

# Notes to Financial Statements

31 DECEMBER 2001

## 36. RESERVES

	Share premium account HK\$'000	Capital redemption reserve HK\$'000	Revaluation reserve HK\$'000	Exchange fluctuation reserve HK\$'000	Capital reserve HK\$'000 <i>Note (a)</i>	Enterprise expansion fund and statutory reserve fund HK\$'000 <i>Note (b)</i>	Accumulated losses HK\$'000	Total HK\$'000
<b>Group</b>								
At 1 January 2000:								
As previously reported	821,487	1,019	3,033	36,723	437,749	125,703	(839,380)	586,334
Prior year adjustment ( <i>Note</i> )	-	-	-	-	960,664	-	(960,664)	-
As restated	821,487	1,019	3,033	36,723	1,398,413	125,703	(1,800,044)	586,334
Issue of shares	3	-	-	-	-	-	-	3
Share issue expenses	(1)	-	-	-	-	-	-	(1)
Impairment of goodwill remaining eliminated against capital reserve ( <i>Note</i> )	-	-	-	-	71,980	-	-	71,980
Deemed disposal of interest in an associate	-	-	-	-	313	-	-	313
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 fund and statutory reserve fund	-	-	-	-	-	635	(635)	-
Net loss for the year (as restated)	-	-	-	-	-	-	(258,402)	(258,402)
At 31 December 2000	<u>821,489</u>	<u>1,019</u>	<u>4,014</u>	<u>41,546</u>	<u>1,481,065</u>	<u>126,994</u>	<u>(2,059,709)</u>	<u>416,418</u>



## 36. RESERVES (continued)

	Share premium account HK\$'000	Capital redemption reserve HK\$'000	Revaluation reserve HK\$'000	Exchange fluctuation reserve HK\$'000	Capital reserve HK\$'000 <i>Note (a)</i>	Enterprise expansion fund and statutory reserve fund HK\$'000 <i>Note (b)</i>	Accumulated losses HK\$'000	Total HK\$'000
<b>Group</b>								
At 1 January 2001:								
As previously reported	821,489	1,019	4,014	41,546	448,421	126,994	(1,027,065)	416,418
Prior year adjustment ( <i>Note</i> )	-	-	-	-	1,032,644	-	(1,032,644)	-
As restated	821,489	1,019	4,014	41,546	1,481,065	126,994	(2,059,709)	416,418
Issue of shares	87,944	-	-	-	-	-	-	87,944
Transfer of accretion of premium and accrued interest on Bonds	6,619	-	-	-	-	-	-	6,619
Share issue expenses	(2,529)	-	-	-	-	-	-	(2,529)
Impairment of goodwill remaining eliminated against capital reserve ( <i>Note</i> )	-	-	-	-	333,053	-	-	333,053
Deemed disposal of interest in an associate	-	-	-	-	587	-	-	587
Share of movements in reserves of associates	-	-	-	2,059	2,752	413	(1,110)	4,114
Exchange adjustments on translation of the financial statements of overseas subsidiaries and jointly-controlled entities	-	-	-	625	-	-	-	625
Transfer to enterprise expansion fund and statutory reserve fund	-	-	-	-	-	90	(90)	-
Net loss for the year	-	-	-	-	-	-	(607,378)	(607,378)
At 31 December 2001	<u>913,523</u>	<u>1,019</u>	<u>4,014</u>	<u>44,230</u>	<u>1,817,457</u>	<u>127,497</u>	<u>(2,668,287)</u>	<u>239,453</u>

*Note:* The directors have assessed and considered that the goodwill arising on the acquisitions of subsidiaries and associates before 1 January 2001 which were eliminated against the capital reserve were impaired in prior years and in the year ended 31 December 2001, as further explained in note 16 to the financial statements.

