

SHOUGANG CONCORD
CENTURY HOLDINGS LIMITED

ANNUAL REPORT 1999

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CORPORATE INFORMATION

Board of Directors

Executive

Su Genqiang (*Chairman*)

Tong Yihui (*Managing Director*)

Leung Shun Sang, Tony

Cao Qirui

Li Shaofeng

Tang Kwok Kau

Chang Sin Tuan

Independent non-executive

Yip Kin Man, Raymond

Lai Kam Man

Audit Committee

Lai Kam Man (*Chairman*)

Yip Kin Man, Raymond

Company Secretary

Chan Lai Yee

Principal Bankers

Chiyu Banking Corporation Limited

Bank of China

Standard Chartered Bank

Auditors

Ernst & Young

Certified Public Accountants

Share Registrars

Tengis Limited

1601 Hutchison House

10 Harcourt Road

Central

Hong Kong

Registered Office

6th Floor, First Pacific Bank Centre

51-57 Gloucester Road

Wanchai

Hong Kong



BIOGRAPHICAL DETAILS OF DIRECTORS

Mr. Su Genqiang, aged 43. Mr. Su was appointed the Chairman of the Company and Shougang Concord Technology Holdings Limited (“Shougang Technology”) in March 2000. He serves as the Managing Director of Shougang Concord International Enterprises Company Limited (“Shougang International”) and Shougang Holding (Hong Kong) Limited (“Shougang HK”) and the Vice-Chairman of Shougang Concord Grand (Group) Limited (“Shougang Grand”). Mr. Su also acts as a Director of China Shougang International Trade and Engineering Corporation (“China Shougang”). Mr. Su has extensive experience in import and export trading, overseas engineering projects and investment.

Mr. Tong Yihui, aged 51. Mr. Tong graduated from Yan Shan University in the People’s Republic of China. He is a Senior Engineer. Mr. Tong joined the Group in 1998 and was appointed as Managing Director of the Company in March 2000. Prior to joining the Group, Mr. Tong had held the positions in Shougang Posheng Strip Steel Company Limited, Shenzhen Guan Shen Enterprise Company Limited, Jiaying Eastern Steel Cord Co., Ltd. and Shougang Machinery Design & Research Institute.

Mr. Leung Shun Sang, Tony, aged 57. Mr. Leung was appointed a Director of the Company in 1995. He is also a Director of Shougang International, Shougang Technology and Shougang Grand. He holds a master degree in business administration from New York State University. He is the Chief Executive Officer of Canadian Eastern Finance Limited, a member of the board of the CEF Group and also a director of CEF Life.

Mr. Cao Qirui, aged 44. Mr. Cao was appointed a Director of the Company and Shougang International in 1996 and 1998 respectively. He joined Shougang Corporation, the holding company of Shougang HK in 1973 and has been engaged in the financial and foreign currency capital management in such operations as state-owned industrial enterprises, sino-foreign joint ventures and touring business for the past 20 years. He has been the Deputy General Manager of Finance Department of Dongzhimen International Apartment Company Limited, Deputy General Manager of East Lake Club, Chief Accountant of Shoudan Furniture Company Limited, Chief Accountant of America Division of Shougang Corporation and Director of Financing Section, International Economic & Trade Division of Shougang Corporation.

Mr. Li Shaofeng, aged 33. Mr. Li holds a bachelor degree in Automatic Science from Beijing Technology University. He joined Shougang Corporation in 1989. Mr. Li was appointed Deputy Managing Director of the Company in March 2000. Prior to joining the Company, Mr. Li had held the position of Deputy General Manager in Beijing Shougang Hotel Development Company. He has well experience in steel industry management, foreign joint ventures enterprises and property development.

Mr. Tang Kwok Kau, aged 39, Chief Financial Officer. He joined the Company in 1998 and was appointed as Deputy Managing Director in March 2000. He holds a bachelor degree and an MBA degree in Business Administration from York University in Canada. Prior to joining the Group, Mr. Tang had held senior positions with various international investment banks. He also has over 15 years of experience in corporate and investment banking.

Biographical details of directors

Mr. Chang Sin Tuan, aged 48. Mr. Chang has been with the Group since its inception and is a Director of the Company. He has over 17 years' experience in the trading of minerals and metals.

Mr. Lai Kam Man, aged 66. Mr. Lai was appointed an Independent Non-executive Director of the Company in 1994. He is the Chairman of the Audit Committee of the Company. He also serves as Independent Non-executive Director of Shougang International. Mr. Lai is a practising solicitor, notary public and Attesting Officer appointed by the Ministry of Justice of the People's Republic of China (the "PRC"). He is also a member of the National Committee of the Chinese People's Political Consultative Conference.

Mr. Yip Kin Man, Raymond, aged 53. Mr. Yip was appointed an Independent Non-executive Director of the Company in 1993. He also serves as a member of the Audit Committee of the Company. Mr. Yip is a practising solicitor, notary public and Attesting Officer appointed by the Ministry of Justice of the PRC.



NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the Annual General Meeting of Shougang Concord Century Holdings Limited (the "Company") will be held at Coral Room I, 3/F., Furama Hotel Hong Kong, 1 Connaught Road Central, Hong Kong on Tuesday, 27 June 2000 at 10:20 a.m. for the following purposes:

AS ORDINARY BUSINESS

1. To receive the report of the directors and the audited accounts for the year ended 31 December 1999.
2. To re-elect the retiring directors.
3. To re-appoint Ernst & Young as auditors of the Company to hold office until the conclusion of the next annual general meeting and to authorise the board of directors to fix their remuneration.

AS SPECIAL BUSINESS

4. To consider and, if thought fit, pass the following resolution as an Ordinary Resolution:

"THAT:

- (a) subject to paragraph (c) below, the exercise by the directors of the Company during the Relevant Period of all the powers of the Company to allot, issue and deal with additional shares in the capital of the Company and to make or grant offers, agreements and options which might require the exercise of such power be and it is hereby generally and unconditionally approved;
- (b) the approval in paragraph (a) above shall authorise the directors of the Company during the Relevant Period to make or grant offers, agreements and options which might require the exercise of such power after the end of the Relevant Period;
- (c) the aggregate nominal amount of share capital allotted or agreed conditionally or unconditionally to be allotted (whether pursuant to an option or otherwise) by the directors of the Company pursuant to the approval in paragraph (a) above, otherwise than pursuant to (i) a Rights Issue, (ii) the exercise of rights of subscription or conversion under the terms of any warrants issued by the Company or any securities which are convertible into shares of the Company, (iii) any option scheme or similar arrangement for the time being adopted for the grant or issue to officers and/or employees of the Company and/or any of its subsidiaries of shares or rights to acquire shares of the Company or (iv) any scrip dividend on shares of the Company in accordance with the articles of association of the Company, shall not exceed 20% of the aggregate nominal amount of the share capital of the Company in issue as at the date of passing this resolution; and

Notice of Annual General Meeting

(d) for the purpose of this resolution:

“Relevant Period” means the period from the passing of this resolution until whichever is the earlier of :

- (i) the conclusion of the next annual general meeting of the Company;
- (ii) the expiration of the period within which the next annual general meeting of the Company is required by law to be held; and
- (iii) the revocation or variation of this resolution by any ordinary resolution of the shareholders of the Company in general meeting.

“Rights Issue” means an offer of shares open for a period fixed by the directors of the Company to holders of shares of the Company or any class thereof on the register on a fixed record date in proportion to their then holdings of such shares or any class thereof (subject to such exclusion or other arrangements as the directors of the Company may deem necessary or expedient in relation to fractional entitlements or having regard to any restrictions or obligations under the laws of any territories outside Hong Kong).”

5. To consider and, if thought fit, pass the following resolution as an Ordinary Resolution:

A. **“THAT:**

- (a) subject to paragraph (c) below, the exercise by the directors during the Relevant Period of all the powers of the Company to repurchase issued shares in the capital of the Company on The Stock Exchange of Hong Kong Limited, and that the exercise by the directors of all the powers of the Company to repurchase such shares subject to and in accordance with all applicable laws or the requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, be and it is hereby generally and unconditionally approved;
- (b) in addition, the approval in paragraph (a) above shall authorise the directors on behalf of the Company during the Relevant Period to procure the Company to purchase its shares at a price determined by the directors;
- (c) the aggregate nominal amount of shares of the Company repurchased or agreed conditionally or unconditionally to be repurchased by the Company pursuant to the approval in paragraph (a) above during the Relevant Period shall not exceed 10% of the aggregate nominal amount of the share capital of the Company in issue as at the date of passing this resolution, and the authority pursuant to paragraph (a) shall be limited accordingly; and

Notice of Annual General Meeting

(d) for the purpose of this resolution:

“Relevant Period” means the period from the passing of this resolution until whichever is the earlier of:

- (i) the conclusion of the next annual general meeting of the Company;
- (ii) the expiration of the period within which the next annual general meeting of the Company is required by law to be held; and
- (iii) the revocation or variation of this resolution by any ordinary resolution of the shareholders of the Company in general meeting.”

B. **“THAT** conditional upon the passing of Ordinary Resolution 5A above, the aggregate nominal amount of the shares in the Company which are repurchased by the Company pursuant to and in accordance with the said Ordinary Resolution 5A shall be added to the aggregate nominal amount of the shares in the Company that may be allotted or agreed conditionally or unconditionally to be allotted by the directors pursuant to and in accordance with Ordinary Resolution 4 above.”

By Order of the Board
Chan Lai Yee
Company Secretary

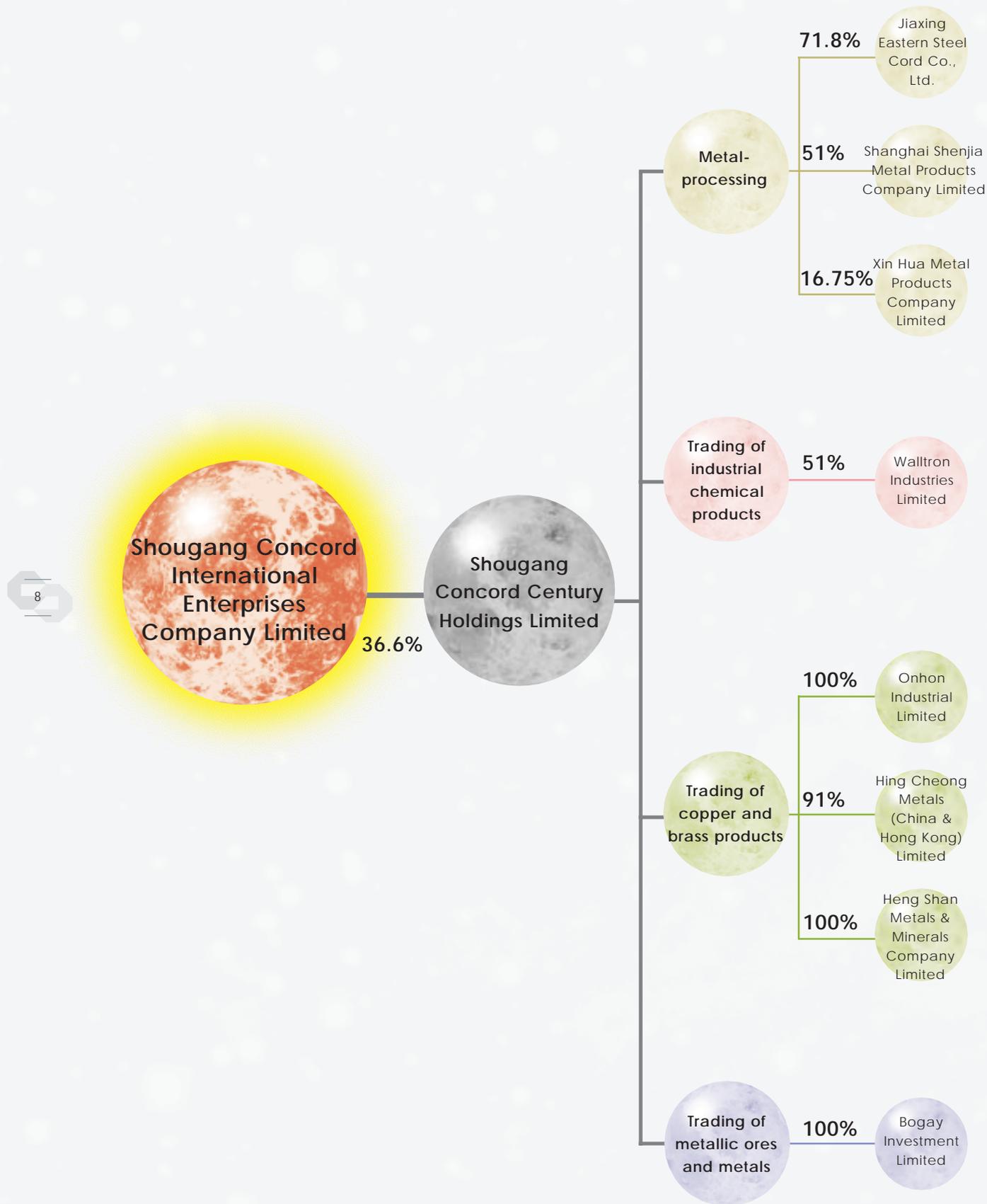
Hong Kong
4 May 2000

Notes:

- (1) A member entitled to attend and vote at the above meeting is entitled to appoint one or more proxies to attend and vote instead of him. A proxy need not be a member of the Company. Forms of proxy must be lodged at the Company’s registered office at 6/F., First Pacific Bank Centre, 51-57 Gloucester Road, Wanchai, Hong Kong not less than 48 hours before the time for holding the meeting.
- (2) With respect to Resolution 2, Messrs. Cao Qirui, Chang Sin Tuan and Lai Kam Man will retire from office at the above meeting, pursuant to the articles of association of the Company and being eligible, Messrs. Chang Sin Tuan and Lai Kam Man will offer themselves for re-election. However, Mr. Cao Qirui will not offer himself for re-election.
- (3) Regarding Resolution 5A above, a circular containing a summary of the more important provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) relating to the repurchase of securities on the Stock Exchange will be despatched to the shareholders together with the annual report containing this notice.



