

# Notes to the Financial Statements

For the year ended 31 December 2003

## 1. GENERAL

The Company is incorporated in Hong Kong with limited liability. The shares of the Company are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). Subsequent to the exercise of the conversion rights of the Group's convertible note (see note 29) in January 2004 by a wholly-owned subsidiary of the Company's controlling shareholder, Shougang Holding (Hong Kong) Limited ("Shougang HK"), the directors consider that Shougang Corporation, a company established in the PRC becomes the Company's ultimate holding company. Shougang Corporation, together with its subsidiaries and associates other than members of the Group, will hereinafter be referred to as the "Shougang Group".

The Company is an investment holding company. The principal activities of the Company's principal subsidiaries and associates are set out in note 43.

## 2. BASIS OF PREPARATION

In preparing the financial statements, the directors have given careful consideration to the future liquidity of the Group in light of its net current liabilities of approximately HK\$31 million at 31 December 2003. The directors are satisfied that the Group will be able to meet in full its financial obligations as they fall due for the foreseeable future because of (a) the exercise in full the conversion rights of the Group's convertible note with a principal amount of HK\$200 million by a wholly-owned subsidiary of Shougang HK in January 2004 (see note 29) and (b) the arrangement made in March 2004 for a placement and a subscription of the Company's shares, both of 300 million at a price of HK\$0.66 per share (see note 44). Accordingly, the financial statements have been prepared on a going concern basis.

## 3. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS AND PRIOR YEAR ADJUSTMENT

In the current year, the Group has adopted, for the first time, Statement of Standard Accounting Practice No. 12 (Revised) "Income Taxes" which is one of the Hong Kong Financial Reporting Standards ("HKFRS(s)") issued by the Hong Kong Society of Accountants ("HKSA"). The term of HKFRS is inclusive of Statement of Standard Accounting Practice ("SSAP(s)") and Interpretations approved by the HKSA.

# Notes to the Financial Statements

For the year ended 31 December 2003

## 3. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS AND PRIOR YEAR ADJUSTMENT *(continued)*

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. Comparative amounts for 2002 have been restated accordingly.

The change in such policy has resulted in an increase of 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), a decrease of HK\$13,464,000 of minority interests as at 31 December 2002 (1 January 2002: HK\$27,578,000), a decrease of HK\$366,000 of interests in associates as at 31 December 2002 (1 January 2002: HK\$2,134,000), a decrease of nil of interests in jointly controlled entities as at 31 December 2002 (1 January 2002: HK\$8,200,000) and an increase of HK\$28,648,000 in deferred tax liabilities as at 31 December 2002 (1 January 2002: HK\$49,555,000). In addition, it has resulted in a decrease of profit for the year ended 31 December 2003 of HK\$472,000 (year ended 31 December 2002: a decrease of loss of HK\$16,875,000).

## 4. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention, as modified for the revaluation of investment properties and certain leasehold land and buildings.

The financial statements have been prepared in accordance with accounting principles generally accepted in Hong Kong. The principal accounting policies adopted are as follows:

### **Basis of consolidation**

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31 December each year.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

#### 4. SIGNIFICANT ACCOUNTING POLICIES (continued)

##### Goodwill

Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary, associate and jointly controlled entity at the date of acquisition.

Goodwill arising on acquisitions is capitalised and amortised on a straight-line basis over its estimated useful life. Goodwill arising on acquisition of subsidiaries is presented separately in the balance sheet.

##### Revenue recognition

Sales of goods are recognised when goods are delivered and title has passed.

Service income is recognised when services are rendered.

Sales of investments in securities are recognised on a trade-date basis.

Interest income is accrued on a time basis by reference to the principal outstanding and at the interest rate applicable.

Dividend income from investments is recognised when the Group's right to receive payment has been established.

Rental income including rental invoiced in advance, from letting of properties under operating leases is recognised on a straight-line basis over the term of the relevant lease.

Sales of electricity are recognised when electricity is generated and supplied to the power grid operated by the customers.

Sales of steam and hot water are recognised based on steam and hot water supplied as recorded by meters reading during the year.

Charter hire income from chartered-in vessels is recognised in accordance with the following basis:

Vessels time chartered-in and time chartered-out	Time proportion
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Freight revenues from chartered-in vessels are recognised in accordance with the following bases:

Time chartered-in and voyage chartered-out	Time proportion
Voyage chartered-in and voyage chartered-out	Completion of loading

Hire income from floating cranes is recognised on a time proportion basis.

# Notes to the Financial Statements

For the year ended 31 December 2003

## 4. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Investments in subsidiaries

Investments in subsidiaries are included in the Company's balance sheet at cost less any identified impairment loss.

### Interests in associates

The consolidated income statement includes the Group's share of the post-acquisition results of its associates for the year. In the consolidated balance sheet, interests in associates are stated at the Group's share of the net assets of the associates, less any identified impairment loss.

### Interests in joint ventures

#### *Jointly controlled entities*

Joint venture arrangements which involve the establishment of a separate entity in which each venturer has an interest are referred to as jointly controlled entities.

The Group's interests in jointly controlled entities are included in the consolidated balance sheet at the Group's share of the net assets of the jointly controlled entities, less any identified impairment loss. The Group's share of the post-acquisition results of its jointly controlled entities is included in the consolidated income statement.

### Investments in securities

Investments in securities are recognised on a trade-date basis and are initially measured at costs.

Investments other than held-to-maturity debt securities are classified as investment securities and other investments.

Investment securities, which are securities held for an identified long-term strategic purpose, are measured at subsequent reporting dates at cost, as reduced by any impairment loss that is other than temporary.

Other investments are measured at fair value, with unrealised gains and losses included in net profit or loss for the year.

#### 4. SIGNIFICANT ACCOUNTING POLICIES (continued)

##### Investment properties

Investment properties are completed properties which are held for their investment potential, any rental income being negotiated at arm's length.

Investment properties are stated at open market value. Any surplus or deficit arising on the revaluation of investment properties is credited or charged to the investment property revaluation reserve unless the balance on this reserve is insufficient to cover a deficit, in which case the excess of the deficit over the balance on the investment property revaluation reserve is charged to the income statement. Where a deficit has previously been charged to the income statement and a revaluation surplus subsequently arises, this surplus is credited to the income statement to the extent of the deficit previously charged.

On disposal of an investment property, the balance on the investment property revaluation reserve attributable to that property is transferred to the income statement.

No depreciation is provided on investment properties except where the unexpired term of the relevant lease is 20 years or less.

##### Property, plant and equipment

Property, plant and equipment, other than construction in progress, are stated at cost or valuation less accumulated depreciation, amortisation and accumulated impairment losses.

Construction in progress is stated at cost which includes all construction costs and other direct costs, including borrowing costs capitalised, attributable to such projects. Construction in progress is not depreciated until completion of construction. Costs on completed construction work are transferred to the appropriate categories of property, plant and equipment.

Advantage has been taken of the transitional relief provided by paragraph 80 of SSAP 17 "Property, Plant and Equipment" issued by the HKSA from the requirement to make regular revaluations of the Group's land and buildings which had been carried at revalued amounts prior to 30 September 1995, and accordingly no further revaluation of land and buildings is carried out. In previous years, the revaluation surplus arising on the revaluation of these assets was credited to the revaluation reserve. Any future deficit in value of these assets will be dealt with as an expense to the extent that they exceed the balance, if any, on the revaluation reserve relating to a previous revaluation of the same asset. On the subsequent sale or retirement of a revalued asset, the attributable revaluation surplus is transferred to accumulated profits.

# Notes to the Financial Statements

For the year ended 31 December 2003

## 4. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Property, plant and equipment (continued)

Depreciation is provided to write off the costs or valuation of items of property, plant and equipment over their estimated useful lives, and after taking into account their estimated residual value, using the straight-line method, at the following rates per annum:

Land, buildings and structure	2% to 4%, or over the terms of the leases, or user rights, whichever is shorter
Leasehold improvements	2.5% to 25%, or over the terms of the leases, whichever is shorter
Furniture, fixtures and equipment	15% to 25%
Plant and machinery	3.6% to 25%
Motor vehicles	10% to 25%
Vessels	5% to 18%

The gain or loss arising from the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the income statement.

The Group intends to apply for an extension of the joint venture tenure from 20 years to 50 years for Qinhuangdao Shougang Plate Mill Co., Ltd., a subsidiary of the Company. Such an application can only be made during the six-month period prior to the expiry of the original joint venture tenure in 2012, and the directors believe that such an extension will be granted upon application. Accordingly, the costs of the relevant items of property, plant and equipment of this joint venture are depreciated on the straight-line basis to write off the cost of the assets over their estimated useful lives on the basis that a new tenure will be granted.

### Intangible assets

Intangible assets are stated at cost less accumulated amortisation and accumulated impairment losses.

Amortisation is provided using the straight-line basis to write off the cost of intangible assets over their estimated economic lives.

#### 4. SIGNIFICANT ACCOUNTING POLICIES (continued)

##### Construction contracts

When the outcome of a construction contract can be estimated reliably, revenue from fixed price construction contracts is recognised on the percentage of completion method, measured by reference to the proportion that contract costs incurred for work performed to date bear to the estimated total contract costs for each contract. Variations in contract work, claims and incentive payments are included to the extent that they have been agreed with the customer.

When the outcome of a construction contract can be estimated reliably, revenue from cost plus contracts is recognised by reference to the recoverable costs incurred during the period plus the fee earned, measured by the proportion that costs incurred for work performed to date bear to the estimated total costs of the contract.

