

**NOTES TO THE CONDENSED FINANCIAL STATEMENTS**

FOR THE SIX MONTHS ENDED 30 JUNE 2003

**1. BASIS OF PREPARATION**

The condensed financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and with the Statement of Standard Accounting Practice No. ("SSAP") 25 "Interim Financial Reporting" issued by the Hong Kong Society of Accountants.

**2. SIGNIFICANT ACCOUNTING POLICIES AND PRIOR PERIOD ADJUSTMENT**

The condensed financial statements have been prepared under the historical cost convention, as modified for the revaluation of investment properties, leasehold land and buildings and land use rights. The accounting policies adopted are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2002, except that the Group has adopted SSAP 12 (Revised) "Income Taxes" in the current period.

**Income Taxes**

The principal effect of the implementation of SSAP 12 (Revised) is in relation to deferred tax. In prior periods, partial provision was made for deferred tax using the income statement liability method, i.e. a liability was recognised in respect of timing differences arising, except where those timing differences were not expected to reverse in the foreseeable future. SSAP 12 (Revised) requires the adoption of a balance sheet liability method, whereby deferred tax is recognised in respect of all temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, with limited exceptions. In the absence of any specific transitional requirements in SSAP 12 (Revised), the new accounting policy has been applied retrospectively. Comparative amounts for 2002 have been restated accordingly. Opening accumulated losses at 1 January 2002 have been increased by HK\$161,000, which is the cumulative effect of the change in policy on the results for periods prior to 1 January 2002. The balances on the Group's property revaluation reserve and land use rights revaluation reserve at 1 January 2002 have been reduced by HK\$217,000 and HK\$509,000, respectively, representing the deferred tax liabilities recognised in respect of the revaluation surplus on the Group's properties and land use rights at that date. The effect of the change is an increased charge to income taxes in the current period of HK\$249,000 (six months ended 30 June 2002: HK\$297,000 decreased charge to income taxes).



## NOTES TO THE CONDENSED FINANCIAL STATEMENTS (continued)

FOR THE SIX MONTHS ENDED 30 JUNE 2003

### 3. SEGMENT INFORMATION

#### Business segments

#### Six months ended 30 June 2003

	Steel cord (Unaudited) HK\$'000	Copper and brass products (Unaudited) HK\$'000	Property investment (Unaudited) HK\$'000	Others (Unaudited) HK\$'000	Consolidated (Unaudited) HK\$'000
Segment turnover	106,496	30,621	225	12	137,354
Segment results	44,685	(145)	(131)	(93)	44,316
Unallocated corporate income less expenses					(5,027)
Profit from operations					39,289

Six months ended 30 June 2002

	Steel cord (Unaudited) HK\$'000	Copper and brass products (Unaudited) HK\$'000	Property investment (Unaudited) HK\$'000	Others (Unaudited) HK\$'000	Consolidated (Unaudited) HK\$'000
Segment turnover	79,572	25,734	252	-	105,558
Segment results	39,574	907	168	(224)	40,425
Unallocated corporate income less expenses					(7,105)
Profit from operations					33,320

**NOTES TO THE CONDENSED FINANCIAL STATEMENTS (continued)**

FOR THE SIX MONTHS ENDED 30 JUNE 2003

**4. PROFIT FROM OPERATIONS**

Profit from operations is arrived at after charging:

	<b>Six months ended 30 June</b>	
	<b>2003</b>	2002
	<b>(Unaudited)</b>	(Unaudited)
	<b>HK\$'000</b>	HK\$'000
Depreciation of property, plant and equipment	<b>12,150</b>	11,371
Amortisation of land use rights (included in cost of sales)	<b>307</b>	280
Total depreciation and amortisation	<b>12,457</b>	11,651
Cost of inventories sold	<b>85,677</b>	72,356
Loss on disposal of property, plant and equipment	<b>4</b>	–

**5. FINANCE COSTS**

	<b>Six months ended 30 June</b>	
	<b>2003</b>	2002
	<b>(Unaudited)</b>	(Unaudited)
	<b>HK\$'000</b>	HK\$'000
Interest expenses on:		
Bank and other borrowings wholly repayable within five years	<b>771</b>	1,198
Obligations under finance leases wholly repayable within five years	<b>36</b>	–
	<b>807</b>	1,198



## NOTES TO THE CONDENSED FINANCIAL STATEMENTS (continued)

FOR THE SIX MONTHS ENDED 30 JUNE 2003

### 6. TAXATION

	<b>Six months ended 30 June</b>	
	<b>2003</b>	2002
	<b>(Unaudited)</b>	(Unaudited)
	<b>HK\$'000</b>	HK\$'000
		(Restated)
The charge comprises:		
The People's Republic of China (the "PRC") Enterprises		
Income Tax	<b>3,682</b>	8
Deferred taxation	<b>249</b>	(297)
	<b>3,931</b>	(289)
Share of taxation attributable to jointly controlled entities	<b>623</b>	500
Share of taxation attributable to an associate	<b>313</b>	336
	<b>4,867</b>	547

No provision for Hong Kong Profits Tax has been made as the Group did not have any assessable profits for the period (six months ended 30 June 2002: Nil).

