



## 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. 25 (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 certain properties.

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. The change in such policy has resulted in an increase of approximately HK\$11,572,000 to the accumulated losses as at 1 January 2003 (1 January 2002: HK\$11,978,000) and an increase in the loss for the six months ended 30 June 2003 of approximately HK\$74,000. (An increase in the profit for six months ended 30 June 2002: HK\$79,000).

The adoption of SSAP 12 (Revised) has given rise to goodwill of approximately HK\$33,710,000 attributable to the acquisition of the jointly controlled entity during the year ended 31 December 1998 and a corresponding reduction in share of net asset value in a jointly controlled entity. The goodwill has been capitalised as an asset and included in the interest in a jointly controlled entity and amortised on the straight line basis over its estimated useful life. As at 1 January 2003, accumulated amortisation of goodwill amounted to HK\$8,429,000 (1 January 2002: HK\$6,556,000).

In addition, included in the above effects to the accumulated losses, approximately HK\$1,277,000 was the Group's share of adjustment on adoption of SSAP 12 (Revised) in an associate and has resulted in an increase to the Group's share of associate's accumulated losses as at 1 January 2003 (1 January 2002: HK\$1,810,000) and a corresponding reduction in the interest in an associate.

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

For the six months ended 30 June 2003

**3. Segmental information**

The Group is engaged in property leasing and building management services. As over 90% of the Group's segment revenue was arising from property leasing, therefore, no business segment information is presented.

**4. Turnover**

Turnover represents rental and management fee income but excludes intra-group transactions.

**5. Finance costs**

Interest on bank borrowings wholly repayable within five years  
Other finance costs

**Six months ended 30 June**

**2003** 2002  
**HK\$'000** **HK\$'000**

**1,235** 1,754

**251** –

**1,486** 1,754

**6. (Loss) profit before taxation**

(Loss) profit before taxation has been arrived at after charging:

Amortisation of goodwill of a jointly controlled entity (included in share of results of a jointly controlled entity)

**937** 937

Cost incurred in the provision of rental and management services\*

**1,699** 1,311

Depreciation of property, plant and equipment

**79** 59

Unrealised holding loss on short term investments

**5** 23

and after crediting:

Dividend income from listed investments

**33** 28

Interest income from bank deposits

**49** 173

\* This amount included staff costs of HK\$1,307,000 (Six months ended 30 June 2002: HK\$862,000).



## NOTES TO THE CONDENSED FINANCIAL STATEMENTS (continued)

For the six months ended 30 June 2003

### 7. Taxation

	<b>Six months ended 30 June</b>	
	<b>2003</b>	2002
	<b>HK\$'000</b>	HK\$'000
The credit comprises:		
Hong Kong Profits Tax:		
Provision for the period	<b>171</b>	141
Overprovision in prior year	<b>(5)</b>	(35)
Deferred taxation	<b>534</b>	425
	<hr/>	<hr/>
Taxation attributable to the Company and its subsidiaries	<b>700</b>	531
Share of taxation attributable to:		
A jointly controlled entity	<b>(997)</b>	(455)
Associates	<b>65</b>	(147)
	<hr/>	<hr/>
	<b>(232)</b>	(71)
	<hr/> <hr/>	<hr/> <hr/>

Hong Kong Profits Tax is calculated at 17.5% (Six months ended 30 June 2002: 16%) of the estimated assessable profit for the period.

In June 2003, Hong Kong Profits Tax rate was increased from 16% to 17.5% with effect from the 2003/2004 year of assessment. The effect of this increase has been reflected in the calculation of current and deferred tax balances at 30 June 2003.

At 30 June 2003, the Group has unused tax losses of HK\$48,802,000 (31 December 2002: HK\$45,776,000) available for offset against future profits. No deferred tax asset has been recognised in related to the unused tax losses due to the unpredictability of future profit streams.

### 8. Dividend paid

No dividends were paid during the period. The directors do not recommend the payment of any interim dividend.

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

For the six months ended 30 June 2003

**9. (Loss) earnings per share**

The calculation of basic (loss) earnings per share is based on the net loss attributable to shareholders of HK\$3,297,000 (Six months ended 30 June 2002: net profit of HK\$3,497,000) and the weighted average of 847,425,925 (Six months ended 30 June 2002: 827,867,914) ordinary shares in issue during the period.

The computation of diluted loss per share does not assume the exercise of the Company's outstanding share options for the period ended 30 June 2003 as the exercise price of those options is higher than the average market price for the shares for such period.

For the period 30 June 2002, no diluted earnings per share had been presented because the Company had no potential ordinary shares during that period.

The adjustment to the comparative earnings per share, arising from changes in accounting policies shown in note 2 above, is as follows:

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

	<i>HK cents</i>
Reported figure before adjustment	0.41
Adjustment arising from the adoption of SSAP 12 (Revised)	0.01
	<u>0.42</u>

**10. Pledge of assets**

At 30 June 2003, all of the Group's investment properties and land and buildings with an aggregate carrying value of approximately HK\$236 million (31 December 2002: HK\$238.7 million) were pledged to banks for bank loans. At 30 June 2003, the outstanding amount of such bank loans were HK\$111.7 million (31 December 2002: HK\$80 million).

**11. Borrowings**

During the period, the Group repaid HK\$70.3 million (31 December 2002: HK\$30 million) of its bank loans in accordance with the repayment terms and obtained a new bank loan in the amount of HK\$100 million (31 December 2002: HK\$12 million). The loan bears interest at market rates and is repayable over a period of 5 years. The proceeds were mainly used to repay another bank loan.



