

Notes to the Financial Statements

Year ended 31 December 2004

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 Institute of Certified Public Accountants ("HKICPA"), 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.

The HKICPA has issued a number of new and revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards ("new HKFRSs") which are effective for accounting periods beginning on or after 1 January 2005.

The Group has not early adopted these new HKFRSs in the financial statements for the year ended 31 December 2004. The Group is in the process of making an assessment of the impact of these new HKFRSs but is not yet in a position to state whether these new HKFRSs would have a significant impact on its results of operations and financial position.

Basis of preparation

The measurement basis used in the preparation of the financial statements is historical cost modified by the revaluation of land and buildings, 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 2004.

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 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 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.

Notes to the Financial Statements

Year ended 31 December 2004

2. PRINCIPAL ACCOUNTING POLICIES (continued)**Goodwill on consolidation (continued)**

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.

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.

Where the Group's equity interest in a subsidiary is diluted by virtue of the additional issue of shares of such subsidiary, i.e. a "deemed disposal", any gain or loss arising from the deemed disposal, including the realisation of the attributable reserves, is dealt with in the Group's consolidated income statement.

Associates

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

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 statement. 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 effective use.

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 buildings 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, in which case 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.

Notes to the Financial Statements

Year ended 31 December 2004

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) less accumulated impairment losses over their estimated useful lives from the date on which they become fully operational and after taking into account of their estimated residual values, using the straight-line method at the following rates per annum:

| | |
|------------------------------------|-----------|
| Land | 2% |
| Buildings | 4% |
| Machinery, furniture and equipment | 7% – 20% |
| Motor vehicles | 10% – 15% |

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter the terms of the lease.

Investment properties

Investment properties are interests in land and buildings in respect of which construction work and development have been completed and which are held for their investment potential, any rental income being negotiated at arm's length.

Investment properties are stated at their estimated 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 of the deficit 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 credited 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.

Intangible asset

Intangible asset represents the right to use of specialised technology for the manufacturing of electroplating chemicals which is stated at cost less accumulated amortisation and impairment losses. Amortisation is provided to write off the cost of intangible asset on a straight-line basis over 4 years.

Notes to the Financial Statements

Year ended 31 December 2004

2. PRINCIPAL ACCOUNTING POLICIES (continued)**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 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.

The provisions previously made are written back to income when the circumstances and events that led to the write-downs or write-offs cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future.

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 exists 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).

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 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.

Notes to the Financial Statements

Year ended 31 December 2004

2. PRINCIPAL ACCOUNTING POLICIES (continued)

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue 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 The 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.

Dividend income is recognised when the Group's right to receive payment has been established.

Taxation

The charge for current income tax is based on the results for the year as adjusted for items that are non-assessable or disallowed. It is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is provided using the liability method, on all temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements. The deferred tax liabilities or assets are measured at the tax rates that are expected to apply to the period when the asset is recovered or liability is settled, based on the tax rates and the tax laws that have been enacted or substantively enacted by the balance sheet date. Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences, tax losses and credits can be utilised.

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.

Notes to the Financial Statements

Year ended 31 December 2004

2. PRINCIPAL ACCOUNTING POLICIES (continued)**Foreign currencies**

Transactions in foreign currencies are translated at the 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 2004

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:

| | 2004 HK\$'000 | 2003 HK\$'000 |
|-------------------------------|------------------|------------------|
| Turnover | | |
| Sale of goods (<i>Note</i>) | 2,693,440 | 1,930,510 |
| Subcontracting fees | 139,198 | 137,248 |
| | 2,832,638 | 2,067,758 |
| Other revenue | | |
| Service fees | 3,108 | 3,993 |
| Interest income | 7,990 | 11,247 |
| Dividend income | – | 127 |
| | 11,098 | 15,367 |
| Revenue | 2,843,736 | 2,083,125 |

Note:

Approximately 25% (2003: 22%) of the Group's sales are carried out by subsidiaries established and operating in the PRC. Such sales revenue is subject to PRC value-added tax ("VAT") at a rate of 17% on the selling price.

4. OTHER NET INCOME

| | 2004 HK\$'000 | 2003 HK\$'000 |
|---|------------------|------------------|
| Gain on deemed and partial disposal of subsidiaries | 4,334 | 7,405 |
| Gain on disposal of associates | 4,482 | – |
| Amortisation of negative goodwill | 102 | – |
| Sundry income | 1,505 | 4,833 |
| | 10,423 | 12,238 |

Notes to the Financial Statements

Year ended 31 December 2004

5. FINANCE COSTS

| | 2004 HK\$'000 | 2003 HK\$'000 |
|---|------------------|------------------|
| Interest on bank overdrafts and borrowings wholly repayable within five years | 26,371 | 26,278 |
| Interest on other borrowings wholly repayable within five years | 2,078 | – |
| Finance charges on obligations under finance leases | 237 | 289 |
| Other borrowing costs | 2,798 | 892 |
| Total borrowing costs | 31,484 | 27,459 |

6. PROFIT FROM ORDINARY ACTIVITIES BEFORE TAXATION

| | 2004 HK\$'000 | 2003 HK\$'000 |
|--|------------------|------------------|
| This is stated after charging: | | |
| Amortisation of goodwill, net of negative goodwill, included in share of results of associates | 2,288 | 3,415 |
| Amortisation of goodwill included in general and administrative expenses | 549 | – |
| Amortisation of intangible asset included in general and administrative expenses | 2,359 | 2,302 |
| Auditors' remuneration: | | |
| – Current year | 1,950 | 980 |
| – Underprovision in previous year | 677 | – |
| Cost of inventories and services provided | 2,487,302 | 1,770,779 |
| Compensation for guaranteed market capitalisation in relation to spin-off of subsidiaries | – | 7,919 |
| Depreciation | 43,101 | 41,688 |
| Loss on disposals of plant and equipment | 604 | 9 |
| Loss on disposals of other investments | – | 27,014 |
| Operating lease charges on premises | 5,297 | 3,780 |
| Provision for doubtful debts | 11,105 | 1,790 |
| Revaluation deficit on: | | |
| – Investment properties | 300 | – |
| – Construction-in-progress | 136 | – |
| Staff costs, including directors' emoluments: | | |
| – Wages and salaries | 40,632 | 34,656 |
| – Contributions to defined contribution plans | 807 | 483 |

Notes to the Financial Statements

Year ended 31 December 2004

7. DIRECTORS' AND SENIOR EXECUTIVES' REMUNERATION

Directors' remuneration disclosed pursuant to Section 161 of the Hong Kong Companies Ordinance and Appendix 16 of the Listing Rules is as follows:

| | 2004 HK\$'000 | 2003 HK\$'000 |
|---|------------------|------------------|
| Fees | 820 | 615 |
| Salaries, other emoluments and other benefits in kind | 7,066 | 7,225 |
| Contributions to defined contribution plans | 48 | 48 |
| Discretionary bonus | 4,500 | — |
| | 12,434 | 7,888 |

Included in the directors' remuneration were fees of HK\$820,000 (2003: HK\$615,000) paid to the Independent Non-Executive Directors during the year.

