



SHOUGANG CONCORD CENTURY
HOLDINGS LIMITED

ANNUAL REPORT

2002

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Corporate Information ▶

Board of Directors

*Executive directors*Cao Zhong (*Chairman*)Tong Yihui (*Managing Director*)

Leung Shun Sang, Tony

Li Shaofeng

Xu Xianghua

Tang Kwok Kau

Independent non-executive directors

Yip Kin Man, Raymond

Lai Kam Man

Audit Committee

Lai Kam Man (*Chairman*)

Yip Kin Man, Raymond

Company Secretary

Chan Lai Yee

Principal Bankers

Bank of America (Asia) Ltd.

Bank of China

Citibank, N.A.

Dao Heng Bank Limited

Fortis Bank Asia HK

Wing Hang Bank Limited

Auditors

Ernst & Young

Certified Public Accountants

Share Registrars

Tengis Limited

Ground Floor, Bank of East Asia Harbour View Centre

56 Gloucester Road

Wanchai

Hong Kong

Registered Office

6th Floor, Bank of East Asia Harbour View Centre

51-57 Gloucester Road

Wanchai

Hong Kong

Website

<http://www.shougangcentury.com.hk>

Stock Code

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Mr. Cao Zhong, aged 43, Economist. Mr. Cao holds a Master Degree in Economics. He was appointed the Chairman of each of the Company and Shougang Concord Technology Holdings Limited ("Shougang Technology"), the Managing Director of Shougang Concord International Enterprises Company Limited ("Shougang International") and Vice-Chairman of Shougang Concord Grand (Group) Limited ("Shougang Grand") in November 2001. He also serves as the Deputy Chairman and General Manager of each of Shougang Holding (Hong Kong) Limited ("Shougang HK") and China Shougang International Trade and Engineering Corporation ("China Shougang"). Mr. Cao has extensive experience in corporate management and operation.

Mr. Tong Yihui, aged 54, Senior Engineer. Mr. Tong graduated from Yan Shan University in the People's Republic of China (the "PRC"). 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 60. Mr. Leung was appointed a Director of the Company in 1995. He is also a Director of Shougang International, Shougang Technology and Shougang Grand. Mr. Leung 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 which is an associate of Cheung Kong (Holdings) Limited and also a Director of MLC (Hong Kong) Limited.

Mr. Li Shaofeng, aged 36. Mr. Li holds a Bachelor Degree in Automatic Science from Beijing Technology University. He joined Shougang Corporation, the holding company of Shougang HK in 1989. Mr. Li was appointed as Deputy Managing Director of the Company in March 2000. He also serves as the Managing Director of Shougang Grand. Prior to joining the Group, Mr. Li had held the position of Deputy General Manager in Beijing Shougang Hotel Development Company. He has extensive experience in management of steel industry, sino-foreign joint ventures and property development.

Ms. Xu Xianghua, aged 53, Senior Accountant. Ms. Xu was appointed a Director of the Company in September 2000. She also serves as the Deputy Managing Director of Shougang HK, a Director of each of Shougang International, Shougang Technology and Shougang Grand. She joined Shougang Corporation in 1967 and had been a Director of the Finance Section of China Shougang. Ms. Xu has extensive experience in management of steel industry, sino-foreign joint ventures, property development, import and export trading and overseas engineering projects.

Mr. Tang Kwok Kau, aged 42. Mr. Tang joined the Group in 1998 and was appointed as Deputy Managing Director of the Company in March 2000. He holds a Bachelor Degree and a Master 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.

Mr. Lai Kam Man, aged 69. 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 the 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 PRC. He is also a member of the National Committee of the Chinese People's Political Consultative Conference.

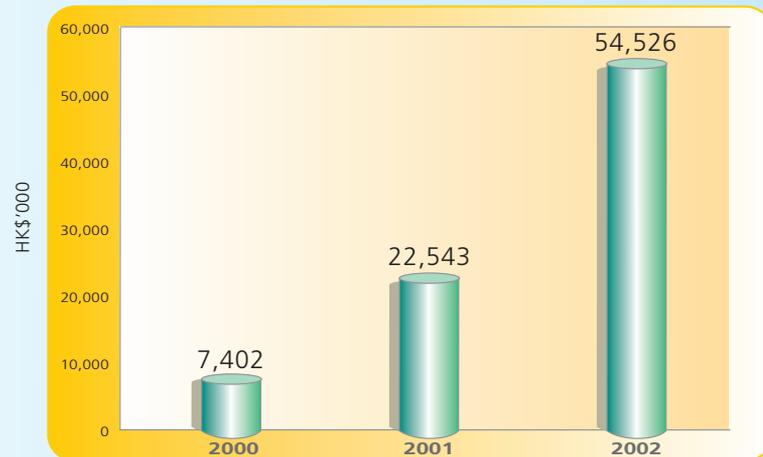
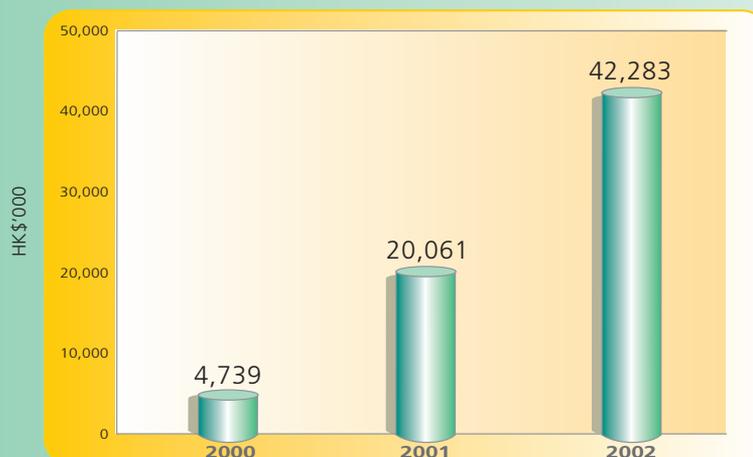
Mr. Yip Kin Man, Raymond, aged 56. Mr. Yip was appointed an Independent Non-executive Director of the Company in 1993. He also serves as a member of the Audit Committee of the Company. Mr. Yip is a practising solicitor, notary public and Attesting Officer appointed by the Ministry of Justice of the PRC.

Financial Highlights ▶

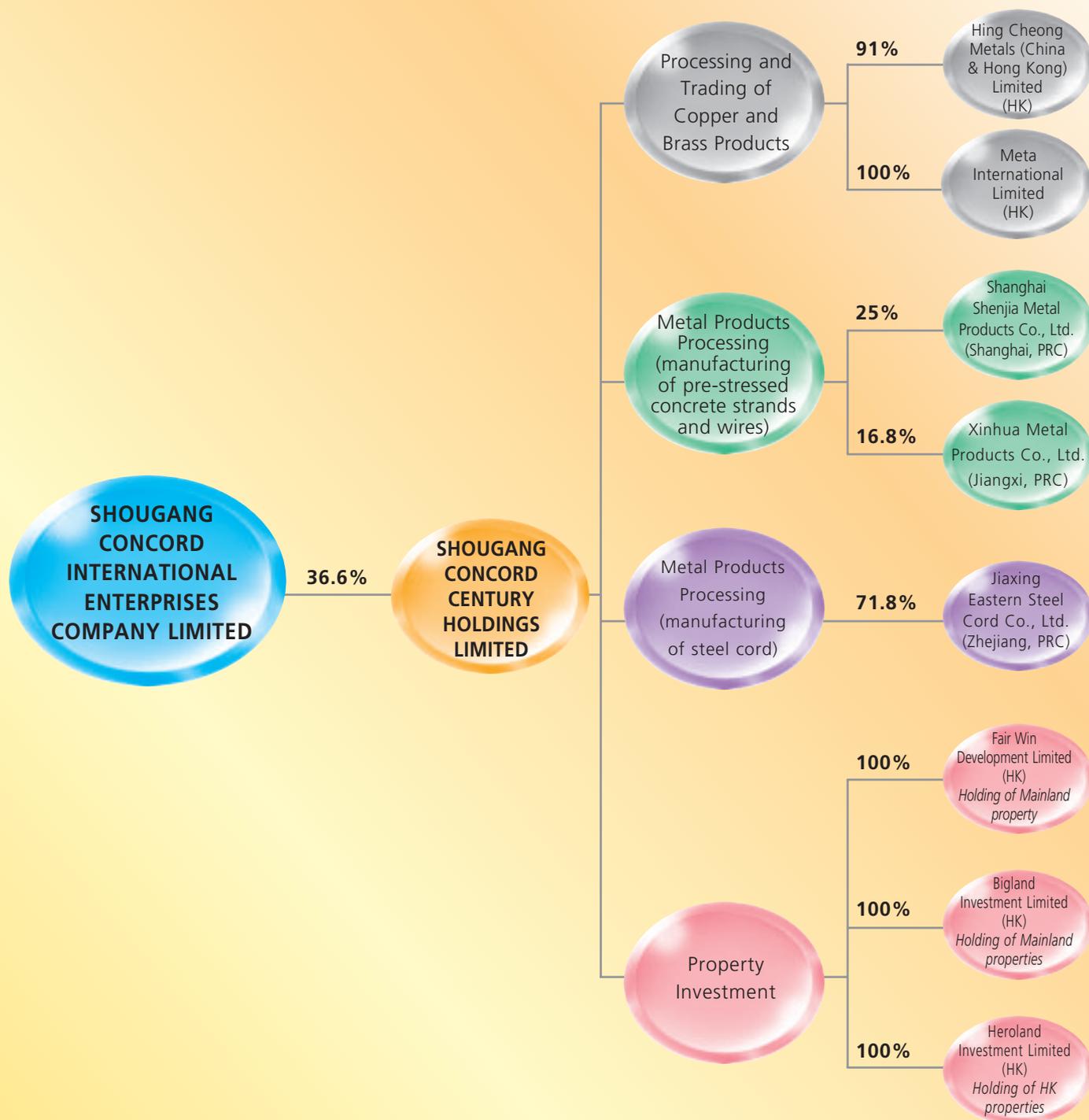
TURNOVER – CONTINUING OPERATIONS



PROFIT FROM OPERATING ACTIVITIES

NET PROFIT FROM ORDINARY ACTIVITIES
ATTRIBUTABLE TO SHAREHOLDERS

◀ Main Operational Structure



Chairman's Statement ▶

Dear Shareholders,

I was pleased to announce that the Group continued to have a stable growth and recorded a satisfactory achievement as a result of our diligence despite the difficult economic circumstances throughout the year.

For the year ended 31 December 2002, our Group reported a net profit attributable to shareholders of HK\$42,283,000, an increase of 110.8% when compared to the corresponding net profit of HK\$20,061,000 for the year ended 31 December 2001. Turnover increased by 25.5% from HK\$187,139,000 for the year ended 31 December 2001 to HK\$234,891,000 for the year under review. The return on average shareholders' equity increased from 5.1% for the year ended 31 December 2001 to 10.1% for the corresponding year of 2002. Our much improved performance came from the outstanding achievement in both turnover and net profit attributed from our core business of the manufacturing of steel cord.

The outlook of weak economic performance for Hong Kong due to the continuing deflation and local structural adjustments, the uncertainty due to geopolitical issues like the threat of disruption from war and terrorism remains and its impact on the global economy will continue to stifle domestic growth. Undoubtedly 2003 will be a very challenging year, however, we have already well-positioned in advance to develop our main core businesses in Mainland China. Thus, paving the road for the Group to enjoy growth at the back of an incessant surge in gross domestic product in Mainland China, we have confidence in our long term future and maintaining satisfactory return to you but with a commitment of operating our business in a pragmatic and cautious manner.

Finally, on behalf of the board of directors (the "Board"), I would like to express my sincerely appreciation for your encouragement and support and to all of those who worked hard and made contribution to the Group during the year.

