



## 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 Statement of Standard Accounting Practice ("SSAP") 25 "Interim Financial Reporting" issued by the Hong Kong Society of Accountants.

### 2. BASIS OF PRESENTATION

Notwithstanding the net current liabilities position recorded by the Group as at the balance sheet date, the directors have prepared these financial statements on a going concern basis because Shougang Holding (Hong Kong) Limited ("Shougang HK"), the Company's controlling shareholder, has agreed to provide adequate funds for the Group to meet its financial obligations in full as they fall due for the foreseeable future.

At the balance sheet date, included in the Group's liabilities are short-term loans together with accrued interest in an aggregate amount of HK\$102,497,000 and convertible note of HK\$200,000,000 owed by the Group to certain subsidiaries of Shougang HK. These subsidiaries of Shougang HK have undertaken not to demand repayment of such amounts within one year from the balance sheet date unless the Group has adequate funds to do so within such time.

### 3. 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, certain property, plant and equipment and investment in securities. 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 as described below.

#### Income Taxes

In the current period, the Group has adopted SSAP 12 (Revised) "Income Taxes". The principal effect of the implementation of SSAP 12 (Revised) is in relation to deferred tax. In previous years, 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.



## NOTES TO THE CONDENSED FINANCIAL STATEMENTS (continued)

For the six months ended 30 June 2003

### 3. SIGNIFICANT ACCOUNTING POLICIES AND PRIOR PERIOD ADJUSTMENT (continued)

The change in such policy has resulted in an increase of approximately HK\$15,171,000 to the accumulated losses as at 31 December 2002 (1 January 2002: HK\$32,046,000), a decrease of HK\$379,000 of revaluation reserve as at 31 December 2002 (1 January 2002: HK\$265,000) and an increase in loss for the six months ended 30 June 2003 of approximately HK\$2,434,000 (six months ended 30 June 2002: a decrease of loss of HK\$8,027,000).

### 4. SEGMENT INFORMATION

For management purposes, the Group is currently organised into the following divisions. These divisions are the basis on which the Group reports its primary segment information.

Six months ended 30 June 2003

	Steel manufacturing	Steel trading	Electricity generation	Kitchen and laundry equipment	Shipping	Corporate and others	Eliminations	Consolidated
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover								
External sales	777,524	6,958	190,483	25,822	117,360	756	-	1,118,903
Inter-segment transactions	-	-	-	-	-	600	(600)	-
Total	<u>777,524</u>	<u>6,958</u>	<u>190,483</u>	<u>25,822</u>	<u>117,360</u>	<u>1,356</u>	<u>(600)</u>	<u>1,118,903</u>
Segment results	<u>49,290</u>	<u>(532)</u>	<u>45,903</u>	<u>(1,323)</u>	<u>(15,281)</u>	<u>(7,498)</u>	<u>4</u>	<u>70,563</u>
Unallocated other operating income								<u>1,018</u>
Profit from operations								<u><u>71,581</u></u>

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

For the six months ended 30 June 2003

**4. SEGMENT INFORMATION (continued)**

Six months ended 30 June 2002

	Continuing operations					Discontinued operation	Eliminations	Consolidated
	Steel manufacturing HK\$'000	Steel trading HK\$'000	Kitchen and laundry equipment HK\$'000	Shipping HK\$'000	Corporate and others HK\$'000	Property investment and management HK\$'000		
Turnover								
External sales	708,540	1,8393	29,478	140,595	936	7,718	-	905,660
Inter-segment transactions	-	-	-	-	978	-	(978)	-
<b>Total</b>	<b>708,540</b>	<b>1,8393</b>	<b>29,478</b>	<b>140,595</b>	<b>1,914</b>	<b>7,718</b>	<b>(978)</b>	<b>905,660</b>
Segment results	(36,249)	(651)	(3,049)	(30,916)	(10,970)	543	-	(81,288)
Unallocated other operating income								2,090
Unallocated expenses								(23)
Loss from operations								(79,221)

Inter-segment transactions are conducted at terms determined between the parties.

**5. PROFIT (LOSS) FROM OPERATIONS**

Profit (loss) from operations has been arrived at after charging (crediting):

	<b>Six months ended 30 June</b>	
	<b>2003</b>	2002
	<b>HK\$'000</b>	HK\$'000
Depreciation of property, plant and equipment	<b>35,110</b>	48,427
Amortisation of intangible assets (included in administrative expenses)	<b>523</b>	802
Amortisation of goodwill (included in administrative expenses)	<b>1,817</b>	-
Allowance for bad and doubtful debts, net	<b>2,129</b>	34
Interest income	<b>(1,018)</b>	(1,312)



## NOTES TO THE CONDENSED FINANCIAL STATEMENTS (continued)

For the six months ended 30 June 2003

### 6. LOSS ON DISPOSAL OF A SUBSIDIARY

On 11 April 2002, a conditional agreement was entered into between the Company, 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 and the Second Purchaser agreed to acquire 430,491,315 and 91,491,193, respectively, ordinary shares of HK\$0.01 each in the capital of Shougang Concord Grand (Group) Limited ("Shougang Grand") for an aggregate cash consideration of approximately HK\$172,254,000. The above transaction was completed on 21 June 2002. The Company has no interests in Shougang Grand after the completion of the above disposal.

