

NOTES TO
FINANCIAL STATEMENTS (CONT'D)

31 December 2000

20. OTHER PAYABLES

	Group	
	2000	1999
	HK\$'000	HK\$'000
Accruals and other liabilities	75,178	76,953
Due to minority shareholders	187,994	80,674
	<u>263,172</u>	<u>157,627</u>

The amounts due to minority shareholders are unsecured, interest-free and have no fixed terms of repayment.

21. INTEREST-BEARING BANK LOANS

	Group	
	2000	1999
	HK\$'000	HK\$'000
Current portion of bank loans (see note 22)	<u>21,393</u>	<u>21,395</u>

22. INTEREST-BEARING BANK LOANS

	Group	
	2000	1999
	HK\$'000	HK\$'000
Bank loans:		
Secured	167	250
Unsecured	<u>21,310</u>	<u>21,312</u>
	<u>21,477</u>	<u>21,562</u>
Bank loans repayable:		
Within one year – note 21	21,393	21,395
In the second year	84	83
In the third to fifth years, inclusive	<u>—</u>	<u>84</u>
	<u>21,477</u>	<u>21,562</u>

The Group's secured loan of HK\$167,000 (1999:HK\$250,000) is secured by certain of the Group's land and buildings (see note 11).

NOTES TO FINANCIAL STATEMENTS (CONT'D)

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23. SHARE CAPITAL

	2000 HK\$'000	1999 HK\$'000
<i>Authorised:</i>		
20,000,000,000 (1999: 2,000,000,000) ordinary shares of HK\$0.01 (1999: HK\$0.10) each	<u>200,000</u>	<u>200,000</u>
<i>Issued and fully paid:</i>		
1,315,000,000 (1999: 1,096,536,000) ordinary shares of HK\$0.01 (1999: HK\$0.10) each	<u>13,150</u>	<u>109,654</u>

1999

Pursuant to a directors' meeting on 6 July 1999, an aggregate of 156,000,000 new shares of HK\$0.10 each were allotted to the then existing shareholders at that date and were issued at HK\$0.15 per share for an aggregate cash consideration of approximately HK\$23,400,000, less share issuing expenses of HK\$390,000.

Pursuant to a directors' meeting on 23 November 1999, an aggregate of 156,000,000 new shares of HK\$0.10 each were allocated to a then existing shareholder and were issued at HK\$0.102 per share for an aggregate cash consideration of approximately HK\$15,912,000, less share issuing expenses of HK\$570,000.

2000

Pursuant to a special resolution of shareholders on 14 February 2000, the nominal value of the Company's issued and unissued shares was reduced from HK\$0.10 per share to HK\$0.01 per share. The authorised capital of HK\$200,000,000, divided into 2,000,000,000 shares of HK\$0.10 per share, was reduced to HK\$20,000,000 divided into 2,000,000,000 shares of HK\$0.01 each. Immediate thereafter, the authorised share capital of the Company was then increased to HK\$200,000,000 by the creation of an additional 18,000,000,000 shares of HK\$0.01 each. The issued capital of HK\$109,653,600 was reduced by HK\$98,688,240 to HK\$10,965,360 as a result of the change in par value of the shares in issue. The credit of HK\$98,688,240 arising from the reduction of issue capital was eliminated against the accumulated losses of the Company.

Pursuant to a directors' meeting on 19 February 2000, the Company placed 218,464,000 shares of HK\$0.01 each at HK\$0.28 per share for an aggregate cash consideration of approximately HK\$61,170,000, less share issue expenses of HK\$1,824,000.

NOTES TO FINANCIAL STATEMENTS (CONT'D)

31 December 2000

23. SHARE CAPITAL (continued)

The movements in the issued share capital during the year were as follows:

	Number of shares	Par value HK\$	Total HK\$'000
At 1 January 1999	784,536,000	0.10	78,454
New issue on 6 July 1999	156,000,000	0.10	15,600
New issue on 23 November 1999	156,000,000	0.10	15,600
At 31 December 1999 and 1 January 2000	1,096,536,000	0.10	109,654
Capital reduction arising from change of par value from HK\$0.10 per share to HK\$0.01 per share	—	—	(98,688)
New issue on 19 February 2000	218,464,000	0.01	2,184
At 31 December 2000	1,315,000,000		13,150

Share option scheme

The Company adopted a share option scheme which was approved by the shareholders on 8 March 1993. Under the scheme, the directors may, at their discretion, at any time during the ten years from the date of approval of the scheme, grant to directors and employees of the Group options to subscribe for shares in the share capital of the Company. The share subscription price of any options granted under the scheme will be the higher of 80% of the average of the closing price of the Company's shares on The Stock Exchange of Hong Kong Limited for the five trading days immediately preceding the date on which an option is granted and the nominal value of the shares. The maximum number of shares over which options may be granted may not exceed 10% of the ordinary share capital in issue from time to time, excluding those shares which have been issued under the scheme.

