

NOTES TO FINANCIAL STATEMENTS

31 December 2000

1. CORPORATE INFORMATION

The registered office of the Company is located at 7th Floor, First Pacific Bank Centre, 56 Gloucester Road, Wanchai, Hong Kong.

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

- manufacture and sale of steel products
- rebar stockholding and trading of steel products
- property investment and management
- transportation and shipping
- property rental

In the opinion of the directors, Shougang Holding (Hong Kong) Limited ("Shougang HK") is the Company's controlling shareholder which is, in turn, a wholly-owned subsidiary of Shougang Corporation, which is established in Mainland China.

2. BASIS OF PRESENTATION

Notwithstanding the net current liabilities position recorded by the Company and the Group as at the balance sheet date, the directors have prepared these financial statements on a going concern basis because Shougang HK and Shougang Corporation have confirmed that they will provide the necessary financial support to enable the Company and the Group to continue operating as a going concern and to meet its liabilities as and when they fall due.

Furthermore, Shougang HK has agreed not to demand repayment of any amounts owed by the Group (including outstanding convertible bonds of HK\$154,916,000 and other amounts owed to Shougang HK of HK\$8,319,000 carried in the Group's current liabilities at the balance sheet date) until such time when the Group is able to do so without adversely impairing its liquidity position.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

These financial statements have been prepared in accordance with Hong Kong Statements of Standard Accounting Practice ("SSAPs"), 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, and certain fixed assets and equity investments, 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 included in the consolidated financial statements from or to their effective dates of acquisition or disposal, respectively. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Goodwill

Goodwill arising on the consolidation of subsidiaries and on the acquisition of jointly controlled entities and associates represents the excess of the purchase consideration paid for the subsidiaries, jointly controlled entities and associates over the fair values ascribed to the net underlying assets acquired, and is eliminated against 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 is written back and included in the calculation of the gain or loss on disposal in the profit and loss account.

Subsidiaries

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

Interests in subsidiaries are stated in the Company's balance sheet 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.

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 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 temporary in nature deemed necessary by the directors.

Jointly controlled entities

A jointly controlled entity is a joint venture under 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.

The Group's share of the 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Long term investments

Long term investments are investments in unlisted equity securities intended to be held on a long term basis.

Long term investments are stated at cost less provisions for any impairment in values, other than those considered to be temporary in nature, deemed necessary by the directors, on an individual investment basis.

Short term investments

Short term investments are investments in equity securities held for trading purposes and are stated at their fair values on the basis of their quoted market prices at the balance sheet date on an individual investment basis. The gains or losses arising from changes in the fair value of a security are credited or charged to the profit and loss account for the period in which they arise.

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) Sales are recognised when the goods are delivered or the services are rendered;
- (b) Charter hire income from chartered-in vessels is recognised in accordance with the following basis:

Time chartered-in and time chartered-out	Time proportion
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- (c) Freight revenues from chartered-in vessels are recognised in accordance with the following bases:

Time chartered-in and voyage chartered-out	Time proportion
Voyage chartered-in and voyage chartered-out	Completion of loading
- (d) Engineering and other service contract works performed are recognised based on the stage of completion of the contract works, provided that the costs incurred, as well as the estimated costs to completion, can be measured reliably. The stage of completion of the engineering and other service contract works performed is established by reference to the costs incurred to date as compared to the total costs to be incurred under the engineering and other service contracts and/or independent quantity surveyors' assessment reports;
- (e) Rental and management fee income is recognised on a time proportion basis;
- (f) Dividend income is recognised when the shareholders' right to receive payment is established;

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue recognition (Continued)

- (g) Income from the disposal of investment properties is recognised when legally binding sales contracts are signed and exchanged and the transaction becomes unconditional;
- (h) Income from the trading of listed investments is recognised on the date when the transaction takes place; and
- (i) Interest income is recognised on a time proportion basis, taking into account the principal outstanding and the effective rate of interest applicable.

Fixed assets and depreciation

Fixed assets, other than investment properties and construction in progress, 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 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.

The gain or loss on disposal or retirement of a fixed asset recognised in the profit and loss account is the difference between the proceeds on disposal and the carrying amount of the relevant asset. On disposal or retirement, the attributable revaluation surplus not previously dealt with in retained profits is transferred directly to retained profits.

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 determined using methods other than discounted cashflows. 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.

NOTES TO FINANCIAL STATEMENTS

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fixed assets and depreciation (Continued)

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:

Construction in progress	Nil
Land and buildings	1.5% to 5%, or over the terms of the leases or user rights, whichever is shorter
Leasehold improvements	2.5% to 33 $\frac{1}{3}$ %, or over the terms of the leases, whichever is shorter
Furniture, fixtures and equipment	6 $\frac{2}{5}$ % to 33 $\frac{1}{3}$ %
Plant and machinery	4% to 25%
Motor vehicles	9% to 30%
Vessels	5% to 18%

The Group intends to apply for an extension of the joint venture tenure from 20 years to 50 years for Qinhuangdao Shougang Plate Mill Co., Ltd., a subsidiary in which the Group has a 51% interest. Such application can only be made during the six-month period prior to the expiry of the joint venture tenure, and the directors believe that such an extension will be granted upon application. Accordingly, the costs of the buildings and of the plant and machinery of this joint venture are depreciated on the straight-line basis to write off the cost of the assets over their estimated useful lives based on the assumption that a new tenure will be granted.

Investment properties

Investment properties are interests in land and/or 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 with unexpired lease terms of more than 20 years are not depreciated and are stated at their open market values on the basis of 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.

Upon the 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.

Construction in progress

Construction in progress represents factory buildings, plant and machinery and other fixed assets under construction and is stated at cost. Cost comprises direct costs of purchase, construction, installation and testing as well as interest charges and exchange differences on related borrowed funds during the period of construction. Construction in progress is transferred to fixed assets when it is capable of producing saleable output on a commercial basis.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**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 or credited to the profit and loss account on the straight-line basis over the lease terms.

Intangible assets

Intangible assets represent deferred expenses incurred by certain of the Group's subsidiaries in Mainland China and are stated at cost less accumulated amortisation.

Amortisation is provided using the straight-line basis to write off the cost of intangible assets over their estimated economic lives of not exceeding 10 years.

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 estimated costs to be incurred to completion and disposal.

Construction contracts

Contract revenue comprises the contract amount and appropriate amounts from variation orders, claims and incentive payments. Contract costs incurred comprise direct materials, the costs of subcontracting, direct labour and an appropriate proportion of variable and fixed construction overheads.

Revenue from fixed price construction contracts is recognised on the percentage of completion method, measured by reference to the costs incurred to date as compared to the total costs to be incurred under the construction contract and/or independent quantity surveyors' assessment reports.

Revenue from cost plus construction contracts is recognised by reference to the recoverable costs incurred during the period plus the related fee earned, measured by the proportion of costs incurred to date to the estimated total costs of the relevant contract.

Provisions are made for foreseeable losses as soon as they are anticipated by management.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Construction contracts (Continued)

Where contract costs incurred to date plus recognised profits less recognised losses exceed progress billings, the surplus is treated as an amount due from contract customers.

Where progress billings exceed contract costs incurred to date plus recognised profits less recognised losses, the surplus is treated as an amount due to contract customers.

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.

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.

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.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset which takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of the asset. Capitalisation of such borrowing costs ceases when the asset is substantially ready for its intended use or sale. The capitalisation rate for the year is based on the actual cost of the related borrowings.

All other borrowing costs are recognised as expenses in the period in which they are incurred.

Convertible bonds

Convertible bonds are stated at par value, adjusted for the accretion of premium on redemption on a straight-line basis over the terms of the bonds.

NOTES TO FINANCIAL STATEMENTS

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Pension costs

The Group operates defined contribution retirement benefits schemes under the Mandatory Provident Fund Schemes Ordinance for certain of its employees. Contributions are made based on a percentage of the eligible employees' salaries and are charged to the profit and loss account as they become payable in accordance with the rules of the schemes. The assets of the schemes are held separately from those of the Group in independently administered funds. When an employee leaves the Mandatory Provident Fund Exempted ORSO retirement benefits scheme prior to his/her interest in the Group's employer contributions vesting fully, the ongoing contributions payable by the Group may be reduced by the relevant amount of forfeited contributions. With respect to the Mandatory Provident Fund retirement benefits scheme, the Group's employer contributions vest fully with the employees when contributed into the scheme.

Contributions made by certain PRC joint ventures of the Group, based on a percentage of the employees' basic salaries to the central pension scheme operated by the PRC Government, are charged to the profit and loss account as and when incurred.

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.

Interest rate swap agreements

The Group uses interest rate swap agreements to hedge its risks associated with interest rate fluctuations. Any gains or losses arising from the interest rate swap agreements are credited or debited to the profit and loss account on an accrual basis.

4. TURNOVER AND REVENUE

Turnover represents the net invoiced value of goods sold after allowances for goods returned and trade discounts, and services rendered, but excludes intra-group transactions. Revenue from the following activities has been included in turnover. Revenue arising from other sources is disclosed in note 5 to the financial statements.

