

Notes to the Financial Statements

Year ended 31 December 2003

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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 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 2003.

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.

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.

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.

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 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 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, when it is recognised as income. A decrease in net carrying amount arising on revaluation of an asset is recognised as an expense to the extent that it exceeds the balance, if any, on the revaluation reserve relating to a previous revaluation of that asset. On the subsequent sale or retirement of a revalued asset, the attributable revaluation surplus is transferred to accumulated profits.

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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 their estimated residual values, using the straight-line method at the following rates per annum:

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

Assets held under finance leases are depreciated over the shorter of the economic lives or the lease periods.

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 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 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.

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.

Any impairment loss previously recognised is 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.

2. PRINCIPAL ACCOUNTING POLICIES (continued)

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).

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.

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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 have 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.

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.

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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:

	2003 HK\$'000	2002 HK\$'000
Turnover		
Sale of goods (<i>Note</i>)	1,930,510	1,379,171
Subcontracting fees	137,248	44,763
	2,067,758	1,423,934
Other revenue		
Service fees	3,993	9,209
Interest income	11,247	5,141
Dividend income	127	–
	15,367	14,350
Revenue	2,083,125	1,438,284

Note:

Approximately 22% (2002: 39%) of the Group's sales 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\$22,598,000 (2002: HK\$28,551,000) was determined, as confirmed by the local State Tax Bureau, as follows:

- period prior to 30 June 2003: at a rate of 17% on its gross local sales revenue less gross purchases incurred.
- period after 30 June 2003: at a rate of 17% on its gross local sales revenue less purchases with VAT invoices.

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

	2003 HK\$'000	2002 HK\$'000
Gain on deemed disposal of subsidiaries	7,405	19,076
Unrealised holding gain on other investments	–	18,496
Sundry income	4,833	4,045
	12,238	41,617

5. FINANCE COSTS

	2003 HK\$'000	2002 HK\$'000
Interest on bank overdrafts and borrowings wholly repayable within five years	26,278	24,806
Interest on other borrowings wholly repayable within five years	-	148
Finance charges on obligations under finance leases	289	598
Other borrowing costs	892	4,049
Total borrowing costs	27,459	29,601
Less: Borrowing costs capitalised into construction-in-progress	-	(672)
	27,459	28,929

6. PROFIT FROM ORDINARY ACTIVITIES BEFORE TAXATION

	2003 HK\$'000	2002 HK\$'000
This is stated after charging:		
Amortisation of goodwill included in share of results of associates	3,415	2,923
Amortisation of intangible asset included in general and administrative expenses	2,302	-
Auditors' remuneration	980	966
Cost of inventories and services provided	1,770,779	1,202,715
Compensation for guaranteed market capitalisation in relation to spin-off of subsidiaries	7,919	-
Depreciation	41,688	31,399
Loss on disposals of property, plant and equipment	9	4,443
Loss on disposals of other investments	27,014	-
Loss on deemed disposals of associate	-	35,745
Operating lease charges on premises	3,780	4,515
Provision for doubtful debts	1,790	3,114
Revaluation deficit on investment properties	-	700
Staff costs, including Directors' emoluments		
- Wages and salaries	34,656	28,011
- Contributions to retirement schemes	483	386

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7. DIRECTORS' AND SENIOR EXECUTIVES' REMUNERATION

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

	2003 HK\$'000	2002 HK\$'000
Fees	615	600
Salaries, other emoluments and other benefits in kind	7,225	8,557
Contributions to pension scheme	48	60
	<u>7,888</u>	<u>9,217</u>

Included in the Directors' remuneration were fees of HK\$615,000 (2002: HK\$600,000) paid to the Independent Non-Executive Directors during the year.

The remuneration of Directors were within the following bands:

<i>HK\$</i>	Number of Directors	
	2003	2002
Nil to 1,000,000	6	6
1,000,001 to 1,500,000	1	1
1,500,001 to 2,000,000	-	1
4,000,000 to 4,500,000	1	1
	<u>8</u>	<u>9</u>

There was no arrangement under which a Director waived or agreed to waive any remuneration during the year. Subsequent to the balance sheet date, a Director waived his salaries for 1999 and 2000 amounting to HK\$1,425,000.