When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised to the extent of contract costs incurred that it is probable will be recoverable. Contract costs are recognised as expenses in the period in which they are incurred.

When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

##### Impairment

At each balance sheet date, the Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment losses are recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, such that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

# Notes to the Financial Statements

For the year ended 31 December 2003

## 4. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, are capitalised as part of the cost of those assets. Capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised as an expense in the year in which they are incurred.

### Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the first-in, first-out method or weighted average method.

### Provision

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources embodying economic benefits will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

### Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years, and it further excludes income statement items that are never taxable or deductible.

Deferred tax is the tax expected to be payable or recoverable on 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, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill (or negative goodwill) or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.



#### 4. SIGNIFICANT ACCOUNTING POLICIES (continued)

##### Taxation (continued)

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

##### Foreign currencies

Transactions in currencies other than Hong Kong dollars are initially recorded at the rates of exchange prevailing on the dates of the transactions or at the contracted settlement rate. Monetary assets and liabilities denominated in such currencies are re-translated at the rates prevailing on the balance sheet date. Profits and losses arising on exchange are included in net profit or loss for the period.

On consolidation, the assets and liabilities of the Group's overseas operations are translated at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the period. Exchange differences arising, if any, are classified as equity and transferred to the Group's translation reserve. Such translation differences are recognised as income or as expenses in the period in which the operation is disposed of.

##### Retirement benefits schemes

Payments to the defined contribution retirement benefits schemes are charged as an expense as they fall due.

# Notes to the Financial Statements

For the year ended 31 December 2003

## 4. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Leases

Leases are classified as finance leases when the terms of the lease transfer substantially all the risks and rewards of ownership of the assets concerned to the Group. Assets held under finance leases are capitalised at their fair value at the date of acquisition. The corresponding liability to the lessor, net of interest charges, is included in the balance sheet as a finance lease obligation. Finance costs, which represent the difference between the total leasing commitments and the fair value of the assets acquired, are charged to the income statement over the period of the relevant lease so as to produce a constant periodic rate of charge on the remaining balance of the obligations for each accounting period.

All other leases are classified as operating leases and the rentals are charged to the income statement on a straight-line basis over the relevant lease term.

## 5. BUSINESS AND GEOGRAPHICAL SEGMENTS

### Business segments

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:

Steel manufacturing	–	manufacture and sale of steel products;
Shipping	–	vessel chartering and the hiring of floating cranes;
Electricity generation	–	generation of electricity, steam and hot water;
Steel trading, kitchen and laundry equipment	–	trading of steel products, manufacture and installation of kitchen and laundry equipment; and
Others	–	management services business, together with corporate income and expense items.

In prior years, the Group was also involved in property investment and management. That operation was discontinued in June 2002 (see note 9).

## Notes to the Financial Statements

For the year ended 31 December 2003

**5. BUSINESS AND GEOGRAPHICAL SEGMENTS** (continued)**Business segments** (continued)

Segment information about these businesses is presented below:

**INCOME STATEMENT**

For the year ended 31 December 2003

	Steel manufacturing	Shipping	Electricity generation	Steel trading, kitchen and laundry equipment	Others	Consolidated
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover from external customers	1,678,142	209,235	374,944	62,859	1,512	2,326,692
Segment results	189,300	(9,652)	66,309	(3,620)	(16,987)	225,350
Unallocated other operating income						1,771
Profit from operations						227,121
Interest expenses						(26,030)
Share of results of associates	23,727	-	-	-	-	23,727
Loss on deemed disposal of a partial interest in an associate	(13,479)	-	-	-	-	(13,479)
Loss on disposal of a jointly controlled entity	-	-	-	-	(177)	(177)
Profit before taxation						211,162
Taxation						(34,261)
Profit before minority interests						176,901
Minority interests						(109,137)
Profit attributable to shareholders						67,764

## Notes to the Financial Statements

For the year ended 31 December 2003

**5. BUSINESS AND GEOGRAPHICAL SEGMENTS** (continued)**Business segments** (continued)**BALANCE SHEET**

At 31 December 2003

	Steel manufacturing HK\$'000	Shipping HK\$'000	Electricity generation HK\$'000	Steel trading, kitchen and laundry equipment HK\$'000	Others HK\$'000	Consolidated HK\$'000
<b>ASSETS</b>						
Segment assets	1,075,412	70,242	560,448	86,688	15,045	1,807,835
Interests in associates	162,958	-	-	2	-	162,960
Unallocated corporate assets						12,295
Consolidated total assets						<u>1,983,090</u>
<b>LIABILITIES</b>						
Segment liabilities	163,801	24,825	34,229	38,061	2,118	263,034
Unallocated corporate liabilities						778,039
Consolidated total liabilities						<u>1,041,073</u>

**OTHER INFORMATION**

For the year ended 31 December 2003

	Steel manufacturing HK\$'000	Shipping HK\$'000	Electricity generation HK\$'000	Steel trading, kitchen and laundry equipment HK\$'000	Others HK\$'000	Consolidated HK\$'000
Capital additions	136,273	9	10,162	80	17	146,541
Depreciation and amortisation of property, plant and equipment	36,974	1,363	29,883	2,107	92	70,419
Amortisation of intangible assets	1,385	-	-	-	-	1,385
Amortisation of goodwill	-	-	3,634	-	-	3,634
Deficit arising on revaluation of investment properties	946	-	-	245	600	1,791
Impairment loss recognised in respect of investment securities	7,982	-	-	-	-	7,982
Loss on deemed disposal of a partial interest in an associate	13,479	-	-	-	-	13,479
Write back of allowance for bad and doubtful debts	15,614	-	-	4,746	-	20,360

## Notes to the Financial Statements

For the year ended 31 December 2003

## 5. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

## Business segments (continued)

## INCOME STATEMENT

For the year ended 31 December 2002

	Continuing operations					Discontinued operation	Eliminations HK\$'000	Consolidated HK\$'000
	Steel manufacturing HK\$'000	Shipping HK\$'000	Electricity generation HK\$'000	Steel trading, kitchen and laundry equipment HK\$'000	Others HK\$'000	Property investment and management HK\$'000		
Turnover								
External	1,596,778	267,091	36,515	90,111	2,272	7,718	-	2,000,485
Inter-segment	-	-	-	-	1,458	-	(1,458)	-
Total	<u>1,596,778</u>	<u>267,091</u>	<u>36,515</u>	<u>90,111</u>	<u>3,730</u>	<u>7,718</u>	<u>(1,458)</u>	<u>2,000,485</u>
Segment results	<u>(175,867)</u>	<u>(60,730)</u>	<u>9,052</u>	<u>(9,155)</u>	<u>(19,572)</u>	<u>543</u>	<u>-</u>	<u>(255,729)</u>
Unallocated other operating income								3,882
Unallocated expenses								(23)
Loss from operations								(251,870)
Interest expenses								(40,286)
Share of results of associates	16,017	-	-	-	-	6,885	-	22,902
Share of results of jointly controlled entities	-	-	-	-	(13)	(2,445)	-	(2,458)
Loss on disposal of a discontinued operation	-	-	-	-	-	(206,202)	-	(206,202)
Gain on disposal of subsidiaries	99,503	-	-	-	-	-	-	99,503
Gain on dissolution of a subsidiary	-	-	-	921	-	-	-	921
Loss before taxation								(377,490)
Taxation								11,092
Loss before minority interests								(366,398)
Minority interests								71,347
Loss attributable to shareholders								<u>(295,051)</u>

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



## Notes to the Financial Statements

For the year ended 31 December 2003

## 5. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

## Business segments (continued)

## BALANCE SHEET

At 31 December 2002

	Steel manufacturing HK\$'000	Shipping HK\$'000	Electricity generation HK\$'000	Steel trading, kitchen and laundry equipment HK\$'000	Others HK\$'000	Consolidated HK\$'000
<b>ASSETS</b>						
Segment assets	977,640	68,180	504,065	111,523	12,307	1,673,715
Interests in associates	162,140	-	-	2	-	162,142
Interest in a jointly controlled entity	-	-	-	-	1,277	1,277
Unallocated corporate assets						20,123
Consolidated total assets						<u>1,857,257</u>
<b>LIABILITIES</b>						
Segment liabilities	162,568	33,734	30,799	57,766	3,058	287,925
Unallocated corporate liabilities						908,532
Consolidated total liabilities						<u>1,196,457</u>

## OTHER INFORMATION

For the year ended 31 December 2002

	Continuing operations					Discontinued operation	Consolidated HK\$'000
	Steel manufacturing HK\$'000	Shipping HK\$'000	Electricity generation HK\$'000	Steel trading, kitchen and laundry equipment HK\$'000	Others HK\$'000	Property investment and management HK\$'000	
Capital additions	14,014	103	363,424	339	65	1	377,946
Depreciation and amortisation of property, plant and equipment	92,496	1,428	2,640	2,244	111	59	98,978
Amortisation of intangible assets	1,843	-	-	-	-	-	1,843
Amortisation of goodwill	-	-	303	-	-	-	303
Allowance for (write back of) doubtful debts	41,146	(1,525)	-	3,942	-	-	43,563
(Surplus) deficit arising on revaluation of investment properties	(483)	-	-	471	1,000	-	988
Impairment loss recognised in respect of property, plant and equipment	104,035	-	-	340	-	-	104,375

## Notes to the Financial Statements

For the year ended 31 December 2003

**5. BUSINESS AND GEOGRAPHICAL SEGMENTS** (continued)**Geographical segments**

The Group's operations are located in Hong Kong and the PRC.

