

NOTES TO FINANCIAL STATEMENTS

31 December 2000

1. CORPORATE INFORMATION

During the year, the Group was involved in the following principal activities:

- manufacturing of steel cord
- processing and trading of copper and brass products
- property investment and development
- trading of industrial chemical products

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

These financial statements have been prepared in accordance with Hong Kong Statements of Standard Accounting Practice, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for the remeasurement of investment properties, certain fixed assets and land use rights, as further explained below.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2000. The results of subsidiaries acquired or disposed of during the year are consolidated from or to their effective dates of acquisition or disposal, respectively. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

Subsidiaries

A subsidiary is a company, other than a jointly controlled entity, in which the Company, directly or indirectly, controls more than half of its voting power or issued share capital or controls the composition of its board of directors.

Interests in subsidiaries are stated at cost unless, in the opinion of the directors, there have been permanent diminutions in values, when they are written down to values determined by the directors.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Jointly controlled entities

A joint venture is a contractual arrangement whereby the Group and other parties undertake an economic activity which is subject to joint control and none of the participating parties has unilateral control over the economic activity.

Joint venture arrangements which involve the establishment of a separate entity in which the Group and other parties have an interest are referred to as jointly controlled entities.

The Group's share of post-acquisition results and reserves of jointly controlled entities is included in the consolidated profit and loss account and consolidated reserves, respectively. The Group's interests in jointly controlled entities are stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting less any provisions for diminutions in values other than those considered to be temporary in nature, deemed necessary by the directors.

The results of jointly controlled entities are included in the Company's profit and loss account to the extent of dividends received and receivable. The Company's interest in jointly controlled entities are treated as long term investments and are stated at cost less any provisions for diminutions in values, other than those considered to be temporary in nature, deemed necessary by the directors.

Associates

An associate is a company, not being a subsidiary or a jointly controlled entity, in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence.

The Group's share of the post-acquisition results and reserves of associates are included in the consolidated profit and loss account and consolidated reserves, respectively. The Group's interests in associates are stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting, less any provisions for diminutions in values other than those considered to be temporary in nature, deemed necessary by the directors.

Goodwill or capital reserve

Goodwill or capital reserve arising on consolidation of subsidiaries and on acquisition of jointly controlled entities and associates represents the excess or shortfall, respectively, of the purchase consideration paid over the fair values ascribed to the net underlying assets acquired at the date of acquisition. Goodwill is eliminated against reserves and capital reserve amounts are credited directly to reserves, in the year of acquisition.

On disposal of subsidiaries, jointly controlled entities or associates, the relevant portion of attributable goodwill previously eliminated against reserves, or the capital reserve amount previously credited directly to reserves on consolidation, is written back and included in the calculation of the gain or loss on disposal.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fixed assets and depreciation

Fixed assets, other than investment properties, are stated at cost or valuation less accumulated depreciation. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after fixed assets have been put into operation, such as repairs and maintenance, is normally charged to the profit and loss account in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the fixed asset, the expenditure is capitalised as an additional cost of that asset.

Changes in the values of fixed assets, other than investment properties, are dealt with as movements in the fixed asset revaluation reserve. If the total of this reserve is insufficient to cover a deficit, on an individual asset basis, the excess of the deficit is charged to the profit and loss account. Any subsequent revaluation surplus is credited to the profit and loss account to the extent of the deficit previously charged. On disposal of a revalued asset, the relevant portion of the fixed asset revaluation reserve realised in respect of previous valuations is transferred to retained earnings/accumulated losses as a movement in reserves.

Depreciation is calculated on the straight-line basis to write off the cost or valuation of each asset over its estimated useful life, after taking into account its estimated residual value. The principal annual rates used for this purpose are as follows:

Leasehold land and buildings	Over the estimated useful life of 25 to 50 years
Leasehold improvements	20% – 25%
Plant and machinery	4% – 30%
Furniture, fixtures and equipment	9% – 30%
Motor vehicles	11% – 30%

The gain or loss on disposal or retirement of a fixed asset recognised in the profit and loss account is the difference between the net sales proceeds and the carrying amount of the relevant asset.

The carrying amounts of fixed assets are reviewed periodically in order to assess whether their recoverable amounts have declined below their carrying amounts. Where, in the opinion of the directors, the recoverable amounts of fixed assets have declined below their carrying amounts, provisions are made to write down the carrying amounts of such assets to their recoverable amounts. Recoverable amounts are not determined using discounted cash flows. The recoverable amount is the amount which the Group expects to recover from the future use of the fixed asset, including its residual value on disposal. Reductions of recoverable amounts are charged to the profit and loss account, except to the extent that they reverse previous revaluation surpluses in respect of the same items, when they are charged to the revaluation reserve.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**Investment properties**

Investment properties are interests in land and buildings in respect of which construction work and development have been completed and which are intended to be held on a long term basis for their investment potential. Such properties are not depreciated and are stated at their open market values on the basis of annual professional valuations performed at the end of each financial year. Changes in the value 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 profit and loss account. Any subsequent revaluation surplus is credited to the profit and loss account to the extent of the deficit previously charged.

On disposal of an investment property, the relevant portion of the investment property revaluation reserve realised in respect of previous valuations is released to the profit and loss account.

Golf club memberships

Golf club memberships are stated at cost less provisions for diminutions in values other than those considered to be temporary in nature, deemed necessary by the directors.

Long term investment

Long term investment in unlisted equity securities, intended to be held for a long term purpose, is stated at cost less any provision for impairment in values deemed necessary by the directors, other than those considered to be temporary in nature, on an individual basis.

When such impairment in values has occurred, the carrying amount of the securities is reduced to its fair value, as estimated by the directors, and the amount of the impairment is charged to the profit and loss account for the period in which it arises. Where the circumstances and events which led to an impairment cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future, the amount of the impairment previously charged is credited to the profit and loss account to the extent of the amount previously charged.

Land use rights

Land use rights are stated at valuation less accumulated amortisation and amortised on a straight-line basis over the respective remaining joint venture periods once commercial production commences.

Changes in the value of land use rights are dealt with as movements in the land use rights revaluation reserve. If the total of this reserve is insufficient to cover a deficit, on an individual asset basis, the excess of the deficit is charged to the profit and loss account. Any subsequent revaluation surplus is credited to the profit and loss account to the extent of the deficit previously charged. On disposal of a revalued asset, the relevant portion of the land use rights revaluation reserve realised in respect of previous valuations is transferred to retained profits/accumulated losses as a movement in reserves.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Properties for sale

Properties for sale, consisting of completed properties and properties under development intended for sale, are classified as current assets and are stated at the lower of cost and net realisable value. Costs include all development expenditure, applicable borrowing costs and other direct costs attributable to such properties. Net realisable value is determined by reference to prevailing market prices on an individual property basis less any estimated costs to be incurred to disposal.

Properties under development

Properties under development are stated at cost which includes all development expenditure, interest charges and other direct costs attributable to such properties.

Properties under development which have been pre-sold are stated at cost plus attributable profits less any foreseeable losses and deposits received and instalments received.

When properties under development have been pre-sold, the total estimated profit is apportioned over the entire period of construction to reflect the progress of the development. On this basis, profit recognised on the pre-sold portion of the properties is calculated by reference to the proportion of construction costs incurred up to the accounting date, to the estimated total construction costs to completion, limited to the amount of sales deposits and instalments received and with due allowance for contingencies.

