

annual  
report 2003

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Shougang Concord Century  
Holdings Limited

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## Corporate Information

### Board of Directors

#### *Executive directors*

Cao Zhong (*Chairman*)  
 Li Shaofeng (*Managing Director*)  
 Tong Yihui  
 Leung Shun Sang, Tony  
 Tang Cornor Kwok Kau

#### *Independent non-executive directors*

Lai Kam Man  
 Yip Kin Man, Raymond

### 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  
 Dah Sing Bank, Limited  
 DBS Bank (Hong Kong) Limited  
 Fortis Bank Asia HK  
 Industrial and Commercial Bank of China  
 The Bank of East Asia, Limited  
 Wing Hang Bank, Limited

### Auditors

Deloitte Touche Tohmatsu  
*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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## Financial Highlights

**For the year ended 31 December**

2003	2002	Changes
HK\$'000	HK\$'000	%

(As restated)

**Operations**

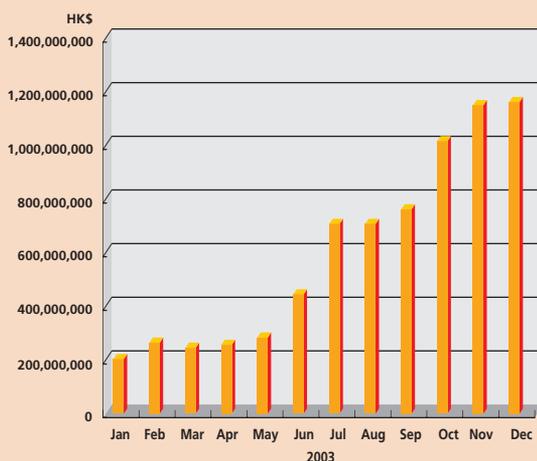
Turnover	297,271	234,891	+26.6
Profit from operations	83,278	54,526	+52.7
Net profit attributable to shareholders	66,092	42,481	+55.6
Earnings per share, basic (cents)	7.50	5.55	+35.1

**Financial Position**

Total assets	726,221	599,209	+21.2
Net current assets	133,624	120,506	+10.9
Shareholders' funds	593,870	443,489	+33.9
Return on average equity (%)	12.7	10.2	+24.5
Net book value per share (HK\$)	0.58	0.58	—

## Growth of Shougang Century

### MARKET CAPITALIZATION



### STOCK PRICE



## Shougang Century 2003 Highlights

### April 2003

Approval of the reduction of share premium of HK\$149,099,000 to offset against accumulated losses by the Court of First Instance, which paved the way for dividend distribution to our shareholders.



### May 2003

Placement of 190,476,000 new shares to Shougang Holding (Hong Kong) Limited and independent placees at HK\$0.315 each, which raised the net proceeds of approximately HK\$56,743,000 to the Group.



### August 2003

- (a) Acquisition of approximately 28.24% of the equity interest in Online Investments Limited, the investment holding company of Jiaxing Eastern Steel Cord Co., Ltd. ("Jiaxing Eastern") which is engaged in the manufacturing of steel cords for radial tyres at a consideration of HK\$160,000,000. We can fully enjoy the growth and earnings of Jiaxing Eastern.
- (b) Placement of 60,000,000 new shares to independent placees at HK\$0.680 each, which raised the net proceeds of approximately HK\$39,795,000 to the Group.



### October 2003

Payment of an interim dividend of HK1.5 cents per share to our shareholders.



## Shareholders' Calendar

<b>Closure of Register of Members:</b>	3 June 2004 to 8 June 2004 (both days inclusive)
<b>Annual General Meeting:</b>	8 June 2004
<b>Dividends:</b>	
Interim Dividend Paid	HK1.5 cents per share 31 October 2003
Final Dividend Payable	HK2.0 cents per share 25 June 2004

## Biographical Details of Directors

**Mr. Cao Zhong**, aged 44. Mr. Cao holds a Master Degree in Economics from Graduate School, The Chinese Academy of Social Sciences. 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. Mr. Cao has extensive experience in corporate management and operation.

**Mr. Li Shaofeng**, aged 37. 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 joined the Group in March 2000 and was appointed as Deputy Managing Director of the Company. He was appointed as the Managing Director of the Company in September 2003. 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.

**Mr. Tong Yihui**, aged 55, 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 serves as the Deputy Managing Director of the Company. 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 61. 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.

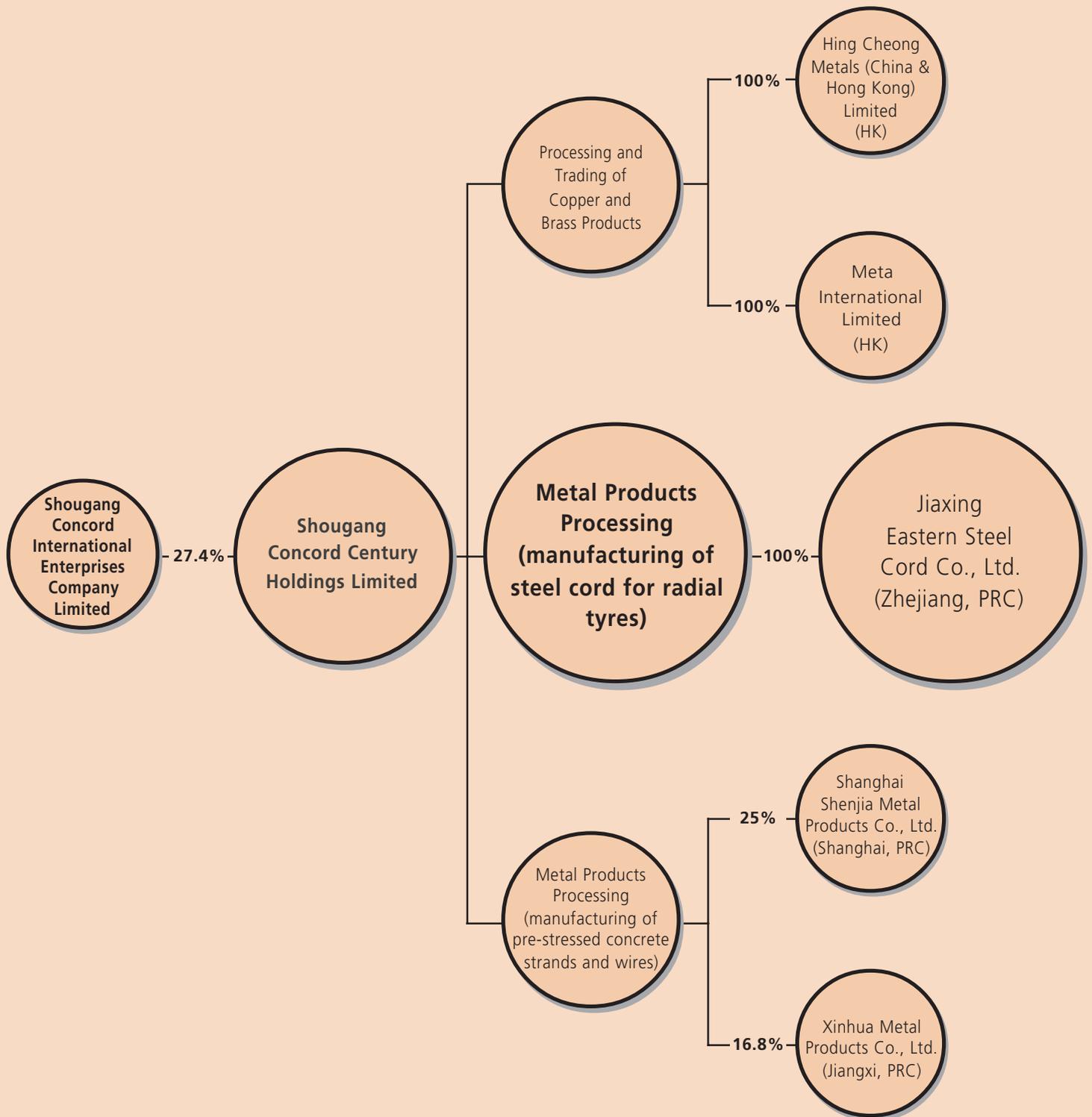
**Mr. Tang Cornor Kwok Kau**, aged 43. Mr. Tang joined the Group in 1998 and was appointed as the Deputy Managing Director of the Company in March 2000. He holds a Bachelor Degree and a Master Degree in Business Administration from York University in Canada. Prior to joining the Group, Mr. Tang had held 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 70. 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 57. 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.

# Main Operational Structure

As at 19 April 2004



## Chairman's Statement

Dear Shareholders,

Gross domestic product growth is continuing at a very high rate in China. The growth rate in the final three months of last year was even more rapid, up 9.9%. China's performance makes it the fastest growing among the world's major economies, outpacing the United States and far ahead of sluggish Japan. Envision of the rapid growing market in China, foreign investment has soared in this favourable investment environment to look for business opportunities. Moreover, with average income per capital rise, private ownership of automobile in major Chinese cities has begun to surge. This has chivied not only international automobile manufacturers but also the top radial tyre manufacturers moving their production bases to China one after another. In addition, we believe that the Chinese development of higher quality roads and expressway network and the pioneering of the western region have begotten significant increase in road transportation of goods and populace. According to National Bureau of Statistics of China, approximately 4,639 kilometers of freeway were added to the freeway network during 2003 and there was totaling of 2,980,000 kilometers of freeway in China. These macroeconomic factors set the stage for great opportunity and broad vistas for the development of the radial tyre industry, which in turn will benefit the manufacturing of steel cord. As such, our Company, an auto parts and components manufacturer for making steel cord for radial tyres can take advantage from these favourable conditions. Further, the radialization (the penetration rate of radial tyres) in China in 2003 was just 47.4%, relatively low as compared to over 90% in Japan and other Western countries. China turned out 4,440,000 vehicles of all types in 2003, a 36.8% increase on 2002, of which sedans accounted for 2,200,000 units – an increase of 83.25% (Sources: National Bureau of Statistics of China and China Rubber Industrial Association). Despite the recent announcement of certain fine-tuning measures on automobile industry by the Central Government, we are sanguine that the persistent economic growth and radialization of tyres in China will forge ahead, nourishing peripheral industries like steel cord manufacturing along the way.

In 2003, we implemented expansion plans in our core businesses – steel cord manufacturing – in anticipation of the encouraging growth in road transportation in China as a whole. We successfully increased our annual production capacity in our steel cord business by 36% from 10,000 tonnes to 13,600 tonnes. The expansion plan of annual production capacity to 30,000 tonnes of steel cord is under way and is expected to complete in June 2004. In addition to the above, we acquired the remaining 28.24% equity interest in the business segment of steel cord from minority shareholders in October 2003 and started to enjoy its whole profit. As a result, we achieved satisfactory results for the year under review.