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## 36. RESERVES (continued)

	Share premium account HK\$'000	Capital redemption reserve HK\$'000	Revaluation reserve HK\$'000	Exchange fluctuation reserve HK\$'000	Capital reserve HK\$'000  (Restated)  Note (a)	Enterprise expansion fund and statutory reserve fund HK\$'000  (Restated)  Note (b)	Accumulated losses HK\$'000  (Restated)	Total HK\$'000
<b>Group</b>								
Reserves retained by:								
Company and its								
subsidiaries	913,523	1,019	2,855	53,592	1,800,000	118,979	(2,600,080)	289,888
Associates	-	-	1,159	(10,006)	17,457	8,518	(79,430)	(62,302)
Jointly-controlled entities	-	-	-	644	-	-	11,223	11,867
31 December 2001	<u>913,523</u>	<u>1,019</u>	<u>4,014</u>	<u>44,230</u>	<u>1,817,457</u>	<u>127,497</u>	<u>(2,668,287)</u>	<u>239,453</u>
Company and its								
subsidiaries	821,489	1,019	2,855	52,929	1,466,360	118,889	(2,002,618)	460,923
Associates	-	-	1,159	(12,065)	14,705	8,105	(67,761)	(55,857)
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>1,481,065</u>	<u>126,994</u>	<u>(2,059,709)</u>	<u>416,418</u>



### 36. RESERVES (continued)

	Share premium account HK\$'000	Capital redemption reserve HK\$'000	Revaluation reserve HK\$'000	Exchange fluctuation reserve HK\$'000	Capital reserve HK\$'000 <i>Note (a)</i>	Enterprise expansion fund and statutory reserve fund HK\$'000 <i>Note (b)</i>	Accumulated losses HK\$'000	Total HK\$'000
<b>Company</b>								
At 1 January 2000	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 and beginning of year	821,489	1,019	-	-	1,800,000	-	(2,052,192)	570,316
Issue of shares	87,944	-	-	-	-	-	-	87,944
Transfer of accretion of premium and accrued interest on Bonds	6,619	-	-	-	-	-	-	6,619
Share issue expenses	(2,529)	-	-	-	-	-	-	(2,529)
Loss for the year	-	-	-	-	-	-	(422,897)	(422,897)
At 31 December 2001	913,523	1,019	-	-	1,800,000	-	(2,475,089)	239,453

**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.
- (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 joint ventures in accordance with their respective joint venture agreements.

# Notes to Financial Statements

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## 37. INTERESTS IN SUBSIDIARIES

	Company	
	2001 HK\$'000	2000 HK\$'000
Unlisted shares, at cost	527,466	527,466
Due from subsidiaries	2,549,324	2,554,931
	<b>3,076,790</b>	3,082,397
Less: Provisions for impairment	(2,126,182)	(1,737,752)
	<b>950,608</b>	1,344,645

Except for balances with an aggregate amount of HK\$31,645,000 (2000: HK\$81,544,000) due from certain subsidiaries, which bore interest at 4.5% to 11.74% (2000: 4.5% to 11.74%) per annum from 1 January 2001 to 30 June 2001 and became interest-free thereafter, 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\$31,209,000 (2000: HK\$29,129,000) as at 31 December 2001 have been pledged to a bank in Hong Kong as part of a security to secure banking facilities granted to the Group.



### 37. INTERESTS IN SUBSIDIARIES (continued)

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

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary share capital/ registered capital	Percentage of equity attributable to the Group		Principal activities
			2001	2000	
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*	Provision of interior decoration and renovation services
Radnor Limited	Hong Kong	HK\$1,775,920	75*	75*	Manufacture and installation of kitchen and laundry equipment and investment holding
Radnor Engineering Limited	Hong Kong/ People's Republic of China	HK\$200,000	75*	75*	Manufacture and installation of kitchen and laundry equipment
Dongguan Roulopp Metal Products Co. Limited	People's Republic of China	HK\$10,000,000	52.5*	52.5*	Manufacture and installation of kitchen and laundry equipment



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**37. INTERESTS IN SUBSIDIARIES** (continued)

