

Notes to Financial Statements ►

31 DECEMBER 2002

1. CORPORATE INFORMATION

The registered office of the Company is located at 7th Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong.

During the year, the Group was involved in the following principal activities:

- manufacture and sale of steel products
- electricity generation
- trading of steel products
- manufacture and installation of kitchen and laundry equipment
- shipping
- property investment and management (discontinued during the year – note 8)

In the opinion of the directors, Shougang Holding (Hong Kong) Limited (“Shougang HK”) is the Company’s controlling shareholder. Shougang HK, in turn, is a wholly-owned subsidiary of Shougang Corporation, which is established in Mainland China.

2. BASIS OF PRESENTATION

Notwithstanding the net current liabilities position recorded by the Group as at the balance sheet date, the directors have prepared these financial statements on a going concern basis because Shougang HK has confirmed that it will provide the necessary financial support to enable the Company and the Group to continue to operate as a going concern and to meet its liabilities as and when they fall due.

At the balance sheet date, included in the Company’s and the Group’s current liabilities is an amount of HK\$65,012,000 owed by the Company and the Group to Shougang HK. Shougang HK has undertaken not to demand repayment of such amount until such time when the Group is able to do so without adversely impairing its liquidity position.

3. IMPACT OF NEW AND REVISED STATEMENTS OF STANDARD ACCOUNTING PRACTICE (“SSAPs”)

The following recently-issued and revised SSAPs are effective for the first time for the current year’s financial statements:

- | | | |
|---------------------|---|--|
| • SSAP 1 (Revised) | : | “Presentation of financial statements” |
| • SSAP 11 (Revised) | : | “Foreign currency translation” |
| • SSAP 15 (Revised) | : | “Cash flow statements” |
| • SSAP 33 | : | “Discontinuing operations” |
| • SSAP 34 | : | “Employee benefits” |



3. IMPACT OF NEW AND REVISED STATEMENTS OF STANDARD ACCOUNTING PRACTICE ("SSAPs") (continued)

These SSAPs prescribe new accounting measurement and disclosure practices. The major effects on the Group's accounting policies and on the amounts disclosed in the financial statements of adopting these SSAPs are summarised as follows:

SSAP 1 (Revised) prescribes the basis for the presentation of financial statements and sets out guidelines for their structure and minimum requirements for the contents thereof. The principal impact of the revision to this SSAP is that a consolidated summary statement of changes in equity is now presented on page 34 of the annual report in place of the consolidated statement of recognised gains and losses that was previously required.

SSAP 11 (Revised) prescribes the basis for the translation of foreign currency transactions and the financial statements. The principal impact of the revision of this SSAP on the consolidated financial statements is that the profit and loss accounts of overseas subsidiaries are translated to Hong Kong dollars at weighted average exchange rates for the year, whereas previously they were translated at the exchange rates at the balance sheet date. The adoption of this SSAP has had no material impact on the preparation of the financial statements.

SSAP 15 (Revised) prescribes the revised format for the cash flow statement. The principal impact of the revision of this SSAP is that the consolidated cash flow statement now presents cash flows under three headings, cash flows from operating, investing and financing activities, rather than the five headings previously required. The format of the cash flow statement set out on pages 35 and 36 of the annual report and the notes thereto have been revised in accordance with the new requirements. In addition, cash flows from overseas subsidiaries arising during the year are now translated to Hong Kong dollars at the exchange rates at the dates of the transactions, or if applicable, at the weighted average exchange rates, whereas previously, they were translated at the applicable exchange rates at the balance sheet date. Further details of these changes are included in the accounting policies for "Cash and cash equivalents" and "Foreign currencies" in notes 4 and 40(a) to the financial statements.

SSAP 33 replaces the existing disclosure requirements for discontinuing operations, which were previously included in SSAP 2. The SSAP defines a discontinuing operation and prescribes when an enterprise should commence including discontinuing operations disclosures in its financial statements and the disclosures required. The principal impact of the SSAP is that more extensive disclosures concerning the Group's discontinued operations are now included in the consolidated profit and loss account, consolidated cash flow statement and note 8 to the financial statements.

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3. IMPACT OF NEW AND REVISED STATEMENTS OF STANDARD ACCOUNTING PRACTICE (“SSAPs”) (continued)

SSAP 34 prescribes the recognition and measurement criteria to apply to employee benefits, together with the required disclosures in respect thereof. The adoption of this SSAP has resulted in the recognition of an accrual for paid holiday carried forward by the Group’s employees as at the balance sheet date. In addition, disclosures are now required in respect of the Company’s share option schemes, as detailed in note 37 to the financial statements. These share option scheme disclosures are similar to those required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) previously included in the Report of the Directors, which are now required to be included in the notes to the financial statements as a consequence of the SSAP.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**Basis of preparation**

These financial statements have been prepared in accordance with Hong Kong Statements of Standard Accounting Practice, accounting principles generally accepted in Hong Kong and the Companies Ordinance. They have been prepared under the historical cost convention, except for the periodic remeasurement of investment properties, and certain fixed assets and equity investments, as further explained below.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2002. The results of subsidiaries acquired or disposed of during the year are consolidated from or to their effective dates of acquisition or disposal, respectively. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

Subsidiaries

A subsidiary is a company, other than a jointly-controlled entity, in which the Company, directly or indirectly, controls more than half of its voting power or issued share capital or controls the composition of its board of directors.

The Company’s interests in subsidiaries are stated in the Company’s balance sheet at cost less any impairment losses.



4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Joint venture companies

A joint venture company is a company set up by a contractual arrangement, whereby the Group and other parties undertake an economic activity. The joint venture company operates as a separate entity in which the Group and the other parties have an interest.

The joint venture agreement between the venturers stipulates the capital contributions of the joint venture parties, the duration of the joint venture and the basis on which the assets are to be realised upon its dissolution. The profits and losses from the joint venture company's operations and any distributions of surplus assets are shared by the venturers, either in proportion to their respective capital contributions, or in accordance with the terms of the joint venture agreement.

A joint venture company is treated as:

- (a) a subsidiary, if the Company has unilateral control over the joint venture company;
- (b) a jointly-controlled entity, if the Company does not have unilateral control, but has joint control over the joint venture company;
- (c) an associate, if the Company does not have unilateral or joint control, but holds generally not less than 20% of the joint venture company's registered capital and is in a position to exercise significant influence over the joint venture company; or
- (d) a long term investment, if the Company holds less than 20% of the joint venture company's registered capital and has neither joint control of, nor is in a position to exercise significant influence over, the joint venture company.

Jointly-controlled entities

A jointly-controlled entity is a joint venture company which is subject to joint control, resulting in none of the participating parties having unilateral control over the economic activity of the jointly-controlled entity.

The Group's share of the post-acquisition results and reserves of jointly-controlled entities is included in the consolidated profit and loss account and consolidated reserves, respectively. The Group's interests in jointly-controlled entities are stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting, less any impairment losses.



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4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**Associates**

An associate is a company, not being a subsidiary or a jointly-controlled entity, in which the Group has a long term interest of not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence.

The Group's share of the post-acquisition results and reserves of associates is included in the consolidated profit and loss account and consolidated reserves, respectively. The Group's interests in associates are stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting, less any impairment losses.

Goodwill

Goodwill arising on the acquisition of subsidiaries, associates and jointly-controlled entities represents the excess of the cost of the acquisition over the Group's share of the fair values of the identifiable assets and liabilities acquired as at the date of acquisition.

Goodwill arising on acquisition is recognised in the consolidated balance sheet as an asset and amortised on the straight-line basis over its estimated useful life of 20 years. In the case of associates and jointly-controlled entities, any unamortised goodwill is included in the carrying amount thereof, rather than as a separately identified asset on the consolidated balance sheet.

SSAP 30 "Business combinations" was adopted as at 1 January 2001. Prior to that date, goodwill arising on acquisitions was eliminated against consolidated reserves in the year of acquisition. On the adoption of SSAP 30, the Group has applied the transitional provision of SSAP 30 that permitted such goodwill on acquisitions which occurred prior to 1 January 2001, to remain eliminated against consolidated reserves. Goodwill on acquisitions subsequent to 1 January 2001 is treated according to the SSAP 30 goodwill accounting policy above.

On disposal of subsidiaries, associates or jointly-controlled entities, the gain or loss on disposal is calculated by reference to the net assets at the date of disposal, including the attributable amount of goodwill which remains unamortised and any relevant reserves, as appropriate. Any attributable goodwill previously eliminated against consolidated reserves at the time of acquisition is written back and included in the calculation of the gain or loss on disposal.



4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Goodwill (continued)

The carrying amount of goodwill, including goodwill remaining eliminated against consolidated reserves, is reviewed annually and written down for impairment when it is considered necessary. A previously recognised impairment loss for goodwill is not reversed unless the impairment loss was caused by a specific external event of an exceptional nature that was not expected to recur, and subsequent external events have occurred which have reversed the effect of that event.

Related parties

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party, or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities.

Impairment of assets

An assessment is made at each balance sheet date of whether there is any indication of impairment of any asset, or whether there is any indication that an impairment loss previously recognised for an asset in prior years may no longer exist or may have decreased. If any such indication exists, the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's value in use or its net selling price.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. An impairment loss is charged to the profit and loss account in the period in which it arises, unless the asset is carried at a revalued amount, when the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the recoverable amount of an asset, however not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation), had no impairment loss been recognised for the asset in prior years.

A reversal of an impairment loss is credited to the profit and loss account in the period in which it arises, unless the asset is carried at a revalued amount, when the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

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4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**Fixed assets and depreciation**

Fixed assets, other than investment properties and construction in progress, are stated at cost or valuation less accumulated depreciation and any impairment losses.

The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after fixed assets have been put into operation, such as repairs and maintenance, is normally charged to the profit and loss account in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the fixed asset, the expenditure is capitalised as an additional cost of that asset.

Changes in the values of fixed assets, other than investment properties, are dealt with as movements in the revaluation reserve. If the total of this reserve is insufficient to cover a deficit, on an individual asset basis, the excess of the deficit is charged to the profit and loss account. Any subsequent revaluation surplus is credited to the profit and loss account to the extent of the deficit previously charged. On disposal of a revalued asset, the relevant portion of the revaluation reserve realised in respect of previous valuations is transferred to retained earnings as a movement in reserves.

Depreciation is calculated on the straight-line basis to write off the cost or valuation of each asset over its estimated useful life, after taking into account its estimated residual value. The principal annual rates used for this purpose are as follows:

Construction in progress	Nil
Land, buildings and structure	1.6% to 8%, or over the terms of the leases or user rights, whichever is shorter
Leasehold improvements	2.5% to 33 $\frac{1}{3}$ %, or over the terms of the leases, whichever is shorter
Furniture, fixtures and equipment	5% to 25%
Plant and machinery	4% to 50%
Motor vehicles	9% to 30%
Vessels	5% to 18%

The gain or loss on disposal or retirement of a fixed asset recognised in the profit and loss account is the difference between the net sales proceeds and the carrying amount of the relevant asset.



4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fixed assets and depreciation (continued)

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 in which the Group has a 51% interest. Such application can only be made during the six-month period prior to the expiry of the joint venture tenure in 2012, and the directors believe that such an extension will be granted upon application. Accordingly, the costs of the buildings and of the plant and machinery of this joint venture are depreciated on the straight-line basis to write off the cost of the assets over their estimated useful lives based on the assumption that a new tenure will be granted.

Investment properties

Investment properties are interests in land and/or buildings in respect of which construction work and development have been completed and which are intended to be held on a long term basis for their investment potential, any rental income being negotiated at arm's length. Such properties with unexpired lease terms of more than 20 years are not depreciated and are stated at their open market values on the basis of professional valuations performed at the end of each financial year. Changes in the value of investment properties are dealt with as movements in the investment property revaluation reserve. If the total of this reserve is insufficient to cover a deficit, on a portfolio basis, the excess of the deficit is charged to the profit and loss account. Any subsequent revaluation surplus is credited to the profit and loss account to the extent of the deficit previously charged.

On disposal of an investment property, the relevant portion of the investment property revaluation reserve realised in respect of previous valuations is released to the profit and loss account.

Construction in progress

Construction in progress represents factory buildings, plant and machinery and other fixed assets under construction or installation, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of purchase, construction, installation and testing as well as capitalised borrowing costs on related borrowed funds during the period of construction or installation. Construction in progress is reclassified to the appropriate category of fixed assets when completed and ready for use.