The remuneration of directors were within the following bands:

| HK\$ | Number of Directors 2004 | 2003 |
|----------------------------|-----------------------------|----------|
| Nil to \$1,000,000 | 6 | 6 |
| \$1,000,001 to \$1,500,000 | 1 | 1 |
| \$4,000,001 to \$4,500,000 | — | 1 |
| \$8,500,001 to \$9,000,000 | 1 | — |
| | 8 | 8 |

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

Notes to the Financial Statements

Year ended 31 December 2004

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

Of the five (2003: five) individuals with the highest emoluments, two (2003: three) were Directors whose emoluments are disclosed above. The aggregate of the emoluments in respect of the other three (2003: two) individuals were as follows:

| | 2004 HK\$'000 | 2003 HK\$'000 |
|---|------------------|------------------|
| Salaries and other emoluments | 4,910 | 3,882 |
| Contributions to defined contribution plans | 36 | 36 |
| Discretionary bonus | 230 | – |
| | 5,176 | 3,918 |

| HK\$ | Number of individuals 2004 | 2003 |
|---------------------------|-------------------------------|------|
| \$1,000,001 – \$1,500,000 | 1 | 1 |
| \$1,500,001 – \$2,000,000 | 1 | 1 |
| \$2,000,001 – \$2,500,000 | 1 | – |

8. TAXATION

| | 2004 HK\$'000 | 2003 HK\$'000 |
|-------------------------------------|------------------|------------------|
| Company and subsidiaries: | | |
| <i>Current tax</i> | | |
| Hong Kong Profits Tax: | | |
| – Current year | 10,420 | 3,788 |
| – Over provision in prior years | (1,059) | (2,862) |
| PRC enterprise income tax | 29,130 | 28,506 |
| | 38,491 | 29,432 |
| <i>Deferred taxation</i> | | |
| Origination of temporary difference | (400) | (1,000) |
| Share of associates' taxation | 3,209 | (638) |
| | 41,300 | 27,794 |

Hong Kong Profits Tax has been provided at the rate of 17.5% (2003: 17.5%) on the estimated assessable profit for the year.

Notes to the Financial Statements

Year ended 31 December 2004

8. TAXATION (continued)

PRC enterprise income tax has been provided on the estimated assessable profits for the year at the rates of taxation prevailing in the PRC. However, Hongli Aluminium (Foshan) Company Limited and Kenlap Fine Chemical (Zhuhai) Technology Company Limited are exempted from PRC state income tax and local income tax for two years starting from their first profit-making year of operation after offsetting prior year losses, followed by a 50% relief for the following three years.

Taxation recognised directly in equity

| | 2004 HK\$'000 | 2003 HK\$'000 |
|--|------------------|------------------|
| Deferred tax charge relating to revaluation of property, plant and equipment | 2,300 | 800 |

Deferred tax (credit) charge recognised in the income statement

| | 2004 HK\$'000 | 2003 HK\$'000 |
|---------------------------------|------------------|------------------|
| Types of temporary differences: | | |
| Depreciation allowances | (2,300) | (2,600) |
| Others | 1,900 | 1,600 |
| | (400) | (1,000) |

Reconciliation of effective tax rate

| | 2004 % | 2003 % |
|---------------------------------|-----------|-----------|
| Applicable tax rate | 22 | 24 |
| Non-deductible expenses | 1 | 5 |
| Tax exempt revenue | (4) | (13) |
| Effect of tax holiday | (4) | (3) |
| Unrecognised tax losses | - | 3 |
| Others | 3 | (2) |
| Effective tax rate for the year | 18 | 14 |

The applicable tax rate is the average tax rates prevailing in the territories in which the Group operates.

9. NET PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The net profit attributable to shareholders includes a profit of HK\$68,915,000 (2003: HK\$41,011,000) which has been dealt with in the financial statements of the Company.

Notes to the Financial Statements

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10. DIVIDENDS

(a) Dividends attributable to the year

| | 2004 HK\$'000 | 2003 HK\$'000 |
|---|------------------|------------------|
| Interim dividend of HK\$0.035 (2003: HK\$0.035) per share | 14,834 | 14,302 |
| Final dividend of HK\$0.065 (2003: HK\$0.065) per share | 27,549 | 27,055 |
| | 42,383 | 41,357 |

(b) Dividends approved and paid during the year

| | 2004 HK\$'000 | 2003 HK\$'000 |
|---|------------------|------------------|
| Interim dividend in respect of 2004 of HK\$0.035 (2003: HK\$0.035) per share | 14,834 | 14,302 |
| Final dividend in respect of 2003 of HK\$0.065 (2002: HK\$0.07) per share | 27,224 | 27,897 |
| | 42,058 | 42,199 |

11. EARNINGS PER SHARE

The calculation of basic earnings per share for the year ended 31 December 2004 is based on the consolidated profit attributable to shareholders of approximately HK\$174,088,000 (2003: HK\$149,546,000) and on the weighted average number of 420,604,715 (2003: 402,475,042) ordinary shares.

The diluted earnings per share for 2004 and 2003 are not shown as they are not materially different from the basic earnings per share.

