



## NOTES TO INTERIM FINANCIAL STATEMENTS

30 June 2002

### 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.

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 2001, except that the Group has changed certain of its accounting policies following the adoption of the following new/revised SSAPs issued by the Hong Kong Society of Accountants which are effective for accounting periods commenced on or after 1 January 2002:

SSAP 1 (Revised):	Presentation of financial statements
SSAP 11 (Revised):	Foreign currency translation
SSAP 15 (Revised):	Cash flow statements
SSAP 33:	Discontinuing operations
SSAP 34:	Employee benefits

A summary of their major effects is as follows:

SSAP 1 (Revised) prescribes the basis for the presentation of financial statements and sets out guidelines for their structure and minimum requirements for the content thereof. The main revision to this revised SSAP is to change the requirements from presenting a statement of recognised gains and losses to a statement of changes in equity. The condensed consolidated statement of changes in equity for the current interim period and the comparative figures have been presented in accordance with the revised SSAP.

SSAP 11 (Revised) prescribes the basis for the translation of foreign currency transactions and financial statements. The principal impact of this revised SSAP on the condensed consolidated financial statements is that the profit and loss account of subsidiaries, associate and jointly controlled entities operating in Mainland China are translated at an average rate for the period on consolidation, rather than translated at the applicable rates of exchange ruling at the balance sheet date as was previously required. This revised SSAP is required to be applied retrospectively. This revised SSAP has not had any material impact on these interim financial statements.



## 1. BASIS OF PREPARATION AND ACCOUNTING POLICIES *(Continued)*

SSAP 15 (Revised) prescribes the provision of information about the historical changes in cash and cash equivalents by means of a cash flow statement which classifies cash flows during the period into operating, investing and financing activities. The condensed consolidated cash flow statement for current interim period and the comparative figures have been presented in accordance with the revised SSAP.

SSAP 34 prescribes the accounting treatment and disclosures for employee benefits. This SSAP has not had any material impact on these interim financial statements.

## 2. SEGMENT INFORMATION

### (a) *Business segments*

The following tables present revenue and profit/(loss) for the Group's business segments.

#### Group

#### Six months ended 30 June 2002

	Steel cord (Unaudited) <i>HK\$'000</i>	Copper and brass products (Unaudited) <i>HK\$'000</i>	Property development and investment (Unaudited) <i>HK\$'000</i>	Corporate and others (Unaudited) <i>HK\$'000</i>	Consolidated (Unaudited) <i>HK\$'000</i>
Segment revenue:					
Sales to external customers	79,572	25,734	252	-	105,558
Unallocated revenue	-	-	-	167	167
Total	<u>79,572</u>	<u>25,734</u>	<u>252</u>	<u>167</u>	<u>105,725</u>
Segment results	<u>39,574</u>	<u>907</u>	<u>168</u>	<u>(7,405)</u>	<u>33,244</u>
Unallocated income less expenses					<u>76</u>
Profit from operating activities					<u>33,320</u>



## 2. SEGMENT INFORMATION (Continued)

### (a) Business segments (Continued)

Six months ended 30 June 2001

	Steel cord (Unaudited) HK\$'000	Copper and brass products (Unaudited) HK\$'000	Property development and investment (Unaudited) HK\$'000	Corporate and others (Unaudited) HK\$'000	Consolidated (Unaudited) HK\$'000
Segment revenue:					
Sales to external customers	66,292	20,151	1,196	–	87,639
Unallocated revenue	–	–	–	168	168
<b>Total</b>	<b>66,292</b>	<b>20,151</b>	<b>1,196</b>	<b>168</b>	<b>87,807</b>
Segment results	12,314	139	29	(6,454)	6,028
Unallocated income less expenses					2,514
Profit from operating activities					8,542

### (b) Geographical segments

The following table presents revenue and profit/(loss) for the Group's geographical segments.