The following table provides an analysis of the Group's turnover by geographical market, irrespective of the origin of the goods or services:

	Turnover	
	2003 HK\$'000	2002 HK\$'000
Hong Kong	227,534	307,699
PRC	2,099,158	1,676,585
Others	—	16,201
	<u>2,326,692</u>	<u>2,000,485</u>

Turnover from the Group's discontinued property investment and management business of HK\$7,718,000 was derived from Hong Kong for the year ended 31 December 2002.

The following is an analysis of the carrying amount of segment assets and capital additions, analysed by the geographical area in which the assets are located:

	Carrying amount of segment assets		Capital additions	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Hong Kong	319,253	265,019	26	177
PRC	1,663,837	1,592,173	146,515	377,769
Others	—	65	—	—
	<u>1,983,090</u>	<u>1,857,257</u>	<u>146,541</u>	<u>377,946</u>

## Notes to the Financial Statements

For the year ended 31 December 2003

## 6. PROFIT (LOSS) FROM OPERATIONS

	2003 HK\$'000	2002 HK\$'000
Profit (loss) from operations has been arrived at after charging:		
Staff costs, including directors' emoluments		
– basic salaries and allowances	81,367	122,240
– retirement benefits scheme contributions	7,573	12,024
	<b>88,940</b>	134,264
Amortisation of intangible assets (included in administrative expenses)	1,385	1,843
Amortisation of goodwill (included in administrative expenses)	3,634	303
Auditors' remuneration	1,105	2,143
Cost of inventories recognised as expense	1,695,124	1,560,774
Charter hire costs	210,846	318,703
Deficit arising on revaluation of investment properties	1,791	988
Depreciation and amortisation of property, plant and equipment	70,419	98,978
Exchange loss	–	34
Impairment loss recognised in respect of investment securities	7,982	–
Impairment loss recognised in respect of property, plant and equipment	–	104,375
Unrealised holding loss on listed other investments	–	23
Loss on disposal of property, plant and equipment	–	3,033
Allowance for bad and doubtful debt, net	–	43,563
Write off of an amount due from a related company	–	227
and after crediting:		
Write back of provision for a compensation claim	–	1,014
Dividend income from listed other investments	–	28
Interest income	1,771	3,104
Gain on disposal of listed other investments	–	750
Rental income from investment properties under operating leases, less outgoings of HK\$310,000 (2002: HK\$351,000)	1,518	8,192
Write back of allowance for bad and doubtful debt, net	20,360	–
Write back of allowance for inventories	2,715	–
Gain on disposal of property, plant and equipment	2,303	–
Write back of an amount due to a related company	765	–
Write back of other payables and accrued liabilities	192	–
Exchange gain	12	–



## Notes to the Financial Statements

For the year ended 31 December 2003

**7. DIRECTORS' AND EMPLOYEES' EMOLUMENTS**

Particulars of the emoluments of the directors and five highest paid individuals for the year are as follows:

**(a) Directors' emoluments**

	<b>2003</b>	2002
	<b>HK\$'000</b>	HK\$'000
Fees:		
Independent non-executive directors	<b>120</b>	120
Other directors	<b>30</b>	140
	<b>150</b>	260
Other emoluments for executive directors:		
Salaries and other benefits	<b>6,800</b>	4,572
Retirement benefits scheme contributions	<b>65</b>	33
	<b>6,865</b>	4,605
	<b>7,015</b>	4,865

The aggregate emoluments of each of the directors during the relevant periods are within the following bands:

	<b>Number of directors</b>	
	<b>2003</b>	2002
Up to HK\$1,000,000	<b>6</b>	8
HK\$1,000,001 to HK\$1,500,000	<b>1</b>	1
HK\$1,500,001 to HK\$2,000,000	<b>3</b>	1

# Notes to the Financial Statements

For the year ended 31 December 2003

## 7. DIRECTORS' AND EMPLOYEES' EMOLUMENTS (continued)

### (b) Employees' emoluments

The five highest paid individuals in the Group included four directors (2002: three directors, one of whom is an employee of the Group who was appointed as a director of the Company during that year (the "New director")), details of whose emoluments are included in the disclosures in note 7 (a) above. The emoluments of the remaining individual (2002: two individuals and the New director) are as follows:

	2003 HK\$'000	2002 HK\$'000
Salaries and other benefits	1,314	4,277
Retirement benefits scheme contributions	90	215
	<u>1,404</u>	<u>4,492</u>

The aggregate emoluments of each of the remaining individuals during the relevant periods are within the following bands:

	Number of individuals	
	2003	2002
HK\$1,000,001 to HK\$1,500,000	1	2
HK\$1,500,001 to HK\$2,000,000	–	1
	<u>1</u>	<u>3</u>

## 8. INTEREST EXPENSES

	2003 HK\$'000	2002 HK\$'000
Interest on		
– bank and other borrowings wholly repayable within five years	20,030	36,525
– convertible note	6,000	3,419
– finance leases	–	342
	<u>26,030</u>	<u>40,286</u>

## 9. DISCONTINUED OPERATION

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"), a former subsidiary of the Company, for an aggregate cash consideration of approximately HK\$172.2 million. 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 of 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 contribution of the property investment and management business to the results of the Group for the year ended 31 December 2002 are as follows:

	HK\$'000
Turnover	7,718
Other operating income	694
Administrative expenses	<u>(7,672)</u>
Profit from operations	740
Finance cost	(1,754)
Share of result of a jointly controlled entity	(2,445)
Share of results of associates	<u>6,885</u>
Profit before taxation	3,426
Taxation	<u>71</u>
Profit attributable to shareholders	<u><u>3,497</u></u>

# Notes to the Financial Statements

For the year ended 31 December 2003

## 9. DISCONTINUED OPERATION (continued)

During the year ended 31 December 2002, the property investment and management business paid approximately HK\$1,893,000 in respect of the Group's net operating cash flows, contributed approximately HK\$154,188,000 to the Group's net investing cash flows and paid approximately HK\$15,000,000 in respect of financing activities.

The carrying amounts of the assets and liabilities of the property investment and management business at the date of disposal of were approximately HK\$716,171,000 and HK\$95,788,000, respectively.

## 10. TAXATION

	2003 HK\$'000	2002 HK\$'000
Current tax:		
Hong Kong	–	141
PRC	<b>29,443</b>	7,428
Other jurisdictions	<b>12</b>	10
Overprovision in prior years	–	(42)
	<b>29,455</b>	7,537
Deferred tax <i>(note 30)</i> :		
Current year	<b>2,003</b>	(18,514)
Taxation attributable to the Company and its subsidiaries	<b>31,458</b>	(10,977)
Share of tax on results of associates	<b>2,803</b>	340
Share of tax on results of jointly controlled entities	–	(455)
	<b>34,261</b>	(11,092)

Hong Kong Profits Tax is calculated at 17.5% (2002: 16%) of the estimated assessable profit for year. In 2003, the 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 the current and deferred tax balances at 31 December 2003.

Pursuant to Income Tax Law of the PRC for Enterprises with Foreign Investment and Foreign Enterprises, Qinhuangdao Shougang Plate Mill Co., Ltd. ("Qinhuangdao Plate Mill"), a principal subsidiary of the Company operating in Economic and Technology Development Zone of the PRC, is entitled to a preferential income tax rate of 15%. In addition, Qinhuangdao Plate Mill is subject to a local income tax rate of 3%.

## Notes to the Financial Statements

For the year ended 31 December 2003

**10. TAXATION** (continued)

Qinhuangdao Plate Mill and certain other subsidiaries of the Company operating in the PRC are eligible for certain tax holidays and concessions in respect of PRC income tax. The PRC income tax charges are arrived at after taking into account these tax incentives.

Taxation arising in other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions.

The charge for the year can be reconciled to the profit (loss) before taxation per the consolidated income statement as follows:

	2003		2002	
	HK\$'000	%	HK\$'000	%
Profit (loss) before taxation	<u>211,162</u>		<u>(377,490)</u>	
Taxation at the income tax rate of 18% (Note)	38,009	18.0	(67,948)	(18.0)
Tax effect of share of results of associates	(1,468)	(0.7)	(3,782)	(1.0)
Tax effect of share of results of jointly controlled entities	–	–	(13)	–
Tax effect of expense not deductible for tax purpose	10,423	4.9	46,233	12.2
Tax effect of income not taxable for tax purpose	(1,405)	(0.7)	(1,271)	(0.3)
Overprovision in respect of prior year	–	–	(42)	–
Tax effect of deferred tax loss not recognised	4,200	2.0	4,802	1.3
Tax effect of deferred tax assets not recognised	2,158	1.0	7,623	2.0
Utilisation of deferred tax losses previously not recognised	(1,295)	(0.6)	–	–
Utilisation of deferred tax assets previously not recognised	(4,151)	(1.9)	–	–
Effect of tax exemption granted to a PRC subsidiary	(15,205)	(7.2)	–	–
Income tax on concessionary rate	–	–	(810)	(0.2)
Effect of different tax rates of subsidiaries operating in other jurisdictions	<u>2,995</u>	<u>1.4</u>	<u>4,116</u>	<u>1.1</u>
Tax expense (credit) and the effective tax rate for the year	<u>34,261</u>	<u>16.2</u>	<u>(11,092)</u>	<u>(2.9)</u>

Note: The domestic tax rate in the jurisdiction where the operation of the Group is substantially based is used.