MAIN OPERATIONAL STRUCTURE



BUSINESS REVIEW

Group Results

During the year 1999, the Group reported a turnover of approximately HK\$268.8 million, a decrease of 73.6% over last year, which was mainly due to a substantial decrease in credit facilities for our core trading businesses.

The Group's loss for the year under review was reduced from HK\$196.7 million reported in previous year to HK\$65.6 million as a result of our vigorous cost cutting measures, the substantial reduction in the provision for doubtful debts and permanent diminution in value in long-term investment recorded last year.

During the year, the finance costs of the Group decreased by 39% to HK\$17.3 million as the Group has been able to repay a large amount of the bank borrowings and the considerable interest costs was reduced.



Principal Businesses

Trading of Metallic Ores and Metals

During the year under review, the Group's turnover from this business decreased from HK\$336.6 million reported in 1998 to HK\$40.7 million. This business reported an operating loss of approximately HK\$7.9 million (inclusive of deficit on revaluation of fixed assets of HK\$3.6 million) when compared to that of HK\$58.6 million reported in 1998. Many of the factories engaged in the processing and manufacturing of ferroalloys in the People's Republic of China (the "PRC") were still suffered from severe financial difficulties, we have therefore adopted a very cautious approach to avoid the occurrence of further bad debts, turnover decreased as a result. On the other hand, the unavailability of documentary credit still hindered the development of this business.

Trading of Copper and Brass Products

The copper business suffered an operating loss of approximately HK\$18 million (including HK\$4.1 million loss arising from the disposal of a subsidiary and HK\$8.2 million

of deficit on revaluation of fixed assets) when compared to an operating loss of HK\$55.8 million for the year ended 31 December 1998. This business still suffered from the shortage of banking facilities. During the year under review, this business recorded a turnover of HK\$31.7 million, representing a substantial decrease of 89% over last year.

During the year, the Group has acquired a further 40% in a non wholly owned subsidiary which is engaged in trading of this business. Following the completion of this acquisition, we are confident that we can consolidate its management control and reduce its operating cost. As a result, we expect its performance can be improved for the year 2000.

Trading of Industrial Chemical Products

The Group's turnover from this business reported HK\$78.5 million in 1999 (1998: HK\$229.5 million). The turnover dropped significantly as a result of the credit squeeze during the year under review. This business



recorded an operating profit of approximately HK\$2.1 million as compared to HK\$4 million for the year ended 31 December 1998.

Processing of Electrical Wires and Accessories

The turnover of this business generated to the Group in 1999 was HK\$36.7 million, a slight increase of 1.4% compared to that of the corresponding period in 1998. This business recorded an operating loss of approximately HK\$4.5 million for the year ended 31 December 1999.

The directors are of the opinion that the prospect of the companies which engaged in this kind of business would not have substantial improvement as the electrical wire processing business remains as a buyer's market which will continue to be affected by intense competition on prices. Hence, the Group has exercised a disposal of the entire equity interest in those companies in January 2000.

Manufacturing of Steel Cord

This business recorded a turnover of HK\$66.5 million for the year ended 31 December 1999, representing a decrease of 14.9%. It reported an operating loss of HK\$10.8 million as compared to an operating profit of HK\$860,000 for the corresponding period last year, as a result of the provision of HK\$10.5 million made for doubtful and bad debts and obsolete stock during the year. Although competition remains intense, we exerted discernible effort to raise the technical standard, improve the consistency of its product quality and strengthen sales to increase market share for the purpose of restoring the profitability of this business.

Jointly Controlled Entity's and Associate's Business

We shared a net profit before tax of HK\$10.6 million, representing an increase of 62% over the corresponding period last year from Shanghai Shenjia Metal Products Company Limited ("Shanghai Shenjia"). As regards Xinhua Metal Products Company Limited, we shared a net profit before tax of HK\$3.3 million from it as compared to that of HK\$2.4 million in 1998.

In March 2000, we have entered into an agreement to dispose of 26% of the equity interest in Shanghai Shenjia. We believe that it is in the interest of the Group to reduce its percentage ownership in the equity interest of Shanghai Shenjia, which is not an entity entirely controlled by the Group. It is intention of the Directors to divert financial resources generated from this disposal to other core businesses rather than Shanghai Shenjia for the reasons of stringent market conditions in this kind of business and the anticipated necessity of further enormous capital commitment in Shanghai Shenjia.

Business Outlook

Following a year of consolidation exercise, our resources are being utilized in a more effective and efficient way. Our cash flow position is also significantly improved resulting from the various asset disposals. The Group's gearing ratio as at 31 December 1999 was reduced to approximately 33% as compared to that of 63% at 31 December 1998. To further improve the financial position of the Group, it will continue to dispose of the non-core



business and assets, inaugurate cost-cutting measures, concentrate its financial resources to develop its core businesses, such as manufacturing of steel cord and trading of copper and brass products, and invest strategically in other relatively high growth opportunities that would offer the Group with better results.

As mentioned beforehand, we are facing credit squeeze in 1999. However, in view of more optimistic atmosphere in the financial market in 2000, we believe that we can look for various fund raising alternatives to meet the Group's future working capital and financing requirements.

The economy of Hong Kong has steadily recovered in 1999. The anticipated admittance of the PRC into the World Trade Organisation is expected to have a positive impact on our core businesses as a result of stimulating demand of steel cords and other materials for industrial usage. After PRC's further opening of its market, Hong Kong will also benefit from its position as a gateway to the PRC. In the long



run, the external trading market will recover. Accordingly, we expect that the Group's trading business could enjoy a boost from the increasing economic activities in the near future.

APPRECIATION

I would like to thank Mr. Ye Ruiling for his past contribution to the Group, the board of directors and all the Group's employees for their hard work throughout the year and for their continuing support and dedication.

By Order of the Board
Su Genqiang
Chairman

Hong Kong
4 May 2000

REPORT OF THE DIRECTORS

The directors herein present their report and the audited financial statements of the Company and the Group for the year ended 31 December 1999.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Details of the principal activities of the subsidiaries are set out in note 28 to the financial statements. The directors resolved to discontinue certain activities during the year, as further detailed below and in note 7 to the financial statements.

SEGMENTED INFORMATION

An analysis of the Group's turnover and contribution to loss from operating activities by principal activity and geographical area of operations for the year ended 31 December 1999 is as follows:

	Turnover HK\$'000	Contribution/ (loss) HK\$'000
By principal activity:		
Continuing operations:		
Trading of metallic ores and metals	40,746	(7,914)
Trading of copper and brass products	31,709	(18,293)
Trading of industrial chemical products	78,523	2,126
Manufacturing of steel cord	66,510	(10,834)
Property development and investment	5,033	(12,209)
Others	4,601	(1,600)
	<u>227,122</u>	<u>(48,724)</u>
Discontinued and discontinuing operations:		
Processing of electrical wires and accessories	36,729	(4,457)
Trading and manufacturing of children's wear	4,969	808
	<u>41,698</u>	<u>(3,649)</u>
		(52,373)
Less: Corporate overheads		<u>(14,473)</u>
	<u>268,820</u>	<u>(66,846)</u>
By geographical area:		
The People's Republic of China (the "PRC"):		
Hong Kong S.A.R.	88,866	(38,100)
Mainland	139,112	(24,851)
Other Asian countries	39,868	(3,802)
Others	974	(93)
	<u>268,820</u>	<u>(66,846)</u>

RESULTS

The Group's loss for the year ended 31 December 1999 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 26 to 69.

SUMMARY OF FINANCIAL INFORMATION

The following summary of the published results and of the assets and liabilities of the Group for the last five financial years have been restated to reflect the change in policy for accounting for deferred pre-operating expenses as set out in note 8 to the financial statements:

	1999	1998	1997	1996	1995
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
NET PROFIT/(LOSS) FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS	<u>(65,616)</u>	<u>(196,723)</u>	<u>(30,468)</u>	<u>26,580</u>	<u>83,252</u>
TOTAL ASSETS	651,752	846,611	1,292,068	1,326,027	1,388,920
TOTAL LIABILITIES	(218,172)	(351,969)	(592,880)	(585,205)	(669,131)
MINORITY INTERESTS	<u>(103,330)</u>	<u>(107,148)</u>	<u>(117,381)</u>	<u>(120,276)</u>	<u>(201,551)</u>
NET ASSETS	<u>330,250</u>	<u>387,494</u>	<u>581,807</u>	<u>620,546</u>	<u>518,238</u>

FIXED ASSETS AND INVESTMENT PROPERTIES

Details of movements in the fixed assets of the Company and the Group and the investment properties of the Group during the year are set out in note 13 to the financial statements.

Particulars of the Group's investment properties as at 31 December 1999 are summarised on page 70 of this Annual Report.

SUBSIDIARIES, JOINTLY CONTROLLED ENTITIES AND ASSOCIATES

Particulars of the Company's principal subsidiaries, jointly controlled entities and associate as at 31 December 1999 are set out in notes 28, 29 and 30 to the financial statements, respectively.

BANK LOANS, OVERDRAFTS AND OTHER BORROWINGS

Details of the bank loans, overdrafts and other borrowings of the Company and the Group as at 31 December 1999 are set out in notes 21 to 23 to the financial statements.

SHARE CAPITAL AND SHARE OPTIONS

During the year, there was no movement in the Company's share capital and share options.

RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 26 to the financial statements.

DISTRIBUTABLE RESERVES

As at 31 December 1999, the Company did not have any reserves available for distribution, calculated in accordance with the provision of Section 79B of the Companies Ordinance.

DIRECTORS

The directors of the Company during the year were:

Executive directors:

Tong Yihui
Leung Shun Sang, Tony
Cao Qirui
Tang Kwok Kau
Chang Sin Tuan
Ye Ruiling

Non-executive director:

Sylvain Albert Janvier (retired on 28 June 1999)

Independent non-executive directors:

Yip Kin Man, Raymond
Lai Kam Man

Subsequent to the balance sheet date, on 10 March 2000, Mr. Ye Ruiling resigned and Messrs. Su Genqiang and Li Shaofeng were appointed as executive directors.

The directors of the Company, including the independent non-executive directors, are subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with articles 91, 92, 93 and 97 of the Company's articles of association. Messrs. Cao Qirui, Chang Sin Tuan and Lai Kam Man will retire and, being eligible, offer themselves for re-election, with the exception of Cao Qirui.

DIRECTORS' SERVICE CONTRACTS

No director proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable by the Company within one year without payment other than statutory compensation.

DIRECTORS' RIGHTS TO ACQUIRE SHARES

Apart from the Company's share option scheme as set out in note 25 to the financial statements, at no time during the year was the Company or any of its subsidiaries a party to any arrangement to enable the Company's directors or their respective spouse or children under 18 years of age to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

No share options were issued under the Company's share option scheme during the year, nor were any such share options outstanding as at 31 December 1999.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN THE SHARE CAPITAL OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS

As at 31 December 1999, the interests of the directors, chief executives and their associates in the share capital of the Company and its associated corporations as recorded in the register required to be kept under Section 29 of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance") were as follows:

- (a) Interests in the share capital of Shougang Concord International Enterprises Company Limited ("Shougang International"):

Name of director	Nature of Interest	Number of shares
Lai Kam Man	Personal	250,000

- (b) Rights to acquire shares in Shougang International:

Name of director	Options to subscribe for shares of Shougang International		
	Number of shares over which options were granted	Exercise period	Exercise price per share (HK\$)
Leung Shun Sang, Tony	2,600,000	10/7/1997 to 10/4/2001	1.355
Cao Qirui	3,000,000	23/6/1997 to 10/4/2001	1.355

Save as disclosed above, none of the directors, chief executives or their respective associates had any personal, family, corporate or other interests in the equity or debt securities of the Company or any of its associated corporations as defined in the SDI Ordinance.

DIRECTORS' INTERESTS IN CONTRACTS

No director had a beneficial interest in any contract of significance to the business of the Company to which the Company or any of its subsidiaries was a party during the year.

DIRECTORS' REMUNERATION

The remuneration of the directors for the year fell within the following bands:

	Number of directors	
	1999	1998
Nil – HK\$1,000,000	6	10
HK\$1,000,001 – HK\$1,500,000	<u>3</u>	<u>3</u>

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

Further details of the remuneration of the directors are set out in note 9 to the financial statements.

FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included four (1998: three) directors, details of whose remuneration are disclosed in note 9 to the financial statements. The details of the remuneration of the remaining one (1998: two) non-director, highest paid employees are set out below:

	1999	1998
	HK\$'000	HK\$'000
Salaries, allowances and benefits in kind	949	1,547
Discretionary bonuses	<u>-</u>	<u>133</u>
	<u>949</u>	<u>1,680</u>

The remuneration of the non-director, highest paid employees for the year fell within the following band:

	Number of employees	
	1999	1998
Nil – HK\$1,000,000	<u>1</u>	<u>2</u>

SUBSTANTIAL SHAREHOLDERS

As at 31 December 1999, according to the register required to be kept by the Company under Section 16(1) of the SDI Ordinance, the following parties were, directly or indirectly, beneficially interested in 10% or more of the issued share capital of the Company:

Name of shareholder	Notes	Number of shares held
Shougang Holding (Hong Kong) Limited ("Shougang HK")	(1)	279,797,400
Shougang International	(2)	279,797,400
Fair Union Holdings Limited ("Fair Union")		279,797,400
Richson Limited ("Richson")	(3)	144,984,400

Notes:

- (1) Shougang HK was deemed to be interested in those shares by virtue of its controlling interest in Shougang International.
- (2) Shougang International was deemed to be interested in those shares by virtue of its 100% shareholding in Fair Union.
- (3) Richson is a wholly owned subsidiary of Fair Union and the interest in the 144,984,400 shares held is included in the interest in 279,797,400 shares reported by Fair Union.

Save as disclosed above, no other person had registered an interest in the share capital of the Company under section 16(1) of the SDI Ordinance.

CONTROLLING SHAREHOLDERS' INTERESTS IN CONTRACTS

Details of contracts of significance between the Group and the controlling shareholder of Shougang International and with Shougang International itself are set out in note 33 to the financial statements.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES

Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year.

CONNECTED TRANSACTIONS

The Group has the following continuing connected transactions disclosed by way of inclusion in the annual report in accordance with Chapter 14, paragraph 14.25 (2) of the Rules Governing The Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"):

- (a) At the balance sheet date, advances made by the Group to Online Investments Limited, a 71.8% owned subsidiary, were outstanding in the aggregate amount of HK\$72,805,000. The advances were used to finance its capital investment project. The advances are unsecured, interest-free and have no fixed repayment terms.
- (b) The Company made advances to Everwinner Investments Limited, a 71.8% owned subsidiary, to finance its working capital. At the balance sheet date, the outstanding balance, amounting to HK\$24,919,000, is unsecured, bears interest at LIBOR plus 3% per annum and is repayable after more than one year.
- (c) The Group made advances to Hing Cheong Metals (China & Hong Kong) Limited, a 91% owned subsidiary, to finance its capital investments. At the balance sheet date, the outstanding balance, amounting to HK\$10,465,000, is unsecured, interest-free and has no fixed repayment terms.
- (d) At the balance sheet date, advances made by the Group to Beautiful Kid's Wear Industrial Company Limited, a 60% owned subsidiary, in the aggregate amount of HK\$5,800,000 were outstanding. The advances were used to finance its working capital. The advances are unsecured, interest-free and have no fixed repayment terms.
- (e) The Company executed, in the normal course of business, certain guarantees for banking facilities granted to certain of its indirect non wholly owned subsidiaries for their operations. These guarantees are continuing in nature and will lapse on the expiration of one to three months after formal notifications to the banks. Up to the date of approval of the financial statements by the board of directors, none of the guarantees has been called for execution. At the balance sheet date, details of the guarantees were as follows:
 - (i) An aggregate amount of HK\$151,900,000 for banking facilities granted to certain of the Company's wholly owned subsidiaries and indirect non wholly owned subsidiaries, namely Jet Power Connector Company Limited ("JPC"), Walltron Industries Limited ("WIL") and Everwinner Investments Limited ("EIL"). The banking facilities have not been utilised at the balance sheet date. The Group owns 60% in JPC, 51% in WIL and 71.8% in EIL;
 - (ii) HK\$60,000,000 for banking facilities granted to Hing Cheong Metals (China & Hong Kong) Limited, an indirect 91% owned subsidiary of the Company; and
 - (iii) HK\$15,000,000 for banking facilities granted to WIL, an indirect 51% owned subsidiary.

CONNECTED TRANSACTIONS *(continued)*

- (f) The Company executed a corporate guarantee for banking facilities granted to Online Investments Limited, a 71.8% owned subsidiary, in respect of a capital investment project undertaken in previous years. The facilities utilised under the guarantee amounted to HK\$39,000,000 at the balance sheet date, of which an amount of HK\$19,851,000 was guaranteed by the Company.
- (g) On 21 September 1999, Hing Cheong Metals (China & Hong Kong) Limited ("Hing Cheong") entered into two agreements (together the "HC Agreement") with Mr. So Kai Ming ("Mr. So"), a director and a substantial shareholder of Hing Cheong, and Shun Fat Investments Limited ("Shun Fat"), a wholly owned subsidiary of the Company, for:
- (i) the purchase by Shun Fat from Mr. So of a 40% interest in the issued share capital of Hing Cheong (including the right to receive the dividend declared by Hing Cheong in the sum of HK\$1,200,000 on 12 March 1998) and an interest in a loan due from Hing Cheong to Mr. So in the amount of HK\$4,600,000 for an aggregate consideration of HK\$2; and
 - (ii) the disposal by Hing Cheong to Mr. So of the entire issued share capital of True Harvest Industrial Limited and Dragle Industrial Limited, which are wholly owned subsidiaries of Hing Cheong, and certain of Hing Cheong's interest in plant, machinery and vehicles for a total cash consideration of HK\$2,000,000.

In the opinion of the directors, the above transaction would enable the Company to streamline the business of the Group and obtain better control over Hing Cheong to improve its performance. The directors, including the independent non-executive directors, reviewed the terms of the transaction and considered that the terms were fair and reasonable and that the transaction was in the interests of the Company's shareholders.

The details of the transaction were set out in the Company's announcement dated 22 September 1999.

The transaction was completed on 27 September 1999.

- (h) On 10 December 1999, Meta Company Limited ("Meta"), a wholly owned subsidiary of the Company, entered into an agreement (the "JP Agreement") with Mr. Chang Tai Tek ("Mr. Chang"), a director of Jet Power Electrical Company Limited ("Jet Power"), which is an indirect wholly owned subsidiary of the Company, for the disposal of the entire issued share capital of Jet Power held by Meta for a consideration of approximately HK\$19,047,000 (the "JP Disposal").

CONNECTED TRANSACTIONS *(continued)*

(h) *(continued)*

The consideration was satisfied in the following manner:

- (i) HK\$7,500,000 was paid in cash on 10 December 1999 upon the signing of the JP Agreement;
- (ii) HK\$6,747,000 was satisfied by the assumption by Mr. Chang of a loan of the same amount due from the Company to Jet Power; and
- (iii) the remaining HK\$4,800,000 was satisfied by six equal monthly instalments commencing on the 30th day after completion of the JP Agreement together with interest thereon at the Hong Kong dollar prime rate prevailing on the date specified in the JP Agreement. The payment of HK\$4,800,000 is secured by a fixed charge executed by Mr. Chang over 126,006 shares of HK\$1.00 each in Jet Power.

In addition to the JP Disposal, the Group agreed to lease a property situated in the PRC to Jet Power at a rent of HK\$95,000 per month for a term of one year, which was determined with reference to the market rental. Further details of these arrangements are set out in the Company's announcement dated 11 December 1999 and the Company's circular to shareholders dated 23 December 1999.

Jet Power and its subsidiaries are engaged in the processing of electrical wires and accessories. In the opinion of the directors, the Group is able to streamline its business and improve its financial health through the JP Disposal.

The JP Disposal was approved by the shareholders of the Company at an extraordinary general meeting held on 10 January 2000.

- (i) Subsequent to the balance sheet date, Everlite Century Limited ("Everlite"), an indirect wholly owned subsidiary of the Company entered into an agreement (the "Shenjia Agreement") with Shanghai Ergang Co., Ltd. ("Ergang"), a substantial shareholder of Shanghai Shenjia Metal Products Company Limited ("Shanghai Shenjia") which is an indirect 51% owned jointly controlled entity of the Company, for the disposal of a 26% equity interest in Shanghai Shenjia held by Everlite for a consideration of RMB65,785,000 (approximately HK\$61,770,000) (the "Shenjia Disposal").

The consideration was to be satisfied in the following manner:

- (i) The first instalment in the amount of RMB50,000,000 (approximately HK\$46,948,000) is to be paid by Ergang upon the change in the ownership of the equity interest in Shanghai Shenjia pursuant to the Shenjia Disposal being approved by the relevant governmental authorities.

CONNECTED TRANSACTIONS *(continued)*

- (i) *(continued)*
- (ii) The second instalment in the amount of RMB15,785,000 (approximately HK\$14,822,000) shall be paid by Ergang on or before 30 September 2000.

Further details are set out in the Company's announcement dated 31 March 2000 and the Company's circular to shareholders dated 19 April 2000.

Shenjia Disposal shall be subject to the approval of the shareholders of the Company at an extraordinary general meeting.

RELATED PARTY TRANSACTIONS

During the year, the Group had certain related party transactions as detailed in note 33 to the financial statements. The transaction between Hing Cheong, Mr. So and Shun Fat and the JP Disposal constituted connected transaction as defined under the Listing Rules and had been previously announced in the newspapers by the Company and had been approved by the shareholders of the Company at an extraordinary general meeting respectively. Those details have also been disclosed under the section header as CONNECTED TRANSACTIONS above. In the opinion of the directors, each of the transactions with Shougang International and its subsidiaries ("Shougang International Group") was:

- (i) conducted in the ordinary and usual course of the Group's business;
- (ii) conducted on normal commercial terms that are fair and reasonable;
- (iii) conducted in accordance with the terms of agreements governing such transactions; and
- (iv) under the threshold of HK\$1,000,000 and subject to the disclosure requirement by way of inclusion in the annual report.

In relation to the transactions with other related parties, they did not constitute connected transactions since these parties were not connected persons to the Company as defined under the Listing Rules.

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the five largest customers accounted for less than 30% (1998: less than 30%) of the total sales of the Group for the year.

Purchases from the five largest suppliers accounted for approximately 31% (1998: 30%) of the total purchases of the Group for the year and purchases from the largest supplier included therein amounted to approximately 7% (1998: 9%).

MAJOR CUSTOMERS AND SUPPLIERS *(continued)*

As far as the directors are aware, neither the directors, their associates, nor those shareholders which to the knowledge of the directors own more than 5% of the Company's share capital, had any interest in the five largest suppliers.

EMPLOYEES

As at 31 December 1999, the Group had a total of 650 (1998: 905) employees. Remuneration packages, which include an element of discretionary bonuses, are generally reviewed annually. In addition to salary payments, other staff benefits include medical subsidies and a hospitalisation scheme. Currently, the Group has not adopted any pension scheme for its employees.

LIQUIDITY AND FINANCIAL RESOURCES

The Group mainly financed its operations by cash generated from its business and ongoing banking facilities provided by the Group's principal bankers.

During the year, the Group generated approximately HK\$127 million (1998: HK\$60 million) from its operating activities and repaid a net amount of approximately HK\$135 million (1998: HK\$127 million) of its bank borrowings. The Group's gearing ratio as at 31 December 1999 was approximately 33%, a significant improvement as compared to 63% at 31 December 1998, however the current ratio decreased to 1.03 times from 1.08 times in 1998.

Included in the total bank borrowings of approximately HK\$109 million at 31 December 1999, HK\$102 million is due to be repaid during the year ending 31 December 2000. The Group has been able to meet its financial obligations in the past and anticipates that it will meet its obligations during 2000 by way of a combination of asset disposal, continuing credit facilities from its principal bankers, and support from Shougang HK, the single largest beneficial shareholder of the Group. Further to the disposal of a 26% equity interest in Shanghai Shenjia as announced on 31 March 2000, the Group will continue to seek financing alternatives to strengthen its financial position.

YEAR 2000 COMPLIANCE

The Group disclosed its progress in ensuring Year 2000 compliance and relevant details in connection therewith in its 1999 interim report. On 29 November 1999, the Company also announced that it had achieved Year 2000 compliance.

The total expenditure to achieve Year 2000 readiness was HK\$118,000 during the year ended 31 December 1999. All such expenditure has been capitalised as fixed assets in the financial statements. To date, the Group has not experienced any Year 2000 related problems, nor has it received any reports on such problems from any of its major customers and suppliers.

YEAR 2000 COMPLIANCE *(continued)*

However, the Group will continue to monitor the Year 2000 issue (as its related problems may persist during this year) so as to ensure that the Group can take prompt and appropriate measures to deal with a Year 2000 problem, should one arise.