By Order of the Board

Cao Zhong

Chairman

Hong Kong

16 April 2003

REVIEW OF OPERATIONS

Group Results

The Group reported a net profit attributable to shareholders of HK\$42,283,000 for the year ended 31 December 2002, an increase of 110.8% as compared to the corresponding net profit attributable to shareholders of HK\$20,061,000 for the year ended 31 December 2001. Basic earnings per share was up from HK2.62 cents to HK5.52 cents for the year under review.



The external economic environment was still unstable during 2002, whereas the economy of Mainland China remained outstanding and achieved an economic growth of approximately 8% in 2002; this helps created a favorable operating environment for our Group's businesses. Turnover of the Group for the year under review reached to HK\$234,891,000, increased by 25.5% as compared to the corresponding year of 2001. Our core businesses of manufacturing of steel cord and processing and trading of copper and brass products recorded an increase in turnover of 22.9% and 38.4% respectively. In contrast, the turnover of the property development and investment business dropped by 66.3% due to the partial disposal of equity interest in a subsidiary engaged in the property development during 2001 with the objective of concentrating our resources on the Group's more profitable core businesses.

Gross profit amounted to HK\$75,568,000, representing an increase of 39.4% over the corresponding year of 2001. This significant increase was attributable to the increase in turnover and the improvement in gross profit margin from 29% in 2001 to 32.2% in the year under review which was primarily as a result of reduced cost of sales arising from increased production.

Regarding expenses and other costs, despite a 25.5% increase in turnover, administrative expenses only increased by 10.2% to HK\$28,036,000 under our resilient cost control measures. The Group's finance costs sharply dropped by 59.3% to HK\$2,024,000 only, being the result of reduced interest bearing borrowings and lowered borrowing rates during the year.

Moreover, the significant increase in net profit was also contributed by specific bad debts recovery of HK\$16,612,000 (the portion attributable to the Group was HK\$12,663,000 after deducting minority interests' portion of HK\$3,949,000) reflecting the relentless pursuit of the management to safeguard the interest of the Group.

Management Discussion and Analysis ►

PRINCIPAL BUSINESSES

Manufacturing of Steel Cord

Our segment of manufacturing of steel cord, principally operated by Jiaxing Eastern Steel Cord Co., Ltd. ("Jiaxing Eastern"), the Group's 71.8% owned subsidiary in China, had recorded an operating profit of HK\$74,771,000 for the year under review, representing an increase of 129.3% as compared to HK\$32,610,000 for 2001.

The strong economic growth in China, specifically the rapid development of the domestic motor vehicles market and freeway and expressway network, has further stimulated the demand for radial tyres, and hence, steel cord during the year. Turnover increased by 22.9% to HK\$177,705,000 for the year under review. Its gross profit rose to HK\$70,148,000 for the year of 2002 from HK\$50,646,000 in 2001. Apart from the 22.9% growth in turnover, the increase was also contributed by the improvement in gross profit margin from 35% in 2001 to 39.5% for the year under review, which was the result of further cost savings and enhanced operational efficiency arising from increased production.

Besides the increase in gross profit margin, the remarkable growth in operating profit was also contributed by a specific bad debt recovery of HK\$14,004,000 (the portion attributable to the Group was HK\$10,055,000). When this bad debt recovery was excluded, the operating profit for the year under review would be HK\$60,767,000, an increase of 86.3% over the corresponding year of 2001.

Processing and Trading of Copper and Brass Products

Notwithstanding the instability in the external economic environment, our segment of copper processing and trading was able to maintain a satisfactory growth in turnover and gross profit during the year under review. This was attributable to its strengthened sales force and sourcing network. This business segment realized an operating profit of HK\$948,000 during the year under review, representing an increase of 209.8% as compared to the corresponding amount of HK\$306,000 in 2001.

Turnover was up from HK\$40,961,000 in 2001 to HK\$56,692,000 during the year under review, which represented an increase of 38.4% while sales volume shown an



increase of 53.2% as compared to the last corresponding year. Despite that London Metal Exchange copper price had rebounded from its lowest level of approximately US\$1,340 per tonne in November 2001 to a high of approximately US\$1,690 per tonne in 2002, on average, it still hovered around at a relatively low level when compared to the year of 2001. As such, the average selling price of our copper products dropped by 9.6% to HK\$18,870 per tonne for the year under review.

PRINCIPAL BUSINESSES (continued)

Processing and Trading of Copper and Brass Products (continued)

However, gross profit was not affected by this fluctuation in the copper price. Gross profit increased by 65.4% to HK\$4,929,000 for the year under review. In addition to sales growth, the significant increase was also attributable to the improvement of gross profit margin from 7.3% in 2001 to 8.7% in the year under review. This improvement in gross profit margin was the results of increased portion of materials procurement from direct manufacturers rather than intermediaries and implementation of effective cost control measures.

The establishment of the new production plant in Dongguan, the People's Republic of China (the "PRC") was completed in July and commenced operations in August 2002 aiming to providing better service to our customers in the Pearl River Delta region and reducing operating costs in the long run. Due to set up costs incurred during the period of establishment and sales needed to be built up over time, an operating loss of HK\$878,000 was incurred during the year under review. However, it is expected that the plant will breakeven in the first half of 2003.

Jointly Controlled Entity's and Associate's Business

Shanghai Shenjia Metal Products Co., Ltd. ("Shanghai Shenjia") and Xinhua Metal Products Co., Ltd. ("Xinhua Metal") maintained a stable profit for the year under review, despite the deteriorating operating environment arising from severe competition in the pre-stressed concrete strands and wires industry in China. Prices continued to fall but this negative impact was offset by increased sales volume and reduced costs through enhanced operating efficiencies and enlarged production capacity.

Shanghai Shenjia, our 25% owned jointly controlled entity, had recorded a moderate growth in turnover of 2.9% to HK\$300,135,000. While its profit before tax dropped by 2.5% to HK\$28,055,000, hence, our Group's share of its profit before tax was also dropped to HK\$7,014,000, a 2.5% decrease as compared to the corresponding year of 2001.

Turnover of Xinhua Metal, our 16.75% owned associate, increased by 35.7% to HK\$374,524,000. However, since no further profit was earned from short term investment during the year (as opposed to a profit of approximately HK\$7,000,000 in 2001), its profit before tax slightly increased by 3.2% to HK\$29,164,000. Therefore, our share of its profit before tax was HK\$4,885,000 for the year under review.

Corporate and Others

Besides to the costs incurred in relation to the Group's management services, the results of our corporate and others segment include those bad debts recovery from the business of trading and processing of metallic ores and metals which had been discontinued in 1999. The amount recovered during the year ended 31 December 2002 was HK\$2,315,000, substantially less than the amount of HK\$6,166,000 for 2001. As a result, the net cost incurred by this segment increased from HK\$8,872,000 in 2001 to HK\$13,763,000 for the year ended 31 December 2002.

Management Discussion and Analysis ►

CAPITAL STRUCTURE, LIQUIDITY AND FINANCIAL RESOURCES

Net asset value of the Group at 31 December 2002 amounted to HK\$444,489,000, representing an increase of 12.9% as compared to HK\$393,659,000 at 31 December 2001. Total issued share capital of the Company remained at 765,372,000 shares, hence, the net asset value per share was up from HK\$0.51 at 31 December 2001 to HK\$0.58 at 31 December 2002.

The Group mainly financed its operations by cash generated from its business activities and ongoing banking facilities provided by its principal bankers. During the year under review, the group had generated a net cash inflow of approximately HK\$76,072,000 from its operating activities and had invested HK\$35,987,000 of capital expenditure for our business expansion projects. Moreover, with the support of its strong operating cash inflow, the Group had repaid a net amount of HK\$40,058,000 of its bank loans and a loan from a related company. Total bank borrowings (including finance lease payables) at 31 December 2002 therefore reduced to HK\$24,169,000 and hence the gearing ratio (total bank borrowings/shareholders' equity) further lowered from 11% at 31 December 2001 to 5.4% at 31 December 2002. Besides the lower gearing, the Group's current ratio (current assets/current liabilities) also rose to 4 times from 1.8 times at 31 December 2001.

Bank borrowings, which are interest bearing at floating interest rates, amounted to HK\$24,169,000 as at 31 December 2002. Out of which 23.4% (2001: 69.8%) was denominated in Renminbi ("RMB"), 9.7% (2001: 5.4%) in Hong Kong Dollars ("HKD") and 66.9% (2001: 24.8%) in United States Dollars ("USD"). The significant change in currency mix as compared to 2001 was because the Group had reduced its short term working capital loan which are denominated in RMB or HKD while our USD bank borrowings used to finance materials procurement from overseas increased. Although the Group did not have any USD income, but in so far as the exchange rate peg between HKD and USD is maintained, the directors believe the Group will not be exposed to any significant risk from exchange rate fluctuations amongst RMB, HKD and USD.



As to their nature and maturity, HK\$23,471,000 are due within one year which comprise HK\$16,944,000 of trust receipt loans, HK\$5,655,000 of short term working capital loan and HK\$872,000 of finance lease payables. The balance of HK\$698,000 of finance lease payables are due within one to two years. The directors do not foresee any difficulty in meeting those financial obligations during the year ending 31 December 2003.

BUSINESS DEVELOPMENT PLAN AND CAPITAL COMMITMENT

Jiaxing Eastern had completed the plan to enlarge its annual production capacity to 12,000 tonnes of steel cord and commenced operations during the first quarter in 2003. In view of the growing



demand of steel cord in Mainland China, the Group planned to progressively expand the annual production capacity of Jiaxing Eastern to 30,000 tonnes in the coming three years with the goal to achieve 15,000 tonnes at the end of 2003. Total costs of the expansion will be in the region of HK\$300-350 million, and it is estimated that approximately HK\$143.7 million will be incurred during 2003, financed by the Group's internal working capital and bank loans.

EMPLOYEES, REMUNERATION POLICIES AND TRAINING SCHEME

At 31 December 2002, the Group had a total of 449 (31 December 2001: 395) employees located in Hong Kong and the PRC. Remuneration packages, which include an element of discretionary bonuses, are generally reviewed annually. In addition to salary payments, other employee benefits include medical subsidies, hospitalization scheme and a defined contribution provident fund, Mandatory Provident Fund Scheme and other retirement scheme or other similar defined contribution provident fund stipulated by the State Regulations of the PRC which provided retirement benefits to employees in Hong Kong and the PRC respectively. The Group's contributions to these schemes are charged against profits as they are incurred. The amount charged to the consolidated profit and loss account for the year under review amounted to HK\$798,000. The Group has also provided training programme or course for the mainland staff at all levels from different departments so as to further enhance their technical skills in production operation.

In addition, the Group had adopted a share option scheme (the "1992 Scheme") for the purpose of granting share options to any director and employee as an incentive to his/her contribution to the Group in 1992. The 1992 scheme subsequently expired on 10 March 2002. A new option scheme (the "2002 Scheme") was adopted by the shareholders of the Company at the annual general meeting held on 7 June 2002. Under the 2002 Scheme, the board of directors (the "Board") also shall, subject to and in accordance with the provisions of the 2002 Scheme and The Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules"), grant share options to any eligible participant to subscribe for shares in the capital of the Company for the purpose of providing incentives or rewards to him/her for contribution to the Group. The 2002 Scheme will remain in force for a period of ten years from the date of its adoption.

The Company granted certain eligible participants under 2002 Scheme totaling 76,524,000 share options to subscribe for shares in the capital of the Company on 23 August 2002 and 12 March 2003 respectively. During the year under review, there were no options being exercised, cancelled or lapsed.

Management Discussion and Analysis ►

PLEDGE OF ASSETS AND CONTINGENT LIABILITIES

Certain of the Group's assets, totaling HK\$57,429,000 had been pledged to the Group's bankers as securities for banking facilities granted to the Group, as follows:

1. Leasehold land and buildings and investment properties with an aggregate net book value of HK\$40,929,000;
2. Land use rights with a net book value of HK\$13,500,000; and
3. Time deposits amounting to HK\$3,000,000.