#### Group

	Hong Kong		Elsewhere in the People's Republic of China (the "PRC")		Others		Consolidated	
	2002 (Unaudited) HK\$'000	2001 (Unaudited) HK\$'000	2002 (Unaudited) HK\$'000	2001 (Unaudited) HK\$'000	2002 (Unaudited) HK\$'000	2001 (Unaudited) HK\$'000	2002 (Unaudited) HK\$'000	2001 (Unaudited) HK\$'000
Segment revenue:								
Sales to external customers	25,986	20,230	79,572	67,099	–	310	105,558	87,639
Segment results	(7,064)	(7,456)	40,308	13,451	–	33	33,244	6,028



### 3. OTHER REVENUE AND GAINS

	For the six months ended 30 June	
	2002	2001
	(Unaudited) HK\$'000	(Unaudited) HK\$'000
Interest income	66	472
Others	177	2,209
	<u>243</u>	<u>2,681</u>

### 4. PROFIT FROM OPERATING ACTIVITIES

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

	For the six months ended 30 June	
	2002	2001
	(Unaudited) HK\$'000	(Unaudited) HK\$'000
Cost of inventories sold	72,356	64,812
Depreciation	11,371	11,268
Amortisation of land use rights	280	279
Gain on disposal of fixed assets	–	(15)
Provision for bad and doubtful debts	1,027	5,741
Write back of provision for bad and doubtful debts	(14,903)	(1,330)

### 5. FINANCE COSTS

	For the six months ended 30 June	
	2002	2001
	(Unaudited) HK\$'000	(Unaudited) HK\$'000
Interest on bank loans and overdrafts and other borrowings wholly repayable within five years	1,198	2,824



## 6. TAX

	<b>For the six months ended 30 June</b>	
	<b>2002</b>	2001
	<b>(Unaudited)</b> <i>HK\$'000</i>	(Unaudited) <i>HK\$'000</i>
Group:		
Mainland China		
Provision for the period	<b>8</b>	140
Share of tax attributable to jointly controlled entities:		
Mainland China	<b>500</b>	466
Share of tax attributable to an associate:		
Mainland China	<b>336</b>	294
	<b>844</b>	900

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 2001: 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. In accordance with the relevant tax rules and regulations in Mainland China, certain of the Company's subsidiary, jointly controlled entities and associate in Mainland China enjoy income tax exemptions and reductions.

## 7. 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\$27,058,000 (six months ended 30 June 2001: HK\$8,884,000) and 765,372,000 (30 June 2001: 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 2002 and 2001.



## 8. 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 2002		31 December 2001	
	Balance (Unaudited) <i>HK\$'000</i>	Percentage (Unaudited) %	Balance (Audited) <i>HK\$'000</i>	Percentage (Audited) %
0 – 90 days	52,170	95	34,415	84
91 – 180 days	2,207	4	4,812	12
181 – 365 days	482	1	1,910	4
	<u>54,859</u>	<u>100</u>	<u>41,137</u>	<u>100</u>

## 9. TRADE PAYABLES

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

	30 June 2002		31 December 2001	
	Balance (Unaudited) <i>HK\$'000</i>	Percentage (Unaudited) %	Balance (Audited) <i>HK\$'000</i>	Percentage (Audited) %
0 – 90 days	4,174	80	4,273	79
91 – 180 days	17	1	132	2
181 – 365 days	–	–	9	1
Over 1 year	987	19	987	18
	<u>5,178</u>	<u>100</u>	<u>5,401</u>	<u>100</u>



## 10. SHARE CAPITAL

	<b>30 June 2002</b>	31 December 2001
	<b>(Unaudited)</b>	(Audited)
	<b>HK\$'000</b>	HK\$'000
Authorised		
1,000,000,000 ordinary shares of HK\$0.1 each	<b>100,000</b>	100,000
Issued and fully paid		
765,372,000 ordinary shares of HK\$0.1 each	<b>76,537</b>	76,537

### Share options

The Group adopted a share option scheme on 11 March 1992 ("1992 Scheme"). Under 1992 Scheme, the Board may exercise its discretion to grant share options to any director and employee of the Group to subscribe for shares in the capital of the Company. During the period, 1992 Scheme expired on 10 March 2002. The adoption of a new share option scheme was approved by the shareholders of the Company at the annual general meeting held on 7 June 2002 ("2002 Scheme"). Pursuant to 2002 Scheme, the Board shall, subject to and in accordance with its provisions and the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), grant share options to any eligible participant who may make a contribution to the Group to subscribe for shares in the capital of the Company. 2002 Scheme will remain in force for a 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 2002.