Intangible assets

Intangible assets represent deferred product design fees incurred by certain of the Group's subsidiaries in Mainland China and are stated at cost less accumulated amortisation and any impairment losses.

Amortisation is provided using the straight-line basis to write off the cost of intangible assets over their estimated economic lives of not exceeding 10 years.

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4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**Leased assets**

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalised finance leases are included in fixed assets and depreciated over the shorter of the lease terms and the estimated useful lives of the assets. The finance costs of such leases are charged to the profit and loss account so as to provide a constant periodic rate of charge over the lease terms.

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets and rentals receivable under the operating leases are credited to the profit and loss account on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under the operating leases are charged to the profit and loss account on the straight-line basis over the lease terms.

Long term investments

Long term investments are investments in unlisted equity securities intended to be held on a long term basis.

Long term investments are stated at cost less any impairment losses. When such impairments in values have occurred, the carrying amounts of the securities are reduced to their fair values, as estimated by the directors, and the amounts of impairments are charged to the profit and loss account in the period in which they arise. Where the circumstances and events which led to an impairment cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future, the amount of the impairment previously charged and any appreciation in fair value is credited to the profit and loss account to the extent of the amount previously charged.

Short term investments

Short term investments are investments in equity securities held for trading purposes and are stated at their fair values on the basis of their quoted market prices at the balance sheet date on an individual investment basis. The gains or losses arising from changes in the fair values of such securities are credited or charged to the profit and loss account in the period in which they arise.



4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the first-in, first-out basis or weighted average basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less estimated costs to be incurred to completion and disposal.

Construction contracts

Contract revenue comprises the agreed contract amount and appropriate amounts from variation orders, claims and incentive payments. Contract costs incurred comprise direct materials, the costs of subcontracting, direct labour and an appropriate proportion of variable and fixed construction overheads.

Revenue from fixed price construction contracts is recognised on the percentage of completion method, measured by reference to the proportion of costs incurred to date to the estimated total costs of the relevant contract.

Revenue from cost plus construction contracts is recognised on the percentage of completion method, by reference to the recoverable costs incurred during the period plus the related fee earned, measured by the proportion of costs incurred to date to the estimated total costs of the relevant contract.

Provision is made for foreseeable losses as soon as they are anticipated by management.

Where contract costs incurred to date plus recognised profits less recognised losses exceed progress billings, the surplus is treated as an amount due from contract customers.

Where progress billings exceed contract costs incurred to date plus recognised profits less recognised losses, the surplus is treated as an amount due to contract customers.

Cash and cash equivalents

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the balance sheet, cash and cash equivalents comprise cash on hand and at banks, including time deposits, and assets similar in nature to cash, which are not restricted as to use.

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4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**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 will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the balance sheet date of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the profit and loss account.

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

- (a) Sales of goods or services are recognised when the goods are delivered or the services are rendered;
- (b) Sales of electricity are recognised when electricity is generated and supplied to the power grid operated by the customers;
- (c) Sales of steam and hot water are recognised based on steam and hot water supplied as recorded by meters reading during the year;
- (d) Charter hire income from chartered-in vessels is recognised in accordance with the following basis:

Time chartered-in and time chartered-out	Time proportion
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- (e) 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

- (f) Rental and management fee income is recognised on a time proportion basis;



4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition (continued)

- (g) Dividend income is recognised when the shareholders' right to receive payment is established;
- (h) Income from the disposal of investment properties is recognised when legally binding sales contracts are signed and exchanged and the transaction becomes unconditional;
- (i) Income from the trading of listed investments is recognised on the date when the transaction takes place; and
- (j) Interest income is recognised on a time proportion basis, taking into account the principal outstanding and the effective rate of interest applicable.

Deferred tax

Deferred tax is provided, using the liability method, on all significant timing differences to the extent it is probable that the liability will crystallise in the foreseeable future. A deferred tax asset is not recognised until its realisation is assured beyond reasonable doubt.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e. assets that necessarily take a substantial period of time to get ready for their intended use or sale are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised. The capitalisation rate is based on the actual cost of the related borrowings.

All other borrowing costs are recognised as expenses in the period in which they are incurred.

Foreign currencies

Foreign currency transactions are recorded at the applicable exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the applicable exchange rates ruling at that date. Exchange differences are dealt with in the profit and loss account.

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4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**Foreign currencies** (continued)

On consolidation, the financial statements of overseas subsidiaries, jointly-controlled entities and associates are translated into Hong Kong dollars using the net investment method. The profit and loss accounts of overseas subsidiaries, jointly-controlled entities and associates are translated to Hong Kong dollars at the weighted average exchange rates for the year, and their balance sheets are translated to Hong Kong dollars at the exchange rates at the balance sheet date. The resulting translation differences are included in the exchange fluctuation reserve.

For the purpose of the consolidated cash flow statement, the cash flows of overseas subsidiaries are translated to Hong Kong dollars at the exchange rates at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated to Hong Kong dollars at the weighted average exchange rates for the year.

Prior to the adoption of the revised SSAPs 11 and 15 during the year, as explained in note 3 to the financial statements, the profit and loss accounts of overseas subsidiaries, jointly-controlled entities and associates and the cash flows of overseas subsidiaries were translated to Hong Kong dollars at the exchange rates at the balance sheet date. These changes have had no material effect on the financial statements, while the adoption of the revised SSAP 15 has resulted in changes to the layout of the consolidated cash flow statement, further details of which are included in note 40(a) to the financial statements.

Employee benefits*Paid leave carried forward*

The Group provides paid annual leave to its employees under their employment contracts. Under certain circumstances, such leave which remains untaken as at the balance sheet date is permitted to be carried forward and utilised by the respective employees in the following years. An accrual is made at the balance sheet date for the expected future cost of such paid leave earned during the year by the employees and carried forward.

Employment Ordinance long service payments

Certain of the Group's employees have completed the required number of years of service to the Group in order to be eligible for long service payments under the Hong Kong Employment Ordinance in the event of the termination of their employment. The Group is liable to make such payments in the event that such a termination of employment meets the circumstances specified in the Employment Ordinance.

A provision has not been recognised nor has a contingent liability been disclosed in respect of such possible payments, as it is not considered possible that the situation will result in a material future outflow of resources from the Group.



4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Employee benefits (continued)

Pension costs

The Group operates Mandatory Provident Fund Exempted ORSO retirement benefits schemes under the Mandatory Provident Fund Schemes Ordinance for certain of its employees in addition to the Mandatory Provident Fund Schemes. Contributions are made based on a percentage of the eligible employees' salaries and are charged to the profit and loss account as they become payable in accordance with the rules of the schemes. The assets of the schemes are held separately from those of the Group in independently administered funds. When an employee leaves the Mandatory Provident Fund Exempted ORSO retirement benefits schemes prior to his/her interest in the Group's employer contributions vesting fully, the ongoing contributions payable by the Group may be reduced by the relevant amount of forfeited contributions. With respect to the Mandatory Provident Fund retirement benefits schemes, the Group's employer contributions vest fully with the employees when contributed into the schemes.

Contributions made by certain joint ventures of the Group in Mainland China, based on a percentage of the employees' basic salaries to the central pension scheme operated by the Government of the People's Republic of China, are charged to the profit and loss account as they become payable in accordance with the rules of the central pension scheme.

Share option scheme

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. The financial impact of share options granted under the share option scheme 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 recorded in the profit and loss account or balance sheet for their cost. Upon the exercise of 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 are cancelled prior to their exercise date, or which lapse, are deleted from the register of outstanding options.

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5. SEGMENT INFORMATION

Segment information is presented by way of two segment formats: (i) on a primary segment reporting basis, by business segment; and (ii) on a secondary segment reporting basis, by geographical segment.

The Group's operating businesses are structured and managed separately, according to the nature of their operations and the products and services they provide. Each of the Group's business segments represents a strategic business unit that offers products and services which are subject to risks and returns that are different from those of other business segments. Summary details of the business segments are as follows:

- (a) the steel manufacturing segment engages in the manufacturing and sale of steel products;
- (b) the steel trading segment engages in the trading of steel products;
- (c) the electricity generation segment engages in the generation of electricity, steam and hot water;
- (d) the kitchen and laundry equipment segment engages in the manufacturing and installation of kitchen and laundry equipment;
- (e) the shipping segment engages in vessel chartering and the hiring of floating cranes;
- (f) the property investment and management segment provides property leasing and building management services; and
- (g) the corporate and others segment comprises the Group's management services business, together with corporate income and expense items.

In determining the Group's geographical segments, revenues are attributed to the segments based on the location of the customers, and assets are attributed to the segments based on the location of the assets.

Intersegment sales and transfers are transacted at terms determined between the parties.



5. SEGMENT INFORMATION (continued)

(a) Business segments

The following tables present revenue, profit/(loss) and certain asset, liability and expenditure information for the Group's business segments.

Group	Steel manufacturing		Steel trading		Electricity generation		Kitchen and laundry equipment		Shipping		Property investment and management		Corporate and others		Eliminations		Consolidated	
	2002	2001	2002	2001	2002	2001	2002	2001	2002	2001	2002	2001	2002	2001	2002	2001	2002	2001
	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000
Segment revenue:																		
Sales to external customers	1,596,778	1,447,620	19,920	90,828	36,515	-	70,191	79,953	267,091	299,740	7,718	22,028	2,272	2,100	-	-	2,000,485	1,942,269
Intersegment sales	-	-	-	-	-	-	-	-	-	-	-	-	1,458	1,560	(1,458)	(1,560)	-	-
Other revenue	11,073	18,747	6,003	5,446	-	-	472	436	86	20	493	747	22	35	-	-	18,149	25,431
Intersegment other revenue	-	-	-	1,280	-	-	-	-	-	-	-	-	-	-	-	(1,280)	-	-
Total	1,607,851	1,466,367	25,923	97,554	36,515	-	70,663	80,389	267,177	299,760	8,211	22,775	3,752	3,695	(1,458)	(2,840)	2,018,634	1,967,700
Segment results	(76,364)	(283,372)	(4,421)	(329)	9,052	-	(3,813)	(1,544)	(60,730)	(24,001)	(212,797)	(274,308)	(19,572)	(115,955)	-	(1,280)	(368,645)	(700,789)
Unallocated revenue and gains																	3,882	8,727
Unallocated expenses																	(23)	(198)
Loss from operating activities																	(364,786)	(692,260)
Finance costs																	(40,286)	(69,800)
Share of profits and losses of:																		
Jointly-controlled entities	-	-	(13)	(30)	-	-	-	-	-	-	(1,508)	2,400	-	-	-	-	(1,521)	2,370
Associates	-	-	-	-	-	-	-	-	-	-	6,885	(27,878)	16,058	7,376	-	-	22,943	(20,502)
Loss before tax																	(383,650)	(780,192)
Tax																	(8,975)	(4,993)
Loss before minority interests																	(392,625)	(785,185)
Minority interests																	80,699	177,807
Net loss from ordinary activities attributable to shareholders																	(311,926)	(607,378)
Segment assets	977,640	2,099,358	39,827	50,238	504,065	-	56,782	79,320	65,345	50,419	-	269,446	12,307	4,564	-	-	1,655,966	2,553,345
Interests in associates	-	-	2	2	-	-	-	-	-	-	-	231,296	162,505	143,909	-	-	162,507	375,207
Amounts due from associates	-	-	14,914	14,914	-	-	-	-	-	-	-	-	-	2	-	-	14,914	14,916
Interests in jointly-controlled entities	-	-	1,277	1,290	-	-	-	-	-	-	-	236,871	-	-	-	-	1,277	238,161
Unallocated assets																	20,123	9,237
Total assets																	1,854,787	3,190,866
Segment liabilities	135,091	496,340	31,161	37,905	30,799	-	26,605	42,853	33,734	16,886	-	6,115	1,887	1,690	-	-	259,277	601,789
Unallocated liabilities																	908,532	1,228,786
Total liabilities																	1,167,809	1,830,575

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5. SEGMENT INFORMATION (continued)

(a) Business segments (continued)

Group	Steel manufacturing		Steel trading		Electricity generation		Kitchen and laundry equipment		Shipping		Property investment and management		Corporate and others		Eliminations		Consolidated	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Other segment information:																		
Depreciation	92,496	111,146	274	351	2,640	-	1,970	2,119	1,428	1,379	59	132	111	113	-	-	98,978	115,240
Amortisation of intangible assets	1,843	1,630	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1,843	1,630
Amortisation of goodwill	-	-	-	-	303	-	-	-	-	-	-	-	-	-	-	-	303	-
Impairment of fixed assets	104,035	169,674	340	-	-	-	-	-	-	-	-	-	-	-	-	-	104,375	169,674
Impairment of goodwill	-	-	-	-	-	-	-	-	-	-	-	223,477	-	109,576	-	-	-	333,053
Revaluation deficit/(surplus) on investment properties	(483)	-	471	(712)	-	-	-	-	-	-	-	29,900	1,000	3,000	-	-	988	32,188
Provisions for bad debts, net	41,146	58,447	2,006	335	-	-	1,936	1,759	(1,525)	6,914	-	1,144	-	-	-	-	43,563	68,599
Provision against loan to an associate	-	-	-	-	-	-	-	-	-	-	-	18,332	-	-	-	-	-	18,332
Provision against amount due from an associate	-	-	-	-	-	-	-	-	-	-	-	3,589	-	-	-	-	-	3,589
Provision/(write-back of provision) for compensation	-	-	-	-	-	-	-	-	(1,014)	4,527	-	-	-	-	-	-	(1,014)	4,527
Capital expenditure:																		
Acquisition of fixed assets and intangible assets	14,014	20,463	-	-	11,299	-	339	379	103	163	1	94	65	199	-	-	25,821	21,298
Acquisition of a subsidiary	-	-	-	-	198,216	-	-	-	-	-	-	-	-	-	-	-	198,216	-

(b) Geographical segments

The following table presents revenue, certain asset and expenditure information for the Group's geographical segments.