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary share capital/ registered capital	Percentage of equity attributable to the Group		Principal activities
			2001	2000	
Jiangmen Radnor Kitchen & Laundry Engineering Limited	People's Republic of China	HK\$500,000	71.25*	71.25*	Installation of kitchen and laundry equipment
Shougang Concord Godown Limited	Hong Kong	Ordinary: HK\$2 Deferred: HK\$2,000,000	100*	100*	Provision of warehousing services
Shougang Concord Management Company Limited	Hong Kong	HK\$100,000	100*	100*	Provision of management services and investment holding
Star Field (H.K.) Limited	Hong Kong/ People's Republic of China	HK\$10,000	100 <sup>#</sup>	–	Property investment
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 and investment holding
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



### 37. INTERESTS IN SUBSIDIARIES (continued)

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary share capital/ registered capital	Percentage of equity attributable to the Group		Principal activities
			2001	2000	
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 Centra-Link Co. Ltd.***	People's Republic of China	US\$5,000,000	##	##	Hiring of floating cranes
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





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**37. INTERESTS IN SUBSIDIARIES** (continued)

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary share capital/ registered capital	Percentage of equity attributable to the Group		Principal activities
			2001	2000	
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
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



### 37. INTERESTS IN SUBSIDIARIES (continued)

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary share capital/ registered capital	Percentage of equity attributable to the Group		Principal activities
			2001	2000	
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
Tin Fung Investment Company, Limited	Hong Kong	HK\$975,000 (ordinary) HK\$210,000 (non-voting deferred)	60*	60*	Property investment

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## 37. INTERESTS IN SUBSIDIARIES (continued)

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary share capital/ registered capital	Percentage of equity attributable to the Group		Principal activities
			2001	2000	
Eldex Investment Company Limited	Hong Kong	HK\$541,000 (ordinary) HK\$1,459,000 (non-voting deferred)	60*	60*	Property investment
Strenbeech 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
Newcorp Management Limited	Hong Kong	HK\$2	– ###	60*	Property investment

\* Held through subsidiaries.

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

\*\*\* Not audited by Ernst & Young Hong Kong or other Ernst & Young International member firms.



### 37. INTERESTS IN SUBSIDIARIES (continued)

- # During the year, a debtor of the Group transferred its entire equity interests in Star Field (H.K.) Limited to the Group as partial settlement of the trade debts owed to the Group. Further details are set out in note 38(c) to the financial statements.
- ## Zhoushan Shouhe Centra-Link 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.
- ### During the year, the Group disposed of its interests in Newcorp Management Limited to an independent third party of the Group at a consideration of HK\$11,209,000. This resulted in a loss on disposal of this subsidiary of approximately HK\$4,808,000. Further details are set out in note 38(d) to the financial statements.

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 of the Company's subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

# Notes to Financial Statements

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## 38. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

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

	2001 HK\$'000	2000 HK\$'000 (Restated)
Loss from operating activities	(692,260)	(264,552)
Interest income	(7,102)	(5,580)
Dividend income from listed investments	(49)	(210)
Depreciation	115,240	115,325
Amortisation of intangible assets	1,630	764
Revaluation deficit on investment properties	32,188	7,925
Impairment of goodwill	333,053	71,980
Impairment of land and buildings	17,174	495
Impairment of other fixed assets	152,500	–
Loss/(gain) on changes in fair values of short term investments, net	(307)	1,288
Loss/(gain) on disposal of short term investments, net	(1,077)	203
Loss on disposal of long term investments	6	–
Loss on disposal of fixed assets	1,217	11,138
Loss/(gain) on disposal of an investment property	358	(1,000)
Loss on disposal of a subsidiary	4,808	–
Loss on deemed disposal of interest in an associate	940	313
Provisions for bad debts	68,599	56,830
Provision against a loan receivable due from an associate	18,332	6,000
Provision against an amount due from an associate	3,589	–
Provision for compensation	4,527	–
Write-off of an amount due from a minority shareholder	–	2,513
Decrease in accounts and bills receivables	35,007	35,207
Decrease in prepayments, deposits and other receivables	31,747	45,600
Increase in inventories	(39,651)	(27,203)
Decrease in amounts due from related companies	5,693	20,275
Decrease/(increase) in amounts due from associates	480	(16)
Increase/(decrease) in accounts and bills payables	(15,512)	17,654
Decrease in other payables and accrued liabilities	(28,301)	(2,456)
Increase in amounts due to related companies	9,653	74,854
Decrease in an amount due to an associate	–	(215)
Decrease in an amount due to a jointly-controlled entity	–	(2,270)
Exchange adjustments	571	2,050
Net cash inflow from operating activities	<u>53,053</u>	<u>166,912</u>