AUDIT COMMITTEE

To comply with the revised Code of Best Practice as set out in Appendix 14 of the Listing Rules, the Company set up an Audit Committee (the "Committee") on 30 December 1998. The Committee comprises two independent non-executive directors. The Committee had its first meeting on 3 September 1999 and its second meeting on 27 April 2000. During these meetings, the Committee discussed with the Financial Controller and the representative of the external auditors, Ernst & Young, the management reporting system, internal control system and the financial position of the Group. The Committee also reviewed the interim and final results of the Group before their submission to the board of directors.

CODE OF BEST PRACTICE

In the opinion of the board of directors, the Company has complied with the Code of Best Practice as set out in Appendix 14 of the Listing Rules throughout the year, except in relation to guideline 7, where the non-executive directors of the Company are not appointed for specific terms. Non-executive directors are subject to retirement by rotation and re-election at the annual general meetings of the Company, in accordance with the Company's articles of association.

AUDITORS

Ernst & Young retire and a resolution for their reappointment as auditors of the Company will be proposed at the forthcoming annual general meeting.

On behalf of the Board

Su Genqiang

Chairman

Hong Kong

4 May 2000



To the members

Shougang Concord Century Holdings Limited

(Incorporated in Hong Kong with limited liability)

We have audited the financial statements on pages 26 to 69 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Companies Ordinance requires the directors to prepare financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

BASIS OF OPINION

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants. An audit includes an examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's and the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

OPINION

In our opinion the financial statements give a true and fair view, in all material respects, of the state of affairs of the Company and of the Group as at 31 December 1999 and of the loss and cash flows of the Group for the year then ended and have been properly prepared in accordance with the Companies Ordinance.

Ernst & Young

Certified Public Accountants

Hong Kong

4 May 2000

CONSOLIDATED PROFIT AND LOSS ACCOUNT

(YEAR ENDED 31 DECEMBER 1999)

	Notes	1999 HK\$'000	1998 HK\$'000
TURNOVER	4		
Continuing operations		227,122	964,700
Discontinued and discontinuing operations	7(a), (c)	41,698	51,917
		<u>268,820</u>	<u>1,016,617</u>
Cost of sales		(245,009)	(968,961)
		23,811	47,656
Other revenue		8,234	20,737
Distribution costs		(2,143)	(5,545)
Administrative expenses		(51,014)	(68,880)
Other operating expenses		(45,734)	(127,002)
		<u>(66,846)</u>	<u>(133,034)</u>
LOSS FROM OPERATING ACTIVITIES	5	(66,846)	(133,034)
Finance costs	6	(17,312)	(28,517)
LOSS BEFORE TAX			
Continuing operations		(80,941)	(155,292)
Discontinued and discontinuing operations	7(a), (c)	(3,217)	(6,259)
		<u>(84,158)</u>	<u>(161,551)</u>
Share of profits less losses of jointly controlled entities			
Continuing operations		10,657	5,483
Discontinued operations	7(b)	-	(49,909)
		<u>10,657</u>	<u>(44,426)</u>
Share of profits less losses of associates		3,261	(1,236)
		<u>(70,240)</u>	<u>(207,213)</u>
LOSS BEFORE TAX		(70,240)	(207,213)
Tax	10	799	1,510
		<u>(69,441)</u>	<u>(205,703)</u>
LOSS BEFORE MINORITY INTERESTS		(69,441)	(205,703)
Minority interests		3,825	8,980
		<u>(65,616)</u>	<u>(196,723)</u>
NET LOSS FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS	11	(65,616)	(196,723)
LOSS PER SHARE – BASIC	12	<u>(HK 8.57 cents)</u>	<u>(HK 25.7 cents)</u>

CONSOLIDATED STATEMENT OF RECOGNISED GAINS AND LOSSES

(YEAR ENDED 31 DECEMBER 1999)

	Notes	1999 HK\$'000	1998 HK\$'000 (Restated)
Premium on shares repurchased	26	-	(1,072)
Deficit on revaluation of investment properties	26	-	(50)
Deficit on revaluation of fixed assets	26	(1,423)	-
Surplus on revaluation of fixed assets and land use rights	26	1,907	-
Capital reserve arising from dilution of interest in an associate	26	11,686	-
Exchange differences on translation of the financial statements of foreign entities	26	802	3,995
Net gain not recognised in the profit and loss account		12,972	2,873
Net loss attributable to shareholders			
– current year/prior year as previously reported		(65,616)	(198,129)
– effect of retrospective change in accounting policy		-	1,406
		(65,616)	(196,723)
Total recognised gains and losses related to the current year		(52,644)	(193,850)
Goodwill eliminated directly against reserves		(4,600)	-
		(57,244)	(193,850)
<i>Note on prior year adjustment</i>			
Total recognised gains and losses related to the current year as above		(52,644)	
Prior year adjustment	8		
– given effect as to restatement of 1998 profit and loss account		1,406	
– given effect as to restatement of reserves brought forward at 1 January 1998		(11,676)	
		(10,270)	
Total recognised gains and losses since the last annual report		(62,914)	

CONSOLIDATED BALANCE SHEET

(31 DECEMBER 1999)

	Notes	1999 HK\$'000	1998 HK\$'000
NON-CURRENT ASSETS			
Fixed assets	13	366,400	440,522
Land use rights	14	11,340	9,845
Interests in jointly controlled entities	16	62,042	54,778
Interests in associates	17	36,879	23,979
Long term investments	18	1,535	2,230
		<u>478,196</u>	<u>531,354</u>
CURRENT ASSETS			
Inventories	19	39,687	60,576
Trade and bills receivables		79,259	204,570
Prepayments, deposits and other receivables		12,523	28,563
Pledged bank balances	20	22,973	-
Cash and bank balances		19,114	21,548
		<u>173,556</u>	<u>315,257</u>
CURRENT LIABILITIES			
Trade and bills payables		38,119	63,802
Tax payable		543	5,382
Other payables and accruals		27,232	25,399
Interest-bearing bank and other borrowings	21	102,374	197,833
		<u>168,268</u>	<u>292,416</u>
NET CURRENT ASSETS			
		<u>5,288</u>	<u>22,841</u>
TOTAL ASSETS LESS CURRENT LIABILITIES			
		483,484	554,195
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	22	6,920	46,487
Finance lease payables	23	81	315
Due to a related company	33(iii)	42,881	12,288
Deferred tax	24	22	463
		<u>49,904</u>	<u>59,553</u>
Minority interests		103,330	107,148
NET ASSETS			
		<u>330,250</u>	<u>387,494</u>
CAPITAL AND RESERVES			
Issued capital	25	76,537	76,537
Reserves	26	253,713	310,957
		<u>330,250</u>	<u>387,494</u>

Su Genqiang
Director

Tang Kwok Kau
Director

CONSOLIDATED CASH FLOW STATEMENT

(YEAR ENDED 31 DECEMBER 1999)

	Note	1999 HK\$'000	1998 HK\$'000
NET CASH INFLOW FROM OPERATING ACTIVITIES	27(a)	127,052	60,447
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE			
Interest received		1,552	4,679
Interest paid		(15,600)	(28,271)
Interest element of finance lease rental payments		(121)	(246)
Dividends received from jointly controlled entities		4,188	2,252
Dividends received from an associate		3,032	3,373
Dividends paid to minority shareholders		(840)	(4,872)
Net cash outflow from returns on investments and servicing of finance		<u>(7,789)</u>	<u>(23,085)</u>
TAX			
Profits taxes paid, net:			
Hong Kong S.A.R.		(1,635)	(3,488)
Mainland China		(1,412)	(19)
		<u>(3,047)</u>	<u>(3,507)</u>
INVESTING ACTIVITIES			
Purchases of fixed assets		(2,558)	(2,087)
Advances from/(to) jointly controlled entities		2,817	(235)
Repayment of loan from an associate		-	349
Advances to an associate		-	(300)
Proceeds from disposal of long term investments		-	9,657
Proceeds from disposal of fixed assets		9,272	572
Proceeds from disposal of subsidiaries		1,100	-
Movement in pledged bank balances		(22,973)	6,709
Net cash inflow/(outflow) from investing activities		<u>(12,342)</u>	<u>14,665</u>
NET CASH INFLOW BEFORE FINANCING ACTIVITIES		<u>103,874</u>	<u>48,520</u>

Consolidated Cash Flow Statement

(Year ended 31 December 1999)

	Note	1999 HK\$'000	1998 HK\$'000
NET CASH INFLOW BEFORE FINANCING ACTIVITIES		<u>103,874</u>	<u>48,520</u>
FINANCING ACTIVITIES	27(b)		
Repayment of bank loans		(87,290)	(106,620)
Proceeds from new bank loans		55,305	62,334
Decrease in trust receipt loans		(101,961)	(77,911)
Advances from a related company		30,002	27,888
Repayment of advances from a related company		(1,000)	(15,600)
Advance from a minority shareholder		-	300
Repurchase of shares		-	(1,535)
Capital element of finance lease rental payments		(683)	(802)
Net cash outflow from financing activities		<u>(105,627)</u>	<u>(111,946)</u>
DECREASE IN CASH AND CASH EQUIVALENTS		(1,753)	(63,426)
Cash and cash equivalents at beginning of year		20,379	83,681
Effect of foreign exchange rate changes, net		<u>19</u>	<u>124</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR		<u><u>18,645</u></u>	<u><u>20,379</u></u>
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances, excluding pledged bank balances		19,114	21,548
Bank overdrafts		(469)	(1,169)
		<u><u>18,645</u></u>	<u><u>20,379</u></u>

BALANCE SHEET

(31 DECEMBER 1999)

	<i>Notes</i>	1999 HK\$'000	1998 HK\$'000
NON-CURRENT ASSETS			
Fixed assets	13	68	619
Interests in subsidiaries	15	350,337	367,183
Interests in jointly controlled entities	16	-	-
Long term investments	18	275	431
		<u>350,680</u>	<u>368,233</u>
CURRENT ASSETS			
Other receivables		2	180
Cash and bank balances		52	883
		<u>54</u>	<u>1,063</u>
CURRENT LIABILITIES			
Other payables and accrual		95	752
Interest-bearing bank and other borrowings	21	-	2,152
		<u>95</u>	<u>2,904</u>
NET CURRENT LIABILITIES		<u>(41)</u>	<u>(1,841)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		350,639	366,392
NON-CURRENT LIABILITY			
Due to a related company	33(iii)	42,881	12,288
NET ASSETS		<u>307,758</u>	<u>354,104</u>
CAPITAL AND RESERVES			
Issued capital	25	76,537	76,537
Reserves	26	231,221	277,567
		<u>307,758</u>	<u>354,104</u>

Su Genqiang
Director

Tang Kwok Kau
Director

NOTES TO FINANCIAL STATEMENTS

(31 DECEMBER 1999)

1. CORPORATE INFORMATION

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

- trading of metallic ores and metals
- trading of copper and brass products
- trading of industrial chemical products
- manufacturing of steel cord
- processing of electrical wires and accessories
- property development and investment

2. IMPACT OF NEW STATEMENTS OF STANDARD ACCOUNTING PRACTICE

The following Statements of Standard Accounting Practice ("SSAPs") have been adopted for the first time in the preparation of the current year's consolidated financial statements, together with a summary of their major effects.

- SSAP 1: Presentation of Financial Statements
- SSAP 2: Net Profit or Loss for the Period, Fundamental Errors and Changes in Accounting Policies
- SSAP 10: Accounting for Investments in Associates

SSAP 1 prescribes the basis for the presentation of financial statements and sets out guidelines for their structure and minimum requirements for the content thereof. The formats of the profit and loss account and balance sheets as set out on pages 26, 28 and 31 respectively, have been revised in accordance with the SSAP, and a statement of recognised gains and losses, not previously required, is included on page 27. Additional disclosures as required are included in the supporting notes to the financial statements.

SSAP 2 prescribes the classification, disclosure and accounting treatment of certain items in the profit and loss account, and specifies the accounting treatment for changes in accounting estimates, changes in accounting policies and the correction of fundamental errors. The principal impact of the SSAP on the preparation of these financial statements is that exceptional items, previously disclosed on the face of the profit and loss account, are now disclosed primarily by way of note and are no longer specifically referred to as "exceptional".

SSAP 10, which prescribes the accounting treatment for investments in associates, closely follows the previous SSAP 10 and, accordingly, has had no major impact on these financial statements. The terminology used and certain disclosures have been revised in line with the new requirements.

3. 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 disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for the remeasurement of investment properties, certain fixed assets and land use rights, 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 1999. The results of the 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.

Interests in subsidiaries are stated at cost unless, in the opinion of the directors, there have been permanent diminutions in values, when they are written down to values determined by the directors.

Jointly controlled entities

A joint venture is a contractual arrangement whereby the Group and other parties undertake an economic activity which is subject to joint control and none of the participating parties has unilateral control over the economic activity.

Joint venture arrangements which involve the establishment of a separate entity in which the Group and other parties have an interest are referred to as jointly controlled entities.

The Group's share of 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 provisions for diminutions in values other than temporary in nature deemed necessary by the directors. Goodwill arising from the acquisition of jointly controlled entities is eliminated against reserves in the year of acquisition.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(continued)

Jointly controlled entities *(Continued)*

The results of jointly controlled entities are included in the Company's profit and loss account to the extent of dividends received and receivable. The Company's interests in jointly controlled entities are treated as long term investments and are stated at cost less any provisions for diminutions in values, other than temporary in nature, deemed necessary by the directors.