Properties under development which have either been pre-sold or which are intended for sale and expected to be completed within one year from the balance sheet date are classified as current assets.

Leased assets

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalised finance leases are included in fixed assets and depreciated over the shorter of the lease terms and the estimated useful lives of the assets. The finance costs of such leases are charged to the profit and loss account so as to provide a constant periodic rate of charge over the lease terms.

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Rentals applicable to such operating leases are charged to the profit and loss account on the straight-line basis over the lease terms.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**Inventories**

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the first-in, first-out basis or weighted average basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

Deferred tax

Deferred tax is provided, using the liability method, on all significant timing differences to the extent it is probable that the liability will crystallise in the foreseeable future. A deferred tax asset is not recognised until its realisation is assured beyond reasonable doubt.

Revenue recognition

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

- (a) from the sales of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;
- (b) interest income, on a time proportion basis, taking into account the principal outstanding and the effective interest rate applicable;
- (c) rental income, on a time proportion basis over the lease terms;
- (d) dividends, when the shareholders' right to receive payment is established; and
- (e) revenue and profit from the sale of completed properties, upon the execution of the sales agreement.

Foreign currencies

Foreign currency transactions are recorded at the applicable rates of exchange ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the applicable rates of exchange ruling at that date. Exchange differences are dealt with in the profit and loss account.

On consolidation, the financial statements of overseas subsidiaries, jointly controlled entities and associates are translated into Hong Kong dollars at the applicable rates of exchange ruling at the balance sheet date. The resulting translation differences are included in the exchange fluctuation reserve.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Retirement benefits scheme

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "Scheme") under the Mandatory Provident Fund Scheme Ordinance, for those employees who are eligible to participate in the Scheme. The Scheme became effective from 1 December 2000. Contributions are made based on a percentage of the participating employees' basic salaries and are charged to the profit and loss account as they become payable in accordance with the rules of the Scheme. The assets of the Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed to the Scheme.

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. Related parties may be individuals or corporate entities.

Cash equivalents

For the purpose of the consolidated cash flow statement, cash equivalents represent short term highly liquid investments which are readily convertible into known amounts of cash and which were within three months of maturity when acquired, less advances from banks repayable within three months from the date of the advance. For the purpose of balance sheet classification, cash equivalents represent assets similar in nature to cash, which are not restricted as to use.

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3. TURNOVER AND REVENUE

The Group's turnover represents the net invoiced value of goods sold after allowances for returns and trade discounts, and commission and gross rental income. All significant intercompany transactions are eliminated. Revenue from the following activities has been included in turnover:

	2000 HK\$'000	1999 HK\$'000
Continuing operations:		
Sale of goods		
Manufacturing of steel cord	90,999	66,510
Processing and trading of copper and brass products	39,211	31,600
Property development and investment	10,354	4,518
Others	249	4,601
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	140,813	107,229
Rental income	1,062	515
Commission	547	109
	<hr/>	<hr/>
	142,422	107,853
Discontinued operations:		
Sale of goods		
Trading of industrial chemical products	25,659	78,523
Trading and processing of metallic ores and metals	1,036	40,746
Processing of electrical wires and accessories	-	36,729
Trading and manufacturing of children's wear	-	4,969
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	26,695	160,967
Turnover	169,117	268,820

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4. TURNOVER AND OPERATING PROFIT/(LOSS) BY PRINCIPAL ACTIVITY AND GEOGRAPHICAL SEGMENT

An analysis of turnover and operating profit/(loss) by principal activity and geographical segment, disclosed pursuant to the Listing Rules, is as follows:

	2000		1999	
	Turnover HK\$'000	Operating profit/(loss) HK\$'000	Turnover HK\$'000	Operating profit/(loss) HK\$'000
By principal activity:				
Continuing operations:				
Manufacturing of steel cord	90,999	7,614	66,510	(10,834)
Processing and trading of copper and brass products	39,758	3,963	31,709	(18,293)
Property development and investment	11,416	4,403	5,033	(12,209)
Others	249	2,174	4,601	(1,600)
	<u>142,422</u>	<u>18,154</u>	<u>107,853</u>	<u>(42,936)</u>
Discontinued operations:				
Trading of industrial chemical products	25,659	(1,051)	78,523	2,126
Trading and processing of metallic ores and metals	1,036	3,601	40,746	(7,914)
Processing of electrical wires and accessories	-	(201)	36,729	(4,457)
Trading and manufacturing of children's wear	-	(5)	4,969	808
	<u>26,695</u>	<u>2,344</u>	<u>160,967</u>	<u>(9,437)</u>
		<u>20,498</u>		(52,373)
Less: Corporate overheads		<u>(13,096)</u>		<u>(14,473)</u>
	<u>169,117</u>	<u>7,402</u>	<u>268,820</u>	<u>(66,846)</u>
By geographical area:				
The People's Republic of China (the "PRC"):				
Hong Kong S.A.R.	63,723	621	88,866	(38,100)
Mainland	104,142	7,720	139,112	(24,851)
Other Asian countries	602	(347)	39,868	(3,802)
Others	650	(592)	974	(93)
	<u>169,117</u>	<u>7,402</u>	<u>268,820</u>	<u>(66,846)</u>

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5. PROFIT/(LOSS) FROM OPERATING ACTIVITIES

The Group's profit/(loss) from operating activities is arrived at after charging:

	2000	1999
	HK\$'000	HK\$'000
Cost of inventories sold	140,064*	244,451
Depreciation:		
Owned fixed assets	22,662	26,880
Leased fixed assets	<u> -</u>	<u> 131</u>
	22,662	27,011
Amortisation of land use rights	455	379
Operating lease rentals in respect of land and buildings	1,310	3,134
Auditors' remuneration	850	1,080
Staff costs:		
Wages and salaries (including directors' remuneration – note 8)	20,125	28,794
Contributions to mandatory provident fund	<u> 30</u>	<u> -</u>
	20,155	28,794
Foreign exchange losses, net	<u> -</u>	1,001
Deficit on revaluation of investment properties	2,409	890
Deficit on revaluation of leasehold land and buildings, net	<u> -</u>	26,748
Provision for diminutions in values of golf club memberships	108	695
Provision for bad and doubtful debts	5,033	4,621
Loss on disposal of fixed assets (excluding investment properties), net	243	1,197
Loss on disposal of subsidiaries, net	<u> -</u>	4,141
and after crediting:		
Foreign exchange gains, net	95	-
Interest income	2,373	1,552
Surplus on revaluation of leasehold land and buildings, net	1,564	-
Gain on disposal of an investment property	223	-
Gross rental income from investment properties	1,062	515
Less: Outgoings	<u>(61)</u>	<u>(19)</u>
Net rental income	1,001	496
Gain on disposal of subsidiaries, net (including realisation of goodwill)	590	-
Gain on disposal of interests in jointly controlled entities, net (including realisation of goodwill)	2,287	-
Gain on disposal of a long term investment	<u>3,430</u>	<u> -</u>

* including reversal of stock provision amounting to approximately HK\$4,001,000 upon sale of the relevant inventories in current year.