### 38. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (continued)

#### (b) Analysis of changes in financing during the year

	Share capital (including share premium account and capital redemption reserve) HK\$'000	Bonds HK\$'000	Bank borrowings, long term loan from a related company and finance lease payables HK\$'000	Minority interests HK\$'000	Due to related companies HK\$'000
Balance at 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 impairment 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 and 1 January 2001	1,201,679	315,394	1,058,262	836,925	303,028
Cash inflows/(outflows) from financing, net	89,471	(240,385)	(41,728)	1,167	174,177
Share of reserves	-	-	-	1,532	-
Conversion of Bonds	75,882	(75,882)	-	-	-
Share of loss on deemed disposal of interest in an associate	-	-	-	(184)	-
Share of loss for the year	-	-	-	(177,807)	-
Accretion of premium on Bonds	-	7,451	-	-	-
Transfer of accretion of premium on Bonds	6,578	(6,578)	-	-	-
Transfer of accrued interest on Bonds	41	-	-	-	-
Arising from trading activities	-	-	-	-	9,653
Reclassification	-	-	(72,094)	-	72,094
Termination of leases	-	-	(31,695)	-	-
Exchange adjustments	-	-	376	96	-
Balance at 31 December 2001	<u>1,373,651</u>	<u>-</u>	<u>913,121</u>	<u>661,729</u>	<u>558,952</u>

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## 38. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (continued)

### (c) Summary of the effects of acquisition of interests in a subsidiary

During the year, a debtor of the Group transferred its entire equity interests in Star Field (H.K.) Limited to the Group at a nominal consideration of HK\$10 as partial settlement of the trade debts it owed to the Group as follows:

	2001 HK\$'000
Net assets acquired:	
Investment property	3,151
Other receivables	91
Accruals	(4)
	<u>3,238</u>
Satisfied by :	
Cash	-
Accounts receivable	3,238
	<u>3,238</u>

Since its acquisition, the subsidiary acquired had no significant impact in respect of the Group's cash flows, consolidated turnover and consolidated loss before minority interests for the year.

### (d) Summary of the effects of disposal of interests in a subsidiary

	2001 HK\$'000
Net assets disposed of:	
Investment property	16,017
Proceeds from disposal of a subsidiary	<u>11,209</u>
Loss on disposal of a subsidiary	<u>4,808</u>
Satisfied by :	
Cash	<u>11,209</u>

The subsidiary disposed of had no significant impact in respect of the Group's cash flows, consolidated turnover and consolidated loss before minority interests for the year.



### 38. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (continued)

#### (e) Major non-cash transactions

- (i) During the year, an aggregate principal amount of the Bonds totalling HK\$75,882,200 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 ordinary shares of the Company of HK\$0.20 each, credited as fully paid.
- (ii) During the year, certain finance lease contracts of the Group with an aggregate amount of HK\$31,695,000 were terminated.

### 39. CONTINGENT LIABILITIES

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

	Group		Company	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Guarantees for banking facilities granted to subsidiaries	–	–	59,785	59,631
Guarantees in respect of performance bonds	3,450	2,357	–	–
	<u>3,450</u>	<u>2,357</u>	<u>59,785</u>	<u>59,631</u>



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## 40. OPERATING LEASE ARRANGEMENTS

### (a) As lessor

The Group leases its investment properties in Hong Kong under operating lease arrangements, with leases negotiated for terms ranging from one to three years. The terms of the leases generally also require the tenants to pay security deposits and provide for periodic rent adjustments according to the then prevailing market conditions.