Associates

An associate is a company, not being a subsidiary, in which the Group has a long term interest of generally 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 provisions for diminutions in values other than temporary in nature deemed necessary by the directors. Goodwill arising from acquisition of associates is eliminated against reserves in the year of acquisition.

Goodwill or capital reserve

Goodwill or capital reserve arising on consolidation of subsidiaries or on acquisition of jointly controlled entities and associates represents the excess or shortfall, respectively, of the purchase consideration paid over the fair values ascribed to the net underlying assets acquired at the date of acquisition. Goodwill is eliminated against reserves and capital reserve amounts are credited directly to reserves, in the year of acquisition.

On disposal of subsidiaries, jointly controlled entities or associates, the relevant portion of attributable goodwill previously eliminated against reserves, or the capital reserve amount previously credited directly to reserves on consolidation, is written back and included in the calculation of the gain or loss on disposal.

Fixed assets and depreciation

Fixed assets, other than investment properties, are stated at cost or valuation less accumulated depreciation. 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 the 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(continued)

Fixed assets and depreciation *(Continued)*

Changes in the value of fixed assets, other than investment properties, are dealt with as movements in the fixed assets 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 fixed assets revaluation reserve realised in respect of previous valuations is transferred to retained profits/accumulated losses 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:

Leasehold land and buildings	2% – 4%
Leasehold improvements	20% – 25%
Plant and machinery	4% – 30%
Furniture, fixtures and equipment	9% – 30%
Motor vehicles	11% – 30%

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.

The carrying amounts of fixed assets are reviewed periodically in order to assess whether their recoverable amounts have declined below their carrying amounts. Where, in the opinion of the directors, the recoverable amounts of fixed assets have declined below their carrying amounts, provisions are made to write down the carrying amounts of such assets to their recoverable amounts. The recoverable amount is the amount which the Group expects to recover from the future use of the fixed asset, including its residual value on disposal. Reductions of recoverable amounts are charged to the profit and loss account, except to the extent that they reverse previous revaluation surpluses in respect of the same item, when they are charged to the revaluation reserve.

The Group has relied upon the exemption permitted under paragraph 72 of SSAP 17 issued in 1995, from the requirement to conduct regular future revaluations of its previously revalued plant and machinery.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(continued)

Investment properties

Investment properties are interests in land and 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. Such properties are not depreciated and are stated at their open market values on the basis of annual 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.

Long term investments

Investments which are intended to be held for an identified long term purpose, are stated at the balance sheet at cost, less any provisions for diminutions in values other than temporary in nature deemed necessary by the directors.

Land use rights

Land use rights are stated at cost or valuation and amortised on a straight-line basis over the respective remaining joint venture periods once commercial production commences.

Changes in the value of land use rights are dealt with as movements in the land use rights 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 land use rights revaluation reserve realised in respect of previous valuations is transferred to retained profits/accumulated losses as a movement in reserves.

Properties for sale

Properties for sale, consisting of completed properties and properties under development intended for sale are classified as current assets and are stated at the lower of cost and net realisable value. Cost includes all development expenditure, applicable borrowing costs and other direct costs attributable to such properties. Net realisable value is determined by reference to prevailing market prices on an individual property basis.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(continued)

Properties under development

Properties under development are stated at cost which includes all development expenditure, applicable borrowing costs and other direct costs attributable to such properties.

Properties under development which have been pre-sold are stated at cost plus attributable profits less any foreseeable losses and deposits received and instalments received.

When properties under development have been pre-sold, the total estimated profit is apportioned over the entire period of construction to reflect the progress of the development. On this basis, profit recognised on the pre-sold portion of the properties is calculated by reference to the proportion of construction costs incurred up to the balance sheet date, to the estimated total construction costs to completion, limited to the amount of sales deposits and instalments received and with due allowance for contingencies.

Properties under development which have either been pre-sold or which are intended for sale and expected to be completed within one year from the balance sheet date are classified as current assets.

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 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 lessors are accounted for as operating leases. Rentals applicable to such operating leases are charged or credited to the profit and loss account on a straight-line basis over the lease terms.

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 any estimated costs to be incurred to completion and disposal.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(continued)

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.

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) on the sales of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;
- (b) interest income, on a time proportion basis taking into account the principal outstanding and the effective interest rate applicable;
- (c) rental income, on a time proportion basis over the lease terms;
- (d) dividends, when the shareholders' right to receive payment is established; and
- (e) revenue and profit from sale of completed properties, upon the execution of the sales agreement.

Foreign currencies

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

On consolidation, the financial statements of overseas subsidiaries, jointly controlled entities and associates are translated into Hong Kong dollars at the applicable rates of exchange ruling at the balance sheet date. The resulting translation differences are included in the exchange fluctuation reserve.

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(continued)

Cash equivalents

For the purpose of the consolidated cash flow statement, cash equivalents represent short term highly liquid investments which are readily convertible into known amounts of cash and which were within three months of maturity when acquired, less advances from banks repayable within three months from the date of the advance. For the purpose of balance sheet classification, cash equivalents represent assets similar in nature to cash, which are not restricted as to use.

4. TURNOVER AND REVENUE

The Group's turnover represents the net invoiced value of goods sold after allowances for returns and trade discounts, and commission and gross rental income, after elimination of all significant intercompany transactions. Revenue from the following activities has been included in turnover:

	1999 HK\$'000	1998 HK\$'000
Continuing operations:		
Sales of goods		
Trading and processing of metallic ores and metals	40,746	336,644
Trading of copper and brass products	31,600	288,371
Trading of industrial chemical products	78,523	229,549
Manufacturing of steel cord	66,510	78,171
Others	9,119	31,584
	<u>226,498</u>	<u>964,319</u>
Commission	109	-
Rental income	515	381
	<u>227,122</u>	<u>964,700</u>
Discontinued and discontinuing operations:		
Sales of goods		
Processing of electrical wires and accessories	36,729	36,210
Trading and manufacturing of children's wear	4,969	15,707
	<u>41,698</u>	<u>51,917</u>
Turnover	<u><u>268,820</u></u>	<u><u>1,016,617</u></u>

Notes to Financial Statements

(31 December 1999)

5. LOSS FROM OPERATING ACTIVITIES

The Group's loss from operating activities is arrived at after charging:

	1999 HK\$'000	1998 HK\$'000
Cost of inventories sold	244,451	964,216
Depreciation:		
Owned fixed assets	26,880	29,265
Leased fixed assets	131	546
	<u>27,011</u>	<u>29,811</u>
Amortisation:		
Joint ventures	-	5,829
Land use rights	379	379
	<u>379</u>	<u>6,208</u>
Operating lease rentals in respect of land and buildings	3,134	4,956
Auditors' remuneration	1,080	1,150
Staff costs:		
Wages and salaries (including directors' remuneration - note 9)	28,794	38,046
Foreign exchange losses, net	1,001	515
Provision for decline in the recoverable amount of fixed assets	-	2,339
Deficit on revaluation of investment properties	890	950
Deficit on revaluation of leasehold land and buildings	26,748	-
Loss on disposal of long term investments	-	5,874
Provision for diminutions in values of long term investments	695	4,322
Provision for bad and doubtful debts	9,194	81,609
Provision for diminution in value of interest in a jointly controlled entity	-	22,303
Loss on disposal of fixed assets, net	1,197	-
Loss on disposal of subsidiaries	4,141	-
and after crediting:		
Interest income	1,552	4,679
Gain on disposal of fixed assets, net	-	213
Gross rental income from investment properties	515	381
Less: Outgoings	(19)	(44)
Net rental income	<u>496</u>	<u>337</u>
Gain on dilution of the Group's interest in an associate	-	3,943
	<u><u>-</u></u>	<u><u>3,943</u></u>

6. FINANCE COSTS

	1999	1998
	HK\$'000	HK\$'000
Interest on bank loans, overdrafts and other loans wholly repayable within five years	16,907	27,916
Interest on bank loans wholly repayable after five years	284	355
Interest on finance leases	121	246
	<u>17,312</u>	<u>28,517</u>

7. DISCONTINUED AND DISCONTINUING OPERATIONS

- (a) On 20 January 1999, in view of the loss of a major customer, the prolonged economic recession and a contraction of the retail business in Hong Kong, the directors decided to terminate the Group's children's wear manufacturing and trading business in Hong Kong. The termination process was completed in September 1999. The financial effects of these operations on the current and prior year's consolidated profit and loss account have been separately disclosed as discontinued operations.
- (b) During the year, the Group had three jointly controlled entities (the "Entities") engaged in ferroalloy processing and manufacturing activities in the People's Republic of China (the "PRC") (collectively the "Business"). The directors consider that the continued over-capacity situation and decrease in demand for ferroalloy products in Mainland China will have a profound and significant impact on the Business. The situation will be further aggravated by China's entry into the World Trade Organisation in the near future, which is expected to intensify competition. The outlook for the Business therefore remains gloomy and there is no sign of recovery for the time being. As such, the directors cautiously reassessed the Group's strategy in respect of its investments in the Entities and decided to discontinue the Group's financial and operating involvement in the entire line of the Business effective from 3 May 1999.

The directors are of the opinion that the discontinuance of the Business is for and in the best interests of the Group. The financial effects arising from the Business to the current and prior year's consolidated profit and loss account have been separately disclosed as discontinued operations.

7. DISCONTINUED AND DISCONTINUING OPERATIONS

(continued)

- (c) On 10 December 1999, in view of the gloomy prospects of the electrical wires and accessories processing business due to intense price competition, the directors decided to discontinue the Group's business segment of electrical wires and accessories processing through disposal, details of which are set out in note 34(a) to the financial statements. The directors are of the opinion that the Group is able to streamline its business and improve its financial health through the disposal. The disposal was approved by the Company's shareholders at an extraordinary general meeting held on 10 January 2000 and was completed on 14 January 2000. The financial effects of these operations on the current and prior year's consolidated profit and loss account have been separately disclosed as discontinuing operations.

The Group's gain on disposal of the business segment of electrical wires and accessories processing amounted to approximately HK\$641,000.

- (d) The amounts included in the consolidated profit and loss account in respect of the discontinued and discontinuing operations as detailed in (a) and (c) above are summarised as follows:

	1999 HK\$'000	1998 HK\$'000
Sales of goods	41,698	51,917
Cost of sales	<u>(26,205)</u>	<u>(37,926)</u>
	15,493	13,991
Other revenue	657	1,552
Distribution costs	(838)	(1,731)
Administrative expenses	(13,557)	(14,647)
Other operating expenses	<u>(4,364)</u>	<u>(4,153)</u>
Loss from operating activities	(2,609)	(4,988)
Finance costs	<u>(608)</u>	<u>(1,271)</u>
Loss before tax	<u><u>(3,217)</u></u>	<u><u>(6,259)</u></u>

8. PRIOR YEAR ADJUSTMENTS

The policy for accounting for deferred pre-operating expenses which, in prior years were capitalised and amortised over periods not exceeding ten years on a straight-line basis, beginning when the related production commenced, was changed during the year ended 31 December 1999. These deferred pre-operating expenses are now recognised as expenses in the period in which they are incurred. In restating the financial statements for 1998 on the basis of the new policy, the net loss from ordinary activities attributable to shareholders for the year ended 31 December 1998 decreased by HK\$1,406,000. The cumulative effect on prior years was to decrease the retained profits and minority interests at 1 January 1998 by HK\$11,709,000 and HK\$4,570,000, respectively.

9. DIRECTORS' REMUNERATION

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

	1999 HK\$'000	1998 HK\$'000
Fees	—	—
Salaries, allowances and benefits in kind	4,653	3,954
	<u>4,653</u>	<u>3,954</u>

None of the non-executive and independent non-executive directors received any remuneration during the year.

10. TAX

	1999 HK\$'000	1998 HK\$'000
Group:		
– Hong Kong S.A.R.		
Provision for the year	432	677
Overprovision in prior years	(3,707)	(19)
Deferred tax – <i>note 24</i>	(441)	–
– Mainland China		
Provision for the year	443	277
Under/(over) provision in prior years	1,040	(3,972)
	<u>(2,233)</u>	<u>(3,037)</u>
Jointly controlled entities:		
Mainland China	968	836
Associate:		
Mainland China	466	691
	<u>(799)</u>	<u>(1,510)</u>

Hong Kong profits tax has been provided at the rate of 16% (1998: 16%) on the estimated assessable profits arising in Hong Kong during the year. The income tax in Mainland China is calculated at the applicable tax rates on the estimated assessable profits for the year based on existing legislation, interpretation and practices in respect thereof. In accordance with the relevant tax rules and regulations in Mainland China, certain of the Company's jointly controlled entities in Mainland China enjoy income tax exemptions and reductions.

11. NET LOSS FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS

The net loss from ordinary activities attributable to shareholders dealt with in the financial statements of the Company is HK\$46,346,000 (1998: HK\$104,265,000). The Group's share of profits retained by the jointly controlled entities and associates for the year amounted to HK\$9,689,000 (1998: losses of HK\$45,262,000) and HK\$1,085,000 (1998: losses of HK\$1,927,000), respectively.