# Notes to the Financial Statements

For the year ended 31 December 2003

## 11. EARNINGS (LOSS) PER SHARE

The calculation of the basic and diluted earnings (loss) per share is based on the following data:

	2003 HK\$'000	2002 HK\$'000
Profit (loss) for the purposes of basic earnings (loss) per share	67,764	(295,051)
Effect of dilutive potential ordinary shares:		
Adjustment to the share of result of an associate based on dilution of its earnings per share	(1,399)	–
Interest on convertible note	6,000	–
Earnings (loss) for the purposes of diluted earnings (loss) per share	<u>72,365</u>	<u>(295,051)</u>
Weighted average number of ordinary shares for the purposes of basic earnings (loss) per share	2,331,984,810	2,295,546,454
Effect of dilutive potential ordinary shares:		
Options	31,849,007	–
Convertible note	571,428,571	–
Weighted average number of ordinary shares for the purposes of diluted earnings (loss) per share	<u>2,935,262,388</u>	<u>2,295,546,454</u>

The computation of diluted loss per share for the year ended 31 December 2002 did not assume the exercise of share options or conversion of convertible note as the exercise or conversion would result in a decrease in loss per share. In addition, no adjustment is made for the year ended 31 December 2002 to the share of result of an associate as there was no dilution of its earnings per share that year.

## Notes to the Financial Statements

For the year ended 31 December 2003

**11. EARNINGS (LOSS) PER SHARE** (continued)

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

	HK cents
<hr/>	
Reconciliation of loss per share for the year ended 31 December 2002:	
Reported figure before adjustment	(13.6)
Adjustment arising from the adoption of SSAP 12 (Revised)	0.7
	<hr/>
Restated figure	<u>(12.9)</u>

**12. INVESTMENT PROPERTIES**

	<b>THE GROUP</b>
	HK\$'000
<hr/>	
At 1 January 2003	18,461
Exchange adjustments	(24)
Transfer from property, plant and equipment	1,663
Deficit arising on revaluation	(1,791)
	<hr/>
At 31 December 2003	<u>18,309</u>

The Group's investment properties were revalued at 31 December 2003, on an open market value basis, by AA Property Services Limited, an independent firm of professional valuers. The revaluation resulted in a deficit of HK\$1,791,000 which was charged to the income statement.

All of the Group's investment properties are held for rental income under operating leases.

# Notes to the Financial Statements

For the year ended 31 December 2003

## 12. INVESTMENT PROPERTIES (continued)

The carrying value of the Group's investment properties is analysed as follows:

	2003 HK\$'000	2002 HK\$'000
Situated in Hong Kong and held under		
– medium-term lease	7,400	8,000
– long lease	1,380	–
	<u>8,780</u>	<u>8,000</u>
Situated in the PRC and held under medium-term land use rights	9,529	10,461
	<u>18,309</u>	<u>18,461</u>



## Notes to the Financial Statements

For the year ended 31 December 2003

## 13. PROPERTY, PLANT AND EQUIPMENT

	Land, buildings and structure	Leasehold improvements	Furniture, fixtures and equipment	Plant and machinery	Motor vehicles	Vessels	Construction in progress	Total
	HK\$'000	HK\$'000	HK\$000	HK\$'000	HK\$'000	HK\$000	HK\$'000	HK\$'000
<b>THE GROUP</b>								
COST								
At 1 January 2003	427,167	48,379	41,595	1,103,953	22,627	26,754	7,464	1,677,939
Exchange adjustments	(1,718)	(100)	(167)	(4,659)	(75)	-	(32)	(6,751)
Additions	1,484	-	1,484	1,475	1,821	-	16,047	22,311
Transfers from CIP	2,550	-	5,736	7,941	-	-	(16,227)	-
Transfer to investment properties	(2,647)	-	-	-	-	-	-	(2,647)
Disposals	(3,872)	-	(3,156)	(34,857)	(522)	-	-	(42,407)
At 31 December 2003	<u>422,964</u>	<u>48,279</u>	<u>45,492</u>	<u>1,073,853</u>	<u>23,851</u>	<u>26,754</u>	<u>7,252</u>	<u>1,648,445</u>
Comprising:								
At cost	416,964	48,279	45,492	1,073,853	23,851	26,754	7,252	1,642,445
At 1988 directors' valuation	<u>6,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>6,000</u>
	<u>422,964</u>	<u>48,279</u>	<u>45,492</u>	<u>1,073,853</u>	<u>23,851</u>	<u>26,754</u>	<u>7,252</u>	<u>1,648,445</u>
DEPRECIATION, AMORTISATION AND IMPAIRMENT								
At 1 January 2003	104,292	30,951	21,196	539,191	19,924	14,899	-	730,453
Exchange adjustments	(420)	(32)	(87)	(2,347)	(64)	-	-	(2,950)
Provided for the year	14,703	155	7,501	45,483	1,548	1,029	-	70,419
Transfer to investment properties	(984)	-	-	-	-	-	-	(984)
Eliminated on disposals	(1,149)	-	(3,120)	(29,578)	(517)	-	-	(34,364)
At 31 December 2003	<u>116,442</u>	<u>31,074</u>	<u>25,490</u>	<u>552,749</u>	<u>20,891</u>	<u>15,928</u>	<u>-</u>	<u>762,574</u>
NET BOOK VALUE								
At 31 December 2003	<u>306,522</u>	<u>17,205</u>	<u>20,002</u>	<u>521,104</u>	<u>2,960</u>	<u>10,826</u>	<u>7,252</u>	<u>885,871</u>
At 31 December 2002	<u>322,875</u>	<u>17,428</u>	<u>20,399</u>	<u>564,762</u>	<u>2,703</u>	<u>11,855</u>	<u>7,464</u>	<u>947,486</u>

At 31 December 2003, if the land, buildings and structure had not been revalued, they would have been included in these financial statements at historical costs less accumulated depreciation at approximately HK\$304,361,000 (2002: HK\$320,652,000).

Based on the market situation, the carrying value of the property, plant and equipment had been written down to their recoverable amounts, which were determined based on their value in use and resulted in an impairment loss of approximately HK\$104,375,000 recognised during the year ended 31 December 2002. The discount rate used in determining the value in use was 14.85% per annum.

# Notes to the Financial Statements

For the year ended 31 December 2003

## 13. PROPERTY, PLANT AND EQUIPMENT (continued)

The net book value of land, buildings and structure held by the Group is analysed as follows:

	2003 HK\$'000	2002 HK\$'000
Situated in Hong Kong and held under:		
– medium-term lease	9,251	9,702
– long lease	–	1,663
	<u>9,251</u>	<u>11,365</u>
Situated in the PRC and held under:		
– medium-term land use rights	296,567	310,771
– long term land use rights	704	739
	<u>297,271</u>	<u>311,510</u>
	<u><u>306,522</u></u>	<u><u>322,875</u></u>

## Notes to the Financial Statements

For the year ended 31 December 2003

## 14. INTANGIBLE ASSETS

	<b>THE GROUP</b>
	<b>Deferred product design fees</b>
	HK\$'000
<hr/>	
COST	
At 1 January 2003	10,073
Exchange adjustments	(46)
Additions	368
	<hr/>
At 31 December 2003	10,395
	<hr/>
AMORTISATION	
At 1 January 2003	6,387
Exchange adjustments	(34)
Charge for the year	1,385
	<hr/>
At 31 December 2003	7,738
	<hr/>
NET BOOK VALUE	
At 31 December 2003	2,657
	<hr/> <hr/>
At 31 December 2002	3,686
	<hr/> <hr/>

The intangible assets are amortised on a straight-line basis over a period of not exceeding 10 years.

# Notes to the Financial Statements

For the year ended 31 December 2003

## 15. GOODWILL

	<b>THE GROUP</b>
	HK\$'000
<hr/>	
COST	
At 1 January 2003 and 31 December 2003	72,677
	<hr/>
AMORTISATION	
At 1 January 2003	303
Charge for the year	3,634
	<hr/>
At 31 December 2003	3,937
	<hr/>
NET BOOK VALUE	
At 31 December 2003	68,740
	<hr/> <hr/>
At 31 December 2002	72,374
	<hr/> <hr/>

The goodwill is amortised on a straight-line basis over 20 years.

## 16. INTERESTS IN SUBSIDIARIES/AMOUNT DUE FROM A SUBSIDIARY

	<b>THE COMPANY</b>	
	<b>2003</b>	2002
	HK\$'000	HK\$'000
<hr/>		
Unlisted shares, at cost	<b>527,466</b>	527,466
Amounts due from subsidiaries	<b>2,057,930</b>	2,091,770
Amount due to a subsidiary	<b>(190,456)</b>	(196,461)
	<hr/>	<hr/>
	<b>2,394,940</b>	2,422,775
Less: Impairment loss recognised	<b>(1,971,028)</b>	(1,997,347)
	<hr/>	<hr/>
	<b>423,912</b>	425,428
	<hr/> <hr/>	<hr/> <hr/>

## 16. INTERESTS IN SUBSIDIARIES/AMOUNT DUE FROM A SUBSIDIARY *(continued)*

Other than an aggregate amount of HK\$42,900,000 (2002: HK\$58,500,000) due from a subsidiary which carries interest at 5.125% and 0.5% above the USD prime rate per annum (2002: 5% to 5.25%), the remaining balances due from subsidiaries are unsecured, interest-free and have no fixed repayment terms. In the opinion of the directors, the amounts will not be repaid within twelve months of the balance sheet date and they are therefore shown as non-current.

