



NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2001

1. BASIS OF PREPARATION AND ACCOUNTING POLICIES

The unaudited condensed consolidated interim financial statements are prepared in accordance with Statement of Standard Accounting Practice ("SSAP") No. 25 "Interim financial reporting" issued by the Hong Kong Society of Accountants, except that the comparative amounts for the condensed consolidated cash flow statement have not been presented as the Company has taken advantage of the transitional provision set out in the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

The accounting policies and basis of preparation adopted are the same as those used in the Group's audited financial statements for the year ended 31 December 2000 except that the Group has changed certain of its accounting policies following the adoption of the following new SSAPs issued by the Hong Kong Society of Accountants which are effective for accounting periods commenced on or after 1 January 2001:

SSAP 28:	Provisions, Contingent Liabilities and Contingent Assets
SSAP 29:	Intangible Assets
SSAP 30:	Business Combinations
SSAP 31:	Impairment of Assets
SSAP 32:	Consolidated Financial Statements and Accounting for Investments in Subsidiaries

The Group has complied with SSAP 14 (revised) "Leases" for the first time in this interim reporting period. As a result, total future minimum operating lease commitments are disclosed instead of annual operating lease commitments under non-cancellable operating leases. Figures for the year ended 31 December 2000 are extracted from the Group's audited financial statements for that year.

The prior period adjustment arising from the adoption of SSAP 30 is detailed in note 2 below.

Comparative amounts in respect of the condensed consolidated balance sheet for the year ended 31 December 2000 are extracted from the Group's audited financial statements for that year and adjusted in respect of the prior period adjustment as further explained in note 2 below.

2. PRIOR PERIOD ADJUSTMENT

Goodwill represents the excess of cost of an acquisition over the fair value of the Group's share of the net assets of the acquired subsidiary, associate or jointly controlled entity at the date of acquisition. In prior years, goodwill was eliminated against reserves in the year in which they arose. Following the introduction of SSAP 30, goodwill arising on acquisition on or after 1 January 2001 is capitalised as an intangible asset in the consolidated balance sheet and is amortised to the profit and loss account over its estimated useful life. Negative goodwill represents the excess, at the date of acquisition, of the Group's interest in the fair value of the identifiable net assets acquired over the cost of the acquisition. In prior years, negative goodwill was credited to capital reserve in the year in which it arose. Negative goodwill arising on acquisition on or after 1 January 2001 is capitalised in the consolidated balance sheet. To the extent that negative goodwill relates to expectations of the future operating losses and expenses that are identified in the plan for an acquisition and can be measured reliably, which do not represent identifiable liabilities at the date of acquisition, that portion of negative goodwill is recognised as income in the profit and loss account when the future losses and expenses are recognised. To the extent that negative goodwill does not relate to identifiable expected future losses and expenses at the date of acquisition, negative goodwill is recognised in the profit and loss account on a systematic basis over the remaining useful lives of the acquired depreciable/amortisable assets. The amount of any negative goodwill in excess of the fair values of the acquired non-monetary assets is recognised as income immediately.

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)****30 June 2001****2. PRIOR PERIOD ADJUSTMENT (continued)**

During the current period, the Group has elected to apply SSAP 30 retrospectively in respect of the goodwill on acquisition made before 1 January 2001, which is capitalised in the consolidated balance sheet and amortised to the profit and loss account over the estimated useful economic life of not exceeding eight years since the date of acquisition.

In restating the financial statements for 2000 on the basis of the new accounting policy, goodwill (net of negative goodwill) of HK\$1,022,000 is restated in the consolidated balance sheet as at 31 December 2000 and the net profit from ordinary activities attributable to shareholders for the six months ended 30 June 2000 decreased by HK\$1,789,000. The cumulative effect on prior periods was to increase the capital reserve and decrease the retained profits at 1 January 2000 by approximately HK\$53,690,000 and HK\$31,159,000, respectively.