## NOTES TO THE CONDENSED FINANCIAL STATEMENTS (continued)

For the six months ended 30 June 2003

### 12. Share capital

	Number of ordinary shares of HK\$0.01 each		Amount	
	30 June 2003	31 December 2002	30 June 2003 HK\$'000	31 December 2002 HK\$'000
Authorised:				
At beginning and end of the period	<u>2,000,000,000</u>	<u>2,000,000,000</u>	<u>20,000</u>	<u>20,000</u>
Issued and fully paid:				
At beginning of the period	<u>827,867,914</u>	<u>827,867,914</u>	<u>8,279</u>	<u>8,279</u>
Shares issued at premium	<u>30,000,000</u>	<u>-</u>	<u>300</u>	<u>-</u>
At the end of the period	<u>857,867,914</u>	<u>827,867,914</u>	<u>8,579</u>	<u>8,279</u>

On 19 February 2003, Shougang Holding (Hong Kong) Limited ("Shougang Holding"), the immediate holding company, entered into an agreement with the placing agent, CITIC Capital Markets Limited ("CITIC"), to place on a fully underwritten basis 30,000,000 existing ordinary shares of the Company at a price of HK\$0.48 per share. The shares were placed by CITIC to an independent third party on 21 February 2003.

On the same date, the Company entered into a conditional agreement with Shougang Holding for the subscription of 30,000,000 new ordinary existing shares by Shougang Holding at a price of HK\$0.48 per share.

### 13. Capital commitments

The Group had the following commitments at the interim reporting date:

	30 June 2003 HK\$'000	31 December 2002 HK\$'000
The Group's share of the jointly-controlled entity's capital commitment:		
Contracted, but not provided for	<u>29,176</u>	<u>24,580</u>

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

For the six months ended 30 June 2003

**14. Post balance sheet events**

- (a) On 14 July 2003, the Company has entered into the Joint Venture Agreement with Shougang Holding and Simplex Capital Asia Limited ("Simplex"). Pursuant to the Joint Venture Agreement, the Company, Shougang Holding and Simplex have agreed to establish a joint venture to principally carry out the business of provision of financial services, including the arrangement of trade finance, lease finance and bridge finance as well as the provision of advisory and asset management services to companies in the People's Republic of China and Hong Kong (the "Joint Venture").

Upon completion of the subscription of the shares in the Joint Venture by respective parties in accordance with the terms of the Joint Venture Agreement (the "Completion"), the Joint Venture will be held as to 55 per cent by the Company, 15 per cent by Shougang Holding and 30 per cent by Simplex, and the total paid up and issued share capital of the Joint Venture will be HK\$10 million.

The total investment cost in relation to the Joint Venture is HK\$5.5 million, which will be satisfied in cash by the Company upon Completion.

- (b) On 21 August 2003, 303,030,303 new shares of HK\$0.25 each were issued and allotted by the Group's associate, Shougang Concord Technology Holdings Limited ("Shougang Technology") upon the conversion of the HK\$200 million convertible bonds at HK\$0.66. The total issued share capital of Shougang Technology after the conversion is 1,105,703,583 shares of HK\$0.25 each. Accordingly, the Group's shareholding in the issued capital of Shougang Technology after the conversion was reduced from approximately 46.3% to 33.61%.
- (c) On 25 August 2003, Shougang Holding entered into an agreement with the placing agents, CITIC and Deutsche Bank AG, Hong Kong Branch (the "Placing Agents"), to place on a fully underwritten and several basis 88,000,000 existing ordinary shares of Shougang Technology at a price of HK\$0.66 per share (the "Placing"). The shares were placed by the Placing Agents to independent third parties on 25 August 2003.

At the same series of transactions, on 25 August 2003, Shougang Technology entered into a conditional agreement with Shougang Holding for the subscription of 88,000,000 new ordinary shares by Shougang Holding at the same price of HK\$0.66 per share (the "Subscription"). On 8 September 2003, the conditions as specified in the Subscription agreement had been fulfilled and, accordingly, the said transaction was completed.

The shareholding of the Group in the issued capital of the Shougang Technology was further reduced from approximately 33.61% to approximately 31.13% upon completion of the Placing and the Subscription.



## NOTES TO THE CONDENSED FINANCIAL STATEMENTS (continued)

For the six months ended 30 June 2003

### 15. Related party transactions

During the period, the Group entered into certain transactions with Shougang Holding and with Shougang Holding's subsidiary and with Shougang Concord International Enterprises Company Limited ("Shougang International"), an associate of Shougang Holding, and with Shougang Technology.

	<b>Six months ended 30 June</b>	
	<b>2003</b>	2002
	<b>HK\$'000</b>	HK\$'000
Management and service fees charged by Shougang International ( <i>Note a</i> )	<u>          -</u>	<u>          498</u>
Rental expenses charged by Winluck Properties Limited ( <i>Note b</i> )	<u>          <b>297</b></u>	<u>          -</u>
Rental expenses charged by Wonderfine Development Limited ( <i>Note b</i> )	<u>          -</u>	<u>          271</u>
Consultancy expenses charged by Shougang Holding ( <i>Note c</i> )	<u>          <b>480</b></u>	<u>          480</u>
Management fee income received from Shougang Technology ( <i>Note d</i> )	<u>          <b>120</b></u>	<u>          120</u>

Notes:

- (a) The management and services fees were charged in accordance with the agreements between the Group and Shougang International.
- (b) The rental expenses were charged in accordance with the agreements between the Group, Winluck Properties Limited and Wonderfine Development Limited, subsidiaries of Shougang Holding.
- (c) The consultancy expenses were charged in accordance with the agreements between the Group and Shougang Holding.
- (d) The management fee income was charged in accordance with the agreements between the Group and Shougang Technology.