

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. STATEMENT OF COMPLIANCE AND ACCOUNTING POLICIES

The condensed interim financial statements have been prepared in accordance with the Statement of Standard Accounting Practice (“SSAP”) No. 25 “Interim Financial Reporting” issued by the Hong Kong Society of Accountants and Appendix 16 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (“Listing Rules of the Stock Exchange”).

The accounting policies and basis of preparation used in the preparation of the condensed interim financial statements are the same as those used in the annual financial statements for the year ended 31 December 2000.

2. COMPARATIVE CASH FLOW STATEMENT

No comparative figures have been presented for the condensed consolidated cash flow statement, being the first consolidated cash flow statement included in the interim report relating to accounting period ended on or after 1 July 2000.

3. TURNOVER AND OTHER REVENUE

Turnover represents the invoiced value of goods sold, net of discounts and returns. An analysis of turnover and revenue is as follows:

	For the six months ended 30 June	
	2001 (Unaudited) HK\$'000	2000 (Unaudited) HK\$'000
Turnover	635,296	663,219
Other revenue:		
Interest income	1,703	2,516
Gain on disposal of listed investments	1,963	5,222
Unrealised gain on listed investments	8,917	—
Dividend income from unlisted investments	260	593
Sales of scrap and raw materials	10,637	6,264
Others	143	259
Total turnover and other revenue	<u>658,919</u>	<u>678,073</u>

3. TURNOVER AND REVENUE *(Continued)*

An analysis of the Group's turnover and contribution to loss from operating activities by principal activity and geographical segment of operations for the period ended 30 June 2001 is as follows:

(i) Turnover by principal activity

	For the six months ended 30 June	
	2001	2000
	<i>(Unaudited)</i>	<i>(Unaudited)</i>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Steel trading	214,266	432,206
Steel manufacturing	410,162	219,503
Electronic products	10,868	11,510
Total	635,296	663,219

(ii) Turnover by geographical segment

	For the six months ended 30 June	
	2001	2000
	<i>(Unaudited)</i>	<i>(Unaudited)</i>
	<i>HK\$'000</i>	<i>HK\$'000</i>
The People's Republic of China:		
Hong Kong	1,060	5,181
Elsewhere	417,569	225,179
Thailand	214,266	432,206
Others	2,401	653
Total	635,296	663,219

(iii) Contribution to loss from operating activities by principal activity

	For the six months ended 30 June	
	2001	2000
	<i>(Unaudited)</i>	<i>(Unaudited)</i>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Steel trading	9,306	7,548
Steel manufacturing	(37,122)	(20,724)
Electronic products	2,170	1,579
	(25,646)	(11,597)
Other Group expenses net of other income	7,402	(35,647)
	(18,244)	(47,244)

3. TURNOVER AND REVENUE *(Continued)*

(iv) Contribution to loss from operating activities by geographical segment

	For the six months ended 30 June	
	2001	2000
	<i>(Unaudited)</i> HK\$'000	<i>(Unaudited)</i> HK\$'000
The People's Republic of China:		
Hong Kong	7,318	(46,376)
Elsewhere	(35,678)	(21,636)
Thailand	9,647	20,116
Others	469	652
Total	(18,244)	(47,244)

4. LOSS FROM OPERATING ACTIVITIES

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

	For the six months ended 30 June	
	2001	2000
	<i>(Unaudited)</i> HK\$'000	<i>(Unaudited)</i> HK\$'000
Cost of inventories sold	648,078	650,771
Depreciation of fixed assets	4,927	3,406
Operating lease rentals:		
Land and buildings	1,392	2,116
Auditors' remuneration:		
Current year's provision	602	289
Unrealised loss/(gain) on listed investments	(8,917)	35,851
Exchange loss/(gain), net	(986)	75

5. TAXATION

	For the six months ended 30 June	
	2001	2000
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Hong Kong and the PRC:		
Provision for the year	—	—
Overprovision in prior years	(3,160)	(6,083)
Elsewhere	—	—
	<u>—</u>	<u>—</u>
Tax credit for the year	<u>(3,160)</u>	<u>(6,083)</u>

No provision for Hong Kong tax has been made as the Group had no assessable profit during the period (2000: Nil).

No provision for overseas tax has been made in respect of the subsidiaries in the PRC nor other overseas subsidiaries as these subsidiaries had no assessable profits.

6. LOSS PER SHARE

The calculation of loss per share is based on the net loss for the period attributable to shareholders of HK\$1,445,000 (2000: net loss of HK\$33,614,000) and the weighted average of 1,368,867,404 (2000: 1,240,578,198) shares in issue during the period under review.

Diluted loss per share reflecting the exercise of subscription rights under the share options granted pursuant to the Company's Share Option Scheme is not presented because the impact is anti-dilutive.

7. INTERIM DIVIDEND

The directors of the Company do not recommend the payment of an interim dividend in respect of the six months ended 30 June 2001 (2000: Nil).