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6. FINANCE COSTS

	2000	1999
	HK\$'000	HK\$'000
Interest on bank loans and overdrafts and other borrowings wholly repayable within five years	9,870	16,907
Interest on bank loans wholly repayable after five years	545	284
Interest on finance leases	50	121
	10,465	17,312

7. DISCONTINUED OPERATIONS

- (a) The Group had a subsidiary (the "Subsidiary") engaged in the trading and processing of metallic ores and metals and three jointly controlled entities (the "Entities") engaged in ferroalloy processing and manufacturing activities in the PRC (collectively the "Business"). The directors considered that the continued over-capacity situation and decrease in demand for ferroalloy products in Mainland China would have a profound and significant impact on the Business. The situation would be further aggravated by China's entry into the World Trade Organisation in the near future, which was expected to intensify competition. The outlook for the Business therefore remained gloomy and there was no sign of recovery for the time being. As such, the directors cautiously reassessed the Group's strategy in respect of the Business and decided to discontinue the Group's financial and operating involvement in the Entities effective from 3 May 1999 and the operations of the Subsidiary effective from 1 February 2000 respectively.

The financial effects arising from the Business on the current and prior year's consolidated profit and loss account have been separately disclosed as discontinued operations.

The loss on discontinuance of the Business is insignificant.

- (b) On 10 December 1999, in view of the gloomy prospects of the electrical wire and accessories processing business due to intense price competition, the directors decided to discontinue the Group's business segment of electrical wire and accessories processing through the disposal thereof. The directors were of the opinion that the Group was able to streamline its business and improve its financial health through the disposal. The disposal was approved by the Company's shareholders at an extraordinary general meeting held on 10 January 2000 and was completed on 14 January 2000. The financial effects of these operations on the current and prior year's consolidated profit and loss account have been separately disclosed as discontinued operations.

The gain on disposal of the electrical wire and accessories processing business segment amounted to approximately HK\$641,000.

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7. DISCONTINUED OPERATIONS (continued)

- (c) On 28 July 2000, in view of the continuing decline in the profit margin and severe market competition of trading of industrial chemical products, the directors decided to terminate this business and dispose of the subsidiary and the equity interest in its jointly controlled entity which engaged in this business to an independent third party. The financial effects of these operations on the current and prior year's consolidated profit and loss account have been separately disclosed as discontinued operations.

The loss on disposal of the trading of industrial chemical products business segment is insignificant.

- (d) The amounts included in the consolidated profit and loss account in respect of the discontinued operations as detailed in (a) to (c) above are summarised as follows:

	2000 HK\$'000	1999 HK\$'000
Sales of goods		
Trading and processing of metallic ores and metals	1,036	40,746
Processing of electrical wires and accessories	–	36,729
Trading of industrial chemical products	25,659	78,523
Others	–	4,969
	26,695	160,967
Cost of sales	(21,516)	(141,863)
	5,179	19,104
Other revenue	1,620	2,948
Distribution costs	(44)	(949)
Administrative expenses	(3,948)	(20,595)
Other operating expenses	(463)	(9,945)
Profit/(loss) from operating activities		
Trading and processing of metallic ores and metals	3,601	(7,914)
Processing of electrical wires and accessories	(201)	(4,457)
Trading of industrial chemical products	(1,051)	2,126
Others	(5)	808
	2,344	(9,437)
Finance costs	(721)	(3,419)
Profit/(loss) after finance costs	1,623	(12,856)
Share of profits less losses of jointly controlled entities	(1,016)	61

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8. DIRECTORS' REMUNERATION

The executive directors' remuneration disclosed pursuant to the Listing Rules and Section 161 of the Companies Ordinance is as follows:

	2000	1999
	HK\$'000	HK\$'000
Fees	-	-
Salaries, allowances and benefits in kind	5,055	4,653
Contributions to mandatory provident fund	1	-
	<u>5,056</u>	<u>4,653</u>

None of the independent non-executive directors received any remuneration during the year.

The remuneration of the directors fell within the following bands:

	Number of directors	
	2000	1999
Nil – HK\$1,000,000	8	6
HK\$1,000,001 – HK\$1,500,000	3	<u>3</u>

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

9. FIVE HIGHEST PAID INDIVIDUALS

The five highest paid individuals during the year included four (1999: four) directors, details of whose remuneration are disclosed in note 8 to the financial statements. Further details of the remuneration of the remaining (1999: one) non-director, highest paid individual are set out below:

	2000	1999
	HK\$'000	HK\$'000
Salaries, allowances and benefits in kind	671	949
Contributions to mandatory provident fund	1	-
	<u>672</u>	<u>949</u>

The remuneration of the non-director, highest paid individual fell within the following band:

	Number of individual	
	2000	1999
Nil - HK\$1,000,000	<u>1</u>	<u>1</u>

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10. TAX

	2000 HK\$'000	1999 <i>HK\$'000</i>
Group:		
Hong Kong		
Provision for the year	-	432
Overprovision in prior years	-	(3,707)
Deferred tax - note 28	-	(441)
Mainland China		
Provision for the year	1,077	443
Underprovision in prior years	-	1,040
Arising from the gain on disposal of partial interest in a jointly controlled entity	<u>4,165</u>	<u>-</u>
	5,242	(2,233)
Jointly controlled entities:		
Mainland China	1,095	968
Associate:		
Mainland China	<u>558</u>	<u>466</u>
	<u>6,895</u>	<u>(799)</u>

No provision for Hong Kong profits tax has been made as the Group did not have any assessable profits arising in Hong Kong during the year. The prior year's Hong Kong profits tax was provided at the rate of 16% on the estimated assessable profits arising in Hong Kong during that year. The income tax in Mainland China is calculated at the applicable tax rates on the estimated assessable profits for the year based on existing legislation, interpretation and practices in respect thereof. In accordance with the relevant tax rules and regulations in Mainland China, certain of the Company's jointly controlled entities and associate in Mainland China enjoy income tax exemptions and reductions.

11. NET PROFIT/(LOSS) FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS

The net loss from ordinary activities attributable to shareholders dealt with in the financial statements of the Company is HK\$504,000 (1999: HK\$46,346,000). The Group's share of profits retained by the jointly controlled entities and associate for the year amounted to HK\$7,447,000 (1999: HK\$9,689,000) and HK\$2,316,000 (1999: HK\$1,085,000), respectively.

12. EARNINGS/(LOSS) PER SHARE

The calculation of basic earnings/(loss) per share is based on the net profit from ordinary activities attributable to shareholders of HK\$4,739,000 (1999: loss of HK\$65,616,000) and 765,372,000 shares (1999: 765,372,000 shares) in issue during the year.

Diluted earnings/(loss) per share is not presented as there were no dilutive potential ordinary shares outstanding during the years ended 31 December 2000 and 1999.