3. SEGMENTED INFORMATION

An analysis of the Group's turnover and operating results by principal activity and geographical area of operations is as follows:

	For the six months ended 30 June			
	Turnover		Profit/(loss) from operating activities	
	2001	2000	2001	2000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Manufacture and sale of telephone cords and accessories, power cords, adaptors and electronic products	146,901	209,790	(3,351)	11,562
Manufacture and sale of printed circuit boards	74,706	86,660	(1,588)	3,838
Manufacture and sale of high precision components for computers	20,326	17,070	801	(5,439)
Freight forwarding and delivery services	13,769	20,284	(1,215)	(831)
Utility recharges	4,301	4,720	613	781
Gross rental income	1,032	1,109	836	762
	261,035	339,633	(3,904)	10,673

By principal activity:



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3. SEGMENTED INFORMATION (continued)

	For the six months ended 30 June			
	Turnover		Profit/(loss) from operating activities	
	2001	2000	2001	2000
	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000
By geographical area:				
The People's Republic of China ("PRC"):				
Hong Kong SAR	129,697	172,457	(151)	4,995
Elsewhere ("Mainland China")	43,800	58,979	(5,033)	(913)
Europe	34,339	51,602	410	4,609
Australia	20,887	18,319	276	1,053
North America	15,854	20,441	230	1,883
Other Asian countries	15,524	14,534	348	(1,329)
United Arab Emirates	934	3,301	16	375
	261,035	339,633	(3,904)	10,673

4. OTHER REVENUE

	For the six months ended 30 June	
	2001	2000
	(Unaudited) HK\$'000	(Unaudited) HK\$'000
Interest income	1,195	1,339
Proceeds from scrap sales	1,916	2,819
Moulding and tooling income	398	469
Others	1,877	5,940
	5,386	10,567

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)****30 June 2001****5. PROFIT/(LOSS) FROM OPERATING ACTIVITIES**

The Group's profit/(loss) from operating activities was arrived at after charging/(crediting):

	For the six months ended 30 June	
	2001	2000
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Depreciation	23,133	23,815
Amortisation of other intangible assets	1,268	2,041
Amortisation of goodwill	1,362	1,959
Negative goodwill recognised	(340)	(170)
	<u>25,423</u>	<u>27,645</u>

6. FINANCE COSTS

	For the six months ended 30 June	
	2001	2000
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Interest expenses on:		
Bank loans and overdrafts wholly repayable within five years	2,162	3,017
Finance leases	12	168
	<u>2,174</u>	<u>3,185</u>

7. TAX

	For the six months ended 30 June	
	2001	2000
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Group:		
Provision for the period:		
Hong Kong	63	574
Elsewhere	–	667
	<u>63</u>	<u>1,241</u>
Tax charge for the period	63	1,241



NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

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7. TAX (continued)

Hong Kong profits tax has been provided at the rate of 16% (2000: 16%) on the estimated assessable profits arising in Hong Kong during the period. Taxes on profits assessable elsewhere have been calculated at the rates prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

8. EARNINGS/(LOSS) PER SHARE

The calculation of the basic loss per share for the six months ended 30 June 2001 is based on the net loss from ordinary activities attributable to shareholders for the period of HK\$4,125,000 (six months ended 30 June 2000: net profit of HK\$15,093,000 (restated)) and the weighted average number of 798,926,871 (six months ended 30 June 2000: 797,648,280) ordinary shares in issue during the period.

As the exercise price of the Company's share options was higher than the average market price of the Company's shares during the six months ended 30 June 2001, there was no dilution effect on the basic loss per share for the period.

The calculation of diluted earnings per share for the six months ended 30 June 2000 is based on the net profit attributable to shareholders for the period of HK\$15,093,000 (restated). The weighted average number of ordinary shares used in the calculation is 797,648,280 ordinary shares in issue during that period, as used in the basic earnings per share calculation, and the weighted average of 2,666,746 ordinary shares assumed to have been issued at no consideration on the deemed exercise of all share options outstanding during that period.

9. DIVIDEND PER SHARE

At a meeting of the board of directors held on 20 September 2001, the directors have resolved not to pay an interim dividend to shareholders for the six months ended 30 June 2001 (six months ended 30 June 2000: Nil).