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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 | 4,800 | 181,400 | 3,590 | 377,123 | 4,716 | 571,629 |
| Additions | – | 5,517 | 134,459 | 7,604 | 1,243 | 148,823 |
| Revaluation | (300) | (1,696) | (136) | – | – | (2,132) |
| Disposals | – | – | – | (11,407) | (94) | (11,501) |
| Reclassification | – | 679 | (3,978) | 3,299 | – | – |
| At balance sheet date | 4,500 | 185,900 | 133,935 | 376,619 | 5,865 | 706,819 |
| Accumulated depreciation | | | | | | |
| At beginning of year | – | – | – | 146,775 | 2,348 | 149,123 |
| Charge for the year | – | 6,476 | – | 35,972 | 653 | 43,101 |
| Revaluation | – | (6,476) | – | – | – | (6,476) |
| Eliminated on disposals | – | – | – | (5,026) | (94) | (5,120) |
| At balance sheet date | – | – | – | 177,721 | 2,907 | 180,628 |
| Net book value at balance sheet date | 4,500 | 185,900 | 133,935 | 198,898 | 2,958 | 526,191 |
| At beginning of year | 4,800 | 181,400 | 3,590 | 230,348 | 2,368 | 422,506 |
| Analysis of cost or valuation at balance sheet date | | | | | | |
| At cost | – | – | 35 | 376,619 | 5,865 | 382,519 |
| At valuation in 2004 | 4,500 | 185,900 | 133,900 | – | – | 324,300 |
| Total cost or valuation | 4,500 | 185,900 | 133,935 | 376,619 | 5,865 | 706,819 |

(a) Investment properties

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

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Year ended 31 December 2004

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:

| | 2004 HK\$'000 | Group 2003 HK\$'000 |
|-----------|------------------|---------------------------|
| Hong Kong | 2,900 | 2,900 |
| PRC | 183,000 | 178,500 |
| | 185,900 | 181,400 |

At the balance sheet date, approximately HK\$183,000,000 (2003: HK\$178,500,000) 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 BMI Appraisals Limited, independent Chartered Surveyors.

The carrying amount of the land and buildings at the balance sheet date would have been HK\$145,401,000 (2003: HK\$144,929,000) had they been stated at cost less accumulated depreciation and impairment losses.

(c) Construction-in-progress

| | 2004 HK\$'000 | Group 2003 HK\$'000 |
|--|------------------|---------------------------|
| At cost: | | |
| Plant and machinery | 35 | 3,590 |
| At valuation: | | |
| Land and buildings in PRC, on medium-term leases | 133,900 | – |
| | 133,935 | 3,590 |

The land and buildings, which were held under land use rights of 50 years expiring in 2054, were valued at open market value at 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\$25,520,000 (2003: HK\$29,863,000) in respect of assets held under finance leases.

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13. INTANGIBLE ASSET

| | HK\$'000 |
|--------------------------------------|--------------|
| At beginning of year | |
| Cost | 9,434 |
| Accumulated amortisation | (2,302) |
| Opening carrying amount | 7,132 |
| Amortisation charges during the year | (2,359) |
| Closing carrying amount | 4,773 |
| At balance sheet date | |
| Cost | 9,434 |
| Accumulated amortisation | (4,661) |
| Closing carrying amount | 4,773 |

14. GOODWILL

| | HK\$'000 |
|--------------------------------------|---------------|
| Cost | |
| Addition during the year | 14,635 |
| Accumulated amortisation | |
| Amortisation charges during the year | (549) |
| Closing carrying amount | 14,086 |

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15. NEGATIVE GOODWILL

| | HK\$'000 |
|--------------------------------------|----------------|
| At beginning of year | |
| Cost | (2,030) |
| Accumulated amortisation | – |
| Opening carrying amount | (2,030) |
| Amortisation charges during the year | 102 |
| Closing carrying amount | (1,928) |
| At balance sheet date | |
| Cost | (2,030) |
| Accumulated amortisation | 102 |
| Closing carrying amount | (1,928) |

16. INTERESTS IN SUBSIDIARIES

| | 2004 HK\$'000 | Company 2003 HK\$'000 |
|--------------------------|------------------|-----------------------------|
| Unlisted shares, at cost | 200,415 | 200,415 |
| Due from subsidiaries | 877,694 | 741,125 |
| | 1,078,109 | 941,540 |
| Due to subsidiaries | (363,671) | (260,805) |
| | 714,438 | 680,735 |

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

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Year ended 31 December 2004

16. INTERESTS IN SUBSIDIARIES (continued)

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

| Name of subsidiary | Place of incorporation | Place of 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% | Dormant |
| Dynamic Market Trading Limited | British Virgin Islands | – | US\$1 | – | 74.05% | Dormant |
| Foshan Nanhai Xingye Shaped Bronze & Aluminium Products Co., Ltd. (formerly "Nanhai Xingye Shaped Bronze & Aluminium Products Co., Ltd.") ("Nanhai Xingye") | PRC | PRC | US\$12,000,000 | – | 100% | Manufacturing and selling of aluminium extrusion products and trading of aluminium ingots |
| Harvest Fortune Limited | Hong Kong | Hong Kong | HK\$2 | – | 100% | Property sub-letting |
| Hing Yip Holdings (China) Limited | Hong Kong | Hong Kong | HK\$2 | – | 100% | Dormant |
| Hing Yip Holdings (Hong Kong) Limited | Hong Kong | Hong Kong | HK\$100 ordinary, HK\$100 non-voting deferred (Note a) | – | 100% | Investment holding and trading of aluminium products and aluminium ingots |
| Hongli Aluminium (Foshan) Company Limited ("Hongli Foshan") | PRC | PRC | HK\$39,000,000 | – | 100% | Powder-coating of aluminium extrusion products |
| Jinbocho Holdings Limited | British Virgin Islands | PRC | US\$1 | 100% | – | Investment holding |
| Jorki Profits Limited | British Virgin Islands | Hong Kong | US\$1 | – | 100% | Investment holding |
| Kenlap Chemicals Limited | Hong Kong | Hong Kong | HK\$100 | – | 74.05% | Trading electroplating chemicals |
| Kenlap Fine Chemical (Zhuhai) Technology Company Limited ("Kenlap Zhuhai") | PRC | PRC | HK\$80,000,000 | – | 74.05% | Manufacturing of chemicals for electroplating and trading and refining of precious metal material |
| Kenlap P.G.C. Manufacturer Company Limited | Hong Kong | Hong Kong | HK\$2 ordinary, HK\$1,113,352 non-voting deferred (Note b) | – | 74.05% | Manufacturing chemicals for electroplating and trading and refining of precious metal material |