	2000 HK\$'000	1999 HK\$'000
Manufacture and sale of steel products	1,564,594	1,358,089
Rebar stockholding and trading of steel products	297,265	1,145,334
Transportation and shipping	325,863	129,759
Gross rental income	21,937	20,608
Others	2,214	3,087
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Turnover for the year	2,211,873	2,656,877

NOTES TO FINANCIAL STATEMENTS

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5. LOSS FROM OPERATING ACTIVITIES

The Group's loss from operating activities is arrived at after charging:

	2000 <i>HK\$'000</i>	1999 <i>HK\$'000</i>
Cost of inventories sold and services provided	2,078,779	2,373,854
Depreciation:		
Owned fixed assets	87,896	91,351
Leased fixed assets	27,429	29,981
	<hr/> 115,325 <hr/>	<hr/> 121,332 <hr/>
Amortisation of intangible assets	764	747
Operating lease rentals in respect of:		
Land and buildings	7,542	14,894
Plant and machinery	–	317
	<hr/> 7,542 <hr/>	<hr/> 15,211 <hr/>
Charter hire costs	321,690	116,127
Auditors' remuneration	2,979	3,477
Staff costs (including directors' remuneration – note 7):		
Wages, salaries and benefits	131,311	137,709
Pension scheme contributions (note)	749	1,580
	<hr/> 132,060 <hr/>	<hr/> 139,289 <hr/>
Loss on disposal of land and buildings	3,798	781
Loss on disposal of other fixed assets, net	7,340	2,159
Foreign exchange losses, net	2,302	4,256
Revaluation deficit on investment properties	7,925	1,195
Specific provisions for bad debts	25,347	109,933
General provisions for bad debts	31,483	21,456
Write-off of an amount due from a minority shareholder	2,513	–
Loss on deemed disposal of interest in an associate	313	–
Provision for decline in value of land and buildings	495	1,169
Provision against a loan to an associate	6,000	3,568
Loss on disposal of short term investments, net	203	–
Loss on changes in fair values of short term investments, net	1,288	–
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NOTES TO FINANCIAL STATEMENTS

31 December 2000

5. LOSS FROM OPERATING ACTIVITIES (Continued)

The Group's loss from operating activities is arrived at after crediting:

	2000	1999
	HK\$'000	HK\$'000
Interest income	5,580	13,590
Dividend income from listed investments	210	77
Gain on disposal of short term listed investments	–	442
Gain on disposal of an investment property	1,000	–
Net rental income from investment properties	20,414	19,559
Waiver of interest expense charged by a related company	4,280	–
Gain on changes in fair values of short term investments, net	–	1,140
	–	–

Note: The effect of forfeited contributions on the Group's contributions to the pension schemes for the year, and amounts of forfeited contributions available at the balance sheet date to reduce contributions in future years, were not material.

6. FINANCE COSTS

	2000	1999
	HK\$'000	HK\$'000
Interest expense on:		
Bank loans, bank overdrafts and other loans wholly repayable within five years	32,644	50,781
Convertible bonds	23,553	24,660
Finance leases	428	469
Unpaid capital contribution to a jointly controlled entity	3,180	3,419
Less: Interest capitalised into construction in progress	(1,215)	(1,383)
Net interest expense	58,590	77,946
Accretion of premium on convertible bonds	9,832	9,649
	68,422	87,595

NOTES TO FINANCIAL STATEMENTS

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7. DIRECTORS' REMUNERATION

Directors' remuneration disclosed pursuant to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules") and Section 161 of the Companies Ordinance is as follows:

	2000 <i>HK\$'000</i>	1999 <i>HK\$'000</i>
Fees	245	210
Salaries and other emoluments	3,258	3,291
	<u>3,503</u>	<u>3,501</u>

Included in the directors' fees were fees of HK\$150,000 (1999: HK\$100,000) received by independent non-executive directors.

The remuneration of the directors for the year fell within the following bands:

	Number of directors	
	2000	1999
Nil – HK\$1,000,000	8	7
HK\$1,000,001 – HK\$1,500,000	1	1
HK\$1,500,001 – HK\$2,000,000	1	1
	<u>1</u>	<u>1</u>

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

8. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included one (1999: one) executive director, whose remuneration was disclosed in note 7 above. The details of the remuneration of the remaining four (1999: four) highest paid employees during the year are set out below:

	2000 <i>HK\$'000</i>	1999 <i>HK\$'000</i>
Salaries and allowances	5,428	6,378
Pension scheme contributions	253	253
	<u>5,681</u>	<u>6,631</u>

The remuneration of the remaining four non-director, highest paid employees of the Group for the year fell within the following bands:

	Number of employees	
	2000	1999
HK\$1,000,001 – HK\$1,500,000	3	1
HK\$1,500,001 – HK\$2,000,000	1	3
	<u>1</u>	<u>3</u>

NOTES TO FINANCIAL STATEMENTS

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9. TAX

Hong Kong profits tax has been provided at the rate of 16% (1999: 16%) on the estimated assessable profits arising in Hong Kong during the year. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

	Group	
	2000	1999
	HK\$'000	HK\$'000
Provisions for tax in respect of assessable profits for the year:		
Hong Kong	449	1,576
Elsewhere	23	2
Deferred tax (<i>note 30</i>)	(297)	89
Prior year's overprovision	(1,382)	(536)
	(1,207)	1,131
Share of tax of associates:		
Hong Kong	2,276	936
Share of tax of a jointly controlled entity:		
Elsewhere	2,783	5,947
	5,059	6,883
Tax charge for the year	3,852	8,014

10. NET LOSS ATTRIBUTABLE TO SHAREHOLDERS

The net loss attributable to shareholders dealt with in the financial statements of the Company is HK\$137,863,000 (1999: HK\$1,108,705,000).

The Group's share of profits less losses retained by the associates for the year amounted to a profit of HK\$4,591,000 (1999: loss of HK\$143,916,000).

The Group's share of profits retained by the jointly controlled entities for the year amounted to HK\$8,899,000 (1999: HK\$14,249,000).

11. LOSS PER SHARE

The calculation of basic loss per share is based on net loss attributable to shareholders of HK\$186,422,000 (1999: HK\$652,767,000) and the weighted average of 1,895,855,675 (1999: 1,850,546,139) ordinary shares in issue during the year.

The diluted loss per share for the years ended 31 December 2000 and 1999 is not shown as there was no dilutive effect on the basic loss per share. The 8% convertible bonds had an anti-dilutive effect on the basic loss per share, and the outstanding share options of the Company would not result in the issue of ordinary shares for less than the fair value as their exercise price was above the average market price of the Company's shares during the two years.

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12. FIXED ASSETS

Group

	Investment properties	Construction in progress	Land and buildings	Leasehold improve-ments	Furniture, fixtures and equipment	Plant and machinery	Motor vehicles	Vessels	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Cost or valuation:									
At beginning of year	309,780	133,501	401,928	409,692	28,485	1,349,901	39,880	46,133	2,719,300
Additions	141	22,075	5,015	76	2,064	523	3,420	-	33,314
Disposals	-	(11,739)	(5,588)	(735)	(672)	(4,249)	(599)	-	(23,582)
Reclassifications	-	(1,969)	830	-	-	1,139	-	-	-
Deficit on revaluation	(11,204)	-	-	-	-	-	-	-	(11,204)
Provision for decline in value	-	-	(970)	-	-	-	-	-	(970)
Exchange adjustments	-	505	894	1,510	47	4,752	137	152	7,997
At 31 December 2000	298,717	142,373	402,109	410,543	29,924	1,352,066	42,838	46,285	2,724,855
Comprising:									
At cost	-	142,373	396,109	410,543	29,924	1,352,066	42,838	46,285	2,420,138
At 1988 directors' valuation	-	-	6,000	-	-	-	-	-	6,000
At 2000 professional valuation	298,717	-	-	-	-	-	-	-	298,717
	298,717	142,373	402,109	410,543	29,924	1,352,066	42,838	46,285	2,724,855
Accumulated depreciation:									
At beginning of year	-	-	80,653	115,485	21,356	388,357	29,101	29,657	664,609
Provided during the year	-	-	14,343	21,033	2,540	72,146	4,236	1,027	115,325
Disposals	-	-	(180)	(729)	(409)	(978)	(479)	-	(2,775)
Write-back on provision for decline in value	-	-	(310)	-	-	-	-	-	(310)
Exchange adjustments	-	-	303	419	42	1,428	115	81	2,388
At 31 December 2000	-	-	94,809	136,208	23,529	460,953	32,973	30,765	779,237
Net book value:									
At 31 December 2000	298,717	142,373	307,300	274,335	6,395	891,113	9,865	15,520	1,945,618
At 31 December 1999	309,780	133,501	321,275	294,207	7,129	961,544	10,779	16,476	2,054,691

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31 December 2000

12. FIXED ASSETS (Continued)

The cost or valuation of the Group's land and buildings are analysed as follows:

	Hong Kong <i>HK\$'000</i>	Elsewhere <i>HK\$'000</i>	Total <i>HK\$'000</i>
Long term lease	5,789	875	6,664
Medium term lease	11,231	384,214	395,445
	17,020	385,089	402,109

The net book value of assets held under finance leases included in the total amount of fixed assets at 31 December 2000 amounted to HK\$197,877,000 (1999: HK\$224,476,000).

Had the Group's land and buildings been carried at cost less accumulated depreciation, they would have been included in the financial statements at approximately HK\$304,953,000 (1999: HK\$318,864,000).

The Group has adopted the provisions of SSAP 17 "Property, Plant and Equipment" issued by the Hong Kong Society of Accountants of not making further regular revaluations of its land and buildings which had previously been revalued.

The carrying value of the Group's investment properties is analysed as follows:

	Hong Kong <i>HK\$'000</i>	Elsewhere <i>HK\$'000</i>	Total <i>HK\$'000</i>
Long term lease	101,101	16,016	117,117
Medium term lease	181,600	–	181,600
	282,701	16,016	298,717

The Group's investment properties situated in Hong Kong were revalued on 31 December 2000 by AA Property Services Limited, an independent firm of professional valuers, on an open market value based on their existing use. These properties are rented out under operating leases.

The Group's investment properties situated in Mainland China were revalued at 31 December 2000 by DTZ Debenham Tie Leung Limited, an independent firm of professional valuers, on an open market value based on their existing state. These properties were vacant as at the balance sheet date.