Particulars of the Company's principal subsidiaries as at 31 December 2003 are set out in note 43.

The amount due from a subsidiary shown under current assets of the Company is unsecured, carries interest at 5% per annum and is repayable within one year.

## 17. INTERESTS IN ASSOCIATES

	THE GROUP	
	2003 HK\$'000	2002 HK\$'000
Share of net assets	<u>162,960</u>	<u>162,142</u>
Market value of listed securities in Hong Kong	<u>318,969</u>	<u>60,996</u>

Particulars of the Company's principal associates as at 31 December 2003 are set out in note 43.

The following details have been extracted from the audited consolidated financial statements of the Group's significant associate, Shougang Concord Century Holdings Limited and its subsidiaries ("Shougang Century Group").

The principal activities of Shougang Century Group are the manufacture of steel cords, the processing and trading of copper and brass products, and property development and investment.

## Notes to the Financial Statements

For the year ended 31 December 2003

**17. INTERESTS IN ASSOCIATES** (continued)

	<b>2003</b> <b>HK\$'000</b>	2002 HK\$'000
Turnover	<b>297,271</b>	234,891
Profit from operations	<b>83,278</b>	54,526
Finance costs	<b>(3,178)</b>	(2,024)
Share of results of jointly controlled entities	<b>6,847</b>	6,853
Share of results of an associate	<b>5,251</b>	4,885
Profit before taxation	<b>92,198</b>	64,240
Income tax expense	<b>(8,468)</b>	(1,328)
Profit before minority interests	<b>83,730</b>	62,912
Minority interests	<b>(17,638)</b>	(20,431)
Net profit attributable to shareholders	<b>66,092</b>	42,481
Investment properties	<b>8,386</b>	8,000
Property, plant and equipment	<b>322,093</b>	321,410
Interests in jointly controlled entities	<b>48,911</b>	51,097
Interests in associates	<b>44,813</b>	44,079
Other non-current assets	<b>87,091</b>	14,175
Current assets	<b>214,927</b>	160,448
Total assets	<b>726,221</b>	599,209
Current liabilities	<b>81,303</b>	39,942
Non-current liabilities	<b>51,048</b>	29,276
Minority interests	–	86,502
Net assets	<b>593,870</b>	443,489
Attributable to the Group:		
Profit after taxation	<b>20,924</b>	15,531
Net assets	<b>162,958</b>	162,140

## Notes to the Financial Statements

For the year ended 31 December 2003

**18. INTEREST IN A JOINTLY CONTROLLED ENTITY**

	THE GROUP	
	2003 HK\$'000	2002 HK\$'000
Share of net assets	—	1,277
	—	1,277

During the year, the Group disposed of its entire interests in Oncor Investment Limited which was principally engaged in investment holding and trading of silicone sealant.

**19. INVESTMENT SECURITIES**

	THE GROUP	
	2003 HK\$'000	2002 HK\$'000
Unlisted equity securities	19,485	19,485
Less: Impairment loss recognised	(7,982)	—
	11,503	19,485
	11,503	19,485

**20. DEPOSIT MADE ON INVESTMENT IN AN ASSOCIATE**

The amount represents a deposit paid by the Group in connection with the acquisition of a 24% interest in Qinhuangdao Shouqin Metal Materials Co., Ltd. ("Shouqin"), a company engaged in design, manufacture and sale of steel and related products.

# Notes to the Financial Statements

For the year ended 31 December 2003

## 21. AMOUNTS DUE FROM (TO) CUSTOMERS FOR CONTRACT WORK

	THE GROUP	
	2003 HK\$'000	2002 HK\$'000
Contracts in progress at the balance sheet date:		
Contract costs incurred to date plus recognised profits less recognised losses	<b>213,258</b>	297,426
Less: Progress billings	<b>(207,526)</b>	(301,992)
	<b>5,732</b>	(4,566)
Represented by:		
Amounts due from customers included in current assets	<b>7,649</b>	1,420
Amounts due to customers included in current liabilities	<b>(1,917)</b>	(5,986)
	<b>5,732</b>	(4,566)

## 22. INVENTORIES

	THE GROUP	
	2003 HK\$'000	2002 HK\$'000
COST		
Raw materials	<b>217,940</b>	167,924
Work in progress	<b>1,734</b>	4,157
Finished goods	<b>2,557</b>	6,181
	<b>222,231</b>	178,262



## Notes to the Financial Statements

For the year ended 31 December 2003

**23. ACCOUNTS AND BILLS RECEIVABLE**

An aged analysis of accounts and bills receivable is as follows:

	<b>THE GROUP</b>	
	<b>2003</b> HK\$'000	2002 HK\$'000
Within 90 days	<b>45,458</b>	101,686
91 – 180 days	<b>4,163</b>	3,150
181 – 365 days	<b>3,183</b>	5,696
1-2 years	<b>2,526</b>	5,440
Over 2 years	<b>8,188</b>	8,221
	<b>63,518</b>	124,193

Trading terms with customers are largely on credit, except for new customers, where payment in advance is normally required. The Group allows a range of credit period to its customers normally not more than 30 days, except for certain well established customers, where the terms are extended to 60 days.

At 31 December 2003, retentions held by customers for contract work amounted to HK\$2,072,000 (2002: HK\$4,050,000).

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

The balances represent amounts due from (to) the members of the Shougang Group. The balances are unsecured, interest-free and have no fixed terms of repayment except for the following:

- (i) at 31 December 2002, a short term loan of HK\$943,000 granted by one of the Company's subsidiaries in the PRC to a related company, which was interest-free, secured by bills receivable of HK\$976,000 of the related company and was fully repaid in 2003;
- (ii) unsettled portion of short term loans with an aggregate outstanding principal amount of HK\$7,852,000 (2002: HK\$54,541,000) and interest amounting to HK\$16,529,000 (2002: HK\$10,843,000) accrued on the outstanding balances of the principals of the loans since the respective dates of grants from Shougang Corporation to one of the Company's subsidiaries in the PRC, which are unsecured, carry interest at 7.05% per annum and have no fixed repayment terms;

## Notes to the Financial Statements

For the year ended 31 December 2003

### 24. AMOUNTS DUE FROM (TO) RELATED COMPANIES (continued)

- (iii) at 31 December 2002, short term loans with an aggregate principal amount of HK\$64,635,000 and interest accrued thereon amounting to HK\$377,000 granted by a subsidiary of Shougang HK to the Company, which were unsecured, carried interest at 5% per annum and was fully repaid in 2003; and
- (iv) at 31 December 2002, a short term loan with a principal amount of HK\$146,089,000 granted by Shougang Corporation to one of the Company's subsidiaries in the PRC, which was unsecured, carried interest at 5.85% per annum and was fully repaid in 2003.

### 25. AMOUNT DUE FROM AN ASSOCIATE

The amount is unsecured, interest-free and has no fixed repayment terms.

### 26. ACCOUNTS AND BILLS PAYABLE

An aged analysis of accounts and bills payable is as follows:

	THE GROUP	
	2003 HK\$'000	2002 HK\$'000
Within 90 days	35,849	13,408
91 – 180 days	22	24
181 – 365 days	2,963	36,376
1-2 years	626	15
Over 2 years	2,380	2,630
	<b>41,840</b>	<b>52,453</b>

## Notes to the Financial Statements

For the year ended 31 December 2003

**27. BANK BORROWINGS**

	<b>THE GROUP</b>	
	<b>2003</b> HK\$'000	2002 HK\$'000
Bank overdrafts	<b>158</b>	–
Bank loans repayable within one year or on demand	<b>240,028</b>	154,035
	<b>240,186</b>	154,035
Analysed as:		
Secured	<b>38,305</b>	78,634
Unsecured	<b>201,881</b>	75,401
	<b>240,186</b>	154,035

**28. PROVISION FOR A COMPENSATION CLAIM**

	<b>THE GROUP</b> HK\$'000
At 1 January 2003 and 31 December 2003	707

A provision for compensation payable had been recognised in 2001 as the Group had failed to complete certain obligations arising from certain contracts of affreightment and is, under the terms of such contracts, liable to compensate the counterparties of such contracts. The balance as at 31 December 2003 represents the Group's estimate of the probable future payments for an unsettled compensation claim as at 31 December 2003.

**29. CONVERTIBLE NOTE**

On 7 June 2002, a subsidiary of the Company issued convertible note with a principal amount of HK\$200,000,000 to a wholly-owned subsidiary of Shougang HK (the "Subscriber"). The convertible note would mature on 7 June 2004 under its original terms. On 2 January 2004, the Subscriber exercised in full its conversion right of the convertible note, at the conversion price of HK\$0.35 per share, resulting in an issue of 571,428,571 ordinary shares of the Company with a par value of HK\$0.20 each (see note 44).