Notes to the Financial Statements

Year ended 31 December 2004

16. INTERESTS IN SUBSIDIARIES (continued)

| Name of subsidiary | Place of incorporation | Place of operation | Issued and fully paid up capital | Percentage of capital held by the Company | | Principal activities |
|--|------------------------|--------------------|----------------------------------|---|------------|---|
| | | | | Directly | Indirectly | |
| Ocean Grand Chemicals (BVI) Limited | British Virgin Islands | Hong Kong | US\$0.01 | – | 74.05% | Investment holding |
| Ocean Grand Chemicals Holdings Limited | Bermuda | Hong Kong | HK\$47,970,000 | – | 74.05% | Investment holding |
| Ocean Grand (China) Limited | Hong Kong | Hong Kong | HK\$1,000 | 100% | – | Investment holding |
| Ocean Grand Development Holdings Limited | British Virgin Islands | Hong Kong | US\$50,000 | 100% | – | Investment holding |
| Ocean Grand Finance Limited | Hong Kong | Hong Kong | HK\$1,000 | 100% | – | Financing |
| Ocean Grand Services Limited | Hong Kong | Hong Kong | HK\$2 | 100% | – | Management services |
| Ocean Grand Technology Company Limited | Hong Kong | Hong Kong | HK\$2 | 100% | – | Investment holding and trading |
| OG Aluminium (Sanshui) Company Limited ("OG Sanshui") | PRC | PRC | HK\$50,000,000 | – | 90% | Not yet commenced business |
| OG Development Company Limited | Hong Kong | Hong Kong | HK\$1,000 | – | 100% | Trading aluminium products and aluminium ingots |
| OGC Management Services Limited | Hong Kong | Hong Kong | HK\$2 | – | 74.05% | Management services |
| Sky Leader Industries Limited | Hong Kong | Hong Kong | HK\$1,000 | – | 100% | Investment holding |
| Successful Environmental Works and Investments Company Limited | Hong Kong | Hong Kong | HK\$100 | – | 100% | Not yet commenced business |
| Successful Gold Profits Limited | British Virgin Islands | Hong Kong | US\$1 | 100% | – | Investment holding |
| Toowomba Holdings Limited | British Virgin Islands | Hong Kong | US\$100 | 100% | – | Investment holding and provision of management services |
| Wintex Holdings Limited | Hong Kong | Hong Kong | HK\$100 | – | 100% | Trading electroplating chemicals |
| 廣州倫帕理維信息科技有限公司 | PRC | PRC | HK\$15,000,000 | – | 100% | Trading of electronic products |

Notes to the Financial Statements

Year ended 31 December 2004

16. INTERESTS IN SUBSIDIARIES (continued)

Ocean Grand Chemicals Holdings Limited is listed in Hong Kong.

OG Sanshui is an equity joint venture established in PRC for a period of 30 years expiring in 2034.

Hongli Foshan is a wholly foreign-owned entity established in PRC for a period of 30 years expiring in 2032.

Kenlap Zhuhai is a wholly foreign-owned entity established in PRC for a period of 30 years expiring in 2031.

Nanhai Xingye was a 93.75% owned equity joint venture established in the PRC for a period of 30 years expiring in 2025 in last year. During the year, the Group acquired the 6.25% shareholdings from the minority shareholder and since then Nanhai Xingye has become a wholly foreign-owned entity.

廣州倫帕理維信息科技有限公司 is a wholly foreign-owned entity established in 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.

Notes:

- a. 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.
- b. The Group and minority shareholders holds 1,006,477 and 106,875 non-voting deferred shares of Kenlap P.G.C. Manufacturer Company Limited respectively. These shares have no voting rights, are not entitled to dividends and are not entitled to any distributions upon winding up unless a sum of HK\$100,000,000,000,000,000 has been distributed by Kenlap P.G.C. Manufacturer Company Limited to the holders of ordinary shares.

17. INTERESTS IN ASSOCIATES

| | 2004 HK\$'000 | Group 2003 HK\$'000 |
|------------------------|--------------------------------|----------------------------------|
| Share of net assets | - | 155,800 |
| Advances to associates | - | 107,923 |
| Goodwill | - | 48,038 |
| | <u>-</u> | <u>311,761</u> |

Notes to the Financial Statements

Year ended 31 December 2004

17. INTERESTS IN ASSOCIATES (continued)

Movements of the goodwill during the year are as follows:

| | Goodwill HK\$'000 | Negative goodwill HK\$'000 | Total HK\$'000 |
|--------------------------------|----------------------|----------------------------------|-------------------|
| At beginning of year | | | |
| Cost | 67,400 | (11,562) | 55,838 |
| Accumulated amortisation | (8,425) | 625 | (7,800) |
| Opening carrying amount | 58,975 | (10,937) | 48,038 |
| Amortisation charges | (2,808) | 520 | (2,288) |
| Disposals | (56,167) | 10,417 | (45,750) |
| Closing carrying amount | - | - | - |

18. INVESTMENTS IN SECURITIES

| | 2004 HK\$'000 | Group 2003 HK\$'000 |
|---|------------------|---------------------------|
| Classified as non-current assets: | | |
| Unlisted equity securities, at fair value | 3,019 | 3,019 |
| Classified as current assets: | | |
| Unlisted debt securities, at fair value | 13,691 | - |

19. INVENTORIES

| | 2004 HK\$'000 | Group 2003 HK\$'000 |
|--|------------------|---------------------------|
| At cost: | | |
| Raw materials | 44,835 | 43,508 |
| Work-in-progress | 8,935 | 7,018 |
| Finished goods | 34,316 | 20,064 |
| | 88,086 | 70,590 |
| Less: Provision for slow-moving and obsolete inventories | (943) | (943) |
| | 87,143 | 69,647 |

Notes to the Financial Statements

Year ended 31 December 2004

20. TRADE AND OTHER RECEIVABLES

| | Group | | Company | |
|---|-----------------|----------|-----------------|----------|
| | 2004 | 2003 | 2004 | 2003 |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Trade receivables (Note 20a) | 700,261 | 548,120 | - | - |
| Other receivables (Note 20b) | | | | |
| Deposits, prepayments and other debtors | 116,865 | 43,494 | 271 | - |
| | 817,126 | 591,614 | 271 | - |

(a) Trade receivables

Majority of the Group's sales 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 | |
|---|-----------------|----------|
| | 2004 | 2003 |
| | HK\$'000 | HK\$'000 |
| Current (within 2 months) | 468,139 | 342,964 |
| 2 to 3 months | 117,770 | 77,662 |
| More than 3 months but less than 12 months | 114,120 | 127,076 |
| More than 12 months but less than 24 months | 232 | 418 |
| | 700,261 | 548,120 |

(b) Other receivables

The amount included HK\$63,600,000 arising from the disposal of associates which was received subsequent to the year end date.