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

Of the five (2002: five) individuals with the highest emoluments, three (2002: three) were Directors whose emoluments are disclosed above. The aggregate of the emoluments in respect of the other two (2002: two) individuals were as follows:

	2003 HK\$'000	2002 HK\$'000
Salaries and other emoluments	3,882	3,149
Contributions to defined contribution plans	36	36
	<u>3,918</u>	<u>3,185</u>

HK\$	Number of individuals	
	2003	2002
1,000,001 – 1,500,000	1	2
1,500,001 – 2,000,000	1	1

8. TAXATION

	2003 HK\$'000	2002 HK\$'000 Restated
Company and subsidiaries:		
<i>Current tax</i>		
Hong Kong profits tax:		
– Current year	3,788	2,867
– Over provision in prior years	(2,862)	(899)
PRC enterprise income tax	28,506	27,394
	<u>29,432</u>	<u>29,362</u>
<i>Deferred taxation</i>		
Origination and reversal of temporary difference	(1,000)	(5,500)
Share of associates' deferred taxation	(638)	–
	<u>27,794</u>	<u>23,862</u>

Hong Kong profits tax has been provided at the rate of 17.5% (2002: 16%) on the estimated assessable profit for the year.

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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

	2003 HK\$'000	2002 HK\$'000
Deferred tax charge relating to revaluation of property, plant and equipment	800	2,900

Deferred tax (credit) charge recognised in the income statement

	2003 HK\$'000	2002 HK\$'000
Types of temporary differences:		
Depreciation allowances	(2,600)	(2,400)
Others	1,600	(3,100)
	(1,000)	(5,500)

Reconciliation of effective tax rate

	2003 %	2002 %
Applicable tax rate	24	24
Non-deductible expenses	5	4
Tax exempt revenue	(13)	(6)
Effect of tax holiday	(3)	(7)
Unrecognised tax losses	3	3
Others	(2)	(1)
Effective tax rate for the year	14	17

The applicable tax rate is the weighted 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\$41,011,000 (2002: HK\$7,884,000) which has been dealt with in the financial statements of the Company.

10. DIVIDENDS**(a) Dividends attributable to the year**

	2003 HK\$'000	2002 HK\$'000
Interim dividend of HK\$0.035 (2002: Nil) per share	14,302	–
Final dividend of HK\$0.065 (2002: HK\$0.07) per share	27,055	27,897
	41,357	27,897

(b) Dividends approved and paid during the year

	2003 HK\$'000	2002 HK\$'000
Interim dividend in respect of 2003 of HK\$0.035 (2002: Nil) per share	14,302	–
Final dividend in respect of 2002 of HK\$0.07 (2001: Nil) per share	27,897	–
	42,199	–

11. EARNINGS PER SHARE

The calculation of basic earnings per share for the year ended 31 December 2003 is based on the consolidated profit attributable to shareholders of approximately HK\$149,546,000 (2002: HK\$109,963,000) and on the weighted average number of 402,475,042 (2002: 398,535,316) ordinary shares.

The diluted earnings per share for 2003 and 2002 are not shown as it is not materially different from the basic earnings per share.

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

12. CHANGES IN ACCOUNTING POLICIES AND PRIOR YEAR ADJUSTMENT

In prior years, deferred taxation was accounted for at the current tax rate in respect of timing differences between profit as computed for taxation purposes and profit as stated in the financial statements to the extent that a liability was expected to be payable in the foreseeable future. Deferred tax assets were not recognised unless their realisation was assured beyond reasonable doubt.

With effect from 1 January 2003, in order to comply with SSAP 12 (revised) issued by the Hong Kong Society of Accountants, the Group adopted the new accounting policy of which has been set out in note 2 above.