Group	Hong Kong		Mainland China		Corporate and others		Eliminations		Consolidated	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Segment revenue:										
Sales to external customers	307,699	367,958	1,676,585	1,509,996	16,201	64,315	-	-	2,000,485	1,942,269
Intersegment sales	-	-	-	-	1,458	1,560	(1,458)	(1,560)	-	-
Other revenue	6,118	1,841	12,003	19,093	28	4,497	-	-	18,149	25,431
Intersegment other revenue	-	1,280	-	-	-	-	-	(1,280)	-	-
Total	313,817	371,079	1,688,588	1,529,089	17,687	70,372	(1,458)	(2,840)	2,018,634	1,967,700
Segment assets	87,733	864,612	1,592,173	2,177,463	174,881	148,791	-	-	1,854,787	3,190,866
Capital expenditure:										
Acquisition of fixed assets and intangible assets	112	240	25,644	20,859	65	199	-	-	25,821	21,298
Acquisition of a subsidiary	-	-	198,216	-	-	-	-	-	198,216	-



6. TURNOVER

Turnover represents the net invoiced value of goods sold after allowances for goods returned and trade discounts, and services rendered, but excludes intra-group transactions. An analysis of turnover is as follow:

	2002 HK\$'000	2001 HK\$'000
Continuing operations:		
Steel manufacturing	1,032,268	790,448
Steel trading	19,920	90,828
Electricity generation	36,515	—
Kitchen and laundry equipment	70,191	79,953
Shipping	267,091	299,740
Corporate and others	2,272	2,100
	1,428,257	1,263,069
Operations reclassified to long term investment during the year:		
Steel manufacturing	564,510	657,172
	1,992,767	1,920,241
Discontinued operations (note 8):		
Property investment and management	7,718	22,028
	2,000,485	1,942,269

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7. LOSS FROM OPERATING ACTIVITIES

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

	2002 HK\$'000	2001 HK\$'000
Cost of inventories sold	1,560,774	1,472,831
Cost of services provided (note a)	1,311	2,925
Charter hire costs	318,703	301,077
Depreciation	98,978	115,240
Amortisation of intangible assets (note b)	1,843	1,630
Amortisation of goodwill (note b)	303	–
Minimum lease payments under operating leases in respect of land and buildings	9,635	8,295
Auditors' remuneration	2,143	2,353
Staff costs (including directors' remuneration – note 10):		
Wages, salaries and benefits	122,240	129,121
Pension scheme contributions (note c)	12,024	14,796
Total staff costs	134,264	143,917
Impairment of goodwill	–	333,053
Impairment of land and buildings	29,095	17,174
Impairment of other fixed assets	75,280	152,500
Revaluation deficit on investment properties (note d)	988	32,188
Loss on disposal of land and buildings	–	79
Loss on disposal of other fixed assets	3,033	1,138
Loss on disposal of an investment property	–	358
Loss on disposal of long term investments	–	6
Gain on disposal of short term investments, net	(750)	(1,077)
Loss/(gain) on disposal of subsidiaries	(99,503)	4,808
Loss on disposal of discontinued operations	213,340	–
Gain on dissolution of a subsidiary	(921)	–
Loss on deemed disposal of interest in an associate	–	940
Loss/(gain) on changes in fair values of short term investments, net	23	(307)
Provisions for bad debts, net	43,563	68,599
Write-off of an amount due from a related company	227	–
Provision against loan to an associate	–	18,332
Provision against amount due from an associate	–	3,589
Provision/(write-back of provision) for compensation	(1,014)	4,527
Foreign exchange losses/(gains), net	34	(52)
Gross rental income from investment properties	(8,543)	(21,485)
Less: Outgoings	351	455
Net rental income from investment properties	(8,192)	(21,030)
Interest income	(3,104)	(7,102)
Dividend income from listed investments	(28)	(49)



7. LOSS FROM OPERATING ACTIVITIES (continued)

Notes:

- (a) The amount included staff costs of HK\$862,000 (2001: HK\$1,975,000).
- (b) The amortisation of intangible assets and goodwill for the year is included in "Administrative expenses" on the face of the profit and loss account.
- (c) The effect of forfeited contributions on the Group's contributions to the pension schemes for the year, and the amounts of forfeited contributions available at the balance sheet date to reduce contributions in future years, were not material.
- (d) The revaluation deficit on investment properties for the year is included in "Other operating expenses, net" on the face of the profit and loss account.

8. DISCONTINUED OPERATIONS

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 agreed to acquire 430,491,315 ordinary shares of HK\$0.01 each in the capital of Shougang Concord Grand (Group) Limited ("Shougang Grand") and the Second Purchaser agreed to acquire 91,491,193 ordinary shares of HK\$0.01 each in the capital of Shougang Grand for an aggregate cash consideration of approximately HK\$172,254,000 (equivalent to HK\$0.33 per Shougang Grand share). The consideration was received and 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 interest in Shougang Grand of approximately HK\$213,340,000 was recorded by the Group upon the completion of the above disposal and there were no tax expenses arising from the disposal.

The segment information of Shougang Grand has been disclosed under the "property investment and management" segment in note 5 to the financial statements.



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9. FINANCE COSTS

	2002 HK\$'000	2001 HK\$'000
Interest expense on:		
Bank loans, bank overdrafts and other loans wholly repayable within five years	36,525	43,854
Convertible note	3,419	–
Convertible bonds	–	18,094
Finance leases	342	401
Total interest	40,286	62,349
Other finance costs:		
Accretion of premium on convertible bonds	–	7,451
	<u>40,286</u>	<u>69,800</u>

10. DIRECTORS' REMUNERATION

Directors' remuneration disclosed pursuant to the Listing Rules and Section 161 of the Companies Ordinance is as follows:

	2002 HK\$'000	2001 HK\$'000
Fees	260	215
Salaries and other emoluments	4,605	3,285
	<u>4,865</u>	<u>3,500</u>

Included in the directors' fees were fees of HK\$120,000 (2001: HK\$120,000) received by the independent non-executive directors.



10. DIRECTORS' REMUNERATION (continued)

The number of directors whose remuneration fell within the following bands is as follows:

	Number of directors	
	2002	2001
Nil – HK\$1,000,000	8	8
HK\$1,000,001 – HK\$1,500,000	1	2
HK\$1,500,001 – HK\$2,000,000	1	–
	<u>1</u>	<u>–</u>

There was no arrangement under which a director waived or agreed to waive any remuneration during the year.

During the year, 114,000,000 share options of the Company were granted to the directors in respect of their services to the Group, further details of which are set out in note 37 to the financial statements. No value in respect of the share options granted during the year has been charged to the profit and loss account, or is otherwise included in the above directors' remuneration disclosures.

11. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included three (2001: two) executive directors, one of which is an employee of the Group who was appointed as a director of the Company during the year (the "New Director"). The remuneration for their directorships during the year is disclosed in note 10 above. Details of the remuneration of the remaining two (2001: three) non-director, highest paid employees and the New Director during the year are set out below:

	2002	2001
	HK\$'000	HK\$'000
Salaries and allowances	4,277	4,173
Pension scheme contributions	215	206
	<u>4,492</u>	<u>4,379</u>

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11. FIVE HIGHEST PAID EMPLOYEES (continued)

The number of the above non-director, highest paid employees and the New Director whose remuneration fell within the following bands is as follows:

	Number of employees	
	2002	2001
HK\$1,000,001 – HK\$1,500,000	2	2
HK\$1,500,001 – HK\$2,000,000	1	1

During the year, 1,150,000 share options of the Company were granted to one of the two non-director, highest paid employees in respect of his services to the Group, further details of which are set out in note 37 to the financial statements. No value in respect of the share options granted during the year has been charged to the profit and loss account, or is otherwise included in the above five highest paid employees' remuneration disclosures.

12. TAX

Hong Kong profits tax has been provided at the rate of 16% (2001: 16%) on the estimated assessable profits arising in Hong Kong during the year. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

	2002 HK\$'000	2001 HK\$'000
Group:		
Hong Kong	141	700
Elsewhere	7,438	1,811
Overprovision in prior years	(42)	(162)
Deferred tax (note 35)	–	(186)
	<u>7,537</u>	<u>2,163</u>
Share of tax attributable to:		
Jointly-controlled entities	765	1,346
Associates	673	1,484
	<u>1,438</u>	<u>2,830</u>
Tax charge for the year	<u><u>8,975</u></u>	<u><u>4,993</u></u>



13. NET LOSS FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS

The net loss from ordinary activities attributable to shareholders for the year ended 31 December 2002 dealt with in the financial statements of the Company, is HK\$336,364,000 (2001: HK\$422,897,000).

14. LOSS PER SHARE

The calculation of basic loss per share is based on net loss from ordinary activities attributable to shareholders for the year of HK\$311,926,000 (2001: HK\$607,378,000) and 2,295,546,454 (2001: weighted average number of 2,099,044,550) ordinary shares in issue during the year.

The diluted loss per share for the years ended 31 December 2002 and 2001 is not shown as there were no dilutive effects on the basic loss per share. The 3% convertible note had an anti-dilutive effect on the basic loss per share for the year ended 31 December 2002, and the 8% convertible bonds had an anti-dilutive effect on the basic loss per share for the year ended 31 December 2001. The outstanding share options of the Company would not result in the issue of ordinary shares for less than the fair values as their exercise price was above the average market price of the Company's shares during the two years.