21. CASH AND CASH EQUIVALENTS

| | Group | | Company | |
|--|------------------|----------|-----------------|----------|
| | 2004 | 2003 | 2004 | 2003 |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Bank balances and cash | 797,859 | 435,512 | 111 | 180 |
| Deposits with financial institutions | 231,752 | 31,123 | - | - |
| Time deposits | 21,083 | 4,913 | - | - |
| Cash and cash equivalents in the balance sheet | 1,050,694 | 471,548 | 111 | 180 |
| Bank overdrafts | (2,998) | (10,485) | - | - |
| Cash and cash equivalents in the cash flow statement | 1,047,696 | 461,063 | - | - |

Notes to the Financial Statements

Year ended 31 December 2004

22. SHORT-TERM BORROWINGS

| | Group | | Company | |
|-----------------------------|------------------|------------------|------------------|------------------|
| | 2004 HK\$'000 | 2003 HK\$'000 | 2004 HK\$'000 | 2003 HK\$'000 |
| Bank loans and overdrafts | 390,806 | 359,272 | - | - |
| Other short-term borrowings | 106,104 | - | - | - |
| | 496,910 | 359,272 | - | - |

23. TRADE AND OTHER PAYABLES

| | Group | | Company | |
|---|------------------|------------------|------------------|------------------|
| | 2004 HK\$'000 | 2003 HK\$'000 | 2004 HK\$'000 | 2003 HK\$'000 |
| Trade payables (Note 23a) | 116,086 | 37,170 | - | - |
| Other payables | | | | |
| Accrued charges and other creditors | 29,657 | 35,871 | 824 | 1,802 |
| Due to minority shareholders (Note 23b) | 5,850 | 6,544 | - | - |
| | 35,507 | 42,415 | 824 | 1,802 |
| | 151,593 | 79,585 | 824 | 1,802 |

(a) Trade payables

The ageing analysis of trade payables is as follows:

| | Group | |
|--|------------------|------------------|
| | 2004 HK\$'000 | 2003 HK\$'000 |
| Current (within 1 month) | 83,881 | 36,875 |
| 1 month to 3 months | 32,113 | - |
| More than 3 months but less than 12 months | 92 | 295 |
| | 116,086 | 37,170 |

(b) Due to minority shareholders

The amounts due as at 31 December 2004 were unsecured, interest-free and had been settled after the balance sheet date.

Notes to the Financial Statements

Year ended 31 December 2004

24. LONG-TERM BANK BORROWINGS

The long-term bank borrowings are secured and repayable within a period as follows:

| | 2004 HK\$'000 | Group 2003 HK\$'000 |
|---|--------------------------------|----------------------------------|
| Not exceeding 1 year | 168,513 | 91,232 |
| More than 1 year but not exceeding 2 years | 144,933 | 215,340 |
| More than 2 years but not exceeding 5 years | 318,333 | 1,100 |
| | 631,779 | 307,672 |
| Portion classified as current liabilities | (168,513) | (91,232) |
| Long-term portion | 463,266 | 216,440 |

25. 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 | |
|---|--------------------------------|------------------|--|------------------|
| | 2004 HK\$'000 | 2003 HK\$'000 | 2004 HK\$'000 | 2003 HK\$'000 |
| Not exceeding 1 year | 6,843 | 8,871 | 6,713 | 8,529 |
| More than 1 year but not exceeding 2 years | 788 | 6,862 | 774 | 6,754 |
| More than 2 years but not exceeding 5 years | 127 | 701 | 124 | 698 |
| | 915 | 7,563 | 898 | 7,452 |
| | 7,758 | 16,434 | 7,611 | 15,981 |
| Future finance charge | (147) | (453) | - | - |
| Present value of lease obligations | 7,611 | 15,981 | 7,611 | 15,981 |

Notes to the Financial Statements

Year ended 31 December 2004

26. DEFERRED TAXATION

Recognised deferred tax assets (liabilities)

| | Assets | | Liabilities | |
|---|------------------|------------------|------------------|------------------|
| | 2004 HK\$'000 | 2003 HK\$'000 | 2004 HK\$'000 | 2003 HK\$'000 |
| Revaluation of properties | - | - | (16,600) | (12,200) |
| Depreciation allowances | 21,400 | 17,000 | - | - |
| Others | 2,100 | 4,000 | - | - |
| Deferred tax assets (liabilities) | 23,500 | 21,000 | (16,600) | (12,200) |
| Offset deferred tax assets and liabilities | (15,200) | (12,200) | 15,200 | 12,200 |
| Net tax assets (liabilities) | 8,300 | 8,800 | (1,400) | - |
| Amount expected to be recovered (settled) after more than 12 months | 7,700 | 7,200 | (16,100) | (11,700) |

The Group has not recognised deferred tax asset of HK\$24,000,000 (2003: HK\$28,000,000) in respect of tax losses of the Hong Kong subsidiaries amounting to HK\$137,000,000 (2003: HK\$160,000,000). The tax losses do not expire under the current tax legislation.

27. ISSUED CAPITAL

| | 2004 | | 2003 | |
|--|-----------------------|-----------------|-----------------------|-----------------|
| | Number of shares '000 | Amount HK\$'000 | Number of shares '000 | Amount HK\$'000 |
| Authorised: | | | | |
| Ordinary shares of HK\$1.00 each (2003: HK\$1.00 each) | 1,000,000 | 1,000,000 | 1,000,000 | 1,000,000 |
| Issued and fully paid: | | | | |
| At beginning of year | 416,235 | 416,235 | 398,535 | 398,535 |
| Exercise of share options | 7,600 | 7,600 | 17,700 | 17,700 |
| At balance sheet date | 423,835 | 423,835 | 416,235 | 416,235 |

Notes to the Financial Statements

Year ended 31 December 2004

28. SHARE OPTIONS**(a) Company**

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 the 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 price 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.

At the Annual General Meetings of the Company held on 6 June 2003 and 3 June 2004, ordinary resolutions were passed approving the amendment to the Share Option Scheme – 2002 by expanding the definition of participants and refreshing the scheme's mandate limit. Pursuant to the Share Option Scheme – 2002 (Amended), participants (including Directors of the Group, employees, consultants and business associates) are entitled to be granted options to subscribe for shares in the Company.