12. LOSS PER SHARE

The calculation of basic loss per share is based on the net loss from ordinary activities attributable to shareholders of HK\$65,616,000 (1998: HK\$196,723,000) and the weighted average of 765,372,000 shares (1998: 765,500,784 shares) in issue during the year.

Diluted loss per share is not presented as there were no dilutive potential ordinary shares outstanding during the years ended 31 December 1999 and 1998.

13. FIXED ASSETS

Group

	Investment properties HK\$'000	Leasehold land and buildings HK\$'000	Leasehold improvements HK\$'000	Plant and machinery HK\$'000	Furniture, fixtures and equipment HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
Cost or valuation:							
At beginning of year	6,700	126,991	5,001	344,201	11,377	15,073	509,343
Additions	-	-	51	1,543	255	709	2,558
Reclassification	-	-	-	(171)	-	171	-
Deficit on revaluation, net	(890)	(37,886)	-	-	-	-	(38,776)
Disposals	-	(8,010)	(426)	(4,000)	(1,504)	(7,073)	(21,013)
Disposal of subsidiaries	-	(11,645)	(1,713)	(303)	(107)	(330)	(14,098)
Exchange realignment	-	142	-	927	5	10	1,084
At 31 December 1999	5,810	69,592	2,913	342,197	10,026	8,560	439,098
Comprising:							
At cost	-	-	2,913	340,931	10,026	8,560	362,430
At 31 March 1992 valuation	-	-	-	1,266	-	-	1,266
At 31 December 1999 valuation	5,810	69,592	-	-	-	-	75,402
	5,810	69,592	2,913	342,197	10,026	8,560	439,098

13. FIXED ASSETS (continued)

Group

	Investment properties	Leasehold land and buildings	Leasehold improvements	Plant and machinery	Furniture, fixtures and equipment	Motor vehicles	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Accumulated depreciation:							
At beginning of year	-	8,470	4,142	36,410	8,863	10,936	68,821
Provided during the year	-	3,205	330	20,619	1,038	1,819	27,011
Reclassification	-	-	-	(60)	-	60	-
Write back on revaluation	-	(10,518)	-	-	-	-	(10,518)
Disposals	-	(311)	(320)	(2,975)	(1,183)	(5,755)	(10,544)
Disposal of subsidiaries	-	(855)	(1,295)	(3)	(1)	(3)	(2,157)
Exchange realignment	-	9	-	67	2	7	85
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2</u>	<u>7</u>	<u>85</u>
At 31 December 1999	<u>-</u>	<u>-</u>	<u>2,857</u>	<u>54,058</u>	<u>8,719</u>	<u>7,064</u>	<u>72,698</u>
Net book value:							
At 31 December 1999	<u>5,810</u>	<u>69,592</u>	<u>56</u>	<u>288,139</u>	<u>1,307</u>	<u>1,496</u>	<u>366,400</u>
At 31 December 1998	<u>6,700</u>	<u>118,521</u>	<u>859</u>	<u>307,791</u>	<u>2,514</u>	<u>4,137</u>	<u>440,522</u>

13. FIXED ASSETS *(continued)*

Company

	Furniture, fixtures and equipment	Motor vehicles	Total
	HK\$'000	HK\$'000	HK\$'000
Cost:			
At beginning of year	452	880	1,332
Disposals	(176)	(880)	(1,056)
	<u>276</u>	<u>-</u>	<u>276</u>
At 31 December 1999			
Accumulated depreciation:			
At beginning of year	214	499	713
Provided during the year	60	161	221
Disposals	(66)	(660)	(726)
	<u>208</u>	<u>-</u>	<u>208</u>
At 31 December 1999			
Net book value:			
At 31 December 1999	<u>68</u>	<u>-</u>	<u>68</u>
At 31 December 1998	<u>238</u>	<u>381</u>	<u>619</u>

The net book value of fixed assets of the Company and the Group held under finance leases included in the total amount of fixed assets at 31 December 1999 amounted to nil (1998: HK\$381,000) and HK\$394,000 (1998: HK\$1,277,000), respectively.

The Group's leasehold land and buildings were revalued at 31 December 1999 by American Appraisal Hongkong Limited, an independent professionally qualified valuer, at an aggregate value of HK\$69,592,000 on an open market value or depreciated replacement cost basis, based on their existing use. A revaluation surplus of HK\$581,000 and a revaluation deficit of HK\$26,748,000, net of previous revaluation reserve, resulting from the above valuation have been credited to the fixed assets revaluation reserve and charged to the profit and loss account, respectively.

13. FIXED ASSETS *(continued)*

Had these leasehold land and buildings, and the Group's previously revalued plant and machinery been carried at cost less accumulated depreciation, the carrying value of the leasehold land and buildings, and plant and machinery would have been included in the financial statements at approximately HK\$94,008,000 and nil, respectively. The additional depreciation charge for the year in respect of the revalued land and buildings, and plant and machinery amounted to approximately HK\$67,000 and nil, respectively.

The Group's leasehold land and buildings are analysed as follows:

	Hong Kong S.A.R. HK\$'000	Elsewhere in the PRC HK\$'000	Total HK\$'000
Long term leases:			
At valuation	10,760	1,038	11,798
Medium term leases:			
At valuation	—	57,794	57,794
	<u>10,760</u>	<u>58,832</u>	<u>69,592</u>

The Group's investment properties are held under medium term leases and were revalued at 31 December 1999 by American Appraisal Hongkong Limited, an independent professionally qualified valuer, on an open market existing use basis. These properties are situated elsewhere in the PRC and are rented out under operating leases. Details of the Group's investment properties are set out on page 70 of the Annual Report.

As at 31 December 1999, the Group's investment properties amounting to HK\$5,810,000 (1998: HK\$6,700,000) and certain of the Group's leasehold land and buildings with a net book value of approximately HK\$54,625,000 (1998: HK\$78,739,000) were pledged to secure certain of the Group's bank loans as set out in note 22 to the financial statements.

14. LAND USE RIGHTS

	Group
	HK\$'000
Cost or valuation:	
At beginning of year	11,360
Revaluation	(52)
Exchange realignment	32
	<u>11,340</u>
At 31 December 1999	<u>11,340</u>
Accumulated amortisation:	
At beginning of year	1,515
Provided during the year	379
Write back on revaluation	(1,899)
Exchange realignment	5
	<u>—</u>
At 31 December 1999	<u>—</u>
Net book value:	
At 31 December 1999	<u>11,340</u>
At 31 December 1998	<u>9,845</u>

Land use rights represent the rights to use certain pieces of land which are held under medium term leases and are situated in the PRC. They are amortised over the respective remaining joint venture periods upon the commencement of the respective commercial production. As at 31 December 1999, the Group's land use rights were pledged to secure certain of the Group's bank loans as set out in note 22 to the financial statements.

The Group's land use rights were revalued at 31 December 1999 by American Appraisal Hongkong Limited, an independent professionally qualified valuer at HK\$11,340,000 on an open market existing use basis. A revaluation surplus of HK\$1,326,000 resulting from the above valuation has been credited to the land use rights revaluation reserve.

15. INTERESTS IN SUBSIDIARIES

	Company	
	1999	1998
	HK\$'000	HK\$'000
Unlisted shares, at cost	2,769	2,770
Due from subsidiaries	568,749	537,253
Due to subsidiaries	(9,460)	(33,318)
	<u>562,058</u>	<u>506,705</u>
Less: Provisions for diminutions in values	(211,721)	(139,522)
	<u>350,337</u>	<u>367,183</u>

The balances with subsidiaries are unsecured, interest-free and have no fixed terms of repayment, except for an advance to a subsidiary amounting to approximately HK\$25 million which bears interest at LIBOR plus 3% per annum and is repayable after more than one year.

Particulars of the Company's principal subsidiaries are set out in note 28 to the financial statements.

16. INTERESTS IN JOINTLY CONTROLLED ENTITIES

	Group		Company	
	1999	1998	1999	1998
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Unlisted investments, at cost	-	-	56,550	56,550
Share of net assets	79,420	69,339	-	-
Loan from a jointly controlled entity	(2,817)	-	-	-
Loan to a jointly controlled entity	8,347	8,347	-	-
	<u>84,950</u>	<u>77,686</u>	<u>56,550</u>	<u>56,550</u>
Less: Provisions for diminutions in values	(22,908)	(22,908)	(56,550)	(56,550)
	<u>62,042</u>	<u>54,778</u>	<u>-</u>	<u>-</u>

16. INTERESTS IN JOINTLY CONTROLLED ENTITIES *(continued)*

Particulars of the Company's principal jointly controlled entities are set out in note 29 to the financial statements.

During the year, the Group's interest in a jointly controlled entity was reclassified to an associate, as detailed in notes 17 and 30 to the financial statements.

The balances with jointly controlled entities are unsecured, interest-free and have no fixed terms of repayment.

Details of capital commitments relating to the jointly controlled entities are set out in note 32(a) to the financial statements.

17. INTERESTS IN ASSOCIATES

	Group	
	1999 HK\$'000	1998 HK\$'000
Share of net assets	36,879	23,979
Loans to associates	29,818	29,818
	66,697	53,797
Less: Provisions for diminutions in values	(29,818)	(29,818)
	36,879	23,979

Particulars of the Group's principal associate are set out in note 30 to the financial statements.

The balances with associates are unsecured, interest-free and have no fixed terms of repayment.

During the year, the Group's interest in Xin Hua Metal Products Company Limited, which was classified as a jointly controlled entity in prior year, was reclassified to an associate, as further detailed in note 30 to the financial statements.

18. LONG TERM INVESTMENTS

	Group		Company	
	1999 HK\$'000	1998 HK\$'000	1999 HK\$'000	1998 HK\$'000
Long term investments, at cost	6,552	6,552	1,170	1,170
Less: Provisions for diminutions in values	(5,017)	(4,322)	(895)	(739)
	<u>1,535</u>	<u>2,230</u>	<u>275</u>	<u>431</u>

19. INVENTORIES

	Group	
	1999 HK\$'000	1998 HK\$'000
Raw materials	16,341	18,269
Work in progress	3,979	5,511
Finished goods	9,977	25,533
Properties for sale	3,109	7,044
Properties under development	6,281	4,219
	<u>39,687</u>	<u>60,576</u>

The carrying amount of inventories carried at net realisable value included in the above is HK\$546,000 (1998: HK\$20,740,000).

20. PLEDGED BANK BALANCES

These bank balances were pledged to a bank to secure the banking facilities granted to the Group.

21. INTEREST-BEARING BANK AND OTHER BORROWINGS

	Notes	Group		Company	
		1999 HK\$'000	1998 HK\$'000	1999 HK\$'000	1998 HK\$'000
Current portion of bank loans and overdrafts	22	102,211	197,221	-	1,950
Current portion of finance lease payables	23	163	612	-	202
		<u>102,374</u>	<u>197,833</u>	<u>-</u>	<u>2,152</u>

22. INTEREST-BEARING BANK LOANS AND OVERDRAFTS

	Group		Company	
	1999 HK\$'000	1998 HK\$'000	1999 HK\$'000	1998 HK\$'000
Bank overdrafts	469	1,169	-	-
Trust receipt loans	8,336	110,297	-	-
Bank loans	100,326	132,242	-	1,950
	<u>109,131</u>	<u>243,708</u>	<u>-</u>	<u>1,950</u>
Secured	89,387	130,886	-	-
Unsecured	19,744	112,822	-	1,950
	<u>109,131</u>	<u>243,708</u>	<u>-</u>	<u>1,950</u>
Balances due:				
Within one year or on demand	102,211	197,221	-	1,950
In the second year	2,629	41,400	-	-
In the third to fifth years, inclusive	3,807	4,049	-	-
Beyond five years	484	1,038	-	-
	<u>109,131</u>	<u>243,708</u>	<u>-</u>	<u>1,950</u>
Portion due within one year, classified as current liabilities	<u>(102,211)</u>	<u>(197,221)</u>	<u>-</u>	<u>(1,950)</u>
Long term portion	<u>6,920</u>	<u>46,487</u>	<u>-</u>	<u>-</u>

22. INTEREST-BEARING BANK LOANS AND OVERDRAFTS

(continued)

Certain of the Group's bank loans are secured by:

- (i) the Group's investment properties amounting to HK\$5,810,000 (1998: HK\$6,700,000) and certain of the leasehold land and buildings with an aggregate net book value of HK\$54,625,000 (1998: HK\$78,739,000);
- (ii) the Group's land use rights with a net book value of HK\$11,340,000 (1998: HK\$9,845,000);
- (iii) a floating charge over the assets of Jiaying Eastern Steel Cord Co., Ltd., a 71.8% owned subsidiary of the Group; and
- (iv) a first fixed charge over the entire issued share capital and assets of Everwinner Investments Limited, a 71.8% owned subsidiary of the Group.

