

# Notes to Financial Statements

31 DECEMBER 2001

## 14. FIXED ASSETS

Group	Investment properties HK\$'000	Construction in progress HK\$'000	Land and buildings HK\$'000	Leasehold improvements HK\$'000	Furniture, fixtures and equipment HK\$'000	Plant and machinery HK\$'000	Motor vehicles HK\$'000	Vessels HK\$'000	Total HK\$'000
Cost or valuation:									
At beginning of year:									
As previously reported	298,717	142,373	402,109	410,543	29,924	1,352,066	42,838	46,285	2,724,855
Reclassified to accumulated depreciation and impairment (Note)	-	-	6,570	-	-	-	-	-	6,570
As restated	298,717	142,373	408,679	410,543	29,924	1,352,066	42,838	46,285	2,731,425
Additions	-	7,666	3,388	-	3,616	2,407	1,768	-	18,845
Acquisition of a subsidiary	3,151	-	-	-	-	-	-	-	3,151
Disposals	(500)	-	(21,701)	(2,361)	(3,966)	(46,626)	(3,794)	-	(78,948)
Disposal of a subsidiary	(16,017)	-	-	-	-	-	-	-	(16,017)
Reclassifications	-	(2,116)	(17,753)	95	2,439	17,335	-	-	-
Deficit on revaluation, net	(32,188)	-	-	-	-	-	-	-	(32,188)
Exchange adjustments	-	27	72	77	2	501	7	19	705
At 31 December 2001	253,163	147,950	372,685	408,354	32,015	1,325,683	40,819	46,304	2,626,973
Comprising:									
At cost	-	147,950	366,685	408,354	32,015	1,325,683	40,819	46,304	2,367,810
At 1988 directors' valuation	-	-	6,000	-	-	-	-	-	6,000
At 2001 professional valuation	253,163	-	-	-	-	-	-	-	253,163
	253,163	147,950	372,685	408,354	32,015	1,325,683	40,819	46,304	2,626,973
Accumulated depreciation and impairment:									
At beginning of year:									
As previously reported	-	-	94,809	136,208	23,529	460,953	32,973	30,765	779,237
Reclassified from cost (Note)	-	-	6,570	-	-	-	-	-	6,570
As restated	-	-	101,379	136,208	23,529	460,953	32,973	30,765	785,807
Depreciation provided during the year	-	-	13,301	20,690	4,006	73,846	2,369	1,028	115,240
Impairment recognised in the profit and loss account during the year	-	-	17,174	-	-	152,338	162	-	169,674
Disposals	-	-	(11,877)	(2,077)	(3,075)	(25,644)	(2,737)	-	(45,410)
Exchange adjustments	-	-	17	25	1	87	5	13	148
At 31 December 2001	-	-	119,994	154,846	24,461	661,580	32,772	31,806	1,025,459
Net book value:									
At 31 December 2001	253,163	147,950	252,691	253,508	7,554	664,103	8,047	14,498	1,601,514
At 31 December 2000	298,717	142,373	307,300	274,335	6,395	891,113	9,865	15,520	1,945,618

Note: Accumulated impairment losses are aggregated with accumulated depreciation under the revised disclosure requirements of SSAP 17, as detailed in note 3 to the financial statements, whereas previously they were disclosed as an adjustment to the cost and accumulated depreciation of the assets. This change has been disclosed as a retrospective reclassification.



## 14. FIXED ASSETS (continued)

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

	Hong Kong HK\$'000	Elsewhere HK\$'000	Total HK\$'000
Long term lease	5,789	875	6,664
Medium term lease	17,801	348,220	366,021
	<u>23,590</u>	<u>349,095</u>	<u>372,685</u>

The net book value of the Group's fixed assets held under finance leases included in the total amounts of leasehold land and buildings, furniture, fixtures and equipment, plant and machinery and motor vehicles at 31 December 2001, amounted to HK\$42,234,000 (2000: HK\$58,245,000), HK\$109,000 (2000: HK\$490,000), HK\$98,100,000 (2000: HK\$136,533,000) and HK\$1,557,000 (2000: HK\$2,609,000), respectively.