Certain of the Group's land and buildings and investment properties with an aggregate net book value of HK\$277,721,000 (1999: HK\$286,847,000), together with a cash deposit of HK\$3,000,000 (note 22) and certain shares in a listed subsidiary with a market value of HK\$29,129,000 as at 31 December 2000 (note 33), have been pledged to banks in Hong Kong as security for banking facilities of approximately HK\$164,796,000 (1999: HK\$115,000,000) granted to the Group. At as 31 December 2000, such facilities were utilised to the extent of HK\$123,587,000 (1999: HK\$65,824,000).

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12. FIXED ASSETS (Continued)

Certain of the Group's plant and machinery with a net book value of HK\$515,543,000 (1999: HK\$556,225,000) were pledged to a bank in Mainland China for banking facilities of HK\$94,277,000 (1999: HK\$93,923,000) granted to the Group. At as 31 December 2000, such facilities were utilised to the extent of HK\$69,765,000 (1999: HK\$73,730,000).

Further details of the Group's major investment properties are set out on pages 87 and 88 of this annual report.

13. INTERESTS IN ASSOCIATES

	Group	
	2000 HK\$'000	1999 HK\$'000
Share of net assets	392,051	456,888
Less: Provision for loss on disposal	—	(80,068)
	392,051	376,820
Loan to an associate	27,900	71,122
Less: Provision for a loan to an associate	(9,568)	(46,790)
	18,332	24,332
	410,383	401,152
Associates include:		
share of net assets of Hong Kong listed companies	392,048	376,818
Market value of the listed shares	176,228	247,538

The loan to an associate as at 31 December 2000 represents an amount of HK\$27,900,000 due from Top Pearl International Development Limited, which is unsecured, bears interest at 15% per annum and has no fixed terms of repayment.

During the year, the time charter loan stocks of HK\$41,494,000 (US\$5,354,000) and convertible loan stock of HK\$1,728,000 (US\$223,000) issued by Associated Bulk Carriers Limited ("ABC") were written off, having been fully provided against during the year ended 31 December 1999, pursuant to a sale and purchase agreement entered into on 3 April 2000, whereby the Group agreed to dispose of its interest in ABC for US\$2 and waive all and any right to receive any loan stock from ABC.

NOTES TO FINANCIAL STATEMENTS

31 December 2000

13. INTERESTS IN ASSOCIATES (Continued)

Particulars of the associates at the balance sheet date, all of which are held through subsidiaries, are as follows:

Name	Business structure	Place of incorporation or registration/operation	Percentage of equity attributable to the Group		Principal activities
			2000	1999	
Shougang Concord Century Holdings Limited ("SC Century")*	Corporate	Hong Kong	37	37	Investment holding
Shougang Concord Technology Holdings Limited ("SC Technology")*#	Corporate	Hong Kong	28	28	Investment holding
Gainrise Holdings Limited	Corporate	Hong Kong	20	20	Investment holding
Top Pearl International Development Limited	Corporate	British Virgin Islands/ People's Republic of China	30	30	Property development
Associated Bulk Carriers Limited**	Corporate	Hong Kong	-	25	Chartering of vessels

The Group's interests in the above associates were in the form of ordinary shares.

* Listed on The Stock Exchange of Hong Kong Limited.

** On 3 April 2000, an agreement was entered into between the Company, The Peninsular and Oriental Steam Navigation Company ("P&O") and ABC (the "Agreement") whereby the Company sold its equity interest in ABC, a joint venture company established in April 1998 which was held as to 25% by the Company, as to 25% by Shougang HK and as to 50% by P&O. Pursuant to the Agreement, the Company agreed to sell one deferred share of HK\$1 in the capital of ABC and to procure the sale of 35,750,000 issued C shares of US\$1.00 in the capital of ABC to P&O for a total consideration of US\$2. The Company agreed to pay (i) HK\$21,547,000 (US\$2,782,000) to ABC, being the compensation for the losses incurred by ABC on the Jedforest and Lauderdale charters in the second half of 1999; (ii) HK\$7,427,000 (US\$959,000) to P&O, being the settlement of the Company's share of interest payable to The Chase Manhattan Bank which P&O had already discharged on behalf of the Company; and (iii) HK\$15,415,000 (US\$1,990,000) to ABC, being payable in connection with the Jedforest and Lauderdale charters from January to March 2000.

Pursuant to the Agreement, the Company also agreed to waive all rights to receive any loan stock and the interest thereon with an aggregate carrying value of HK\$43,222,000 as at 31 December 1999.

The disposal resulted in a loss of approximately HK\$152,693,000 which was provided for in the financial statements for the year ended 31 December 1999.

During the year, certain share options of SC Technology were exercised by the share option holders. The Group's interest in SC Technology decreased from 28.02% to 27.94% during 2000.

NOTES TO FINANCIAL STATEMENTS

31 December 2000

13. INTERESTS IN ASSOCIATES (Continued)

Summary extracts of the consolidated operating results and financial position of the SC Century group and the SC Technology group, based on their audited financial statements for the years ended 31 December 2000 and 1999, are as follows:

- (a) The principal activities of the SC Century group are the trading and processing of copper and brass products, industrial chemical products, manufacturing of steel cords and property development and investment.

	2000 HK\$'000	1999 HK\$'000
Turnover:		
Continuing operations	142,422	107,853
Discontinued operations	26,695	160,967
	169,117	268,820
Operating profit/(loss)	7,402	(66,846)
Finance costs	(10,465)	(17,312)
Profit/(loss) after finance costs:		
Continuing operations	(4,686)	(71,302)
Discontinued operations	1,623	(12,856)
	(3,063)	(84,158)
Share of profits less losses of jointly controlled entities		
Continuing operations	9,558	10,596
Discontinued operations	(1,016)	61
	8,542	10,657
Share of profit of an associate	4,590	3,261
Profit/(loss) before tax	10,069	(70,240)
Tax	(6,895)	799
Profit/(loss) before minority interests	3,174	(69,441)
Minority interests	1,565	3,825
Net profit/(loss) from ordinary activities attributable to shareholders	4,739	(65,616)

NOTES TO FINANCIAL STATEMENTS

31 December 2000

13. INTERESTS IN ASSOCIATES (Continued)

(a) (continued)

	2000	1999
	HK\$'000	HK\$'000
Fixed assets	335,280	366,400
Interests in associates	39,334	36,879
Interests in jointly controlled entities	36,370	62,042
Other non-current assets	14,035	12,875
Current assets	149,826	173,556
	<hr/>	<hr/>
Total assets	574,845	651,752
	<hr/>	<hr/>
Current liabilities	75,230	168,268
Long term liabilities	38,460	49,904
Minority interests	90,371	103,330
	<hr/>	<hr/>
Total liabilities and minority interests	204,061	321,502
	<hr/>	<hr/>
Net assets	370,784	330,250
	<hr/>	<hr/>
Net assets attributable to the Group	135,559	120,735
	<hr/>	<hr/>

NOTES TO FINANCIAL STATEMENTS

31 December 2000

13. INTERESTS IN ASSOCIATES (Continued)

- (b) The principal activities of the SC Technology group are the manufacture and sale of telephone cords and accessories, power cords, adaptors and electronic products, printed circuits boards, high precision components for computers and the provision of freight forwarding and delivery services.

	2000 HK\$'000	1999 HK\$'000
Turnover	<u>686,604</u>	<u>742,580</u>
Operating profit	23,174	8,017
Finance costs	(6,559)	(7,674)
Provision for impairment in value of interest in a jointly controlled entity	(51,491)	–
Share of profits less losses of jointly controlled entities	<u>18,063</u>	<u>30,675</u>
Profit/(loss) before tax	(16,813)	31,018
Tax	<u>527</u>	<u>(1,900)</u>
Profit/(loss) before minority interests	(16,286)	29,118
Minority interests	<u>(6,499)</u>	<u>(2,980)</u>
Net profit/(loss) from ordinary activities attributable to shareholders	<u>(22,785)</u>	<u>26,138</u>
Fixed assets	245,778	268,824
Interests in jointly controlled entities	106,066	112,064
Other non-current assets	17,337	16,592
Current assets	<u>386,892</u>	<u>383,070</u>
Total assets	<u>756,073</u>	<u>780,550</u>
Current liabilities	164,713	194,536
Long term liabilities	233	2,657
Minority interests	<u>39,778</u>	<u>33,279</u>
Total liabilities and minority interests	<u>204,724</u>	<u>230,472</u>
Net assets	<u>551,349</u>	<u>550,078</u>
Net assets attributable to the Group	<u>153,948</u>	<u>154,132</u>

NOTES TO FINANCIAL STATEMENTS

31 December 2000

14. INTERESTS IN JOINTLY CONTROLLED ENTITIES

	2000	1999
	HK\$'000	HK\$'000
Unlisted investments: Cost plus share of post-acquisition profits of jointly controlled entities	237,251	194,194

Particulars of the jointly controlled entities at the balance sheet date, all of which are held through subsidiaries, are as follows:

Name of entity	Business structure	Place of incorporation/ registration and operations	Percentage of ownership interest/ profit and loss sharing attributable to the Group	Percentage of voting power attributable to the Group	Principal activities
Beijing Dongzhimen International Apartment Co., Ltd. ("Beijing Dongzhimen") – note	Corporate	PRC	26	26	Property holding and provision of residential serviced apartments
Oncor Investment Limited	Corporate	Hong Kong	50	50	Investment holding and trading of silicone sealant and other adhesives

Note:

Beijing Dongzhimen is a sino-foreign equity joint venture which was established in the PRC on 18 December 1986 with a tenure of 14 years and 8 months to 17 August 2001 (the "initial JV term"). Under the terms of the subscription agreement between the Group and the original joint venture partners, the original joint venture partners were required to procure for an extension of the initial JV term for a further period of 15 years from the date of expiry of the initial JV term to 17 August 2016. The extension has been approved by the relevant authorities during the year upon the completion of the capital contribution.