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13. FIXED ASSETS

Group

	Investment properties <i>HK\$'000</i>	Leasehold land and buildings <i>HK\$'000</i>	Leasehold improve- ments <i>HK\$'000</i>	Plant and machinery <i>HK\$'000</i>	Furniture, fixtures and equipment <i>HK\$'000</i>	Motor vehicles <i>HK\$'000</i>	Total <i>HK\$'000</i>
Cost or valuation:							
At beginning of year	5,810	69,592	2,913	342,197	10,026	8,560	439,098
Additions	-	30	-	186	94	-	310
Reclassifications	10,441	(10,482)	-	-	-	-	(41)
Surplus/(deficit) on revaluation, net	(2,409)	893	-	-	-	-	(1,516)
Disposals	(4,762)	(762)	-	(5)	(832)	(1,042)	(7,403)
Disposal of subsidiaries	-	(3,860)	(1,922)	(9,525)	(2,949)	(1,707)	(19,963)
Exchange realignment	-	169	-	1,250	7	14	1,440
At 31 December 2000	<u>9,080</u>	<u>55,580</u>	<u>991</u>	<u>334,103</u>	<u>6,346</u>	<u>5,825</u>	<u>411,925</u>
Comprising:							
At cost	-	-	991	334,103	6,346	5,825	347,265
At 31 December 2000 valuation	<u>9,080</u>	<u>55,580</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>64,660</u>
	<u>9,080</u>	<u>55,580</u>	<u>991</u>	<u>334,103</u>	<u>6,346</u>	<u>5,825</u>	<u>411,925</u>
Accumulated depreciation:							
At beginning of year	-	-	2,857	54,058	8,719	7,064	72,698
Provided during the year	-	2,132	16	19,761	400	353	22,662
Reclassifications	-	(41)	-	-	-	-	(41)
Write back on revaluation	-	(2,045)	-	-	-	-	(2,045)
Disposals	-	(26)	-	(3)	(655)	(624)	(1,308)
Disposal of subsidiaries	-	(20)	(1,922)	(9,325)	(2,810)	(1,423)	(15,500)
Exchange realignment	-	-	-	164	4	11	179
At 31 December 2000	<u>-</u>	<u>-</u>	<u>951</u>	<u>64,655</u>	<u>5,658</u>	<u>5,381</u>	<u>76,645</u>
Net book value:							
At 31 December 2000	<u>9,080</u>	<u>55,580</u>	<u>40</u>	<u>269,448</u>	<u>688</u>	<u>444</u>	<u>335,280</u>
At 31 December 1999	<u>5,810</u>	<u>69,592</u>	<u>56</u>	<u>288,139</u>	<u>1,307</u>	<u>1,496</u>	<u>366,400</u>

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13. FIXED ASSETS (continued)

Company

	Furniture, fixtures and equipment <i>HK\$'000</i>
Cost:	
At beginning of year and at 31 December 2000	276
Accumulated depreciation:	
At beginning of year	208
Provided during the year	25
At 31 December 2000	233
Net book value:	
At 31 December 2000	43
At 31 December 1999	68

The net book value of fixed assets of the Group held under finance leases included in the total amount of fixed assets at 31 December 2000 amounted to nil (1999: HK\$394,000).

The Group's leasehold land and buildings were revalued at 31 December 2000 by CB Richard Ellis Limited, an independent professionally qualified valuer, at an aggregate value of HK\$55,580,000 on an open market value and existing use basis. A revaluation surplus of HK\$1,374,000 and a revaluation deficit of HK\$1,564,000, net of previous revaluation reserve, resulting from the above valuation have been credited to the fixed asset revaluation reserve and charged to the profit and loss account, respectively.

Had these leasehold land and buildings been carried at cost less accumulated depreciation, the carrying value of the leasehold land and buildings would have been included in the financial statements at approximately HK\$64,592,000 (1999: HK\$94,008,000).

The Group's leasehold land and buildings are further analysed as follows:

	Hong Kong S.A.R. <i>HK\$'000</i>	Elsewhere in the PRC <i>HK\$'000</i>	Total <i>HK\$'000</i>
Long term leases:			
At valuation	-	1,250	1,250
Medium term leases:			
At valuation	6,250	48,080	54,330
	<u>6,250</u>	<u>49,330</u>	<u>55,580</u>

NOTES TO FINANCIAL STATEMENTS

31 December 2000

13. FIXED ASSETS (continued)

The Group's investment properties of HK\$4,900,000 in Hong Kong and of HK\$4,180,000 in the PRC are held under long term lease and medium term lease, respectively, and were revalued at 31 December 2000 by CB Richard Ellis Limited on an open market value and existing use basis. The properties situated in Hong Kong are rented out under operating leases. The properties situated elsewhere in the PRC are vacant as at 31 December 2000. Details of the Group's investment properties are set out on page 70 of the annual report.

As at 31 December 2000, the Group's investment properties amounting to HK\$4,280,000 (1999: HK\$5,810,000) and certain of the Group's leasehold land and buildings with a net book value of approximately HK\$39,254,000 (1999: HK\$54,625,000) were pledged to secure certain of the Group's bank loans as set out in note 26 to the financial statements.

14. LAND USE RIGHTS

	Group <i>HK\$'000</i>
Valuation:	
At beginning of year	11,340
Surplus on revaluation	2,017
Exchange realignment	43
At 31 December 2000	13,400
Accumulated amortisation:	
At beginning of year	-
Provided during the year	455
Write back on revaluation	(455)
At 31 December 2000	-
Net book value:	
At 31 December 2000	13,400
At 31 December 1999	11,340

Land use rights represent the rights to use certain pieces of land which cover a medium term and are situated in the PRC. They are amortised over the respective remaining joint venture period upon the commencement of the respective commercial production.

The Group's land use rights were revalued at 31 December 2000 by CB Richard Ellis Limited at HK\$13,400,000 on an open market value and existing use basis. A revaluation surplus of HK\$2,472,000 resulting from the above valuation has been credited to the land use rights revaluation reserve.

Had these land use rights been carried at cost less accumulated amortisation, the carrying value of the land use rights would have been included in the financial statements at approximately HK\$9,148,000 (1999: HK\$9,493,000). The additional amortisation charge for the year in respect of the revalued land use rights amounted to approximately HK\$74,000 (1999: Nil).

NOTES TO FINANCIAL STATEMENTS

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15. INTERESTS IN SUBSIDIARIES

	Company	
	2000 HK\$'000	1999 HK\$'000
Unlisted shares, at cost	2,769	2,769
Due from subsidiaries	591,944	568,749
Due to subsidiaries	(54,083)	(9,460)
	<u>540,630</u>	<u>562,058</u>
Less: Provisions for diminutions in values	(204,920)	(211,721)
	<u>335,710</u>	<u>350,337</u>

The balances with subsidiaries are unsecured, interest-free and have no fixed terms of repayment, except for an advance to a subsidiary amounting to approximately HK\$52,952,000 which bears interest at LIBOR plus 3% per annum and is repayable after more than one year.

Particulars of the Company's principal subsidiaries are set out in note 32 to the financial statements.

16. INTERESTS IN JOINTLY CONTROLLED ENTITIES

	Group		Company	
	2000 HK\$'000	1999 HK\$'000	2000 HK\$'000	1999 HK\$'000
Unlisted investments, at cost	-	-	56,550	56,550
Share of net assets	58,966	79,420	-	-
Loan from a jointly controlled entity	-	(2,817)	-	-
Loan to a jointly controlled entity	-	8,347	-	-
	<u>58,966</u>	<u>84,950</u>	<u>56,550</u>	<u>56,550</u>
Less: Provisions for diminutions in values	(22,596)	(22,908)	(56,550)	(56,550)
	<u>36,370</u>	<u>62,042</u>	<u>-</u>	<u>-</u>

Particulars of the Group's principal jointly controlled entity are set out in note 33 to the financial statements.

