



NOTES TO INTERIM FINANCIAL STATEMENTS

30 June 2001

1. BASIS OF PREPARATION AND ACCOUNTING POLICIES

The unaudited condensed consolidated interim financial statements are prepared in accordance with Statement of Standard Accounting Practice ("SSAP") No.25 "Interim Financial Reporting" issued by the Hong Kong Society of Accountants ("HKSA"), except that the comparative amounts for the Condensed Consolidated Cash Flow Statement have not been presented as the Company has taken advantage of the transitional provision set out in the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

The accounting policies and basis of preparation adopted are the same as those used in the Group's audited financial statements for the year ended 31 December 2000 except that the Group has changed certain of its accounting policies following the adoption of the following new SSAPs issued by the HKSA which are effective for accounting periods commenced on or after 1 January 2001:

SSAP 28: Provisions, Contingent Liabilities and Contingent Assets

SSAP 30: Business Combinations

SSAP 31: Impairment of Assets

SSAP 32: Consolidated Financial Statements and Accounting for Investments in Subsidiaries

The Group has complied with SSAP 14 (revised) "Leases" for the first time in this interim reporting period. As a result, total future minimum operating lease commitments are disclosed instead of annual operating lease commitments under non-cancellable operating leases. Figures for the year ended 31 December 2000 are extracted from the Group's audited financial statements for that year.

The prior period adjustment arising from the adoption of SSAP 30 is detailed in note 2 below.

Comparative amounts in respect of the Condensed Consolidated Balance Sheet for the year ended 31 December 2000 are extracted from the Group's audited financial statements for that year and adjusted in respect of the prior period adjustment as further explained in note 2 below.

2. PRIOR PERIOD ADJUSTMENT

Goodwill represents the excess of cost of an acquisition over the fair value of the Group's share of the net assets of the acquired subsidiary, associate or jointly controlled entity at the date of acquisition. In previous years, goodwill was eliminated against reserves in the year in which it arose. Following the introduction of SSAP 30, goodwill arising on acquisitions on or after 1 January 2001 is capitalised in the balance sheet and is amortised to the profit and loss account over its estimated useful life. In accordance with the transitional provisions of SSAP 30, goodwill arising from earlier acquisitions before 1 January 2001 will continue to be held in reserves and no reinstatement has been made. However, any impairment arising on such goodwill previously eliminated against reserves is recognised in the profit and loss account in the year to which the impairment is related.

In accordance with the requirements of SSAP 31 and the transitional provisions of SSAP 30, an adjustment has been made concerning the impairment of goodwill arising prior to the adoption of SSAP 30 which was eliminated against capital reserve and retained profits/accumulated losses. The adjustment, which represents a change in accounting policy, has been applied retrospectively in accordance with SSAP 2 "Net Profit or Loss for the Period, Fundamental Errors and Changes in Accounting Policies". Accordingly, goodwill in the amount of HK\$13,886,000, which was impaired in prior periods and eliminated to the extent of HK\$9,841,000 and HK\$4,045,000 against capital reserve and retained profits, respectively, has been recognised directly in the prior periods' accumulated losses as brought forward at 1 January 2000.

In restating the financial statements for 2000, on the basis of the new accounting policy, the cumulative effect on prior periods was to increase the capital reserve and the accumulated losses at 1 January 2000 by approximately HK\$9,841,000. There was no impact on the net profit from ordinary activities attributable to shareholders for the six months ended 30 June 2000.



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

The Group is principally engaged in the manufacturing of steel cord, processing and trading of copper and brass products, and property development and investment. An analysis of the Group's turnover and profit/(loss) from operating activities by principal activity and geographical area of operations is as follows:

	Turnover		Profit/(loss)	
	For the six months ended 30 June			
	2001 (Unaudited) HK\$'000	2000 (Unaudited) HK\$'000	2001 (Unaudited) HK\$'000	2000 (Unaudited) HK\$'000
By principal activity:				
Continuing operations:				
Manufacturing of steel cord	66,292	43,103	12,311	4,544
Processing and trading of copper and brass products	20,151	14,950	151	796
Property development and investment	1,196	3,618	147	836
Others	-	134	2,028	2,175
	<u>87,639</u>	<u>61,805</u>	<u>14,637</u>	<u>8,351</u>
Discontinued operations:				
Trading of industrial chemical products	-	25,659	-	(883)
Trading of metallic ores and metals	-	1,029	-	4,010
Processing of electrical wires and accessories	-	-	-	549
Trading and manufacturing of children's wear	-	-	-	(5)
	<u>-</u>	<u>26,688</u>	<u>-</u>	<u>3,671</u>
Less: Corporate overheads			(6,095)	(6,308)
	<u>87,639</u>	<u>88,493</u>	<u>8,542</u>	<u>5,714</u>
By geographical area:				
The People's Republic of China (the "PRC"):				
Mainland	67,099	48,563	12,185	5,637
Hong Kong S. A. R.	20,230	38,759	(3,677)	609
Others	310	1,171	34	(532)
	<u>87,639</u>	<u>88,493</u>	<u>8,542</u>	<u>5,714</u>