23. FINANCE LEASE PAYABLES

There were obligations under finance leases at the balance sheet date as follows:

	Group		Company	
	1999 HK\$'000	1998 HK\$'000	1999 HK\$'000	1998 HK\$'000
Balances due:				
Within one year	163	612	-	202
In the second year	81	234	-	-
In the third to fifth years, inclusive	-	81	-	-
	<u>244</u>	<u>927</u>	<u>-</u>	<u>202</u>
Portion due within one year, classified as current liabilities	<u>(163)</u>	<u>(612)</u>	<u>-</u>	<u>(202)</u>
Long term portion	<u>81</u>	<u>315</u>	<u>-</u>	<u>-</u>

24. DEFERRED TAX

	Group	
	1999 HK\$'000	1998 HK\$'000
Balance at beginning of year	463	463
Credit for the year – <i>note 10</i>	(441)	–
At 31 December	<u>22</u>	<u>463</u>

The provision for deferred tax relates to timing differences arising from accelerated capital allowances to the extent that a liability is expected to crystallise in the foreseeable future.

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

The principal components of the Group's net deferred tax assets not recognised in the financial statements are as follows:

	Group	
	1999 HK\$'000	1998 HK\$'000
Tax losses available for future relief	7,369	11,216
Accelerated capital allowances	(171)	(1,339)
	<u>7,198</u>	<u>9,877</u>

As at 31 December 1999, the Company did not have any significant unprovided deferred tax.

25. SHARE CAPITAL

Shares

	1999 HK\$'000	1998 HK\$'000
Authorised:		
1,000,000,000 ordinary shares of HK\$0.10 each	<u>100,000</u>	<u>100,000</u>
Issued and fully paid:		
765,372,000 ordinary shares of HK\$0.10 each	<u>76,537</u>	<u>76,537</u>

Share options

On 11 March 1992, a share option scheme (the "Scheme") was approved by the shareholders. In accordance with the Scheme, the directors may, at their discretion, grant share options to executives and/or employees of the Group to subscribe for shares in the capital of the Company. The scheme will remain in force for the period of ten years from the date of its adoption.

No share options were granted during the year, and there were no share options outstanding at the balance sheet date.

26. RESERVES

Group	Share premium account HK\$'000	Capital reserve HK\$'000	Investment		Land use		Exchange fluctuation reserve HK\$'000	PRC reserve funds HK\$'000	Retained profits/ losses HK\$'000	Total HK\$'000
			Capital redemption reserve HK\$'000	property revaluation reserve HK\$'000	Fixed assets revaluation reserve HK\$'000	rights revaluation reserve HK\$'000				
(Note)										
At 1 January 1998										
As previously reported	357,181	-	-	50	1,423	-	1,775	18,464	137,590	516,483
Prior year adjustment - note 8	-	-	-	-	-	-	33	-	(11,709)	(11,676)
As restated	357,181	-	-	50	1,423	-	1,808	18,464	125,881	504,807
Exchange realignment	-	-	-	-	-	-	3,995	-	-	3,995
Premium on shares repurchased	-	-	-	-	-	-	-	-	(1,072)	(1,072)
Transfer on repurchase of shares	-	-	463	-	-	-	-	-	(463)	-
Deficit on revaluation of investment properties	-	-	-	(50)	-	-	-	-	-	(50)
Net loss for the year	-	-	-	-	-	-	-	-	(196,723)	(196,723)
At 31 December 1998, as restated	357,181	-	463	-	1,423	-	5,803	18,464	(72,377)	310,957
At 1 January 1999										
As previously reported	357,181	-	463	-	1,423	-	5,770	18,464	(62,074)	321,227
Prior year adjustment - note 8	-	-	-	-	-	-	33	-	(10,303)	(10,270)
As restated	357,181	-	463	-	1,423	-	5,803	18,464	(72,377)	310,957
Exchange realignment	-	-	-	-	-	-	802	-	-	802
Deficit on revaluation of fixed assets	-	-	-	-	(1,423)	-	-	-	-	(1,423)
Surplus on revaluation	-	-	-	-	581	1,326	-	-	-	1,907
Arising from dilution of interest in an associate	-	11,887	-	-	-	-	(37)	(164)	-	11,686
Goodwill on acquisition of additional interest in a subsidiary	-	(4,600)	-	-	-	-	-	-	-	(4,600)
Net loss for the year	-	-	-	-	-	-	-	-	(65,616)	(65,616)
Transfer	-	-	-	-	-	-	-	1,083	(1,083)	-
At 31 December 1999	357,181	7,287	463	-	581	1,326	6,568	19,383	(139,076)	253,713

Notes to Financial Statements

(31 December 1999)

26. RESERVES (continued)

Group	Share premium account HK\$'000	Capital reserve HK\$'000	Investment		Land use		Exchange fluctuation reserve HK\$'000	PRC		Total HK\$'000
			Capital redemption reserve HK\$'000	property revaluation reserve HK\$'000	Fixed assets revaluation reserve HK\$'000	rights revaluation reserve HK\$'000		reserve Accumulated funds HK\$'000	losses HK\$'000	
Reserves retained by:										
Company and subsidiaries	357,181	7,287	463	-	581	1,326	2,067	64	(81,573)	287,396
Jointly controlled entities	-	-	-	-	-	-	4,212	17,695	(56,850)	(34,943)
Associates	-	-	-	-	-	-	289	1,624	(653)	1,260
31 December 1999	<u>357,181</u>	<u>7,287</u>	<u>463</u>	<u>-</u>	<u>581</u>	<u>1,326</u>	<u>6,568</u>	<u>19,383</u>	<u>(139,076)</u>	<u>253,713</u>
Company and subsidiaries	357,181	-	463	-	1,423	-	1,787	17	(5,136)	355,735
Jointly controlled entities	-	-	-	-	-	-	3,794	16,905	(65,749)	(45,050)
Associates	-	-	-	-	-	-	222	1,542	(1,492)	272
31 December 1998	<u>357,181</u>	<u>-</u>	<u>463</u>	<u>-</u>	<u>1,423</u>	<u>-</u>	<u>5,803</u>	<u>18,464</u>	<u>(72,377)</u>	<u>310,957</u>

(Note)

Note: Pursuant to the relevant laws and regulations for Sino-foreign joint venture enterprises, a portion of the profits of the Group's subsidiaries, jointly controlled entities and associates in the PRC has been transferred to reserve funds which are restricted as to their use.

Company	Share premium account HK\$'000	Capital reserve HK\$'000	Capital redemption reserve HK\$'000	Retained profits/	Total HK\$'000
				(accumulated losses) HK\$'000	
At 1 January 1998	357,181	23,990	-	1,733	382,904
Premium on shares repurchased	-	-	-	(1,072)	(1,072)
Transfer on repurchase of shares	-	-	463	(463)	-
Net loss for the year	-	-	-	(104,265)	(104,265)
At 31 December 1998 and 1 January 1999	<u>357,181</u>	<u>23,990</u>	<u>463</u>	<u>(104,067)</u>	<u>277,567</u>
Net loss for the year	-	-	-	(46,346)	(46,346)
At 31 December 1999	<u>357,181</u>	<u>23,990</u>	<u>463</u>	<u>(150,413)</u>	<u>231,221</u>

The Company's capital reserve represented the benefit of acquiring a shareholders' loan at a nominal consideration of HK\$1 upon the acquisition of a subsidiary in previous years.

27. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

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

	1999 HK\$'000	1998 HK\$'000
Loss from operating activities	(66,846)	(133,034)
Gain on dilution of the Group's interest in an associate	-	(3,943)
Loss on disposal of subsidiaries	4,141	-
Loss on disposal of long term investments	-	5,874
Provision for diminutions in values of long term investments	695	4,322
Provision for bad and doubtful debts	9,194	81,609
Provision for diminution in value of interest in a jointly controlled entity	-	22,303
Provision for decline in the recoverable amount of fixed assets	-	2,339
Write back of provision for diminution in value of an associate	-	(337)
Interest income	(1,552)	(4,679)
Depreciation	27,011	29,811
Deficit on revaluation of leasehold land and buildings	26,748	-
Deficit on revaluation of investment properties	890	950
Loss/(gain) on disposal of fixed assets	1,197	(213)
Amortisation of joint ventures	-	5,829
Amortisation of land use rights	379	379
Decrease in trade and bills receivables	120,429	94,531
Decrease in prepayments, deposits and other receivables	6,918	24,422
Decrease in inventories	20,889	42,298
Decrease in trade and bills payables	(25,683)	(107,568)
Increase/(decrease) in other payables and accruals	3,233	(4,922)
Exchange realignment	(591)	476
Net cash inflow from operating activities	<u>127,052</u>	<u>60,447</u>

27. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(continued)

(b) Analysis of changes in financing activities

	Retained profits/ (accumulated losses)	Share capital	Bank loans	Due to a related company	Finance leases	Minority interests
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 1998						
As previously reported	137,590	77,000	364,736	-	1,174	121,951
Prior year adjustment - note 8	(11,709)	-	-	-	-	(4,570)
As restated	125,881	77,000	364,736	-	1,174	117,381
Net cash inflow/(outflow) from financing activities	(1,072)	(463)	(122,197)	12,288	(802)	300
Transfer on repurchase of shares	(463)	-	-	-	-	-
Share of losses for the year	-	-	-	-	-	(8,980)
Net loss for the year	(196,723)	-	-	-	-	-
Dividends attributable to minority shareholders	-	-	-	-	-	(2,920)
Share of exchange fluctuation reserve for the year	-	-	-	-	-	1,367
Inception of finance leases	-	-	-	-	555	-
At 31 December 1998 and 1 January 1999	(72,377)	76,537	242,539	12,288	927	107,148
Net cash inflow/(outflow) from financing activities	-	-	(133,946)	29,002	(683)	-
Share of losses for the year	-	-	-	-	-	(3,825)
Net loss for the year	(65,616)	-	-	-	-	-
Transfer to PRC reserve funds	(1,083)	-	-	-	-	-
Exchange realignment	-	-	69	-	-	-
Interest payable in relation to advances from a related company	-	-	-	1,591	-	-
Dividends attributable to minority shareholders	-	-	-	-	-	(840)
Share of exchange fluctuation reserve for the year	-	-	-	-	-	104
Share of revaluation reserves	-	-	-	-	-	743
At 31 December 1999	(139,076)	76,537	108,662	42,881	244	103,330

27. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(continued)

(c) Summary of the effects of disposal of subsidiaries

	1999 HK\$'000
Net assets disposed of:	
Fixed assets	11,941
Accounted for and discharged by:	
Cash consideration received	1,100
Other receivables	700
Discharge of other payables	1,400
Discharge of loan from a minority shareholder	4,600
Loss on disposal of subsidiaries	4,141
	11,941

The subsidiaries disposed of in 1999 did not have any significant contributions to the Group's turnover and net loss for the year, the Group's net cash inflow from operating activities, net returns on investments and servicing of finance, net cash outflow from investing activities and net cash outflow from financing activities.

28. PARTICULARS OF THE PRINCIPAL SUBSIDIARIES

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

Name	Place of incorporation/ registration and operations	Issued and paid up capital/ registered capital	Percentage of equity attributable to the Group		Principal activities
			1999	1998	
Bogay Investment Limited	Hong Kong	100 ordinary shares of HK\$1 each 100,000 non-voting deferred shares of HK\$1 each	100#	100#	Sale of metallic ores and metals

28. PARTICULARS OF THE PRINCIPAL SUBSIDIARIES (continued)

Name	Place of incorporation/ registration and operations	Issued and paid up capital/ registered capital	Percentage of equity attributable to the Group		Principal activities
			1999	1998	
Onhon Industrial Limited	Hong Kong	1,000,000 ordinary shares of HK\$1 each	100	100	Sale of copper and brass products
Meta Company Limited	Hong Kong	100 ordinary shares of HK\$1 each 18,000,000 non-voting deferred shares of HK\$1 each	100#	100#	Investment holding
Heroland Investment Limited	Hong Kong	2 ordinary shares of HK\$1 each	100	100	Property investment
Walltron Industries Limited	Hong Kong	100 ordinary shares of HK\$1 each	51	51	Trading of industrial chemical products
Hing Cheong Metals (China & Hong Kong) Limited	Hong Kong	1,000,000 ordinary shares of HK\$1 each	91	51	Processing and trading of copper and brass products
Heng Shan Metals & Minerals Company Limited	Hong Kong	500,000 ordinary shares of HK\$1 each	100	100	Provision of agency service
Fair Win Development Limited	Hong Kong/ The PRC	500,000 ordinary shares of HK\$1 each	100	100	Property investment
Bigland Investment Limited	Hong Kong/ The PRC	2 ordinary shares of HK\$1 each	100	100	Property investment
Eastern Century Metal Products Limited	Hong Kong	1,000,000 ordinary shares of HK\$1 each	100	100	Investment holding
Online Investments Limited	British Virgin Islands	31,000,000 ordinary shares of US\$1 each	71.8	71.8	Investment holding

28. PARTICULARS OF THE PRINCIPAL SUBSIDIARIES *(continued)*

Name	Place of incorporation/ registration and operations	Issued and paid up capital/ registered capital	Percentage of equity attributable to the Group		Principal activities
			1999	1998	
Everwinner Investments Limited	Hong Kong	1,000,000 ordinary shares of HK\$1 each	71.8	71.8	Investment holding
Jiaxing Eastern Steel Cord Co., Ltd.	The PRC	US\$44,000,000	71.8	71.8	Manufacturing of steel cord
Shanxi Shengjia Real Estate Developing Company Limited	The PRC	RMB19,000,000	88	88	Real estate development and investment
Jet Power Electrical Company Limited*	Hong Kong	500,000 ordinary shares of HK\$1 each	100	100	Processing of electrical wires
Jet Power Metal Company Limited*	Hong Kong	5,000,000 ordinary shares of HK\$1 each	100	100	Manufacturing and trading of metal spare parts
Jet Power Connector Company Limited*	Hong Kong	1,200,000 ordinary shares of HK\$1 each	60	60	Processing and trading of electrical accessories
Jet Power Enterprises Company Limited*	Hong Kong	500,000 ordinary shares of HK\$1 each	60	60	Trading of electrical accessories

* Subsidiaries relating to discontinuing operations

Directly held by the Company

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results of the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

29. PARTICULARS OF THE PRINCIPAL JOINTLY CONTROLLED ENTITIES

Particulars of the principal jointly controlled entities at the balance sheet date are as follows:

Name	Business structure	Place of incorporation/ registration and operations	Issued and paid up capital/ registered capital	Percentage of equity attributable to the Group	Percentage		Principal activities
					of voting power attributable to the Group	of profit attributable to the Group	
Comilog Asia Limited	Corporate	Hong Kong	120,166,340 ordinary shares of HK\$1 each	20	20	20	Investment holding
Shanghai Shenjia Metal Products Company Limited	Corporate	The PRC	US\$10,000,000	51	50	51	Manufacturing of pre-stressed concrete strands and wires

The above table lists the jointly controlled entities of the Group which, in the opinion of the directors, principally affected the results of the year or formed a substantial portion of the net assets of the Group. To give details of other jointly controlled entities would, in the opinion of the directors, result in particulars of excessive length.