Had the Group's land and buildings been carried at cost less accumulated depreciation and impairment, they would have been included in the financial statements at approximately HK\$250,406,000 (2000: HK\$304,953,000).

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 HK\$'000	Elsewhere HK\$'000	Total HK\$'000
Long term lease	91,800	–	91,800
Medium term lease	157,500	3,863	161,363
	<u>249,300</u>	<u>3,863</u>	<u>253,163</u>

The Group's investment properties were revalued on 31 December 2001 by AA Property Services Limited, independent professional valuers, on an open market value based on their existing use. The investment properties are leased to third parties under operating leases, further summary details of which are included in note 40 to the financial statements.

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## 14. FIXED ASSETS (continued)

Certain of the Group's land and buildings and investment properties with an aggregate net book value of HK\$246,746,000 (2000: HK\$277,721,000), together with a cash deposit of HK\$3,000,000 (2000: HK\$3,000,000) (note 25) and certain shares in a listed subsidiary with a market value of HK\$31,209,000 (2000: HK\$29,129,000) (note 37) as at 31 December 2001, have been pledged to banks in Hong Kong as security for banking facilities of approximately HK\$164,785,000 (2000: HK\$164,796,000) granted to the Group. As at 31 December 2001, such facilities were utilised to the extent of HK\$114,491,000 (2000: HK\$123,587,000).

Certain of the Group's plant and machinery with a net book value of HK\$406,097,000 (2000: HK\$515,543,000) were pledged to banks in Mainland China for banking facilities of HK\$75,436,000 (2000: HK\$94,277,000) granted to the Group. As at 31 December 2001, such facilities were utilised to the extent of HK\$53,748,000 (2000: HK\$69,765,000).

Further details of the Group's major investment properties are set out on pages 107 and 108 of this annual report.

## 15. INTANGIBLE ASSETS

Group	Deferred product design fees HK\$'000
Cost:	
At beginning of year	7,624
Additions	2,453
Exchange adjustments	1
At 31 December 2001	<u>10,078</u>
Accumulated amortisation:	
At beginning of year	2,915
Charge for the year	1,630
Exchange adjustments	1
At 31 December 2001	<u>4,546</u>
Net book value:	
At 31 December 2001	<u><u>5,532</u></u>
At 31 December 2000	<u><u>4,709</u></u>

## 16. GOODWILL

SSAP 30 was adopted during the year, as detailed in note 3 to the financial statements. The Group has adopted the transitional provisions of SSAP 30 which permit goodwill and negative goodwill in respect of acquisitions which occurred prior to 1 January 2001, to remain eliminated against or credited to the capital reserve, respectively.

The Group has adopted a policy to assess goodwill eliminated against the capital reserve for impairment. As a result, the Group has recognised impairment losses in respect of goodwill of HK\$675,749,000 and HK\$355,213,000 in respect of the Group's acquisitions of subsidiaries and associates in prior years, respectively. This change of accounting policy has been accounted for retrospectively as a prior year adjustment. Accordingly, the cumulative effect on prior years was to increase the Group's accumulated losses and capital reserve at 1 January 2000 by HK\$958,982,000 and increase the net loss from ordinary activities attributable to shareholders for the year ended 31 December 2000 and the capital reserve at 31 December 2000 by HK\$71,980,000 and HK\$1,030,962,000, respectively.