Besides the above, the Group had also executed corporate guarantees for bank loans granted to a jointly controlled entity to finance its working capital. These corporate guarantees are provided in proportion to the Group's interest in the jointly controlled entity and are renewable on an annual basis. The amount of guarantees granted as at 31 December 2002 amounted to approximately HK\$23,360,000.

BUSINESS OUTLOOK

The performance of the world's economy is still clouded by prolonged deflation and uncertainties from warfare, while Mainland China, because of its stable political and economic conditions, will still immune from these uncertainties, notwithstanding the operating environment will become more challenging with the influx of foreign investments. However, we believe the market for our core businesses will still have enormous space for growth, we will endeavor to further develop our core businesses by way of expansion of production capacity as mentioned in the "BUSINESS DEVELOPMENT PLAN AND CAPITAL COMMITMENT" section above, and exploration of new markets in the mainland in a cautious manner. In addition, we will actively seek other opportunities to create additional value for our shareholders. Barring uncertain circumstances, the Board is confident that the Group will be able to provide a satisfactory return to shareholders in the coming year.

The directors herein present their report and the audited financial statements of the Company and the Group for the year ended 31 December 2002.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Further details of the principal activities of the principal subsidiaries are set out in note 34 to the financial statements. There were no significant changes in the nature of the Group's principal activities during the year.

RESULTS

The Group's profit for the year ended 31 December 2002 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 21 to 75.

SUMMARY OF FINANCIAL INFORMATION

A summary of the published results and of the assets, liabilities and minority interests of the Group for the last five financial years, as extracted from the audited financial statements and adjusted as appropriate, is set out below:

	2002 HK\$'000	2001 HK\$'000	2000 HK\$'000	1999 HK\$'000	1998 HK\$'000
NET PROFIT/(LOSS) ATTRIBUTABLE TO SHAREHOLDERS	42,283	20,061	4,739	(72,564)	(199,520)
TOTAL ASSETS	599,209	574,873	574,845	651,752	846,611
TOTAL LIABILITIES	(41,959)	(85,918)	(113,690)	(218,172)	(351,969)
MINORITY INTERESTS	(112,761)	(95,296)	(90,371)	(103,330)	(107,148)
	444,489	393,659	370,784	330,250	387,494

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 2002 are summarised on page 76 of this annual report.

SHARE CAPITAL AND SHARE OPTIONS

During the year, there was no movement in the Company's share capital. The Company introduced a new share option scheme (the "2002 Scheme") during the year, under which the Company granted certain eligible participants 49,740,000 share options to subscribe for shares in the capital of the Company. Subsequent to the balance sheet date, on 12 March 2003, the Company granted a further 26,784,000 share options. Further details of the grant of share options during the year are set out in note 30 to the financial statements.

Report of the Directors ▶

RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 31 to the financial statements.

DISTRIBUTABLE RESERVES

As at 31 December 2002, the Company did not have any reserves available for distribution, calculated in accordance with the provisions of Section 79B of the Companies Ordinance.

DIRECTORS

The directors of the Company during the year were:

EXECUTIVE DIRECTORS:

Cao Zhong
 Tong Yihui
 Leung Shun Sang, Tony
 Li Shaofeng
 Xu Xianghua
 Tang Kwok Kau

INDEPENDENT NON-EXECUTIVE DIRECTORS:

Yip Kin Man, Raymond
 Lai Kam Man

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. Tong Yihui, Leung Shun Sang, Tony and Li Shaofeng will retire and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

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 OR DEBENTURES

Apart from as disclosed under the heading "DIRECTORS' INTERESTS IN THE SHARE CAPITAL OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS" and the share option scheme disclosures in note 30 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.

SHARE OPTION SCHEME

Due to the adoption during the year of Statement of Standard Accounting Practice No. 34 "Employee benefits", most of the detailed disclosures relating to the Company's share option scheme are now included in note 30 to the financial statements.

With regard to the share options granted during the year as detailed in note 30 to the financial statements, the directors do not consider that it is appropriate to disclose a theoretical value of the options granted, because a number of factors crucial for the valuation are subjective and uncertain. In addition, the market value of the share options on the shares of the Company is not readily available. Accordingly, any valuation of the share options based on various speculative assumptions may not be meaningful and could be misleading.

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

As at 31 December 2002, the interests of the directors in the share capital of the Company or 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:

Rights to acquire shares in the Company:

Options to subscribe for shares in the Company			
Name of director	Number of shares over which options were granted	Exercise period	Exercise price per share (HK\$)
Cao Zhong	7,652,000	23/8/2002 to 22/8/2012	0.295
Tong Yihui	7,652,000	23/8/2002 to 22/8/2012	0.295
Li Shaofeng	7,652,000	23/8/2002 to 22/8/2012	0.295
Xu Xianghua	7,652,000	23/8/2002 to 22/8/2012	0.295
Leung Shun Sang, Tony	4,592,000	23/8/2002 to 22/8/2012	0.295
Tang Kwok Kau	2,296,000	23/8/2002 to 22/8/2012	0.295
Yip Kin Man, Raymond	382,000	23/8/2002 to 22/8/2012	0.295
Lai Kam Man	382,000	23/8/2002 to 22/8/2012	0.295

Save as disclosed above, none of the directors or their 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 material interest in any contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party during the year.

Report of the Directors ▶

DIRECTORS' INTERESTS IN COMPETING BUSINESSES

During the year and up to date of this annual report, no director is considered to have an interest in a business which competes or is likely to compete, either directly or indirectly, with the businesses of the Group pursuant to The Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules").

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2002, according to the register required to be kept by the Company under Section 16(1) of the SDI Ordinance, the following persons 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 Concord International Enterprises Company Limited ("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 the contracts of significance between the Group and the controlling shareholder of Shougang International and with Shougang International itself are set out in note 40 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 Listing Rules:

- (a) At the balance sheet date, advances made by the Group to Online Investments Limited (“Online”), a 71.8% owned subsidiary, were outstanding in the aggregate amount of HK\$63,471,000. The advances were used by Online to finance its capital investment projects. The advances are unsecured, interest-free and have no fixed repayment terms.
- (b) The Company made advances to Everwinner Investments Limited, an indirect 71.8% owned subsidiary, to finance its working capital. At the balance sheet date, the outstanding balance, amounting to HK\$14,043,000, was unsecured, bore 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 (“Hing Cheong Metals”), a 91% owned subsidiary, to finance its capital investment and working capital. At the balance sheet date, the outstanding balance, amounting to HK\$48,022,000, was unsecured, interest-free and has no fixed repayment terms except for an amount of HK\$29,275,000 which is interest bearing at the Hong Kong Dollar prime rate per annum.
- (d) The Company executed, in the normal course of business, certain guarantees for banking facilities granted to an indirect non-wholly owned subsidiary for its operations. These guarantees are continuing in nature and will lapse on the expiration of a period of generally three months after formal notification to the banks. At the balance sheet date, corporate guarantees totalling HK\$52,000,000 were executed for banking facilities granted to Hing Cheong Metals.
- (e) A conditional waiver has been granted by The Stock Exchange of Hong Kong limited (the “Stock Exchange”) from strict compliance with the Listing Rules by the Company for the continuing connected transactions entered into by Santai Manufacturing Limited (“Santai Manufacturing”), a wholly owned subsidiary of Shougang Concord Technology Holdings Limited (“Shougang Technology”), and Hing Cheong Metals whereby Santai Manufacturing purchased, and Hing Cheong Metals sold, copper sheets and brass sheets (the “Transactions”). The Transactions which took place during the year, as long as they constituted connected transactions for the Company pursuant to the Listing Rules, have been reviewed by the independent non-executive directors of the Company who have confirmed that:
 - (i) the Transactions were conducted in the ordinary and usual course of business of the Group;
 - (ii) the Transactions were conducted on terms that are fair and reasonable so far as the shareholders of the Company are concerned;
 - (iii) the Transactions were entered into in accordance with the terms of the agreements governing such Transactions; and
 - (iv) the aggregate amount of the Transactions being approximately HK\$1,654,000 did not exceed the limit being the higher of HK\$10,000,000 or 3% of the book value of the net tangible assets of the Group as at 31 December 2002.

CONNECTED TRANSACTIONS (continued)

(e) (continued)

The auditors of the Company have reviewed the Transactions and confirmed that:

- (i) the Transactions were approved by the board of directors (the "Board") of the Company;
- (ii) the Transactions were entered into in accordance with the terms of the agreements governing such Transactions and according to prices and conditions similar to those offered to other third party customers of the Group; and
- (iii) the aggregate amount of the Transactions did not exceed the limit being the higher of HK\$10,000,000 or 3% of the book value of the net tangible assets of the Group as at 31 December 2002.

Following the completion of group restructuring of Shougang Technology in June 2002, the Transactions would not constitute connected transactions for the Company and the Company would no longer require to apply to the Stock Exchange for a conditional waiver from strict compliance under the Listing Rules.

RELATED PARTY TRANSACTIONS

During the year, the Group had certain related party transactions as further detailed in note 40 to the financial statements. In the opinion of the directors, each of the transactions with Shougang International and its subsidiaries was:

- (i) conducted in the ordinary and usual course of the Group's business;
- (ii) conducted in accordance with the terms of the agreements governing such transactions; and
- (iii) under the threshold of HK\$1,000,000 and not subject to disclosure in the annual report under the Listing Rules.

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

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers accounted for approximately 60% (2001: 60%) of the total sales for the year and sales to the largest customer included therein amounted to approximately 18% (2001: 27%).

Purchases from the Group's five largest suppliers accounted for approximately 44% (2001: 38%) of the total purchases for the year and purchases from the largest supplier included therein amounted to approximately 20% (2001: 16%).

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

POST BALANCE SHEET EVENT

Details of the significant post balance sheet event of the Company are set out in note 41 to the financial statements.

AUDIT COMMITTEE

The Company has established an audit committee (“Audit Committee”) since 1998 with reference to “A Guide for the Formation of an Audit Committee” issued by the Hong Kong Society of Accountants in December 1997. The Audit Committee currently comprises the two independent non-executive directors of the Company. It reviews, advises and makes recommendation to the Board in relation to the Company’s financial reporting process and internal control systems throughout the Group. The Audit Committee meets twice during the year in conjunction with the auditors to review the said financial and internal control matters. During the year, it had reviewed the interim and the final results of the Group before their submission to the Board for approval.

The Audit Committee may also meet with the management of the Company occasionally to make recommendation on corporate governance issues of the Company.

CODE OF BEST PRACTICE

In the opinion of the Board, 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 but 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.