Beijing Dongzhimen holds the land use rights for the land on which the East Lake Villas are presently located until the expiry of the initial JV term. At the balance sheet date, Beijing Dongzhimen was in the process of applying for an extension of 40 years for the use of the land following the expiry of the initial JV term.

NOTES TO FINANCIAL STATEMENTS

31 December 2000

14. INTERESTS IN JOINTLY CONTROLLED ENTITIES (Continued)

Shougang HK, the controlling shareholder of the Company and a fellow subsidiary of one of the original joint venture partners, has provided an irrevocable undertaking to the Group to the effect that, should the present land use right be terminated prior to the expiry of the initial JV term, or should the extension of 40 years not be approved by the Beijing Administration for Land and Property, the Group will have the right to require Shougang HK to acquire from the Group the entire issued share capital of Grand Award Limited, a subsidiary of the Group, at an amount equal to the consideration paid by Grand Award Limited for the acquisition of Beijing Dongzhimen together with any further capital or loans which Grand Award Limited may have contributed or advanced to Beijing Dongzhimen, plus interest thereon calculated at market rates (the "Put Option"). In connection with Shougang HK's grant of the Put Option, the Group has paid Shougang HK a sum of HK\$100 as consideration.

A summary of the results and net assets as at 31 December 2000 and 1999 of Beijing Dongzhimen is set out below:

(a) Results

	2000 HK\$'000	1999 HK\$'000
Turnover	<u>79,244</u>	<u>103,701</u>
Profit before tax	26,255	46,091
Tax	<u>(6,325)</u>	<u>(13,516)</u>
Profit after tax	<u>19,930</u>	<u>32,575</u>

(b) Net assets

	2000 HK\$'000	1999 HK\$'000
Fixed assets	140,714	144,975
Construction in progress (note c)	359,719	256,720
Long term investment	1,206	1,803
Other non-current assets	680	1,694
Current assets	81,172	134,006
Current liabilities	<u>(49,389)</u>	<u>(46,640)</u>
	<u>534,102</u>	<u>492,558</u>
Net assets attributable to the Group	<u>235,882</u>	<u>192,955</u>

(c) Beijing Dongzhimen has obtained a temporary land use right certificate in respect of the land included therein. At the balance sheet date, Beijing Dongzhimen was in the process of applying for the formal land use right certificate following the full payment of the land premium during the year.

NOTES TO FINANCIAL STATEMENTS

31 December 2000

15. INTANGIBLE ASSETS

Group	Deferred expenses HK\$'000
Cost:	
At beginning of year	7,520
Additions	76
Exchange adjustments	28
At 31 December 2000	<u>7,624</u>
Accumulated amortisation:	
At beginning of year	2,143
Charge for the year	764
Exchange adjustments	8
At 31 December 2000	<u>2,915</u>
Net book value:	
At 31 December 2000	<u>4,709</u>
At 31 December 1999	<u>5,377</u>

16. INVESTMENTS

Long term investments

	Group	
	2000 HK\$'000	1999 HK\$'000
Unlisted equity investments, at cost	<u>405</u>	<u>692</u>

Short term investments

	Group	
	2000 HK\$'000	1999 HK\$'000
Listed equity investments in Hong Kong, at market value	<u>8,320</u>	<u>23,238</u>

NOTES TO FINANCIAL STATEMENTS

31 December 2000

17. INVENTORIES

	Group	
	2000 HK\$'000	1999 HK\$'000
Raw materials	157,817	136,074
Work in progress	44,771	35,499
Finished goods	43,589	48,058
Goods in transit	657	-
	246,834	219,631

The carrying amount of inventories included in the above that are carried at net realisable value was HK\$11,956,000 (1999: HK\$18,082,000).

18. ACCOUNTS AND BILLS RECEIVABLE

		Group	
	Note	2000 HK\$'000	1999 HK\$'000
Manufacture and sale of steel products (<i>note a</i>)		262,866	364,188
Others (<i>note b</i>)		91,517	62,534
Gross amounts due from contract customers	19	17,491	37,189
		371,874	463,911

Notes:

- (a) The aged analysis of accounts and bills receivable from the manufacture and sale of steel products, principally in Mainland China, was as follows:

		2000 HK\$'000	1999 HK\$'000
Within one year		114,474	190,560
1-2 years		53,213	57,539
Over 2 years		95,179	116,089
		262,866	364,188

Trading terms with customers are largely on credit, except for new customers, where payment in advance is normally required. Invoices are normally payable within 30 days of issuance, except for certain well established customers, where the terms are extended to 60 days. The management seeks to maintain control over its outstanding receivables and exercises credit control to minimise credit risk. Overdue balances are also regularly reviewed and followed up by the management in accordance with the general business practice applicable to the operating environment in Mainland China.

NOTES TO FINANCIAL STATEMENTS

31 December 2000

18. ACCOUNTS AND BILLS RECEIVABLE (Continued)

(b) The aged analysis of accounts and bills receivable from other activities was as follows:

	2000 <i>HK\$'000</i>	1999 <i>HK\$'000</i>
Within 90 days	60,350	31,345
91-180 days	1,532	11,752
181-365 days	4,516	7,787
1-2 years	17,909	1,904
Over 2 years	7,210	9,746
	91,517	62,534
	91,517	62,534

For the steel trading business, payment terms with customers are largely by letters of credit, normally at sight. For the shipping business, payment terms with customers are governed by the charter party, which mainly range from 10 to 30 days. For other businesses, trading terms with customers are similar to those set out in (a) above. The management seeks to maintain control over its outstanding receivables and exercises credit control to minimise credit risk. Overdue balances are also regularly reviewed and followed up by the management.

19. CONSTRUCTION CONTRACTS

	Group	
	2000 <i>HK\$'000</i>	1999 <i>HK\$'000</i>
Gross amounts due from contract customers included in accounts and bills receivable	17,491	37,189
Gross amounts due to contract customers included in accounts and bills payables	(4,486)	(4,084)
	13,005	33,105
Contract costs incurred plus recognised profits less losses to date (<i>note</i>)	450,567	467,167
Less: Progress billings (<i>note</i>)	(437,562)	(434,062)
	13,005	33,105
	13,005	33,105

Note: These amounts are mainly related to construction contracts which have either been terminated, ceased or had insignificant activities during the year. The directors have been negotiating with customers to agree their final completion accounts during the year and up to the date of approval of these financial statements.

At 31 December 2000, retentions held by customers for contract works as included in accounts and bills receivable/prepayments, deposits and other receivables under current assets amounted to approximately HK\$16,999,000 (1999: HK\$27,358,000).

NOTES TO FINANCIAL STATEMENTS

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20. DUE FROM/TO RELATED COMPANIES

These represent amounts due from/to Shougang HK, its holding company, subsidiaries and fellow subsidiaries. Except for a short term loan amount of HK\$2,503,000 (US\$321,000) due to a wholly-owned subsidiary of Shougang HK by the Company which is unsecured, bears interest at 8.42% per annum and is repayable in June 2001, and other short term loans of HK\$54,558,000 (1999: HK\$208,547,000) granted by Shougang Corporation and its affiliate to one (1999: three) of the Group's subsidiaries established in Mainland China which are unsecured, interest-free and have no fixed terms of repayment, the remaining balances represent normal trade receivables/payables and other short term advances from related companies which are also unsecured, interest-free and have no fixed terms of repayment.

As further detailed in note 2 to the financial statements, the repayment of amounts owed to Shougang HK will only be made on the basis that the repayment will not adversely impair the liquidity position of the Group.

21. DUE FROM/TO ASSOCIATES/JOINTLY CONTROLLED ENTITIES

The balances are unsecured, interest-free and have no fixed terms of repayment. Except for a balance of HK\$2,270,000 due to a jointly controlled entity which bore interest at 6% per annum and was repaid in July 2000, the balances as at 31 December 1999 were unsecured, interest-free and had no fixed terms of repayment.

22. PLEDGED DEPOSITS

Included in the balances are: (i) a cash deposit of HK\$3,000,000 (1999: Nil) pledged to a bank in Hong Kong as part of a security to secure banking facilities granted to the Group, and (ii) a cash deposit of HK\$3,920,000 (1999: HK\$3,757,000) pledged to a bank in Mainland China to secure banking facilities of approximately HK\$3,771,000 (1999: HK\$3,757,000) granted to a subsidiary of the Group established in Mainland China. As at 31 December 2000, such facilities aggregating HK\$3,771,000 (1999: HK\$3,757,000) were fully utilised by the Group.

23. CASH AND CASH EQUIVALENTS

Included in the balance is an amount of HK\$1,577,000 (1999: HK\$3,441,000) deposited by certain subsidiaries in Mainland China with Hua Xia Bank, which is a related company of Shougang HK.

NOTES TO FINANCIAL STATEMENTS

31 December 2000

24. ACCOUNTS AND BILLS PAYABLES

	<i>Note</i>	Group
		2000
		HK\$'000
Manufacture and sale of steel products (<i>note a</i>)		82,850
Others (<i>note b</i>)		24,886
Gross amounts due to contract customers	19	4,486
		<hr/> 112,222 <hr/>

Notes:

- (a) The aged analysis of accounts and bills payables from the manufacture and sale of steel products, principally in Mainland China, was as follows:

	2000
	HK\$'000
Within one year	38,856
1-2 years	28,743
Over 2 years	15,251
	<hr/> 82,850 <hr/>

- (b) The aged analysis of accounts and bills payables from other activities was as follows:

	2000
	HK\$'000
Within 90 days	22,133
91-180 days	67
181-365 days	93
1-2 years	1,063
Over 2 years	1,530
	<hr/> 24,886 <hr/>

In the opinion of the directors, it is impracticable to prepare an aged analysis for the accounts and bills payables as at 31 December 1999. Accordingly, a comparative aged analysis of accounts and bills payables has not been presented.