At the balance sheet date, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	Group	
	2001 HK\$'000	2000 HK\$'000
Within one year	7,883	11,049
In the second to fifth years, inclusive	1,475	3,656
	<u>9,358</u>	<u>14,705</u>

### (b) As lessee

The Group leases certain of its vessels through two time charter hires. The time charter hires commenced on 20 December 1999 for 12 years 11 months and 12 years 10 months, respectively, plus two months more or less in the Group's option. The daily rates of the time charter hires increase by US\$250 every half year until December 2007 when the daily rates will start increasing by US\$125 every half year.

The Group leases certain of its office premises in Hong Kong under operating lease arrangements. Leases for properties are negotiated for terms within one year. In addition, certain of the Company's subsidiaries in Mainland China lease certain of its office premises and factory facilities under operating lease arrangements. Leases for properties are negotiated for the joint venture tenure of these subsidiaries.



#### 40. OPERATING LEASE ARRANGEMENTS (continued)

##### (b) As lessee (continued)

At the balance sheet date, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group		Group	
	2001 Vessels time charter hire HK\$'000	2000 Vessels time charter hire HK\$'000 (Restated)	2001 Land and buildings HK\$'000	2000 Land and buildings HK\$'000 (Restated)
Within one year	129,165	126,357	8,576	8,118
In the second to fifth years, inclusive	545,487	534,261	34,655	15,764
After five years	870,442	1,011,289	40,339	34,404
	<u>1,545,094</u>	<u>1,671,907</u>	<u>83,570</u>	<u>58,286</u>

SSAP 14 (Revised), which was adopted during the year, requires lessors under operating leases to disclose the total future minimum operating lease receivables under non-cancellable operating leases, as detailed in note (a) above. This disclosure was not previously required. SSAP 14 (Revised) also requires lessees under operating leases to disclose the total future minimum operating lease payments, rather than only the payments to be made during the next year as was previously required. Accordingly, the prior year comparative amounts for operating leases as lessee in note (b) above, have been restated to accord with the current year's presentation.

# Notes to Financial Statements

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## 41. COMMITMENTS

In addition to the operating lease commitments detailed in note 40(b) above, the Group had the following commitments at the balance sheet date:

(a) Capital commitments

	Group	
	2001 HK\$'000	2000 HK\$'000
Property, plant and equipment:		
Contracted for	10,502	1,653
Authorised, but not contracted for	<u>58,570</u>	<u>57,537</u>

(b) The Group's share of capital commitments of a jointly-controlled entity was as follows:

	Group	
	2001 HK\$'000	2000 HK\$'000
Authorised, but not contracted for	64,237	14,098
Contracted, but not provided for	<u>894</u>	<u>54,903</u>

The Company had no commitments at the balance sheet date.

## 42. 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 17, 18, 23, 24, 33 and 37 to the financial statements.

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



## 42. RELATED PARTY TRANSACTIONS (continued)

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

	Note	2001 HK\$'000	2000 HK\$'000
Sales to related companies	(i)	77,244	90,808
Purchases from related companies	(ii)	866,198	991,868
Lease rentals payable to related companies	(iii)	3,445	3,882
Management fees payable to a related company	(iv)	240	300
Consultancy fees payable to a related company	(v)	960	960
Purchases of spare parts from related companies	(vi)	10,193	13,753
Corporate guarantees received from a related company	(vii)	306,082	299,802
Loans from related companies	(viii)	176,678	26,072
Management fees receivable from associates	(ix)	1,320	1,320
Rental income receivable from an associate	(x)	1,020	1,135
Bond interest expense payable to related companies	(xi)	8,254	11,569
Interest expense charged by related companies	(xii)	14,689	5,760
Service fees charged by related companies	(xiii)	6,665	7,371
Commission expense payable to related companies	(xiv)	677	1,486
Freight income receivable from related companies	(xv)	187,140	178,144
Service fees receivable from related companies	(xvi)	796	2,041
Waiver of interest expense charged by a related company		—	4,280
Interest expense charged by a jointly-controlled entity		—	3,180
Purchase commission receivable from a related company		—	1,771

(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\$77,244,000 (2000: HK\$90,808,000) to certain related companies in Mainland China in the normal course of business and at a consideration decided between the parties with reference to the then prevailing market prices.