For the year ended 31 December 2003, our Group reported a net profit attributable to shareholders of HK\$66,092,000, an increase of 55.6% when compared to the corresponding net profit of HK\$42,481,000 for the year ended 31 December 2002. The return on average shareholders' equity was 12.7%. Owing to the fruitful results, our board of the directors has recommended a final dividend of HK2.0 cents per share. Total dividend, including the HK1.5 cents interim dividend per share, amounts to HK3.5 cents per share, representing a dividend payout ratio of 46.67%.

Further information in relation to the Company's operating performance during 2003 is disclosed in the Management Discussion and Analysis section in this annual report.

Last but not least, management and I would like to express our sincerely appreciation for your encouragement and support during the year.

By Order of the Board

**Cao Zhong**

*Chairman*

Hong Kong

19 April 2004

## Management Discussion and Analysis

### BUSINESS REVIEW

Broadly speaking, the overall trading environment in 2003 was still positive to the Group. The outbreak of SARS epidemic and the Middle East conflicts during the first half of 2003 had not had a material impact on the economic development of the People's Republic of China (the "PRC") which sustained a high gross domestic product growth of 9.1% in 2003. This provided a favorable operating environment for our businesses, and we were pleased to report the third consecutive growth in profit since year 2000.



#### Manufacturing of steel cord for radial tyres ("Steel cord")

The persistent strong economic growth in the PRC had accelerated the development of the domestic motor vehicles industry and construction of freeway network. According to the information of China Rubber Industrial Association, total production and sales of motor vehicles in 2003 were approximately 4,440,000 units and 4,391,000 units, an increase of 36.8% and 35.2% over 2002 respectively, another year of robust growth after an increase of 38.5% and 36.7% in 2002 as compared to 2001. On the other hand, approximately 4,639 kilometers of freeway were added to the freeway network during 2003 (Source: National Bureau of Statistics of China). These, along with increased radialization of tyres, brought forth the extended demand for radial tyres and steel cord, the crucial components for manufacture of radial tyres.

The increasing demand for steel cord spurred the revenue growth of Jiaxing Eastern Steel Cord Co., Ltd. ("Jiaxing Eastern"), our wholly owned subsidiary engaged in steel cord manufacturing. During the year, turnover increased by 22.9% to HK\$218,463,000 as compared to HK\$177,705,000 for the previous year. Gross profit rose by 35.5% to HK\$95,033,000, gross profit margin advanced from 39.5% in the previous year to 43.5% in the current year, as average production cost dropped further from enlarged production and as a result of economies of scale.

Although gross profit was up by 35.5%, Jiaxing Eastern's operating profit only increased by 23.3% to HK\$92,186,000, as the specific bad debts recovery for the year dropped by 58.9% to HK\$5,754,000 as compared to HK\$14,004,000 in the previous year. Operating profit would have increased by 42.2% when these non-recurring bad debts recovery were excluded.

#### Processing and trading of copper and brass products ("Copper & brass products")

Our copper & brass products segment experienced a volatile year in 2003. Overseas merchandisers postponed their purchases in Hong Kong and the PRC during the SARS outbreak in the first half, demand for our copper products was weakened and negatively affected the operating results of this segment. However, we envisioned that the economy would recuperate and therefore, we increased our inventory at a relatively low price level. Simultaneously, we hastened the pace in shifting our processing from our facility in Hong Kong to Dongguan with an objective to lower our costs. With these measures and as the economy recovered rapidly in the second half of the year, this segment was able to rebound and achieved profitable results for the whole year.

## Management Discussion and Analysis

**BUSINESS REVIEW** (continued)**Processing and trading of copper and brass products ("Copper & brass products") (continued)**

The production plant established in Dongguan, the PRC in August 2002 started to provide positive contribution during the year under review. With a broadened customer base, this business segment recorded an increase of 37.1% in turnover to HK\$77,715,000. Gross profit increased by 11.1% to HK\$5,474,000 while its gross profit margin dropped from 8.7% in previous year to 7%. The Dongguan production plant operated at below average production capacity in its inception of operations had led to higher average unit cost and hence lowered gross profit margin.

Operating profit of this segment increased by 278.7% to HK\$3,590,000. Besides the increased profit contribution from sales growth, the exceptional sharp rise in operating profit was also attributable to a surplus on the revaluation of its office, workshop and warehouse of HK\$1,851,000, as opposed to a deficit of HK\$218,000 in the previous year, due to a general rebound in the Hong Kong property market since the third quarter of 2003. When excluding such surplus/deficit on revaluation, there was still a significant increase of 49.1% in operating profit over the previous year.

**FINANCIAL REVIEW**

The Group recorded a net profit attributable to shareholders of HK\$66,092,000 for the year, an increase of 55.6% as compared to HK\$42,481,000 (as stated for adjustment of deferred tax as per note 2 to the financial statements) for the previous year. Basic earnings per share was up from HK5.55 cents to HK7.50 cents for the year under review.

**Turnover**

Turnover of the Group amounted to HK\$297,271,000 for the year under review, an increase of 26.6% as compared to HK\$234,891,000 for the previous year. A summary of the breakdown by business activities is as follows:

	<b>2003</b> <b>HK\$'000</b>	<b>% of total</b> <b>turnover</b>	2002 HK\$'000	% of total turnover	<b>% change</b>
Steel cord	<b>218,463</b>	<b>73.5</b>	177,705	75.7	<b>+22.9</b>
Copper & brass products	<b>77,715</b>	<b>26.1</b>	56,692	24.1	<b>+37.1</b>
Others	<b>1,093</b>	<b>0.4</b>	494	0.2	<b>+121.3</b>
Total	<b>297,271</b>	<b>100.0</b>	234,891	100.0	<b>+26.6</b>

## Management Discussion and Analysis

### FINANCIAL REVIEW (continued)

#### Gross profit

Gross profit rose from HK\$75,568,000 in the previous year to HK\$100,904,000 for the year under review, represented an increase of 33.5%. Such growth exceeded those of 26.6% increase in turnover as gross profit margin increased from 32.2% to 33.9%, primarily attributable to the steel cord business. The breakdown of gross profit by business activities is summarised as follows:

	2003 HK\$'000	Gross profit %	2002 HK\$'000	Gross profit %	% change
Steel cord	95,033	43.5	70,148	39.5	+35.5
Copper & brass products	5,474	7.0	4,929	8.7	+11.1
Others	397	36.3	491	99.4	-19.1
Total	100,904	33.9	75,568	32.2	+33.5

#### Administrative expenses

We did not loosen our cost control measures despite significant growth in turnover. Administrative expenses dropped by 6.8% to HK\$26,115,000 for the year. The expenses for 2002 included a lump sum provision for employee long service payment and unpaid annual leave of HK\$1,607,000 in accordance with the newly enacted Hong Kong Statement of Standard Accounting Practice ("SSAP") no. 34 "Employee benefits". Administrative expenses as a percentage of turnover dropped discernibly from 11.9% in 2002 to 8.8% in 2003.

#### Other operating expenses

Other operating expenses dropped by 87% to HK\$1,044,000 for the year, as compared to HK\$8,002,000 for the previous year. Benefited from the general rise in the property price in Hong

Kong and mainland China, there was a surplus on the revaluation of land and buildings and investment properties of HK\$2,225,000 for the year (included in "Other operating income"), as opposed to a deficit of HK\$1,126,000 for the previous year. Furthermore, previous year's other operating expenses included an exceptional loss on write off of interest in a jointly controlled entity of HK\$6,495,000.



## Management Discussion and Analysis

**FINANCIAL REVIEW** (continued)**Profit from operations**

Profit from operations increased by 52.7% from HK\$54,526,000 in previous year to HK\$83,278,000 for the year under review. The Group had recovered specific bad and doubtful debts for both years, when these non-recurring income were excluded, profit from operations would have increased by 93.3%. The breakdown of profit from operations is as follows:

	2003 HK\$'000	2002 HK\$'000	% change
Steel cord	92,186	74,771	+23.3
Copper & brass products	3,590	948	+278.7
Corporate & others	(12,286)	(14,900)	-17.5
Unallocated income and expenses, net	(212)	(6,293)	-96.6
Total	<u>83,278</u>	<u>54,526</u>	+52.7

**Finance costs**

The Group's finance costs increased by 57% to HK\$3,178,000 for the year, as the Group's bank borrowings increased from HK\$24,169,000 at 31 December 2002 to HK\$110,658,000 at 31 December 2003. The increase was primarily used to finance the Group's acquisition of approximately 28.24% equity interests in Online Investments Limited ("Online"), an investment holding company of Jiaying Eastern, and Jiaying Eastern's expansion plan.

**Share of results of jointly controlled entities and an associate**

The operating environment of the pre-stressed concrete strands and wires industry in the PRC remained severe during the year under review. Intense price competition and rising material costs since the second half of the year caused palpable drop in the gross profit margin of our jointly controlled entity and associate engaged in this business, namely Shanghai Shenjia Metal Products Co., Ltd. ("Shanghai Shenjia") and Xinhua Metal Products Co., Ltd. ("Xinhua Metal"). Notwithstanding, Shanghai Shenjia and Xinhua Metal are able to withstand this severe situation through expansion of production capacity and enlarged sales of other higher value added products.



## Management Discussion and Analysis



### FINANCIAL REVIEW

(continued)

#### Share of results of jointly controlled entities and an associate (continued)

Shanghai Shenjia recorded an increase in turnover of 23.1% to HK\$369,437,000. However, its profit before tax dropped slightly by 0.8% to HK\$27,825,000. As such, the Group's share of the profit before tax of Shanghai Shenjia also dropped by 0.8% to HK\$6,956,000.

Turnover of Xinhua Metal increased by 35.3% to HK\$506,644,000, along with the reversal of bad debts provisions of approximately HK\$6,085,000 during the year, its profit before tax increased by 7.5% to HK\$31,349,000. The Group's share of the profit before tax of Xinhua Metal also increased by 7.5% to HK\$5,251,000.

#### Income tax expenses

Tax charge for the year amounted to HK\$8,468,000, a sharp increase of 537.7% over the previous year. Jiaxing Eastern had utilized its income tax exemptions and would be subject to income tax at half of normal rate beginning from 2003, which brought the income tax charge of the Group from HK\$7,000 in the previous year to HK\$6,397,000 in the year under review. Moreover, Shanghai Shenjia had also utilized its special tax concessions period and started to pay PRC income tax at 15% from 2003 onwards. As such, the Group's share of income tax of this jointly controlled entity increased by 38.6% to HK\$1,214,000.

In addition to the above, the first time adoption of SSAP 12 (Revised) "Income Taxes" increased the deferred tax charge of the Group by HK\$149,000 for the year, as compared to deferred tax credit of HK\$310,000 for the previous year, which has been accounted for as a prior year adjustment in accordance with the requirements of SSAP 12 (Revised).

### ACQUISITION MATTERS

In view of the outstanding performance of Jiaxing Eastern and the future prospect of the radial tyres industry in the PRC, the Group entered into sale and purchase agreements with the minority shareholders of Online on 21 August 2003 for the acquisitions of the remaining 28.24% interest of Online at a consideration of HK\$160,000,000 (the "Acquisition"). The Acquisition was completed in October 2003 and Jiaxing Eastern became a wholly owned subsidiary of the Group. The directors believe that the Acquisition will enable the Group to fully enjoy the growth of Jiaxing Eastern which is earnings enhancing for the Group.