Pursuant to a directors' resolution passed on 7 February 1998, options to subscribe for an aggregate of 58,500,000 shares in the Company within ten years from the date of grant, at a subscription price of HK\$0.112 per share, were granted by the Company. No share options have been exercised by the grantees. The exercise in full of such share options would, under the present capital structure of the Company, result in the issue of 58,500,000 additional ordinary shares and in cash proceeds, before share issue expenses, to the Company of HK\$6,552,000.

NOTES TO FINANCIAL STATEMENTS (CONT'D)

31 December 2000

24. RESERVES

	Share premium account <i>HK\$'000</i>	Capital redemption reserve <i>HK\$'000</i>	Contributed surplus <i>HK\$'000</i>	Exchange fluctuation reserve <i>HK\$'000</i>	Accumulated losses <i>HK\$'000</i>	Total <i>HK\$'000</i>
Group						
At 1 January 1999	333,861	546	—	5,105	(202,789)	136,723
Arising on allotment of share capital	8,112	—	—	—	—	8,112
Share issue expenses	(960)	—	—	—	—	(960)
Profit for the year	—	—	—	—	5,921	5,921
At 31 December 1999 and 1 January 2000	341,013	546	—	5,105	(196,868)	149,796
Arising on allotment of share capital	58,986	—	—	—	—	58,986
Share issue expenses	(1,824)	—	—	—	—	(1,824)
Arising from capital reduction	—	—	—	—	98,688	98,688
Loss for the year	—	—	—	—	(104,581)	(104,581)
At 31 December 2000	398,175	546	—	5,105	(202,761)	201,065
Company						
At 1 January 1999	333,861	546	88,380	—	(219,146)	203,641
Arising on allotment of share capital	8,112	—	—	—	—	8,112
Share issue expenses	(960)	—	—	—	—	(960)
Loss for the year	—	—	—	—	(21,661)	(21,661)
At 31 December 1999 and 1 January 2000	341,013	546	88,380	—	(240,807)	189,132
Arising on allotment of share capital	58,986	—	—	—	—	58,986
Share issue expenses	(1,824)	—	—	—	—	(1,824)
Arising from capital reduction	—	—	—	—	98,688	98,688
Loss for the year	—	—	—	—	(144,230)	(144,230)
At 31 December 2000	398,175	546	88,380	—	(286,349)	200,752

NOTES TO FINANCIAL STATEMENTS (CONT'D)

31 December 2000

24. RESERVES (continued)

Losses are retained in the Group as follows:

Company and subsidiaries
Associate

2000	1999
HK\$'000	HK\$'000
202,505	196,765
256	103
202,761	196,868

The Company's contributed surplus represents the difference arising between the nominal value of the Company's shares issued in exchange for the issued share capital of the subsidiaries and the value of the net assets of the subsidiaries acquired at the time of the Group's reorganisation in a prior year. Under the Companies Act 1981 of Bermuda (as amended), the contributed surplus is distributable to shareholders in certain circumstances prescribed by Section 54 thereof, which the Company is currently unable to satisfy.

25. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Reconciliation of loss from operating activities to net cash inflow from operating activities

	Group
	2000
	HK\$'000
	1999
	HK\$'000
Loss from operating activities	(133,568)
Recovery and reversal of doubtful debts previously provided	—
Gains on disposal of listed investments	(4,042)
Unrealised loss on listed investments	40,787
Gain on disposal of an unconsolidated subsidiary	(3,660)
Gain on disposal of an associate	—
Write back of customer claims provision	—
Write back of accounts payable	—
Loss on scrapping of fixed assets	22,632
Depreciation	26,192
Dividend income	(2,489)
Interest income	(7,298)
Decrease in value-added tax recoverable	—
Increase in interest in an unconsolidated subsidiary	—
Increase in inventories	(5,929)
Decrease/(increase) in trade and bills receivables	56,832
Decrease in prepayments, deposits and other receivables	28,871
Increase/(decrease) in trade and bills payables	(122,326)
Increase/(decrease) in other payables	105,545
Net cash inflow from operating activities	1,547