A loss on disposal of Shougang Grand approximately HK\$206,202,000 (as restated from HK\$213,340,000 on adoption of SSAP 12 (Revised)) was recorded by the Group upon the completion of the above disposal and there was no tax arising from the disposal.

Following the disposal of Shougang Grand, the Group discontinued its property investment and management business.

Details of the contribution of property investment and management business to the turnover and results of the Group for the six months ended 30 June 2002 are set out in note 4 under the section headed "Discontinued operation".

### 7. TAXATION

	<b>Six months ended 30 June</b>	
	<b>2003</b>	2002
	<b>HK\$'000</b>	HK\$'000
Current tax:		
Hong Kong	-	141
Mainland China	<b>21,657</b>	241
Overprovision in prior periods	-	(35)
Deferred taxation	<b>4,492</b>	(1,123)
	<b>26,149</b>	(776)
Share of tax on results of associates	<b>1,782</b>	53
Share of tax on results of jointly controlled entities	-	(455)
	<b>27,931</b>	(1,178)

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

For the six months ended 30 June 2003

**7. TAXATION (continued)**

No provision for Hong Kong Profits Tax has been made for the period as the group companies which are subject to Hong Kong Profits Tax either incurred tax losses for the period or have tax losses brought forward to set off assessable profit for the period. Hong Kong Profits Tax for the six months ended 30 June 2002 was calculated at 16% of the estimated assessable profit for that period.

Taxation arising on Mainland China is calculated in accordance with the relevant rules and regulations.

**8. LOSS PER SHARE**

The calculation of the basic loss per share is based on the loss attributable to shareholders for the period of HK\$5,684,000 (six months ended 30 June 2002: HK\$275,121,000) and on the 2,295,546,454 (six months ended 30 June 2002: 2,295,546,454) shares in issue during the period.

The computation of diluted loss per share does not assume the exercise of share options or conversion of convertible note for the six months ended 30 June 2003 and 30 June 2002 as the exercise or conversion would result in a decrease in loss per share.

The adjustment to comparative loss per share, arising from the change in accounting policies described in note 3 above, is as follows:

Reconciliation of loss per share for the six months ended 30 June 2002

	<i>HK cents</i>
Reported figure before adjustment	12.3
Adjustment arising from the adoption of SSAP 12 (Revised)	<u>(0.3)</u>
Restated figure	<u>12.0</u>

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

The directors are of the opinion that the market value of the Group's investment properties as at 30 June 2003 is not materially different from the carrying value of the investment properties. Accordingly, no valuation movement has been recognised in respect of the Group's investment properties in the period.

During the period, the Group incurred approximately HK\$12,476,000 on acquisition of plant and machinery in order to upgrade its operating capabilities.



## NOTES TO THE CONDENSED FINANCIAL STATEMENTS (continued)

For the six months ended 30 June 2003

### 10. ACCOUNTS AND BILLS RECEIVABLE

	<b>30 June 2003 HK\$'000</b>	31 December 2002 HK\$'000
Manufacture and sale of steel products ( <i>note a</i> )	<b>63,352</b>	79,517
Others ( <i>note b</i> )	<b>25,229</b>	40,631
Retentions held by customers for contract work	<b>2,979</b>	4,045
	<b>91,560</b>	124,193

Notes:

- (a) An aged analysis of accounts and bills receivable from the manufacture and sale of steel products is as follows:

	<b>30 June 2003 HK\$'000</b>	31 December 2002 HK\$'000
Within one year	<b>63,352</b>	79,517

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.

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

	<b>30 June 2003 HK\$'000</b>	31 December 2002 HK\$'000
Within 90 days	<b>10,259</b>	22,921
91-180 days	<b>2,043</b>	2,896
181-365 days	<b>4,369</b>	1,153
1-2 years	<b>1,034</b>	5,440
Over 2 years	<b>7,524</b>	8,221
	<b>25,229</b>	40,631

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

For the six months ended 30 June 2003

**10. ACCOUNTS AND BILLS RECEIVABLE (continued)**

For the shipping business, payment terms with customers are governed by the charter party, and mainly range from 7 to 30 days. For other businesses, trading terms with customers are similar to those set out in (a) above.