The Acquisition was financed by the net proceeds from issue of new shares, bank loans and internal resources of the Group.

## CAPITAL AND RESERVES

### Share premium reduction

The reduction of share premium of HK\$149,099,000 to offset against accumulated losses was approved by the shareholders of the Company in January 2003 and confirmed by the Court of First Instance in April 2003 (the "Share Premium Reduction"). The Share Premium Reduction paved the way for us to share the fruitful results of the Group with our shareholders by way of dividend distribution.

### Fund raising exercises

During the year, the Company issued 250,476,000 new shares in aggregate to Shougang Holding (Hong Kong) Limited and several independent third parties at prices ranging from HK\$0.315 to HK\$0.680 per share, raising net proceeds of HK\$96,538,000 for the Group. In addition, 3,732,000 new shares were issued to employees of the Group through exercise of share options granted to them under the Company's share option scheme.



As a result of the above shares issues, the issued share capital of the Company increased from HK\$76,537,000 at 31 December 2002 to HK\$101,958,000 at 31 December 2003, and the net asset value of the Group increased from HK\$443,489,000 to HK\$593,870,000, an increase of 33.9% as compared to the previous year.

### Dividend

We declared and paid an interim dividend of HK1.5 cents per share for the six months ended 30 June 2003.

## LIQUIDITY AND FINANCIAL RESOURCES

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\$47,864,000 from its operating activities while it had utilized HK\$190,026,000 for its investment activities, including approximately HK\$54,576,000 and HK\$148,604,000 of capital expenditure for its business expansion projects and the Acquisition respectively.

## Management Discussion and Analysis

### LIQUIDITY AND FINANCIAL RESOURCES (continued)

Bank borrowings, which are interest bearing at floating interest rates, were increased by HK\$86,489,000 during the year. Apart from trust receipt loans for normal operations, the additional bank loans were used to finance the Acquisition and the expansion project of Jiaying Eastern, hence total bank borrowings (including obligations under finance lease) reached to HK\$110,658,000 at 31 December 2003. As a result of the increased bank borrowings, the Group was changed from net cash at 31 December 2002 to net bank borrowings of HK\$78,666,000 at 31 December 2003, and the gearing ratio (net bank borrowings/shareholders' equity) of the Group was 13.2% at 31 December 2003. Besides, the current ratio (current assets/current liabilities) also dropped from 4 times to 2.6 times at 31 December 2003. Despite increased gearing ratio and lowered current ratio, we believe that the Group's debt level and liquidity remained healthy and manageable.

### FOREIGN CURRENCY EXPOSURES

The Group's bank borrowings are mainly denominated in Hong Kong Dollars ("HKD"), United States Dollars ("USD") and Renminbi ("RMB"). Its currency mix at 31 December 2003 was approximately 57.6% denominated in HKD and 42.4% in USD, as opposed to 9.7% in HKD, 23.4% in RMB and 66.9% in USD at 31 December 2002. The material change in currency mix reflected our tactics to take advantage of the relatively cheaper interest rates of HKD and USD borrowings and weaker USD against HKD and RMB. Although the Group did not have USD income, insofar as the exchange rate peg between HKD and USD is maintained, we believe the Group will not be exposed to any significant risk from exchange rate fluctuations amongst HKD, USD and RMB.

Apart from the above, the Group had signed several contracts totaling Euro13,922,000 for the acquisitions of plant and machineries in respect of the expansion plan of Jiaying Eastern in 2003. In view of the significant fluctuations in the exchange rate of Euro, which had once climbed to its record peak level of Euro1 against approximately USD1.2924 in February 2004, and in order to limit the exposure of adverse fluctuations of Euro exchange rate to the cost of the expansion plan, the Group had executed several forward contracts to substantially hedge against the Euro payments to be made in 2004. The average exchange rate for the Euro13,922,000 exposure, after taking into account payments already made and the outstanding forward contracts, was approximately USD1.1683, approximately 2.6% lower than the closing exchange rate of USD1.1993 as at 16 April 2004, being the earliest business date preceding the date of this annual report.

### BUSINESS DEVELOPMENT PLAN AND CAPITAL COMMITMENTS

Jiaying Eastern's plan to enlarge its production capacity to 30,000 tonnes of steel cord per annum is expected to complete in June 2004. Total capital expenditure is estimated to be approximately HK\$232,400,000, in which approximately HK\$51,900,000 was incurred in 2003 and approximately HK\$180,500,000 will be incurred in 2004. The current estimated amount is far below the original budget of HK\$300,000,000 – HK\$350,000,000 as we were able to source certain plant and machineries of the new production line at lower costs. Funding of such capital expenditure had been provided for through internal resources of the Group and bank borrowings.

## EMPLOYEES, REMUNERATION POLICIES AND TRAINING SCHEME

At 31 December 2003, the Group had a total of 528 (31 December 2002: 449) 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 income statement for the year under review amounted to HK\$875,000. The Group had 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 on 7 June 2002 (the "Scheme"). Under the Scheme, the board of directors of the Company (the "Board") shall, subject to and in accordance with the provisions of the 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 Scheme will remain in force for a period of ten years from the date of its adoption.

In 2003, the Company granted certain eligible participants including the directors of the Company under the Scheme totaling of 187,872,000 share options to subscribe for shares in the capital of the Company and 3,732,000 share options had been exercised by the employees of the Company for the subscription of shares of the Company during the year under review.

## PLEDGE OF ASSETS AND CONTINGENT LIABILITIES

As at 31 December 2003, the following assets had been pledged to the Group's bankers for banking facilities granted to the Group:

1. Leasehold land and buildings and investment properties with an aggregate net book value of HK\$16,801,000;
2. 100% equity interests in Everwinner Investments Limited, Online and Jiaying Eastern; and
3. Bank deposits amounting to HK\$4,000,000.

## Management Discussion and Analysis

### **PLEDGE OF ASSETS AND CONTINGENT LIABILITIES** (continued)

Further, 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 2003 amounted to approximately HK\$10,721,000.

### **BUSINESS OUTLOOK**

In addition to the expansion plan as mentioned in the "BUSINESS DEVELOPMENT PLAN AND CAPITAL COMMITMENTS" section above, we are actively considering further expansion in the steel cord and copper processing areas with a view to fulfilling our goal as an auto parts and components supplier in the PRC.

We believe that the 2008 Olympics in Beijing and the 2010 World Expo in Shanghai (the "Events") will inevitably imbue large growth spurt in the transportation and infrastructure industries, hence, we expect the PRC will continue to maintain its high economic growth in the coming years.

Nevertheless, 2004 is a challenging year for our Group. On the one hand, we are sanguine that the sustained growth of the domestic PRC economy and the Events should further improve the demand for both our steel cord manufacturing and copper and brass processing businesses. On the other, we are aware of the crescendo in controlling investments by the Central Government of the PRC in, amongst others, the automobile industry. While rising steel and metal prices are of concern to us, we have implemented appropriate measures by switching to lower cost wire rod (raw material of steel cord) suppliers in Asia and the PRC. We will continue to be pro-active in managing our businesses with a strong grip on our overall cost structure. In addition, we will continue to employ international expert in steel cord manufacturing process to further improve the quality of our products with a view to consolidating our venerable market position. Further resources will be embarked in research and development in new products for the steel cord segment to meet the increasing sophisticated needs of our customers in the PRC. We will not be complacent to what we have done over the last three years. We will constantly look for growth and investment opportunities that are consistent with our skills and resources to create synergy to our steel cord and metal products businesses. More importantly, we will continue to focus on ways to strengthen our core businesses in terms of costs, service and quality with the ultimate objective in maximizing and returning the value of the Group to our shareholders.

The directors herein present their report and the audited financial statements of the Company and the Group for the year ended 31 December 2003.

## 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 36 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 2003 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 33 to 87.

## 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 of the Group and adjusted as appropriate, is set out below:

	<b>2003</b> <b>HK\$'000</b>	2002 HK\$'000 (As restated)	2001 HK\$'000 (As restated)	2000 HK\$'000	1999 HK\$'000
NET PROFIT (LOSS) ATTRIBUTABLE TO SHAREHOLDERS	<b>66,092</b>	42,481	19,900	4,739	(72,564)
TOTAL ASSETS	<b>726,221</b>	599,209	574,873	574,845	651,752
TOTAL LIABILITIES	<b>(132,351)</b>	(69,218)	(87,090)	(113,690)	(218,172)
MINORITY INTERESTS	–	(86,502)	(95,011)	(90,371)	(103,330)
	<b>593,870</b>	443,489	392,772	370,784	330,250

The figures for the two financial years 2001 and 2002 have been adjusted to reflect the changes in accounting policies, as described in note 2 to the financial statements.

## Report of the Directors

### FIXED ASSETS

Particulars of the Group's investment properties as at 31 December 2003 are summarised on page 88 of this annual report.

Details of movements in the investment properties, property, plant and equipment of the Company and the Group during the year are set out in notes 12 and 13, respectively to the financial statements.

### SHARE CAPITAL AND SHARE OPTIONS

During the year, the authorised share capital of the Company was increased from HK\$100,000,000 divided into 1,000,000,000 ordinary shares of HK\$0.10 each to HK\$200,000,000 divided into 2,000,000,000 ordinary shares of HK\$0.10 each by the creation of additional 1,000,000,000 ordinary shares of HK\$0.10 each in the share capital of the Company. Pursuant to two share placements to independent placees and a subscription of shares of the Company by Shougang Holding (Hong Kong) Limited ("Shougang HK"), the Company issued 250,476,000 shares at a total consideration of approximately HK\$100,800,000 and also issued 3,732,000 shares at a total consideration of approximately HK\$1,605,000 pursuant to the exercise of share options granted by the Company. Details of the above and other movements in the share capital of the Company are set out in note 28 to the financial statements. The Company introduced a share option scheme in 2002. During the year, the Company granted 187,872,000 share options to certain eligible participants to subscribe for shares in the capital of the Company. Further details of the grant of share options during the year are set out under the headings "SHARE OPTION SCHEME", "DIRECTORS' INTERESTS IN THE SHARE CAPITAL OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS" hereunder and in note 34 to the financial statements.

### RESERVES

Details of movements in the reserves of the Group and the Company during the year are set out in the consolidated statement of changes in equity on pages 37 and 38 of this annual report and in note 29 to the financial statements.

### DISTRIBUTABLE RESERVES

As at 31 December 2003, the Company's reserves available for distribution, calculated in accordance with the provisions of Section 79B of the Companies Ordinance, amounted to HK\$21,380,000, of which approximately HK\$20,435,000 has been proposed as a final dividend for the year.

### DIVIDENDS

The directors recommend to shareholders the payment of a final dividend of HK2.0 cents per share for the year ended 31 December 2003 and the balance of the profit will be retained. Subject to the approval of the shareholders at the forthcoming annual general meeting, the final dividend will be payable on or about 25 June 2004 to the shareholders whose names appear at the Register of Members of the Company as at the close of business on 8 June 2004.