As a result of the adoption of the revised SSAP 12, profit for the year has been increased by HK\$1,000,000 (2002: HK\$5,500,000) and the Group's opening reserves as at 1 January 2003 and 2002 have been increased by HK\$8,600,000 and HK\$6,000,000 respectively. This new accounting policy has been applied retrospectively, with the opening accumulated profits and the property revaluation reserves, and their comparative information adjusted for the amounts relating to prior periods as disclosed in note 29 to the financial statements.

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13. FIXED ASSETS

Group	Investment properties HK\$'000	Land and buildings HK\$'000	Construction -in-progress HK\$'000	Machinery, furniture and equipment HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
Cost or valuation						
At beginning of year	4,800	181,400	44,475	273,435	5,159	509,269
Exchange adjustments	-	1,780	419	2,196	26	4,421
Additions	-	4,004	6,555	65,440	348	76,347
Revaluation	-	(5,784)	-	-	-	(5,784)
Disposals	-	-	-	(11,807)	(817)	(12,624)
Reclassification	-	-	(47,859)	47,859	-	-
At balance sheet date	4,800	181,400	3,590	377,123	4,716	571,629
Accumulated depreciation						
At beginning of year	-	-	-	122,109	2,535	124,644
Exchange adjustments	-	-	-	958	17	975
Charge for the year	-	6,218	-	34,857	613	41,688
Revaluation	-	(6,218)	-	-	-	(6,218)
Eliminated on disposals	-	-	-	(11,149)	(817)	(11,966)
At balance sheet date	-	-	-	146,775	2,348	149,123
Net book value at balance sheet date	4,800	181,400	3,590	230,348	2,368	422,506
At beginning of year	4,800	181,400	44,475	151,326	2,624	384,625
Analysis of cost or valuation at balance sheet date						
At cost	-	-	3,590	377,123	4,716	385,429
At valuation in 2003	4,800	181,400	-	-	-	186,200
Total cost or valuation	4,800	181,400	3,590	377,123	4,716	571,629

(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, held on long-term leases and are currently vacant. They were valued at their open market value at the balance sheet date by BMI Appraisals Limited, independent Chartered Surveyors.

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

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

	2003 HK\$'000	Group 2002 HK\$'000
Hong Kong	2,900	2,900
PRC	178,500	178,500
	181,400	181,400

At the balance sheet date, approximately HK\$178,500,000 (2002: 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\$144,929,000 (2002: HK\$146,174,000) had they been stated at cost less accumulated depreciation and impairment losses.

(c) Construction-in-progress

	2003 HK\$'000	Group 2002 HK\$'000
At cost:		
Plant and machinery	3,590	42,292
Borrowing costs capitalised	-	2,183
	3,590	44,475

(d) Finance leases

The net book value of the Group's fixed assets includes an amount of HK\$29,863,000 (2002: HK\$32,212,000) in respect of assets held under finance leases.

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14. INTANGIBLE ASSET

	HK\$'000
Cost	
Addition during the year	9,434
Accumulated amortisation	
Amortisation charges during the year	(2,302)
Closing carrying amount	<u>7,132</u>

15. NEGATIVE GOODWILL

	HK\$'000
Cost	
Addition during the year and closing carrying amount	<u>(2,030)</u>

No amortisation charge was provided during the year as the negative goodwill was arose in December 2003.

16. INTERESTS IN SUBSIDIARIES

	2003 HK\$'000	Company 2002 HK\$'000
Unlisted shares, at cost	200,415	200,415
Due from subsidiaries	894,125	883,204
Provision for doubtful debts	(153,000)	(120,000)
	941,540	963,619
Due to subsidiaries	(260,805)	(305,491)
	<u>680,735</u>	<u>658,128</u>