4. OTHER REVENUE

	For the six months ended 30 June	
	2001	2000
	(Unaudited) HK\$'000	(Unaudited) HK\$'000
Interest income	472	1,679
Others	2,209	4,848
	<u>2,681</u>	<u>6,527</u>



5. PROFIT FROM OPERATING ACTIVITIES

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

	For the six months ended 30 June	
	2001 (Unaudited) HK\$'000	2000 (Unaudited) HK\$'000
Cost of inventories sold	64,812	73,356
Depreciation	11,268	11,368
Amortisation of land use rights	279	226
Gain on disposal of properties	(15)	–
Gain on disposal of subsidiaries, net (including realisation of goodwill)	–	(641)
Gain on disposal of partial interest in a jointly controlled entity (including realisation of goodwill)	–	(2,293)
	<u>64,812</u>	<u>(2,293)</u>

6. FINANCE COSTS

	For the six months ended 30 June	
	2001 (Unaudited) HK\$'000	2000 (Unaudited) HK\$'000
Interest on bank loans and overdrafts and other borrowings wholly repayable within five years	2,824	6,657
Interest on bank loans wholly repayable after five years	–	89
Interest on finance leases	–	50
	<u>2,824</u>	<u>6,796</u>

7. TAX

	For the six months ended 30 June	
	2001 (Unaudited) HK\$'000	2000 (Unaudited) HK\$'000
Group:		
Mainland China		
Provision for the period	140	405
Arising from the gain on disposal of partial interest in a jointly controlled entity	–	4,165
	<u>140</u>	<u>4,570</u>
Jointly controlled entities:		
Mainland China	466	550
Associate:		
Mainland China	294	185
	<u>900</u>	<u>5,305</u>

No provision for Hong Kong profits tax has been made as the Group did not generate any assessable profits arising in Hong Kong during the period (six months ended 30 June 2000: Nil). Taxes on profits assessable elsewhere have been provided at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

**8. EARNINGS PER SHARE**

The calculation of basic earnings per share is based on the net profit from ordinary activities attributable to shareholders for the period of HK\$8,884,000 (six months ended 30 June 2000: HK\$340,000) and the 765,372,000 (30 June 2000: 765,372,000) ordinary shares in issue during the period.

Diluted earnings per share is not presented as there were no dilutive potential ordinary shares outstanding during the six months ended 30 June 2001 and 2000.

9. 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:

	30 June 2001		31 December 2000	
	Balance (Unaudited) HK\$'000	Percentage (Unaudited) %	Balance (Audited) HK\$'000	Percentage (Audited) %
0 – 90 days	42,041	89	31,521	62
91 – 180 days	5,191	11	11,718	23
181 – 365 days	–	–	7,302	15
	<u>47,232</u>	<u>100</u>	<u>50,541</u>	<u>100</u>

10. TRADE PAYABLES

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

	30 June 2001		31 December 2000	
	Balance (Unaudited) HK\$'000	Percentage (Unaudited) %	Balance (Audited) HK\$'000	Percentage (Audited) %
0 – 90 days	4,421	62	12,036	82
91 – 180 days	253	4	369	2
181 – 365 days	249	3	90	1
Over 1 year	2,259	31	2,224	15
	<u>7,182</u>	<u>100</u>	<u>14,719</u>	<u>100</u>

11. SHARE CAPITAL

	30 June 2001 (Unaudited) HK\$'000	31 December 2000 (Audited) 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>



11. 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 period, and there were no share options outstanding as at 30 June 2001.