The balances with jointly controlled entities are unsecured, interest-free and have no fixed terms of repayment.

Details of capital commitments relating to the jointly controlled entities are set out in note 36(a) to the financial statements.

NOTES TO FINANCIAL STATEMENTS

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17. INTERESTS IN ASSOCIATES

	Group	
	2000 HK\$'000	1999 HK\$'000
Share of net assets	39,334	36,879
Loans to associates	29,818	29,818
	<u>69,152</u>	<u>66,697</u>
Less: Provisions for diminutions in values	(29,818)	(29,818)
	<u>39,334</u>	<u>36,879</u>

Particulars of the Group's associates are set out in note 34 to the financial statements.

The balances with associates are unsecured, interest-free and have no fixed terms of repayment.

18. GOLF CLUB MEMBERSHIPS

	Group		Company	
	2000 HK\$'000	1999 HK\$'000	2000 HK\$'000	1999 HK\$'000
Golf club memberships, at cost	2,360	5,429	1,170	1,170
Less: Provisions for diminutions in values	(1,725)	(3,894)	(895)	(895)
	<u>635</u>	<u>1,535</u>	<u>275</u>	<u>275</u>

19. LONG TERM INVESTMENT

	Group	
	2000 HK\$'000	1999 HK\$'000
Long term investment, at cost	1,123	1,123
Less: Provision for impairment in value	(1,123)	(1,123)
	<u>-</u>	<u>-</u>

NOTES TO FINANCIAL STATEMENTS

31 December 2000

20. INVENTORIES

	Group	
	2000 HK\$'000	1999 HK\$'000
Raw materials	14,394	16,341
Work in progress	4,240	3,979
Finished goods	12,417	9,977
Properties for sale	6,331	3,109
Properties under development	1,509	6,281
	38,891	39,687

The carrying amount of inventories carried at net realisable value included in the above is nil (1999: HK\$546,000).

21. PROPERTIES FOR SALE

Details of properties for sale are as follows:

Address	Stage of completion	Usage	Site area	Unsold gross floor area	Group interest
No. 54 Jie Fang Nan Lu, Taiyuan, Shanxi, the PRC	100%	Residential	800 square metres	3,700 square metres	88%
No. K2 Dong Gang Xiao Qu, Dong Gang Xiang, Taiyuan, Shanxi, the PRC	100%	Residential	900 square metres	100 square metres	88%
No. 26 Cai Yuan Xi Jie, Taiyuan, Shanxi, the PRC	100%	Residential	2,000 square metres	200 square metres	88%

NOTES TO FINANCIAL STATEMENTS

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22. TRADE RECEIVABLES

The Group normally allows a credit period of 30 - 120 days to its trade customers. The aged analysis of trade receivables at the balance sheet date is as follows:

	2000	
	Balance <i>HK\$'000</i>	Percentage %
0 - 90 days	31,521	62
91 - 180 days	11,718	23
181 - 365 days	7,302	15
	<u>50,541</u>	<u>100</u>

In the opinion of the directors, it is impracticable to prepare an aged analysis for the trade receivables as at 31 December 1999 as certain subsidiaries were disposed of during the year. Accordingly, a comparative aged analysis of trade receivables is not presented.

23. PLEDGED BANK BALANCES

These bank balances were pledged to a bank to secure the banking facilities granted to the Group.

24. TRADE PAYABLES

The aged analysis of trade payables at the balance sheet date is as follows:

	2000	
	Balance <i>HK\$'000</i>	Percentage %
0 - 90 days	12,036	82
91 - 180 days	369	2
181 - 365 days	90	1
Over 1 year	2,224	15
	<u>14,719</u>	<u>100</u>

In the opinion of the directors, it is impracticable to prepare an aged analysis for the trade payables as at 31 December 1999 as certain subsidiaries were disposed of during the year. Accordingly, a comparative aged analysis of trade payables is not presented.

NOTES TO FINANCIAL STATEMENTS

31 December 2000

25. INTEREST-BEARING BANK AND OTHER BORROWINGS

Notes	Group		Company		
	2000 HK\$'000	1999 HK\$'000	2000 HK\$'000	1999 HK\$'000	
Current portion of bank loans and overdrafts	26	50,076	102,211	288	–
Current portion of finance lease payables	27	–	163	–	–
		<u>50,076</u>	<u>102,374</u>	<u>288</u>	<u>–</u>

26. INTEREST-BEARING BANK LOANS AND OVERDRAFTS

	Group		Company	
	2000 HK\$'000	1999 HK\$'000	2000 HK\$'000	1999 HK\$'000
Bank overdrafts	–	469	–	–
Trust receipt loans	3,692	8,336	–	–
Bank loans	49,367	100,326	1,952	–
	<u>53,059</u>	<u>109,131</u>	<u>1,952</u>	<u>–</u>
Secured	53,059	89,387	1,952	–
Unsecured	–	19,744	–	–
	<u>53,059</u>	<u>109,131</u>	<u>1,952</u>	<u>–</u>
Balances due:				
Within one year or on demand	50,076	102,211	288	–
In the second year	1,620	2,629	322	–
In the third to fifth years, inclusive	1,228	3,807	1,207	–
Beyond five years	135	484	135	–
	<u>53,059</u>	<u>109,131</u>	<u>1,952</u>	<u>–</u>
Portion due within one year, classified as current liabilities	<u>(50,076)</u>	<u>(102,211)</u>	<u>(288)</u>	<u>–</u>
Long term portion	<u>2,983</u>	<u>6,920</u>	<u>1,664</u>	<u>–</u>

NOTES TO FINANCIAL STATEMENTS

31 December 2000

26. INTEREST-BEARING BANK LOANS AND OVERDRAFTS (continued)

Certain of the Group's bank loans are secured by:

- (i) the Group's investment properties amounting to HK\$4,280,000 (1999: HK\$5,810,000) and certain of the leasehold land and buildings with an aggregate net book value of HK\$39,254,000 (1999: HK\$54,625,000);
- (ii) the Group's plant and machinery with a net book value of HK\$9,425,000;
- (iii) the Group's inventories amounting to HK\$7,540,000; and
- (iv) the Group's pledged bank balances amounting to HK\$3,517,000 (1999: HK\$22,973,000).

In prior year, certain of the Group's bank loans were also secured by land use rights with a net book value of HK\$11,340,000, a floating charge over the assets of Jiaying Eastern Steel Cord Co., Ltd., a 71.8% owned subsidiary of the Group and a first fixed charge over the entire issued share capital and assets of Everwinner Investments Limited, a 71.8% owned subsidiary of the Group.

27. FINANCE LEASE PAYABLES

There were obligations under finance leases at the balance sheet date as follows:

	Group	
	2000	1999
	HK\$'000	HK\$'000
Balances due:		
Within one year	-	163
In the second year	-	81
	<hr/>	<hr/>
	-	244
Portion due within one year, classified as current liabilities	-	(163)
	<hr/>	<hr/>
Long term portion	-	81
	<hr/> <hr/>	<hr/> <hr/>

NOTES TO FINANCIAL STATEMENTS

31 December 2000

28. DEFERRED TAX

	Group	
	2000 HK\$'000	1999 HK\$'000
Balance at beginning of year	22	463
Disposal of a subsidiary	(22)	–
Credit for the year – <i>note 10</i>	–	(441)
	<u>–</u>	<u>–</u>
At 31 December	<u>–</u>	<u>22</u>

The provision for deferred tax relates to timing differences arising from accelerated capital allowances to the extent that a liability is expected to crystallise in the foreseeable future.