NOTES TO FINANCIAL STATEMENTS

31 December 2000

25. CONVERTIBLE BONDS

On 17 September 1998, the Company issued a total of HK\$338,276,000 8% convertible bonds (the "Bonds") due November 2001 to the Company's then shareholders. The Company raised approximately HK\$334 million, net of expenses.

Each Bond is, at the option of the holder, convertible on or after 12 November 1998 up to and including 11 November 2001, into fully paid ordinary shares of the Company with a par value of HK\$0.20, at an initial conversion price of HK\$0.38, subject to adjustment in certain events. On conversion, the principal amount of the Bonds being converted and the accrued interest thereon will be extinguished and released in exchange for the new shares to be issued by the Company, credited as fully paid.

From 17 December 1998, the Company may redeem all or some of the Bonds at their principal amount plus accrued and unpaid interest, if the closing price of the shares of the Company for each of the 20 consecutive trading days before redemption is at least 140% of the conversion price in effect on each of such trading days, or if less than 10% of the Bonds are outstanding.

During the year, a principal amount of HK\$5,700 (1999: HK\$34,225,000) of the Bonds was converted into ordinary shares of the Company at a conversion price of HK\$0.38 per share, resulting in the issue of 15,000 (1999: 90,065,000) ordinary shares of the Company of HK\$0.20 each, credited as fully paid. At the balance sheet date, the remaining Bonds amounted to approximately HK\$294,414,000. The exercise in full of the conversion rights of the remaining Bonds at the initial conversion price would result in the issue of 774,775,000 (1999: 774,790,000) additional ordinary shares.

Unless previously redeemed or converted, each Bond will be redeemed at 110% of its principal amount with accrued interest on 12 November 2001. Accordingly, the Bonds have been classified as current liabilities as at the balance sheet date.

26. INTEREST-BEARING BANK AND OTHER BORROWINGS

		Group		Company	
Notes	2000 HK\$'000	1999 HK\$'000	2000 HK\$'000	1999 HK\$'000	
Bank overdrafts	27	7,056	603	–	–
Current portion of bank loans	27	390,309	253,771	–	–
Current portion of lease payables	28	26,893	26,792	–	–
		<u>424,258</u>	<u>281,166</u>	<u>–</u>	<u>–</u>

NOTES TO FINANCIAL STATEMENTS

31 December 2000

27. BANK LOANS AND OVERDRAFTS

	Group		Company	
	2000 HK\$'000	1999 HK\$'000	2000 HK\$'000	1999 HK\$'000
Bank overdrafts	7,056	603	-	-
Trust receipt loans	5,272	5,344	-	-
Bank loans	485,037	313,927	-	-
	<u>497,365</u>	<u>319,874</u>	<u>-</u>	<u>-</u>
Secured	197,123	143,311	-	-
Unsecured	300,242	176,563	-	-
	<u>497,365</u>	<u>319,874</u>	<u>-</u>	<u>-</u>

The secured bank loans and overdrafts of HK\$197,123,000 (1999: HK\$143,311,000) are secured by certain of the Group's leasehold land and buildings, investment properties, plant and machinery, cash deposits and interests in shares in a listed subsidiary as further set out in notes 12, 22 and 33 to the financial statements, respectively.

The maturities of the bank loans and overdrafts are as follows:

	Group		Company	
	2000 HK\$'000	1999 HK\$'000	2000 HK\$'000	1999 HK\$'000
Bank overdrafts repayable within one year or on demand	7,056	603	-	-
Bank loans repayable:				
Within one year or on demand	390,309	253,771	-	-
In the second year	30,000	65,500	-	-
In the third to fifth years, inclusive	70,000	-	-	-
	<u>490,309</u>	<u>319,271</u>	<u>-</u>	<u>-</u>
Total bank loans and overdrafts	497,365	319,874	-	-
Portion classified as current liabilities	(397,365)	(254,374)	-	-
Long term portion	<u>100,000</u>	<u>65,500</u>	<u>-</u>	<u>-</u>

NOTES TO FINANCIAL STATEMENTS

31 December 2000

28. LEASE PAYABLES

Commitments for capital amounts under finance leases at the balance sheet date were as follows:

	Group	
	2000 HK\$'000	1999 HK\$'000
Repayable:		
Within one year	26,893	26,792
In the second year	26,893	26,792
In the third to fifth years, inclusive	80,679	80,376
Beyond five years	89,644	116,063
	224,109	250,023
Portion classified as current liabilities	(26,893)	(26,792)
Long term portion	197,216	223,231

29. LONG TERM LOANS FROM RELATED COMPANIES

The amount represents the aggregate of a long term loan principal of HK\$64,480,000 and accrued interest of HK\$7,614,000 (1999: aggregate amount of HK\$78,568,000) due by the Company to a wholly-owned subsidiary of Shougang HK. The balance is unsecured, repayable on 31 March 2002 and bears interest at 8.5% per annum during the year.

The remaining loan principal of HK\$271,750,000 was made by a wholly-owned subsidiary of Shougang HK to one of the Company's subsidiaries in Mainland China, in which the Company and Shougang HK have attributable interests of 51% and 39%, respectively. The amount is unsecured and interest-free. The subsidiary of Shougang HK has undertaken to provide this loan on an unspecified long term basis. Accordingly, the loan balance has been classified as a long term liability.

NOTES TO FINANCIAL STATEMENTS

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30. DEFERRED TAX

	Group	
	2000 HK\$'000	1999 HK\$'000
Balance at beginning of year	(483)	(483)
Credit/(charge) for the year (note 9)	297	(89)
Disposal of subsidiaries, net	-	89
	(186)	(483)
Balance at end of year	(186)	(483)

The principal components of the Group's provision for deferred tax assets/(liabilities) and amounts not provided for are as follows:

	Provided		Not provided	
	2000 HK\$'000	1999 HK\$'000	2000 HK\$'000	1999 HK\$'000
Tax losses carried forward	-	-	52,631	22,147
Accelerated depreciation allowances	(186)	(483)	(244)	(57)
	(186)	(483)	52,387	22,090
	(186)	(483)	52,387	22,090

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

The Company had no significant unprovided deferred tax liability as at the balance sheet date.

31. SHARE CAPITAL

Shares

	Company	
	2000 HK\$'000	1999 HK\$'000
Authorised:		
5,000,000,000 ordinary shares of HK\$0.20 each	1,000,000	1,000,000
Issued and fully paid:		
1,895,856,454 (1999: 1,895,841,454) ordinary shares of HK\$0.20 each	379,171	379,168
	379,171	379,168

NOTES TO FINANCIAL STATEMENTS

31 December 2000

31. SHARE CAPITAL (Continued)

During the year, a principal amount of the Bonds, totalling HK\$5,700 (1999: HK\$34,225,000), was converted into ordinary shares of the Company at a conversion price of HK\$0.38 per share, resulting in the issue of 15,000 (1999: 90,065,000) ordinary shares of the Company of HK\$0.20 each, credited as fully paid. The principal amount and the accrued interest on the Bonds converted were extinguished and released upon conversion.

Share options

On 11 April 1991, a share option scheme (the "Scheme") was adopted by the shareholders of the Company. Under the Scheme, the directors may, at their discretion, invite employees of the Company and its subsidiaries, including directors, to take up options to subscribe for shares of the Company at a price of not less than 80% of the average of the closing prices of the shares on The Stock Exchange of Hong Kong Limited on the five trading days immediately preceding the date of offer of grant, or the nominal value of the Company's shares, whichever is the higher amount. The maximum number of shares in respect of which options may be granted under the Scheme may not exceed 10% of the issued capital of the Company, excluding any shares issued upon the exercise of options, from time to time. An option may be exercised under the Scheme at any time during a period of not exceeding five years commencing one month after the date the option is accepted and expiring on the last day of such period or 10 years from 11 April 1991, whichever is the earlier. Each of the grantees has paid HK\$1 as cash consideration for the grant of the options in accordance with the Scheme.

Details of the share options granted, exercised and lapsed pursuant to the Scheme during the year ended 31 December 2000 are as follows:

Date of offer of grant	Exercise price per share	Exercise period	Number of options				At end of year
			At beginning of year	Granted during the year	Exercised during the year	Lapsed or cancelled during the year	
17 June 1997	HK\$1.355	The date of acceptance of offer to 10 April 2001	22,150,000	-	-	(6,300,000)	15,850,000

Subsequent to the balance sheet date, all of the above share options lapsed as a result of the termination of the Scheme on 10 April 2001.