BY ORDER OF THE BOARD

Cao Zhong

Chairman

Hong Kong
16 April 2003

Report of the Auditors ►

**To the members****Shougang Concord Century Holdings Limited**

(Incorporated in Hong Kong with limited liability)

We have audited the financial statements on pages 21 to 75 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 of the state of affairs of the Company and of the Group as at 31 December 2002 and of the profit 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
16 April 2003

◀ Consolidated Profit and Loss Account

YEAR ENDED 31 DECEMBER 2002

	Notes	2002 HK\$'000	2001 HK\$'000
TURNOVER	5	234,891	187,139
Cost of sales		(159,323)	(132,919)
		75,568	54,220
Other revenue and gains	5	475	2,066
Distribution costs		(919)	(659)
Administrative expenses		(28,036)	(25,435)
Other operating expenses		(8,002)	(2,481)
Recovery of/(provision for) bad and doubtful debts, net		15,440	(5,168)
PROFIT FROM OPERATING ACTIVITIES	6	54,526	22,543
Finance costs	7	(2,024)	(4,969)
		52,502	17,574
Share of profits and losses of jointly controlled entities		6,853	7,198
Share of profit of an associate		4,885	4,733
PROFIT BEFORE TAX		64,240	29,505
Tax	10	(1,638)	(2,157)
PROFIT BEFORE MINORITY INTERESTS		62,602	27,348
Minority interests		(20,319)	(7,287)
NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS	11	42,283	20,061
EARNINGS PER SHARE	12		
Basic		HK 5.52 cents	HK 2.62 cents
Diluted		N/A	N/A

Consolidated Balance Sheet ►

31 DECEMBER 2002

	Notes	2002 HK\$'000	2001 HK\$'000
NON-CURRENT ASSETS			
Fixed assets	13	329,410	315,956
Land use rights	14	13,500	12,842
Interests in jointly controlled entities	16	51,097	47,690
Interests in associates	17	44,079	43,300
Club memberships	18	675	635
Long term investment	19	–	–
		438,761	420,423
CURRENT ASSETS			
Inventories	20	32,564	28,147
Trade receivables	21	47,948	41,137
Bills receivable		46,369	44,047
Due from a related company	40(iii)	471	–
Prepayments, deposits and other receivables		3,684	15,537
Time deposits		3,074	3,865
Pledged time deposits	22	3,000	1,000
Cash and bank balances		23,338	20,717
		160,448	154,450
CURRENT LIABILITIES			
Trade payables	23	6,342	5,401
Tax payable		349	391
Other payables and accruals	16	9,780	17,469
Interest-bearing bank and other borrowings, secured	24	23,471	43,210
Due to a related company	40(iv)	–	19,427
		39,942	85,898
NET CURRENT ASSETS			
		120,506	68,552
TOTAL ASSETS LESS CURRENT LIABILITIES			
		559,267	488,975
NON-CURRENT LIABILITIES			
Interest-bearing bank loans, secured	25	–	20
Finance lease payables	26	698	–
Provision for long service payments	27	1,319	–
		2,017	20
MINORITY INTERESTS			
		112,761	95,296
		444,489	393,659
CAPITAL AND RESERVES			
Issued capital	29	76,537	76,537
Reserves	31	367,952	317,122
		444,489	393,659

Cao Zhong
Director

Tang Kwok Kau
Director

◀ Consolidated Summary Statement of Changes in Equity

YEAR ENDED 31 DECEMBER 2002

	2002 HK\$'000	2001 HK\$'000
Total shareholders' equity at 1 January	393,659	370,784
Surplus on revaluation of land and buildings and land use rights	2,052	–
Net gain not recognised in the profit and loss account	2,052	–
Transfer of accumulated translation differences to loss on write off of interest in a jointly controlled entity	6,495	–
Transfer of accumulated translation differences to loss on disposal of interest in a subsidiary	–	2,814
Net profit for the year attributable to shareholders	42,283	20,061
Total shareholders' equity at 31 December	444,489	393,659

Consolidated Cash Flow Statement ►

YEAR ENDED 31 DECEMBER 2002

	2002 HK\$'000	2001 HK\$'000 (Restated)
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before tax	64,240	29,505
Adjustments for:		
Finance costs	2,024	4,969
Share of profits and losses of jointly controlled entities	(6,853)	(7,198)
Share of profit of an associate	(4,885)	(4,733)
Loss on write off of interest in a jointly controlled entity	6,495	–
Loss on disposal of subsidiaries, net	–	2,152
Provision for/(recovery of) bad and doubtful debts, net	(15,440)	5,168
Interest income	(214)	(771)
Depreciation	23,024	22,553
Amortisation of land use rights	559	558
Deficit on revaluation of leasehold land and buildings, net	126	–
Deficit on revaluation of investment properties, net	1,000	80
Loss/(gain) on disposal of fixed assets, net	12	(83)
Operating profit before working capital changes	70,088	52,200
Decrease/(increase) in trade and bills receivables	6,307	(16,215)
Decrease/(increase) in prepayments, deposits and other receivables	3,324	(4,929)
Decrease/(increase) in inventories	(4,417)	4,267
Increase in amount due from a related company	(471)	–
Increase/(decrease) in trade and bills payables	941	(8,018)
Increase in other payables and accruals	840	4,509
Increase in provision for long service payments	1,319	–
Cash generated from operations	77,931	31,814
Interest received	214	771
Interest paid	(2,003)	(4,914)
Interest element on finance lease payments	(21)	–
Tax paid in Hong Kong, net	–	(49)
Tax paid in Mainland China, net	(49)	(812)
Net cash inflow from operating activities	76,072	26,810

◀ Consolidated Cash Flow Statement (Continued)

YEAR ENDED 31 DECEMBER 2002

	<i>Note</i>	2002 HK\$'000	2001 HK\$'000 (Restated)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of fixed assets		(34,218)	(3,712)
Purchase of club membership		(40)	–
Proceeds from disposal of fixed assets		18	401
Dividends received from a jointly controlled entity		2,570	–
Dividends received from an associate		3,351	1,717
Proceeds from disposal of interests in subsidiaries	33(c)	–	1,702
Decrease in non-pledged time deposits with original maturity of more than three months when acquired		–	1,443
Decrease/(increase) in pledged time deposits		(2,000)	2,517
Net cash inflow/(outflow) from investing activities		(30,319)	4,068
CASH FLOWS FROM FINANCING ACTIVITIES			
Repayment of bank loans		(40,056)	(61,151)
Proceeds from new bank loans		11,183	46,313
Increase in trust receipt loans		8,242	5,009
Repayment of advance from a related company		(19,427)	(19,960)
Repayment of loans from minority shareholders of a subsidiary		(3,666)	–
Capital element of finance lease payments		(199)	–
Net cash outflow from financing activities		(43,923)	(29,789)
NET INCREASE IN CASH AND CASH EQUIVALENTS		1,830	1,089
Cash and cash equivalents at beginning of year		24,582	23,493
CASH AND CASH EQUIVALENTS AT END OF YEAR		26,412	24,582
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances, excluding pledged bank balances		23,338	20,717
Non-pledged time deposits with original maturity of less than three months when acquired		3,074	3,865
		26,412	24,582

Balance Sheet ▶

31 DECEMBER 2002

	Notes	2002 HK\$'000	2001 HK\$'000
NON-CURRENT ASSETS			
Fixed assets	13	2	18
Interests in subsidiaries	15	305,107	305,790
Interests in jointly controlled entities	16	–	–
Club memberships	18	315	275
		305,424	306,083
CURRENT ASSETS			
Other receivables		5	1
Due from subsidiaries	15	–	22,317
Time deposits		33	12
Pledged time deposits	22	3,000	1,000
Cash and bank balances		1,621	83
		4,659	23,413
CURRENT LIABILITIES			
Other payables and accruals		104	11
Interest-bearing bank and other borrowings, secured	24	3,498	986
Due to a related company	40(iv)	–	19,427
		3,602	20,424
NET CURRENT ASSETS			
		1,057	2,989
		306,481	309,072
CAPITAL AND RESERVES			
Issued capital	29	76,537	76,537
Reserves	31	229,944	232,535
		306,481	309,072

Cao Zhong
Director

Tang Kwok Kau
Director

1. CORPORATE INFORMATION

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

- manufacturing of steel cord
- processing and trading of copper and brass products
- property investment

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

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

- SSAP 1 (Revised): "Presentation of financial statements"
- SSAP 11 (Revised): "Foreign currency translation"
- SSAP 15 (Revised): "Cash flow statements"
- SSAP 34: "Employee benefits"

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

SSAP 1 (Revised) prescribes the basis for the presentation of financial statements and sets out guidelines for their structure and minimum requirements for the content thereof. The principal impact of the revision to this SSAP is that a consolidated summary statement of changes in equity is now presented on page 23 of the financial statements in place of the consolidated statement of recognised gains and losses that was previously required.

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

Notes to Financial Statements ►

31 DECEMBER 2002

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

SSAP 15 (Revised) prescribes the revised format for the cash flow statement. The principal impact of the revision of this SSAP is that the consolidated cash flow statement now presents cash flows under three headings, cash flows from operating, investing and financing activities, rather than the five headings previously required. In addition, cash flows from overseas subsidiaries arising during the year are now translated to Hong Kong dollars at the exchange rates at the dates of the transactions, or at an approximation thereto, whereas previously they were translated at the exchange rates at the balance sheet date, and the definition of cash equivalents for the purpose of the cash flow statement has been revised. Further details of these changes and the prior year adjustments that have resulted from them are included in the accounting policies for “Cash and cash equivalents” and “Foreign currencies” in notes 3 and 33(a) to the financial statements.

SSAP 34 prescribes the recognition and measurement criteria to apply to employee benefits, together with the required disclosures in respect thereof. The adoption of this SSAP has resulted in no change to the previously adopted accounting treatments for employee benefits. In addition, disclosures are now required in respect of the Company’s share option scheme, as detailed in note 30 to the financial statements. These share option scheme disclosures are similar to the disclosures under The Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the “Listing Rules”) previously included in the Report of the Directors, which are now required to be included in the notes to the financial statements as a consequence of the SSAP.

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 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 2002. The results of subsidiaries acquired or disposed of during the year are consolidated from or to their effective dates of acquisition or disposal, respectively. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

Minority interests represent the interests of outside shareholders in the results and net assets of the Company’s subsidiaries.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Subsidiaries

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

The Company's interests in subsidiaries are stated at cost less any impairment losses.

Joint venture companies

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

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

A joint venture company is treated as:

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

Jointly controlled entities

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

Notes to Financial Statements ▶

31 DECEMBER 2002

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)*Jointly controlled entities (continued)*

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 impairment losses.

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 assets and are stated at cost less any impairment losses.

Associates

An associate is a company, not being a subsidiary or a jointly controlled entity, in which the Group has a long term interest of 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 are included in the consolidated profit and loss account and consolidated reserves, respectively. The Group's interests in associates are stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting, less any impairment losses.

Goodwill

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

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Goodwill (continued)

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

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

Negative goodwill

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

To the extent that negative goodwill relates to expectations of future losses and expenses that are identified in the acquisition plan and that can be measured reliably, but which do not represent identifiable liabilities as at the date of acquisition, that portion of negative goodwill is recognised as income in the consolidated profit and loss account when the future losses and expenses are recognised.

To the extent that negative goodwill does not relate to identifiable expected future losses and expenses as at the date of acquisition, negative goodwill is recognised in the consolidated profit and loss account on a systematic basis over the remaining average useful life of the acquired depreciable/amortisable assets. The amount of any negative goodwill in excess of the fair values of the acquired non-monetary assets is recognised as income immediately.

In the case of associates and jointly controlled entities, any negative goodwill not yet recognised in the consolidated profit and loss account is included in the carrying amount thereof, rather than as a separately identified item on the consolidated balance sheet.

Notes to Financial Statements ▶

31 DECEMBER 2002

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)*Negative goodwill (continued)*

SSAP 30 "Business combinations" was adopted as at 1 January 2001. Prior to that date, negative goodwill arising on acquisitions was credited to the capital reserve in the year of acquisition. On the adoption of SSAP 30, the Group applied the transitional provision of SSAP 30 that permitted such negative goodwill to remain credited to the capital reserve. Negative goodwill on acquisitions subsequent to 1 January 2001 is treated according to the SSAP 30 negative goodwill accounting policy above.

On disposal of subsidiaries, associates or jointly controlled entities, the gain or loss on disposal is calculated by reference to the net assets at the date of disposal, including the attributable amount of negative goodwill which has not been recognised in the consolidated profit and loss account and any relevant reserves, as appropriate. Any attributable negative goodwill previously credited to the capital reserve at the time of acquisition is written back and included in the calculation of the gain or loss on disposal.

Impairment of assets

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

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

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fixed assets and depreciation

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

Changes in the values of fixed assets, other than investment properties, are dealt with as movements in the fixed asset 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 asset 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	Over the estimated useful life of 25 to 50 years
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.

Construction in progress represents buildings and plant and machinery under construction, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction. Construction in progress is reclassified to the appropriate category of fixed assets when completed and ready for use.

Notes to Financial Statements ▶

31 DECEMBER 2002

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, any rental income being negotiated at arm's length. 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 values 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.