NOTES TO FINANCIAL STATEMENTS (CONT'D)

31 December 2000

25. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (continued)

(b) Analysis of changes in financing during the year

	Share capital and share premium account HK\$'000	Bank loans HK\$'000	Minority interests HK\$'000
At 1 January 1999	412,315	257,732	84,735
Shares issued for cash	39,312	—	—
Share issue expenses	(960)	—	—
Repayment of loans	—	(172,569)	—
Share of loss for the year	—	—	(27,140)
Arising from unconsolidation of a subsidiary	—	(63,601)	(5,186)
At 31 December 1999 and 1 January 2000	450,667	21,562	52,409
Shares issued for cash	61,170	—	—
Share issue expenses	(1,824)	—	—
Arising from capital reduction	(98,688)	—	—
New loans raised	—	21,310	—
Repayment of loans	—	(21,395)	—
Share of loss	—	—	(34,875)
At 31 December 2000	411,325	21,477	17,534

26. RELATED PARTY TRANSACTIONS

During the year, the following related party transactions were recorded:

- (1) The Group received rental income in the amount of HK\$115,000 (1999: HK\$231,000) from Alpha Japan Limited ("Alpha Japan"), the minority shareholder of a subsidiary of the Group.
- (2) The Group paid rental expenses in the amount of HK\$1,800,000 (1999: HK\$1,800,000) to Verywell Properties Limited, a wholly-owned subsidiary of Multifield International Holdings Limited ("MIHL"), a company controlled by Mr. Lau Chi Yung, Kenneth, a director and a substantial shareholder of the Company. The terms of the office rental was on a monthly renewal basis and were arrived at after negotiations between both parties with reference to the prevailing market rentals.

The independent non-executive directors of the Company have reviewed the details of the tenancy and confirmed that the transaction has been entered into on normal commercial terms that are fair and reasonable so far as the shareholders of the Company are concerned.

- (3) The Group paid management fees in the amount of HK\$960,000 (1999: HK\$890,000) to Multifield (Holdings) Limited, a wholly-owned subsidiary of MIHL for accountancy services provided during the year. The management fees were based on the direct costs incurred.
- (4) A subsidiary sold finished goods of HK\$4,841,000 (1999: HK\$5,638,000) to and purchased equipment parts of HK\$642,593 (1999: HK\$5,791,000) from Alpha Japan. These transactions were based on published prices and conditions normally offered by the Group to third party customers in the ordinary course of business of the Group.

NOTES TO FINANCIAL STATEMENTS (CONT'D)

31 December 2000

27. OPERATING LEASE COMMITMENTS

The Group and the Company had no significant commitments under non-cancellable operating leases at the balance sheet date (1999: Nil).

28. CAPITAL COMMITMENTS

The Group and the Company had no significant capital commitments at the balance sheet date (1999: Nil).

29. CONTINGENT LIABILITIES

As at 31 December 2000, the amount of guarantees given to banks in connection with facilities granted to subsidiaries by the Company was HK\$320,000,000 (1999: HK\$280,000,000).

30. POST BALANCE SHEET EVENT

Subsequent to 31 December 2000 and on 6 March 2001, the joint venture partner (the "JV partner") of Wuxi Xifeng Iron & Steel Company Limited ("Xifeng"), an operating subsidiary in the People's Republic of China (the "PRC"), applied for arbitration to the China International Economic and Trade Arbitration Commission for, among other things, the following significant matters (the "Arbitration"):

- (i) the termination of the joint venture agreement of Xifeng and winding up of Xifeng in accordance with the applicable legal regulations in the PRC on the grounds of the significant accumulated losses of Xifeng as at 31 December 2000. As a result, the Group and the JV partner would bear the accumulated losses according to their capital contribution ratios to Xifeng; and
- (ii) the charge by the JV partner of approximately Rmb21.2 million, equivalent to HK\$19.8 million of rental and utilities expenses claimed to be incurred by the JV partner for Xifeng during the years from 1994 to 2000.

The above charge of Rmb21.2 million had been charged to the Xifeng's current year profit and loss account. The directors of the Group consider that the Group has valid defences in the arbitration and therefore, the financial statements of Xifeng had been prepared on a going concern basis. Should the JV partner succeeded in the Arbitration, Xifeng may not be able to continue in business as a going concern and accordingly, adjustments would have to be made to restate the value of Xifeng's assets to their recoverable amounts, to provide for further liabilities which might arise and to reclassify non-current assets and long term liabilities as current.

31. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved by the board of directors on 20 April 2001.