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15. FIXED ASSETS

Group	Investment properties HK\$'000	Construction in progress HK\$'000	Land, buildings and structure HK\$'000	Leasehold improve- ments HK\$'000	Furniture, fixtures and equipment HK\$'000	Plant and machinery HK\$'000	Motor vehicles HK\$'000	Vessels HK\$'000	Total HK\$'000
Cost or valuation:									
At beginning of year:	253,163	147,950	372,685	408,354	32,015	1,325,683	40,819	46,304	2,626,973
Additions	-	14,536	2,531	1,699	1,184	5,851	20	-	25,821
Acquisition of a subsidiary	-	19,951	149,784	-	14,998	167,338	54	-	352,125
Disposals	-	(333)	(104)	-	(310)	(2,725)	(34)	(19,529)	(23,035)
Disposal of subsidiaries	(240,300)	(143,789)	(93,496)	(361,481)	(9,672)	(415,379)	(19,281)	-	(1,283,398)
Reclassifications	6,586	(30,781)	(4,071)	-	3,390	23,809	1,067	-	-
Deficit on revaluation, net	(988)	-	-	-	-	-	-	-	(988)
Exchange adjustments	-	(70)	(162)	(193)	(10)	(624)	(18)	(21)	(1,098)
At 31 December 2002	18,461	7,464	427,167	48,379	41,595	1,103,953	22,627	26,754	1,696,400
Comprising:									
At cost	-	7,464	421,167	48,379	41,595	1,103,953	22,627	26,754	1,671,939
At 1988 directors' valuation	-	-	6,000	-	-	-	-	-	6,000
At 2002 professional valuation	18,461	-	-	-	-	-	-	-	18,461
	18,461	7,464	427,167	48,379	41,595	1,103,953	22,627	26,754	1,696,400
Accumulated depreciation and impairment:									
At beginning of year:	-	-	119,994	154,846	24,461	661,580	32,772	31,806	1,025,459
Depreciation provided during the year	-	-	8,565	16,270	4,801	65,998	2,316	1,028	98,978
Impairment recognised in the profit and loss account during the year	-	-	29,095	13,393	-	61,887	-	-	104,375
Disposals	-	-	(20)	-	(256)	(1,078)	(34)	(17,922)	(19,310)
Disposal of subsidiaries	-	-	(53,291)	(153,484)	(7,803)	(248,965)	(15,116)	-	(478,659)
Exchange adjustments	-	-	(51)	(74)	(7)	(231)	(14)	(13)	(390)
At 31 December 2002	-	-	104,292	30,951	21,196	539,191	19,924	14,899	730,453
Net book value:									
At 31 December 2002	18,461	7,464	322,875	17,428	20,399	564,762	2,703	11,855	965,947
At 31 December 2001	253,163	147,950	252,691	253,508	7,554	664,103	8,047	14,498	1,601,514



15. FIXED ASSETS (continued)

The cost or valuation of the Group's land, buildings and structure is analysed as follows:

	Hong Kong HK\$'000	Elsewhere HK\$'000	Total HK\$'000
Long term lease	2,647	875	3,522
Medium term lease	17,800	405,845	423,645
	<u>20,447</u>	<u>406,720</u>	<u>427,167</u>

The net book value of the Group's fixed assets held under finance leases included in the total amounts of land, buildings and structure, furniture, fixtures and equipment, plant and machinery and motor vehicles at 31 December 2001, amounted to HK\$42,234,000, HK\$109,000, HK\$98,100,000 and HK\$1,557,000, respectively.

Had the Group's land, buildings and structure been carried at cost less accumulated depreciation and impairment, they would have been included in the financial statements at approximately HK\$320,652,000 (2001: HK\$250,406,000).

The Group has adopted the provisions of SSAP 17 "Property, plant and equipment" issued by the Hong Kong Society of Accountants of not making further regular revaluations of its land and buildings which had previously been revalued.

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

	Hong Kong HK\$'000	Elsewhere HK\$'000	Total HK\$'000
Medium term lease	<u>8,000</u>	<u>10,461</u>	<u>18,461</u>

The Group's investment properties as at 31 December 2002 were revalued by AA Property Services Limited, independent professional valuers, on an open market basis in their existing use. The investment properties are leased to third parties under operating leases.

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15. FIXED ASSETS (continued)

Certain of the Group's land and buildings and investment properties with an aggregate net book value of HK\$19,365,000 (2001: HK\$246,746,000 and a pledged deposit of HK\$3,000,000) were pledged to banks in Hong Kong as securities for aggregate banking facilities of approximately HK\$24,498,000 (2001: HK\$164,785,000) granted to the Group. As at 31 December 2002, such facilities were utilised to the extent of HK\$14,284,000 (2001: HK\$114,491,000).

Certain of the Group's plant and machinery with a net book value of HK\$292,139,000 (2001: HK\$406,097,000), together with a cash deposit of HK\$8,011,000 (2001: HK\$7,414,000), were pledged to banks in Mainland China as securities for aggregate banking facilities of approximately HK\$111,476,000 (2001: HK\$75,436,000) granted to the Group. As at 31 December 2002, such facilities were utilised to the extent of HK\$64,350,000 (2001: HK\$57,237,000).

Based on the current market situation, the carrying value of the fixed assets have 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 is 14.85% per annum.

Further details of the Group's major investment properties are set out on page 110 of the annual report.

16. INTANGIBLE ASSETS**Group**

	Deferred product design fees HK\$'000
Cost:	
At beginning of year	10,078
Exchange adjustments	(5)
	<hr/>
At 31 December 2002	10,073
	<hr/>
Accumulated amortisation:	
At beginning of year	4,546
Charge for the year	1,843
Exchange adjustments	(2)
	<hr/>
At 31 December 2002	6,387
	<hr/>
Net book value:	
At 31 December 2002	<u>3,686</u>
	<hr/>
At 31 December 2001	<u>5,532</u>
	<hr/>



17. GOODWILL

The amount of goodwill capitalised as an asset, arising from the acquisition of a subsidiary, is as follows:

Group

	HK\$'000
Cost:	
At beginning of year	–
Acquisition of a subsidiary	72,677
	<u>72,677</u>
At 31 December 2002	<u>72,677</u>
Accumulated amortisation:	
At beginning of year	–
Charge for the year	303
	<u>303</u>
At 31 December 2002	<u>303</u>
Net book value:	
At 31 December 2002	<u><u>72,374</u></u>
At 31 December 2001	<u><u>–</u></u>

As detailed in note 4 to the financial statements, on the adoption of SSAP 30, the Group applied the transitional provision of SSAP 30 which permitted goodwill in respect of acquisitions which occurred prior to 1 January 2001, to remain eliminated against capital reserve.

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17. GOODWILL (continued)

The amounts of goodwill eliminated against the capital reserve, arising from the acquisition of subsidiaries and associates prior to 1 January 2001, are as follows:

Group

	Goodwill arising from acquisition of subsidiaries HK\$'000	Goodwill arising from acquisition of associates HK\$'000	Total HK\$'000
Cost:			
At beginning of year	900,038	463,977	1,364,015
Disposal of subsidiaries	(880,120)	–	(880,120)
Disposal of interest in an associate	–	(108,764)	(108,764)
	<u>19,918</u>	<u>355,213</u>	<u>375,131</u>
At 31 December 2002			
Accumulated impairment:			
At beginning of year	900,038	463,977	1,364,015
Disposal of subsidiaries	(880,120)	–	(880,120)
Disposal of interest in an associate	–	(108,764)	(108,764)
	<u>19,918</u>	<u>355,213</u>	<u>375,131</u>
At 31 December 2002			
Net book value:			
At 31 December 2002	<u>–</u>	<u>–</u>	<u>–</u>
At 31 December 2001	<u>–</u>	<u>–</u>	<u>–</u>

18. INTERESTS IN ASSOCIATES

	Group	
	2002 HK\$'000	2001 HK\$'000
Share of net assets	162,507	375,207
Loan to an associate	—	27,900
Less: Provision against a loan to an associate	—	(27,900)
	—	—
	<u>162,507</u>	<u>375,207</u>
Associates include:		
Share of net assets of Hong Kong listed companies	<u>162,505</u>	<u>375,205</u>
Market value of the listed shares	<u>60,996</u>	<u>162,302</u>

The loan to an associate as at 31 December 2001 represented an amount of HK\$27,900,000 due from Top Pearl International Development Limited, which was unsecured, bore interest at 15% per annum and had no fixed terms of repayment.

The details of the goodwill arising from the acquisition of associates and eliminated against the capital reserve are detailed in note 17 to the financial statements.

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18. INTERESTS IN ASSOCIATES (continued)

Particulars of the associates at the balance sheet date, all of which are held through subsidiaries, are as follows:

Name	Business structure	Place of incorporation/ operations	Percentage of equity attributable to the Group		Principal activities
			2002	2001	
Shougang Concord Century Holdings Limited ("SC Century")*	Corporate	Hong Kong	37	37	Investment holding
Shougang Concord Technology Holdings Limited ("SC Technology")*	Corporate	Hong Kong	– #	28	Investment holding
Gainrise Holdings Limited	Corporate	Hong Kong	20	20	Investment holding
Top Pearl International Development Limited ("Top Pearl")	Corporate	British Virgin Islands /People's Republic of China	– #	30	Property development

The Group's interests in the above associates were in the form of ordinary shares.

* Listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

As detailed in note 8 to the financial statements, the Group's interests in Shougang Grand were disposed of during the year. Accordingly, the Group's interests in SC Technology and Top Pearl, which were indirectly held by Shougang Grand, were disposed of together with Shougang Grand on 21 June 2002.



18. INTERESTS IN ASSOCIATES (continued)

Summary extracts of the consolidated results and financial position of the SC Century group, based on its audited financial statements for the years ended 31 December 2002 and 2001, are as follows:

The principal activities of the SC Century group are the manufacturing of steel cords, the processing and trading of copper and brass products, and property development and investment.

	2002 HK\$'000	2001 HK\$'000
Turnover	234,891	187,139
Profit from operating activities	54,526	22,543
Finance costs	(2,024)	(4,969)
Share of profits and losses of:		
Jointly-controlled entities	6,853	7,198
Associates	4,885	4,733
Profit before tax	64,240	29,505
Tax	(1,638)	(2,157)
Profit before minority interests	62,602	27,348
Minority interests	(20,319)	(7,287)
Net profit from ordinary activities attributable to shareholders	42,283	20,061

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18. INTERESTS IN ASSOCIATES (continued)

	2002 HK\$'000	2001 HK\$'000
Fixed assets	329,410	315,956
Interests in jointly-controlled entities	51,097	47,690
Interests in associates	44,079	43,300
Other non-current assets	14,175	13,477
Current assets	160,448	154,450
Total assets	599,209	574,873
Current liabilities	39,942	85,898
Long term liabilities	2,017	20
Minority interests	112,761	95,296
Total liabilities and minority interests	154,720	181,214
Net assets	444,489	393,659
Net assets attributable to the Group	162,505	143,909



19. INTERESTS IN JOINTLY-CONTROLLED ENTITIES

	Group	
	2002 HK\$'000	2001 HK\$'000
Unlisted investments:		
Cost plus share of post-acquisition profits of jointly-controlled entities	<u>1,277</u>	<u>238,161</u>

Particulars of the jointly-controlled entities at the balance sheet date, all of which are held through subsidiaries, are as follows:

Name of entity	Business structure	Place of incorporation/ registration and operations	Percentage of ownership interest/ profit and loss sharing attributable to the Group	Percentage of voting power attributable to the Group	Principal activities
Beijing Dongzhimen International Apartment Co., Ltd. ("Beijing Dongzhimen")	Corporate	People's Republic of China	– *	– *	Property holding and provision of residential serviced apartments
Oncor Investment Limited	Corporate	Hong Kong	50	50	Investment holding and trading of silicone sealant and other adhesives

* As detailed in note 8 to the financial statements, the Group's interests in Shougang Grand were disposed of during the year. Accordingly, the Group's interests in Beijing Dongzhimen, which were indirectly held by Shougang Grand, were disposed of together with Shougang Grand on 21 June 2002.



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20. INVESTMENTS**Long term investments**

	Group	
	2002 HK\$'000	2001 HK\$'000
Unlisted equity investments, at cost	<u>19,485</u>	<u>245</u>

Short term investments

	Group	
	2002 HK\$'000	2001 HK\$'000
Listed equity investments in Hong Kong, at market value	<u>—</u>	<u>8,358</u>

21. INVENTORIES

	Group	
	2002 HK\$'000	2001 HK\$'000
Raw materials	167,924	202,115
Work in progress	4,157	35,480
Finished goods	5,915	48,684
Goods in transit	<u>266</u>	<u>206</u>
	<u>178,262</u>	<u>286,485</u>

22. ACCOUNTS AND BILLS RECEIVABLES

		Group	
	Note	2002 HK\$'000	2001 HK\$'000
Manufacture and sale of steel products (note a)		79,517	243,844
Others (note b)		44,676	54,711
Gross amounts due from contract customers	23	<u>1,420</u>	<u>12,289</u>
		<u>125,613</u>	<u>310,844</u>



22. ACCOUNTS AND BILLS RECEIVABLES (continued)*Notes:*

- (a) An aged analysis of accounts and bills receivables from the manufacture and sale of steel products, principally in Mainland China, is as follows:

	2002 HK\$'000	2001 HK\$'000
Within one year	79,517	107,647
1-2 years	—	33,369
Over 2 years	—	102,828
	79,517	243,844

Trading terms with customers are largely on credit, except for new customers, where payment in advance is normally required. Invoices are normally payable within 30 days of issuance, except for certain well established customers, where the terms are extended to 60 days. The Group's management seeks to maintain control over its outstanding receivables and exercises credit control to minimise credit risk. Overdue balances are also regularly reviewed and followed up by the management in accordance with the general business practice applicable to the operating environment in Mainland China.