Club memberships

Club memberships are stated at cost less any impairment losses.

Long term investment

Long term investment in unlisted equity securities, intended to be held for a long term purpose, is stated at cost less any impairment losses.

When an impairment in value has occurred, the carrying amount of the security is reduced to its fair value, as estimated by the directors, and the amount of the impairment is charged to the profit and loss account for the period in which it arises. Where the circumstances and events which led to an impairment cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future, the amount of the impairment previously charged is credited to the profit and loss account to the extent of the amount previously charged.

Land use rights

Land use rights are stated at valuation less accumulated amortisation and any impairment losses, and are amortised on a straight-line basis over the respective remaining joint venture periods once commercial production commences.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Land use rights (continued)

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. Costs include all development expenditure and other direct costs attributable to such properties. Net realisable value is determined by reference to prevailing market prices on an individual property basis less any estimated costs to be incurred to disposal.

Properties under development

Properties under development are stated at cost which includes all development expenditure 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 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 non-refundable 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.

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

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

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

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.

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) from 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;

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition (continued)

- (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;
- (e) revenue from the sale of completed properties, upon the execution of the sales agreement; and
- (f) revenue from the pre-sale of properties, on the basis set out under the heading "Properties under development" above.

Foreign currencies

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

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

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

Prior to the adoption of the revised SSAPs 11 and 15 during the year, as explained in note 2 to the financial statements, the profit and loss accounts of overseas subsidiaries, jointly controlled entities and associates and the cash flows of overseas subsidiaries were translated to Hong Kong dollars at the exchange rates at the balance sheet date. These changes have had no material effect on the financial statements.

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)*Employee benefits**Paid leave carried forward*

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

Employment Ordinance long service payments

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

A provision is recognised in respect of probable future long service payments based on the best estimate of the probable future outflow of resources which has been earned by the employees from their services to the Group to the balance sheet date.

Share option scheme

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. The financial impact of share options granted under the share option scheme is not recorded in the Company's or the Group's balance sheet until such time as the options are exercised, and no charge is recorded in the profit and loss account or balance sheet for their cost. Upon the exercise of share options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company in the share premium account. Options which are cancelled prior to their exercise date, or which lapse, are deleted from the register of outstanding options.

Retirement benefits scheme

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "Scheme") under the Mandatory Provident Fund Scheme Ordinance, for those employees in Hong Kong who are eligible to participate in the Scheme. Contributions are made based on a percentage of the participating employees' basic salaries and are charged to the profit and loss account as they become payable in accordance with the rules of the Scheme. The assets of the Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed to the Scheme.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Employee benefits (continued)

Retirement benefits scheme (continued)

The employees of the Group's subsidiaries which operate in the People's Republic of China (the "PRC") are required to participate in the provincial/municipal retirement schemes operated by the respective provincial/municipal bureau. Pursuant to the relevant provision, these PRC subsidiaries are required to make monthly contributions at rates of 20% to 23% on the employees' monthly salaries. The bureaux are responsible for pension payments to the retired employees of the Group.

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.

Cash and cash equivalents

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

Prior to the adoption of the revised SSAP 15 during the year, as explained in note 2 to the financial statements, cash equivalents in the consolidated cash flow statement also included advances from banks repayable within three months from the date of the advance, in addition to bank overdrafts. This change in definition has resulted in a prior year adjustment relating to trust receipt loans, further details of which are included in note 33(a) to the financial statements.

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

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4. SEGMENT INFORMATION

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

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

- (a) the steel cord segment comprises the manufacturing of steel cords;
- (b) the copper and brass products segment comprises the processing and trading of copper and brass products;
- (c) the property development and investment segment comprises property development and investment;
- (d) the corporate segment comprises the Group's management services business, which provides management and information technology services, together with corporate income and expense items. The "others" segment mainly comprises the manufacturing of pre-stressed concrete strands and wires.

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

Intersegment sales and transfers are transacted at prices agreed between the relevant segments.

4. SEGMENT INFORMATION (continued)

(a) Business segments

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

Group

	Steel cord		Copper and brass products		Property development and investment		Corporate and others		Eliminations		Consolidated	
	2002	2001	2002	2001	2002	2001	2002	2001	2002	2001	2002	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment revenue:												
Sales to external customers	177,705	144,593	56,692	40,961	489	1,452	5	133	-	-	234,891	187,139
Inter segment sales	-	-	-	-	-	198	-	-	-	(198)	-	-
Unallocated revenue	-	-	-	-	-	-	475	1,700	-	-	475	1,700
Total	177,705	144,593	56,692	40,961	489	1,650	480	1,833	-	(198)	235,366	188,839
Segment results	74,771	32,610	948	306	(1,137)	(120)	(13,763)	(8,872)			60,819	23,924
Unallocated income and expenses, net											(6,293)	(1,381)
Profit from operating activities											54,526	22,543
Finance costs											(2,024)	(4,969)
Share of profits and losses of:												
Jointly controlled entities	-	-	-	-	(161)	6	7,014	7,192	-	-	6,853	7,198
An associate	-	-	-	-	-	-	4,885	4,733	-	-	4,885	4,733
Profit before tax											64,240	29,505
Tax											(1,638)	(2,157)
Profit before minority interests											62,602	27,348
Minority interests											(20,319)	(7,287)
Net profit from ordinary activities attributable to shareholders											42,283	20,061

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4. SEGMENT INFORMATION (continued)

(a) Business segments (continued)

Group

	Steel cord		Copper and brass products		Property development and investment		Corporate and others		Consolidated	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Segment assets	442,384	419,771	28,319	21,476	9,454	10,457	23,201	31,544	503,358	483,248
Interests in jointly controlled entities	-	-	-	-	4,766	4,927	46,331	42,763	51,097	47,690
Interests in associates	-	-	-	-	-	-	44,079	43,300	44,079	43,300
Unallocated assets									675	635
Total assets									599,209	574,873
Segment liabilities	10,036	7,748	2,613	2,931	435	438	4,357	11,753	17,441	22,870
Unallocated liabilities									24,518	63,048
Total liabilities									41,959	85,918
Other segment information:										
Depreciation and amortisation	22,669	22,463	505	329	48	56	361	263	23,583	23,111
Other non-cash expenses	-	-	218	159	890	200	6,513	-	7,621	359
Provision for/ (recovery of) bad and doubtful debts, net	(12,937)	12,115	106	(781)	-	-	(2,609)	(6,166)	(15,440)	5,168
Capital expenditure	32,680	2,743	3,089	643	-	4	218	322	35,987	3,712

4. SEGMENT INFORMATION (continued)

(b) Geographical segments

The following tables present revenue and certain asset and expenditure information for the Group's geographical segments.

Group

	Hong Kong		Elsewhere in the PRC		Others		Consolidated	
	2002	2001	2002	2001	2002	2001	2002	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment revenue:								
Sales to external customers	<u>54,285</u>	<u>41,263</u>	<u>180,291</u>	<u>145,485</u>	<u>315</u>	<u>391</u>	<u>234,891</u>	<u>187,139</u>
Other segment information:								
Segment assets	<u>43,242</u>	<u>39,566</u>	<u>555,967</u>	<u>535,307</u>	<u>-</u>	<u>-</u>	<u>599,209</u>	<u>574,873</u>
Capital expenditure	<u>1,255</u>	<u>787</u>	<u>34,732</u>	<u>2,925</u>	<u>-</u>	<u>-</u>	<u>35,987</u>	<u>3,712</u>

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5. TURNOVER, REVENUE AND GAINS

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. All significant intercompany transactions are eliminated on consolidation.

An analysis of turnover, other revenue and gains is as follows:

	2002 HK\$'000	2001 HK\$'000
Turnover:		
Sale of goods		
Manufacturing of steel cord	177,705	144,593
Processing and trading of copper and brass products	56,692	40,961
Property development and investment	–	934
Others	5	133
	234,402	186,621
Rental income	489	518
	234,891	187,139
Other revenue:		
Interest income	214	771
Others	261	929
	475	1,700
Gains:		
Others	–	366
Other revenue and gains	475	2,066

6. PROFIT FROM OPERATING ACTIVITIES

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

	2002 HK\$'000	2001 HK\$'000
Cost of inventories sold*	158,808	132,747
Depreciation	23,024	22,553
Amortisation of land use rights	559	558
Minimum lease payments under operating leases for land and buildings	897	1,050
Auditors' remuneration	700	680
Staff costs:		
Wages, salaries and related costs (including directors' remuneration – note 8)	22,045	18,842
Contributions to mandatory provident funds	798	740
	22,843	19,582
Foreign exchange losses, net	370	250
Deficit on revaluation of investment properties, net	1,000	80
Deficit on revaluation of leasehold land and buildings, net	126	–
Loss/(gain) on disposal of fixed assets, net	12	(83)
Interest income	(214)	(771)
Gross rental income from investment properties	(489)	(518)
Less: Outgoings	–	–
Net rental income	(489)	(518)
Loss on write off of interest in a jointly controlled entity	6,495	–
Loss on disposal of subsidiaries, net (including realisation of goodwill and negative goodwill)	–	2,152

* included reversal of stock provision amounting to approximately HK\$1,604,000 upon sales of the relevant inventories in 2001. There is no movement of stock provision in the current year.

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7. FINANCE COSTS

	Group	
	2002 HK\$'000	2001 HK\$'000
Interest on bank loans and overdrafts and other borrowings wholly repayable within five years	2,003	4,969
Interest on finance leases	21	–
	<u>2,024</u>	<u>4,969</u>

8. DIRECTORS' REMUNERATION

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

	Group	
	2002 HK\$'000	2001 HK\$'000
Fees	–	–
Salaries, allowances and benefits in kind	5,302	4,342
Contributions to mandatory provident fund	12	12
Discretionary bonus	50	–
	<u>5,364</u>	<u>4,354</u>

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

8. DIRECTORS' REMUNERATION (continued)

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

	Number of directors	
	2002	2001
Nil – HK\$1,000,000	5	6
HK\$1,000,001 – HK\$1,500,000	–	2
HK\$1,500,001 – HK\$2,000,000	3	1
	<u>8</u>	<u>9</u>

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

During the year, 38,260,000 share options were granted to the directors, further details of which are set out in note 30 to the financial statements. No value in respect of the share options granted during the year has been charged to the profit and loss account, or is otherwise included in the above directors' remuneration disclosures.

9. FIVE HIGHEST PAID INDIVIDUALS

The five highest paid individuals during the year included three (2001: three) directors, details of whose remuneration are disclosed in note 8 to the financial statements. Further details of the remuneration of the remaining two (2001: two) non-director, highest paid individuals are set out below:

	2002 HK\$'000	2001 HK\$'000
Salaries, allowances and benefits in kind	1,294	1,254
Contributions to mandatory provident fund	24	24
	<u>1,318</u>	<u>1,278</u>

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9. FIVE HIGHEST PAID INDIVIDUALS (continued)

The remuneration of the two (2001: two) non-director, highest paid individuals fell within the following band:

	Number of individuals	
	2002	2001
Nil – HK\$1,000,000	<u>2</u>	<u>2</u>

During the year, 766,000 share options were granted to one of the two non-director, highest paid individuals, further details of which are included in the disclosures in note 30 to the financial statements. No value in respect of the share options granted during the year has been charged to the profit and loss account, or is otherwise included in the above five highest paid individuals' remuneration disclosures.

10. TAX

	2002 HK\$'000	2001 HK\$'000
Group:		
Hong Kong		
Underprovision in prior years	–	49
Mainland China		
Provision for the year	21	187
Overprovision in prior years	(14)	–
Arising from the disposal of a subsidiary	–	356
	<u>7</u>	<u>592</u>
Jointly controlled entities:		
Mainland China	876	798
Associate:		
Mainland China	755	767
	<u>755</u>	<u>767</u>
Tax charge for the year	<u>1,638</u>	<u>2,157</u>

10. TAX (continued)

No provision for Hong Kong profits tax has been made as the Group did not have any 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 Group's subsidiaries, jointly controlled entities and associate 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\$2,591,000 (2001: net profit of HK\$1,818,000). The Group's share of profits retained by the jointly controlled entities and an associate for the year amounted to HK\$5,977,000 (2001: HK\$6,400,000) and HK\$4,130,000 (2001: HK\$3,966,000), respectively.

12. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the net profit from ordinary activities attributable to shareholders of HK\$42,283,000 (2001: HK\$20,061,000) and 765,372,000 shares in issue during the years ended 31 December 2002 and 2001.

As the exercise price of the outstanding share options was higher than the average market price of the Company's shares during the period from the date of grant to 31 December 2002, they exerted no dilution effect on the basic earnings per share for the year ended 31 December 2002. Diluted earnings per share for the year ended 31 December 2001 has not been shown as there were no dilutive potential ordinary shares outstanding during that year.

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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	Construction in progress HK\$'000	Total HK\$'000
Cost or valuation:								
At beginning of year	9,000	55,380	1,013	336,469	6,654	5,097	175	413,788
Additions	-	-	-	2,231	843	1,182	31,731	35,987
Reclassifications	-	854	-	7,008	-	-	(7,862)	-
Deficit on revaluation, net	(1,000)	(3,004)	-	-	-	-	-	(4,004)
Disposals	-	-	-	(1,013)	(26)	(176)	-	(1,215)
At 31 December 2002	<u>8,000</u>	<u>53,230</u>	<u>1,013</u>	<u>344,695</u>	<u>7,471</u>	<u>6,103</u>	<u>24,044</u>	<u>444,556</u>
Comprising:								
At cost	-	-	1,013	344,695	7,471	6,103	24,044	383,326
At 31 December 2002 valuation	<u>8,000</u>	<u>53,230</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>61,230</u>
	<u>8,000</u>	<u>53,230</u>	<u>1,013</u>	<u>344,695</u>	<u>7,471</u>	<u>6,103</u>	<u>24,044</u>	<u>444,556</u>
Accumulated depreciation:								
At beginning of year	-	2,299	968	84,457	5,749	4,359	-	97,832
Provided during the year	-	2,226	19	20,156	374	249	-	23,024
Write back on revaluation	-	(4,525)	-	-	-	-	-	(4,525)
Disposals	-	-	-	(991)	(21)	(173)	-	(1,185)
At 31 December 2002	<u>-</u>	<u>-</u>	<u>987</u>	<u>103,622</u>	<u>6,102</u>	<u>4,435</u>	<u>-</u>	<u>115,146</u>
Net book value:								
At 31 December 2002	<u>8,000</u>	<u>53,230</u>	<u>26</u>	<u>241,073</u>	<u>1,369</u>	<u>1,668</u>	<u>24,044</u>	<u>329,410</u>
At 31 December 2001	<u>9,000</u>	<u>53,081</u>	<u>45</u>	<u>252,012</u>	<u>905</u>	<u>738</u>	<u>175</u>	<u>315,956</u>

13. FIXED ASSETS (continued)**Company**

	Furniture, fixtures and equipment HK\$'000
Cost:	
At beginning of year and at 31 December 2002	<u>276</u>
Accumulated depreciation:	
At beginning of year	258
Provided during the year	<u>16</u>
At 31 December 2002	<u>274</u>
Net book value:	
At 31 December 2002	<u><u>2</u></u>
At 31 December 2001	<u><u>18</u></u>

The net book value of fixed assets of the Group held under finance leases included in the total amount of fixed assets at 31 December 2002 amounted to HK\$1,813,000 (2001: Nil), the inception value of which amounted to HK\$1,769,000 as detailed in note 33(b) to the financial statements.

The Group's leasehold land and buildings were revalued at 31 December 2002 by CB Richard Ellis Limited ("CB Richard"), an independent professionally qualified valuer, on an open market value and existing use basis. Had these leasehold land and buildings been carried at cost less accumulated depreciation, the carrying amount of the leasehold land and buildings would have been included in the financial statements at approximately HK\$60,699,000 (2001: HK\$62,112,000).

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13. FIXED ASSETS (continued)

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

	Hong Kong HK\$'000	Elsewhere in the PRC HK\$'000	Total HK\$'000
Long term leases:			
At 31 December 2002 valuation	–	1,300	1,300
Medium term leases:			
At 31 December 2002 valuation	<u>5,480</u>	<u>46,450</u>	<u>51,930</u>
	<u><u>5,480</u></u>	<u><u>47,750</u></u>	<u><u>53,230</u></u>

The Group's investment properties of HK\$4,130,000 in Hong Kong and of HK\$3,870,000 in the PRC are held under long term and medium term leases, respectively, and were revalued at 31 December 2002 by CB Richard on an open market value and existing use basis. The properties situated in Hong Kong are leased to third parties under operating leases, further summary details of which are included in note 38 to the financial statements. The properties situated elsewhere in the PRC are vacant as at 31 December 2002. Details of the Group's investment properties are set out on page 76 of this annual report.

As at 31 December 2002, the Group's investment properties amounting to HK\$8,000,000 (2001: HK\$4,100,000) and certain of the Group's leasehold land and buildings with an aggregate net book value of approximately HK\$32,929,000 (2001: HK\$32,462,000) were pledged to secure certain of the Group's bank loans as set out in notes 24 and 25 to the financial statements.

14. LAND USE RIGHTS

	Group HK\$'000
Valuation:	
At beginning of year	13,400
Surplus on revaluation	<u>100</u>
At 31 December 2002	<u>13,500</u>
Accumulated amortisation:	
At beginning of year	558
Provided during the year	559
Write back on revaluation	<u>(1,117)</u>
At 31 December 2002	<u>–</u>
Net book value:	
At 31 December 2002	<u><u>13,500</u></u>
At 31 December 2001	<u><u>12,842</u></u>

The Group's land use rights have a tenure of 30 years and are related to land used by the Group's subsidiary in the PRC.

The Group's land use rights were revalued at 31 December 2002 by CB Richard on an open market value and existing use basis. A revaluation surplus of HK\$1,217,000 resulting from the above valuation has been credited to the land use rights revaluation reserve. Had these land use rights been carried at cost less accumulated amortisation, the carrying amount of the land use rights would have been included in the financial statements at approximately HK\$8,386,000 (2001: HK\$8,767,000).

As at 31 December 2002, the Group's land use rights with a net book value of HK\$13,500,000 (2001: HK\$12,842,000) were pledged to secure certain of the Group's bank loans as set out in notes 24 and 25 to the financial statements.

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15. INTERESTS IN SUBSIDIARIES

	Company	
	2002 HK\$'000	2001 HK\$'000
Unlisted shares, at cost	2,769	2,769
Due from subsidiaries	518,382	529,993
Due to subsidiaries	(12,230)	(841)
	508,921	531,921
Less: Provisions for amounts due from subsidiaries	(203,814)	(203,814)
	305,107	328,107
Less: Current portion of amounts due from subsidiaries	–	(22,317)
	305,107	305,790

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\$14,043,000 (2001: HK\$27,974,000) 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 34 to the financial statements.

16. INTERESTS IN JOINTLY CONTROLLED ENTITIES

	Group		Company	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Unlisted investments, at cost	–	–	56,550	56,550
Share of net assets	47,439	47,690	–	–
Dividend receivable	3,658	–	–	–
	51,097	47,690	56,550	56,550
Less: Provisions for impairment	–	–	(56,550)	(56,550)
	51,097	47,690	–	–

The amount of goodwill remaining in reserves, arising from the acquisition of jointly controlled entities, is HK\$27,666,000 as at 1 January and 31 December 2002. The amount of goodwill is stated at its cost, less impairment of HK\$1,176,000 which arose in prior years.

Included in the balance of other payables and accruals as at 31 December 2001 was an amount of HK\$8,529,000 due to a jointly controlled entity, which was unsecured, interest-free and was fully repaid during the year as detailed in note 33(b) to the financial statements.

Particulars of the Group's principal jointly controlled entities are set out in note 35 to the financial statements.

Details of the Group's capital commitment relating to a jointly controlled entity are set out in note 39 to the financial statements.

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17. INTERESTS IN ASSOCIATES

	Group	
	2002 HK\$'000	2001 HK\$'000
Share of net assets	44,079	43,300
Loans to an associate	–	29,818
	<u>44,079</u>	<u>73,118</u>
Less: Provisions for impairment	–	(29,818)
	<u><u>44,079</u></u>	<u><u>43,300</u></u>

The amount of goodwill remaining in reserves, arising from the acquisition of an associate, is HK\$58,055,000 at cost as at 1 January and 31 December 2002.

Particulars of the Group's associates are set out in note 36 to the financial statements.

The loans to an associate were unsecured, interest-free and were written off during the year.

18. CLUB MEMBERSHIPS

	Group		Company	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Club memberships, at cost	2,010	1,970	820	780
Less: Provisions for impairment	(1,335)	(1,335)	(505)	(505)
	<u>675</u>	<u>635</u>	<u>315</u>	<u>275</u>

19. LONG TERM INVESTMENT

	Group	
	2002 HK\$'000	2001 HK\$'000
Long term unlisted equity investment, at cost	1,123	1,123
Less: Provision for impairment	(1,123)	(1,123)
	<u>—</u>	<u>—</u>
	<u>—</u>	<u>—</u>

20. INVENTORIES

	Group	
	2002 HK\$'000	2001 HK\$'000
Raw materials	16,837	14,514
Work in progress	5,903	4,509
Finished goods	9,824	9,124
	<u>32,564</u>	<u>28,147</u>
	<u>32,564</u>	<u>28,147</u>

21. TRADE RECEIVABLES

The Group normally allows a credit period of 30 – 120 days to its trade customers. An aged analysis of the trade receivables at the balance sheet date is as follows:

	2002		2001	
	Balance HK\$'000	Percentage %	Balance HK\$'000	Percentage %
0 – 90 days	42,529	88	34,415	84
91 – 180 days	4,127	9	4,812	12
181 – 365 days	1,292	3	1,910	4
	<u>47,948</u>	<u>100</u>	<u>41,137</u>	<u>100</u>
	<u>47,948</u>	<u>100</u>	<u>41,137</u>	<u>100</u>

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22. PLEDGED TIME DEPOSITS

These bank balances were pledged to the Group's bankers to secure the banking facilities granted to the Group.

23. TRADE PAYABLES

An aged analysis of the trade payables at the balance sheet date is as follows:

	2002		2001	
	Balance HK\$'000	Percentage %	Balance HK\$'000	Percentage %
0 – 90 days	5,356	84	4,273	79
91 – 180 days	13	1	132	2
181 – 365 days	–	–	9	1
Over 1 year	973	15	987	18
	<u>6,342</u>	<u>100</u>	<u>5,401</u>	<u>100</u>

24. INTEREST-BEARING BANK AND OTHER BORROWINGS, SECURED

	Notes	Group		Company	
		2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Current portion of bank loans	25	22,599	43,210	3,498	986
Current portion of finance lease payables	26	872	–	–	–
		<u>23,471</u>	<u>43,210</u>	<u>3,498</u>	<u>986</u>

25. INTEREST-BEARING BANK LOANS, SECURED

	Group		Company	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Trust receipt loans	16,944	8,702	3,498	986
Bank loans	5,655	34,528	–	–
	<u>22,599</u>	<u>43,230</u>	<u>3,498</u>	<u>986</u>
Balances due:				
Within one year or on demand	22,599	43,210	3,498	986
In the second year	–	20	–	–
	<u>22,599</u>	<u>43,230</u>	<u>3,498</u>	<u>986</u>
Portion due within one year, classified as current liabilities – note 24	<u>(22,599)</u>	<u>(43,210)</u>	<u>(3,498)</u>	<u>(986)</u>
Long term portion	<u>–</u>	<u>20</u>	<u>–</u>	<u>–</u>

The Group's bank loans are secured by:

- (i) the Group's investment properties amounting to HK\$8,000,000 (2001: HK\$4,100,000) and certain of the leasehold land and buildings with an aggregate net book value of HK\$32,929,000 (2001: HK\$32,462,000);
- (ii) the Group's land use rights with a net book value of HK\$13,500,000 (2001: HK\$12,842,000); and
- (iii) the Group's pledged time deposits amounting to HK\$3,000,000 (2001: HK\$1,000,000).