PRC Enterprises Income Tax is calculated at the applicable tax rates on the estimated assessable income for the period based on existing legislation, interpretation and practices in respect thereof. In accordance with the relevant tax rules and regulations in the PRC, certain of the Group's subsidiaries, jointly controlled entities and associate in the PRC are eligible for certain tax exemptions and concessions.

### 7. DIVIDENDS

No dividends were paid during the period. The directors have determined that an interim dividend of HK1.5 cents (2002: Nil) per share should be paid to the shareholders of the Company whose names appear in the register of members of the Company on 24 October 2003.

**NOTES TO THE CONDENSED FINANCIAL STATEMENTS (continued)**

FOR THE SIX MONTHS ENDED 30 JUNE 2003

**8. EARNINGS PER SHARE**

The calculation of the basic and diluted earnings per share for the period is based on the following data:

	<b>Six months ended 30 June 2003 (Unaudited) HK\$'000</b>	2002 (Unaudited) HK\$'000 (Restated)
<b>Earnings</b>		
Earnings for the purposes of basic and diluted earnings per share (net profit for the period)	<b>28,233</b>	27,254

	<b>Six months ended 30 June 2003</b>	2002
<b>Number of shares</b>		
Weighted average number of ordinary shares for the purpose of basic earnings per share	<b>766,424,000</b>	765,372,000
Effect of dilutive share options	<b>6,936,000</b>	—
Weighted average number of ordinary shares for the purpose of diluted earnings per share	<b>773,360,000</b>	765,372,000

The restatement of the net profit for the six months ended 30 June 2002 due to the implementation of SSAP 12 (Revised) (see note 2) did not have a material effect on the calculation of the earnings per share for that period.

**9. MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT**

During the period, the Group spent approximately HK\$6,162,000 on additions to manufacturing plant in the PRC, in order to expand its production capacity.



## NOTES TO THE CONDENSED FINANCIAL STATEMENTS (continued)

FOR THE SIX MONTHS ENDED 30 JUNE 2003

### 10. TRADE RECEIVABLES

The Group allows an average credit period of 30 to 120 days to its trade customers.

The aged analysis of trade receivables is as follows:

	<b>30 June 2003 (Unaudited) HK\$'000</b>	31 December 2002 (Audited) HK\$'000
0 – 90 days	<b>45,622</b>	43,437
91 – 180 days	<b>2,283</b>	4,410
181 – 365 days	<b>1,346</b>	1,386
	<b>49,251</b>	49,233
Less: allowance	<b>(1,345)</b>	(1,285)
	<b>47,906</b>	47,948

### 11. TRADE PAYABLES

The aged analysis of trade payables is as follows:

	<b>30 June 2003 (Unaudited) HK\$'000</b>	31 December 2002 (Audited) HK\$'000
0 – 90 days	<b>4,466</b>	5,356
91 – 180 days	–	13
181 – 365 days	–	–
Over 1 year	<b>964</b>	973
	<b>5,430</b>	6,342

**NOTES TO THE CONDENSED FINANCIAL STATEMENTS (continued)**

FOR THE SIX MONTHS ENDED 30 JUNE 2003

**12. DEFERRED TAXATION**

For the purposes of balance sheet presentation, certain deferred tax assets and liabilities have been offset in accordance with the conditions set out in SSAP 12 (Revised). The following is the analysis of the deferred tax balances for financial reporting purposes:

	<b>30 June 2003 (Unaudited) HK\$'000</b>	31 December 2002 (Audited) HK\$'000 (Restated)
Deferred tax liabilities	<b>1,663</b>	1,696
Deferred tax assets	<b>(167)</b>	(401)
	<b>1,496</b>	1,295

**13. SHARE CAPITAL**

	Number of ordinary shares of HK\$0.10 each		Amount	
	<b>30 June 2003 (Unaudited)</b>	31 December 2002 (Audited)	<b>30 June 2003 (Unaudited) HK\$'000</b>	31 December 2002 (Audited) HK\$'000
Authorised:				
At beginning of the period	<b>1,000,000,000</b>	1,000,000,000	<b>100,000</b>	100,000
Increased on 25 June 2003 (Note i)	<b>1,000,000,000</b>	-	<b>100,000</b>	-
At end of the period	<b>2,000,000,000</b>	1,000,000,000	<b>200,000</b>	100,000
Issued and fully paid:				
At beginning of the period	<b>765,372,000</b>	765,372,000	<b>76,537</b>	76,537
Issued on share placing (Note ii)	<b>63,492,000</b>	-	<b>6,349</b>	-
Issued on subscription of new shares (Note iii)	<b>126,984,000</b>	-	<b>12,699</b>	-
At end of the period	<b>955,848,000</b>	765,372,000	<b>95,585</b>	76,537