10. LONG TERM INVESTMENT

	30 June 2001 (Unaudited) HK\$'000	31 December 2000 (Audited) HK\$'000
Unlisted equity investment, at cost	35,841	35,841
Less: Provision for impairment in value	(28,384)	(28,384)
	7,457	7,457

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)****30 June 2001****11. TRADE AND BILLS RECEIVABLES**

The aged analysis of trade and bills receivables is as follows:

	30 June		31 December	
	2001		2000	
	Balance	Percentage	Balance	Percentage
	(Unaudited)	(Unaudited)	(Audited)	(Audited)
	HK\$'000	%	HK\$'000	%
0-90 days	119,826	84	124,267	79
91-180 days	17,685	12	18,629	12
181-365 days	3,639	3	12,005	8
1-2 years	261	–	1,286	1
Over 2 years	1,462	1	803	–
	<u>142,873</u>	<u>100</u>	<u>156,990</u>	<u>100</u>

Trading terms with customers are principally on credit, except for new customers, when cash on delivery is normally required. Invoices are normally payable within 60 days of issuance, except for certain well established customers, when the terms are extended to 90 days. Each customer has a designated credit limit.

12. TRADE AND BILLS PAYABLES

The aged analysis of trade and bills payables is as follows:

	30 June		31 December	
	2001		2000	
	Balance	Percentage	Balance	Percentage
	(Unaudited)	(Unaudited)	(Audited)	(Audited)
	HK\$'000	%	HK\$'000	%
0-90 days	38,381	83	50,944	91
91-180 days	3,296	7	4,232	8
181-365 days	4,100	9	640	1
1-2 years	331	1	107	–
Over 2 years	299	–	307	–
	<u>46,407</u>	<u>100</u>	<u>56,230</u>	<u>100</u>



NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

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13. SHARE CAPITAL

	30 June 2001 (Unaudited) HK\$'000	31 December 2000 (Audited) HK\$'000
<i>Authorised:</i>		
2,000,000,000 ordinary shares of HK\$0.25 each	<u>500,000</u>	<u>500,000</u>
<i>Issued and fully paid:</i>		
802,673,280 (2000: 798,323,280) ordinary shares of HK\$0.25 each	<u>200,668</u>	<u>199,581</u>

A summary of the movements in the ordinary share capital of the Company during the period is as follows:

	Number of ordinary shares (Unaudited)	Issued and fully paid (Unaudited) HK\$'000
As at 1 January 2001	798,323,280	199,581
Issue of new shares at a cash subscription price of HK\$0.418 per share	<u>4,350,000</u>	<u>1,087</u>
As at 30 June 2001	<u>802,673,280</u>	<u>200,668</u>

Share options

On 30 June 1998, the Company adopted a share option scheme (the "Scheme") under which the directors may, at their discretion, grant options to directors and employees of the Company and its subsidiaries to subscribe for shares in the Company. The maximum number of shares issued upon exercise of options granted under the Scheme may not exceed 10% of the share capital of the Company in issue from time to time (excluding the shares issued upon exercise of options granted pursuant to the Scheme). The Scheme will remain in force for a period of 10 years from 23 December 1998 to 22 December 2008.

On 1 January 2001, the Company had 13,600,000 outstanding share options. The share options entitle the option holders to exercise and convert the options into the Company's ordinary shares of HK\$0.25 each at an exercise price of HK\$0.418 per share during the period from 3 January 2000 or the date of acceptance of offer (whichever is later) to 31 December 2001.

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)****30 June 2001****13. SHARE CAPITAL (continued)**

A total of 4,350,000 share options were exercised and 450,000 share options lapsed during the period.

As at 30 June 2001, the Company had 8,800,000 outstanding share options. The exercise in full of the remaining share options would, under the present capital structure of the Company, result in the issue of 8,800,000 additional ordinary shares of HK\$0.25 each and gross cash proceeds, before the related issue expenses, of approximately HK\$3,678,000.

14. RESERVES

	Share premium account (Unaudited) HK\$'000	Capital redemption reserve (Unaudited) HK\$'000	Capital reserve (Unaudited) HK\$'000	Reserve funds - note (Unaudited) HK\$'000	Exchange fluctuation reserve (Unaudited) HK\$'000	Retained profits (Unaudited) HK\$'000	Total (Unaudited) HK\$'000
At 1 January 2001							
As previously reported	244,258	2,084	-	714	(8,064)	112,776	351,768
Prior period adjustment - note 2	-	-	53,690	-	-	(52,668)	1,022
As restated	244,258	2,084	53,690	714	(8,064)	60,108	352,790
Issue of shares	731	-	-	-	-	-	731
Exchange realignments	-	-	-	-	39	-	39
Net loss for the period	-	-	-	-	-	(4,125)	(4,125)
At 30 June 2001	<u>244,989</u>	<u>2,084</u>	<u>53,690</u>	<u>714</u>	<u>(8,025)</u>	<u>55,983</u>	<u>349,435</u>

Note: Pursuant to the relevant laws and regulations for Sino-foreign venture enterprises, a portion of the profits of a subsidiary of the Group established in Mainland China has been transferred to reserve funds which are restricted as to their use.



NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

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15. COMMITMENTS

- (i) At the balance sheet date, the Group had the following material capital commitments:

	30 June 2001 (Unaudited) HK\$'000	31 December 2000 (Audited) HK\$'000
Contracted, but not provided for	3,098	8,211

- (ii) At the balance sheet date, the Group had commitments under non-cancellable operating leases in respect of land and buildings as follows:

	30 June 2001 (Unaudited) Total commitments HK\$'000	31 December 2000 (Audited) Annual commitments HK\$'000
Leases expiring:		
Within one year	6,144	2,463
In the second and fifth years, inclusive	4,759	5,543
	10,903	8,006

- (iii) The Group's share of capital commitments of a jointly controlled entity is as follows:

	30 June 2001 (Unaudited) HK\$'000	31 December 2000 (Audited) HK\$'000
Contracted, but not provided for	2,397	1,678

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)****30 June 2001****16. CONTINGENT LIABILITIES**

- (i) At the balance sheet date, the Group had the following material contingent liabilities:

	30 June 2001 (Unaudited) HK\$'000	31 December 2000 (Audited) HK\$'000
Discounted bills with recourse	4,745	5,680
Guarantees for banking facilities granted to a jointly controlled entity	78,283	92,858
Guarantees for finance lease contracts granted to a jointly controlled entity	364	6,049
	83,392	104,587

- (ii) At 30 June 2001, there was a claim for damages of approximately HK\$1,651,000 relating to defective products against a subsidiary of the Company. The Group's insurer is currently assessing the claim. No provision had been made at 30 June 2001 in respect of the claim as management believes that the claim is ultimately covered by the Group's insurance policy.

17. RELATED PARTY TRANSACTIONS

During the period, the Group entered into the following related party transactions with its jointly controlled entity, and Shougang Concord International Enterprises Company Limited ("Shougang International"), the controlling shareholder of the Company, and Shougang International's subsidiaries, associates and controlling shareholder.

		For the six months ended 30 June	
		2001 (Unaudited) HK\$'000	2000 (Unaudited) HK\$'000
	<i>Notes</i>		
Management fees paid to related companies	<i>(i)</i>	480	480
Management fees paid to the controlling shareholder	<i>(ii)</i>	360	360
Rentals paid to related companies	<i>(iii)</i>	564	640
Sales to a jointly controlled entity	<i>(iv)</i>	5,667	5,471
Utility expenses charged to a jointly controlled entity	<i>(v)</i>	5,352	5,776
Utility expenses charged to a related company	<i>(v)</i>	43	259
Purchases from a jointly controlled entity	<i>(vi)</i>	11,121	15,112



NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

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17. RELATED PARTY TRANSACTIONS (continued)

Notes:

- (i) Management fees of HK\$480,000 for the period were paid to Shougang Holding (Hong Kong) Limited for the provision of management services to the Group at rates determined between both parties.
- (ii) Management fees of HK\$120,000 and HK\$240,000 for the period were paid to Shougang Concord Grand (Group) Limited and Shougang International, respectively, for the provision of management services to the Group at rates determined between the parties.
- (iii) Rentals were determined by reference to the prevailing market rentals.
- (iv) Sales to a jointly controlled entity were made according to the published prices and conditions offered to the major customers of the Group.
- (v) Utility expenses charged to a jointly controlled entity and a related company related to the recharge of certain utility costs incurred by them. The recharge was based on the prevailing market rates or actual costs incurred.
- (vi) Purchases from a jointly controlled entity were made according to the published prices and conditions offered by similar suppliers to the Group.

18. PLEDGE OF ASSETS

At 30 June 2001, the Group's leasehold land and buildings and investment properties with an aggregate carrying value of HK\$26,998,000 (31 December 2000: HK\$27,033,000) and the Group's inventories with a carrying amount of HK\$38,807,000 (31 December 2000: HK\$51,707,000) were pledged to banks to secure banking facilities granted to the Group.

19. APPROVAL OF THE INTERIM FINANCIAL STATEMENTS

These interim financial statements were approved by the board of directors on 20 September 2001.