Deferred tax has not been provided on the revalued assets in Hong Kong as the surplus on revaluation is not deemed to be a timing difference.

The principal components of the Group's net deferred tax assets not recognised in the financial statements are as follows:

	Group	
	2000 HK\$'000	1999 HK\$'000
Tax losses available for future relief	3,617	7,369
Accelerated capital allowances	(190)	(171)
	<u>3,427</u>	<u>7,198</u>

As at 31 December 2000, the Company did not have any significant unprovided deferred tax.

29. SHARE CAPITAL

Shares

	2000 HK\$'000	1999 HK\$'000
Authorised:		
1,000,000,000 ordinary shares of HK\$0.10 each	<u>100,000</u>	<u>100,000</u>
Issued and fully paid:		
765,372,000 ordinary shares of HK\$0.10 each	<u>76,537</u>	<u>76,537</u>

29. SHARE CAPITAL (continued)

Share options

On 11 March 1992, a share option scheme (the "Scheme") was approved by the shareholders. In accordance with the Scheme, the directors may, at their discretion, grant share options to executives and/or employees of the Group to subscribe for shares in the capital of the Company. The scheme will remain in force for the period of ten years from the date of its adoption.

No share options were granted during the year, and there were no share options outstanding at the balance sheet date.

NOTES TO FINANCIAL STATEMENTS

31 December 2000

30. RESERVES

Group	Share premium account HK\$'000	Capital reserve HK\$'000	Capital redemption reserve HK\$'000	Fixed asset revaluation reserve HK\$'000 (Note 1)	Land use rights revaluation reserve HK\$'000 (Note 1)	Exchange fluctuation reserve HK\$'000	PRC Reserve funds HK\$'000 (Note 2)	Accumulated losses HK\$'000	Total HK\$'000
At 1 January 1999	357,181	-	463	1,423	-	5,803	18,464	(72,377)	310,957
Exchange realignment	-	-	-	-	-	802	-	-	802
Deficit on revaluation	-	-	-	(1,423)	-	-	-	-	(1,423)
Surplus on revaluation	-	-	-	581	1,326	-	-	-	1,907
Arising from dilution of interest in an associate	-	11,887	-	-	-	(37)	(164)	-	11,686
Goodwill on acquisition of additional interest in a subsidiary	-	(4,600)	-	-	-	-	-	-	(4,600)
Net loss for the year	-	-	-	-	-	-	-	(65,616)	(65,616)
Transfer	-	-	-	-	-	-	1,083	(1,083)	-
	<u>357,181</u>	<u>7,287</u>	<u>463</u>	<u>581</u>	<u>1,326</u>	<u>6,568</u>	<u>19,383</u>	<u>(139,076)</u>	<u>253,713</u>
At 31 December 1999 and 1 January 2000									
Reserves retained by:									
Company and subsidiaries	357,181	7,287	463	581	1,326	2,067	64	(81,573)	287,396
Jointly controlled entities	-	-	-	-	-	4,212	17,695	(56,850)	(34,943)
Associates	-	-	-	-	-	289	1,624	(653)	1,260
	<u>357,181</u>	<u>7,287</u>	<u>463</u>	<u>581</u>	<u>1,326</u>	<u>6,568</u>	<u>19,383</u>	<u>(139,076)</u>	<u>253,713</u>
At 31 December 1999									
At 1 January 2000	357,181	7,287	463	581	1,326	6,568	19,383	(139,076)	253,713
Exchange realignment	-	-	-	-	-	1,550	-	-	1,550
Deficit on revaluation	-	-	-	(15)	-	-	-	-	(15)
Surplus on revaluation	-	-	-	1,002	1,775	-	-	-	2,777
Arising from disposal of fixed assets	-	-	-	(77)	-	-	-	77	-
Goodwill released upon disposal of:									
- interests in subsidiaries	-	2,536	-	-	-	-	-	-	2,536
- interests in jointly controlled entities	-	28,947	-	-	-	-	-	-	28,947
Net profit for the year	-	-	-	-	-	-	-	4,739	4,739
Transfer	-	-	-	-	-	-	1,794	(1,794)	-
	<u>357,181</u>	<u>38,770</u>	<u>463</u>	<u>1,491</u>	<u>3,101</u>	<u>8,118</u>	<u>21,177</u>	<u>(136,054)</u>	<u>294,247</u>
At 31 December 2000									
Reserves retained by:									
Company and subsidiaries	357,181	38,770	463	1,491	3,101	2,980	64	(88,236)	315,814
Jointly controlled entities	-	-	-	-	-	4,711	19,065	(50,774)	(26,998)
Associates	-	-	-	-	-	427	2,048	2,956	5,431
	<u>357,181</u>	<u>38,770</u>	<u>463</u>	<u>1,491</u>	<u>3,101</u>	<u>8,118</u>	<u>21,177</u>	<u>(136,054)</u>	<u>294,247</u>
At 31 December 2000									

Notes: 1. The fixed asset revaluation reserve and land use rights revaluation reserve are non-distributable reserves.

2. Pursuant to the relevant laws and regulations for Sino-foreign joint venture enterprises, a portion of the profits of the Group's subsidiaries, associates and jointly controlled entities in the PRC has been transferred to reserve funds which are restricted as to their use.

NOTES TO FINANCIAL STATEMENTS

31 December 2000

30. RESERVES (continued)

Company	Share premium account <i>HK\$'000</i>	Capital reserve <i>HK\$'000</i>	Capital redemption reserve <i>HK\$'000</i>	Accumulated losses <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 January 1999	357,181	23,990	463	(104,067)	277,567
Net loss for the year	<u>–</u>	<u>–</u>	<u>–</u>	<u>(46,346)</u>	<u>(46,346)</u>
At 31 December 1999 and 1 January 2000	357,181	23,990	463	(150,413)	231,221
Net loss for the year	<u>–</u>	<u>–</u>	<u>–</u>	<u>(504)</u>	<u>(504)</u>
At 31 December 2000	<u>357,181</u>	<u>23,990</u>	<u>463</u>	<u>(150,917)</u>	<u>230,717</u>

The Company's capital reserve represented the benefit of acquiring a shareholder's loan at a nominal consideration of HK\$1 upon the acquisition of a subsidiary in previous years.

31. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

- (a) Reconciliation of profit/(loss) from operating activities to net cash inflow/(outflow) from operating activities

	2000 <i>HK\$'000</i>	1999 <i>HK\$'000</i>
Profit/(loss) from operating activities	7,402	(66,846)
Gain on disposal of interests in jointly controlled entities, net	(2,287)	–
Loss/(gain) on disposal of subsidiaries, net	(590)	4,141
Gain on disposal of a long term investment	(3,430)	–
Provision for diminutions in values of golf club memberships	108	695
Provision for bad and doubtful debts	5,033	4,621
Interest income	(2,373)	(1,552)
Depreciation	22,662	27,011
Deficit/(surplus) on revaluation of leasehold land and buildings, net	(1,564)	26,748
Deficit on revaluation of investment properties	2,409	890
Loss on disposal of fixed assets, net	20	1,197
Amortisation of land use rights	455	379
Decrease/(increase) in trade and bills receivables	(14,314)	125,002
Decrease in prepayments, deposits and other receivables	5,029	6,918
Decrease/(increase) in inventories	(6,777)	20,889
Decrease in trade and bills payables	(20,207)	(25,683)
Increase/(decrease) in other payables and accruals	(5,500)	3,233
Exchange realignments	55	(591)
Net cash inflow/(outflow) from operating activities	<u>(13,869)</u>	<u>127,052</u>

NOTES TO FINANCIAL STATEMENTS

31 December 2000

31. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (continued)

(b) Analysis of changes in financing activities

	Bank loans	Due to a related company	Finance leases	Minority interests
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Balance at 1 January 1999	242,539	12,288	927	107,148
Net cash inflow/(outflow) from financing activities	(133,946)	29,002	(683)	–
Share of losses for the year	–	–	–	(3,825)
Exchange realignments	69	–	–	–
Interest payable on advances from a related company	–	1,591	–	–
Dividend paid to minority shareholders	–	–	–	(840)
Share of exchange fluctuation reserve	–	–	–	104
Share of fixed asset and land use rights revaluation reserves	–	–	–	743
	<u>108,662</u>	<u>42,881</u>	<u>244</u>	<u>103,330</u>
Balance at 31 December 1999 and at 1 January 2000				
Net cash outflow from financing activities	(59,446)	(10,140)	(244)	–
Share of losses for the year	–	–	–	(1,565)
Exchange realignments	151	–	–	–
Interest payable on advances from a related company	–	2,736	–	–
Disposal of subsidiaries	–	–	–	(4,093)
Dividends attributable to minority shareholders	–	–	–	(8,183)
Share of exchange fluctuation reserve	–	–	–	(202)
Share of fixed asset and land use rights revaluation reserves	–	–	–	1,084
	<u>49,367</u>	<u>35,477</u>	<u>–</u>	<u>90,371</u>
Balance at 31 December 2000				

NOTES TO FINANCIAL STATEMENTS

31 December 2000

31. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (continued)

(c) Summary of the effects of disposal of interests in subsidiaries

	2000 HK\$'000	1999 HK\$'000
Net assets disposed of:		
Fixed assets	4,463	11,941
Golf club memberships	395	-
Interest in a jointly controlled entity	1,500	-
Cash and bank balances	6,256	-
Trade receivables	14,393	-
Other receivables	4,065	-
Inventories	7,573	-
Bank overdrafts	(40)	-
Trade payables	(3,194)	-
Other payables	(10,678)	-
Deferred tax	(22)	-
Tax payable	(53)	-
Minority interests	(4,093)	-
	<u>20,565</u>	<u>11,941</u>
Goodwill eliminated to reserves on acquisition	2,536	-
Gain/(loss) on disposal of subsidiaries, net	590	(4,141)
	<u>23,691</u>	<u>7,800</u>
Consideration		
Accounted for and discharged by:		
Cash consideration received	16,944	1,100
Other receivables	-	700
Discharge of other payables	6,747	1,400
Discharge of loan from a minority shareholder	-	4,600
	<u>23,691</u>	<u>7,800</u>
Analysis of net inflow of cash and cash equivalents in respect of the disposal of subsidiaries:		
	2000 HK\$'000	1999 HK\$'000
Cash consideration received	16,944	1,100
Cash and bank balances disposed of	(6,256)	-
Bank overdrafts disposed of	40	-
	<u>10,728</u>	<u>1,100</u>

NOTES TO FINANCIAL STATEMENTS

31 December 2000

31. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (continued)

(c) Summary of the effects of disposal of interests in subsidiaries (continued)

The subsidiaries disposed of in 2000 contributed cash outflow of HK\$16,859,000 to the Group's net operating cash outflow, paid HK\$3,037,000 in respect of the net return on investments and servicing of finance, utilised HK\$3,564,000 in respect of financing activities, but had no significant impact in respect of tax and investing activities.

The subsidiaries disposed of during the year contributed approximately HK\$25,659,000 to the Group's turnover and HK\$1,271,000 of loss to the Group's operating results for the year, respectively.

32. PARTICULARS OF THE PRINCIPAL SUBSIDIARIES

Particulars of the principal subsidiaries at the balance sheet date are as follows:

Name	Place of incorporation and operations	Issued and paid-up capital	Percentage of equity attributable to the Group		Principal activities
			2000	1999	
Bogay Investment Limited	Hong Kong	100 ordinary shares of HK\$1 each 100,000 non-voting deferred shares of HK\$1 each	100#	100#	Investment holding
Onhon Industrial Limited	Hong Kong	1,000,000 ordinary shares of HK\$1 each	100	100	Sale of copper and brass products
Meta Company Limited	Hong Kong	100 ordinary shares of HK\$1 each 18,000,000 non-voting deferred shares of HK\$1 each	100#	100#	Investment holding
Hing Cheong Metals (China & Hong Kong) Limited	Hong Kong	1,000,000 ordinary shares of HK\$1 each	91	91	Processing and trading of copper and brass products
Fair Win Development Limited	Hong Kong/ PRC	500,000 ordinary shares of HK\$1 each	100	100	Property investment
Heroland Investment Limited	Hong Kong/ PRC	2 ordinary shares of HK\$1 each	100	100	Property investment

NOTES TO FINANCIAL STATEMENTS

31 December 2000

32. PARTICULARS OF THE PRINCIPAL SUBSIDIARIES (continued)

Name	Place of incorporation and operations	Issued and paid-up capital	Percentage of equity attributable to the Group		Principal activities
			2000	1999	
Bigland Investment Limited	Hong Kong/ PRC	2 ordinary shares of HK\$1 each	100	100	Property investment
Eastern Century Metal Products Limited	Hong Kong	1,000,000 ordinary shares of HK\$1 each	100	100	Investment holding
Online Investments Limited	British Virgin Islands/ Hong Kong	31,000,000 ordinary shares of US\$1 each	71.8	71.8	Investment holding
Everwinner Investments Limited	Hong Kong	1,000,000 ordinary shares of HK\$1 each	71.8	71.8	Investment holding

Name	Place of registration and operations	Business structure	Registered capital	Percentage of equity attributable to the Group		Principal activities
				2000	1999	
Jiaxing Eastern Steel Cord Co., Ltd.	PRC	Wholly foreign owned enterprise	US\$44,000,000	71.8	71.8	Manufacturing of steel cord
Shanxi Shengjia Real Estate Developing Co., Ltd.	PRC	Contractual joint venture	RMB19,000,000	88	88	Real estate development and investment

Directly held by the Company

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results of the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

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33. PARTICULARS OF THE PRINCIPAL JOINTLY CONTROLLED ENTITY

Particulars of the principal jointly controlled entity at 31 December 2000 are as follows:

Name	Business structure	Place of registration and operations	Registered capital	Percentage of equity attributable to the Group	Percentage		Principal activities
					of voting power attributable to the Group	of profit attributable to the Group	
Shanghai Shenjia Metal Products Co., Ltd.	Corporate	PRC	US\$10,000,000	25	33	25	Manufacturing of pre-stressed concrete strands and wires

The above table lists the jointly controlled entity of the Group which, in the opinion of the directors, principally affected the results of the year or formed a substantial portion of the net assets of the Group. To give details of other jointly controlled entities would, in the opinion of the directors, result in particulars of excessive length.