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

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	–	74.98%	Dormant
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 (formerly "Nanhai Hongli Aluminium Products Company Limited")	PRC	PRC	HK\$4,000,000	–	100%	Plating 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	–	74.98%	Trading electroplating chemicals
Kenlap Fine Chemical (Zhuhai) Technology Company Limited ("Kenlap Zhuhai")	PRC	PRC	HK\$80,000,000	–	74.98%	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)	–	74.98%	Manufacturing chemicals for electroplating and trading and refining of precious metal material
Nanhai Xingye Shaped Bronze & Aluminium Products Co., Ltd. ("Nanhai Xingye")	PRC	PRC	US\$12,000,000	–	93.75%	Manufacturing and selling of aluminium extrusion products and trading of aluminium ingots

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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	–	74.98%	Investment holding
Ocean Grand Chemicals Holdings Limited	Bermuda	Hong Kong	HK\$100,000	–	74.98%	Investment holding
OGC Management Services Limited	Hong Kong	Hong Kong	HK\$2	–	74.98%	Management services
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 Technology Company Limited	Hong Kong	Hong Kong	HK\$2	100%	–	Investment holding and trading
Ocean Grand Services Limited	Hong Kong	Hong Kong	HK\$2	100%	–	Management services
OG Development Company Limited	Hong Kong	Hong Kong	HK\$1,000	–	100%	Trading aluminium products and aluminium ingots
Sky Leader Industries Limited	Hong Kong	Hong Kong	HK\$1,000	–	100%	Investment holding
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
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

16. INTERESTS IN SUBSIDIARIES (continued)

Hongli Aluminium (Foshan) Company Limited was a 90% owned equity joint venture established in the PRC in 2002 for a period of 30 years expiring in 2032. During the year, the Group acquired the 10% shareholdings from the minority shareholder and since then Hongli Aluminium (Foshan) Company Limited has become a wholly foreign-owned entity. According to the Certificate of Approval issued in December 2003, the registered capital of Hongli Aluminium (Foshan) Company Limited is increased from HK\$4 million to HK\$50 million.

Nanhai Xingye is an equity joint venture established in the PRC for a period of 30 years expiring in 2025.

Ocean Grand Chemicals Holdings Limited is listed in Hong Kong.

Kenlap Zhuhai 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:

- (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 respectively. These shares have no voting rights, are not entitled to dividends and are not entitled to any distribution upon winding up unless a sum of HK\$100,000,000,000,000 has been distributed by Kenlap P.G.C. Manufacturer Company Limited to the holders of ordinary shares.

17. INTERESTS IN ASSOCIATES

	2003 HK\$'000	Group 2002 HK\$'000
Share of net assets	155,800	168,675
Advances to associates	107,923	149,327
Goodwill	48,038	55,802
	<u>311,761</u>	<u>373,804</u>

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17. INTERESTS IN ASSOCIATES (continued)

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

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	60,187	–	60,187
Accumulated amortisation	(4,385)	–	(4,385)
Opening carrying amount	55,802	–	55,802
Adjustment of associates' fair value upon adoption of revised SSAP 12	7,213	3,135	10,348
Reclassification from capital reserve	–	(14,697)	(14,697)
	63,015	(11,562)	51,453
Amortisation charges	(4,040)	625	(3,415)
Closing carrying amount	58,975	(10,937)	48,038
At balance sheet date			
Cost	67,400	(11,562)	55,838
Accumulated amortisation	(8,425)	625	(7,800)
Closing carrying amount	58,975	(10,937)	48,038

17. 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:

	2003 HK\$'000	2002 HK\$'000 (Restated)
Operating results for the year ended 31 December		
Turnover	527,914	668,815
Profit from ordinary activities before taxation	58,248	90,175
Profit from ordinary activities before taxation attributable to the Group	28,542	36,070
Financial position at 31 December		
Total non-current assets	196,590	195,292
Total current assets	324,018	378,635
Total current liabilities	(71,881)	(80,366)
Total non-current liabilities	(128,961)	(170,062)
Shareholders' funds	319,766	323,499
Amount attributable to the Group	156,685	158,515

The advances to associates are unsecured, and have no fixed repayment terms, except for an amount of HK\$29,792,000, (2002: HK\$15,888,000) which borne interest at market rate. Interest income received during the year amounted to HK\$6,181,000 (2002: HK\$1,129,000).