- (b) An aged analysis of accounts and bills receivables from other activities is as follows:

	2002 HK\$'000	2001 HK\$'000
Within 90 days	26,966	20,098
91-180 days	2,896	2,583
181-365 days	1,153	11,759
1-2 years	5,440	13,281
Over 2 years	8,221	6,990
	44,676	54,711

For the shipping business, payment terms with customers are governed by the charter party, and mainly range from 7 to 30 days. For other businesses, trading terms with customers are similar to those set out in (a) above. The management seeks to maintain control over its outstanding receivables and exercises credit control to minimise credit risk. Overdue balances are also regularly reviewed and followed up by the management.

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23. CONSTRUCTION CONTRACTS

	Group	
	2002 HK\$'000	2001 HK\$'000
Gross amounts due from contract customers included in accounts and bills receivables	1,420	12,289
Gross amounts due to contract customers included in accounts and bills payables	(5,986)	(4,154)
	<u>(4,566)</u>	<u>8,135</u>
Contract costs incurred plus recognised profits less recognised losses to date (<i>note</i>)	297,426	367,522
Less: Progress billings (<i>note</i>)	<u>(301,992)</u>	<u>(359,387)</u>
	<u>(4,566)</u>	<u>8,135</u>

Note: These amounts are mainly related to construction contracts which have either been terminated, ceased or had insignificant activities during the year. The directors have been negotiating with customers to agree their final completion accounts during the year and up to the date of approval of these financial statements.

At 31 December 2002, retentions held by customers for contract works as included in accounts and bills receivables under current assets amounted to approximately HK\$4,050,000 (2001: HK\$7,950,000).



24. DUE FROM/TO RELATED COMPANIES

The balance represents amounts due from/to Shougang HK, its holding company, subsidiary and fellow subsidiaries. Except for the short term loans granted to/by related companies detailed below, the remaining balances are unsecured, interest-free and have no fixed terms of repayment:

- (i) a short term loan of HK\$943,000 granted by one of the Company's subsidiaries in Mainland China to a related company, which is interest-free, secured by bills receivables of HK\$976,000 of the related company and was subsequently repaid in February 2003;
- (ii) short term loans with an aggregate principal amount of HK\$64,635,000 and interest accrued thereon amounting to HK\$377,000 as at 31 December 2002 granted by a subsidiary of Shougang HK to the Company, which are unsecured, bear interest at 5% per annum and are repayable during the year ending 31 December 2003, subject to the conditions as detailed in note 2 to the financial statements;
- (iii) short term loans with an aggregate principal amount of HK\$54,541,000 (RMB57,868,000) and interest accrued thereon amounting to HK\$10,843,000 as at 31 December 2002 granted by Shougang Corporation to one of the Company's subsidiaries in Mainland China, which are unsecured, bear interest at 7.05% per annum and have no fixed terms of repayment; and
- (iv) a short term loan with a principal amount of HK\$146,089,000 (RMB155,000,000) as at 31 December 2002 granted by Shougang Corporation to one of the Company's subsidiaries in Mainland China, which is unsecured, bears interest at 5.85% per annum and is repayable during the year ending 31 December 2003.

25. DUE FROM AN ASSOCIATE

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

26. PLEDGED DEPOSITS

The balance as at 31 December 2002 represents a cash deposit of HK\$8,011,000 (2001: HK\$7,414,000) pledged to a bank in Mainland China to secure banking facilities of approximately HK\$7,800,000 (2001: HK\$6,650,000) granted to a subsidiary of the Group established in Mainland China. As at 31 December 2002, such banking facilities were utilised to the extent of HK\$7,800,000 (2001: HK\$3,489,000) by the Group.

The balance as at 31 December 2001 also included a cash deposit of HK\$3,000,000 pledged to a bank in Hong Kong to secure banking facilities of HK\$13,000,000 granted to the Group.

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27. CASH AND CASH EQUIVALENTS

Included in the balance is an aggregate amount of HK\$8,614,000 (2001: HK\$22,777,000) deposited by certain subsidiaries in Mainland China with Hua Xia Bank, which is a related company of Shougang HK.

28. ACCOUNTS AND BILLS PAYABLES

		Group	
	Note	2002 HK\$'000	2001 HK\$'000
Manufacture and sale of steel products (note a)		25,603	74,546
Others (note b)		26,850	18,010
Gross amounts due to contract customers	23	5,986	4,154
		58,439	96,710

Notes:

- (a) An aged analysis of accounts and bills payables from purchases for the manufacture and sale of steel products, principally in Mainland China, is as follows:

	2002 HK\$'000	2001 HK\$'000
Within one year	25,382	52,801
1-2 years	5	11,547
Over 2 years	216	10,198
	25,603	74,546

- (b) An aged analysis of accounts and bills payables from other activities is as follows:

	2002 HK\$'000	2001 HK\$'000
Within 90 days	13,408	11,885
91-180 days	24	205
181-365 days	10,994	3
1-2 years	10	3,324
Over 2 years	2,414	2,593
	26,850	18,010



29. INTEREST-BEARING BANK AND OTHER BORROWINGS

		Group	
	Notes	2002 HK\$'000	2001 HK\$'000
Current portion of bank loans	30	154,035	266,367
Current portion of finance lease payables	32	—	22,292
		<u>154,035</u>	<u>288,659</u>

30. BANK LOANS

		Group	
		2002 HK\$'000	2001 HK\$'000
Trust receipt loans		3,284	3,491
Bank loans		<u>150,751</u>	<u>474,319</u>
		<u>154,035</u>	<u>477,810</u>
Secured		78,634	171,728
Unsecured		<u>75,401</u>	<u>306,082</u>
		<u>154,035</u>	<u>477,810</u>

The secured bank loans of HK\$78,634,000 (2001: HK\$171,728,000) are secured by certain of the Group's leasehold land and buildings, investment properties, plant and machinery and a cash deposit as further set out in notes 15 and 26 to the financial statements, respectively.

The maturities of the bank loans are as follows:

		Group	
		2002 HK\$'000	2001 HK\$'000
Bank loans repayable:			
Within one year or on demand		154,035	266,367
In the second year		—	171,443
In the third to fifth years, inclusive		—	40,000
		<u>154,035</u>	<u>477,810</u>
Portion classified as current liabilities (note 29)		<u>(154,035)</u>	<u>(266,367)</u>
Long term portion		<u>—</u>	<u>211,443</u>

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31. PROVISION

	Group HK\$'000
At beginning of year	4,527
Amounts utilised during the year	(2,806)
Reversal of unutilised amounts	(1,014)
	<hr/>
At 31 December 2002	<u>707</u>

A provision for compensation payable had been recognised during the year ended 31 December 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 2002 represents the Group's estimate of the probable future payments for an unsettled compensation claim as at 31 December 2002.

32. FINANCE LEASE PAYABLES

At the balance sheet date, the total future minimum lease payments under finance leases and their present values, were as follows:

Group	Minimum lease payments 2002 HK\$'000	Minimum lease payments 2001 HK\$'000	Present value of minimum lease payments 2002 HK\$'000	Present value of minimum lease payments 2001 HK\$'000
Amounts repayable:				
Within one year	-	22,665	-	22,292
In the second year	-	22,665	-	22,292
In the third to fifth years, inclusive	-	67,994	-	66,875
After five years	-	52,884	-	52,014
	<hr/>	<hr/>	<hr/>	<hr/>
			-	163,473
			<hr/>	<hr/>
Total minimum finance lease payments	-	166,208		
Future finance charges	-	(2,735)		
	<hr/>	<hr/>		
Total net finance lease payables	-	163,473		
Portion classified as current liabilities (note 29)	-	(22,292)		
	<hr/>	<hr/>		
Long term portion	-	141,181		
	<hr/>	<hr/>		



33. CONVERTIBLE NOTE

On 7 June 2002, Sino Fortune Investments Limited (the "Issuer"), a wholly-owned subsidiary of the Company, issued a convertible note with a principal amount of HK\$200,000,000 (the "Convertible Note") due on 7 June 2004 (the "Maturity Date") to a wholly-owned subsidiary of Shougang HK (the "Subscriber").

The noteholder will have the right at any time during the period from 7 September 2002 until the Maturity Date to convert in whole or in part of the Convertible Note into fully paid ordinary shares of the Company with a par value of HK\$0.20, at an initial conversion price of HK\$0.35 per share, subject to adjustments in certain events. On conversion, the principal amount of the Convertible Note being converted and the accrued interest thereon will be extinguished and released in exchange for the new shares to be issued by the Company, credited as fully paid.

The Issuer shall be entitled by giving written notice to the noteholder at any time and from time to time prior to the Maturity Date to redeem the whole amount, but not part, of the Convertible Note if either the Issuer or the Company is required to do so under the applicable law.

The Convertible Note may only be assigned or transferred to Shougang HK or any wholly-owned subsidiary of Shougang HK.

Unless previously converted or redeemed, the Convertible Note will be redeemed at par plus unpaid interest thereon on the Maturity Date.

The Company shall guarantee for the performance of the obligations of the Issuer under the subscription agreement of the Convertible Note. The Company unconditionally and irrevocably undertakes with the Subscriber that it shall guarantee the due and punctual payment of all sums payable by the Issuer to the Subscriber under the Convertible Note, including but not limited to the principal and accrued interest on the Convertible Note.

34. LONG TERM LOAN FROM A RELATED COMPANY

The amount represents a loan of HK\$271,710,000 (2001: HK\$271,838,000) made by a wholly-owned subsidiary of Shougang HK to one of the Company's subsidiaries in Mainland China, in which the Company has an attributable interest of 51%. The amount is unsecured and interest-free. The subsidiary of Shougang HK has undertaken to provide this loan on an unspecified long term basis. Accordingly, the loan balance has been classified as a long term liability.

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35. DEFERRED TAX

	Group	
	2002	2001
	HK\$'000	HK\$'000
Balance at beginning of year	—	186
Credit for the year (<i>note 12</i>)	—	(186)
	<hr/>	<hr/>
Balance at end of year	—	—
	<hr/>	<hr/>

The principal components of the Group's deferred tax amounts not provided for are as follows:

	2002	2001
	HK\$'000	HK\$'000
Tax losses carried forward	77,979	78,265
Accelerated depreciation allowances	4	(22)
	<hr/>	<hr/>
	77,983	78,243
	<hr/>	<hr/>

Deferred tax has not been provided on the revalued assets as the revaluation is not deemed to be a timing difference.

The Company had no significant unprovided deferred tax liability at the balance sheet date (2001: Nil).

36. SHARE CAPITAL

Shares

	Company	
	2002 HK\$'000	2001 HK\$'000
Authorised:		
5,000,000,000 ordinary shares of HK\$0.20 each	<u>1,000,000</u>	<u>1,000,000</u>
Issued and fully paid:		
2,295,546,454 ordinary shares of HK\$0.20 each	<u>459,109</u>	<u>459,109</u>

During the years ended 31 December 2002 and 2001, the movements in share capital were as follows:

- (a) During the year ended 31 December 2001, an aggregate principal amount of the convertible bonds, totalling HK\$75,882,200, was converted into ordinary shares of the Company at a conversion price of HK\$0.38 per share, resulting in the issue of 199,690,000 ordinary shares of the Company of HK\$0.20 each, credited as fully paid. The principal amount of HK\$75,882,200 and the accrued premium on redemption and interest of the convertible bonds converted totalling HK\$6,619,000 were extinguished and released upon conversion.
- (b) On 12 June 2001, arrangements were made by the Company and a shares placing agent for the private placement by Jasmine Group Limited ("Jasmine"), a then shareholder of the Company and a then wholly-owned subsidiary of Shougang HK, of an aggregate of 200,000,000 existing ordinary shares of the Company at HK\$0.46 per share to independent investors. On the same date, Jasmine also entered into an agreement with the Company to subscribe for 200,000,000 new ordinary shares of the Company at a price of HK\$0.46 per share. The closing market price per ordinary share of the Company on 12 June 2001 was HK\$0.55. These shares were issued under the general mandate granted to the directors at the annual general meeting of the Company held on 27 June 2000 and rank pari passu in all respects with the then existing issued shares of the Company. The resulting proceeds were mainly used by the Company to finance the repayment of the convertible bonds during the year ended 31 December 2001.