# Notes to Financial Statements

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## 16. GOODWILL (continued)

The amounts of goodwill eliminated against capital reserve, arising from the acquisition of subsidiaries and associates prior to 1 January 2001, are as follow:

	<b>Goodwill arising from acquisition of subsidiaries HK\$'000</b>	<b>Goodwill arising from acquisition of associates HK\$'000</b>	<b>Total HK\$'000</b>
Cost:			
At beginning of year and at 31 December 2001	900,038	463,977	1,364,015
Accumulated impairment:			
At beginning of year:			
As previously reported	-	-	-
Prior year adjustment	675,749	355,213	1,030,962
As restated	675,749	355,213	1,030,962
Impairment provided during the year	224,289	108,764	333,053
At 31 December 2001	900,038	463,977	1,364,015
Net book value:			
At 31 December 2001	-	-	-
At 31 December 2000 (restated)	224,289	108,764	333,053

In addition to the above, one of the Group's associates has also recorded a prior year adjustment in respect of the impairment of goodwill eliminated against reserves in prior years. The Group's share of the associate's prior year adjustment was to recognise an aggregate impairment loss of HK\$3,161,000 previously eliminated to the extent of HK\$1,682,000 and HK\$1,479,000 against the capital reserve and retained profits, respectively. The cumulative effect on prior years was to increase the capital reserve and accumulated losses at 1 January 2000 by HK\$1,682,000.



## 16. GOODWILL (continued)

Taking into account the associates' prior year adjustment detailed above, in restating the financial statements for 2000, on the basis of the new accounting policies, the total cumulative effect on prior years was to increase the capital reserve and accumulated losses at 1 January 2000 by HK\$960,664,000. The net loss from ordinary activities attributable to shareholders for the year ended 31 December 2000 and the capital reserve at 31 December 2000 were increased by HK\$71,980,000 and HK\$1,032,644,000, respectively.

## 17. INTERESTS IN ASSOCIATES

	Group	
	2001 HK\$'000	2000 HK\$'000
Share of net assets	375,207	392,051
Loan to an associate	27,900	27,900
Less: Provision against a loan to an associate	(27,900)	(9,568)
	—	18,332
	<u>375,207</u>	<u>410,383</u>
Associates include:		
Share of net assets of Hong Kong listed companies	<u>375,205</u>	<u>392,048</u>
Market value of the listed shares	<u>162,302</u>	<u>176,228</u>

The loan to an associate as at 31 December 2001 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.

The details of the goodwill arising from the acquisition of associates and eliminated against the capital reserve are detailed in note 16 to the financial statements.

# Notes to Financial Statements

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## 17. 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/ registration and operation	Percentage of equity attributable to the Group		Principal activities
			2001	2000	
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

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

\* Listed on The Stock Exchange of Hong Kong Limited.

# During the year, certain share options of SC Technology were exercised by the share option holders. Accordingly, the Group's interest in SC Technology was diluted from 27.94% to 27.79% during 2001.



## 17. 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 2001 and 2000, are as follows:

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

	2001 HK\$'000	2000 HK\$'000
Turnover:		
Continuing operations	187,139	142,422
Discontinued operations	—	26,695
	<u>187,139</u>	<u>169,117</u>
Operating profit	22,543	7,402
Finance costs	(4,969)	(10,465)
Profit/(loss) after finance costs:		
Continuing operations	17,574	(4,686)
Discontinued operations	—	1,623
	<u>17,574</u>	<u>(3,063)</u>
Share of profits and losses of jointly-controlled entities:		
Continuing operations	7,198	9,558
Discontinued operations	—	(1,016)
	<u>7,198</u>	8,542
Share of profit of an associate	4,733	4,590
Profit before tax	29,505	10,069
Tax	(2,157)	(6,895)
Profit before minority interests	27,348	3,174
Minority interests	(7,287)	1,565
Net profit from ordinary activities attributable to shareholders	<u>20,061</u>	<u>4,739</u>



# Notes to Financial Statements

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## 17. INTERESTS IN ASSOCIATES (continued)

(a) (continued)

	2001 HK\$'000	2000 HK\$'000 (Restated)
Fixed assets	315,956	335,280
Interests in associates	43,300	41,051
Interests in jointly-controlled entities	47,690	36,370
Other non-current assets	13,477	14,035
Current assets	154,450	148,109
Total assets	<u>574,873</u>	<u>574,845</u>
Current liabilities	85,898	75,230
Long term liabilities	20	38,460
Minority interests	95,296	90,371
Total liabilities and minority interests	<u>181,214</u>	<u>204,061</u>
Net assets	<u>393,659</u>	<u>370,784</u>
Net assets attributable to the Group	<u>143,909</u>	<u>135,539</u>