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18. INVESTMENTS IN SECURITIES

	2003 HK\$'000	Group 2002 HK\$'000
Equity securities		
Unlisted investment securities, at cost	-	8,000
Unlisted other investments, at fair value	3,019	3,019
	3,019	11,019

19. INVENTORIES

	2003 HK\$'000	Group 2002 HK\$'000
At cost:		
Raw materials	43,508	32,801
Work-in-progress	7,018	2,848
Finished goods	20,064	6,356
	70,590	42,005
Less: Provision for slow-moving and obsolete inventories	(943)	(934)
	69,647	41,071

20. TRADE AND OTHER RECEIVABLES

	Group		Company	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Trade receivables	548,120	381,926	-	-
Bills receivable	-	12,135	-	-
Other receivables				
Deposits, prepayments and other debtors	43,494	105,544	-	5,277
Due from a related company	-	525	-	-
	43,494	106,069	-	5,277
	591,614	500,130	-	5,277

Trade Receivables

The 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	
	2003 HK\$'000	2002 HK\$'000
Current (within 2 months)	342,964	277,203
2 to 3 months	77,662	50,089
More than 3 months but less than 12 months	127,076	53,882
More than 12 months but less than 24 months	418	752
	548,120	381,926

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21. CASH AND CASH EQUIVALENTS

	Group		Company	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Bank balances and cash	435,512	254,427	180	98
Deposits with financial institutions	31,123	55,436	-	-
Time deposits	4,913	101,005	-	-
Cash and cash equivalents in the balance sheet	471,548	410,868	180	98
Bank overdrafts	(10,485)	(4,691)	-	-
Cash and cash equivalents in the cash flow statement	461,063	406,177	-	-

22. SHORT-TERM BANK BORROWINGS

	Group		Company	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Bank overdrafts	10,485	4,691	-	51
Trust receipts bank loans	230,290	224,492	-	-
Short-term bank loans	118,497	104,290	-	-
	359,272	333,473	-	51

23. TRADE AND OTHER PAYABLES

	Group		Company	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Trade payables (Note 23a)	37,170	61,470	-	-
Bills payable	-	22,159	-	-
Other payables				
Accrued charges and other creditors	35,871	48,829	1,802	1,802
Due to minority shareholders (Note 23b)	6,544	-	-	-
	42,415	48,829	1,802	1,802
	79,585	132,458	1,802	1,802

23. TRADE AND OTHER PAYABLES (continued)**(a) Trade payables**

The ageing analysis of trade payables is as follows:

	2003 HK\$'000	Group 2002 HK\$'000
Current (within 1 month)	36,875	43,333
1 month to 3 months	-	15,059
More than 3 months but less than 12 months	295	3,078
	37,170	61,470

(b) Due to minority shareholders

The amounts due are unsecured, interests free and have no fixed repayment terms.

24. LONG-TERM BANK BORROWINGS

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

	2003 HK\$'000	Group 2002 HK\$'000
Not exceeding 1 year	91,232	7,477
More than 1 year but not exceeding 2 years	215,340	90,941
More than 2 years but not exceeding 5 years	1,100	216,433
	307,672	314,851
Portion classified as current liabilities	(91,232)	(7,477)
Long-term portion	216,440	307,374

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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	
	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Not exceeding 1 year	8,871	10,363	8,529	9,617
More than 1 year but not exceeding 2 years	6,862	7,799	6,754	7,382
More than 2 years but not exceeding 5 years	701	5,461	698	5,337
	7,563	13,260	7,452	12,719
	16,434	23,623	15,981	22,336
Future finance charge	(453)	(1,287)	-	-
Present value of lease obligations	15,981	22,336	15,981	22,336

26. DEFERRED TAXATION

Recognised deferred tax assets (liabilities)

