

## NOTES TO THE CONDENSED FINANCIAL STATEMENTS

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For the six months ended 30 June 2004

**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 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants.

**2. Significant accounting policies**

The condensed financial statements have been prepared under the historical cost convention, as modified for the revaluation of investment properties, leasehold land and buildings and land use rights. The accounting policies adopted are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2003.



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

For the six months ended 30 June 2004

**3. Segment information****Business segments**

The Group's primary format for reporting segment information is business segments.

**Six months ended 30 June 2004**

	Steel cord (Unaudited) HK\$'000	Copper and brass products (Unaudited) HK\$'000	Corporate and others (Unaudited) HK\$'000	Consolidated (Unaudited) HK\$'000
Segment turnover	112,377	79,242	384	192,003
Segment results	44,947	8,332	(6,638)	46,641
Unallocated corporate income and expenses, net				(1,049)
Profit from operations				45,592
Finance costs				(1,544)
Share of results of jointly controlled entities	-	-	2,673	2,673
Share of result of an associate	-	-	1,681	1,681
Profit before taxation				48,402
Income tax expense				(3,990)
Profit before minority interests				44,412
Minority interests				-
Net profit for the period				44,412



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

For the six months ended 30 June 2004

**3. Segment information (continued)**

Six months ended 30 June 2003

	Steel cord (Unaudited) <i>HK\$'000</i>	Copper and brass products (Unaudited) <i>HK\$'000</i>	Corporate and others (Unaudited) <i>HK\$'000</i> (Restated)	Consolidated (Unaudited) <i>HK\$'000</i>
Segment turnover	106,496	30,621	237	137,354
Segment results	44,685	(145)	(5,320)	39,220
Unallocated corporate income and expenses, net				69
Profit from operations				39,289
Finance costs				(807)
Share of results of jointly controlled entities	-	-	2,991	2,991
Share of result of an associate	-	-	2,871	2,871
Profit before taxation				44,344
Income tax expense				(4,867)
Profit before minority interests				39,477
Minority interests				(11,244)
Net profit for the period				28,233



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

For the six months ended 30 June 2004

**4. Profit from operations**

Profit from operations is arrived at after charging:

	<b>Six months ended 30 June</b>	
	<b>2004 (Unaudited) HK\$'000</b>	2003 (Unaudited) HK\$'000
Depreciation of property, plant and equipment	<b>12,556</b>	12,150
Amortisation of land use rights (included in cost of sales)	<b>386</b>	307
Amortisation of goodwill (included in other operating expenses)	<b>1,111</b>	–
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Total depreciation and amortisation	<b>14,053</b>	12,457
Loss on disposal of property, plant and equipment	–	4
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**5. Finance costs**

	<b>Six months ended 30 June</b>	
	<b>2004 (Unaudited) HK\$'000</b>	2003 (Unaudited) HK\$'000
Interest expenses on:		
Bank and other borrowings wholly repayable within five years	<b>1,520</b>	771
Obligations under finance leases wholly repayable within five years	<b>24</b>	36
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	<b>1,544</b>	807
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**NOTES TO THE CONDENSED FINANCIAL STATEMENTS (continued)**

For the six months ended 30 June 2004

**6. Income tax expense**

	<b>Six months ended 30 June</b>	
	<b>2004</b>	2003
	<b>(Unaudited)</b>	(Unaudited)
	<b>HK\$'000</b>	HK\$'000
The charge comprises:		
The People's Republic of China (the "PRC") Enterprise Income Tax	<b>3,402</b>	3,682
Deferred taxation	<b>(160)</b>	249
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Taxation attributable to the Company and its subsidiaries	<b>3,242</b>	3,931
Share of taxation attributable to a jointly controlled entity	<b>428</b>	623
Share of taxation attributable to an associate	<b>320</b>	313
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	<b>3,990</b>	4,867
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No tax is payable on the profit for the period arising in Hong Kong since the assessable profit is wholly absorbed by tax losses brought forward.

No provision for Hong Kong Profits Tax was made in the condensed financial statements as the Group did not have any assessable profits for the six months ended 30 June 2003.

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



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

For the six months ended 30 June 2004

**7. Dividends**

	<b>Six months ended</b>	
	<b>30 June</b>	
	<b>2004</b>	2003
	<b>(Unaudited)</b>	(Unaudited)
	<b>HK\$'000</b>	HK\$'000
Ordinary shares:		
Final dividend paid – HK2.0 cents per share (2003: Nil)	<b>20,351</b>	–

The directors have declared that an interim dividend of HK2.0 cents per share in cash with a scrip option (2003: HK1.5 cents per share in cash) should be paid to the shareholders of the Company whose names appear in the Register of Members on 15 October 2004.