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32. RESERVES

	Share premium account <i>HK\$'000</i>	Capital redemption reserve <i>HK\$'000</i>	Revaluation reserve <i>HK\$'000</i>	Exchange fluctuation reserve <i>HK\$'000</i>	Capital reserve <i>HK\$'000</i> <i>Note (a)</i>	Enterprise expansion fund and statutory reserve fund <i>HK\$'000</i> <i>Note (b)</i>	Accumulated losses <i>HK\$'000</i>	Total <i>HK\$'000</i>
Group								
At 1 January 1999	805,311	1,019	2,855	31,792	362,473	125,805	(186,221)	1,143,034
Issue of shares	16,212	-	-	-	-	-	-	16,212
Share issue expenses	(36)	-	-	-	-	-	-	(36)
Deemed acquisition of interest in an associate	-	-	-	-	-	-	28	28
Share of movements in reserves of associates	-	-	178	281	2,692	335	(420)	3,066
Exchange adjustments on translation of the financial statements of overseas subsidiaries, associates and jointly controlled entities	-	-	-	2,386	-	-	-	2,386
Disposal of interest in an associate	-	-	-	2,264	72,584	(437)	-	74,411
Net loss for the year	-	-	-	-	-	-	(652,767)	(652,767)
At 31 December 1999	<u>821,487</u>	<u>1,019</u>	<u>3,033</u>	<u>36,723</u>	<u>437,749</u>	<u>125,703</u>	<u>(839,380)</u>	<u>586,334</u>

NOTES TO FINANCIAL STATEMENTS

31 December 2000

32. RESERVES (Continued)

	Share premium account <i>HK\$'000</i>	Capital redemption reserve <i>HK\$'000</i>	Revaluation reserve <i>HK\$'000</i>	Exchange fluctuation reserve <i>HK\$'000</i>	Capital reserve <i>HK\$'000</i> <i>Note (a)</i>	Enterprise expansion fund and statutory reserve fund <i>HK\$'000</i> <i>Note (b)</i>	Accumulated losses <i>HK\$'000</i>	Total <i>HK\$'000</i>
Group								
At 1 January 2000	821,487	1,019	3,033	36,723	437,749	125,703	(839,380)	586,334
Issue of shares	3	-	-	-	-	-	-	3
Share issue expenses	(1)	-	-	-	-	-	-	(1)
Share of movements in reserves of associates	-	-	981	(202)	10,359	656	(628)	11,166
Exchange adjustments on translation of the financial statements of overseas subsidiaries and jointly controlled entities	-	-	-	5,025	-	-	-	5,025
Transfer to enterprise expansion and statutory reserve funds	-	-	-	-	-	635	(635)	-
Deemed disposal of interest in an associate	-	-	-	-	313	-	-	313
Net loss for the year	-	-	-	-	-	-	(186,422)	(186,422)
At 31 December 2000	<u>821,489</u>	<u>1,019</u>	<u>4,014</u>	<u>41,546</u>	<u>448,421</u>	<u>126,994</u>	<u>(1,027,065)</u>	<u>416,418</u>
Reserves retained by:								
Company and its subsidiaries	821,489	1,019	2,855	52,929	403,479	118,889	(971,656)	429,004
Associates	-	-	1,159	(12,065)	44,942	8,105	(66,079)	(23,938)
Jointly controlled entities	-	-	-	682	-	-	10,670	11,352
31 December 2000	<u>821,489</u>	<u>1,019</u>	<u>4,014</u>	<u>41,546</u>	<u>448,421</u>	<u>126,994</u>	<u>(1,027,065)</u>	<u>416,418</u>
Company and its subsidiaries	821,487	1,019	2,855	48,104	403,166	118,254	(599,124)	795,761
Associates	-	-	178	(11,863)	34,583	7,449	(256,125)	(225,778)
Jointly controlled entities	-	-	-	482	-	-	15,869	16,351
31 December 1999	<u>821,487</u>	<u>1,019</u>	<u>3,033</u>	<u>36,723</u>	<u>437,749</u>	<u>125,703</u>	<u>(839,380)</u>	<u>586,334</u>

NOTES TO FINANCIAL STATEMENTS

31 December 2000

32. RESERVES (Continued)

	Share premium account <i>HK\$'000</i>	Capital redemption reserve <i>HK\$'000</i>	Revaluation reserve <i>HK\$'000</i>	Exchange fluctuation reserve <i>HK\$'000</i>	Capital reserve <i>HK\$'000</i> <i>Note (a)</i>	Enterprise expansion fund and statutory reserve fund <i>HK\$'000</i> <i>Note (b)</i>	Accumulated losses <i>HK\$'000</i>	Total <i>HK\$'000</i>
Company								
At 1 January 1999	805,311	1,019	-	-	1,800,000	-	(805,624)	1,800,706
Issue of shares	16,212	-	-	-	-	-	-	16,212
Share issue expenses	(36)	-	-	-	-	-	-	(36)
Loss for the year	-	-	-	-	-	-	(1,108,705)	(1,108,705)
At 31 December 1999 and beginning of year	821,487	1,019	-	-	1,800,000	-	(1,914,329)	708,177
Issue of shares	3	-	-	-	-	-	-	3
Share issue expenses	(1)	-	-	-	-	-	-	(1)
Loss for the year	-	-	-	-	-	-	(137,863)	(137,863)
At 31 December 2000	821,489	1,019	-	-	1,800,000	-	(2,052,192)	570,316

Notes:

- (a) The Company's capital reserve was created through the reduction of its share premium account on 29 November 1993, as approved by the Supreme Court of Hong Kong. It is non-distributable, but may be applied to eliminate goodwill on consolidation arising from acquisitions.
- (b) In accordance with the financial regulations applicable in Mainland China, subsidiaries, associates and other joint ventures in Mainland China are required to transfer part of their profits after tax to the enterprise expansion fund and the statutory reserve fund, which are non-distributable, before profit distributions to joint venture partners. The quanta of the transfers are subject to the approval of the board of directors of these subsidiaries, associates and other joint ventures in accordance with their respective joint venture agreements.

NOTES TO FINANCIAL STATEMENTS

31 December 2000

33. INTERESTS IN SUBSIDIARIES

	Company	
	2000 HK\$'000	1999 HK\$'000
Unlisted shares, at cost	527,466	527,466
Due from subsidiaries	2,554,931	2,582,250
	3,082,397	3,109,716
Less: Provisions for diminutions in values	(1,737,752)	(1,634,084)
	1,344,645	1,475,632

Except for balances with an aggregate amount of HK\$81,544,000 (1999: HK\$132,972,000) due from certain subsidiaries, which bear interest at 4.5% to 11.74% (1999: 4.5% to 11.74%) per annum, the remaining balances are interest-free, unsecured and have no fixed terms of repayment.

Certain of the shares of Shougang Concord Grand (Group) Limited held by a subsidiary of the Company with an aggregate market value of HK\$29,129,000 as at 31 December 2000 have been pledged to a bank in Hong Kong as part of a security to secure banking facilities granted to the Group.

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

Name	Place of incorporation or registration/ operations	Nominal value of issued ordinary share capital/ registered capital	Percentage of equity attributable to the Group		Principal activities
			2000	1999	
Shougang Concord Steel Holdings Limited	British Virgin Islands/ Hong Kong	US\$1,000	100	100	Investment holding
Shougang Concord Steel Group Limited	Hong Kong	HK\$25,000,000	100*	100*	Investment holding
Shougang Concord Construction Materials Limited	Hong Kong	HK\$14,000,000	100*	100*	Trading of construction materials and provision of interior decoration and renovation services

NOTES TO FINANCIAL STATEMENTS

31 December 2000

33. INTERESTS IN SUBSIDIARIES (Continued)

Name	Place of incorporation or registration/ operations	Nominal value of issued ordinary share capital/ registered capital	Percentage of equity attributable to the Group		Principal activities
			2000	1999	
Radnor Limited	Hong Kong	HK\$1,775,920	75*	75*	Manufacture and installation of kitchen equipment and investment holding
Radnor Engineering Limited	Hong Kong/ People's Republic of China	HK\$200,000	75*	75*	Manufacture and installation of kitchen equipment
Fairtree Group Limited	British Virgin Islands/ People's Republic of China	US\$1	75*	75*	Trading of kitchen equipment
Dongguan Roulop Metal Products Co. Limited	People's Republic of China	HK\$10,000,000	52.5*	52.5*	Manufacture and installation of kitchen equipment
Jiangmen Radnor Kitchen & Laundry Engineering Limited	People's Republic of China	HK\$500,000	71.25*	–	Installation of kitchen equipment
Shougang Concord Godown Limited	Hong Kong	Ordinary: HK\$2 Deferred: HK\$2,000,000	100*	100*	Provision of warehousing services and investment holding
Shougang Concord Management Company Limited	Hong Kong	HK\$100,000	100*	100*	Provision of management services and investment holding

NOTES TO FINANCIAL STATEMENTS

31 December 2000

33. INTERESTS IN SUBSIDIARIES (Continued)

Name	Place of incorporation or registration/ operations	Nominal value of issued ordinary share capital/ registered capital	Percentage of equity attributable to the Group		Principal activities
			2000	1999	
Shougang Concord Steel (International) Company Limited	British Virgin Islands/ Hong Kong	US\$1,000	100*	100*	Investment holding
Shougang Concord Steel International Trading Co. Ltd.	British Virgin Islands/ People's Republic of China	US\$1	100*	100*	Trading of steel bars
Shougang Concord Shipping Holdings Limited ***	British Virgin Islands/ Hong Kong	US\$641,025	100	100	Investment holding
Shougang Concord International Transport Limited ***	British Virgin Islands/ Hong Kong	US\$1	100*	100*	Investment holding and chartering of vessels
Ryegar Limited***	United Kingdom/ Hong Kong	£2	100*	100*	Chartering of vessels
Shougang Concord Shipping Services Limited ***	Hong Kong	HK\$2	100*	100*	Provision of management services
SCIT (Chartering) Limited ***	British Virgin Islands/ People's Republic of China	US\$1	100*	100*	Chartering of vessels
Centralink International Limited ***	British Virgin Islands/ Hong Kong	US\$2,000,000	70*	70*	Investment holding
Zhoushan Shouhe Centralink Co. Ltd. ***	People's Republic of China	US\$5,000,000	#	#	Hiring of floating cranes

NOTES TO FINANCIAL STATEMENTS

31 December 2000

33. INTERESTS IN SUBSIDIARIES (Continued)

Name	Place of incorporation or registration/ operations	Nominal value of issued ordinary share capital/ registered capital	Percentage of equity attributable to the Group		Principal activities
			2000	1999	
Fair Union Holdings Limited	Samoa/ Hong Kong	US\$1	100	100	Investment holding
Richson Limited	Samoa/ Hong Kong	US\$1	100*	100*	Investment holding
Casula Investments Limited	Samoa/ Hong Kong	US\$1	100*	100*	Investment holding
Firstlevel Holdings Limited	Samoa/ Hong Kong	US\$1	100	100	Investment holding
Beijing Shougang-Pohseng Strip Steel Co., Ltd.	People's Republic of China	US\$35,536,601	65*	65*	Manufacture and sale of steel strips
Beijing Shougang-Liwoh Bar Steel Co., Ltd.	People's Republic of China	US\$35,536,601	65*	65*	Manufacture and sale of steel bars
Beijing Shougang-Gitane Alloy Materials Co., Ltd.	People's Republic of China	US\$36,169,902	65*	65*	Manufacture and sale of steel wires
Qinhuangdao Shougang Plate Mill Co., Ltd.	People's Republic of China	US\$29,950,000	51*	51*	Manufacture and sale of steel plates
Sincere Step Investment Limited	Hong Kong	HK\$2	100	100	Provision of money lending services
Good News Investment Limited	Hong Kong	HK\$2	100*	100*	Property investment