	Assets		Liabilities	
	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Revaluation of properties	-	-	(12,200)	(11,800)
Depreciation allowances	17,000	14,800	-	-
Others	4,000	5,600	-	-
Deferred tax assets (liabilities)	21,000	20,400	(12,200)	(11,800)
Offset deferred tax assets and liabilities	(12,200)	(11,800)	12,200	11,800
Net tax assets	8,800	8,600	-	-
Amount expected to be recovered (settled) after more than 12 months	7,200	7,000	(11,700)	(11,400)

The Group has not recognised deferred tax asset in respect of tax losses of the Hong Kong subsidiaries amounting to HK\$28,000,000 (2002: HK\$21,000,000). The tax losses do not expire under the current tax legislation.

27. ISSUED CAPITAL

	2003		2002	
	Number of shares '000	Amount HK\$'000	Number of shares '000	Amount HK\$'000
Authorised:				
Ordinary shares of HK\$1.00 (2002: HK\$1.00) each	1,000,000	1,000,000	1,000,000	1,000,000
Issued and fully paid:				
At beginning of year	398,535	398,535	3,985,353	398,535
Exercise of share options	17,700	17,700	–	–
Consolidation of shares	–	–	(3,586,818)	–
At balance sheet date	416,235	416,235	398,535	398,535

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

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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 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.

At the Annual General Meeting of the Company held on 6 June 2003, an ordinary resolution was 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.

Movement in 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 1) HK\$	Number of share options			End of year
			Beginning of year (Note 1) '000	Exercised '000	Cancelled/ Lapsed '000	
27 March 1998	27 March 1998 to 3 September 2007	1.20	500	(500)	–	–
3 May 2000	2 May 2000 to 3 September 2007	1.128	900	–	–	900

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/ Lapsed '000	
1 August 2002	1 August 2002 to 6 June 2012	1.00 (Note 1)	2,000 (Note 1)	–	(2,000)	–	–
16 January 2003	16 January 2003 to 6 June 2012	1.056	–	30,400	(15,200)	–	15,200

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
			Granted '000	Exercised '000	Cancelled/ Lapsed '000	
24 September 2003	24 September 2003 to 6 June 2012	1.66	29,250	–	– (Note 2)	29,250
7 October 2003	7 October 2003 to 6 June 2012	1.999	10,500	–	–	10,500

Notes:

- Adjustment has been made due to the consolidation of every 10 shares with a par value of HK\$0.10 each into 1 share with a par value of HK\$1.00 effected on 29 November 2002.
- An option granted to a business associate to subscribe for 3,900,000 shares at a subscription price of HK\$1.66 each was cancelled on 16 March 2004.

(b) Subsidiary of the Company

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 Rules Governing the Listing of Securities of the Stock Exchange. No option has been issued by Ocean Grand Chemicals Holdings Limited pursuant to the share option scheme since adoption.

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29. RESERVES

Group	Share premium HK\$'000	Statutory reserves HK\$'000	Capital reserves HK\$'000	Capital redemption reserves HK\$'000	Subscription right reserves HK\$'000	Property revaluation reserves HK\$'000	Exchange reserves HK\$'000	Accumulated profits HK\$'000	Total HK\$'000
At 1 January 2002									
– as previously reported	112,963	15,079	27,206	581	418	40,774	(88)	183,463	380,396
– prior year adjustment in respect of deferred taxation	–	–	–	–	–	(10,600)	–	16,600	6,000
– as restated	112,963	15,079	27,206	581	418	30,174	(88)	200,063	386,396
Goodwill previously eliminated against accumulated profits now released upon									
– deemed disposal of subsidiary	–	–	–	–	–	–	–	3,862	3,862
– deemed disposal of associates	–	–	–	–	–	–	–	40,519	40,519
Surplus on revaluation (net of deferred taxation and minority interests)	–	–	–	–	–	11,204	–	–	11,204
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	–	–	–	–	–	–	–	109,963	109,963
At 31 December 2002	112,963	23,519	41,903	581	–	37,369	(377)	349,976	565,934
Representing:									
At 31 December 2002 after proposed final dividend									538,037
2002 final dividend proposed									27,897
									565,934
Company and subsidiaries	112,963	23,519	27,206	581	–	37,369	(824)	294,271	495,085
Associates	–	–	14,697	–	–	–	447	55,705	70,849
At 31 December 2002	112,963	23,519	41,903	581	–	37,369	(377)	349,976	565,934