# Notes to the Financial Statements

For the year ended 31 December 2003

## 30. DEFERRED TAX

The following are the major deferred tax liabilities (assets) recognised and movements thereon during the current and prior reporting periods:

### THE GROUP

	<b>Accelerated tax depreciation</b>	<b>Revaluation of properties</b>	<b>Tax losses</b>	<b>Total</b>
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2002				
– as previously reported	–	–	–	–
– adjustment on adoption of SSAP12 (Revised)	48,839	1,087	(371)	49,555
	<u>48,839</u>	<u>1,087</u>	<u>(371)</u>	<u>49,555</u>
– as restated	48,839	1,087	(371)	49,555
Charge (credit) to income for the year	(18,658)	84	60	(18,514)
Disposals	(2,393)	–	–	(2,393)
	<u>(2,393)</u>	<u>–</u>	<u>–</u>	<u>(2,393)</u>
At 1 January 2003	27,788	1,171	(311)	28,648
Charge (credit) to income for the year	3,094	14	(1,105)	2,003
Exchange differences	(128)	–	–	(128)
Effect of change in tax rate charge (credit) to the income statement	27	110	(137)	–
	<u>27</u>	<u>110</u>	<u>(137)</u>	<u>–</u>
At 31 December 2003	<u>30,781</u>	<u>1,295</u>	<u>(1,553)</u>	<u>30,523</u>

For the purposes of balance sheet presentation, the above deferred tax assets and liabilities have been offset in accordance with the conditions set out in the SSAP 12 (Revised).

At the balance sheet date, the Group has unused tax losses of approximately HK\$487 million (2002: HK\$471 million) available to offset against future profits. The unrecognised tax losses may be carried forward indefinitely.

## Notes to the Financial Statements

For the year ended 31 December 2003

**30. DEFERRED TAX** (continued)

At the balance sheet date, the Group has deductible temporary difference of approximately HK\$162 million (2002: HK\$173 million).

The above deferred tax assets have not been recognised due to the unpredictability of future profit streams.

**THE COMPANY**

At the balance sheet date, the Company has unused tax losses of approximately HK\$114 million (2002: HK\$105 million) available for offset against future profits. No deferred tax asset has been recognised due to the unpredictability of future profit streams.

**31. LOAN FROM A SHAREHOLDER**

The amount represents a loan of HK\$270,512,000 (2002: HK\$271,710,000) granted by Shougang HK to one of the Company's subsidiaries in the PRC. The amount is unsecured and interest-free. Shougang HK has undertaken to provide this loan on an unspecified long term basis. Accordingly, the loan balance has been classified as a non-current liability.

**32. SHARE CAPITAL**

	Number of shares	Amount HK\$'000
Ordinary shares of HK\$0.20 each		
Authorised:		
At 1 January 2002, 1 January 2003 and 31 December 2003	<u>5,000,000,000</u>	<u>1,000,000</u>
Issued and fully paid:		
At 1 January 2002 and 1 January 2003	2,295,546,454	459,109
Issue of shares	<u>350,000,000</u>	<u>70,000</u>
At 31 December 2003	<u>2,645,546,454</u>	<u>529,109</u>

# Notes to the Financial Statements

For the year ended 31 December 2003

## 32. SHARE CAPITAL (continued)

On 7 October 2003, the Company entered into a subscription agreement with Grand Invest International Limited, a wholly-owned subsidiary of Shougang HK and Max Same Investment Limited, a wholly-owned subsidiary of Cheung Kong for subscription of 300,000,000 and 50,000,000 new shares of HK\$0.20 each in the Company at a price of HK\$0.32 per share, respectively, representing a discount of approximately 15.79% to the closing market price of the Company's shares on 6 October 2003. The proceeds were used to reduce borrowings and to provide additional working capital for the Group. On 24 November 2003, the new shares were issued pursuant to an ordinary resolution passed at the extraordinary general meeting of the Company held on 18 November 2003. The new shares rank pari passu with other shares in issue in all respects.

## 33. SHARE OPTION SCHEMES

- (a) On 15 June 2001, a share option scheme (the "Old Scheme") was adopted by the shareholders of the Company.

The purpose of the Old Scheme was to attract, retain and motivate high-calibre employees of the Group. The Old Scheme would have remained in force until 14 June 2011. Under the Old Scheme, the directors might, at their discretion, invite employees (including executive directors) of the Company or any of its subsidiaries to take up share options to subscribe for the shares of the Company.

No share option was granted under the Old Scheme since its adoption.

- (b) Pursuant to the changes of the Rules Governing the Listing of Securities on the Stock Exchange in relation to share option schemes, on 7 June 2002, the Company adopted a new share option scheme (the "New Scheme") and terminated the Old Scheme.

The purpose of the New Scheme is to enable the Company to grant share options to selected participants as incentives or rewards for their contribution to the Company and/or its subsidiaries and/or its associated companies (as defined under the New Scheme). The New Scheme will remain in force for a period of 10 years commencing on 7 June 2002.

Under the New Scheme, the directors may, at their discretion, offer directors (including executive and non-executive directors), executives, officers, employees or certain other eligible participants, share options to subscribe for shares of the Company.

## Notes to the Financial Statements

For the year ended 31 December 2003

**33. SHARE OPTION SCHEMES** (continued)

The following table discloses details of the share options held by directors and other employees and movements in such holdings during the years ended 31 December 2003 and 2002:

Grantees	Number of share options			Date of grant	Exercise period	Exercise price per share HK\$
	At 1.1.2003	Granted during the year	At 31.12.2003			
Directors of the Company	114,000,000	–	114,000,000	23.8.2002	23.8.2002 – 22.8.2012	0.295
	–	18,360,000	18,360,000	12.3.2003	12.3.2003 – 11.3.2013	0.280
	–	229,550,000	229,550,000	18.11.2003	18.11.2003 – 17.11.2013	0.410
	<u>114,000,000</u>	<u>247,910,000</u>	<u>361,910,000</u>			
Other employees of the Company (Note)	–	22,950,000	22,950,000	12.3.2003	12.3.2003 – 11.3.2013	0.280
Directors of subsidiaries (Note)	24,100,000	–	24,100,000	23.8.2002	23.8.2002 – 22.8.2012	0.295
Other employees of subsidiaries	3,900,000	–	3,900,000	23.8.2002	23.8.2002 – 22.8.2012	0.295
	<u>142,000,000</u>	<u>270,860,000</u>	<u>412,860,000</u>			

  

Grantees	Number of share options			Date of grant	Exercise period	Exercise price per share HK\$
	At 1.1.2002	Granted during the year	At 31.12.2002			
Directors of the Company	–	114,000,000	114,000,000	23.8.2002	23.8.2002 – 22.8.2012	0.295
Directors of subsidiaries	–	24,100,000	24,100,000	23.8.2002	23.8.2002 – 22.8.2012	0.295
Other employees of subsidiaries	–	3,900,000	3,900,000	23.8.2002	23.8.2002 – 22.8.2012	0.295
	<u>–</u>	<u>142,000,000</u>	<u>142,000,000</u>			

Note: The relevant grantees ceased to be the employees of the Company and the directors of subsidiaries during the year ended 31 December 2003.

Total consideration received during the year from directors and other employees for taking up the options granted amounted to HK\$8 (2002: HK\$15).

# Notes to the Financial Statements

For the year ended 31 December 2003

## 33. SHARE OPTION SCHEMES (continued)

The financial impact of share options granted is not recorded in the Company's or the Group's balance sheet until such time as the options are exercised, and no charge is recognised in the income statement in respect of the value of options granted in the year. Upon the exercise of the share options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company in the share premium account. Options which lapse or are cancelled prior to their exercise date are deleted from the register of outstanding options.

## 34. RESERVES

	Share premium HK\$'000	Capital redemption reserve HK\$'000	Capital reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
<b>THE COMPANY</b>					
At 1 January 2002	913,523	1,019	1,800,000	(2,475,089)	239,453
Loss for the year	-	-	-	(336,364)	(336,364)
At 1 January 2003	913,523	1,019	1,800,000	(2,811,453)	(96,911)
Premium arising on issue of shares	42,000	-	-	-	42,000
Share issue expenses	(79)	-	-	-	(79)
Loss for the year	-	-	-	(8,438)	(8,438)
At 31 December 2003	<u>955,444</u>	<u>1,019</u>	<u>1,800,000</u>	<u>(2,819,891)</u>	<u>(63,428)</u>

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.



## Notes to the Financial Statements

For the year ended 31 December 2003

**35. ACQUISITION OF A SUBSIDIARY**

On 10 April 2002, Shougang Corporation and Shougang Concord Power Plant Holdings Limited (the "Acquirer"), a wholly-owned subsidiary of the Company, entered into a conditional asset acquisition agreement, pursuant to which, Shougang Corporation agreed to sell and the Acquirer agreed to purchase a 51% interest in Beijing Shougang Firstlevel Power Co., Ltd. ("Beijing Power Plant"), a sino-foreign joint venture established in the PRC engaged in the power generation business, for a cash consideration of approximately HK\$198.2 million. The acquisition was completed on 4 November 2002.

	<b>2003</b> <b>HK\$'000</b>	2002 HK\$'000
Net assets acquired:		
Property, plant and equipment	–	352,125
Amounts due from related companies	–	52,259
Inventories	–	10,772
Other payables and accrued liabilities	–	(2,156)
Amounts due to related companies	–	(166,845)
Minority interests	–	(120,616)
	–	125,539
Goodwill on acquisition	–	72,677
	–	198,216
Satisfied by:		
Cash	–	198,216

Since its acquisition, Beijing Power Plant contributed HK\$36,515,000 to the Group's turnover and profit of HK\$5,796,000 to the consolidated loss after tax and before minority interests for the year ended 31 December 2002.

## Notes to the Financial Statements

For the year ended 31 December 2003

### 36. DISPOSAL OF SUBSIDIARIES

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 agreed to dispose of part of its then 65% interests in each of Beijing Shougang-Pohseng Strip Steel Co., Ltd. ("Pohseng"), Beijing Shougang-Liwoh Bar Steel Co., Ltd. ("Liwoh") and Beijing Shougang Gitane Alloy Materials Co., Ltd. ("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. The disposals were completed on 28 November 2002. The Company retained a 15% interest in each of Pohseng, Liwoh and Gitane and accounted for these interests as investment securities in the Group's balance sheet since the completion of the above disposals.