12. RESERVES

	Share premium account (Unaudited) HK\$'000	Capital reserve (Unaudited) HK\$'000	Capital redemption reserve (Unaudited) HK\$'000	Fixed asset revaluation reserve (Unaudited) HK\$'000	Land use rights revaluation reserve (Unaudited) HK\$'000	Exchange fluctuation reserve (Unaudited) HK\$'000	PRC reserve funds (Unaudited) HK\$'000	Accumulated losses (Unaudited) HK\$'000	Total (Unaudited) HK\$'000
At 1 January 2001									
As previously reported	357,181	38,770	463	1,491	3,101	8,118	21,177	(136,054)	294,247
Prior period adjustment – note 2	–	9,841	–	–	–	–	–	(9,841)	–
As restated	357,181	48,611	463	1,491	3,101	8,118	21,177	(145,895)	294,247
Realisation of negative goodwill upon strike off of a subsidiary	–	(2,042)	–	–	–	–	–	–	(2,042)
Net profit for the period	–	–	–	–	–	–	–	8,884	8,884
At 30 June 2001	357,181	46,569	463	1,491	3,101	8,118	21,177	(137,011)	301,089

13. COMMITMENTS

(a) Capital commitments

At 30 June 2001, the Group had capital commitments amounting to HK\$5,941,000 (31 December 2000: Nil). The Group's share of capital commitments in respect of its interests in jointly controlled entities at 30 June 2001 was approximately HK\$471,000 (31 December 2000: HK\$246,000).

(b) Commitments under operating leases

At 30 June 2001, the total of future minimum lease payments under non-cancellable operating leases for not later than one year amounted to approximately HK\$533,000. At 31 December 2000, the annual commitments payable in the following year under non-cancellable operating leases expiring within one year amounted to approximately HK\$1,310,000.

14. CONTINGENT LIABILITIES

At 30 June 2001, the Group has given guarantees amounting to approximately HK\$24,540,000 (31 December 2000: HK\$34,205,000) for banking facilities granted to a jointly controlled entity.

**15. RELATED PARTY TRANSACTIONS**

During the period, the Group had the following transactions with Shougang Concord International Enterprises Company Limited (“Shougang International”) and its subsidiaries (collectively the “Shougang International Group”), Shougang Holding (Hong Kong) Limited (“Shougang HK”) and its subsidiaries (collectively the “Shougang HK Group”), an associate and a jointly controlled entity. Shougang International is the controlling shareholder of the Company and Shougang HK is the controlling shareholder of Shougang International.

		For the six months ended 30 June	
		2001 (Unaudited) HK\$'000	2000 (Unaudited) HK\$'000
Consultancy fees paid to Shougang HK Group	(i)	360	90
Management fees paid to Shougang International Group	(i)	300	300
Rental expenses paid to:			
Shougang HK Group	(ii)	557	835
Shougang International Group	(ii)	78	78
Interest paid to Shougang HK Group	(iii)	853	1,392
Sales to an associate of Shougang International Group	(iv)	2,363	2,627
Corporate guarantees given to a jointly controlled entity	(v)	24,540	46,842

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.
- (iv) The sales to an associate of Shougang International Group were made according to prices and conditions similar to those offered to other third party customers of the Group.
- (v) 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.

16. PLEDGE OF ASSETS

At 30 June 2001, the Group's fixed assets with an aggregate net book value of HK\$68,676,000, land use rights amounting to HK\$13,121,000, inventories amounting to HK\$3,770,000 and bank balances amounting to HK\$5,473,000 were pledged to banks to secure banking facilities granted to the Group. The Group's interest in a jointly controlled entity with a carrying value of HK\$40,399,000 was pledged to a related company for loans advanced to the Group.

17. POST BALANCE SHEET EVENT

On 10 August 2001, a wholly owned subsidiary of the Company entered into an agreement with a PRC enterprise (the “Purchaser”) for the disposal of a 63% equity interest (the “Disposal”) in a 88% owned subsidiary (the “Subsidiary”), which was involved in the business of property development in the PRC, for a consideration of approximately HK\$13,080,000 (RMB13,860,000). The Purchaser is owned as to 45% by the minority shareholder of the Subsidiary. After the Disposal, the Group's interest in the Subsidiary will be reduced to 25%. Details of the Disposal were set out in the Company's announcement dated 10 August 2001 and the Company's circular to shareholders dated 30 August 2001. The Disposal is subject to the approval of shareholders of the Company at an extraordinary general meeting to be convened and held on 28 September 2001 and the obtaining of the necessary approval from the relevant authorities in the PRC.