## CLOSURE OF REGISTER OF MEMBERS

The Register of Members will be closed from 3 June 2004 to 8 June 2004, both days inclusive, during which period no share transfer will be registered. In order to qualify for the proposed final dividend, all transfer accompanied by the relevant share certificates must be lodged with the Company's share registrars, Tengis Limited at Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong not later than 4:00 p.m. on 2 June 2004.

## DIRECTORS

The directors of the Company during the year and up to the date of this annual report were:

### Executive directors:

Cao Zhong

Li Shaofeng

Tong Yihui

Leung Shun Sang, Tony

Tang Cornor Kwok Kau

Xu Xianghua (resigned on 13 April 2004)

Cheng Xiaoyu (appointed on 29 April 2003 and resigned on 6 January 2004)

### Independent non-executive directors:

Lai Kam Man

Yip Kin Man, Raymond

The directors of the Company, including the independent non-executive directors, are subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with articles 91, 92, 93 and 97 of the Company's articles of association. Messrs. Cao Zhong, Lai Kam Man and Yip Kin Man, Raymond 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.

## Report of the Directors

### **DIRECTORS' RIGHTS TO ACQUIRE SHARES AND DEBENTURES**

Apart from as disclosed under the heading "DIRECTORS' INTERESTS IN THE SHARE CAPITAL OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS" and in note 34 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**

Particulars of the Company's share option scheme and details of movements in the Company's share options during the year are set out under the heading "DIRECTORS' INTERESTS IN THE SHARE CAPITAL OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS" hereunder and in note 34 to the financial statements.

As disclosed in note 34 to the financial statements, the Company had granted a total number of 187,872,000 share options during the year. The directors do not consider it is appropriate to disclose a theoretical value of the share 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 misleading.

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

As at 31 December 2003, save for the share options held by some of the Directors, details of which are set out as below, none of the Directors had any interests and short positions in the shares, debentures or underlying shares of the Company or any of their associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) which had to be notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he was taken or deemed to have under such provisions of the SFO) or which were required pursuant to section 352 of the SFO, to be entered in the register referred therein or which were required to be disclosed herein pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers.

## DIRECTORS' INTERESTS IN THE SHARE CAPITAL OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS (continued)

Directors of the Company	Number of share options for 2003			Date of grant (Note b)	Exercise period	Exercise price per share HK\$
	At 1.1.2003	Granted during the year	At 31.12.2003			
Cao Zhong	7,652,000	–	7,652,000	23.8.2002	23.8.2002 to 22.8.2012	0.295
	–	57,350,000 (Note a)	57,350,000	2.10.2003	2.10.2003 to 1.10.2013	0.780
	<u>7,652,000</u>	<u>57,350,000</u>	<u>65,002,000</u>			
Li Shaofeng	7,652,000	–	7,652,000	23.8.2002	23.8.2002 to 22.8.2012	0.295
	–	30,614,000 (Note a)	30,614,000	25.6.2003	25.6.2003 to 24.6.2013	0.365
	<u>7,652,000</u>	<u>30,614,000</u>	<u>38,266,000</u>			
Tong Yihui	7,652,000	–	7,652,000	23.8.2002	23.8.2002 to 22.8.2012	0.295
	–	38,268,000 (Note a)	38,268,000	25.6.2003	25.6.2003 to 24.6.2013	0.365
	<u>7,652,000</u>	<u>38,268,000</u>	<u>45,920,000</u>			
Leung Shun Sang, Tony	4,592,000	–	4,592,000	23.8.2002	23.8.2002 to 22.8.2012	0.295
	–	3,060,000	3,060,000	12.3.2003	12.3.2003 to 11.3.2013	0.325
	–	4,592,000	4,592,000	25.8.2003	25.8.2003 to 24.8.2013	0.740
	<u>4,592,000</u>	<u>7,652,000</u>	<u>12,244,000</u>			
Tang Cornor Kwok Kau	2,296,000	–	2,296,000	23.8.2002	23.8.2002 to 22.8.2012	0.295
	–	1,000,000	1,000,000	25.8.2003	25.8.2003 to 24.8.2013	0.740
	<u>2,296,000</u>	<u>1,000,000</u>	<u>3,296,000</u>			
Xu Xianghua	7,652,000	–	7,652,000	23.8.2002	23.8.2002 to 22.8.2012	0.295
Cheng Xiaoyu	2,296,000	–	2,296,000	23.8.2002	23.8.2002 to 22.8.2012	0.295
	–	5,356,000	5,356,000	12.3.2003	12.3.2003 to 11.3.2013	0.325
	<u>2,296,000</u>	<u>5,356,000</u>	<u>7,652,000</u>			
Lai Kam Man	382,000	–	382,000	23.8.2002	23.8.2002 to 22.8.2012	0.295
	–	382,000	382,000	25.8.2003	25.8.2003 to 24.8.2013	0.740
	<u>382,000</u>	<u>382,000</u>	<u>764,000</u>			
Yip Kin Man, Raymond	382,000	–	382,000	23.8.2002	23.8.2002 to 22.8.2012	0.295
	–	382,000	382,000	25.8.2003	25.8.2003 to 24.8.2013	0.740
	<u>382,000</u>	<u>382,000</u>	<u>764,000</u>			
	<u>40,556,000</u>	<u>141,004,000</u>	<u>181,560,000</u>			

## Notes:

- Share options granted were in excess of the individual limit and approval from shareholders of the Company was obtained in general meetings held on 25 June 2003 and 2 October 2003.
- The vesting period of the share option is from the date of grant to the end of the exercise period.

## Report of the Directors

### 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.

### DIRECTORS' INTERESTS IN COMPETING BUSINESSES

During the year, 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") in force prior to 31 March 2004.

### SUBSTANTIAL SHAREHOLDERS

As at 31 December 2003, so far as was known to the Directors, the following had an interest or long position or short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or which were required pursuant to section 336 of the SFO, to be entered in the register referred therein:

#### Long position in shares

Name of shareholder	Total number of shares/ underlying shares held	% with respect to total number of issued share capital as at 31 December 2003	Capacity
Richson Limited ("Richson")	144,984,400	14.22	Beneficial owner
Fair Union Holdings Limited ("Fair Union")	279,797,400	27.44	Beneficial owner and deemed interest <sup>(1)</sup>
Shougang Concord International Enterprises Company Limited ("Shougang International")	279,797,400	27.44	Deemed interest <sup>(2)</sup>
Able Legend Investments Limited ("Able Legend")	126,984,000	12.45	Beneficial owner <sup>(3)</sup>
Shougang HK	416,501,400	40.85	Deemed interest <sup>(4)</sup>

**SUBSTANTIAL SHAREHOLDERS** (continued)**Long position in shares (continued)**

<b>Name of shareholder</b>	<b>Total number of shares/ underlying shares held</b>	<b>% with respect to total number of issued share capital as at 31 December 2003</b>	<b>Capacity</b>
Morgan Stanley	95,810,000	9.40	Beneficial owner <sup>(5)</sup>
Baring Asset Management	53,334,000	5.23	Investment manager <sup>(6)</sup>
J. P. Morgan Chase & Co.	51,939,000	5.09	Approved lending agent <sup>(7)</sup>
Cao Zhong	65,002,000	6.38	Beneficial owner <sup>(8)</sup>

*Notes:*

- (1) Fair Union is beneficially interested in 132,475,000 shares and is deemed to be interested in the 144,984,400 shares held by Richson and the 2,338,000 shares held by Casula Investments Limited ("Casula") as Richson and Casula are its wholly owned subsidiaries.
- (2) Shougang International is deemed to be interested in the 132,475,000 shares held by Fair Union, the 144,984,400 shares held by Richson and the 2,338,000 shares held by Casula as Richson and Casula are wholly owned by Fair Union, a wholly owned subsidiary of Shougang International.
- (3) Able Legend is beneficially interested in 126,984,000 shares.
- (4) Shougang HK is deemed to be interested in the 126,984,000 shares and the 9,720,000 shares held by Able Legend and Prime Success Investment Limited ("Prime Success") respectively as Able Legend and Prime Success are its wholly owned subsidiaries and is also deemed to be interested in the 132,475,000 shares held by Fair Union, the 144,984,400 shares held by Richson and the 2,338,000 shares held by Casula as it is the beneficial owner of approximately 39.24% of shareholding interest in Shougang International.

## Report of the Directors

### SUBSTANTIAL SHAREHOLDERS (continued)

#### Long position in shares (continued)

Notes: (continued)

- (5) Morgan Stanley is interested in 95,810,000 shares.

The following is a breakdown of the interests in shares of Morgan Stanley:

Controlled Corporation	Controlling Shareholder	% control	Total interest in shares		Approximate % of the issued share capital
			Direct interest	Deemed interest	
Morgan Stanley Capital Management, L.L.C.	Morgan Stanley	100	–	95,810,000	9.40
Morgan Stanley Domestic Capital, Inc.	Morgan Stanley Capital Management, L.L.C.	100	–	95,810,000	9.40
Morgan Stanley International Holdings Inc.	Morgan Stanley	90	–	95,810,000	8.46
Morgan Stanley International Incorporated	Morgan Stanley	100	–	95,810,000	9.40
Morgan Stanley Asia Pacific (Holdings) Limited	Morgan Stanley International Incorporated	90	–	95,810,000	8.46
Morgan Stanley Asia Regional (Holdings) III LLC	Morgan Stanley Asia Pacific (Holdings) Limited	100	–	95,810,000	9.40
Morgan Stanley Dean Witter (Singapore) Holdings Pte Ltd	Morgan Stanley Asia Regional (Holdings) III LLC	100	–	95,810,000	9.40
Morgan Stanley Investment Management Company	Morgan Stanley Dean Witter (Singapore) Holdings Pte Ltd.	100	95,810,000	–	9.40

**SUBSTANTIAL SHAREHOLDERS** (continued)**Long position in shares (continued)**

Notes: (continued)

- (6) The capacity of Baring Asset Management in holding the 53,334,000 shares was as investment manager.

The following is a breakdown of the interests in shares of Baring Asset Management:

Controlled Corporation	Controlling Shareholder	% control	Total interest in shares		Approximate % of the issued share capital
			Direct interest	Deemed interest	
Baring International Investment Management Limited	Baring Asset Management Limited	100	–	53,334,000	5.23
Baring Asset Management UK Holdings Limited	Baring Asset Management Limited	100	–	53,334,000	5.23
Baring Asset Management (Asia) Holdings Limited	Baring Asset Management Limited	100	–	53,334,000	5.23
Baring Asset Management (Asia) Limited	Baring Asset Management Limited	100	53,334,000	–	5.23

- (7) The capacity of J. P. Morgan Chase Bank in holding the 51,939,000 shares was as an approved lending agent. J. P. Morgan Chase & Co. was deemed to be interested in the 51,939,000 shares as it wholly owns J. P. Morgan Chase Bank.