SC Century Group has adopted the revised SSAP 9 and SSAP 18. This change in accounting policy arising from the adoption of the revised SSAP 9 and SSAP 18 has resulted in a prior year adjustment which reversed a dividend from an associate of SC Century Group which was declared and approved after the prior year's balance sheet date, but which was recognised by SC Century Group in the prior year. The comparative amounts of SC Century Group as presented above have been restated accordingly, resulting in an increase in interests in associates by HK\$1,717,000 and a decrease in other receivables of the same amount in SC Century Group's consolidated balance sheet as at 31 December 2000.



## 17. 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 and high precision components for computers, and the provision of freight forwarding and delivery services.

	2001 HK\$'000	2000 HK\$'000 (Restated)
Turnover	<u>516,310</u>	<u>686,604</u>
Profit/(loss) from operating activities	(43,914)	19,596
Finance costs	(4,230)	(6,559)
Loss on disposal of a subsidiary	(19,620)	–
Provision for impairment in value of interest in a jointly-controlled entity	(2,000)	(25,892)
Provision for impairment in goodwill on acquisition of interest in a jointly-controlled entity	–	(17,931)
Share of profits and losses of jointly-controlled entities	<u>10,301</u>	<u>18,063</u>
Loss before tax	(59,463)	(12,723)
Tax	(1,502)	527
Loss before minority interests	(60,965)	(12,196)
Minority interests	(1,742)	(6,499)
Net loss from ordinary activities attributable to shareholders	<u>(62,707)</u>	<u>(18,695)</u>

# Notes to Financial Statements

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## 17. INTERESTS IN ASSOCIATES (continued)

(b) (continued)

	2001 HK\$'000	2000 HK\$'000 (Restated)
Fixed assets	178,557	245,778
Interests in jointly-controlled entities	144,436	106,110
Other non-current assets	17,226	18,315
Current assets	274,926	386,892
<b>Total assets</b>	<b>615,145</b>	<b>757,095</b>
Current liabilities	105,613	164,713
Long term liabilities	233	233
Minority interests	9,756	39,778
<b>Total liabilities and minority interests</b>	<b>115,602</b>	<b>204,724</b>
<b>Net assets</b>	<b>499,543</b>	<b>552,371</b>
<b>Net assets attributable to the Group</b>	<b>231,296</b>	<b>256,509</b>

SC Technology Group has adopted the transitional provisions of SSAP 30 which permit goodwill and negative goodwill in respect of previous acquisitions to be restated to the non-current assets section of the consolidated balance sheet and be amortised or recognised to the profit and loss account over their useful lives, in accordance with the new accounting policy. The prior year adjustment so arising has resulted in the recognition of unamortised goodwill (less impairment loss thereof) and negative goodwill in the amounts of HK\$1,362,000 and HK\$340,000, respectively, in the consolidated balance sheet as at 31 December 2000, and reduced the provision for impairment in value of goodwill and net loss from ordinary activities attributable to shareholders of HK\$7,668,000 and HK\$4,090,000, respectively, in the consolidated profit and loss account for the year ended 31 December 2000. Accordingly, the above summary extracts of the operating results and financial position of SC Technology Group in respect of the financial year ended 31 December 2000 have been adjusted retrospectively as a result of the prior year adjustment.