## 10. SHARE CAPITAL (Continued)

Subsequent to the balance sheet date, the Company granted certain eligible participants under 2002 Scheme totalling 49,740,000 share options to subscribe for shares in the capital of the Company on 23 August 2002. Details of the grant of share options are set out below:

Eligible participant	No. of shares over which options were granted	Exercise period	Exercise price per share (HK\$)
<i>Directors</i>			
Cao Zhong	7,652,000	23/8/2002 to 22/8/2012	0.295
Tong Yihui	7,652,000	23/8/2002 to 22/8/2012	0.295
Li Shaofeng	7,652,000	23/8/2002 to 22/8/2012	0.295
Xu Xianghua	7,652,000	23/8/2002 to 22/8/2012	0.295
Leung Shun Sang, Tony	4,592,000	23/8/2002 to 22/8/2012	0.295
Tang Kwok Kau	2,296,000	23/8/2002 to 22/8/2012	0.295
Lai Kam Man	382,000	23/8/2002 to 22/8/2012	0.295
Yip Kin Man, Raymond	382,000	23/8/2002 to 22/8/2012	0.295
<i>Employees and others</i>	11,480,000	23/8/2002 to 22/8/2012	0.295

## 11. 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 2002	357,181	54,098	463	1,491	3,101	7,352	22,306	(128,870)	317,122
Net profit for the period	-	-	-	-	-	-	-	27,058	27,058
Transfer	-	-	-	-	-	-	1,106	(1,106)	-
At 30 June 2002	357,181	54,098	463	1,491	3,101	7,352	23,412	(102,918)	344,180





## 12. COMMITMENTS

At 30 June 2002, the Group had capital commitments amounting to HK\$32,506,000 (31 December 2001: HK\$39,109,000). The Group had no share of capital commitments in respect of its interests in jointly controlled entities at 30 June 2002 (31 December 2001: HK\$839,000).

## 13. OPERATING LEASE ARRANGEMENTS

### (a) As lessor

The Group leases its investment properties under operating lease arrangements, with leases negotiated for terms of two 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:

	<b>Group</b>	
	<b>30 June</b>	31 December
	<b>2002</b>	2001
	<b>HK\$'000</b>	HK\$'000
Within one year	<u>388</u>	<u>47</u>



### 13. OPERATING LEASE ARRANGEMENTS *(Continued)*

#### (b) As lessee

The Group leases certain of its office properties and factory premises under operating lease arrangements. Leases for properties are negotiated for terms ranging from one to three years.

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

	<b>Group</b>	
	<b>30 June 2002 HK\$'000</b>	31 December 2001 HK\$'000
Within one year	<b>927</b>	134
In the second to fifth years, inclusive	<b>734</b>	–
	<b><u>1,661</u></b>	<u>134</u>

### 14. CONTINGENT LIABILITIES

As at 30 June 2002, the Group has given guarantees amounting to approximately HK\$24,540,000 (31 December 2001: HK\$24,540,000) 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”) and a jointly controlled entity. Shougang International is the controlling shareholder of the Company and Shougang HK is the controlling shareholder of Shougang International.

	<i>Notes</i>	<b>For the six months ended 30 June</b>	
		<b>2002 (Unaudited) HK\$'000</b>	<b>2001 (Unaudited) HK\$'000</b>
Consultancy fees paid to Shougang HK Group	(i)	<b>60</b>	360
Management fees paid to Shougang International Group	(i)	<b>300</b>	300
Rental expenses paid to:			
Shougang HK Group	(ii)	<b>382</b>	557
Shougang International Group	(ii)	<b>78</b>	78
Interest paid to Shougang HK Group	(iii)	<b>126</b>	853
Corporate guarantees given to a jointly controlled entity	(iv)	<b>24,540</b>	24,540

### *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 the 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.



## 15. RELATED PARTY TRANSACTIONS *(Continued)*

*Notes: (Continued)*

- (iii) The loans advanced from the Shougang HK Group are secured by the Group's interest in a jointly controlled entity with interest payable at HIBOR per annum.
- (iv) 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 2002, the Group's fixed assets with an aggregate net book value of HK\$36,472,000 (31 December 2001: HK\$36,562,000), land use rights amounting to HK\$12,562,000 (31 December 2001: HK\$12,842,000) and time deposits amounting to HK\$2,000,000 (31 December 2001: HK\$1,000,000) 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\$46,733,000 (31 December 2001: HK\$42,779,000) was pledged to a related company for loans advanced to the Group.