- (8) Mr. Cao Zhong is deemed to be interested in 65,002,000 shares as he holds 65,002,000 underlying shares of the Company as attached share options granted to him by the Company. The details of his share options are set out under the heading "DIRECTORS' INTERESTS IN THE SHARE CAPITAL OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS" hereabove.

**SUBSTANTIAL 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 35 to the financial statements.

## Report of the Directors

### PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES

Neither the Company, nor any of its subsidiaries has 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 in force before 31 March 2004:

- (a) At 7 October 2003, advances made by the Group to Online Investments Limited ("Online"), a then 71.8% owned subsidiary, were outstanding in the aggregate amount of HK\$29,725,000. 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 ("Everwinner"), a wholly owned subsidiary of Online, to finance its working capital. At 7 October 2003, the outstanding balance, amounting to HK\$14,374,000, was unsecured, bore interest at the London Interbank Offered Rate plus 3% per annum and is repayable after more than one year.

Effective from 7 October 2003, Online became the wholly owned subsidiary of the Group and the advances to Online and Everwinner ceased to constitute connected transactions of the Company.

- (c) The Group made advances to Hing Cheong Metals (China & Hong Kong) Limited ("Hing Cheong Metals"), a then 91% owned subsidiary, to finance its capital investment and working capital. At 7 October 2003, the outstanding balance, amounting to HK\$52,648,000, was unsecured, interest-free and has no fixed repayment terms except for an amount of HK\$10,123,000 and HK\$20,082,000 which are interest bearing at 2.5% and 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 its subsidiaries for their 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 7 October 2003, corporate guarantees totalling HK\$62,000,000 were executed for banking facilities granted to Hing Cheong Metals.

Effective from 7 October 2003, Hing Cheong Metals became the wholly owned subsidiary of the Group and the advances and corporate guarantees given ceased to constitute connected transactions of the Company.

**CONNECTED TRANSACTIONS** (continued)

- (e) A conditional waiver has been granted by the Stock Exchange from strict compliance with the Listing Rules by the Company for the continuing connected transactions entered into between 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\$2,089,000 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 2003.

Following the completion of group restructuring of Shougang Technology in June 2002, the Transactions would not constitute connected transactions for the Company under the Listing Rules. However, after the completion of subscription of new shares of the Company by Shougang HK on 30 June 2003, Shougang Technology was deemed to be a connected person to the Company and therefore, the Transactions constituted connected transactions during the year.

- (f) On 6 May 2003, the Company entered into a subscription agreement with Shougang HK for the subscription of 126,984,000 new shares at HK\$0.315 (the “Subscription”). The Subscription was approved by the independent shareholders of the Company at the extraordinary general meeting (“EGM”) on 25 June 2003 and 126,984,000 shares were subsequently allotted.

## Report of the Directors

### CONNECTED TRANSACTIONS (continued)

- (g) On 21 August 2003, the Company entered into sale and purchase agreements with the minority shareholders of Online which is the investment holding company of Jiaying Eastern Steel Cord Co., Ltd. for the acquisition of approximately 28.24% of the equity interest of Online at a consideration of HK\$160,000,000 (the "Acquisition"). The Acquisition was approved by the independent shareholders of the Company at the EGM on 2 October 2003 and completed on 7 October 2003.

### RELATED PARTY TRANSACTIONS

During the year, the Group had certain related party transactions as further detailed in note 35 to the financial statements. In the opinion of the directors, each of the transactions with Shougang HK and its subsidiaries and 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 in force prior to 31 March 2004.

### MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers accounted for approximately 67% (2002: 60%) of the total sales for the year and sales to the largest customer included therein amounted to approximately 21% (2002: 18%).

Purchases from the Group's five largest suppliers accounted for approximately 35% (2002: 44%) of the total purchases for the year and purchases from the largest supplier included therein amounted to approximately 15% (2002: 20%).

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.

## 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. Its function is to supervise and review the financial reporting process and internal control of the Company. The Audit Committee met twice during the year in conjunction with the auditors to review the said financial and internal control matters. Its members also have occasional meetings with the directors to express their view and opinions on those issues when they require.

During the year, it had reviewed the interim and the final results of the Group before their submission to the Board for approval.

## 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 in force prior to 31 March 2004 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

During the year, Messrs. Ernst & Young, who acted as auditors of the Company for the past three years, retired at the annual general meeting on 25 June 2003 and Messrs. Deloitte Touche Tohmatsu were appointed as the auditors of the Company. A resolution for the reappointment of Messrs. Deloitte Touche Tohmatsu as auditors of the Company will be proposed at the forthcoming annual general meeting.

BY ORDER OF THE BOARD

**Cao Zhong**

*Chairman*

Hong Kong

19 April 2004

# Report of the Auditors

## 德勤·關黃陳方會計師行

Certified Public Accountants  
26/F Wing On Centre  
111 Connaught Road Central  
Hong Kong

香港中環干諾道中111號  
永安中心26樓

**Deloitte  
Touche  
Tohmatsu**

TO THE SHAREHOLDERS OF  
**SHOUGANG CONCORD CENTURY HOLDINGS LIMITED**  
首長寶佳集團有限公司  
*(incorporated in Hong Kong with limited liability)*

We have audited the financial statements on pages 33 to 87 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 financial statements and to report our opinion solely to you, as a body, in accordance with section 141 of the Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

### 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 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 judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of the Company and the Group, 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 the Group as at 31 December 2003 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.

**Deloitte Touche Tohmatsu**  
*Certified Public Accountants*  
Hong Kong  
19 April 2004

## Consolidated Income Statement

For the year ended 31 December 2003

	Notes	2003 HK\$'000	2002 HK\$'000 (As restated)
Turnover	4	297,271	234,891
Cost of sales		(196,367)	(159,323)
Gross profit		100,904	75,568
Other operating income		3,126	475
Distribution costs		(1,307)	(919)
Administrative expenses		(26,115)	(28,036)
Other operating expenses		(1,044)	(8,002)
Recovery of bad and doubtful debts		7,714	15,440
Profit from operations	6	83,278	54,526
Finance costs	8	(3,178)	(2,024)
Share of results of jointly controlled entities		6,847	6,853
Share of result of an associate		5,251	4,885
Profit before taxation		92,198	64,240
Income tax expenses	9	(8,468)	(1,328)
Profit before minority interests		83,730	62,912
Minority interests		(17,638)	(20,431)
Net profit attributable to shareholders		66,092	42,481
Dividends	10	15,238	–
Earnings per share	11		
Basic		HK7.50 cents	HK5.55 cents
Diluted		HK7.00 cents	N/A

# Consolidated Balance Sheet

At 31 December 2003

	Notes	2003 HK\$'000	2002 HK\$'000 (As restated)
<b>Non-current assets</b>			
Investment properties	12	8,386	8,000
Property, plant and equipment	13	322,093	321,410
Land use rights	14	16,981	13,500
Interests in jointly controlled entities	16	48,911	51,097
Interests in associates	17	44,813	44,079
Goodwill	18	43,894	–
Club memberships	19	675	675
Investment securities	20	–	–
Deposits paid for the acquisitions of property, plant and equipment		25,541	–
		<b>511,294</b>	<b>438,761</b>
<b>Current assets</b>			
Inventories	21	43,898	32,564
Trade receivables	22	53,598	47,948
Bills receivable		82,445	46,369
Amount due from a related company		–	471
Prepayments, deposits and other receivables		2,994	3,684
Pledged bank deposits	23	4,000	3,000
Bank balances and cash		27,992	26,412
		<b>214,927</b>	<b>160,448</b>
<b>Current liabilities</b>			
Trade payables	24	7,949	6,342
Bills payable		1,152	–
Other payables and accruals		9,441	9,780
Tax payable		309	349
Bank borrowings – due within one year	25	61,530	22,599
Obligations under finance leases – due within one year	26	922	872
		<b>81,303</b>	<b>39,942</b>
<b>Net current assets</b>		<b>133,624</b>	<b>120,506</b>
<b>Total assets less current liabilities</b>		<b>644,918</b>	<b>559,267</b>

## Consolidated Balance Sheet

At 31 December 2003

	Notes	2003 HK\$'000	2002 HK\$'000 (As restated)
<b>Non-current liabilities</b>			
Bank borrowings – due after one year	25	48,000	–
Obligations under finance leases – due after one year	26	206	698
Other payable		1,519	1,319
Deferred tax liabilities	27	1,323	1,295
Loans from minority shareholders		–	25,964
		<u>51,048</u>	<u>29,276</u>
<b>Minority interests</b>			
		–	86,502
		<u>593,870</u>	<u>443,489</u>
<b>Capital and reserves</b>			
Share capital	28	101,958	76,537
Reserves		491,912	366,952
		<u>593,870</u>	<u>443,489</u>

The financial statements on pages 33 to 87 were approved and authorised for issue by the Board of Directors on 19 April 2004 and are signed on its behalf by:

**Cao Zhong**  
Director

**Li Shaofeng**  
Director

# Balance Sheet

At 31 December 2003

	Notes	2003 HK\$'000	2002 HK\$'000
<b>Non-current assets</b>			
Property, plant and equipment	13	–	2
Interests in subsidiaries	15	472,271	317,337
Interests in jointly controlled entities	16	–	–
Club memberships	19	315	315
		<u>472,586</u>	<u>317,654</u>
<b>Current assets</b>			
Other receivables		5	5
Amount due from a subsidiary	15	23,000	–
Pledged bank deposits	23	4,000	3,000
Bank balances and cash		1,207	1,654
		<u>28,212</u>	<u>4,659</u>
<b>Current liabilities</b>			
Other payables and accruals		404	104
Bank borrowings – due within one year	25	20,177	3,498
		<u>20,581</u>	<u>3,602</u>
<b>Net current assets</b>		<u>7,631</u>	<u>1,057</u>
<b>Total assets less current liabilities</b>		<u>480,217</u>	<u>318,711</u>
<b>Non-current liabilities</b>			
Amounts due to subsidiaries	15	3,622	12,230
Bank borrowings – due after one year	25	48,000	–
		<u>51,622</u>	<u>12,230</u>
		<u>428,595</u>	<u>306,481</u>
<b>Capital and reserves</b>			
Share capital	28	101,958	76,537
Reserves	29	326,637	229,944
		<u>428,595</u>	<u>306,481</u>