**8. Earnings per share**

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

	<b>Six months ended</b>	
	<b>30 June</b>	
	<b>2004</b>	2003
	<b>(Unaudited)</b>	(Unaudited)
	<b>HK\$'000</b>	HK\$'000
<b>Earnings</b>		
Earnings for the purposes of basic and diluted earnings per share (net profit for the period)	<b>44,412</b>	28,233



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

For the six months ended 30 June 2004

**8. Earnings per share (continued)**

	Six months ended 30 June	
	2004	2003
<b>Number of shares</b>		
Weighted average number of ordinary shares for the purpose of basic earnings per share	<b>1,020,182,000</b>	766,424,000
Effect of dilutive potential ordinary shares:		
Share options	<b>117,170,000</b>	6,936,000
Weighted average number of ordinary shares for the purpose of diluted earnings per share	<b>1,137,352,000</b>	773,360,000

**9. Movements in property, plant and equipment**

During the period, the Group acquired property, plant and equipment amounted to approximately HK\$146,635,000 (including an amount transferred from deposits paid for the acquisitions of property, plant and equipment totalling HK\$25,541,000) in order to expand its production capacity.

**10. Trade receivables**

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

The following is an aged analysis of trade receivables:

	30 June 2004 (Unaudited) HK\$'000	31 December 2003 (Audited) HK\$'000
0 – 90 days	79,248	52,470
91 – 180 days	2,844	1,071
Over 180 days	–	57
	<b>82,092</b>	53,598



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

For the six months ended 30 June 2004

**11. Trade payables**

The following is an aged analysis of trade payables:

	<b>30 June 2004 (Unaudited) HK\$'000</b>	31 December 2003 (Audited) HK\$'000
0 – 90 days	<b>4,596</b>	6,937
91 – 180 days	<b>537</b>	37
Over 180 days	<b>985</b>	975
	<b><u>6,118</u></b>	<u>7,949</u>

**12. Bank borrowings**

During the period, the Group obtained new bank loans of approximately HK\$147,659,000. The loans bear interest at floating interest rates and are repayable over a period of three years. The funds were used to finance the acquisition of property, plant and equipment for the expansion and upgrading of the Group's manufacturing facilities and for general working capital.

**13. Share capital**

Ordinary shares of HK\$0.10 each

	<b>Number of shares</b>	<b>Share capital HK\$'000</b>
Authorised:		
At 1 January 2004 and 30 June 2004	<u>2,000,000,000</u>	<u>200,000</u>
Issued and fully paid:		
At 1 January 2004	1,019,580,000	101,958
Exercise of share options ( <i>Note i</i> )	3,478,000	348
Shares repurchased and cancelled ( <i>Note ii</i> )	<u>(5,500,000)</u>	<u>(550)</u>
At 30 June 2004	<u>1,017,558,000</u>	<u>101,756</u>





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

For the six months ended 30 June 2004

**13. Share capital (continued)***Notes:*

- (i) During the period, 3,478,000 ordinary shares of HK\$0.10 each in the Company were issued upon the exercise of 3,478,000 share options at subscription prices ranging from HK\$0.295 to HK\$0.325 per share. All the shares issued during the period rank pari passu with the then existing shares in all aspects.
- (ii) During the period, the Company repurchased an aggregate of 5,500,000 ordinary shares of the Company on The Stock Exchange of Hong Kong Limited. The total consideration for the repurchases amounted to approximately HK\$4,256,000. The above shares were cancelled and destroyed upon repurchase and accordingly the issued share capital of the Company was reduced by the nominal value of these shares.

**14. Capital commitments**

	<b>30 June 2004 (Unaudited) HK\$'000</b>	31 December 2003 (Audited) HK\$'000
Capital expenditure in respect of the acquisition of property, plant and equipment contracted for but not provided in the financial statements	<b>26,250</b>	126,210
Capital expenditure in respect of the acquisition of property, plant and equipment authorised but not contracted for	<b>16,400</b>	54,250

**15. Contingent liabilities**

As at 30 June 2004, the Group has given guarantees amounting to approximately HK\$10,721,000 (31 December 2003: HK\$10,721,000) for bank loans granted to a jointly controlled entity.



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

For the six months ended 30 June 2004

**16. Related party transactions**

During the period, the Group had the following transactions with Shougang Concord International Enterprises Company Limited (“Shougang International”) and its subsidiaries (collectively the “Shougang International Group”), Shougang Holding (Hong Kong) Limited (“Shougang HK”) and its subsidiaries (collectively the “Shougang HK Group”) and a jointly controlled entity. Both Shougang International and Shougang HK are the substantial shareholders of the Company and Shougang HK is the holding company of Shougang International.

		<b>Six months ended 30 June</b>	
	<i>Notes</i>	<b>2004 (Unaudited) HK\$'000</b>	2003 (Unaudited) HK\$'000
Consultancy fees paid to Shougang HK Group	<i>(i)</i>	<b>480</b>	240
Management fees paid to Shougang International Group	<i>(i)</i>	–	120
Rental expenses paid to Shougang HK Group	<i>(ii)</i>	<b>456</b>	484
Corporate guarantees given to a jointly controlled entity	<i>(iii)</i>	<b>10,721</b>	22,384

*Notes:*

- (i) The Group paid consultancy fees to Shougang HK Group and paid management fees to Shougang International Group in relation to business and strategic development services provided at rates determined between both parties. The management service contract with Shougang International Group was terminated during the period.
- (ii) The Group paid rental expenses to Shougang HK Group for the leasing of properties in Hong Kong as office premises and staff quarters. The rental was calculated by reference to market rentals.
- (iii) The Group has executed corporate guarantees for bank loans granted to a jointly controlled entity to finance its working capital. These guarantees were provided in proportion to the Group’s equity interest in the jointly controlled entity and are normally renewable on an annual basis.