34. PARTICULARS OF THE ASSOCIATES

Particulars of the associates at 31 December 2000 are as follows:

Name	Business structure	Place of registration and operations	Issued and paid-up capital	Percentage of equity attributable to the Group		Principal activities
				2000	1999	
Xinhua Metal Products Co., Ltd. (Note)	Corporate	PRC	120,760,734 shares of RMB1 each	16.75	16.75	Manufacturing of pre-stressed concrete strands and wires
Sky Fond Investment Limited	Corporate	Hong Kong	1,500,000 ordinary shares of HK\$1 each	50	50	Dormant

Note:

Xinhua Metal Products Co., Ltd. ("Xinhua") is listed on the Shanghai Stock Exchange in the PRC. The shares in Xinhua held by the Group are legal person shares and are not tradable on any stock exchange. Pursuant to the memorandum of association, the Group is entitled to its equity share in the profits and losses and the net assets upon its cessation. In the opinion of the directors, the Group is in a position to exercise significant influence over Xinhua. Accordingly, it has been classified as an associate.

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35. CONTINGENT LIABILITIES

As the balance sheet date, the Group and the Company had the following contingent liabilities not provided for in the financial statements:

	Group		Company	
	2000 HK\$'000	1999 HK\$'000	2000 HK\$'000	1999 HK\$'000
Guarantees for banking facilities granted to subsidiaries	-	-	69,867	321,451
Guarantees for banking facilities granted to a jointly controlled entity	34,205	27,775	-	-
	<u>34,205</u>	<u>27,775</u>	<u>69,867</u>	<u>321,451</u>

36. COMMITMENTS

(a) Capital commitments

At the balance sheet date, the Group's share of capital commitments in respect of its interests in jointly controlled entities was approximately HK\$246,000 (1999: HK\$793,000).

(b) Commitments under operating leases

At the balance sheet date, annual commitments under non-cancellable operating leases in respect of land and buildings payable by the Group in the following year were as follows:

	Group	
	2000 HK\$'000	1999 HK\$'000
Leases expiring within one year	<u>1,310</u>	<u>1,571</u>

As at 31 December 2000, the Company did not have any significant commitments.

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37. RELATED PARTY TRANSACTIONS

During the year, the Group had the following transactions with Shougang International and its subsidiaries (collectively the "Shougang International Group"), Shougang HK and its subsidiaries (collectively the "Shougang HK Group"), an associate and a jointly controlled entity. Shougang International is a controlling shareholder of the Company and Shougang HK is the controlling shareholder of Shougang International.

	Notes	2000 HK\$'000	1999 HK\$'000
Consultancy fees paid to Shougang HK Group	(i)	90	360
Management fees paid to Shougang International Group	(i)	600	960
Rental expenses paid to:			
Shougang HK Group	(ii)	1,415	2,557
Shougang International Group	(ii)	156	156
Interest paid to:			
Shougang HK Group	(iii)	2,761	1,591
An associate	(iv)	-	494
Sales to a jointly controlled entity	(v)	-	4,601
Sales to an associate of Shougang International Group	(vi)	4,169	2,043
Loan from a jointly controlled entity	(vii)	-	2,817
Corporate guarantee received from Shougang HK Group	(viii)	-	12,870
Corporate guarantees given to a jointly controlled entity	(ix)	34,205	27,775

Notes:

- (i) The Group paid consultancy fees to the Shougang HK Group and paid management fees to the Shougang International Group in relation to business and strategic development services provided at rates determined between both parties.
- (ii) The Group paid rental expenses to the Shougang HK Group and Shougang International Group for the leasing of properties in Hong Kong as office premises and staff quarters. The rental was calculated by reference to market rentals.
- (iii) The loans advanced from the Shougang HK Group are secured by the Group's interest in a jointly controlled entity and are interest free except for an amount of US\$544,000 with interest payable at LIBOR plus 2.5% per annum and an amount of HK\$24,815,000 with interest payable at HIBOR per annum.

The amount due to Shougang HK Group was due for settlement in February 2001 under the original loan agreement dated 3 April 2000. Pursuant to an agreement dated 28 February 2001, Shougang HK Group agreed to extend the loan facilities to the Group to February 2002. Accordingly, the amount due to Shougang HK Group has been classified as a non-current liability at the balance sheet date.

- (iv) The Group received an advance from an associate in the amount of approximately HK\$9,390,000 which was fully repaid in 1999. The advance was secured by the Group's partial interests in the associate with interest payable at 8% per annum.

NOTES TO FINANCIAL STATEMENTS

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37. RELATED PARTY TRANSACTIONS (continued)

- (v) The sales to the jointly controlled entity were made according to prices and conditions similar to those offered to other third party customers of the Group, except that interest was not charged on overdue balances.
- (vi) The sales to an associate of Shougang International were made according to prices and conditions similar to those offered to other third party customers of the Group.
- (vii) The loan advanced by the jointly controlled entity was unsecured, interest-free and was fully repaid during the year.
- (viii) Shougang HK has provided a corporate guarantee of HK\$12,870,000 for banking facilities granted to the Group in respect of a capital investment project. The relevant banking facilities have been fully repaid during the year.
- (ix) The Group has executed corporate guarantees for bank loans granted to a jointly controlled entity to finance its working capital. These guarantees were provided in proportion to the Group's equity interest in the jointly controlled entity and are normally renewable on an annual basis.

In addition to the above, during the prior year, the Group had the following transactions with certain key management personnel of its subsidiaries.

- (x) On 21 September 1999, Shun Fat Investments Limited ("Shun Fat"), a wholly-owned subsidiary of the Company entered into two agreements with Hing Cheong Metals (China & Hong Kong) Limited ("Hing Cheong"), a 51% indirect owned subsidiary of the Company, and Mr. So Kai Ming ("Mr. So"), a director of Hing Cheong for:
 - (a) the purchase by Shun Fat from Mr. So of a 40% interest in the issued share capital of Hing Cheong (including the right to receive the dividend declared by Hing Cheong in the sum of HK\$1,200,000 on 12 March 1998) and an interest in a loan due from Hing Cheong to Mr. So in the amount of HK\$4,600,000 for an aggregate consideration of HK\$2; and
 - (b) the disposal by Hing Cheong to Mr. So of the entire issued share capital of True Harvest Industrial Limited and Dragle Industrial Limited, which are wholly owned subsidiaries of Hing Cheong, and certain of Hing Cheong's interest in plant, machinery and vehicles for a total cash consideration of HK\$2,000,000.
- (xi) On 10 December 1999, Meta Company Limited ("Meta"), a wholly owned subsidiary of the Company, entered into an agreement with Mr. Chang Tai Tek, a director of Jet Power Electrical Company Limited ("Jet Power"), which is an indirectly wholly owned subsidiary of the Company, for the disposal of the entire issued share capital of Jet Power held by Meta for a consideration of approximately HK\$19,047,000.

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38. COMPARATIVE AMOUNTS

As further detailed in note 7 to the financial statements, the Group discontinued certain business activities during the year. Accordingly, certain comparative amounts have been reclassified to conform with the current year's presentation reflecting the discontinuance of such operations.

39. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved by the board of directors on 19 April 2001.