**Cao Zhong**  
Director

**Li Shaofeng**  
Director

## Consolidated Statement of Changes in Equity

For the year ended 31 December 2003

	Share capital HK\$'000	Share premium HK\$'000	Capital reserve HK\$'000 (Note a)	Capital redemption reserve HK\$'000	Property revaluation reserve HK\$'000	Land use rights revaluation reserve HK\$'000	Translation reserve HK\$'000	PRC reserve funds HK\$'000 (Note b)	(Accumulated losses) retained profits HK\$'000 (Note c)	Total HK\$'000
At 1 January 2002										
– as previously stated	76,537	357,181	54,098	463	1,491	3,101	7,352	22,306	(128,870)	393,659
– prior year adjustment (Note 2)	-	-	-	-	(217)	(509)	-	-	(161)	(887)
At 1 January 2002, as restated	76,537	357,181	54,098	463	1,274	2,592	7,352	22,306	(129,031)	392,772
Surplus on revaluation	-	-	-	-	1,178	874	-	-	-	2,052
Release on write off of interest in a jointly controlled entity	-	-	6,495	-	-	-	-	(1,130)	1,130	6,495
Recognition of deferred tax liability on revaluation	-	-	-	-	(181)	(130)	-	-	-	(311)
Transfer	-	-	-	-	-	-	-	6,269	(6,269)	-
Net gain (loss) not recognised in the income statement	-	-	6,495	-	997	744	-	5,139	(5,139)	8,236
Profit for the year	-	-	-	-	-	-	-	-	42,481	42,481
At 31 December 2002 and 1 January 2003	76,537	357,181	60,593	463	2,271	3,336	7,352	27,445	(91,689)	443,489
(Deficit) surplus on revaluation	-	-	-	-	(2,818)	4,095	-	-	-	1,277
Recognition (reversal) of deferred tax liability on revaluation	-	-	-	-	492	(528)	-	-	-	(36)
Effect of change in tax rate	-	-	-	-	55	88	-	-	-	143
Transfer	-	-	-	-	-	-	-	1,045	(1,045)	-
Net (loss) gain not recognised in the income statement	-	-	-	-	(2,271)	3,655	-	1,045	(1,045)	1,384
Profit for the year	-	-	-	-	-	-	-	-	66,092	66,092
Interim dividend paid	-	-	-	-	-	-	-	-	(15,238)	(15,238)
Reduction of share premium (Note d)	-	(149,099)	-	-	-	-	-	-	149,099	-
Issue of shares	25,048	75,752	-	-	-	-	-	-	-	100,800
Share issue expenses	-	(4,262)	-	-	-	-	-	-	-	(4,262)
Exercise of share options	373	1,232	-	-	-	-	-	-	-	1,605
Reclassifications	-	-	20,995	-	-	-	(20,995)	-	-	-
At 31 December 2003	101,958	280,804	81,588	463	-	6,991	(13,643)	28,490	107,219	593,870



# Consolidated Statement of Changes in Equity

For the year ended 31 December 2003

	Share capital	Share premium	Capital reserve	Capital redemption reserve	Property revaluation reserve	Land use rights revaluation reserve	Translation reserve	PRC reserve funds	(Accumulated losses) retained profits	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
			(Note a)					(Note b)	(Note c)	
Attributable to:										
The Company and subsidiaries	101,958	280,804	72,932	463	-	6,991	3,821	5,164	127,463	599,596
Jointly controlled entities	-	-	-	-	-	-	(17,824)	20,054	(33,079)	(30,849)
Associates	-	-	8,656	-	-	-	360	3,272	12,835	25,123
At 31 December 2003	<u>101,958</u>	<u>280,804</u>	<u>81,588</u>	<u>463</u>	<u>-</u>	<u>6,991</u>	<u>(13,643)</u>	<u>28,490</u>	<u>107,219</u>	<u>593,870</u>
The Company and subsidiaries	76,537	357,181	51,937	463	2,271	3,336	3,821	5,164	(61,269)	439,441
Jointly controlled entities	-	-	-	-	-	-	3,171	19,381	(38,712)	(16,160)
Associates	-	-	8,656	-	-	-	360	2,900	8,292	20,208
At 31 December 2002	<u>76,537</u>	<u>357,181</u>	<u>60,593</u>	<u>463</u>	<u>2,271</u>	<u>3,336</u>	<u>7,352</u>	<u>27,445</u>	<u>(91,689)</u>	<u>443,489</u>

## Notes:

- In the capital reserve, it included negative goodwill arising from acquisition of subsidiaries amounting to HK\$82,051,000, goodwill arising from acquisition of subsidiaries, a jointly controlled entity and an associate amounting to HK\$3,942,000, HK\$27,666,000 and HK\$1,514,000 respectively.
- Pursuant to the relevant laws and regulations for sino-foreign joint venture enterprises, a portion of the profits of the Group's subsidiaries, jointly controlled entities and associates established in the People's Republic of China (the "PRC") has been transferred to PRC reserve funds which are restricted as to their use.
- In the retained profits, it included goodwill arising from acquisition of subsidiaries and an associate amounting to HK\$11,542,000 and HK\$56,541,000 respectively.
- Pursuant to the order issued by the Court of First Instance of the Hong Kong Special Administrative Region, 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 accumulated losses.

## Consolidated Cash Flow Statement

For the year ended 31 December 2003

	2003 HK\$'000	2002 HK\$'000
<b>OPERATING ACTIVITIES</b>		
Profit before taxation	92,198	64,240
Adjustments for:		
Depreciation	24,814	23,024
Amortisation of land use rights	614	559
Amortisation of goodwill	556	–
(Surplus) deficit on revaluation of investment properties	(386)	1,000
(Surplus) deficit on revaluation of leasehold land and buildings, net	(1,839)	126
Loss on disposal of property, plant and equipment, net	33	12
Loss on write off of interest in a jointly controlled entity	–	6,495
Interest income	(377)	(214)
Finance costs	3,178	2,024
Recovery of bad and doubtful debts	(7,714)	(15,440)
Share of results of jointly controlled entities	(6,847)	(6,853)
Share of result of an associate	(5,251)	(4,885)
Operating cash flows before movements in working capital	98,979	70,088
Increase in inventories	(11,334)	(4,417)
(Increase) decrease in trade and bills receivables	(34,012)	6,307
Decrease in prepayments, deposits and other receivables	690	3,324
Decrease (increase) in amount due from a related company	471	(471)
Increase in trade and bills payables	2,759	941
(Decrease) increase in other payables and accruals	(451)	2,159
Cash generated from operations	57,102	77,931
Interest received	377	214
Interest paid	(2,014)	(2,003)
Interest element on finance lease payments	(64)	(21)
Other finance costs paid	(1,100)	–
Hong Kong Profits Tax refunded	7	–
PRC taxes paid	(6,444)	(49)
<b>NET CASH FROM OPERATING ACTIVITIES</b>	<b>47,864</b>	<b>76,072</b>
<b>INVESTING ACTIVITIES</b>		
Purchase of property, plant and equipment	(29,035)	(34,218)
Purchase of club membership	–	(40)
Acquisition of additional interests in subsidiaries	(148,604)	–
Dividends received from a jointly controlled entity	7,819	2,570
Dividend received from an associate	3,809	3,351
Proceeds from disposal of property, plant and equipment	2,526	18
Increase in pledged bank deposits	(1,000)	(2,000)
Deposits paid for the acquisitions of property, plant and equipment	(25,541)	–
<b>NET CASH USED IN INVESTING ACTIVITIES</b>	<b>(190,026)</b>	<b>(30,319)</b>

# Consolidated Cash Flow Statement

For the year ended 31 December 2003

	<b>2003</b> <b>HK\$'000</b>	2002 HK\$'000
<b>FINANCING ACTIVITIES</b>		
Repayment of bank loans	<b>(5,655)</b>	(40,056)
Repayment of advance from a related company	–	(19,427)
Increase in trust receipt loans	<b>20,415</b>	8,242
Repayment of loans from minority shareholders of subsidiaries	<b>(25,964)</b>	(3,666)
New bank loans raised	<b>72,171</b>	11,183
Capital element of finance lease payments	<b>(442)</b>	(199)
Interim dividend paid	<b>(15,238)</b>	–
Proceeds on issue of ordinary shares	<b>102,405</b>	–
Share issue expenses paid	<b>(3,950)</b>	–
	<hr/>	<hr/>
NET CASH FROM (USED IN) FINANCING ACTIVITIES	<b>143,742</b>	(43,923)
	<hr/>	<hr/>
NET INCREASE IN CASH AND CASH EQUIVALENTS	<b>1,580</b>	1,830
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	<b>26,412</b>	24,582
	<hr/>	<hr/>
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	<b>27,992</b>	26,412
	<hr/> <hr/>	<hr/> <hr/>
<b>ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS</b>		
Bank balances and cash	<b>27,992</b>	26,412
	<hr/> <hr/>	<hr/> <hr/>

## 1. GENERAL

The Company is a public limited company incorporated in Hong Kong. The shares of the Company are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

During the year, the Group was principally involved in the manufacturing of steel cords and processing and trading of copper and brass products.

## 2. CHANGES IN ACCOUNTING POLICIES

In the current year, the Group has adopted, for the first time, the following Hong Kong Financial Reporting Standard ("HKFRS") issued by the Hong Kong Society of Accountants (the "HKSA"), the term of HKFRS, is inclusive of Statements of Standard Accounting Practice ("SSAP"s) and Interpretations approved by the HKSA.

### **SSAP 12 (Revised) "Income taxes"**

The Group has adopted SSAP 12 (Revised) "Income taxes". The principal effect of the implementation of SSAP 12 (Revised) is in relation to deferred tax. SSAP 12 (Revised) requires the adoption of a balance sheet liability method, whereby deferred tax is recognised in respect of all temporary differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, with limited exceptions. In the absence of any specific transitional requirements in SSAP 12 (Revised), the new accounting policy has been applied retrospectively. Comparative amounts for 2002 have been restated accordingly. Opening accumulated losses at 1 January 2002 have been increased by HK\$161,000, which is the cumulative effect of the change in policy on the results for period prior to 1 January 2002. The balances on the Group's property revaluation reserve and land use rights revaluation reserve at 1 January 2002 have been reduced by HK\$217,000 and HK\$509,000 respectively, representing the cumulative effect of the adoption of SSAP 12 (Revised) on equity. In addition, as at 1 January 2002, the minority interests and deferred tax liabilities have been decreased by HK\$285,000 and increased by HK\$1,172,000 respectively. In current year, the effect of the change is an increased charge to income taxes of HK\$149,000 (2002: a credit of HK\$310,000).

# Notes to Financial Statements

31 December 2003

## 3. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention, as modified for the revaluation of properties and land use rights.

The financial statements have been prepared in accordance with accounting principles generally accepted in Hong Kong. The principal accounting policies adopted are as follows:

### **Basis of consolidation**

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31 December each year.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

### **Goodwill**

Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary, jointly controlled entity or associate as at the date of acquisition.

Goodwill arising on acquisition prior to 1 January 2001 continues to be held in reserves, and will be charged to the consolidated income statement at the time of disposal of the relevant subsidiary, jointly controlled entity or associate, or at such time as the goodwill is determined to be impaired.

Goodwill arising on acquisition after 1 January 2001 is capitalised and amortised on a straight-line basis over its useful economic life. Goodwill arising on the acquisition of a jointly controlled entity or an associate is included within the carrying amount of the jointly controlled entity or associate. Goodwill arising on the acquisition of subsidiaries is presented separately in the consolidated balance sheet.

### **Negative goodwill**

Negative goodwill represents the excess of the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary, jointly controlled entity or associate at the date of acquisition over the cost of acquisition.