30. PARTICULARS OF THE PRINCIPAL ASSOCIATE

Particulars of the principal associate are as follows:

Name	Business structure	Place of incorporation/ registration and operations	Issued and paid up capital	Percentage of equity attributable to the Group		Principal activities
				1999	1998	
Xin Hua Metal Products Company Limited (Note)	Corporate	The PRC	120,760,734 of RMB1 each	16.75	18.75	Manufacturing of pre-stressed concrete strands and wires

Note: Xin Hua Metal Products Company Limited ("Xin Hua") is listed on the Shanghai Stock Exchange in the PRC. The shares in Xin Hua held by the Group are legal person shares and are not tradable on any stock exchange. In prior year, Xin Hua was classified as a jointly controlled entity, however, during the year, it was reclassified to an associate as the directors consider that the Group is only in a position to exercise significant influence over Xin Hua. Pursuant to the memorandum of association, the Group is entitled to its equity share in the profits and losses and the net assets upon its cessation.

The above table lists the associate of the Group which, in the opinion of the directors, principally affected the results of the year or formed a substantial portion of the net assets of the Group. To give details of other associate would, in the opinion of directors, result in particulars of excessive length.

31. CONTINGENT LIABILITIES

As at 31 December 1999, the Group and the Company had the following contingent liabilities not provided for in the financial statements:

	Group		Company	
	1999 HK\$'000	1998 HK\$'000	1999 HK\$'000	1998 HK\$'000
Bills discounted with recourse	-	7,549	-	-
Guarantees for banking facilities granted to subsidiaries	-	-	321,451	618,062
Guarantees for banking facilities granted to a jointly controlled entity	27,775	-	-	-
	<u>27,775</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>27,775</u>	<u>7,549</u>	<u>321,451</u>	<u>618,062</u>

As at 31 December 1999, 39 employees (1998: 41 employees) had completed the required number of years of service under the Employment Ordinance, Chapter 57 of the Laws of Hong Kong to be eligible for long service payments on termination of their employment. The Group is only liable to make such payments where the termination of employment meets the circumstances specified in the Employment Ordinance. If the termination of employment of all these employees met the circumstances set out in the Employment Ordinance, the Group's liability as at 31 December 1999 would have been approximately HK\$4,255,000 (1998: HK\$4,274,000). No provision has been made for this amount in the financial statements.

32. COMMITMENTS

(a) Capital commitments

At the balance sheet date, certain of the Group's jointly controlled entities had the following capital commitments:

	Group	
	1999 HK\$'000	1998 HK\$'000
Capital expenditure contracted, but not provided for	<u>1,554</u>	<u>13,118</u>

The Group's share of capital commitments in respect of its interests in jointly controlled entities was approximately HK\$793,000 (1998: HK\$6,690,000).

32. COMMITMENTS (continued)

(b) Commitments under operating leases

At the balance sheet date, annual commitments under non-cancellable operating leases in respect of land and buildings payable by the Group in the following year were as follows:

	Group	
	1999 HK\$'000	1998 HK\$'000
Leases expiring:		
Within one year	1,571	290
In the second to fifth years, inclusive	-	2,437
	1,571	2,727
	1,571	2,727

As at 31 December 1999, the Company did not have any significant commitments.

33. RELATED PARTY TRANSACTIONS

During the year, the Group had the following material transactions with Shougang International and its subsidiaries (collectively the "Shougang International Group"), Shougang HK and its subsidiaries (collectively the "Shougang HK Group") and other related parties. Shougang International is a controlling shareholder of the Company and Shougang HK is the controlling shareholder of Shougang International.

		1999 HK\$'000	1998 HK\$'000
Consultancy fees paid to Shougang HK Group	(i)	360	360
Management fees paid to Shougang International Group	(i)	960	960
Rental expenses paid to:			
Shougang HK Group	(ii)	2,557	3,612
Shougang International Group	(ii)	156	-
Interest paid to:			
Shougang HK Group	(iii)	1,591	210
An associate	(iv)	494	-
Purchases from jointly controlled entities	(v)	-	44,145
Sales to a jointly controlled entity	(v)	4,601	16,440
Sales to an associate of Shougang International Group	(vi)	2,043	5,297
Loan from a jointly controlled entity	(vii)	2,817	-
Corporate guarantee received from Shougang HK	(viii)	12,870	20,592
Corporate guarantees given to a jointly controlled entity	(ix)	27,775	-
		27,775	-
		27,775	-

33. RELATED PARTY TRANSACTIONS *(continued)*

- (i) The Group paid consultancy fees and management fees to the Shougang HK Group and Shougang International Group, respectively, in relation to business and strategic development services provided at rates determined between both parties.
- (ii) The Group paid rental expenses to the Shougang HK Group and Shougang International Group for the leasing of properties in Hong Kong as office premises and staff quarters. The rental was calculated by reference to market rentals.
- (iii) The Company received advances from the Shougang HK Group in an aggregate of approximately HK\$30,002,000 during the year. The advances are secured by the Group's interest in a jointly controlled entity and interest free except for an amount of US\$1,644,000 being interest bearing at LIBOR plus 2.5% and an amount of HK\$24,815,000 being interest bearing at HIBOR. At the balance sheet date, an amount of HK\$42,881,000 remained outstanding and is repayable after more than one year.
- (iv) The Group received an advance from an associate in the amount of approximately HK\$9,390,000 which was fully repaid during the year. The advance was secured by the Group's partial interests in the associate and bore interest at 8% per annum.
- (v) Purchases from and sales to the jointly controlled entities were made according to prices and conditions similar to those offered to other third party customers and suppliers of the Group, except that interest was not charged on overdue balances.
- (vi) Sales to an associate of Shougang International were made according to prices and conditions similar to those offered to other third party customers of the Group.
- (vii) The loan advanced by the jointly controlled entity is unsecured, interest-free and has no fixed terms of repayment.
- (viii) Shougang HK has provided a corporate guarantee totalling HK\$12,870,000 for banking facilities granted to the Group in respect of a capital investment project.
- (ix) The Group has executed corporate guarantees totalling HK\$27,775,000 for bank loans granted to a jointly controlled entity to finance its working capital. These guarantees were provided in proportion to the Group's equity interest in the jointly controlled entity and are normally renewable on an annual basis.

In addition to the above, during the year, the Group had the following material transactions with certain key management personnel of its subsidiaries.

33. RELATED PARTY TRANSACTIONS *(continued)*

- (x) On 21 September 1999, Shun Fat Investments Limited ("Shun Fat"), a wholly owned subsidiary of the Company entered into two agreements with Hing Cheong Metals (China & Hong Kong) Limited ("Hing Cheong"), a 51% indirectly owned subsidiary of the Company, and Mr. So Kai Ming ("Mr. So"), a director of Hing Cheong for:
- (a) the purchase by Shun Fat from Mr. So of a 40% interest in the issued share capital of Hing Cheong (including the right to receive the dividend declared by Hing Cheong in the sum of HK\$1,200,000 on 12 March 1998) and an interest in a loan due from Hing Cheong to Mr. So in the amount of HK\$4,600,000 for an aggregate consideration of HK\$2; and
 - (b) the disposal by Hing Cheong to Mr. So of the entire issued share capital of True Harvest Industrial Limited and Dragle Industrial Limited, which are wholly owned subsidiaries of Hing Cheong, and certain of Hing Cheong's interest in plant, machinery and vehicles for a total cash consideration of HK\$2,000,000.
- (xi) On 10 December 1999, Meta Company Limited ("Meta"), a wholly owned subsidiary of the Company, entered into an agreement with Mr. Chang Tai Tek, a director of Jet Power Electrical Company Limited ("Jet Power"), which is an indirect wholly owned subsidiary of the Company, for the disposal of the entire issued share capital of Jet Power held by Meta for a consideration of approximately HK\$19,047,000. Further details are set out in note 34(a) to the financial statements.

34. POST BALANCE SHEET EVENTS

- (a) On 10 December 1999, Meta entered into an agreement (the "JP Agreement") with Mr. Chang Tai Tek ("Mr. Chang"), a director of Jet Power for the disposal of the entire issued share capital of Jet Power held by Meta to Mr. Chang for a consideration of approximately HK\$19,047,000 (the "Disposal"). In addition to the Disposal, the Group agreed to lease a property situated in the PRC to Jet Power at a rent of HK\$95,000 per month for a term of one year, which was determined with reference to market rentals.

Jet Power and its subsidiaries are principally engaged in the processing of electrical wires and accessories. Further details are set out in the Company's announcement dated 11 December 1999 and the Company's circular to shareholders dated 23 December 1999.

The Disposal was approved by the shareholders of the Company at an extraordinary general meeting held on 10 January 2000 and was completed on 14 January 2000.

34. POST BALANCE SHEET EVENTS *(continued)*

(a) *(continued)*

The Group's gain on disposal of Jet Power and its subsidiaries amounted to approximately HK\$641,000.

(b) On 27 March 2000, Century Plaza Investment Limited, a wholly owned subsidiary of the Company, entered into a sale and purchase agreement with an independent third party, for the disposal of its interest in a wholly owned subsidiary, Sheen Dragon Properties Limited ("Sheen Dragon"), at a consideration of HK\$3,860,000. The major asset of Sheen Dragon is its interest in a property situated in Shenzhen, the PRC.

(c) On 31 March 2000, Everlite Century Limited, a wholly owned subsidiary of the Company, entered into an agreement (the "Shenjia Agreement") with Shanghai Ergang Co., Ltd. ("Ergang") for the disposal of a 26% interest in Shanghai Shenjia Metal Products Company Limited ("Shanghai Shenjia"), an indirect jointly controlled entity of the Company, for a consideration of approximately HK\$61,770,000. Ergang held a 49% equity interest in Shanghai Shenjia as at 31 December 1999. The Shenjia Agreement is subject to the approval of the shareholders of the Company at an extraordinary general meeting to be convened on 8 May 2000.

The first instalment of the consideration in the amount of approximately HK\$47 million shall be paid by Ergang upon the change in the ownership of the equity interest in Shanghai Shenjia, which is subject to the approval of the relevant governmental authorities in the PRC, and the second instalment in the amount of approximately HK\$15 million shall be paid by Ergang on or before 30 September 2000.

Further details are set out in the Company's announcement dated 31 March 2000 and the Company's circular to shareholders dated 19 April 2000.

35. COMPARATIVE AMOUNTS

As further explained in notes 2, 8, 17 and 30 to the financial statements, due to the adoption of new SSAPs during the current year, a change in accounting policy and a change in circumstances, respectively, the presentation of the profit and loss account, the balance sheets and certain supporting notes have been revised to comply with the new requirements, policy and circumstances. Accordingly, certain comparative amounts have been reclassified to conform with the current year's presentation.

36. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved by the board of directors on 4 May 2000.

SUMMARY OF INVESTMENT PROPERTIES

Particulars of investment properties held by the Group as at 31 December 1999 are as follows:

	Property	Use	Group interest	Category of lease
1.	House No. R18 Area 5, Legend Garden Villas No. 89 Ji Chang Lu Chaoyang District, Beijing The People's Republic of China	Residential	100%	Medium term lease
2.	Unit B2, 2nd Floor, Block F Area 4, Legend Garden Villas No. 89 Ji Chang Lu Chaoyang District, Beijing The People's Republic of China	Residential	100%	Medium term lease