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36. SHARE CAPITAL (continued)

A summary of the transactions during the years ended 31 December 2002 and 2001 with reference to the above movements in the Company's issued ordinary share capital was as follows:

	Number of shares in issue	Issued share capital HK\$'000	Share premium account HK\$'000	Total HK\$'000
At 1 January 2001	1,895,856,454	379,171	821,489	1,200,660
Conversion of convertible bonds (a)	199,690,000	39,938	42,563	82,501
Share placement (b)	200,000,000	40,000	52,000	92,000
	<u>399,690,000</u>	<u>79,938</u>	<u>94,563</u>	<u>174,501</u>
Share issue expenses	—	—	(2,529)	(2,529)
At 1 January 2002 and 31 December 2002	<u>2,295,546,454</u>	<u>459,109</u>	<u>913,523</u>	<u>1,372,632</u>

Share options

Details of the Company's share option schemes and the share options issued under the schemes are included in note 37 to the financial statements.

37. SHARE OPTION SCHEMES

SSAP 34 was adopted during the year, as explained in note 3 and under the heading "Employee benefits" in note 4 to the financial statements. As a result, these detailed disclosures relating to the Company's share option schemes are now included in the notes to the financial statements. In the prior year, these disclosures were included in the Report of the Directors, as their disclosure is also a requirement of the Listing Rules.



37. SHARE OPTION SCHEMES (continued)

Old Scheme

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 at an exercise price to be determined by the directors at their discretion and equal to the higher of (i) a price being not less than 80% of the average closing prices of the shares of the Company on the Stock Exchange on the five trading days immediately preceding the date of offer of grant; and (ii) the nominal value of a share of the Company.

The maximum number of shares in respect of which share options might be granted under the Old Scheme might not exceed 10% of the issued capital of the Company, excluding any shares issued pursuant to the Old Scheme, from time to time.

No grantee should be granted share options to subscribe for such number of shares of the Company which, if exercised in full and when aggregated with the total number of shares already issued and issuable upon the exercise of share options previously granted to that grantee, would exceed 25% of the aggregate number of shares for the time being issued or issuable under the Old Scheme.

The period within which the shares must be taken under a share option and the minimum period for which a share option must be held before it could be exercised would be determined by the directors of the Company at their absolute discretion, save for that no share option might be exercised later than 10 years after it had been accepted by the grantee. Each of the grantees was required to pay HK\$1 as consideration for the grant of share options upon acceptance.

On 7 June 2002, the Old Scheme was terminated by the shareholders of the Company. No share option was granted by virtue of the Old Scheme since its adoption on 21 June 2001 and up to 7 June 2002, being the date of termination of the Old Scheme.

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37. SHARE OPTION SCHEMES (continued)**New Scheme**

On 7 June 2002, a new share option scheme (the “New Scheme”) which complies with the new requirements of Chapter 17 of the Listing Rules was adopted by the shareholders of the Company.

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 and hereby referred to as the “Associated Companies”). The New Scheme will remain in force for a period of 10 years commencing on 7 June 2002, being the date of adoption of the New Scheme, to 6 June 2012.

Under the New Scheme, the directors may, at their discretion, offer directors (including executive and non-executive directors), executives, officers, employees or shareholders of the Company or any of its subsidiaries or any of the Associated Companies, and any suppliers, customers, consultants, advisers, agents, partners or business associates who, in the sole discretion of the directors, will contribute or have contributed to the Company or any of its subsidiaries or any of the Associated Companies, share options to subscribe for shares of the Company.

The maximum number of shares which may be issued upon exercise of all share options granted and to be granted under the New Scheme is 229,554,645 which represents 10% of the issued share capital of the Company as at the date of approval of these financial statements. The total number of shares issued and to be issued upon the exercise of share options granted under the New Scheme (including exercised, cancelled and outstanding share options) to each grantee in any 12-month period up to the date of grant shall not exceed 1% of the issued share capital of the Company as at the date of grant. Any further grant of share options in excess of this limit is subject to shareholders’ approval in a general meeting.

Share options granted to a director, chief executive or substantial shareholder of the Company, or to any of their associates, are subject to approval in advance by the independent non-executive directors. In addition, any share options granted to a substantial shareholder or an independent non-executive director of the Company, or to any of their associates, in excess of in aggregate 0.1% of the shares of the Company in issue (based on the date of offer) and an aggregate value of HK\$5 million (based on the closing price of the Company’s shares at the date of each offer), within any 12-month period, are subject to shareholders’ approval in advance in a general meeting.



37. SHARE OPTION SCHEMES (continued)

New Scheme (continued)

The period during which a share option may be exercised will be determined by the directors of the Company at their absolute discretion, save that no share option may be exercised more than 10 years after it has been granted. There is no requirement that a share option must be held for any minimum period before it can be exercised but the directors of the Company are empowered to impose at their discretion any such minimum period at the time of grant of any share options.

The exercise price in relation to each share option will be determined by the directors at their absolute discretion and shall not be less than the highest of (i) the official closing price of the shares of the Company as stated in the daily quotation sheet of the Stock Exchange on the date of offer of share options; (ii) the average of the official closing prices of the shares of the Company as stated in the daily quotation sheets of the Stock Exchange for the five business days immediately preceding the date of offer of share options; and (iii) the nominal value of a share of the Company on the date of offer of share options. Each of the grantees is required to pay HK\$1 as consideration for the grant of share options in accordance with the New Scheme. The offer of a grant of share options must be accepted within 60 days from the date of the offer.

Share options do not confer rights on the holders to dividends or to vote at shareholder meetings.

Details of the share options granted under the New Scheme during the year are as follows:

Grantees	Number of share options to subscribe for shares in the Company			Date of grant/ acceptance	Exercise period	Exercise price per share
	At the beginning of the year	Granted during the year	At the end of the year			
Directors of the Company	–	114,000,000	114,000,000	23.8.2002	23.8.2002 – 22.8.2012	HK\$0.295
Directors of subsidiaries and/or the Associated Companies						
Fu Jianguo	–	22,950,000	22,950,000	23.8.2002	23.8.2002 – 22.8.2012	HK\$0.295
Tong Yihui	–	7,000,000	7,000,000	23.8.2002	23.8.2002 – 22.8.2012	HK\$0.295
Wong Ying Tak	–	1,150,000	1,150,000	23.8.2002	23.8.2002 – 22.8.2012	HK\$0.295
Employees of the Group	–	3,900,000	3,900,000	23.8.2002	23.8.2002 – 22.8.2012	HK\$0.295
	<u>–</u>	<u>149,000,000</u>	<u>149,000,000</u>			

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37. SHARE OPTION SCHEMES (continued)**New Scheme** (continued)*Notes:*

- 1 Details of the share options granted to each director of the Company are set out under the heading "Directors' right to acquire shares or debentures" in the Report of the Directors.
- 2 Each of the grantees paid HK\$1 to the Company as consideration for the grant of share options.
- 3 No share option granted under the New Scheme was exercised, cancelled and lapsed during the year. Since there was no share option exercised during the year, no weighted average closing price of shares of the Company in respect thereof is required to be disclosed.
- 4 The closing market price of the shares of the Company immediately before 23 August 2002 at which date the share options were granted was HK\$0.285 per share.
- 5 The directors consider that it is not appropriate to disclose the value of share options granted during the year as the market price of the shares of the Company as at the year end date was below the exercise price of the share options granted and any valuation of the above share options would be subject to a number of assumptions that would be subjective and uncertain.
- 6 The accounting policy in respect of the share options is detailed in note 4 to the financial statements under the heading "Employee benefits".
- 7 The vesting period of the share options is from the date of grant to the end of the exercise period.

At the balance sheet date, the Company had 149,000,000 share options outstanding under the New Scheme. The exercise in full of the share options would, under the present capital structure of the Company, result in the issue of 149,000,000 additional ordinary shares of the Company and additional share capital of HK\$29,800,000 and share premium of HK\$14,155,000 (before issue expenses).

Subsequent to the balance sheet date, the Company granted to certain eligible participants (as defined under the New Scheme) on 12 March 2003 under the New Scheme a total of 80,320,000 share options to subscribe for shares in the Company at an exercise price of HK\$0.28 per share.



38. RESERVES

	Share premium account HK\$'000	Capital redemption reserve HK\$'000	Revaluation reserve HK\$'000	Exchange fluctuation reserve HK\$'000	Capital reserve HK\$'000 Note (a)	Enterprise expansion fund and statutory reserve fund HK\$'000 Note (b)	Accumulated losses HK\$'000	Total HK\$'000
Group								
At 1 January 2001	821,489	1,019	4,014	41,546	1,481,065	126,994	(2,059,709)	416,418
Issue of shares	87,944	-	-	-	-	-	-	87,944
Transfer of accretion of premium and accrued interest on the convertible bonds	6,619	-	-	-	-	-	-	6,619
Share issue expenses	(2,529)	-	-	-	-	-	-	(2,529)
Impairment of goodwill remaining eliminated against capital reserve	-	-	-	-	333,053	-	-	333,053
Deemed disposal of interest in an associate	-	-	-	-	587	-	-	587
Share of movements in reserves of associates	-	-	-	2,059	2,752	413	(1,110)	4,114
Exchange adjustments on translation of the financial statements of overseas subsidiaries and jointly-controlled entities	-	-	-	625	-	-	-	625
Transfer to enterprise expansion fund and statutory reserve fund	-	-	-	-	-	90	(90)	-
Net loss for the year	-	-	-	-	-	-	(607,378)	(607,378)
At 31 December 2001	<u>913,523</u>	<u>1,019</u>	<u>4,014</u>	<u>44,230</u>	<u>1,817,457</u>	<u>127,497</u>	<u>(2,668,287)</u>	<u>239,453</u>

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38. RESERVES (continued)

	Share premium account HK\$'000	Capital redemption reserve HK\$'000	Revaluation reserve HK\$'000	Exchange fluctuation reserve HK\$'000	Capital reserve HK\$'000 Note (a)	Enterprise expansion fund and statutory reserve fund HK\$'000 Note (b)	Accumulated losses HK\$'000	Total HK\$'000
Group								
At 1 January 2002	913,523	1,019	4,014	44,230	1,817,457	127,497	(2,668,287)	239,453
Disposal of subsidiaries	-	-	-	(25,783)	-	(83,936)	83,936	(25,783)
Dissolution of a subsidiary	-	-	-	(921)	-	-	-	(921)
Share of movements in reserves of associates	-	-	750	2,374	-	1,878	(1,878)	3,124
Exchange adjustments on translation of the financial statements of overseas subsidiaries and jointly- controlled entities	-	-	-	(858)	-	-	-	(858)
Transfer to enterprise expansion fund and statutory reserve fund	-	-	-	-	-	102	(102)	-
Net loss for the year	-	-	-	-	-	-	(311,926)	(311,926)
At 31 December 2002	<u>913,523</u>	<u>1,019</u>	<u>4,764</u>	<u>19,042</u>	<u>1,817,457</u>	<u>45,541</u>	<u>(2,898,257)</u>	<u>(96,911)</u>
Reserves retained by:								
Company and its subsidiaries	913,523	1,019	2,855	26,067	1,800,000	35,535	(2,789,632)	(10,633)
Associates	-	-	1,909	(7,025)	17,457	10,006	(108,902)	(86,555)
Jointly-controlled entities	-	-	-	-	-	-	277	277
31 December 2002	<u>913,523</u>	<u>1,019</u>	<u>4,764</u>	<u>19,042</u>	<u>1,817,457</u>	<u>45,541</u>	<u>(2,898,257)</u>	<u>(96,911)</u>
Company and its subsidiaries	913,523	1,019	2,855	53,592	1,800,000	118,979	(2,600,080)	289,888
Associates	-	-	1,159	(10,006)	17,457	8,518	(79,430)	(62,302)
Jointly-controlled entities	-	-	-	644	-	-	11,223	11,867
31 December 2001	<u>913,523</u>	<u>1,019</u>	<u>4,014</u>	<u>44,230</u>	<u>1,817,457</u>	<u>127,497</u>	<u>(2,668,287)</u>	<u>239,453</u>



38. RESERVES (continued)

	Share premium account HK\$'000	Capital redemption reserve HK\$'000	Revaluation reserve HK\$'000	Exchange fluctuation reserve HK\$'000	Capital reserve HK\$'000 Note (a)	Enterprise expansion fund and statutory reserve fund HK\$'000 Note (b)	Accumulated losses HK\$'000	Total HK\$'000
Company								
At 1 January 2001	821,489	1,019	-	-	1,800,000	-	(2,052,192)	570,316
Issue of shares	87,944	-	-	-	-	-	-	87,944
Transfer of accretion of premium and accrued interest on the convertible bonds	6,619	-	-	-	-	-	-	6,619
Share issue expenses	(2,529)	-	-	-	-	-	-	(2,529)
Loss for the year	-	-	-	-	-	-	(422,897)	(422,897)
At 31 December 2001 and 1 January 2002	913,523	1,019	-	-	1,800,000	-	(2,475,089)	239,453
Loss for the year	-	-	-	-	-	-	(336,364)	(336,364)
At 31 December 2002	<u>913,523</u>	<u>1,019</u>	<u>-</u>	<u>-</u>	<u>1,800,000</u>	<u>-</u>	<u>(2,811,453)</u>	<u>(96,911)</u>

Notes:

- (a) 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.
- (b) In accordance with the financial regulations applicable in Mainland China, subsidiaries, associates and other joint ventures in Mainland China are required to transfer part of their profits after tax to the enterprise expansion fund and the statutory reserve fund, which are non-distributable, before profit distributions to joint venture partners. The quanta of the transfers are subject to the approval of the board of directors of these subsidiaries, associates and joint ventures in accordance with their respective joint venture agreements.