**11. AMOUNTS DUE FROM (TO) RELATED COMPANIES**

The balances represent amounts due from (to) the holding company, subsidiaries and fellow subsidiaries of Shougang HK. Except for the short term loans granted by certain related companies set out below, the remaining balances are unsecured, interest-free and have no fixed terms of repayment:

- (i) short term loans with an aggregate principal amount of HK\$100,000,000 and interest accrued thereon amounting to HK\$2,497,000 as at 30 June 2003 granted by a subsidiary of Shougang HK to the Company. The loans are unsecured, bear interest at 5% per annum and are repayable on or before 31 December 2003, subject to the conditions set out in note 2;
- (ii) a short term loan with a principal amount of HK\$305,000 at 30 June 2003 granted by a subsidiary of Shougang HK to the Company. The loan is unsecured, bears interest at 4% per annum and is repayable on or before 27 June 2004; and
- (iii) unsettled portion of short term loans with an aggregate outstanding principal amount of HK\$7,886,000 as at 30 June 2003 and interest amounting to HK\$16,417,000 accrued on the outstanding amounts of principals of the loans since the respective dates of grants from Shougang Corporation, the holding company of Shougang HK, to one of the Company's subsidiaries in the Mainland China. The loans are unsecured, bear interest at 7.05% per annum and have no fixed terms of repayment.

**12. ACCOUNTS AND BILLS PAYABLE**

	<b>30 June 2003 HK\$'000</b>	31 December 2002 HK\$'000
Manufacture and sale of steel products ( <i>note a</i> )	<b>24,684</b>	25,603
Others ( <i>note b</i> )	<b>14,669</b>	26,850
	<b>39,353</b>	52,453



## NOTES TO THE CONDENSED FINANCIAL STATEMENTS (continued)

For the six months ended 30 June 2003

### 12. ACCOUNTS AND BILLS PAYABLE (continued)

Notes:

- (a) An aged analysis of accounts and bills payable from purchases for the manufacture and sale of steel products is as follows:

	<b>30 June 2003 HK\$'000</b>	31 December 2002 HK\$'000
Within one year	<b>24,684</b>	25,382
1-2 years	-	5
Over 2 years	-	216
	<b>24,684</b>	25,603

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

	<b>30 June 2003 HK\$'000</b>	31 December 2002 HK\$'000
Within 90 days	<b>10,632</b>	13,408
91-180 days	<b>75</b>	24
181-365 days	<b>36</b>	10,994
1-2 years	<b>1,534</b>	10
Over 2 years	<b>2,392</b>	2,414
	<b>14,669</b>	26,850

### 13. BANK LOANS

During the period, the Group obtained new bank loans in the amount of approximately HK\$165,802,000. The loans bear interest at market rates and were used to finance the general operations of the Group and repayment of a short term loan granted by Shougang Corporation. In addition, the Group also repaid bank loans in the amount of approximately HK\$56,549,000 during the period.

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

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For the six months ended 30 June 2003

**14. CONVERTIBLE NOTE**

On 7 June 2002, the Group issued a convertible note with a principal amount of HK\$200,000,000 to a wholly-owned subsidiary of Shougang HK. The convertible note will mature on 7 June 2004 under its original terms. On the basis as set out in note 2, the convertible note continues to be classified as non-current.

**15. DEEMED DISPOSAL OF AN ASSOCIATE**

Following the completion of a subscription agreement and a placing agreement entered into by Shougang Concord Century Holdings Limited ("Shougang Century"), a listed associate of the Group, the Group's interest in Shougang Century was diluted from 36.6% to 29.3% during the period. The loss on the deemed disposal amounted to approximately HK\$15,442,000.

**16. CONTINGENT LIABILITIES**

At 31 December 2002, the Group provided guarantees of approximately HK\$37,700,000 in respect of banking facilities granted to third parties. No guarantees were provided by the Group to third parties at 30 June 2003.



## NOTES TO THE CONDENSED FINANCIAL STATEMENTS (continued)

For the six months ended 30 June 2003

### 17. RELATED PARTY TRANSACTIONS

During the periods, the Group had the following significant transactions with (i) Shougang HK; (ii) Shougang HK's holding company, subsidiaries, fellow subsidiaries and associates; and (iii) associates of Shougang HK's holding company, (collectively "Shougang Group"). In addition, the Group also entered into certain transactions with its associates.