### 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Negative goodwill (continued)

Negative goodwill arising on acquisition prior to 1 January 2001 continues to be held in reserves and will be credited to consolidated income statement at the time of disposal of the relevant subsidiary, jointly controlled entity or associate.

Negative goodwill arising on acquisition after 1 January 2001 is presented as deduction from assets. To the extent that such negative goodwill is attributable to losses or expenses anticipated at the date of acquisition, it is released to consolidated income statement in the period in which those losses or expense arise. The remaining negative goodwill is recognised in consolidated income statement on a straight-line basis over the remaining average useful life of the identifiable acquired depreciable assets. To the extent that such negative goodwill exceeds the aggregate fair value of the acquired identifiable non-monetary assets, it is recognised as income immediately.

Negative goodwill arising on the acquisition of a jointly controlled entity or an associate is deducted from the carrying value of that jointly controlled entity or associate. Negative goodwill arising on the acquisition of subsidiaries is presented separately in the consolidated balance sheet as a deduction from assets.

#### Investments in subsidiaries

Investments in subsidiaries are included in the Company's balance sheet at cost less any identified impairment losses.

#### Interests in jointly controlled entities

Joint venture arrangements which involve the establishment of a separate entity in which each venturer has an interest are referred to as jointly controlled entities.

The Group's interests in jointly controlled entities are included in the consolidated balance sheet at the Group's share of the net assets of the jointly controlled entity in so far as it has not already been written off, less any identified impairment losses. The Group's share of the post-acquisition results of its jointly controlled entities is included in the consolidated income statement.

The Company's investments in jointly controlled entities are stated at cost, as reduced by any identified impairment losses. The results of jointly controlled entities are accounted for by the Company on the basis of dividends received and receivable.

## Notes to Financial Statements

31 December 2003

### 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Interests in associates

The consolidated income statement includes the Group's share of the post-acquisition results of its associates for the year. In the consolidated balance sheet, interests in associates are stated at the Group's share of the net assets of the associates, less any identified impairment losses.

#### Investment properties

Investment properties are completed properties which are held for their investment potential, any rental income being negotiated at arm's length.

Investment properties are stated at their open market value based on independent professional valuations at the balance sheet date. Any surplus or deficit arising on the revaluation of investment properties is credited or charged to the investment property revaluation reserve unless the balance of this reserve is insufficient to cover a deficit, in which case the excess of the deficit over the balance on the investment property revaluation reserve is charged to the income statement. Where a deficit has previously been charged to the income statement and a revaluation surplus subsequently arises, this surplus is credited to the income statement to the extent of the deficit previously charged.

On disposal of an investment property, the balance on the investment property revaluation reserve attributable to the property disposed of is credited to the income statement.

No depreciation is provided on investment properties except where the unexpired term of the relevant lease, including the renewable period, is 20 years or less.

#### Property, plant and equipment

Property, plant and equipment are stated at cost or valuation less accumulated depreciation and identified impairment losses.

Leasehold land and buildings are stated in the balance sheet at their revalued amount, being the fair value at the date of revaluation less any subsequent accumulated depreciation and any subsequent impairment losses. Revaluations are performed with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair values at the balance sheet date.

### 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Property, plant and equipment (continued)

Any revaluation increase arising on revaluation of leasehold land and buildings is credited to the property revaluation reserve, except to the extent that it reverses a revaluation decrease of the same asset previously recognised as an expense, in which case the increase is credited to the income statement to the extent of the decrease previously charged. A decrease in net carrying amount arising on revaluation of an asset is dealt with as an expense to the extent that it exceeds the balance, if any, on the property revaluation reserve relating to a previous revaluation of that asset. On the subsequent sale or retirement of a revalued asset, the attributable revaluation surplus is transferred to retained profits.

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 property, plant and equipment when completed and ready for use.

Depreciation is provided to write off the cost or valuation of assets, over their estimated useful lives, using the straight-line method, at the following rates per annum:

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 arising from disposal or retirement of an asset is determined as the difference between the sale proceeds and the carrying amount of the asset and is recognised in the income statement.

#### Land use rights

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

Changes in the value of land use rights are dealt with as movements in the land use rights revaluation reserve. If the total of this reserve is insufficient to cover a deficit, on an individual asset basis, the excess of the deficit is charged to the income statement. Any subsequent revaluation surplus is credited to the income statement 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 as a movement in reserves.

## Notes to Financial Statements

31 December 2003

### 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Impairment

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately, unless the relevant asset is carried at revalued amount under another SSAP, in which case the impairment loss is treated as a revaluation decrease under that SSAP.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately, unless the relevant asset is carried at a revalued amount under another SSAP, in which case the reversal of the impairment loss is treated as a revaluation increase under that SSAP.

#### Club memberships

Club memberships are stated at cost less any identified impairment losses.

#### Investments in securities

Investment securities, which are securities held for an identified long-term strategic purpose, are measured at subsequent reporting dates at cost, as reduced by any impairment losses that is other than temporary.

#### Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the first-in, first-out method or weighted average method and in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads.

### 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years, and it further excludes income statement items that are never taxable or deductible.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill (or negative goodwill) or from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, jointly controlled entities and associates, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised. Deferred tax is charged or credited to the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

## Notes to Financial Statements

31 December 2003

### 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Revenue recognition

Sales of goods are recognised when the goods are delivered and title has passed.

Interest income is accrued on a time basis by reference to the principal outstanding and the applicable rate of interest.

Dividend income is recognised when the shareholder's right to receive payment has been established.

Rental income is recognised on a straight-line basis over the relevant lease terms.

#### Leases

Leases are classified as finance leases when the terms of the lease transfer substantially all the risks and rewards of ownership of the assets concerned to the Group. Assets held under finance leases are capitalised at their fair values at the date of acquisition. The corresponding liability to the lessor, net of interest charges, is included in the balance sheet as a finance lease obligation. Finance costs, which represent the difference between the total leasing commitments and the fair value of the assets acquired, are charged to the income statement over the period of the relevant lease so as to produce a constant periodic rate of charge on the remaining balance of the obligations for each accounting period.

All other leases are classified as operating leases and the rental income and expense is recognised on a straight-line basis over the relevant lease term.

#### Foreign currencies

Transactions in currencies other than Hong Kong dollars are initially recorded at the rates of exchange prevailing on the dates of the transactions or at the contracted settlement rate. Monetary assets and liabilities denominated in such currencies are re-translated at the rates prevailing on the balance sheet date. Profits and losses arising on exchange are included in net profit or loss for the year.

On consolidation, the assets and liabilities of the Group's operations outside Hong Kong are translated at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the year. Exchange differences arising, if any, are classified as equity and transferred to the Group's translation reserve. Such translation differences are recognised as income or as expense in the year in which the operation is disposed of.

### 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, are capitalised as part of the cost of those assets. Capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale.

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

#### Retirement benefit costs

Payments to defined contribution Mandatory Provident Fund Scheme and all other retirement scheme or similar defined contribution provident fund are charged as expenses as they fall due.

### 4. TURNOVER

Turnover represents the amounts received and receivable for goods sold by the Group to outside customers, less returns and trade discounts, and gross rental income during the year.

An analysis of the Group's turnover is as follows:

	2003 HK\$'000	2002 HK\$'000
Sales of goods		
Manufacturing of steel cord	218,463	177,705
Processing and trading of copper and brass products	77,715	56,692
Others	791	5
	<u>296,969</u>	<u>234,402</u>
Rental income	302	489
	<u>297,271</u>	<u>234,891</u>

# Notes to Financial Statements

31 December 2003

## 5. BUSINESS AND GEOGRAPHICAL SEGMENTS

### (a) Business segments

Segment information is presented by way of two segment formats (a) on a primary segment reporting basis, by business segment; and (b) 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:

- (i) the steel cord segment comprises the manufacturing of steel cords;
- (ii) the copper and brass products segment comprises the processing and trading of copper and brass products;
- (iii) the corporate segment comprises the Group's management services business, which provides corporate management service, together with corporate income and expense items. The segment of others mainly comprises property investment and the manufacturing of pre-stressed concrete strands and wires.

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

**5. BUSINESS AND GEOGRAPHICAL SEGMENTS** (continued)**(a) Business segments (continued)**

Segment information about these businesses is presented below:

**For the year ended 31 December 2003**

	<b>Steel cord HK\$'000</b>	<b>Copper and brass products HK\$'000</b>	<b>Corporate and others HK\$'000</b>	<b>Consolidated HK\$'000</b>
Segment revenue				
External sales	218,463	77,715	1,093	297,271
Other operating income	(287)	1,851	1,562	3,126
	<u>218,176</u>	<u>79,566</u>	<u>2,655</u>	<u>300,397</u>
Total	<u>218,176</u>	<u>79,566</u>	<u>2,655</u>	<u>300,397</u>
Result				
Segment result	<u>92,186</u>	<u>3,590</u>	<u>(12,286)</u>	83,490
Unallocated corporate income and expenses, net				<u>(212)</u>
Profit from operations				83,278
Finance costs				(3,178)
Share of results of jointly controlled entities	–	–	6,847	6,847
Share of result of an associate	–	–	5,251	<u>5,251</u>
Profit before taxation				92,198
Income tax expenses				<u>(8,468)</u>
Profit before minority interests				83,730
Minority interests				<u>(17,638)</u>
Net profit attributable to shareholders				<u>66,092</u>

## Notes to Financial Statements

31 December 2003

**5. BUSINESS AND GEOGRAPHICAL SEGMENTS** (continued)**(a) Business segments (continued)**

For the year ended 31 December 2003

	Steel cord HK\$'000	Copper and brass products HK\$'000	Corporate and others HK\$'000	Consolidated HK\$'000
OTHER INFORMATION				
Capital expenditure	69,995	851	2,639	73,485
Depreciation and amortisation	24,708	909	367	25,984
Allowances for				
bad and doubtful debts	26	120	–	146
Other non-cash expenses (income)	287	(1,851)	(661)	(2,225)
	<u>287</u>	<u>(1,851)</u>	<u>(661)</u>	<u>(2,225)</u>
BALANCE SHEET				
Assets				
Segment assets	510,207	49,854	27,867	587,928
Interests in jointly controlled entities	–	–	48,911	48,911
Interests in associates	–	–	44,813	44,813
Goodwill	43,894	–	–	43,894
Club memberships	–	–	675	675
Consolidated total assets				<u>726,221</u>
Liabilities				
Segment liabilities	8,238	6,530	4,768	19,536
Unallocated corporate liabilities				<u>112,815</u>
Consolidated total liabilities				<u>132,351</u>