## NOTES TO THE CONDENSED FINANCIAL STATEMENTS (continued)

FOR THE SIX MONTHS ENDED 30 JUNE 2003

### 13. SHARE CAPITAL (continued)

Note:

- (i) Pursuant to an ordinary resolution passed on 25 June 2003, the authorised share capital of the Company was increased from HK\$100,000,000 divided into 1,000,000,000 ordinary shares of HK\$0.10 each to HK\$200,000,000 divided into 2,000,000,000 ordinary shares of HK\$0.10 each by the creation of additional 1,000,000,000 ordinary shares of HK\$0.10 each in the share capital of the Company.
- (ii) The Company entered into a placing agreement on 6 May 2003 with a placing agent pursuant to which the Company issued 63,492,000 ordinary shares of HK\$0.10 each in the Company at a price of HK\$0.315 per share to independent placees.
- (iii) The Company entered into a subscription agreement on 6 May 2003 pursuant to which the Company issued 126,984,000 ordinary shares of HK\$0.10 each in the Company at a price of HK\$0.315 per share which were subscribed by a nominee of Shougang Holding (Hong Kong) Limited ("Shougang HK").

### 14. CAPITAL COMMITMENTS

	<b>30 June 2003 HK\$'000</b>	31 December 2002 HK\$'000
Capital expenditure in respect of the acquisition of property, plant and equipment contracted for but not provided in the financial statements	<b>120,044</b>	5,818
Capital expenditure in respect of the acquisition of property, plant and equipment authorised but not contracted for	<b>101,968</b>	188,111

### 15. CONTINGENT LIABILITIES

At 30 June 2003, the Group has given guarantees amounting to approximately HK\$22,384,000 (31 December 2002: HK\$23,360,000) for bank loans granted to a jointly controlled entity.



**NOTES TO THE CONDENSED FINANCIAL STATEMENTS (continued)**

FOR THE SIX MONTHS ENDED 30 JUNE 2003

**16. 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 HK and its subsidiaries (collectively the "Shougang HK Group") and a jointly controlled entity. Both Shougang International and Shougang HK are the substantial shareholders of the Company and Shougang HK is the controlling shareholder of Shougang International.

		<b>Six months ended 30 June</b>	
		<b>2003</b>	2002
	<i>Notes</i>	<b>(Unaudited)</b>	(Unaudited)
		<b>HK\$'000</b>	<b>HK\$'000</b>
Consultancy fees paid to			
Shougang HK Group	<i>(i)</i>	<b>240</b>	60
Management fees paid to			
Shougang International Group	<i>(i)</i>	<b>120</b>	300
Rental expenses paid to:			
Shougang HK Group	<i>(ii)</i>	<b>484</b>	382
Shougang International Group	<i>(ii)</i>	-	78
Interest paid to Shougang HK Group	<i>(iii)</i>	-	126
Corporate guarantees given to a jointly controlled entity	<i>(iv)</i>	<b>22,384</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.
- (iii) In 2002, 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.

**NOTES TO THE CONDENSED FINANCIAL STATEMENTS (continued)**

FOR THE SIX MONTHS ENDED 30 JUNE 2003

**17. PLEDGE OF ASSETS**

At 30 June 2003, the Group's investment properties and certain of the leasehold land and buildings with an aggregate net book value of HK\$40,393,000 (31 December 2002: HK\$40,929,000), land use rights amounting to HK\$13,193,000 (31 December 2002: HK\$13,500,000) and time deposits amounting to HK\$4,000,000 (31 December 2002: HK\$3,000,000) were pledged to banks to secure banking facilities granted to the Group.

**18. POST BALANCE SHEET EVENTS**

Subsequent to the balance sheet date, the Company's wholly-owned subsidiary entered into sale and purchase agreements on 21 August 2003 with Bravo Industrial Limited and Skyriver (B.V.I.) Limited for the acquisition of approximately 10.24% and 18% of the issued share capital of Online Investments Limited ("Online"), the investment holding company of Jiaxing Eastern Steel Cord Co., Ltd. which is engaged in the manufacturing of steel cord for radial tyres in the PRC, at a consideration of approximately HK\$58,012,000 and HK\$101,988,000 respectively (the "Acquisition"). Upon completion of the Acquisition, the Company's shareholding in Online will be increased from 71.76% to 100%.

In addition, the Group entered into a placing agreement on 21 August 2003 with a placing agent for the placement of 60,000,000 new ordinary shares at HK\$0.68 each. The net proceeds from the placement will be used as general working capital of the Group and, in particular, to finance the payment of the consideration of the Acquisition.

Further details were set out in the Company's announcement dated 22 August 2003 and the Company's circular dated 15 September 2003.