Details of 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 HK\$ | Number of share options | | | | End of year '000 |
|---------------|--------------------------------|--------------------------------------|---------------------------|-------------------|-------------------|----------------|---------------------|
| | | | Beginning of year '000 | Exercised '000 | Cancelled '000 | Lapsed '000 | |
| 3 May 2000 | 2 May 2000 to 3 September 2007 | 1.128 | 900 | – | – | – | 900 |

Notes to the Financial Statements

Year ended 31 December 2004

28. SHARE OPTIONS (continued)

(a) Company (continued)

Movements in share options granted under the Share Option Scheme – 2002 during the year, and which remain outstanding at the balance sheet date were:

| Date of grant | Exercise period | Subscription price per Share HK\$ | Number of share options | | | | | End of year '000 |
|-----------------|--------------------------------|--------------------------------------|---------------------------|-----------------|-------------------|-------------------|----------------|---------------------|
| | | | Beginning of year '000 | Granted '000 | Exercised '000 | Cancelled '000 | Lapsed '000 | |
| 16 January 2003 | 16 January 2003 to 6 June 2012 | 1.056 | 15,200 | – | (7,600) | – | – | 7,600 |

Movements in share options granted under the Share Option Scheme – 2002 (Amended) during the year, and which remain outstanding at the balance sheet date were:

| Date of grant | Exercise period | Subscription price per Share HK\$ | Number of share options | | | | | End of year '000 |
|-------------------|----------------------------------|--------------------------------------|---------------------------|-----------------|-------------------|-------------------|----------------|---------------------|
| | | | Beginning of year '000 | Granted '000 | Exercised '000 | Cancelled '000 | Lapsed '000 | |
| 24 September 2003 | 24 September 2003 to 6 June 2012 | 1.66 | 29,250 | – | – | (3,900) | – | 25,350 |
| 7 October 2003 | 7 October 2003 to 6 June 2012 | 1.999 | 10,500 | – | – | – | – | 10,500 |

Note: An option granted to an employee to subscribe for 3,900,000 shares at a subscription price of HK\$1.999 each was lapsed on 31 March 2005.

(b) Subsidiary

On 4 September 2003, Ocean Grand Chemicals Holdings Limited, a listed subsidiary of the Company, adopted a share option scheme which complied with Chapter 17 of the Listing Rules of the Stock Exchange.

At the Annual General Meeting of Ocean Grand Chemicals Holdings Limited held on 7 September 2004, an ordinary resolution was passed approving the refreshment of the scheme mandate limit.

Movements of share options during the year, and which remain outstanding at the balance sheet date were:

| Date of grant | Exercise period | Subscription price per Share HK\$ | Number of share options | | | | End of year '000 |
|-----------------|-------------------------------------|--------------------------------------|-------------------------|-------------------|-------------------|----------------|---------------------|
| | | | Granted '000 | Exercised '000 | Cancelled '000 | Lapsed '000 | |
| 9 February 2004 | 9 February 2004 to 3 September 2013 | 1.38 | 47,000 | – | (28,200) | (14,100) | 4,700 |
| 21 July 2004 | 21 July 2004 to 3 September 2013 | 0.97 | 14,100 | (4,700) | (4,700) | – | 4,700 |

Notes to the Financial Statements

Year ended 31 December 2004

29. RESERVES

| Group | Share premium | Statutory reserves (a) | Capital reserve (b) | Capital redemption reserve (d) | Property revaluation reserves | Exchange reserve | Accumulated profits | Total |
|--|---------------|---------------------------|------------------------|-----------------------------------|-------------------------------|------------------|---------------------|----------|
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| At 1 January 2003 | | | | | | | | |
| – as previously reported | 112,963 | 23,519 | 41,903 | 581 | 50,869 | (377) | 327,876 | 557,334 |
| – prior year adjustment in respect of deferred taxation | – | – | – | – | (13,500) | – | 22,100 | 8,600 |
| – as restated | 112,963 | 23,519 | 41,903 | 581 | 37,369 | (377) | 349,976 | 565,934 |
| Dividend approved in respect of previous year | – | – | – | – | – | – | (27,897) | (27,897) |
| Interim dividend approved | – | – | – | – | – | – | (14,302) | (14,302) |
| Premium arising from issue of shares upon exercise of share options | 951 | – | – | – | – | – | – | 951 |
| Goodwill previously eliminated against accumulated profits now released upon deemed disposal of subsidiaries | – | – | – | – | – | – | 6,038 | 6,038 |
| Reserve movements arising from issue of shares of a subsidiary to minority shareholders | – | – | 36,016 | – | – | – | – | 36,016 |
| Surplus on revaluation | – | – | – | – | 354 | – | – | 354 |
| Exchange difference on translation of foreign subsidiaries | – | – | – | – | – | 2,211 | – | 2,211 |
| Share of reserves of associates | – | – | – | – | 3,129 | (758) | – | 2,371 |
| Reclassification to negative goodwill | – | – | (14,697) | – | – | – | – | (14,697) |
| Profits for the year | – | – | – | – | – | – | 149,546 | 149,546 |
| At 31 December 2003 | 113,914 | 23,519 | 63,222 | 581 | 40,852 | 1,076 | 463,361 | 706,525 |
| Representing: | | | | | | | | |
| At 31 December 2003 after proposed final dividend | | | | | | | | 679,470 |
| 2003 final dividend proposed | | | | | | | | 27,055 |
| | | | | | | | | 706,525 |
| Company and subsidiaries | 113,914 | 23,519 | 63,222 | 581 | 37,723 | 1,387 | 463,361 | 703,707 |
| Associates | – | – | – | – | 3,129 | (311) | – | 2,818 |
| At 31 December 2003 | 113,914 | 23,519 | 63,222 | 581 | 40,852 | 1,076 | 463,361 | 706,525 |

Notes to the Financial Statements

Year ended 31 December 2004

29. RESERVES (continued)

| Group | Share premium | Statutory reserves (a) | Capital reserve (b) | Capital redemption reserve (d) | Property revaluation reserves | Exchange reserve | Accumulated profits | Total |
|--|----------------|------------------------|---------------------|--------------------------------|-------------------------------|------------------|---------------------|----------------|
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| At 1 January 2004 | 113,914 | 23,519 | 63,222 | 581 | 40,852 | 1,076 | 463,361 | 706,525 |
| Dividend approved in respect of previous year | - | - | - | - | - | - | (27,224) | (27,224) |
| Interim dividend approved | - | - | - | - | - | - | (14,834) | (14,834) |
| Premium arising from issue of shares upon exercise of share options | 426 | - | - | - | - | - | - | 426 |
| Goodwill previously eliminated against accumulated profits now released upon deemed disposal of subsidiaries | - | - | - | - | - | - | 345 | 345 |
| Reserve movements arising from issue of shares of a subsidiary to minority shareholders | - | - | (36,016) | - | - | - | - | (36,016) |
| Surplus on revaluation | - | - | - | - | 2,157 | - | - | 2,157 |
| Share of reserves of associates | - | - | - | - | 2,579 | - | - | 2,579 |
| Released on disposal of associates | - | - | - | - | (5,708) | 311 | - | (5,397) |
| Profits for the year | - | - | - | - | - | - | 174,088 | 174,088 |
| At balance sheet date | 114,340 | 23,519 | 27,206 | 581 | 39,880 | 1,387 | 595,736 | 802,649 |
| Representing: | | | | | | | | |
| At 31 December 2004 after proposed final dividend | | | | | | | | 775,100 |
| 2004 final dividend proposed | | | | | | | | 27,549 |
| | | | | | | | | 802,649 |