29. RESERVES (continued)

Group	Share premium	Statutory reserves (a)	Capital reserves (b)	Capital redemption reserves (d)	Subscription right reserves	Property revaluation reserves	Exchange reserves	Accumulated profits	Total
	HK\$'000	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 arising from issue of shares of a subsidiary to minority shareholders	-	-	36,016	-	-	-	-	-	36,016
Surplus on revaluation (net of deferred taxation and minority interests)	-	-	-	-	-	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 balance sheet date	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	-	40,852	1,387	463,361	706,836
Associates	-	-	-	-	-	-	(311)	-	(311)
At balance sheet date	113,914	23,519	63,222	581	-	40,852	1,076	463,361	706,525

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29. 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 2002	112,963	145,517	581	418	(2,711)	256,768
Expiration of warrants	-	-	-	(418)	-	(418)
Profits for the year	-	-	-	-	6,765	6,765
At 31 December 2002	<u>112,963</u>	<u>145,517</u>	<u>581</u>	<u>-</u>	<u>4,054</u>	<u>263,115</u>
Representing:						
At 31 December 2002 after proposed final dividend						235,218
2002 final dividend proposed						<u>27,897</u>
						<u>263,115</u>
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 balance sheet date	<u>113,914</u>	<u>145,517</u>	<u>581</u>	<u>-</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>

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

	2003 HK\$'000	2002 HK\$'000
Contributed surplus	145,517	145,517
Accumulated profits	2,866	4,054
	<u>148,383</u>	<u>149,571</u>

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:

	2003 HK\$'000	Group 2002 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\$63,222,000 (2002: HK\$41,903,000) 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, and (iii) share premium of a subsidiary arising from issue of its shares to minority shareholders.

(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.

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30. NOTES TO CONSOLIDATED CASH FLOW STATEMENT

Cash generated from operations

	2003 HK\$'000	Group 2002 HK\$'000
Profit from ordinary activities before taxation	195,989	140,801
Interest income	(11,247)	(5,141)
Interest expenses	27,459	28,929
Loss on disposal of other investment	27,014	–
Depreciation	41,688	31,399
Amortisation of intangible assets	2,302	–
Loss on disposals of plant and equipment	9	4,443
Revaluation deficit on investment properties	–	700
Loss on deemed disposal of associate	–	35,719
Gain on deemed disposal of subsidiaries	(7,405)	(19,076)
Provision for doubtful debts	1,790	3,114
Share of results of associates	(25,796)	(34,926)
Unrealised holding gain on other investments	–	(18,496)
Gain on expiration of warrants	–	(418)
Changes in working capital:		
Inventories	(28,576)	(9,972)
Trade and other receivables	(85,799)	(211,931)
Trade and other payables	(58,927)	77,479
Effect of exchange rate changes	(745)	(732)
Cash generated from operations	77,756	21,892

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:

	2003 HK\$'000	Group 2002 HK\$'000
Within 1 year	3,695	1,166
Within 2 to 5 years	5,151	31
	8,846	1,197

(b) Capital expenditure commitments

	2003 HK\$'000	Group 2002 HK\$'000
Contracted but not provided net of deposit paid	17,909	22,888

In addition, as at 31 December 2003, the Group had only contributed HK\$4,000,000 and HK\$15,000,000 into Hongli Aluminium (Foshan) Company Limited and 廣州倫帕理維信息科技有限公司 respectively. Out of the total approved registered capital of HK\$50,000,000 and HK\$20,000,000 of these subsidiaries, the Group had an outstanding commitment of HK\$46,000,000 and HK\$5,000,000 in respect of the capital contribution of Hongli Aluminium (Foshan) Company Limited and 廣州倫帕理維信息科技有限公司 as at 31 December 2003.