NOTES TO FINANCIAL STATEMENTS

31 December 2000

33. INTERESTS IN SUBSIDIARIES (Continued)

Name	Place of incorporation or registration/ operations	Nominal value of issued ordinary share capital/ registered capital	Percentage of equity attributable to the Group		Principal activities
			2000	1999	
Shougang Concord Services Limited	Hong Kong	HK\$2	100	100	Provision of management services
Essential Assets Corp.	Samoa/ Hong Kong	US\$2	100*	100*	Investment holding
Hatley Trading Limited	Samoa/ Hong Kong	US\$1	100*	100*	Investment holding
Shougang Concord Grand (Group) Limited **	Bermuda/ Hong Kong	HK\$8,278,679	60*	60*	Investment holding
Upper Nice Assets Limited	British Virgin Islands/ Hong Kong	US\$1	60*	60*	Investment holding
Jeckman Holdings Limited	British Virgin Islands/ Hong Kong	US\$16	60*	60*	Investment holding
Lyre Terrace Management Limited	Hong Kong	HK\$1,000,000	60*	60*	Investment holding and property investment
Grand Award Limited	British Virgin Islands	US\$1	60*	60*	Investment holding
SCG Financial Investment Limited	British Virgin Islands	US\$1,000	60*	60*	Investment holding
On Hing Investment Company, Limited	Hong Kong	HK\$1,000 (ordinary) HK\$2,000,000 (non-voting deferred)	60*	60*	Property investment

NOTES TO FINANCIAL STATEMENTS

31 December 2000

33. INTERESTS IN SUBSIDIARIES (Continued)

Name	Place of incorporation or registration/ operations	Nominal value of issued ordinary share capital/ registered capital	Percentage of equity attributable to the Group		Principal activities
			2000	1999	
Tin Fung Investment Company, Limited	Hong Kong	HK\$975,000 (ordinary) HK\$210,000 (non-voting deferred)	60*	60*	Property investment
Eldex Investment Company Limited	Hong Kong	HK\$541,000 (ordinary) HK\$1,459,000 (non-voting deferred)	60*	60*	Property investment
Strenbeeche Limited	British Virgin Islands	HK\$147,000,008	60*	60*	Property investment
Linksky Limited	Hong Kong	HK\$2	60*	60*	Property holding
Ecko Limited	Hong Kong	HK\$2	60*	60*	Property management
Long Cosmos Investment Limited	Hong Kong	HK\$2	60*	60*	Provision of management services
Grand Park Investment Limited	Hong Kong	HK\$2	60*	60*	Property investment
SCG Leasing Corporation Limited	Hong Kong	HK\$2	60*	60*	Property investment

NOTES TO FINANCIAL STATEMENTS

31 December 2000

33. INTERESTS IN SUBSIDIARIES (Continued)

* Held through subsidiaries.

** Company listed on The Stock Exchange of Hong Kong Limited.

*** Audited by Certified Public Accountants other than Ernst & Young.

Zhoushan Shouhe Centralink Co. Ltd ("Zhoushan") is a cooperative joint venture which was established in 1993 in Mainland China for a period of 30 years. The entire registered capital of Zhoushan was contributed by Centralink International Limited ("Centralink"). Centralink is a non wholly-owned subsidiary of the Company. Centralink is entitled to 90% of the net profit generated by Zhoushan but bears all losses. Upon the expiry or early termination of the tenure, all residual assets will belong to Centralink.

The above table includes the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the assets and/or liabilities of the Group. To give details of all the Company's subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

NOTES TO FINANCIAL STATEMENTS

31 December 2000

34. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Reconciliation of loss from operating activities to net cash inflow from operating activities

	2000 HK\$'000	1999 HK\$'000
Loss from operating activities	(192,572)	(318,022)
Interest income	(5,580)	(13,590)
Dividend income from listed investments	(210)	(77)
Depreciation	115,325	121,332
Revaluation deficit on investment properties	7,925	1,195
Provision for decline in value of land and buildings	495	1,169
Amortisation of intangible assets	764	747
Provision against a loan to an associate	6,000	3,568
Loss/(gain) on changes in fair values of short term investments, net	1,288	(1,140)
Loss/(gain) on disposal of short term listed investments, net	203	(442)
Loss on disposal of fixed assets	11,138	2,940
Gain on disposal of an investment property	(1,000)	-
Write-off of an amount due from a minority shareholder	2,513	-
Loss on deemed disposal of interest in an associate	313	-
Specific provisions for bad debts	25,347	109,933
General provisions for bad debts	31,483	21,456
Decrease in accounts and bills receivable	35,207	248,744
Decrease in prepayments, deposits and other receivables	45,600	28,638
Decrease/(increase) in inventories	(27,203)	189,901
Decrease in amounts due from related companies	20,275	30,350
Increase in amounts due from associates	(16)	(14,923)
Increase/(decrease) in accounts and bills payables	17,654	(23,887)
Increase/(decrease) in other payables and accrued liabilities	(2,456)	39,441
Increase/(decrease) in amounts due to related companies	74,854	(19,497)
Decrease in an amount due to an associate	(215)	(35)
Increase/(decrease) in an amount due to a jointly controlled entity	(2,270)	799
Exchange adjustments	2,050	940
Net cash inflow from operating activities	<u>166,912</u>	<u>409,540</u>

NOTES TO FINANCIAL STATEMENTS

31 December 2000

34. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (Continued)

(b) Analysis of changes in financing during the year

	Share capital (including share premium and capital redemption reserve) <i>HK\$'000</i>	Bonds <i>HK\$'000</i>	Bank borrowings, long term loans from related companies and lease payables <i>HK\$'000</i>	Minority interests <i>HK\$'000</i>	Due to related companies <i>HK\$'000</i>
Balance at 1 January 1999	1,167,485	330,144	1,086,033	974,796	372,939
Cash inflows/(outflows)					
from financing, net	(36)	-	893	(5,743)	27,004
Dividends distribution	-	-	-	(45,923)	-
Share of reserves	-	-	-	2,390	-
Conversion of Bonds	34,225	(34,225)	-	-	-
Share of revaluation surplus	-	-	-	539	-
Share of provision for decline in value of land and buildings	-	-	-	(390)	-
Share of loss for the year	-	-	-	(62,609)	-
Disposal of an associate	-	-	-	33,089	-
Disposal of subsidiaries	-	-	(143,905)	-	-
Accretion of premium on Bonds	-	9,649	-	-	-
Arising from trading activities	-	-	-	-	(19,497)
Disposal of leased assets	-	-	(30,795)	-	-
Exchange adjustments	-	-	1,903	-	-
Balance at 31 December 1999 and 1 January 2000	1,201,674	305,568	914,129	896,149	380,446
Cash inflows/(outflows) from					
financing, net	(1)	-	143,058	(178)	(152,272)
Share of reserves	-	-	-	1,710	-
Conversion of Bonds	6	(6)	-	-	-
Share of revaluation deficit	-	-	-	(3,279)	-
Share of provision for decline in value of land and buildings	-	-	-	(165)	-
Share of loss for the year	-	-	-	(59,825)	-
Write-off of an amount due from a minority shareholder	-	-	-	2,513	-
Accretion of premium on Bonds	-	9,832	-	-	-
Arising from trading activities	-	-	-	-	74,854
Exchange adjustments	-	-	1,075	-	-
Balance at 31 December 2000	1,201,679	315,394	1,058,262	836,925	303,028

NOTES TO FINANCIAL STATEMENTS

31 December 2000

34. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (Continued)

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

	2000	1999
	HK\$'000	HK\$'000
Net assets disposed of:		
Fixed assets	-	11,899
Accounts receivable	-	97,694
Other receivables	-	386
Inventories	-	133,514
Cash and bank balances	-	38,530
Bank loans	-	(2,400)
Bank overdrafts	-	(57)
Trust receipt loans	-	(141,505)
Accounts payable and accrued liabilities	-	(153,208)
Tax	-	(46)
Deferred Tax	-	(89)
	<hr/>	<hr/>
	-	(15,282)
Gain on disposal of subsidiaries	<hr/>	<hr/>
	-	71,290
Consideration	<hr/> <hr/>	<hr/> <hr/>
	-	56,008
Accounted for and discharged by:		
Cash consideration received	-	67,398
Other payables	-	(21,420)
Short term investments	-	10,030
	<hr/>	<hr/>
	-	56,008
	<hr/> <hr/>	<hr/> <hr/>

NOTES TO FINANCIAL STATEMENTS

31 December 2000

34. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (Continued)

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

Analysis of net inflow of cash and cash equivalents in respect of the disposal of subsidiaries:

	2000 <i>HK\$'000</i>	1999 <i>HK\$'000</i>
Cash consideration received	-	67,398
Cash and bank balances disposed of	-	(38,530)
Bank overdrafts disposed of	-	57
	-	28,925
Net inflow of cash and cash equivalents in respect of the disposal of subsidiaries	-	28,925

The subsidiaries disposed of during the year ended 31 December 1999 contributed approximately HK\$54,210,000 to the Group's net operating cash inflow, paid HK\$8,747,000 in respect of the net return on investments and servicing of finance, received HK\$1,623,000 in respect of tax refund, but had no significant impact in respect of the investing activities and financing activities.

