
Interest expenses	28,929	10,978
Gain on disposal of investment	-	(21,141)
Depreciation	31,399	25,850
Loss on disposals of property, plant and equipment	4,443	4,216
Revaluation deficit on investment properties	700	706
Loss on deemed disposal of associate	35,719	-
Gain on deemed disposal of subsidiaries	(19,076)	-
Provision for doubtful debts	3,114	3,414
Share of results of associates	(34,926)	(23,985)
Unrealised holding gain on other investments	(18,496)	-
Gain on expiration of warrants	(418)	-
Changes in working capital:		
Inventories	(9,972)	5,887
Trade and other receivables	(211,931)	(96,283)
Due from an investment pending disposal	-	6,448
Due from associates	-	(12,962)
Trade and other payables	77,479	19,369
Effect of exchange rate changes	(732)	48
Cash generated from operations	21,892	64,013

(b) Major non-cash transactions

During the year, the Group entered into finance lease arrangements not provided for in respect of assets with a total capital value at the inception of the leases of HK\$20,808,000 (2001: HK\$1,946,000).

28. DEFERRED TAXATION

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

	2002 HK\$'000	2001 HK\$'000
Excess of tax allowances over depreciation	3,711	3,368
Tax losses carried forward	(20,898)	(16,437)
	(17,187)	(13,069)

Notes to the Financial Statements

Year ended 31 December 2002

29. COMMITMENTS

(a) Operating leases commitments

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 follows:

	2002 HK\$'000	Group 2001 HK\$'000
Within one year	1,166	2,723
Within two to five years	31	871
	1,197	3,594

(b) Capital expenditure commitments

	2002 HK\$'000	Group 2001 HK\$'000
Contracted but not provided net of deposit paid	22,888	56,871
Authorised but not contracted for	-	12,426

In addition, as at 31 December 2002, the Group had only contributed HK\$69,788,000 into Kenlap Zhuhai. Out of the total approved registered capital of HK\$80,000,000, the Group had an outstanding commitment of HK\$10,212,000 in respect of the capital contribution of Kenlap Zhuhai as at 31 December 2002.

30. CONTINGENT LIABILITIES

- (a) During the year, the Company and its subsidiaries provided corporate guarantees to banks and other financial institutions in respect of the banking facilities and other finance lease credits given to the subsidiaries. At the balance sheet date, the banking facilities and other finance lease credits granted to and utilised by the subsidiaries amounted to HK\$701,098,000 (2001: HK\$458,823,000) and HK\$564,908,000 (2001: HK\$355,425,000) respectively.
- (b) The Group has been paying PRC VAT at a concessionary basis of calculation as agreed with the local State Tax Bureau. The Group is contingently liable to pay VAT at the standard basis of calculation. Had the standard basis of calculation as stipulated by the PRC tax law been strictly enforced, the VAT liability of the Group would be significantly increased. However, in the opinion of the Directors, such liability is unlikely to crystallise and it is not practicable to estimate such possible amount.
- (c) On 17 May 2002, Kenlap P.G.C. Manufacturer Company Limited ("Kenlap"), a former indirect wholly-owned subsidiary of the Company, allotted 113,352 shares (representing 10.2% of the issued share capital of Kenlap as enlarged by the allotment) to 13 subscribers. Kenlap is engaged in the production of chemicals used in the electroplating of precious metal and refining of gold materials.

Each of the subscribers entered into subscription arrangements with the Company, which included a condition that the Company would repurchase the relevant shares at a 20% premium to the relevant subscription consideration if Kenlap is not listed on the Main Board of the Stock Exchange within 12 months from the completion date of the subscription arrangements; and then the Company would compensate the relevant subscriber if the market capitalisation of Kenlap immediately upon its listing is less than an agreed amount.

- (d) In connection with the subscription arrangements mentioned in note 30 (c) above, the Company, an agent and each of the Subscribers have entered into an escrow agreement pursuant to which the Company has agreed to place the escrow money with the agent and the agent has agreed to act as an escrow agent in relation to the escrow money. The Company also entered into a Deed of Indemnity with the agent on 10 May 2002 pursuant to which the Company undertakes to fully indemnify and keep the agent fully indemnified against all actions, taxes, liabilities, damages, claims, costs and expenses whatsoever in respect of any claim, action or otherwise brought by any of the Subscribers and/or any third party against the agent whatsoever and howsoever for acting in accordance with the terms of any of the escrow agreements. The indemnity given by the Company shall continue notwithstanding the termination of any or all of the escrow agreements.

Notes to the Financial Statements

Year ended 31 December 2002

31. PENSION SCHEME

As stipulated by PRC regulations, all PRC subsidiaries of the Company maintain a defined contribution retirement plan for all of their employees. All of their retired employees are entitled to an annual pension equal to their basic annual salary upon retirement. The PRC subsidiaries would contribute to a state sponsored retirement plan of approximately 15% of the basic salary of its employees, and have 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 31 December 2002 amounted to approximately HK\$195,000 (2001: HK\$135,000).

The other group companies operate two Mandatory Provident Fund Schemes (the "MPF Schemes"), which are both defined contribution schemes, for their Hong Kong employees. The assets of the MPF Schemes are held separately in provident funds managed by independent trustees.