Subsequent to the balance sheet date, the Group entered into agreements for the lease of land in Sanshui District, Foshan City, the PRC at an aggregate consideration of HK\$141,954,000 for the establishment of a new production plant, with a total investment cost of approximately HK\$600 million, in Sanshui District, Foshan City, the PRC.

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\$727,673,000 (2002: HK\$701,098,000) and HK\$570,500,000 (2002: HK\$564,908,000) respectively.

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32. CONTINGENT LIABILITIES (continued)

(b) Value-added tax ("VAT")

The Group has been paying the 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.

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 2003 amounted to approximately HK\$412,000 (2002: HK\$195,000).

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 2003 were approximately HK\$484,000 (2002: HK\$386,000).

34. PLEDGE OF ASSETS

Certain banking facilities were secured by a corporate guarantee provided by the Company, a floating charge on the bank balances of a subsidiary amounted to HK\$5,316,000 (2002: HK\$5,292,000) and pledge of properties with carrying value of approximately HK\$7,700,000 (2002: HK\$7,700,000).

35. 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 74.98% owned subsidiary since June 2003. 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\$1,652,000 (2002: HK\$2,263,000) and HK\$2,254,000 (2002: HK\$3,098,000) respectively.

36. SEGMENTAL 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:

Aluminum: The manufacture and sale of aluminum extrusion products and aluminum 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 2003				
External sales	1,330,708	663,541	73,509	2,067,758
Other revenue	-	-	4,121	4,121
Total revenue in business segments	1,330,708	663,541	77,630	2,071,879
Segment result	120,189	67,472	15,920	203,581
Unallocated operating income and expenses				(5,929)
Profit from operations				197,652
Finance costs				(27,459)
Share of results of associates				25,796
Profit from ordinary activities before taxation				195,989
Taxation				(27,794)
Profit from ordinary activities after taxation				168,195
Minority interests				(18,649)
Net profit attributable to shareholders				149,546
OTHER INFORMATION				
Capital expenditure	101,168	23,293	-	
Depreciation and amortisation	33,945	5,675	2,067	
Other non-cash expenses other than depreciation and amortisation	9,355	3,919	50	

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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 2002				
External sales	1,155,373	246,902	21,659	1,423,934
Inter-segment sales	–	–	9,209	9,209
Total revenue in business segments	<u>1,155,373</u>	<u>246,902</u>	<u>30,868</u>	<u>1,433,143</u>
Segment result	<u>95,866</u>	<u>39,288</u>	<u>3,188</u>	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				(23,862)
Profit from ordinary activities after taxation				116,939
Minority interests				(6,976)
Net profit attributable to shareholders				<u>109,963</u>
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	<u>316</u>	<u>931</u>	<u>–</u>	

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 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				1,938,884
Liabilities				
Segment liabilities	386,637	104,456	4,003	495,096
Unallocated liabilities				281,906
Total liabilities				777,002
As at 31 December 2002				
Assets				
Segment assets	929,940	256,660	36,902	1,223,102
Interests in associates				373,804
Unallocated assets				207,379
Total assets				1,804,285
Liabilities				
Segment liabilities	438,330	84,838	15,483	538,651
Unallocated liabilities				272,604
Total liabilities				811,255

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36. SEGMENTAL INFORMATION (continued)

(b) By geographical segments

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	1,195,125	124,094	859,706	167,442
Hong Kong	743,760	367	1,143,604	(30,943)
Overseas	-	-	64,448	61,153
	1,938,885	124,461	2,067,758	197,652

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	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	1,480,521	105,214	722,600	134,109
Hong Kong	321,668	6,289	693,745	(1,986)
Overseas	2,096	-	7,589	2,681
	1,804,285	111,503	1,423,934	134,804