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Year ended 31 December 2004

29. RESERVES (continued)

| Company | Share premium | Contributed surplus (c) | Capital redemption reserve (d) | Accumulated profits | Total |
|---|----------------|-------------------------|--------------------------------|---------------------|----------------|
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| At 1 January 2003 | 112,963 | 145,517 | 581 | 4,054 | 263,115 |
| Dividend approved in respect of previous year | — | — | — | (27,897) | (27,897) |
| Interim dividend approved | — | — | — | (14,302) | (14,302) |
| Premium arising from issue of shares upon exercise of share options | 951 | — | — | — | 951 |
| Profits for the year | — | — | — | 41,011 | 41,011 |
| At 31 December 2003 | <u>113,914</u> | <u>145,517</u> | <u>581</u> | <u>2,866</u> | <u>262,878</u> |
| Representing: | | | | | |
| At 31 December 2003 after proposed final dividend | | | | | 235,823 |
| 2003 final dividend proposed | | | | | <u>27,055</u> |
| | | | | | <u>262,878</u> |

| Company | Share premium | Contributed surplus (c) | Capital redemption reserve (d) | Accumulated profits | Total |
|---|-----------------------|-------------------------|--------------------------------|----------------------|-----------------------|
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| At 1 January 2004 | 113,914 | 145,517 | 581 | 2,866 | 262,878 |
| Dividend approved in respect of previous year | — | — | — | (27,224) | (27,224) |
| Interim dividend approved | — | — | — | (14,834) | (14,834) |
| Premium arising from issue of shares upon exercise of share options | 426 | — | — | — | 426 |
| Profits for the year | — | — | — | 68,915 | 68,915 |
| At balance sheet date | <u>114,340</u> | <u>145,517</u> | <u>581</u> | <u>29,723</u> | <u>290,161</u> |
| Representing: | | | | | |
| At 31 December 2004 after proposed final dividend | | | | | 262,612 |
| 2004 final dividend proposed | | | | | <u>27,549</u> |
| | | | | | <u>290,161</u> |

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

| | 2004 HK\$'000 | 2003 HK\$'000 |
|---------------------|-----------------------|------------------|
| Contributed surplus | 145,517 | 145,517 |
| Accumulated profits | 29,723 | 2,866 |
| | <u>175,240</u> | <u>148,383</u> |

Notes to the Financial Statements

Year ended 31 December 2004

29. 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:

| | 2004 HK\$'000 | Group 2003 HK\$'000 |
|-------------------------------|------------------|---------------------------|
| Discretionary surplus reserve | 5,799 | 5,799 |
| Statutory reserve fund | 13,080 | 13,080 |
| Enterprise development fund | 4,640 | 4,640 |
| | 23,519 | 23,519 |

(b) Capital reserve

The capital reserve of the Group amounting to HK\$27,206,000 (2003: HK\$63,222,000) comprised (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.

Notes to the Financial Statements

Year ended 31 December 2004

30. CASH GENERATED FROM OPERATIONS

(a) Cash generated from operations

| | 2004 HK\$'000 | Group 2003 HK\$'000 |
|---|------------------|---------------------------|
| Profit from ordinary activities before taxation | 235,945 | 195,989 |
| Interest income | (7,048) | (11,247) |
| Interest expenses | 31,484 | 27,459 |
| Loss on disposal of other investment | – | 27,014 |
| Depreciation | 43,101 | 41,688 |
| Revaluation deficit on: | | |
| – Investment properties | 300 | – |
| – Construction-in-progress | 136 | – |
| Amortisation of intangible asset | 2,359 | 2,302 |
| Amortisation of goodwill | 549 | – |
| Amortisation of negative goodwill | (102) | – |
| Loss on disposals of plant and equipment | 604 | 9 |
| Gain on disposal of associates | (4,482) | – |
| Gain on deemed and partial disposal of subsidiaries | (4,334) | (7,405) |
| Provision for doubtful debts | 11,105 | 1,790 |
| Share of results of associates | (22,125) | (25,796) |
| Changes in working capital: | | |
| – Inventories | (17,496) | (28,576) |
| – Trade and other receivables | (137,606) | (85,799) |
| – Trade and other payables | 66,158 | (58,927) |
| – Effect of exchange rate changes | (121) | (745) |
| Cash generated from operations | 198,427 | 77,756 |

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Year ended 31 December 2004

31. 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:

| | 2004 HK\$'000 | Group 2003 HK\$'000 |
|--------------------------|------------------|---------------------------|
| Within one year | 7,074 | 3,695 |
| Within two to five years | 3,392 | 5,151 |
| | 10,466 | 8,846 |

(b) Capital expenditure commitments

| | 2004 HK\$'000 | Group 2003 HK\$'000 |
|--|------------------|---------------------------|
| Contracted but not provided for, net of deposit paid | 67,813 | 17,909 |

In addition, as at 31 December 2004, the Group had only contributed HK\$39,000,000 into Hongli Foshan. Out of the total approved registered capital of HK\$50,000,000, the Group had an outstanding commitment of HK\$11,000,000 in respect of the capital contribution of Hongli Foshan as at 31 December 2004. Subsequent to the balance sheet date and before the date of this report, the Group had further contributed HK\$6,000,000 to Hongli Foshan.

Subsequent to the balance sheet date, the registered capital of a 90% owned subsidiary, OG Sanshui, was approved to be increased from HK\$50,000,000 to HK\$360,000,000. As a result, the Group has to further contribute HK\$315,000,000 into OG Sanshui.

32. CONTINGENT LIABILITIES

(a) Corporate guarantee

During the year, the Company 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\$1,267,273,000 (2003: HK\$727,673,000) and HK\$886,565,000 (2003: HK\$570,500,000) respectively.

- (b) Before 30 June 2003, a subsidiary of the Company had paid 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 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.

Notes to the Financial Statements

Year ended 31 December 2004

33. PENSION SCHEME

As stipulated by the PRC regulations, all the PRC subsidiaries of the Company maintained 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 their 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 2004 amounted to approximately HK\$312,000 (2003: HK\$412,000).