		<b>Six months ended 30 June</b>	
		<b>2003</b>	2002
<i>Notes</i>		<b>HK\$'000</b>	<i>HK\$'000</i>
<b>Shougang Group</b>			
Sales of goods by the Group	<i>(a)</i>	<b>63,403</b>	41,910
Provision of electricity, steam and hot water by the Group	<i>(b)</i>	<b>190,483</b>	–
Purchases of goods by the Group	<i>(c)</i>	<b>338,160</b>	335,232
Lease rentals charged to the Group	<i>(d)</i>	<b>1,107</b>	1,175
Management fees charged to the Group	<i>(e)</i>	<b>480</b>	240
Consultancy fee charged to the Group		<b>–</b>	480
Purchases of spare parts by the Group	<i>(f)</i>	<b>8,103</b>	2,352
Corporate guarantees for bank loans granted to the Group	<i>(g)</i>	<b>193,196</b>	303,460
Loans advanced to the Group	<i>(h)</i>	<b>35,670</b>	29,500
Management fees charged by the Group	<i>(i)</i>	<b>240</b>	–
Rental income charged by the Group	<i>(j)</i>	<b>396</b>	–
Convertible note issued by the Group		<b>–</b>	200,000
Convertible note interest expense charged to the Group	<i>(k)</i>	<b>2,976</b>	395
Interest charged to the Group	<i>(l)</i>	<b>7,428</b>	8,988
Service fees charged to the Group	<i>(m)</i>	<b>10,866</b>	–
Freight income charged by the Group	<i>(n)</i>	<b>70,056</b>	102,202
Commission charged to the Group	<i>(o)</i>	<b>426</b>	2,196
Service fees charged by the Group	<i>(p)</i>	<b>5</b>	1,878
Acquisition of property, plant and equipment by the Group	<i>(q)</i>	<b>5,655</b>	–
<b>Associates</b>			
Management fees charged by the Group	<i>(r)</i>	<b>120</b>	660
Rental income charged by the Group	<i>(j)</i>	<b>–</b>	396

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

For the six months ended 30 June 2003

**17. RELATED PARTY TRANSACTIONS (continued)**

Notes:

- (a) Qinhuangdao Shougang Plate Mill Co., Ltd. ("QHD"), a non wholly-owned subsidiary of the Company, sold steel products and scrap materials to Shougang Group at a consideration determined between the parties with reference to the then prevailing market prices.
- (b) Beijing Shougang Firstlevel Power Co., Ltd. ("BSFPCL"), a non wholly-owned subsidiary of the Company, sold electricity, steam and hot water to Shougang Group at a consideration determined between the parties.
- (c) The Group purchased materials and steel products from Shougang Group at a consideration determined between the parties.
- (d) The Group entered into various rental agreements with Shougang Group for renting office and residential apartments as staff quarters. The rentals were determined between the parties.
- (e) Management fees were paid to Shougang HK for the provision of management services at rates determined between the parties.
- (f) The Group purchased spare parts from Shougang Group at a consideration determined between the parties.
- (g) Shougang Corporation has provided corporate guarantees for certain bank loans granted to the Group.
- (h) Unsecured loans of HK\$35,365,000 and HK\$305,000 bearing interest at 5% and 4%, respectively per annum were granted by Shougang Group to the Group for working capital purposes during the six months ended 30 June 2003.
- (i) The Group provided business and strategic development services to Shougang Group at rates determined between the parties.
- (j) The Group entered into a rental agreement with a subsidiary of Shougang Concord Technology Holdings Limited, an associate of Shougang Grand, for renting an investment property. The rental was determined with reference to the then prevailing market rates.
- (k) The interest expenses were charged by Shougang Group in respect of the 3% convertible note with a principal amount of HK\$200,000,000 issued by the Group.
- (l) The interest expenses were charged by Shougang Group in respect of outstanding loans granted to the Group at interest rates ranging from 4% to 7.05% per annum.

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

For the six months ended 30 June 2003

**17. RELATED PARTY TRANSACTIONS (continued)**

*Notes: (continued)*

- (m) Shougang Group charged QHD and BSFPCL service fees in respect of processing and repair and maintenance services at rates determined between the parties.
- (n) The Group arranged for shipments of iron ore from Australia to the Mainland China for Shougang Group at freight rates determined between the parties.
- (o) The commission expense represents rebates on the freight income for shipments of iron ore from Australia to the Mainland China at a rate determined between the parties.
- (p) QHD charged Shougang Group service fees in respect of processing services provided at rates determined between the parties.
- (q) BSFPCL acquired property, plant and equipment from Shougang Group at a consideration determined between the parties.
- (r) The Group provided management services in relation to the business and strategic development services to its associate at rate determined between the parties.

**18. POST BALANCE SHEET EVENT**

Pursuant to a placing agreement entered into by Shougang Century on 21 August 2003 which was completed in September 2003, the Group's interest in Shougang Century was diluted from 29.3% to 27.5%.