## 18. INTERESTS IN JOINTLY-CONTROLLED ENTITIES

	<b>Group</b>	
	<b>2001</b>	2000
	<b>HK\$'000</b>	HK\$'000
Unlisted investments:		
Cost plus share of post-acquisition profits of jointly-controlled entities	<u><b>238,161</b></u>	<u><b>237,251</b></u>

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

<b>Name of entity</b>	<b>Business structure</b>	<b>Place of incorporation/ registration and operations</b>	<b>Percentage of ownership interest/ profit and loss sharing attributable to the Group</b>	<b>Percentage of voting power attributable to the Group</b>	<b>Principal activities</b>
Beijing Dongzhimen International Apartment Co., Ltd. ("Beijing Dongzhimen") – note	Corporate	People's Republic of China	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

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## 18. INTERESTS IN JOINTLY-CONTROLLED ENTITIES (continued)

Note:

Beijing Dongzhimen is a sino-foreign equity joint venture which was established in the People's Republic of China on 18 December 1986 with a tenure of 14 years and 8 months to 17 August 2001 (the "initial JV term"). The 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 was approved by the relevant authorities.

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.

Shougang HK and a fellow subsidiary of one of the original joint venture partners have provided an irrevocable undertaking to the Group to the effect that, 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 the Group 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 2001 and 2000 of Beijing Dongzhimen is set out below:

**(a) Results**

	2001 HK\$'000	2000 HK\$'000
Turnover	<u>81,186</u>	<u>79,244</u>
Profit before tax	5,453	26,255
Tax	<u>(3,060)</u>	<u>(6,325)</u>
Profit after tax	<u>2,393</u>	<u>19,930</u>



## 18. INTERESTS IN JOINTLY-CONTROLLED ENTITIES (continued)

### (b) Net assets

	2001 HK\$'000	2000 HK\$'000
Fixed assets	635,626	140,714
Construction in progress	12,583	359,719
Long term investment	603	1,206
Other non-current assets	942	680
Current assets	73,728	81,172
Current liabilities	(168,275)	(49,389)
Long term liabilities	(18,838)	–
	<u>536,369</u>	<u>534,102</u>
Net assets attributable to the Group	<u>236,871</u>	<u>235,882</u>

## 19. INVESTMENTS

### Long term investments

	Group	
	2001 HK\$'000	2000 HK\$'000
Unlisted equity investments, at cost	<u>245</u>	<u>405</u>

### Short term investments

	Group	
	2001 HK\$'000	2000 HK\$'000
Listed equity investments in Hong Kong, at market value	<u>8,358</u>	<u>8,320</u>

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## 20. INVENTORIES

	Group	
	2001 HK\$'000	2000 HK\$'000
Raw materials	202,115	157,817
Work in progress	35,480	44,771
Finished goods	48,684	43,589
Goods in transit	206	657
	<u>286,485</u>	<u>246,834</u>

The carrying amount of inventories included in the above that are carried at net realisable value was nil (2000: HK\$11,956,000).

## 21. ACCOUNTS AND BILLS RECEIVABLES

	Note	Group	
		2001 HK\$'000	2000 HK\$'000
Manufacture and sale of steel products ( <i>note a</i> )		243,844	262,866
Others ( <i>note b</i> )		54,711	91,517
Gross amounts due from contract customers	22	12,289	17,491
		<u>310,844</u>	<u>371,874</u>



## 21. ACCOUNTS AND BILLS RECEIVABLES (continued)

Notes:

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

	2001 HK\$'000	2000 HK\$'000
Within one year	107,647	114,474
1-2 years	33,369	53,213
Over 2 years	102,828	95,179
	<u>243,844</u>	<u>262,866</u>

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 Group's 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.

- (b) An aged analysis of accounts and bills receivables from other activities is as follows:

	2001 HK\$'000	2000 HK\$'000
Within 90 days	20,098	60,350
91-180 days	2,583	1,532
181-365 days	11,759	4,516
1-2 years	13,281	17,909
Over 2 years	6,990	7,210
	<u>54,711</u>	<u>91,517</u>

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, and 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.



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## 22. CONSTRUCTION CONTRACTS

	Group	
	2001 HK\$'000	2000 HK\$'000
Gross amounts due from contract customers included in accounts and bills receivables	12,289	17,491
Gross amounts due to contract customers included in accounts and bills payables	(4,154)	(4,486)
	<u>8,135</u>	<u>13,005</u>
Contract costs incurred plus recognised profits less recognised losses to date ( <i>note</i> )	367,522	450,567
Less: Progress billings ( <i>note</i> )	(359,387)	(437,562)
	<u>8,135</u>	<u>13,005</u>

*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 2001, retentions held by customers for contract works as included in accounts and bills receivables under current assets amounted to approximately HK\$7,950,000 (2000: HK\$16,999,000).