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 2004 were approximately HK\$495,000 (2003: HK\$484,000).

34. PLEDGE OF ASSETS

Certain banking facilities were secured by a corporate guarantee provided by the Company and pledge of properties with carrying value of approximately HK\$7,400,000 (2003: HK\$7,700,000).

35. RELATED PARTY TRANSACTIONS

In addition to the information disclosed elsewhere in these financial statements, the Group had the following transactions with related parties:

- (a) During the year, the Group paid consultancy fee of HK\$960,000 (2003: HK\$570,000) to a company which is beneficially owned by a Director of the Company.
- (b) On 1 January 2004, a subsidiary of the Company entered into lease agreements with a company which is beneficially owned by a Director of the Company for leasing of two motor vehicles. During the year, the Company paid rental expenses of HK\$960,000.
- (c) During the year, the Company received interest income of HK\$2,145,000 (2003: HK\$6,181,000) from its associate.
- (d) During the year, a subsidiary of the Company purchased goods from a company which is beneficially owned by two of the Directors of the Company at a consideration of approximately HK\$6,800,000.

Directors considered that the above transactions were carried out on normal commercial terms.

Notes to the Financial Statements

Year ended 31 December 2004

36. SEGMENTAL INFORMATION

The turnover and operating profit of the Group analysed by business segments and by geographical segments 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 2004 | | | | |
| External sales | 1,743,942 | 1,080,721 | 7,975 | 2,832,638 |
| Other revenue | – | – | 3,108 | 3,108 |
| Total revenue in business segments | <u>1,743,942</u> | <u>1,080,721</u> | <u>11,083</u> | <u>2,835,746</u> |
| Segment result | <u>136,003</u> | <u>92,646</u> | <u>391</u> | <u>229,040</u> |
| Unallocated operating income and expenses | | | | <u>16,264</u> |
| Profit from operations | | | | <u>245,304</u> |
| Finance costs | | | | (31,484) |
| Share of results of associates | | | | <u>22,125</u> |
| Profit from ordinary activities before taxation | | | | <u>235,945</u> |
| Taxation | | | | <u>(41,300)</u> |
| Profit from ordinary activities after taxation | | | | <u>194,645</u> |
| Minority interests | | | | <u>(20,557)</u> |
| Net profit attributable to shareholders | | | | <u>174,088</u> |
| OTHER INFORMATION | | | | |
| Capital expenditures | 166,706 | 13,427 | 76 | |
| Depreciation and amortisation | 36,374 | 7,808 | 1,725 | |
| Other non-cash expenses other than depreciation and amortisation | <u>1,926</u> | <u>9,612</u> | <u>607</u> | |

Notes to the Financial Statements

Year ended 31 December 2004

36. SEGMENTAL INFORMATION (continued)

(a) By business segments (continued)

| | Aluminium HK\$'000 | Chemicals HK\$'000 | Others HK\$'000 | Consolidated HK\$'000 |
|--|-----------------------|-----------------------|--------------------|--------------------------|
| Year ended 31 December 2003 | | | | |
| External sales | 1,330,708 | 663,541 | 73,509 | 2,067,758 |
| Other revenue | – | – | 4,121 | 4,121 |
| Total revenue in business segments | <u>1,330,708</u> | <u>663,541</u> | <u>77,630</u> | <u>2,071,879</u> |
| Segment result | <u>120,189</u> | <u>67,472</u> | <u>15,920</u> | 203,581 |
| Unallocated operating income and expenses | | | | <u>(5,929)</u> |
| Profit from operations | | | | 197,652 |
| Finance costs | | | | (27,459) |
| Share of results of associates | | | | <u>25,796</u> |
| Profit from ordinary activities before taxation | | | | 195,989 |
| Taxation | | | | <u>(27,794)</u> |
| Profit from ordinary activities after taxation | | | | 168,195 |
| Minority interests | | | | <u>(18,649)</u> |
| Net profit attributable to shareholders | | | | <u>149,546</u> |
| OTHER INFORMATION | | | | |
| Capital expenditures | 101,168 | 23,293 | – | |
| Depreciation and amortisation | 33,945 | 7,978 | 2,067 | |
| Other non-cash expenses other than depreciation and amortisation | <u>9,355</u> | <u>3,919</u> | <u>50</u> | |

Notes to the Financial Statements

Year ended 31 December 2004

36. SEGMENTAL INFORMATION (continued)
(a) By business segments (continued)

| | Aluminium HK\$'000 | Chemicals HK\$'000 | Others HK\$'000 | Consolidated HK\$'000 |
|-------------------------------|-----------------------|-----------------------|--------------------|---------------------------|
| As at 31 December 2004 | | | | |
| Assets | | | | |
| Segment assets | 1,790,707 | 612,228 | 39,021 | 2,441,956 |
| Interests in associates | | | | - |
| Unallocated assets | | | | 165,283 |
| Total assets | | | | <u>2,607,239</u> |
| Liabilities | | | | |
| Segment liabilities | (546,393) | (324,783) | (108) | (871,284) |
| Unallocated liabilities | | | | (432,653) |
| Total liabilities | | | | <u>(1,303,937)</u> |
| As at 31 December 2003 | | | | |
| Assets | | | | |
| Segment assets | 1,233,854 | 337,346 | 41,984 | 1,613,184 |
| Interests in associates | | | | 263,724 |
| Unallocated assets | | | | 61,976 |
| Total assets | | | | <u>1,938,884</u> |
| Liabilities | | | | |
| Segment liabilities | 386,637 | 104,456 | 4,003 | 495,096 |
| Unallocated liabilities | | | | 281,906 |
| Total liabilities | | | | <u>777,002</u> |

Notes to the Financial Statements

Year ended 31 December 2004

36. SEGMENTAL INFORMATION (continued)

(b) By geographical segments

Year ended 31 December 2004

| | 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 | 1,670,379 | 173,897 | 967,717 | 139,111 |
| Hong Kong | 936,860 | 6,312 | 1,785,096 | 93,112 |
| Overseas | – | – | 79,825 | 13,081 |
| | 2,607,239 | 180,209 | 2,832,638 | 245,304 |

Year ended 31 December 2003

| | 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 | 1,195,124 | 124,094 | 859,706 | 167,442 |
| Hong Kong | 743,760 | 367 | 1,143,604 | (30,943) |
| Overseas | – | – | 64,448 | 61,153 |
| | 1,938,884 | 124,461 | 2,067,758 | 197,652 |