Under the MPF Schemes, each of the Group and its employees make monthly contributions to the MPF Schemes at a rate of 5% of the employees' salary. Both the Group and the employees' contributions are subject to a cap of HK\$1,000 per month. The costs of the MPF Schemes of the Group are charged to the income statement. The Group's contributions to the MPF Schemes for the year ended 31 December 2002 were approximately HK\$386,000 (2001: HK\$365,000).

32. 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 amounted to HK\$5,260,000 (2001: HK\$5,000,000) and pledge of properties with carrying value of approximately HK\$7,700,000 (2001: HK\$8,200,000).

33. CONNECTED TRANSACTIONS

The Group made the following advances to its non-wholly owned subsidiaries during the year.

A wholly owned subsidiary of the Company had obtained term loan facility since 2001, of which US\$11 million was used to finance the establishment of the production base of Kenlap Zhuhai. Kenlap Zhuhai was previously a wholly owned subsidiary of the Company but has become a 89.82% owned subsidiary since May 2002. Throughout the year, amount in excess of Kenlap Zhuhai's needs was held in Nanhai Xingye, a 93.75% owned subsidiary of the Company. At the balance sheet date, the surplus cash held by Nanhai Xingye was amounted to US\$3.6 million. The amounts advanced are unsecured and have no fixed repayment terms.

The borrowing costs, which include arrangement fees and interest expenses, incurred in relation to the loan facility were recharged to Kenlap Zhuhai and Nanhai Xingye in proportion to the funds actually used or held by them. The borrowing costs recharged to Kenlap Zhuhai and Nanhai Xingye during the year were HK\$2,263,000 and HK\$3,098,000 respectively.

34. SEGMENT INFORMATION

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

(a) By business segments

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 of precious metal material.

	Aluminium HK\$'000	Chemicals HK\$'000	Others HK\$'000	Consolidated HK\$'000
Year ended 31 December 2002				
External sales	1,155,373	246,902	21,659	1,423,934
Other revenue	-	-	9,209	9,209
Total revenue in business segments	1,155,373	246,902	30,868	1,433,143
Segment result	95,866	39,288	3,188	138,342
Unallocated operating income and expenses				(3,538)
Profit from operations				134,804
Finance costs				(28,929)
Share of results of associates				34,926
Profit from ordinary activities before taxation				140,801
Taxation				(29,362)
Profit from ordinary activities after taxation				111,439
Minority interests				(6,976)
Net profit attributable to shareholders				104,463
OTHER INFORMATION				
Capital expenditure	41,308	58,817	11,378	
Depreciation and amortisation	29,498	754	1,147	
Other non-cash expenses other than depreciation and amortisation	316	931	-	

Notes to the Financial Statements

Year ended 31 December 2002

34. SEGMENT INFORMATION (continued)

(a) By business segments (continued)

	Aluminium HK\$'000	Chemicals HK\$'000	Others HK\$'000	Consolidated HK\$'000
Year ended 31 December 2001				
External sales	866,252	150,625	–	1,016,877
Other revenue	104	108	–	212
Total revenue in business segments	<u>866,356</u>	<u>150,733</u>	<u>–</u>	<u>1,017,089</u>
Segment result	<u>94,910</u>	<u>25,677</u>	<u>–</u>	120,587
Unallocated operating income and expenses				11,133
Profit from operations				131,720
Finance costs				(10,978)
Share of results of associates				23,985
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				<u>113,613</u>
OTHER INFORMATION				
Capital expenditure	59,041	56,294	–	
Depreciation and amortisation	25,247	603	–	
Other non-cash expenses other than depreciation and amortisation	<u>6,721</u>	<u>909</u>	<u>–</u>	

34. SEGMENT INFORMATION (continued)**(a) By business segments (continued)**

	Aluminium HK\$'000	Chemicals HK\$'000	Others HK\$'000	Consolidated HK\$'000
As at 31 December 2002				
Assets				
Segment assets	920,940	256,660	36,902	1,214,502
Interests in associates				373,804
Unallocated assets				207,379
Total assets				1,795,685
Liabilities				
Segment liabilities	438,330	84,838	15,483	538,651
Unallocated liabilities				272,604
Total liabilities				811,255
As at 31 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

Notes to the Financial Statements

Year ended 31 December 2002

68

34. SEGMENT INFORMATION (continued)

(b) By geographical segments

Year ended 31 December 2002

	Carrying amount of segment assets HK\$'000	Capital expenditure incurred HK\$'000	Revenue from external customers HK\$'000	Contributions to profit from operation HK\$'000
PRC	1,471,921	105,214	722,600	134,109
Hong Kong	321,668	6,289	693,745	(1,986)
Overseas	2,096	–	7,589	2,681
	1,795,685	111,503	1,423,934	134,804

Year ended 31 December 2001

	Carrying amount of segment assets HK\$'000	Capital expenditure incurred HK\$'000	Revenue from external customers HK\$'000	Contributions to profit from operation HK\$'000
PRC	1,080,515	112,707	649,238	130,081
Hong Kong	127,370	2,628	367,639	1,639
Overseas	–	–	–	–
	1,207,885	115,335	1,016,877	131,720