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26. FINANCE LEASE PAYABLES

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

Group	Minimum lease payments	Minimum lease payments	Present value of minimum lease payments	Present value of minimum lease payments
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Amounts repayable:				
Within one year	934	–	872	–
In the second year	714	–	698	–
Total minimum finance lease payments	1,648	–	1,570	–
Future finance charge	(78)	–		
	1,570	–		
Portion due within one year, classified as current liabilities – note 24	(872)	–		
Long term portion	698	–		

27. PROVISION FOR LONG SERVICE PAYMENTS

	Group	
	2002 HK\$'000	2001 HK\$'000
Balance at beginning of year	–	–
Provision for the year	1,319	–
At 31 December	1,319	–

28. DEFERRED TAX

Deferred tax has not been provided on the revalued assets in Hong Kong 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	
	2002 HK\$'000	2001 HK\$'000
Tax losses available for future relief	3,870	3,839
Accelerated capital allowances	(100)	(273)
	<u>3,770</u>	<u>3,566</u>

The Group and the Company have no significant potential deferred tax liabilities for which provision has not been made.

29. SHARE CAPITAL

Shares

	Group	
	2002 HK\$'000	2001 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

Details of the Company's share option scheme and the share options granted during the year under the scheme are included in note 30 to the financial statements.

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30. SHARE OPTION SCHEME

SSAP 34 was adopted during the year, as explained in note 2 and under the heading "Employee benefits" in note 3 to the financial statements. As a result, these detailed disclosures relating to the Company's share option scheme are now included in the notes to the financial statements. In the prior year, these disclosures were included in the Report of the Directors, as their disclosure is also a requirement of the Listing Rules.

The Group had adopted a share option scheme (the "1992 Scheme") for the purpose of granting share options to any director and employee as an incentive to his/her contribution to the Group in 1992. There was no share option outstanding under the 1992 Scheme as at 1 January 2002 and no share option was granted during the period from 1 January 2002 to 10 March 2002, being the expiry date of the 1992 Scheme. A new option scheme (the "2002 Scheme") was adopted by the shareholders of the Company at the annual general meeting held on 7 June 2002. Under the 2002 Scheme, the board of directors (the "Board") of the Company shall, subject to and in accordance with the provisions of the 2002 Scheme and the Listing Rules, grant share options to any eligible participant to subscribe for shares in the capital of the Company. A summary of the 2002 Scheme is set out as follows:

1. **Purpose**

The purpose of the 2002 Scheme is to enable the Board to grant options to eligible participants as incentives or rewards for their contribution to the Group or potential contribution to the Group;

2. **Eligible participants**

Any director (including executive and independent non-executive), executive, officer, employee or shareholder of the Company or any of the subsidiaries or any of the associates or any of the jointly controlled entities and any supplier, customer, consultant, adviser, agent, partner or business associate who will contribute or has contributed to the Group;

3. **Maximum number of shares**

The total number of shares available for issue under the 2002 Scheme was 76,537,200 which represented 10% of the issued share capital of the Company as at the date of approval of these financial statements;

30. SHARE OPTION SCHEME (continued)

4. Maximum entitlement of each eligible participant

The maximum number of shares issued and to be issued upon exercise of options granted to each eligible participant (including both exercised and outstanding options) in any 12-month period shall not exceed 1% of the issued share capital of the Company in issue under the 2002 Scheme;

5. Time of exercise of option

The period during which an option may be exercised will be determined by the Board at its absolute discretion, save that no option may be exercised later than 10 years after it has been granted;

6. The minimum period for holding option before exercise

The minimum period for which an option must be held before it can be exercised will be determined by the Board at its discretion;

7. Acceptance of offers

HK\$1 should be payable by the grantee upon acceptance of the grant of an option;

8. Basis of determining the option exercise price

The exercise price per share in relation to an option shall be a price to be determined by the Board and shall be no less than the highest of (a) the official closing price of the shares of the Company as stated in the daily quotation sheets issued by The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on the date on which the option is offered to an eligible participant, which must be a business day; or (b) the official average closing price of the shares of the Company as stated in the daily quotation sheets issued by the Stock Exchange for the 5 business days immediately preceding the date of offer of option to an eligible participant; or (c) the nominal value of the shares of the Company on the date of offer of option to an eligible participant; and

9. The remaining life of the 2002 Scheme

The 2002 Scheme will remain in force until 6 June 2012.

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

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30. SHARE OPTION SCHEME (continued)

The particulars in relation to the 2002 Scheme were set out as follows:

Name or category of participant	Outstanding options at the beginning of the year	Number of options granted during the year	Outstanding options at the end of the year	Date of grant*	Exercise period	Exercise price per share (HK\$)
Directors, chief executives or substantial shareholders of the Company						
Cao Zhong	-	7,652,000	7,652,000	23/8/2002	23/8/2002 to 22/8/2012	0.295
Tong Yihui	-	7,652,000	7,652,000	23/8/2002	23/8/2002 to 22/8/2012	0.295
Li Shaofeng	-	7,652,000	7,652,000	23/8/2002	23/8/2002 to 22/8/2012	0.295
Xu Xianghua	-	7,652,000	7,652,000	23/8/2002	23/8/2002 to 22/8/2012	0.295
Leung Shun Sang, Tony	-	4,592,000	4,592,000	23/8/2002	23/8/2002 to 22/8/2012	0.295
Tang Kwok Kau	-	2,296,000	2,296,000	23/8/2002	23/8/2002 to 22/8/2012	0.295
Lai Kam Man	-	382,000	382,000	23/8/2002	23/8/2002 to 22/8/2012	0.295
Yip Kin Man, Raymond	-	382,000	382,000	23/8/2002	23/8/2002 to 22/8/2012	0.295
	-	38,260,000	38,260,000			
Employees working under "continuous contracts" other than the directors						
In aggregate	-	1,532,000	1,532,000	23/8/2002	23/8/2002 to 22/8/2012	0.295
All other eligible participants						
In aggregate	-	9,948,000	9,948,000	23/8/2002	23/8/2002 to 22/8/2012	0.295
	-	49,740,000	49,740,000			

The closing price of the ordinary shares of the Company immediately before the date on which the options were granted, i.e. 22 August 2002, was HK\$0.29. During the year, there were no options being exercised, cancelled or lapsed. As such, there were 49,740,000 share options outstanding as at 31 December 2002.

Subsequent to the balance sheet date, on 12 March 2003, the Company granted a further 26,784,000 share options.

* The vesting period of the share options is from the date of grant to the end of the exercise period.

31. RESERVES

Group	Share	Capital	Fixed asset	Land use	Exchange	PRC	Retained	Total	
	premium	Capital	revaluation	rights	fluctuation	reserve	profits/		
	account	reserve	reserve	revaluation	reserve	reserve	reserve (accumulated		
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	funds (accumulated	HK\$'000	
				(Note 1)	(Note 1)		losses)		
							HK\$'000	HK\$'000	
At 1 January 2001	357,181	48,611	463	1,491	3,101	8,118	21,177	(145,895)	294,247
Arising from disposal of interest in a subsidiary	-	3,580	-	-	-	(766)	-	-	2,814
Net profit for the year	-	-	-	-	-	-	-	20,061	20,061
Capitalisation of profits by an associate	-	1,907	-	-	-	-	-	(1,907)	-
Transfer	-	-	-	-	-	-	1,129	(1,129)	-
At 31 December 2001 and 1 January 2002	357,181	54,098	463	1,491	3,101	7,352	22,306	(128,870)	317,122
Net profit for the year	-	-	-	-	-	-	-	42,283	42,283
Surplus on revaluation	-	-	-	1,178	874	-	-	-	2,052
Arising from write off of interest in									
a jointly controlled entity	-	6,495	-	-	-	-	(1,130)	1,130	6,495
Transfer	-	-	-	-	-	-	6,269	(6,269)	-
At 31 December 2002	<u>357,181</u>	<u>60,593</u>	<u>463</u>	<u>2,669</u>	<u>3,975</u>	<u>7,352</u>	<u>27,445</u>	<u>(91,726)</u>	<u>367,952</u>
Reserves retained by:									
Company and subsidiaries	357,181	52,191	463	1,491	3,101	1,910	64	(88,382)	328,019
Jointly controlled entities	-	-	-	-	-	5,015	19,776	(45,085)	(20,294)
Associates	-	1,907	-	-	-	427	2,466	4,597	9,397
At 31 December 2001	<u>357,181</u>	<u>54,098</u>	<u>463</u>	<u>1,491</u>	<u>3,101</u>	<u>7,352</u>	<u>22,306</u>	<u>(128,870)</u>	<u>317,122</u>
Company and subsidiaries	357,181	58,686	463	2,669	3,975	1,910	5,164	(61,306)	368,742
Jointly controlled entities	-	-	-	-	-	5,015	19,381	(38,712)	(14,316)
Associates	-	1,907	-	-	-	427	2,900	8,292	13,526
At 31 December 2002	<u>357,181</u>	<u>60,593</u>	<u>463</u>	<u>2,669</u>	<u>3,975</u>	<u>7,352</u>	<u>27,445</u>	<u>(91,726)</u>	<u>367,952</u>

- Notes:
- The fixed asset revaluation reserve and land use rights revaluation reserve are non-distributable reserves.
 - Pursuant to the relevant laws and regulations for sino-foreign joint venture enterprises, a portion of the profits of the Group's subsidiaries, associates and jointly controlled entities in the PRC has been transferred to PRC reserve funds which are restricted as to their use.

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31. RESERVES (continued)

Certain amounts of goodwill and negative goodwill arising on the acquisitions of subsidiaries, jointly controlled entities and associate in prior years remain eliminated against the capital reserve and accumulated losses and credited to the capital reserve, respectively, as explained in notes 32, 16 and 17 to the financial statements, respectively.

Company	Share premium account HK\$'000 (Note)	Capital reserve HK\$'000	Capital redemption reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
At 1 January 2001	357,181	23,990	463	(150,917)	230,717
Net profit for the year	<u>—</u>	<u>—</u>	<u>—</u>	<u>1,818</u>	<u>1,818</u>
At 31 December 2001 and 1 January 2002	357,181	23,990	463	(149,099)	232,535
Net loss for the year	<u>—</u>	<u>—</u>	<u>—</u>	<u>(2,591)</u>	<u>(2,591)</u>
At 31 December 2002	<u><u>357,181</u></u>	<u><u>23,990</u></u>	<u><u>463</u></u>	<u><u>(151,690)</u></u>	<u><u>229,944</u></u>

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

Note: Changes to the Company's share premium account subsequent to the balance sheet date are set out in note 41 to the financial statements.

32. GOODWILL AND NEGATIVE GOODWILL

As detailed in note 3 to the financial statements, on the adoption of SSAP 30, the Group applied the transitional provision of SSAP 30 that permitted goodwill and negative goodwill in respect of acquisitions which occurred prior to 1 January 2001, to remain eliminated against consolidated reserves or credited to the capital reserve, respectively.

The amounts of goodwill and negative goodwill remaining in consolidated reserves, arising from the acquisition of subsidiaries prior to 1 January 2001, were HK\$15,484,000 and HK\$82,051,000, respectively, as at 1 January and 31 December 2002. The amount of goodwill is stated at its cost of HK\$25,229,000, less cumulative impairment of HK\$9,745,000 which arose in prior years.

33. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) **Prior year adjustments**

SSAP 15 (Revised) was adopted during the current year, as detailed in note 2 to the financial statements, which has resulted in a change to the layout of the cash flow statement. The cash flow statement is now presented under three headings: cash flows from operating activities, investing activities and financing activities. Previously five headings were used, comprising the three headings listed above, together with cash flows from returns on investments and servicing of finance and from taxes paid. The significant reclassifications resulting from the change in presentation are that taxes paid and interests received and paid are now included in cash flows from operating activities, dividends received are now included in cash flows from investing activities, and dividends paid are now included in cash flows from financing activities. The presentation of the 2001 comparative cash flow statement has been changed to accord with the new layout.

Also, the definition of "cash equivalents" under the revised SSAP 15 has been revised from that under the previous SSAP 15, as explained under the heading "Cash and cash equivalents" in note 3 to the financial statements. This has resulted in trust receipt loans no longer qualifying as cash equivalents. The amount of cash equivalents in the consolidated cash flow statement at 31 December 2001 has been adjusted to remove trust receipt loans amounting to HK\$7,883,000 previously included at that date. The year's movement in trust receipt loans is now included in cash flows from financing activities and the comparative cash flow statement has been changed accordingly.

(b) **Major non-cash transactions**

During the year ended 31 December 2002, the Group entered into finance lease arrangements in respect of fixed assets with a total capital value at the inception of the leases of HK\$1,769,000. In addition, the Group entered into a debt assignment agreement in connection with the assignment of a receivable of HK\$8,529,000 to a jointly controlled entity for settlement of a loan advanced from that jointly controlled entity to the Group.

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33. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(continued)

(c) Summary of the effects of disposal of interests in subsidiaries in 2001

	2001 HK\$'000
Net assets disposed of:	
Fixed assets	85
Cash and bank balances	1,126
Trade receivables	10
Prepayments, deposits and other receivables	6,245
Due from a fellow subsidiary	8,529
Inventories	6,477
Trade payables	(1,300)
Other payables and accruals	(1,113)
Tax payable	(376)
Minority interests	(2,362)
	<u>17,321</u>
Exchange fluctuation reserve realised	4,856
Negative goodwill credited to reserves on acquisition	(2,042)
Loss on disposal of subsidiaries, net	(2,152)
Reclassified as interest in a jointly controlled entity	(4,920)
	<u>13,063</u>
Consideration	<u>13,063</u>
Accounted for and discharged by:	
Cash consideration received	2,828
Other receivables	10,235
	<u>13,063</u>

33. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(continued)

(c) Summary of the effects of disposal of interests in subsidiaries in 2001 (continued)

Analysis of net inflow of cash and cash equivalents in respect of the disposal of subsidiaries:

	2001 HK\$'000
Cash consideration received	2,828
Cash and bank balances disposed of	(1,126)
	<u>1,702</u>

The subsidiaries disposed of in 2001 contributed approximately HK\$934,000 to the Group's turnover and loss of HK\$422,000 to the Group's operating results for that year, respectively.

34. PARTICULARS OF THE PRINCIPAL SUBSIDIARIES

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

Name	Place of incorporation and operations	Issued and paid-up capital	Percentage of equity attributable to the Company		Principal activities
			2002	2001	
Bogay Investment Limited	Hong Kong	100 ordinary shares of HK\$1 each 100,000 non-voting deferred shares of HK\$1 each	100#	100#	Investment holding
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
Meta International Limited	Hong Kong/ PRC	2 ordinary shares of HK\$1 each	100#	100#	Processing and trading of copper and brass products
Hing Cheong Metals (China & Hong Kong) Limited	Hong Kong	1,000,000 ordinary shares of HK\$1 each	91	91	Processing and trading of copper and brass products

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34. PARTICULARS OF THE PRINCIPAL SUBSIDIARIES (continued)

Name	Place of incorporation and operations	Issued and paid-up capital	Percentage of equity attributable to the Company		Principal activities
			2002	2001	
Fair Win Development Limited	Hong Kong/ PRC	500,000 ordinary shares of HK\$1 each	100	100	Property investment
Heroland Investment Limited	Hong Kong	2 ordinary shares of HK\$1 each	100	100	Property investment
Bigland Investment Limited	Hong Kong/ 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	Trading of metals and investment holding
Online Investments Limited	British Virgin Islands/ Hong Kong	31,000,000 ordinary shares of US\$1 each	71.8	71.8	Investment holding
Everwinner Investments Limited	Hong Kong	1,000,000 ordinary shares of HK\$1 each	71.8	71.8	Investment holding

Name	Place of registration and operations	Business structure	Registered capital	Percentage of equity attributable to the Company		Principal activities
				2002	2001	
Jiaxing Eastern Steel Cord Co., Ltd.	PRC	Wholly foreign owned enterprise	US\$44,000,000	71.8	71.8	Manufacturing of steel cord

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 for 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.

35. PARTICULARS OF THE PRINCIPAL JOINTLY CONTROLLED ENTITIES

Particulars of the principal jointly controlled entities at 31 December 2002 are as follows:

Name	Business structure	Place of registration and operations	Registered capital	Percentage of equity	Percentage of voting power	Percentage of profit and loss	Principal activities
				attributable to the Group	attributable to the Group	attributable to the Group	
Shanghai Shengjia Metal Products Co., Ltd.	Corporate	PRC	US\$10,000,000	25	33	25	Manufacturing of pre-stressed concrete strands and wires
Shanxi Shengjia Real Estate Developing Co., Ltd.	Corporate	PRC	RMB19,000,000	25	29	25	Property development

The above table lists the jointly controlled entities of the Group which, in the opinion of the directors, principally affected the results for 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.

36. PARTICULARS OF THE ASSOCIATES

Particulars of the associates at 31 December 2002 are as follows:

Name	Business structure	Place of registration/ incorporation and operations	Issued and paid-up capital	Percentage of equity attributable to the Group		Principal activities
				2002	2001	
Xinhua Metal Products Co., Ltd. (Note)	Corporate	PRC	193,220,374 shares of RMB1 each	16.75	16.75	Manufacturing of pre-stressed concrete strands and wires
Sky Fond Investment Limited	Corporate	Hong Kong	1,500,000 ordinary shares of HK\$1 each	50	50	Dormant

Note:

Xinhua Metal Products Co., Ltd. ("Xinhua") is listed on the Shanghai Stock Exchange in the PRC. The shares in Xinhua held by the Group are legal person shares and are not tradable on any stock exchange. 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. In the opinion of the directors, the Group is in a position to exercise significant influence over Xinhua. Accordingly, it has been accounted for as an associate.

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37. CONTINGENT LIABILITIES

At the balance sheet date, the Group and the Company had the following contingent liabilities not provided for in the financial statements:

	Group		Company	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Guarantees for banking facilities granted to subsidiaries	–	–	64,000	18,254
Guarantees for bank loans granted to a jointly controlled entity	23,360	24,540	–	–
	23,360	24,540	64,000	18,254

38. OPERATING LEASE ARRANGEMENTS

(a) As lessor

The Group leases its investment properties (note 13 to the financial statements) under operating lease arrangements, with leases negotiated for terms of two years. The terms of the leases generally also require the tenants to pay security deposits and provide for periodic rent adjustments according to the then prevailing market conditions.

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

	Group	
	2002 HK\$'000	2001 HK\$'000
Within one year	131	47

38. OPERATING LEASE ARRANGEMENTS (continued)

(b) As lessee

The Group leases certain of its office and factory premises under operating lease arrangements. Leases for properties are negotiated for a term of three years.

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

	Group	
	2002 HK\$'000	2001 HK\$'000
Within one year	393	134
In the second year to fifth year, inclusive	543	–
	<u>936</u>	<u>134</u>

39. COMMITMENTS

In addition to the operating lease commitments detailed in note 38 above, the Group had the following capital commitments at the balance sheet date:

	Group	
	2002 HK\$'000	2001 HK\$'000
Contracted, but not provided for	5,818	22,919
Authorised, but not contracted for	188,111	16,190
	<u>193,929</u>	<u>39,109</u>

At 31 December 2001, the Group's share of capital commitment in respect of its interest in a jointly controlled entity was approximately HK\$839,000. The Group did not have any significant share of capital commitment of its jointly controlled entity at 31 December 2002.

At the balance sheet date, the Company did not have any significant commitments.

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40. RELATED PARTY TRANSACTIONS

In addition to the transactions and balances detailed elsewhere in these financial statements, during the year, the Group had the following material transactions with Shougang Concord International Enterprises Company Limited ("Shougang International") and its subsidiaries (collectively the "Shougang International Group"), Shougang Holding (Hong Kong) Limited ("Shougang HK") and its subsidiaries (collectively the "Shougang HK Group") and jointly controlled entities of the Group. Shougang International is the controlling shareholder of the Company and Shougang HK is the controlling shareholder of Shougang International.

	Notes	2002 HK\$'000	2001 HK\$'000
Consultancy fees paid to the Shougang HK Group	(i)	120	720
Management fees paid to the Shougang International Group	(i)	600	600
Rental expenses paid to the:			
Shougang HK Group	(ii)	938	1,012
Shougang International Group	(ii)	78	156
Loan advanced to the Shougang HK Group	(iii)	471	–
Interest paid to the Shougang HK Group	(iv)	138	1,410
Loan from a jointly controlled entity	(v)	–	8,529
Corporate guarantees given to a jointly controlled entity	(vi)	23,360	24,540
		23,360	24,540

Notes:

- (i) The Group paid consultancy fees to the Shougang HK Group and paid management fees to the Shougang International Group 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 the 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 loan advanced to Shougang HK Group is unsecured, interest-free and has no fixed terms of repayment. The amount was fully repaid subsequent to the balance sheet date, on 3 April 2003.
- (iv) The loans advanced from the Shougang HK Group were secured by the Group's interest in a jointly controlled entity with interest payable at HIBOR per annum and were fully repaid during the year.
- (v) The loan advanced by the jointly controlled entity was unsecured, interest-free and was fully repaid during the year as detailed in note 33(b) to the financial statements.

40. RELATED PARTY TRANSACTIONS (continued)

Notes: (continued)

- (vi) The Group has executed corporate guarantees 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.

41. POST BALANCE SHEET EVENT

As further detailed in the Company's announcement dated 4 December 2002 and the Company's circular to shareholders dated 23 December 2002, the Board proposed to reduce the amount standing to the credit of the Company's share premium account by the sum of approximately HK\$149,099,000 and the same amount of credit arising from such reduction be applied towards the elimination of the Company's accumulated losses (the "Share Premium Reduction"). The Share Premium Reduction was approved by a special resolution passed at the extraordinary general meeting of the Company held on 23 January 2003.

The High Court of Hong Kong made an order confirming the Share Premium Reduction on 4 April 2003 pursuant to Section 60 of the Companies Ordinance (the "Confirming Order"). The Confirming Order was duly registered by the Registrar of Companies in Hong Kong on 8 April 2003 and, accordingly, the Share Premium Reduction became effective on the same day. As a result, the share premium account of the Company has been reduced by the amount of approximately HK\$149,099,000 and the same amount of credit arising from such reduction has been applied towards the elimination of the accumulated losses.

42. COMPARATIVE AMOUNTS

As further explained in note 2 to the financial statements, due to the adoption of certain new and revised SSAPs during the current year, the accounting treatment and presentation of certain items and balances in the financial statements have been revised to comply with the new requirements. Accordingly, certain prior year adjustments have been made and certain comparative amounts have been reclassified to conform with the current year's presentation.

43. APPROVAL OF THE FINANCIAL STATEMENTS

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

Summary of Investment Properties ▶

Particulars of the investment properties held by the Group as at 31 December 2002 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 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 People's Republic of China	Residential	100%	Medium term lease
3.	Workshop Nos. 8, 15, 16, 17 and 18 on 12th Floor Honour Industrial Centre No. 6 Sun Yip Street Chaiwan Hong Kong	Industrial and commercial	100%	Long term lease
4.	Workshop No. 10 on 6th Floor Honour Industrial Centre No. 6 Sun Yip Street Chaiwan Hong Kong	Industrial and commercial	100%	Long term lease