## 23. DUE FROM/TO RELATED COMPANIES

The balance represents amounts due from/to Shougang HK, its holding company, subsidiary and fellow subsidiaries. Except for the short term loans granted by related companies to the Group detailed below, the remaining balances represent normal trade receivables/payables and other short term advances from/to related companies which are unsecured, interest-free and have no fixed terms of repayment:

- (i) Short term loans with an aggregate principal amount of HK\$236,454,000 and interest accrued thereon amounting to HK\$14,593,000 as at 31 December 2001 granted by a subsidiary of Shougang HK to the Company, which are unsecured, bear interest at rates between 5.5% per annum and 8.5% per annum, repayable during the year ending 31 December 2002. An aggregate principal amount of approximately HK\$220,400,000 will be refinanced or settled through the issuance of 3% convertible note of HK\$200,000,000 due in 2004 and sales consideration receivable from the disposal of interests in certain subsidiaries of the Company to Shougang HK, details of which are included in notes 43(i) and (iii) to the financial statements, respectively;
- (ii) short term loans with an aggregate principal amount of HK\$4,678,000 (US\$600,000) and interest accrued thereon amounting to HK\$33,000 as at 31 December 2001 granted by a subsidiary of Shougang HK to one of the Company's subsidiaries in Hong Kong, which are unsecured, bear interest at 2.25% above the one-month London Inter-Bank Offered Rate and with no fixed terms of repayment; and
- (iii) short term loans with an aggregate principal amount of HK\$54,569,000 and interest accrued thereon amounting to HK\$7,001,000 as at 31 December 2001 granted by Shougang Corporation to one of the Company's subsidiaries in Mainland China, which are unsecured, bear interest at 7.05% per annum and with no fixed terms of repayment.

## 24. DUE FROM ASSOCIATES

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

## 25. PLEDGED DEPOSITS

Included in the balance are:

- (i) a cash deposit of HK\$3,000,000 (2000: HK\$3,000,000) pledged to a bank in Hong Kong as part of a security to secure banking facilities of HK\$13,000,000 (2000: HK\$13,000,000) granted to the Group; and
- (ii) a cash deposit of HK\$7,414,000 (2000: HK\$3,920,000) pledged to a bank in Mainland China to secure banking facilities of approximately HK\$6,650,000 (2000: HK\$3,771,000) granted to a subsidiary of the Group established in Mainland China.

As at 31 December 2001, such banking facilities in Mainland China were utilised to the extent of HK\$3,489,000 (2000: HK\$3,771,000) by the Group.



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**26. CASH AND CASH EQUIVALENTS**

Included in the balance is an amount of HK\$22,777,000 (2000: HK\$1,577,000) deposited by certain subsidiaries in Mainland China with Hua Xia Bank, which is a related company of Shougang HK.

**27. ACCOUNTS AND BILLS PAYABLES**

	Note	Group	
		2001 HK\$'000	2000 HK\$'000
Manufacture and sale of steel products ( <i>note a</i> )		74,546	82,850
Others ( <i>note b</i> )		18,010	24,886
Gross amounts due to contract customers	22	4,154	4,486
		<u>96,710</u>	<u>112,222</u>

Notes:

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

	2001 HK\$'000	2000 HK\$'000
Within one year	52,801	38,856
1-2 years	11,547	28,743
Over 2 years	10,198	15,251
	<u>74,546</u>	<u>82,850</u>



## 27. ACCOUNTS AND BILLS PAYABLES (continued)

(b) An aged analysis of accounts and bills payables from other activities is as follows:

	2001 HK\$'000	2000 HK\$'000
Within 90 days	11,885	22,133
91-180 days	205	67
181-365 days	3	93
1-2 years	3,324	1,063
Over 2 years	2,593	1,530
	<u>18,010</u>	<u>24,886</u>

## 28. 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 cash proceeds of approximately HK\$334 million, net of expenses.