On 21 June 2002, the Group disposed of its entire interests in Shougang Grand. Further details of the disposal are set out in note 9.

## Notes to the Financial Statements

For the year ended 31 December 2003

**36. DISPOSAL OF SUBSIDIARIES** (continued)

	<b>2003</b>	2002
	<b>HK\$'000</b>	HK\$'000
Net assets disposed of:		
Investment properties	–	240,300
Property, plant and equipment	–	564,439
Interests in associates	–	236,505
Interests in jointly controlled entities	–	224,076
Inventories	–	89,035
Accounts and bills receivable	–	160,545
Prepayments, deposits and other receivables	–	4,515
Listed other investments	–	835
Amounts due from related companies	–	73,895
Bank balances and cash	–	65,876
Accounts and bills payable	–	(68,506)
Other payables and accrued liabilities	–	(160,243)
Amounts due to related companies	–	(179,363)
Tax payable	–	(3,481)
Bank borrowings	–	(317,679)
Obligations under finance leases	–	(141,114)
Deferred taxation	–	(2,393)
Minority interests	–	(369,406)
	–	<u>417,836</u>
Realisation of exchange reserve	–	(25,783)
Reclassification to investment securities	–	(19,391)
Gain on disposal of subsidiaries	–	99,503
Loss on disposal of a discontinued operation	–	<u>(206,202)</u>
	–	<u><u>265,963</u></u>
Satisfied by:		
Cash	–	245,573
Set-off against amount due to a related company	–	<u>20,390</u>
	–	<u><u>265,963</u></u>

# Notes to the Financial Statements

For the year ended 31 December 2003

## 36. DISPOSAL OF SUBSIDIARIES (continued)

An analysis of the net inflow of cash and cash equivalents in connection with the disposal of subsidiaries:

	<b>2003</b>	2002
	<b>HK\$'000</b>	HK\$'000
Cash consideration	–	245,573
Bank balances and cash disposed of	–	<u>(65,876)</u>
Net inflow of cash and cash equivalents in connection with the disposal of subsidiaries	<u>–</u>	<u><u>179,697</u></u>

For the year ended 31 December 2002, Shougang Grand, Pohseng, Liwoh and Gitane accounted for an aggregate amount of HK\$572,228,000 in the Group's turnover and HK\$61,150,000 in the consolidated loss after tax and before minority interests.

## 37. OPERATING LEASE ARRANGEMENTS

### The Group as lessee

	<b>THE GROUP</b>	
	<b>2003</b>	2002
	<b>HK\$'000</b>	HK\$'000
Minimum lease payments paid under operating leases during the year are as follows:		
Land and buildings	<b>1,614</b>	9,635
Vessels time charter hire	<b>133,371</b>	<u>123,626</u>
	<u><b>134,985</b></u>	<u><u>133,261</u></u>

## Notes to the Financial Statements

For the year ended 31 December 2003

**37. OPERATING LEASE ARRANGEMENTS** (continued)**The Group as lessee** (continued)

At the balance sheet date, the Group had commitments for future minimum lease payments under non-cancellable operating leases in respect of rented premises and vessels time charter hire which fall due as follows:

	Vessels time charter hire		Land and buildings		Total	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Within one year	<b>135,281</b>	132,067	<b>1,750</b>	336	<b>137,031</b>	132,403
In the second to fifth year inclusive	<b>567,268</b>	557,044	<b>1,851</b>	569	<b>569,119</b>	557,613
After five years	<b>581,912</b>	727,417	<b>2,844</b>	1,843	<b>584,756</b>	729,260
	<b>1,284,461</b>	1,416,528	<b>6,445</b>	2,748	<b>1,290,906</b>	1,419,276

The Group leases vessels through two time charter hires. The time charter hires commenced on 26 September 1997 and with a lease period of 15 years, plus two months more or less at the Group's option. The daily rates of the time charter hires increase by US\$250 every half year until December 2007, and thereafter the daily rates will increase by US\$125 every half year.

The Group leases certain of its office premises and staff quarters in Hong Kong and the PRC under operating lease arrangements. Leases for properties are negotiated for terms ranging from one to two years. In addition, one of the Company's subsidiaries in the PRC leases land for certain of its office premises and factories under an operating lease arrangement. Lease for the land is negotiated for the joint venture tenure of that subsidiary.

The Company had no non-cancellable operating lease commitments at the balance sheet date.

**The Group as lessor**

Property rental income earned under operating leases during the year is HK\$1,828,000 (2002: HK\$8,543,000). Leases are generally negotiated for an average term of one year.

At 31 December 2003, the Group had contracted with tenants for future minimum lease payments under non-cancellable operating leases in respect of rented premises amounting to HK\$822,000 (2002: HK\$290,000) which fall due within one year.

# Notes to the Financial Statements

For the year ended 31 December 2003

## 38. COMMITMENTS

	THE GROUP	
	2003 HK\$'000	2002 HK\$'000
Capital expenditure contracted for but not provided in the financial statements in respect of acquisition of property, plant and equipment	<u>1,152</u>	<u>7,787</u>

At 31 December 2002, the Group had commitments under foreign exchange forward contracts in the amount of HK\$2,563,000. The Group did not have any such commitment at 31 December 2003.

The Company had no significant commitment at the balance sheet date.

## 39. RETIREMENT BENEFITS SCHEMES

The Group operates a defined contribution retirement benefits scheme for certain qualifying employees. The assets of the scheme are separately held in funds under the control of an authorised insurer.

The cost charged to the income statement represents contributions payable to the funds by the Group at rates specified in the rules of the scheme. Where there are employees who leave the scheme prior to vesting fully in the contributions, the contributions payable by the Group are reduced by the amount of forfeited contributions.

At the balance sheet date, there were no significant forfeited contributions which arose upon employees leaving the scheme prior to their interests in the Group's contributions becoming fully vested and which are available to reduce the contributions payable by the Group in future years.

In addition to the retirement benefits scheme operated by the Group, the Group is required to contribute respectively to Mandatory Provident Fund and central pension schemes for certain Group's employees in Hong Kong and the PRC based on applicable rates of monthly salary in accordance with government regulations.

## Notes to the Financial Statements

For the year ended 31 December 2003

## 40. CONTINGENT LIABILITIES

	THE GROUP		THE COMPANY	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Guarantees in favour of a bank to secure credit facilities granted to subsidiaries	–	–	46,800	46,800
Guarantee in favour of the Subscriber of the convertible note	–	–	200,000	200,000
Guarantees in favour of certain banks to secure credit facilities granted to third parties	39,223	37,700	–	–
	<b>39,223</b>	<b>37,700</b>	<b>246,800</b>	<b>246,800</b>

The Company has provided guarantees to vessel owners for the due and punctual performance and observance by a wholly-owned subsidiary of the Company of each and every of its obligation, undertakings and liabilities as time charterer under two time charter hires entered into by that subsidiary, further details of which are set out in note 37.

## 41. PLEDGE OF ASSETS

## THE GROUP

At 31 December 2003, the following items were used to secure banking facilities granted to the Group:

- pledge of a bank deposit of HK\$8,011,000 (2002: HK\$8,011,000) by a subsidiary in the PRC with Hua Xia Bank, which is a related company of Shougang HK;
- pledge of the Group's investment properties, land, buildings and structure with net book value of HK\$8,780,000 (2002: HK\$8,000,000) and HK\$9,251,000 (2002: HK\$11,365,000), respectively;
- pledge of the Group's plant and machinery with net book value of HK\$291,725,000 (2002: HK\$292,139,000); and
- bills receivable of HK\$18,767,000 (2002: Nil) held under the custody of a bank.

## Notes to the Financial Statements

For the year ended 31 December 2003

**42. RELATED PARTY DISCLOSURES**

The significant transactions with related parties during the year, and significant balances with them at the balance sheet date are as follows:

**(I) Transactions**

	Notes	2003 HK\$'000	2002 HK\$'000
<b>Shougang Group</b>			
Sales of goods by the Group	(a)	210,116	90,769
Provision of electricity, steam and hot water by the Group	(b)	374,944	36,515
Purchases of goods by the Group	(c)	754,486	814,785
Lease rentals charged to the Group	(d)	2,246	2,126
Management fees charged to the Group	(e)	960	680
Consultancy fee charged to the Group		–	480
Purchases of spare parts by the Group	(f)	17,728	10,140
Corporate guarantees for bank loans granted to the Group	(g)	201,745	301,612
Loans advanced to the Group	(h)	35,670	114,523
Management fees charged by the Group	(i)	557	640
Rental income charged by the Group	(j)	792	396
Convertible note issued by the Group		–	200,000
Convertible note interest expense charged to the Group	(k)	6,000	3,419
Interest charged to the Group	(l)	9,703	11,838
Service fees charged to the Group	(m)	35,781	7,334
Freight income charged by the Group	(n)	79,874	169,170
Commission charged to the Group	(o)	426	3,640
Service fees charged by the Group	(p)	133	465
Purchase of property, plant and equipment by the Group	(q)	5,725	3,281
<b>Associates</b>			
Management fees charged by the Group	(r)	240	960
Rental income charged by the Group	(j)	–	396



**42. RELATED PARTY DISCLOSURES** (continued)**(II) Balances**

Details of balances with the Group's related companies are set out in note 24;

Details of balances with the Group's associates are set out in notes 17 and 25; and

Details of balances with the Group's jointly controlled entities are set out in note 18.