8. TRADE AND BILLS RECEIVABLES

	As at 30 June 2001 <i>(Unaudited)</i> <i>HK\$'000</i>	As at 31 December 2000 <i>(Audited)</i> <i>HK\$'000</i>
Accounts receivable	77,104	85,246
Less: Provisions for doubtful debts	<u>(5,318)</u>	<u>(11,805)</u>
	71,786	73,441
Bills receivables	<u>145,581</u>	<u>12,153</u>
	<u><u>217,367</u></u>	<u><u>85,594</u></u>

The aged analysis of accounts receivable is as follows:

	As at 30 June 2001 <i>(Unaudited)</i> <i>HK\$'000</i>	As at 31 December 2000 <i>(Audited)</i> <i>HK\$'000</i>
Aged:		
Within three months	19,732	69,994
Within four to six months	26,750	2,089
Within seven months to one year	<u>25,304</u>	<u>1,358</u>
	<u><u>71,786</u></u>	<u><u>73,441</u></u>

Trading terms with customers are largely on credit. Invoices are normally payable within two months of issuance, except for certain well established customers, where the terms are extended to three months to six months in some cases, subject to the approval of senior management. The Group seeks to maintain strict control over its outstanding receivables and has a credit control policy to minimise credit risk. Overdue balances are regularly reviewed by senior management.

The aged analysis of bills receivable is as follows:

	As at 30 June 2001 <i>(Unaudited)</i> <i>HK\$'000</i>	As at 31 December 2000 <i>(Audited)</i> <i>HK\$'000</i>
Aged:		
Within three months	93,674	7,303
Within four to six months	39,039	4,850
Within seven months to one year	<u>12,868</u>	<u>—</u>
	<u><u>145,581</u></u>	<u><u>12,153</u></u>

9. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	As at 30 June 2001 (Unaudited) HK\$'000	As at 31 December 2000 (Audited) HK\$'000
Cash and bank balances	55,752	90,264
Time deposits	7,355	30,716
Pledged deposits	22,661	4,890
	<u>85,768</u>	<u>125,870</u>

Certain time deposits of HK\$22,661,000 (2000: HK\$4,890,000) were pledged as security for banking facilities granted.

10. TRADE AND BILLS PAYABLES

	As at 30 June 2001 (Unaudited) HK\$'000	As at 31 December 2000 (Audited) HK\$'000
Trade payables	40,256	36,965
Bills payable	211,288	—
	<u>251,544</u>	<u>36,965</u>

The Group's aged analysis of trade payable is as follows:

	As at 30 June 2001 (Unaudited) HK\$'000	As at 31 December 2000 (Audited) HK\$'000
Aged:		
Within three months	29,035	34,548
Within four to six months	8,565	477
Within seven months to one year	—	496
Over one year	2,656	1,444
	<u>40,256</u>	<u>36,965</u>

10. TRADE AND BILLS PAYABLES *(Continued)*

The Group's aged analysis of bills payable is as follows:

	As at 30 June 2001 <i>(Unaudited)</i> <i>HK\$'000</i>	As at 31 December 2000 <i>(Audited)</i> <i>HK\$'000</i>
Aged:		
Within three months	168,670	—
Within four to six months	42,618	—
	<u>211,288</u>	<u>—</u>

11. SHARE CAPITAL

	As at 30 June 2001 <i>(Unaudited)</i> <i>HK\$'000</i>	As at 31 December 2000 <i>(Audited)</i> <i>HK\$'000</i>
<i>Authorised:</i>		
20,000,000,000 ordinary shares of HK\$0.01 each	<u>200,000</u>	<u>200,000</u>
<i>Issued and fully paid:</i>		
1,565,000,000 (2000: 1,315,000,000) ordinary shares of HK\$0.01 each	<u>15,650</u>	<u>13,150</u>

Pursuant to a directors' meeting on 8 May 2001, the Company placed 250,000,000 shares of HK\$0.01 each at HK\$0.06 per share for an aggregate cash consideration of HK\$15,000,000.

12. RESERVES

	Share premium account <i>HK\$'000</i>	Capital redemption reserve <i>HK\$'000</i>	Exchange fluctuation reserve <i>HK\$'000</i>	Accumulated losses <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 January 2001 (audited)	398,175	546	5,105	(202,761)	201,065
Arising on allotment of share capital	12,500	—	—	—	12,500
Share issue expenses	(167)	—	—	—	(167)
Loss for the period	—	—	—	(1,445)	(1,445)
	<u>410,508</u>	<u>546</u>	<u>5,105</u>	<u>(204,206)</u>	<u>211,953</u>
At 30 June 2001 (unaudited)	<u>410,508</u>	<u>546</u>	<u>5,105</u>	<u>(204,206)</u>	<u>211,953</u>

13. RELATED PARTY TRANSACTIONS

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

- (1) The Group received rental income in the amount of HK\$57,000 (2000: HK\$57,000) 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\$900,000 (2000: HK\$900,000) 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.
- (3) The Group paid management fees in the amount of HK\$480,000 (2000: HK\$480,000) to Multifield (Holdings) Limited, a wholly owned subsidiary of MIHL for accountancy services provided during the period. The management fees were based on the direct costs incurred.
- (4) A subsidiary sold finished goods of HK\$1,676,000 (2000: HK\$2,520,000) to and purchased raw materials and parts of HK\$24,700 (2000: HK\$73,500) 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.

14. CONTINGENT LIABILITIES

As at 30 June 2001, the amount of guarantees given by the Company to banks in connection with facilities granted to its subsidiaries was HK\$250,000,000 (2000: HK\$320,000,000).

15. APPROVAL OF THE INTERIM FINANCIAL STATEMENTS

The condensed interim financial statements were approved by the Board of Directors on 21 September 2001.