Each Bond was, 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 were to 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 was permitted to redeem all or some of the Bonds at their principal amount plus accrued and unpaid interest, if either the closing price of the shares of the Company for each of the 20 consecutive trading days before redemption was at least 140% of the conversion price in effect on each of such trading days, or if less than 10% of the Bonds were outstanding.

During the year, a principal amount of HK\$75,882,200 (2000: HK\$5,700) 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 199,690,000 (2000: 15,000) ordinary shares of the Company of HK\$0.20 each, credited as fully paid.

On 12 November 2001, being the date of maturity, the remaining Bonds with outstanding principal amount of HK\$218,532,300 were redeemed by the Company at 110% of their par value together with accrued interest of HK\$6,418,000. The Bonds were cancelled upon redemption.

# Notes to Financial Statements

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## 29. INTEREST-BEARING BANK AND OTHER BORROWINGS

	Notes	Group	
		2001 HK\$'000	2000 HK\$'000
Bank overdrafts		–	7,056
Current portion of bank loans		<b>266,367</b>	390,309
Current portion of finance lease payables	30 32	<b>266,367</b> <b>22,292</b>	397,365 26,893
		<b>288,659</b>	<b>424,258</b>

## 30. BANK LOANS AND OVERDRAFTS

	Group	
	2001 HK\$'000	2000 HK\$'000
Bank overdrafts	–	7,056
Trust receipt loans	<b>3,491</b>	5,272
Bank loans	<b>474,319</b>	485,037
	<b>477,810</b>	<b>497,365</b>
Secured	<b>171,728</b>	197,123
Unsecured	<b>306,082</b>	300,242
	<b>477,810</b>	<b>497,365</b>

The secured bank loans and overdrafts of HK\$171,728,000 (2000: HK\$197,123,000) 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 14, 25 and 37 to the financial statements, respectively.



### 30. BANK LOANS AND OVERDRAFTS (continued)

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

	Group	
	2001 HK\$'000	2000 HK\$'000
Bank overdrafts repayable within one year or on demand	–	7,056
Bank loans repayable:		
Within one year or on demand	266,367	390,309
In the second year	171,443	30,000
In the third to fifth years, inclusive	40,000	70,000
	<u>477,810</u>	<u>490,309</u>
Total bank loans and overdrafts	477,810	497,365
Portion classified as current liabilities (note 29)	<u>(266,367)</u>	<u>(397,365)</u>
Long term portion	<u>211,443</u>	<u>100,000</u>

### 31. PROVISION

#### Group

	HK\$'000
At beginning of year	–
Charge to profit and loss account	<u>4,527</u>
At 31 December 2001	<u>4,527</u>

A provision for compensation payable has been recognised during the year as the Group failed to complete certain obligations arising from certain contracts of affreightment and is, under the terms of such contracts, liable to compensate the counterparties of such contracts.

# Notes to Financial Statements

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## 32. FINANCE LEASE PAYABLES

The Group leases certain of its plant and machinery for its steel manufacturing business. These leases are classified as finance leases and have remaining lease terms of about seven years.

At the balance sheet date, the total future minimum lease payments under finance leases and their present values, were as follows:

Group	Minimum lease payments	Minimum lease payments	Present value of minimum lease payments	Present value of minimum lease payments
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Amounts repayable:				
Within one year	22,665	27,320	22,292	26,893
In the second year	22,665	27,320	22,292	26,893
In the third to fifth years, inclusive	67,994	81,960	66,875	80,679
After five years	52,884	91,070	52,014	89,644
	<u>166,208</u>	<u>227,670</u>	<u>163,473</u>	<u>224,109</u>
Total minimum finance lease payments	166,208	227,670		
Future finance charges	<u>(2,735)</u>	<u>(3,561)</u>		
Total net finance lease payables	163,473	224,109		
Portion classified as current liabilities (note 29)	<u>(22,292)</u>	<u>(26,893)</u>		
Long term portion	<u>141,181</u>	<u>197,216</u>		

SSAP 14 was revised and implemented during the year, as detailed in note 3 to the financial statements. Certain new disclosures are required and have been included above. The prior year comparative amounts for the new disclosures have also been included where appropriate.