The subsidiaries disposed of during the year ended 31 December 1999 contributed approximately HK\$616,738,000 to the Group's turnover and HK\$21,239,000 of profit to the Group's operating results for the year ended 31 December 1999, respectively.

35. CONTINGENT LIABILITIES

At the balance sheet date, the Group and the Company had significant contingent liabilities in respect of the following:

	Group		Company	
	2000 <i>HK\$'000</i>	1999 <i>HK\$'000</i>	2000 <i>HK\$'000</i>	1999 <i>HK\$'000</i>
Guarantees for banking facilities granted to subsidiaries	-	-	59,631	73,631
Guarantees for banking facilities granted to a jointly controlled entity	-	2,000	-	2,000
Guarantees for banking facilities granted to a related company	-	845	-	-
Guarantees for banking facilities granted to third parties	-	12,022	-	-
Guarantees in respect of performance bonds	2,357	26,637	-	11,130
	2,357	41,504	59,631	86,761
	2,357	41,504	59,631	86,761

NOTES TO FINANCIAL STATEMENTS

31 December 2000

36. COMMITMENTS

(a) Annual commitments under non-cancellable operating leases:

	Group		Company	
	2000 HK\$'000	1999 HK\$'000	2000 HK\$'000	1999 HK\$'000
Land and buildings expiring:				
Within one year	4,505	3,889	-	-
In the second to fifth years, inclusive	-	188	-	-
After five years	<u>3,801</u>	<u>3,737</u>	<u>-</u>	<u>-</u>
	<u>8,306</u>	<u>7,814</u>	<u>-</u>	<u>-</u>
Time charter hires expiring:				
After five years	<u>126,037</u>	<u>123,576</u>	<u>-</u>	<u>-</u>
(b) Foreign exchange forward contracts	<u>-</u>	<u>111</u>	<u>-</u>	<u>-</u>

(c) Capital commitments

	Group		Company	
	2000 HK\$'000	1999 HK\$'000	2000 HK\$'000	1999 HK\$'000
Land and buildings:				
Contracted for	<u>-</u>	<u>5,285</u>	<u>-</u>	<u>-</u>
Unpaid capital contribution to a jointly controlled entity:				
Contracted for	<u>-</u>	<u>44,094</u>	<u>-</u>	<u>-</u>
Others:				
Contracted for	1,653	4,881	-	-
Authorised, but not contracted for	<u>57,357</u>	<u>60,503</u>	<u>-</u>	<u>-</u>

(d) The Group's share of capital commitments of a jointly controlled entity is as follows:

	Group	
	2000 HK\$'000	1999 HK\$'000
Authorised, but not contracted for	14,098	24,329
Contracted, but not provided for	<u>54,903</u>	<u>119,277</u>

NOTES TO FINANCIAL STATEMENTS

31 December 2000

37. RELATED PARTY TRANSACTIONS

Details of the terms and balances due from/to the Company and Group's subsidiaries, associates, jointly controlled entities and related companies are set out in notes 13, 14, 20, 21, 29 and 33 to the financial statements.

During the year, the Group entered into certain transactions with Shougang HK, and with Shougang HK's holding company, subsidiaries and fellow subsidiaries ("related companies"). In addition, the Group also entered into certain transactions with its associates and jointly controlled entities.

Listed below are related party transactions disclosed in accordance with SSAP 20. Except for the transactions referred to in items (x) and (xi), the remaining transactions also constituted connected transactions as defined in the Listing Rules.

	Notes	2000 HK\$'000	1999 HK\$'000
Sales to related companies	(i)	90,808	162,276
Interest expense charged by a jointly controlled entity	(ii)	3,180	3,419
Purchases from related companies	(iii)	991,868	868,151
Lease rentals paid to related companies	(iv)	3,882	5,114
Management fees paid to a related company	(v)	300	953
Purchase commission received from a related company	(vi)	1,771	1,648
Purchases of spare parts from related companies	(vii)	13,753	7,168
Corporate guarantee received from related companies	(viii)	299,802	170,940
Loans from related companies	(ix)	26,072	104,856
Management fees received from associates	(x)	1,320	1,800
Rental income received from an associate	(xi)	1,135	1,288
Bond interest expense paid to related companies	(xii)	11,569	13,866
Interest expense charged by a related company	(xiii)	5,760	12,583
Service fees charged by related companies	(xiv)	7,371	4,264
Commission expense paid to a related company	(xv)	1,486	-
Freight income received from a related company	(xvi)	178,144	-
Service fees received from related companies	(xvii)	2,041	-
Waiver of interest expense charged by a related company	(xviii)	4,280	-
Purchases of fixed assets from related companies		-	143
Time charter hire income received from an associate		-	116,127
Consultancy fee received from an associate		-	2,283
Interest expense charged by an associate		-	345
Corporate guarantee granted for a related company		-	845
Loans to an associate		-	43,222
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NOTES TO FINANCIAL STATEMENTS

31 December 2000

37. RELATED PARTY TRANSACTIONS (Continued)

- (i) Beijing Shougang Pohseng Strip Steel Co., Ltd ("Pohseng"), Beijing Shougang Gitane Alloy Materials Co., Ltd ("Gitane") and Qinhuangdao Shougang Plate Mills Co., Ltd ("QHD"), all being non wholly-owned subsidiaries of the Company, sold strip steel products, steel wire products, steel plates and scrap materials of HK\$90,808,000 (1999: HK\$107,426,000) to certain related companies in Mainland China in the normal course of business and at a consideration decided between parties with reference to the prevailing market price.

The Group sold iron ore of HK\$54,850,000 to a related company in Mainland China during the year ended 31 December 1999 in the ordinary course of business and according to published prices and conditions similar to those offered to major customers of the Group.

- (ii) The interest expense charged by Beijing Dongzhimen arose from the unpaid capital contribution by the Group, under the subscription agreement between the Group and the original joint venture partners.
- (iii) Pohseng, Gitane and QHD purchased raw materials of HK\$781,461,000 (1999: HK\$773,958,000) from related companies in the ordinary course of business and at a consideration decided between parties with reference to the prevailing market price.

The Group purchased steel products of HK\$210,407,000 (1999: HK\$94,193,000) from a related company in the ordinary course of business and according to terms and conditions similar to those offered by other suppliers, except that a longer credit period is normally granted.

- (iv) The Group entered into various rental agreements with subsidiaries of Shougang HK for renting office and residential apartments as staff quarters. The rentals were determined with reference to prevailing market rates.
- (v) A management fee was paid to Shougang HK for the provision of management services and the appointment of senior staff to the four steel manufacturing joint ventures in Mainland China at rates decided between parties.
- (vi) The Group received a rebate at 0.8% to 1% (1999: 0.75% to 1.25%) of the purchase value from a related company for the purchase of steel products in the normal course of business.
- (vii) The Group purchased spare parts of HK\$13,753,000 (1999: HK\$7,168,000) from related companies in the normal course of business for a consideration decided between parties.
- (viii) Shougang Corporation and one of its subsidiaries have provided guarantees of HK\$299,802,000 (1999: HK\$170,940,000) for bank loans granted to Pohseng, Gitane and QHD.

NOTES TO FINANCIAL STATEMENTS

31 December 2000

37. RELATED PARTY TRANSACTIONS (Continued)

- (ix) An unsecured and non interest-bearing loan of HK\$23,569,000 (1999: HK\$23,481,000) was obtained by Pohseng from Shougang Corporation for working capital purposes. The loan has no fixed repayment terms.

A loan of HK\$2,503,000 (US\$321,000) (1999: Nil) was obtained by the Company from a subsidiary of Shougang HK in December 2000. The loan is unsecured, bears interest at 8.42% per annum and is repayable in June 2001.

An unsecured and non interest-bearing loan of HK\$1,540,000 was obtained by Gitane during the year ended 31 December 1999 and an unsecured and non interest-bearing loan of HK\$79,835,000 was obtained by QHD during the year ended 31 December 1999 from certain subsidiaries of Shougang Corporation for working capital purposes. These loans had no fixed repayment terms.

- (x) The Group provided management services in relation to the business and strategic development services to its associates, SC Technology and SC Century, for a service charge of HK\$720,000 (1999: HK\$840,000) and HK\$600,000 (1999: HK\$960,000), respectively. The rates were decided between parties.
- (xi) The Group has entered into rental agreements with a subsidiary of SC Technology for the renting an investment property to the SC Technology group. The rental was determined with reference to market rates.
- (xii) The interest expense paid to certain subsidiaries of Shougang HK was in relation to the Bonds issued in November 1998.
- (xiii) The interest expense charged by a subsidiary of Shougang HK arose from the loans of US\$18,681,000 and US\$321,000 borrowed by the Company in December 1998 and December 2000, respectively. The outstanding balance of the loan borrowed in December 1998 was US\$8,267,000 as at 31 December 2000.
- During the year, the related company agreed to waive interest expense of HK\$4,280,000 charged to the Group during the year ended 31 December 1999.
- (xiv) Certain subsidiaries of Shougang Corporation charged QHD service fee of HK\$7,371,000 (1999: HK\$4,264,000) in respect of processing, repairing and legal services provided to QHD in the normal course of business and at rates decided between parties.
- (xv) The Group arranged for shipments of iron ore for a related company in the ordinary course of business and a rebate of 1.25% (1999: 1.25%) on the freight income was paid.
- (xvi) The Group arranged for shipments of iron ore from Peru and Australia to Mainland China for a related company at a freight rate determined with reference to market rate decided between parties.
- (xvii) QHD charged related companies a service fee of HK\$2,041,000 (1999: Nil) in respect of processing services provided to these related companies in the normal course of business and at rates decided between parties.

38. APPROVAL OF THE FINANCIAL STATEMENTS

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