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39. INTERESTS IN SUBSIDIARIES

	Company	
	2002 HK\$'000	2001 HK\$'000
Unlisted shares, at cost	527,466	527,466
Due from subsidiaries	2,091,770	2,549,324
Due to a subsidiary	(196,461)	—
	<u>2,422,775</u>	<u>3,076,790</u>
Less: Provision for impairment	<u>(1,997,347)</u>	<u>(2,126,182)</u>
	<u><u>425,428</u></u>	<u><u>950,608</u></u>

Except for balances with an aggregate amount of HK\$58,500,000 (2001: HK\$31,645,000) due from a subsidiary which bear interest at rates ranging from 5% to 5.25% per annum (2001: 4.5% to 11.74%), the remaining balances are interest-free, unsecured and have no fixed terms of repayment.



39. INTERESTS IN SUBSIDIARIES (continued)

Particulars of the principal subsidiaries at the balance sheet date are as follows:

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary share capital/ registered capital	Percentage of equity attributable to the Group		Principal activities
			2002	2001	
Shougang Concord Steel Holdings Limited	British Virgin Islands/ Hong Kong	US\$1,000	100	100	Investment holding
Shougang Concord Steel Group Limited	Hong Kong	HK\$25,000,000	100 *	100 *	Investment holding
Shougang Concord Construction Materials Limited	Hong Kong	HK\$14,000,000	100 *	100 *	Provision of interior decoration and renovation services
Radnor Limited	Hong Kong	HK\$1,775,920	75 *	75 *	Manufacture and installation of kitchen and laundry equipment and investment holding
Radnor Engineering Limited	Hong Kong/ People's Republic of China	HK\$200,000	75 *	75 *	Manufacture and installation of kitchen and laundry equipment
Dongguan Roulop Metal Products Co. Limited	People's Republic of China	HK\$13,000,000	57.7 *	57.7 *	Manufacture and installation of kitchen and laundry equipment



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39. INTERESTS IN SUBSIDIARIES (continued)

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary share capital/ registered capital	Percentage of equity attributable to the Group		Principal activities
			2002	2001	
Jiangmen Radnor Kitchen & Laundry Engineering Limited	People's Republic of China	HK\$500,000	71.25*	71.25*	Installation of kitchen and laundry equipment
Shougang Concord Godown Limited	Hong Kong	Ordinary: HK\$2 Deferred: HK\$2,000,000	100*	100*	Provision of warehousing services
Shougang Concord Management Company Limited	Hong Kong	HK\$100,000	100*	100*	Provision of management services and investment holding
Shougang Concord Steel (International) Company Limited	British Virgin Islands/ Hong Kong	US\$1,000	100*	100*	Investment holding
Shougang Concord Steel International Trading Co. Ltd.	British Virgin Islands/ People's Republic of China	US\$1	100*	100*	Trading of steel bars and investment holding
Star Field (H.K.) Limited	Hong Kong/ People's Republic of China	HK\$10,000	100*	100*	Property investment
Shougang Concord Shipping Holdings Limited ***	British Virgin Islands/ Hong Kong	US\$641,025	100	100	Investment holding



39. INTERESTS IN SUBSIDIARIES (continued)

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary share capital/ registered capital	Percentage of equity attributable to the Group		Principal activities
			2002	2001	
Shougang Concord International Transport Limited***	British Virgin Islands/ Hong Kong	US\$1	100 *	100 *	Investment holding and chartering of vessels
Ryegar Limited***	United Kingdom/ Hong Kong	£2	100 *	100 *	Chartering of vessels
Shougang Concord Shipping Services Limited***	Hong Kong	HK\$2	100 *	100 *	Provision of management services
SCIT (Chartering) Limited***	British Virgin Islands/ People's Republic of China	US\$1	100 *	100 *	Chartering of vessels
Centralink International Limited***	British Virgin Islands/ Hong Kong	US\$2,000,000	70 *	70 *	Investment holding
Zhoushan Shouhe Centra-link Co. Ltd.***	People's Republic of China	US\$5,000,000	####	####	Hiring of floating cranes
Fair Union Holdings Limited	Samoa/ Hong Kong	US\$1	100	100	Investment holding
Richson Limited	Samoa/ Hong Kong	US\$1	100 *	100 *	Investment holding
Casula Investments Limited	Samoa/ Hong Kong	US\$1	100 *	100 *	Investment holding
Firstlevel Holdings Limited	Samoa/ Hong Kong	US\$1	100	100	Investment holding



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39. INTERESTS IN SUBSIDIARIES (continued)

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary share capital/ registered capital	Percentage of equity attributable to the Group		Principal activities
			2002	2001	
Shougang Concord Power Plant Holdings Limited	British Virgin Islands/ Hong Kong	US\$1	100*	100*	Investment holding
Beijing Shougang– Pohseng Strip Steel Co., Ltd. ("Pohseng")	People's Republic of China	US\$35,536,601	–#	65*	Manufacture and sale of steel strips
Beijing Shougang– Liwoh Bar Steel Co., Ltd. ("Liwoh")	People's Republic of China	US\$35,536,601	–#	65*	Manufacture and sale of steel bars
Beijing Shougang– Gitane Alloy Materials Co., Ltd. ("Gitane")	People's Republic of China	US\$36,169,902	–#	65*	Manufacture and sale of steel wires
Qinhuangdao Shougang Plate Mill Co., Ltd. ("QHD")	People's Republic of China	US\$29,950,000	51*	51*	Manufacture and sale of steel plates
Beijing Shougang Firstlevel Power Co., Ltd. ("BSFPCL")	People's Republic of China	RMB261,170,000	51*##	–	Power generation
Sino Fortune Investments Limited	Samoa/ Hong Kong	US\$1	100	–	Issue of a convertible note
Good News Investment Limited	Hong Kong	HK\$2	100*	100*	Property investment
Shougang Concord Services Limited	Hong Kong	HK\$2	100	100	Provision of management services



39. INTERESTS IN SUBSIDIARIES (continued)

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary share capital/ registered capital	Percentage of equity attributable to the Group		Principal activities
			2002	2001	
Shougang Concord Grand (Group) Limited**	Bermuda/ Hong Kong	HK\$8,278,679	—###	60*	Investment holding
Upper Nice Assets Limited	British Virgin Islands/ Hong Kong	US\$1	—###	60*	Investment holding
Jeckman Holdings Limited	British Virgin Islands/ Hong Kong	US\$16	—###	60*	Investment holding
Lyre Terrace Management Limited	Hong Kong	HK\$1,000,000	—###	60*	Investment holding and property investment
Grand Award Limited	British Virgin Islands	US\$1	—###	60*	Investment holding
SCG Financial Investment Limited	British Virgin Islands	US\$1,000	—###	60*	Investment holding
On Hing Investment Company, Limited	Hong Kong	HK\$1,000 (ordinary) HK\$2,000,000 (non-voting deferred)	—###	60*	Property investment
Tin Fung Investment Company, Limited	Hong Kong	HK\$975,000 (ordinary) HK\$210,000 (non-voting deferred)	—###	60*	Property investment
Eldex Investment Company Limited	Hong Kong	HK\$541,000 (ordinary) HK\$1,459,000 (non-voting deferred)	—###	60*	Property investment

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39. INTERESTS IN SUBSIDIARIES (continued)

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary share capital/ registered capital	Percentage of equity attributable to the Group		Principal activities
			2002	2001	
Strenbeeche Limited	British Virgin Islands	HK\$147,000,008	—###	60*	Property investment
Linksky Limited	Hong Kong	HK\$2	—###	60*	Property holding
Ecko Limited	Hong Kong	HK\$2	—###	60*	Property management
Long Cosmos Investment Limited	Hong Kong	HK\$2	—###	60*	Provision of management services
Grand Park Investment Limited	Hong Kong	HK\$2	—###	60*	Property investment
SCG Leasing Corporation Limited	Hong Kong	HK\$2	—###	60*	Property investment

* Held through subsidiaries.

** Company listed on the Stock Exchange.

*** Not audited by Ernst & Young Hong Kong or other Ernst & Young International member firms.



39. INTERESTS IN SUBSIDIARIES (continued)

- # On 28 November 2002, the Group disposed of 50% out of its then 65% interests in each of Pohseng, Liwoh and Gitane. Accordingly, the Group's remaining 15% interests in each of Pohseng, Liwoh and Gitane were accounted for as long term investments since then. Further details of the disposals are set out in note 40(c) to the financial statements.
- ## On 4 November 2002, the Group acquired a 51% interest in BSFPCL. Further details of the acquisition are set out in note 40(b) to the financial statements.
- ### On 21 June 2002, the Group disposed of its entire interests in Shougang Grand and those subsidiaries indirectly held through Shougang Grand. Further details of the disposal are set out in note 8 to the financial statements.
- #### Zhoushan Shouhe Centra-link Co. Ltd ("Zhoushan") is a cooperative joint venture which was established in 1993 in Mainland China 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.

The above table includes the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the assets and/or liabilities of the Group. To give details of all of the Company's subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

40. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Changes to the layout of the consolidated cash flow statement

SSAP 15 (Revised) was adopted during the current year, as detailed in note 3 to the financial statements, which has resulted in a change to the layout of the cash flow statement. The cash flow statement is now presented under three headings: cash flows from operating activities, investing activities and financing activities. Previously five headings were used, comprising the three headings listed above, together with cash flows from returns on investments and servicing of finance and from taxes paid. The significant reclassifications resulting from the change in presentation are that taxes and interests paid are now included in cash flows from operating activities, and interests and dividends received are now included in cash flows from investing activities. The presentation of the 2001 comparative cash flow statement has been changed to accord with the new layout.



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40. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(continued)

(b) Acquisition of a subsidiary

	2002 HK\$'000	2001 HK\$'000
Net assets acquired:		
Fixed assets	352,125	3,151
Prepayments, deposits and other receivables	–	91
Due from related companies	52,259	–
Inventories	10,772	–
Other payables and accrued liabilities	(2,156)	(4)
Due to related companies	(166,845)	–
Minority interests	(120,616)	–
	125,539	3,238
Goodwill on acquisition (note 17)	72,677	–
	198,216	3,238
Satisfied by:		
Cash	198,216	–
Accounts receivable	–	3,238
	198,216	3,238

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 BSFPCL, a Sino-foreign joint venture established in Mainland China engaged in the power generation business, for a cash consideration of approximately HK\$198.2 million. The acquisition was completed on 4 November 2002.

Since its acquisition, BSFPCL 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.

During the year ended 31 December 2001, a debtor of the Group transferred its entire equity interest in Star Field (H.K.) Limited ("Star Field") to the Group at a nominal consideration of HK\$10 as partial settlement of the trade debts it owed to the Group.

Star Field had no significant impact on the Group's consolidated turnover and consolidated loss after tax and before minority interests for the year ended 31 December 2001.



40. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(continued)

(c) Disposal of subsidiaries

	2002 HK\$'000	2001 HK\$'000
Net assets disposed of:		
Fixed assets	804,739	16,017
Interests in associates	238,094	—
Interests in jointly-controlled entities	231,993	—
Cash and bank balances	65,876	—
Accounts and bills receivables	160,545	—
Prepayments, deposits and other receivables	4,515	—
Due from related companies	73,895	—
Inventories	89,035	—
Short term investments	835	—
Accounts and bills payables	(68,506)	—
Other payables and accrued liabilities	(160,243)	—
Due to related companies	(179,363)	—
Tax payable	(3,481)	—
Bank loans	(317,679)	—
Finance lease payables	(141,114)	—
Minority interests	(374,167)	—
	424,974	16,017
Realisation of exchange reserve	(25,783)	—
Reclassification to long term investments	(19,391)	—
Gain/(loss) on disposal of subsidiaries	99,503	(4,808)
Loss on disposal of discontinued operations	(213,340)	—
	265,963	11,209
Satisfied by:		
Cash	245,573	11,209
Set-off against amounts due to a related company	20,390	—
	265,963	11,209



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40. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(continued)

(c) Disposal of subsidiaries (continued)

An analysis of the net inflow of cash and cash equivalents in respect of the disposal of subsidiaries is as follows:

	2002 HK\$'000	2001 HK\$'000
Cash consideration	245,573	11,209
Cash and bank balances disposed of	(65,876)	—
Net inflow of cash and cash equivalents in respect of the disposal of subsidiaries	179,697	11,209

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 Pohseng, Liwoh and 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 long term investments 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 8 to the financial statements.

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\$61,229,000 in the consolidated loss after tax and before minority interests.

The subsidiary disposed of during the year ended 31 December 2001 had no significant impact on the Group's consolidated turnover and consolidated loss after tax and before minority interests for the year ended 31 December 2001.



41. CONTINGENT LIABILITIES

At the balance sheet date, the Group and the Company had significant contingent liabilities in respect of the following:

	Group		Company	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Guarantees in respect of the Convertible Note (<i>note 33</i>)	–	–	200,000	–
Guarantees in respect of banking facilities granted to subsidiaries	–	–	46,800	59,785
Guarantees in respect of banking facilities granted to third parties	37,700	–	–	–
Guarantees in respect of performance bonds	2,026	3,450	–	–
	<u>39,726</u>	<u>3,450</u>	<u>246,800</u>	<u>59,785</u>

In addition to the above, 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 obligations, 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 42(b) to the financial statements.

42. OPERATING LEASE ARRANGEMENTS

(a) As lessor

The Group leases its land and buildings in Mainland China and Hong Kong under operating lease arrangements, with leases negotiated for terms within one year. The terms of the leases generally also require the tenants to pay security deposits. The leases provide for periodic rent adjustments according to the then prevailing market conditions.

At the balance sheet date, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	Group	
	2002 HK\$'000	2001 HK\$'000
Within one year	290	7,883
In the second to fifth years, inclusive	–	1,475
	<u>290</u>	<u>9,358</u>



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42. OPERATING LEASE ARRANGEMENTS (continued)**(b) As lessee**

The Group leases certain of its 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 in 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.

In addition, the Group leases certain of its office premises and staff quarters in Hong Kong and Mainland China 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 Mainland China 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.

At the balance sheet date, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group		Group	
	2002 Vessels time charter hire HK\$'000	2001 Vessels time charter hire HK\$'000	2002 Land and buildings HK\$'000	2001 Land and buildings HK\$'000
Within one year	132,067	129,165	336	8,576
In the second to fifth years, inclusive	557,044	545,487	569	34,655
After five years	727,417	870,442	1,843	40,339
	<u>1,416,528</u>	<u>1,545,094</u>	<u>2,748</u>	<u>83,570</u>



43. COMMITMENTS

In addition to the operating lease commitments detailed in note 42(b) above, the Group had the following commitments at the balance sheet date:

(a) Capital commitments

	Group	
	2002 HK\$'000	2001 HK\$'000
Property, plant and equipment:		
Contracted for	7,787	10,502
Authorised, but not contracted for	—	58,570
	<u>7,787</u>	<u>69,072</u>

In addition, the Group's share of a jointly-controlled entity's own capital commitments which is not included in the above was as follows:

	Group	
	2002 HK\$'000	2001 HK\$'000
Authorised, but not contracted for	—	64,237
Contracted, but not provided for	—	894
	<u>—</u>	<u>65,131</u>

(b) Commitments under foreign exchange forward contracts

	Group	
	2002 HK\$'000	2001 HK\$'000
Foreign exchange forward contracts	2,563	—
	<u>2,563</u>	<u>—</u>

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

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44. RELATED PARTY TRANSACTIONS

Details of the terms and balances due from/to the Company and the Group's subsidiaries, associates and related companies are set out in notes 18, 24, 25, 33, 34 and 39 to the financial statements.

Listed below are related party transactions disclosed in accordance with SSAP 20. Except for the transactions referred to in notes 44(a)(ix) and (xi) below, the remaining transactions also constituted connected transactions as defined in the Listing Rules.

- (a) During the year, the Group entered into certain transactions with Shougang HK and its holding company, subsidiaries, fellow subsidiaries and associates (collectively the "related companies"). In addition, the Group also entered into certain transactions with its associates.

	Notes	2002 HK\$'000	2001 HK\$'000
Sales to related companies	(i)	127,284	77,244
Purchases from related companies	(ii)	814,785	866,198
Lease rentals payable to related companies	(iii)	2,126	3,445
Management fees payable to a related company	(iv)	680	240
Consultancy fees payable to a related company	(v)	480	960
Purchases of spare parts from related companies	(vi)	10,140	10,193
Corporate guarantees received from a related company	(vii)	301,612	306,082
Loans from related companies	(viii)	114,523	176,678
Management fees receivable from associates	(ix)	960	1,320
Management fees receivable from related companies	(x)	640	—
Rental income receivable from an associate	(xi)	396	1,020
Rental income receivable from a related company	(xii)	396	—
Convertible note issued to a related company	(xiii)	200,000	—
Convertible note interest payable to a related company	(xiii)	3,419	—
Interest payable to related companies	(xiv)	11,838	14,689
Service fees payable to related companies	(xv)	7,334	6,665
Commission payable to related companies	(xvi)	3,640	677
Freight income receivable from related companies	(xvii)	169,170	187,140
Service fees receivable from related companies	(xviii)	465	796
Purchases of fixed assets from related companies	(xix)	3,281	—
Convertible bond interest expense payable to related companies		—	8,254



44. RELATED PARTY TRANSACTIONS (continued)

- (i) QHD sold steel products (principally steel plates) and scrap materials (principally scrap metals) of HK\$90,750,000 (2001: HK\$74,551,000) to certain related companies in Mainland China in the ordinary course of business and at a consideration decided between the parties with reference to the then prevailing market prices.

Gitane sold steel products (principally wire products) of HK\$19,000 (2001: HK\$233,000) to certain related companies in Mainland China in the ordinary course of business and at a consideration decided between the parties.

BSFPCL sold electricity of HK\$28,105,000 to a related company in Mainland China in the ordinary course of business and at a consideration decided between the parties.

BSFPCL sold steam and hot water of HK\$8,410,000 to certain related companies in Mainland China in the ordinary course of business and at a consideration decided between the parties with reference to relevant rates pronounced by the local Beijing Municipal Government.

In 2001, Pohseng sold steel products (principally steel strips) and scrap materials (principally scrap metals) of HK\$2,460,000 to certain related companies in Mainland China in the ordinary course of business and at a consideration decided between the parties with reference to the then prevailing market prices.

- (ii) Pohseng purchased raw materials (principally steel billets) of HK\$327,250,000 (2001: HK\$371,356,000) from a related company in the ordinary course of business and at a consideration decided between the parties.

Gitane purchased raw materials of HK\$64,000 (2001: HK\$1,945,000) from related companies in the ordinary course of business and at a consideration decided between the parties.

QHD purchased raw materials (principally steel slabs) of HK\$455,903,000 (2001: HK\$414,944,000) from a related company in the ordinary course of business and at a consideration decided between the parties with reference to the then prevailing market prices.

BSFPCL purchased water and recycled water, chemical, raw materials, coal, coal gas, nitrogen and other related ancillary raw materials and products of HK\$16,308,000 from certain related companies in the ordinary course of business and at a consideration decided between the parties.



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44. RELATED PARTY TRANSACTIONS (continued)

Shougang Concord Steel International Trading Co. Ltd., a wholly-owned subsidiary of the Company, purchased steel products of HK\$15,260,000 (2001: HK\$77,953,000) from a related company in the ordinary course of business and at a consideration decided between the parties.

- (iii) The Group entered into various rental agreements with certain subsidiaries of Shougang HK for renting office and residential apartments as staff quarters. The rentals were determined between the parties.
- (iv) Management fees of HK\$680,000 (2001: HK\$240,000) were paid to Shougang HK for the provision of management services to the Company at rates decided between the parties.
- (v) Consultancy fees of HK\$480,000 for the period from 1 January 2002 to 21 June 2002 (2001: HK\$960,000) were paid to Shougang HK for consultancy services in accordance with the agreement between Shougang Grand and Shougang HK.
- (vi) Pohseng purchased spare parts of HK\$2,730,000 (2001: HK\$4,777,000) from related companies in the ordinary course of business for a consideration decided between the parties.

QHD purchased spare parts of HK\$5,187,000 (2001: HK\$5,416,000) from related companies in the ordinary course of business for a consideration decided between the parties.

BSFPCL purchased spare parts of HK\$2,223,000 from related companies in the ordinary course of business for a consideration decided between the parties.

- (vii) Shougang Corporation has provided corporate guarantees of HK\$301,612,000 (2001: HK\$306,082,000) for bank loans granted to Pohseng and QHD.
- (viii) 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. Subsequent to the grant of the loans by the related company, 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 as at 31 December 2002 is repayable during year ending 31 December 2003.

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. Subsequent to the grant of the loans by the related company, the loans were repaid during the year.



44. RELATED PARTY TRANSACTIONS (continued)

- (ix) The Group provided business and strategic development services to its associates, SC Technology and SC Century, for a service charge of HK\$360,000 (2001: HK\$720,000) and HK\$600,000 (2001: HK\$600,000), respectively. The rates were decided between the parties.
- (x) The Group provided business and strategic development services to its related companies for an aggregate service charge of HK\$640,000. The rates were decided between the parties.
- (xi) The Group has entered into a rental agreement with an associate for renting an investment property. The rentals were determined between the parties with reference to the then prevailing market rates.
- (xii) The Group has entered into a rental agreement with a related company for renting an investment property. The rentals were determined between the parties with reference to the then prevailing market rates.
- (xiii) During the year, a wholly-owned subsidiary of the Company issued the Convertible Note to a wholly-owned subsidiary of Shougang HK. Further details of the Convertible Note are set out in note 33 to the financial statements.
- (xiv) The interest expenses were charged by related companies in respect of outstanding loans granted to the Group at interest rates ranging from 4.03% to 8.5% per annum.
- (xv) Certain related companies charged QHD service fees with an aggregate amount of HK\$5,481,000 (2001: HK\$6,665,000) in respect of processing and repair and maintenance services provided to QHD in the ordinary course of business and at rates decided between the parties.

Certain related companies charged BSFPCL service fees with an aggregate amount of HK\$1,853,000 in respect of repair and maintenance services provided to BSFPCL in the ordinary course of business and at rates decided between the parties.

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44. RELATED PARTY TRANSACTIONS (continued)

- (xvi) The commission expense represents a rebate on the freight income for shipments of iron ore from Peru, Brazil and Australia to Mainland China in the ordinary course of business and at a rate decided between the parties.
- (xvii) The Group arranged for shipments of iron ore from Peru, Brazil and Australia to Mainland China for related companies in the ordinary course of business and at freight rates decided between the parties.
- (xviii) QHD charged related companies service fees of HK\$465,000 (2001: HK\$796,000) in respect of processing services provided to these related companies in the ordinary course of business and at rates decided between the parties.
- (xix) BSFPCL purchased fixed assets of HK\$3,281,000 from related companies in the ordinary course of business for a consideration decided between the parties.

(b) Disposal of Shougang Grand

During the year, the Group disposed of its entire interests in Shougang Grand to the Company's two substantial shareholders. Further details of the disposal are set out in note 8 and note 40(c) to the financial statements.

(c) Acquisition of BSFPCL

During the year, the Group acquired a 51% interest in BSFPCL from Shougang Corporation. Further details of the acquisition are set out in note 40(b) to the financial statements.

(d) Disposal of Pohseng, Liwoh and Gitane

During the year, the Group disposed of 50% out of its then 65% interests in each of Pohseng, Liwoh and Gitane to Shougang HK and Shougang Corporation. Further details of the disposals are set out in note 40(c) to the financial statements.

45. COMPARATIVE AMOUNTS

As further explained in note 3 to the financial statements, due to the adoption of certain new and revised SSAPs during the current year, the accounting treatment and presentation of certain items and balances in the financial statements have been revised to comply with the new requirements. Accordingly, certain comparative amounts have been reclassified to conform with the current year's presentation.

46. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 16 April 2003.