(ii) Pohseng, Gitane and QHD purchased raw materials of HK\$788,245,000 (2000: HK\$781,461,000) from related companies in the ordinary course of business and at a consideration decided between the parties with reference to the then prevailing market prices.

The Group purchased steel products of HK\$77,953,000 (2000: HK\$210,407,000) from a related company in the ordinary course of business and at rates decided between the parties.

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## 42. RELATED PARTY TRANSACTIONS (continued)

- (iii) 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 between the parties.
- (iv) Management fees of HK\$240,000 (2000: HK\$300,000) were 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 the parties.
- (v) Consultancy fees of HK\$960,000 (2000: HK\$960,000) were paid to Shougang HK for consultancy services in accordance with the agreement between Shougang Concord Grand (Group) Limited ("SC Grand") and Shougang HK.
- (vi) Pohseng purchased spare parts of HK\$4,777,000 (2000: HK\$6,342,000) from related companies in the normal course of business for a consideration decided between the parties.

QHD purchased spare parts of HK\$5,416,000 (2000: HK\$5,237,000) from related companies in the normal course of business for a consideration decided between the parties.

In 2000, Gitane purchased spare parts of HK\$2,174,000 from a related company in the normal course of business for a consideration decided between the parties.

- (vii) Shougang Corporation has provided guarantees of HK\$306,082,000 (2000: HK\$299,802,000) for bank loans granted to Pohseng and QHD.
- (viii) An unsecured loan of HK\$172,000,000 bearing interest at 5.5% was granted by a related company to the Company for working capital purposes. The loan is repayable in the year ending 31 December 2002.

Unsecured loans with an aggregate amount of HK\$4,678,000 (US\$600,000) bearing interest at 2.25% above the one-month London Inter-Bank Offered Rate were granted by a related company to one of the Company's subsidiaries in Hong Kong for working capital purposes. The loans have no fixed terms of repayment.

In 2000, an unsecured and non interest-bearing loan of HK\$23,569,000 was obtained by Pohseng from Shougang Corporation for working capital purposes. The loan had no fixed terms of repayment.

- (ix) The Group provided management services in relation to the business and strategic development services provided to its associates, SC Technology and SC Century, for a service charge of HK\$720,000 (2000: HK\$720,000) and HK\$600,000 (2000: HK\$600,000), respectively. The rates were decided between the parties.



## 42. RELATED PARTY TRANSACTIONS (continued)

- (x) The Group has entered into rental agreements with a subsidiary of SC Technology for renting an investment property to the SC Technology group. The rental was determined between the parties with reference to the then prevailing market rates.
- (xi) The interest expense paid to certain subsidiaries of Shougang HK was in relation to the Bonds issued in November 1998 and redeemed in November 2001.
- (xii) The interest expense charged by a subsidiary of Shougang HK and Shougang Corporation arose from the loans of US\$18,681,000, US\$321,000 and HK\$54,569,000 borrowed by the Group in prior years, and from the loans of HK\$172,000,000 and US\$600,000 borrowed by the Group in 2001.
- (xiii) Certain subsidiaries of Shougang Corporation charged QHD service fees of HK\$6,665,000 (2000: HK\$7,371,000) in respect of processing and repairing services provided to QHD in the normal course of business and at rates decided between the parties.
- (xiv) The commission expense represents a rebate on the freight income for shipments of iron ore from Peru to China at a rate decided between the parties.
- (xv) The Group arranged for shipments of iron ore from Peru and Australia to Mainland China for related companies at a freight rate decided between the parties.
- (xvi) QHD charged related companies services fees of HK\$796,000 (2000: HK\$2,041,000) in respect of processing services provided to these related companies in the normal course of business and at rates decided between the parties.