### 33. LONG TERM LOAN FROM A RELATED COMPANY

The amount represents a loan of HK\$271,838,000 (2000: HK\$271,750,000) 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.

The amount at 31 December 2000 also included the aggregate of a long term loan principal of HK\$64,480,000 and accrued interest of HK\$7,614,000 due by the Company to a wholly-owned subsidiary of Shougang HK. The balance was due for repayment in 2002 and was reclassified and included in amounts due to related companies under current liabilities at 31 December 2001.

### 34. DEFERRED TAX

	Group	
	2001 HK\$'000	2000 HK\$'000
Balance at beginning of year	186	483
Credit for the year (note 11)	(186)	(297)
Balance at end of year	<u>—</u>	<u>186</u>

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

	Provided		Not provided	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Tax losses carried forward	—	—	78,265	52,631
Accelerated depreciation allowances	—	(186)	(22)	(244)
	<u>—</u>	<u>(186)</u>	<u>78,243</u>	<u>52,387</u>

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 at the balance sheet date.



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## 35. SHARE CAPITAL

### Shares

	Company	
	2001 HK\$'000	2000 HK\$'000
Authorised:		
5,000,000,000 ordinary shares of HK\$0.20 each	<u>1,000,000</u>	<u>1,000,000</u>
Issued and fully paid:		
2,295,546,454 (2000: 1,895,856,454) ordinary shares of HK\$0.20 each	<u>459,109</u>	<u>379,171</u>

During the year, the following movements in share capital were recorded:

- (i) An aggregate principal amount of the Bonds, totalling HK\$75,882,200 (2000: HK\$5,700), was converted into ordinary shares of the Company at a conversion price of HK\$0.38 per share, resulting in the issue of 199,690,000 (2000: 15,000) ordinary shares of the Company of HK\$0.20 each, credited as fully paid. The principal amount and the accrued interest of the Bonds converted were extinguished and released upon conversion.
- (ii) On 12 June 2001, arrangements were made by the Company and a placing agent for a private placement by Jasmine Group Limited ("Jasmine"), a shareholder of the Company and wholly-owned subsidiary of Shougang HK, of an aggregate of 200,000,000 existing ordinary shares of the Company at HK\$0.46 per share to independent investors. On the same date, Jasmine also entered into an agreement with the Company to subscribe for 200,000,000 new ordinary shares of the Company at a price of HK\$0.46 per share. The closing market price per ordinary share of the Company on 12 June 2001 was HK\$0.55. These shares were issued under the general mandate granted to the directors at the annual general meeting of the Company held on 27 June 2000 and rank pari passu in all respects with the then existing issued shares of the Company. The resulting proceeds were mainly used by the Company to finance the repayment of the convertible bonds during the year.

### Share options

On 11 April 1991, a share option scheme (the "Scheme") was adopted by the shareholders of the Company. The Scheme expired on 10 April 2001. Details of the Scheme are set out under the heading "Share option schemes" in the Report of the Directors on pages 18 and 19.



### 35. SHARE CAPITAL (continued)

#### Share options (continued)

Details of the share options granted, exercised and lapsed pursuant to the Scheme during the year ended 31 December 2001 are as follows:

Date of offer of grant	Exercise price per share	Exercise period	At beginning of year	Number of options			At end 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	15,850,000	–	–	(15,850,000)	–

On 15 June 2001, a new share option scheme (the "Existing Scheme") was adopted by the shareholders of the Company. Details of the Existing Scheme are set out under the heading "Share option schemes" in the Report of the Directors on pages 18 and 19. During the year, no share options were granted under the Existing Scheme.