*Notes:*

- (a) Qinhuangdao Plate Mill, a non wholly-owned subsidiary of the Company, sold steel products and scrap materials to Shougang Group at a consideration determined between the parties.
- (b) Beijing Power Plant 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) During the year ended 31 December 2003, 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. The loans were repaid during the year.

During the year ended 31 December 2002, unsecured loans with an aggregate principal amount of HK\$95,025,000 bearing interest ranging from 5% to 5.125% per annum were granted by a related company to the Company for working capital purposes. An aggregate amount of HK\$30,390,000 was repaid by the Company in 2002 and the remaining loan principal of HK\$64,635,000 was repaid in 2003.

During the year ended 31 December 2002, unsecured loans with an aggregate principal amount of HK\$19,498,000 (US\$2,500,000) bearing interest at 2.25% above the one-month London Inter-Bank Offered Rate per annum was granted by a related company to one of the Company's subsidiaries in Hong Kong for working capital purposes. The loans were repaid in 2002.

# Notes to the Financial Statements

For the year ended 31 December 2003

## 42. RELATED PARTY DISCLOSURES (continued)

Notes: (continued)

- (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 during the year, 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.
- (m) Shougang Group charged Qinhuangdao Plate Mill and Beijing Power Plant 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 and Brazil to the PRC 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 PRC at a rate determined between the parties.
- (p) Qinhuangdao Plate Mill charged Shougang Group service fees in respect of processing services provided at rates determined between the parties.
- (q) Beijing Power Plant 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.

## Notes to the Financial Statements

For the year ended 31 December 2003

**43. PARTICULARS OF PRINCIPAL SUBSIDIARIES AND ASSOCIATES**

Details of the Company's principal subsidiaries at 31 December 2003 are as follows:

Name of subsidiary	Place of incorporation or registration/ operations	Issued and fully paid share/ registered capital	Proportion of issued share/registered capital held by the Company		Principal activities
			Directly %	Indirectly %	
Shougang Concord Steel Holdings Limited	British Virgin Islands/Hong Kong	US\$1,000 Ordinary shares	100	–	Investment holding
Shougang Concord Steel Group Limited	Hong Kong	HK\$25,000,000 Ordinary shares	–	100	Investment holding
Shougang Concord Construction Materials Limited	Hong Kong	HK\$14,000,000 Ordinary shares	–	100	Provision of interior decoration and renovation services
Radnor Limited	Hong Kong	HK\$1,775,920 Ordinary shares	–	100	Manufacture and installation of kitchen and laundry equipment and investment holding
Radnor Engineering Limited	Hong Kong/ PRC	HK\$200,000 Ordinary shares	–	100	Manufacture and installation of kitchen and laundry equipment
Dongguan Roulop Metal Products Co. Limited <sup>A</sup>	PRC	HK\$13,000,000 Registered capital	–	77	Manufacture and installation of kitchen and laundry equipment

## Notes to the Financial Statements

For the year ended 31 December 2003

## 43. PARTICULARS OF PRINCIPAL SUBSIDIARIES AND ASSOCIATES

(continued)

Name of subsidiary	Place of incorporation or registration/ operations	Issued and fully paid share/ registered capital	Proportion of issued share/registered capital held by the Company		Principal activities
			Directly	Indirectly	
			%	%	
Jiangmen Radnor Kitchen & Laundry Engineering Limited <sup>Δ</sup>	PRC	HK\$500,000 Registered capital	–	95	Installation of kitchen and laundry equipment
Shougang Concord Godown Limited	Hong Kong	HK\$2 Ordinary shares  HK\$2,000,000 Non-voting deferred shares	–	100	Provision of warehousing services
Shougang Concord Management Company Limited	Hong Kong	HK\$100,000 Ordinary shares	–	100	Provision of management services and investment holding
Shougang Concord Steel (International) Company Limited	British Virgin Islands/Hong Kong	US\$1,000 Ordinary shares	–	100	Investment holding
Shougang Concord Steel International Trading Co. Ltd.	British Virgin Islands/PRC	US\$1 Ordinary share	–	100	Trading of steel bars and investment holding
Star Field (H.K.) Limited	Hong Kong/ PRC	HK\$10,000 Ordinary shares	–	100	Property investment

## Notes to the Financial Statements

For the year ended 31 December 2003

## 43. PARTICULARS OF PRINCIPAL SUBSIDIARIES AND ASSOCIATES

(continued)

Name of subsidiary	Place of incorporation or registration/ operations	Issued and fully paid share/ registered capital	Proportion of issued share/registered capital held by the Company		Principal activities
			Directly	Indirectly	
			%	%	
Shougang Concord Shipping Holdings Limited*	British Virgin Islands/Hong Kong	US\$641,025 Ordinary shares	100	–	Investment holding
Shougang Concord International Transport Limited*	British Virgin Islands/Hong Kong	US\$1 Ordinary share	–	100	Investment holding and chartering of vessels
Ryegar Limited*	United Kingdom/ Hong Kong	£2 Ordinary shares	–	100	Chartering of vessels
Shougang Concord Shipping Services Limited*	Hong Kong	HK\$2 Ordinary shares	–	100	Provision of management services
SCIT (Chartering) Limited*	British Virgin Islands/PRC	US\$1 Ordinary share	–	100	Chartering of vessels
Centralink International Limited*	British Virgin Islands/Hong Kong	US\$2,000,000 Ordinary shares	–	70	Investment holding
Zhoushan Shouhe Centra-link Co. Ltd.*	PRC	US\$5,000,000 Registered capital	#	#	Hiring of floating cranes
Fair Union Holdings Limited	Samoa/ Hong Kong	US\$1 Ordinary share	100	–	Investment holding
Richson Limited	Samoa/ Hong Kong	US\$1 Ordinary share	–	100	Investment holding

## Notes to the Financial Statements

For the year ended 31 December 2003

## 43. PARTICULARS OF PRINCIPAL SUBSIDIARIES AND ASSOCIATES

(continued)

Name of subsidiary	Place of incorporation or registration/ operations	Issued and fully paid share/ registered capital	Proportion of issued share/registered capital held by the Company		Principal activities
			Directly	Indirectly	
			%	%	
Casula Investments Limited	Samoa/ Hong Kong	US\$1 Ordinary share	–	100	Investment holding
Firstlevel Holdings Limited	Samoa/ Hong Kong	US\$1 Ordinary share	100	–	Investment holding
Shougang Concord Power Plant Holdings Limited	British Virgin Islands/Hong Kong	US\$1 Ordinary share	–	100	Investment holding
Qinhuangdao Shougang Plate Mill Co., Ltd. <sup>A</sup>	PRC	US\$29,950,000 Registered capital	–	51	Manufacture and sale of steel plates
Beijing Shougang Firstlevel Power Co., Ltd. <sup>A</sup>	PRC	RMB261,170,000 Registered capital	–	51	Power generation
Sino Fortune Investments Limited	Samoa/ Hong Kong	US\$1 Ordinary share	100	–	Issue of a convertible note
Good News Investment Limited	Hong Kong	HK\$2 Ordinary shares	–	100	Property investment
Shougang Concord Services Limited	Hong Kong	HK\$2 Ordinary shares	100	–	Provision of management services

**43. PARTICULARS OF PRINCIPAL SUBSIDIARIES AND ASSOCIATES***(continued)*

- \* The financial statements of this subsidiary are not audited by member firms of Deloitte Touche Tohmatsu.
- # Zhoushan Shouhe Centra-link Co. Ltd. ("Zhoushan") is a cooperative joint venture which was established in 1993 in the PRC 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.
- △ Sino-foreign joint venture established in the PRC.

Details of the Company's principal associates at 31 December 2003 are as follows:

Name of associate	Form of business structure	Place of incorporation/ operations	Class of share held	Proportion of nominal value of issued capital held by the Group Indirectly %	Principal activities
Shougang Concord Century Holdings Limited	Incorporated	Hong Kong	Ordinary shares	27.4	Investment holding
Gainrise Holdings Limited	Incorporated	Hong Kong	Ordinary shares	20.0	Investment holding

The above tables list the subsidiaries and associates of the Group which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the assets and liabilities of the Group. To give details of other subsidiaries and associates would, in the opinion of the directors, result in particulars of excessive length.

# Notes to the Financial Statements

For the year ended 31 December 2003

## 44. POST BALANCE SHEET EVENTS

- (a) On 2 January 2004, the Subscriber exercised in full its conversion right of the convertible note at the conversion price of HK\$0.35 per share, resulting in an issue of 571,428,571 ordinary shares of the Company with a par value of HK\$0.20.
- (b) On 1 March 2004, arrangements were made for a private placement to independent private investors of 300,000,000 shares of HK\$0.20 each in the Company held by Shougang HK, at a price of HK\$0.66 per share, representing a discount of approximately 7.04% to the closing price of the Company's shares on 1 March 2004.

On the same date, the Company entered into a subscription agreement with Shougang HK for the subscription of 300,000,000 new shares of HK\$0.20 each in the Company at a price of HK\$0.66 per share. The proceeds would be used to invest in the Company's existing business and provide additional general working capital for the Company.

- (c) On 19 April 2004, a wholly-owned subsidiary of the Company entered into an agreement with Shougang Corporation to acquire a 27% interest in Shouqin for a cash consideration of RMB148,500,000.