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## 43. POST BALANCE SHEET EVENTS

### Group reorganisation involving the issue of convertible note, an asset acquisition and asset disposals

Subsequent to the balance sheet date, as stated in an announcement dated 12 April 2002, the Company entered into several conditional agreements regarding a group reorganisation involving the issue of a convertible note, an asset acquisition and asset disposals (the "Group Reorganisation"), the summary details of which are as follows:

(i) Issue of convertible note

On 10 April 2002, the Company entered into a subscription agreement with a wholly-owned subsidiary of Shougang HK (the "Subscriber") pursuant to which a wholly-owned subsidiary of the Company will issue and the Subscriber will subscribe, in cash, for a 3% convertible note due in 2004 with a principal amount of HK\$200 million (the "Convertible Note"). The proceeds of the Convertible Note are to be used to repay part of the Group's loans with an aggregate outstanding amount as at 12 April 2002 of approximately HK\$285.1 million due by the Company to a wholly-owned subsidiary of Shougang HK (the "Existing Shareholder's Loans").

(ii) Asset acquisition

On 10 April 2002, Shougang Corporation and a wholly-owned subsidiary of the Company (the "Acquirer") entered into a conditional asset acquisition agreement, pursuant to which, Shougang Corporation has agreed to sell and the Acquirer has agreed to purchase a 51% interest in Beijing Shougang Firstlevel Power Co., Ltd., a sino-foreign joint venture to be established in Mainland China engaged in the power generation business, for a cash consideration of approximately HK\$198.2 million (the "Asset Acquisition").

(iii) Asset disposals

On 10 April 2002, pursuant to conditional asset disposal agreements entered into between certain wholly-owned subsidiaries of the Company and Shougang Corporation and a wholly-owned subsidiary of Shougang HK, the Company will dispose of part of its current 65% interest in each of Pohseng, Beijing Shougang-Liwoh Bar Steel Co., Ltd. ("Liwoh") and Gitane to Shougang Corporation and a wholly-owned subsidiary of Shougang HK in the proportion of 40% and 10%, respectively, for an aggregate consideration of approximately HK\$101.9 million. Approximately HK\$81.5 million of the consideration will be payable by Shougang Corporation in cash and approximately HK\$20.4 million will be applied to repay part of the Existing Shareholder's Loans. Upon the completion of the proposed disposals, the Company will retain a 15% interest in each of Pohseng, Liwoh and Gitane and will account for these interests as long term investments in the Group's balance sheet.



### 43. POST BALANCE SHEET EVENTS (continued)

Group reorganisation involving the issue of convertible note, an asset acquisition and asset disposals (continued)

(iii) Asset disposals (continued)

On 11 April 2002, a conditional agreement was entered into between the Company and a wholly-owned subsidiary of Shougang HK (the "First Purchaser") and a wholly-owned subsidiary of Cheung Kong (Holdings) Limited (the "Second Purchaser") pursuant to which, the Company agreed to sell and the First Purchaser agreed to acquire 430,491,315 ordinary shares of HK\$0.01 each in the capital of SC Grand (the "SC Grand Shares") and the Second Purchaser agreed to acquire 91,491,193 SC Grand Shares, respectively, for an aggregate cash consideration of HK\$172,254,000 (equivalent to HK\$0.33 per SC Grand Share). The proposed disposals of interests in Pohseng, Liwoh, Gitane and SC Grand are collectively referred as the "Asset Disposals".

The Asset Acquisition and the Asset Disposals are inter-conditional. The Group Reorganisation is subject to, among other things, the approval by the shareholders of the Company other than Shougang HK and Cheung Kong (Holdings) Limited or their associates at an extraordinary general meeting.

Further details of the above transactions are also set out in the Company's announcement dated 12 April 2002 and will be set out in the Company's circular to be issued in May 2002.

The Asset Acquisition and the Asset Disposals under the Group Reorganisation are conditional and their completion will take place after the date on which these financial statements were approved by the directors of the Company. Due to the fact that the exact completion dates of the said transactions cannot be predetermined in advance, the directors are of the opinion that the financial effects of the Asset Acquisition and the Asset Disposals cannot be reliably estimated at the date of approval of these financial statements.

### 44. COMPARATIVE AMOUNTS

As further explained in note 3 to the financial statements, due to the adoption of certain new and revised SSAPs during the current year, the accounting treatment and presentation of certain items and balances in the financial statements have been revised to comply with the new requirements. Accordingly, prior year adjustments have been made and certain comparative amounts have been reclassified to conform with the current year's presentation.

### 45. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 22 April 2002.