**5. BUSINESS AND GEOGRAPHICAL SEGMENTS** (continued)**(a) Business segments (continued)**

For the year ended 31 December 2002

	Steel cord HK\$'000	Copper and brass products HK\$'000	Corporate and others HK\$'000	Consolidated HK\$'000
				(As restated)
Segment revenue				
External sales	177,705	56,692	494	234,891
Other operating income	–	–	475	475
	<u>177,705</u>	<u>56,692</u>	<u>969</u>	<u>235,366</u>
Total	<u><u>177,705</u></u>	<u><u>56,692</u></u>	<u><u>969</u></u>	<u><u>235,366</u></u>
Result				
Segment result	<u>74,771</u>	<u>948</u>	<u>(14,900)</u>	60,819
Unallocated corporate income and expenses, net				<u>(6,293)</u>
Profit from operations				54,526
Finance costs				(2,024)
Share of results of jointly controlled entities	–	–	6,853	6,853
Share of result of an associate	–	–	4,885	<u>4,885</u>
Profit before taxation				64,240
Income tax expenses				<u>(1,328)</u>
Profit before minority interests				62,912
Minority interests				<u>(20,431)</u>
Net profit attributable to shareholders				<u><u>42,481</u></u>

## Notes to Financial Statements

31 December 2003

**5. BUSINESS AND GEOGRAPHICAL SEGMENTS** (continued)**(a) Business segments (continued)**

For the year ended 31 December 2002

	<b>Steel cord</b>	<b>Copper and brass products</b>	<b>Corporate and others</b>	<b>Consolidated</b>
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(As restated)			
<b>OTHER INFORMATION</b>				
Capital expenditure	32,680	3,089	218	35,987
Depreciation and amortisation	22,669	505	409	23,583
Allowances for				
bad and doubtful debts	1,066	106	–	1,172
Other non-cash expenses	–	218	7,403	7,621
	<u>–</u>	<u>218</u>	<u>7,403</u>	<u>7,621</u>
<b>BALANCE SHEET</b>				
<b>Assets</b>				
Segment assets	442,384	28,319	32,655	503,358
Interests in jointly controlled entities	–	–	51,097	51,097
Interests in associates	–	–	44,079	44,079
Club memberships	–	–	675	675
Consolidated total assets				<u>599,209</u>
<b>Liabilities</b>				
Segment liabilities	10,036	2,613	4,792	17,441
Unallocated corporate liabilities				<u>51,777</u>
Consolidated total liabilities				<u>69,218</u>

## 5. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

### (b) Geographical segments

	Hong Kong		China (the "PRC")		Others		Consolidated	
	2003	2002	2003	2002	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment revenue:								
Sales to external customers	43,525	53,796	253,444	180,291	-	315	296,969	234,402
Gross rental income	302	489	-	-	-	-	302	489
	<b>43,827</b>	<b>54,285</b>	<b>253,444</b>	<b>180,291</b>	<b>-</b>	<b>315</b>	<b>297,271</b>	<b>234,891</b>
Other segment information:								
Segment assets	95,712	43,242	630,509	555,967	-	-	726,221	599,209
Capital expenditure	47,106	1,255	26,379	34,732	-	-	73,485	35,987

## Notes to Financial Statements

31 December 2003

## 6. PROFIT FROM OPERATIONS

	THE GROUP	
	2003 HK\$'000	2002 HK\$'000
Profit from operations has been arrived at after charging:		
Cost of inventories sold	190,813	158,808
Staff costs, including directors' remuneration (Note 7):		
– Salaries, wages and other benefits	22,772	22,045
– Retirement benefit scheme contributions	875	798
Total staff costs	23,647	22,843
Depreciation		
– Owned assets	24,396	22,871
– Leased assets	418	153
Auditors' remuneration	400	700
Amortisation of land use rights (included in "Cost of sales")	614	559
Amortisation of goodwill (included in "Other operating expenses")	556	–
Foreign exchange losses, net	455	370
Deficit on revaluation of investment properties	–	1,000
Deficit on revaluation of leasehold land and buildings, net	–	126
Loss on disposal of property, plant and equipment, net	33	12
Loss on write off of interest in a jointly controlled entity	–	6,495
and after crediting:		
Surplus on revaluation of investment properties	386	–
Surplus on revaluation of leasehold land and buildings, net	1,839	–
Gross rental income	302	489
Less: outgoings	(55)	–
Net rental income	247	489
Interest income	377	214

## 7. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

### (a) Directors' emoluments

	2003 HK\$'000	2002 HK\$'000
Fees:		
Executive directors	–	–
Non-executive directors	40	–
	<u>40</u>	<u>–</u>
Other emoluments of executive directors:		
Salaries and other benefits	4,722	5,302
Retirement benefit scheme contributions	12	12
Discretionary bonus	–	50
	<u>4,734</u>	<u>5,364</u>
Total directors' emoluments	<u><u>4,774</u></u>	<u><u>5,364</u></u>

The amounts disclosed above include directors' fees of HK\$40,000 (2002: HK\$Nil) payable to the independent non-executive directors.

The emoluments of the directors were within the following bands:

	Number of directors	
	2003	2002
Nil to HK\$1,000,000	6	5
HK\$1,000,001 to HK\$1,500,000	1	–
HK\$1,500,001 to HK\$2,000,000	2	3
	<u>9</u>	<u>8</u>

## Notes to Financial Statements

31 December 2003

**7. DIRECTORS' AND EMPLOYEES' EMOLUMENTS** (continued)**(b) Employees' emoluments**

During the year, the five highest paid individuals included three directors (2002: three directors), details of whose emoluments are set out above. The emoluments of the remaining two (2002: two) highest paid individuals were as follows:

	<b>2003</b> <b>HK\$'000</b>	2002 HK\$'000
Salaries and other benefits	<b>1,320</b>	1,294
Retirement benefit scheme contributions	<b>24</b>	24
	<b>1,344</b>	1,318

Their emoluments were within the following bands:

	<b>Number of employees</b>	
	<b>2003</b>	2002
Nil to HK\$1,000,000	<b>2</b>	2

**8. FINANCE COSTS**

	<b>THE GROUP</b>	
	<b>2003</b> <b>HK\$'000</b>	2002 HK\$'000
Interest on bank and other borrowings wholly repayable within five years	<b>2,014</b>	2,003
Interest on finance leases	<b>64</b>	21
Other finance costs	<b>1,100</b>	–
	<b>3,178</b>	2,024

## 9. INCOME TAX EXPENSES

	THE GROUP	
	2003 HK\$'000	2002 HK\$'000 (As restated)
Current tax:		
Hong Kong	–	–
Other regions in the PRC	<b>6,397</b>	7
	<b>6,397</b>	7
Deferred taxation (Note 27):		
Current year	<b>71</b>	(310)
Attributable to change in tax rate	<b>78</b>	–
	<b>149</b>	(310)
Taxation attributable to the Company and its subsidiaries	<b>6,546</b>	(303)
Share of taxation attributable to a jointly controlled entity	<b>1,214</b>	876
Share of taxation attributable to an associate	<b>708</b>	755
	<b>8,468</b>	1,328

No provision for Hong Kong Profits Tax has been made as the Group had no assessable profits for both years.

The Hong Kong Profits Tax rate was increased from 16% to 17.5% with effect from year of assessment 2003/2004. The effect of this increase has been reflected in the calculation of deferred tax balances at 31 December 2003.

Taxation in the PRC is calculated at the rates prevailing in the PRC. Certain subsidiaries, jointly controlled entities and associate of the Group operating in the PRC are eligible for certain tax exemptions and concessions. Accordingly, PRC income tax has been provided taking into account of these tax exemptions and concessions.

## Notes to Financial Statements

31 December 2003

**9. INCOME TAX EXPENSES** (continued)

The charge for the year can be reconciled to the profit per the income statement as follows:

	2003		2002	
	HK\$'000	%	HK\$'000	%
Profit before taxation	<u>92,198</u>		<u>64,240</u>	
Tax at domestic income tax rate of 15% (2002: 15%)	13,830	15.00	9,636	15.00
Tax effect of expenses not deductible in determining taxable profit	948	1.03	2,671	4.16
Tax effect of income not taxable in determining taxable profit	(1,155)	(1.25)	(818)	(1.27)
Tax effect of tax losses not recognised	2,030	2.20	1,712	2.67
Tax effect of recognition of tax losses previously not recognised	(255)	(0.28)	–	–
Tax effect of recognition of deferred tax assets previously not recognised	(413)	(0.45)	(3,288)	(5.12)
Tax effect of utilisation of tax losses previously not recognised	(112)	(0.12)	–	–
Tax effect on share of result of a jointly controlled entity	187	0.20	(152)	(0.24)
Tax effect on share of result of an associate	(80)	(0.09)	22	0.03
Effect of tax exemptions granted to a PRC subsidiary	(6,366)	(6.90)	(8,344)	(12.99)
Effect of different tax rates in other jurisdictions	(224)	(0.24)	(111)	(0.17)
Effect of change in tax rates	78	0.08	–	–
Tax expense and effective tax rate for the year	<u>8,468</u>	<u>9.18</u>	<u>1,328</u>	<u>2.07</u>

Note: The domestic tax rate in the jurisdiction where the operation of the Group is substantially based is used.

In addition to the amount charged to the income statement, deferred tax relating to the revaluation of the Group's properties and land use rights has been charged directly to equity (see note 27).

**10. DIVIDENDS**

	<b>2003</b> <b>HK\$'000</b>	2002 HK\$'000
Ordinary shares:		
Interim dividend paid – HK1.5 cents per share (2002: Nil)	<u><b>15,238</b></u>	<u>–</u>

The final dividend of HK2.0 cents (2002: Nil) per share has been proposed by the directors and is subject to approval by the shareholders in general meeting.

**11. EARNINGS PER SHARE**

The calculation of the basic and diluted earnings per share is based on the following data:

	<b>THE GROUP</b>	
	<b>2003</b> <b>HK\$'000</b>	2002 HK\$'000 (As restated)
Profit for the year	<u><b>66,092</b></u>	<u>42,481</u>
Weighted average number of ordinary shares for the purposes of basic earnings per share	<b>881,110,017</b>	765,372,000
Effect of dilutive potential ordinary shares: Share options	<u><b>63,319,274</b></u>	<u>–</u>
Weighted average number of ordinary shares for the purposes of diluted earnings per share	<u><b>944,429,291</b></u>	<u>765,372,000</u>

In 2002, no diluted earnings per share has been presented because the exercise price of the Company's share options was higher than the average market price of shares.

## Notes to Financial Statements

31 December 2003

## 12. INVESTMENT PROPERTIES

	<b>THE GROUP</b>
	HK\$'000
At 1 January 2003	8,000
Surplus on revaluation	<u>386</u>
At 31 December 2003	<u><u>8,386</u></u>

Investment properties were valued at their open market value at 31 December 2003 by Vigers International Property Consultant ("Vigers International"), an independent professional valuer. This valuation gave rise to a revaluation surplus of HK\$386,000 which has been credited to the consolidated income statement as a deficit has previously been charged to the consolidated income statement.

The carrying amount of investment properties comprises land and buildings in Hong Kong and other regions in the PRC as follows:

	<b>THE GROUP</b>	
	<b>2003</b>	2002
	<b>HK\$'000</b>	HK\$'000
Long-term lease in Hong Kong	<b>4,140</b>	4,130
Medium-term lease in other regions in the PRC	<b>4,246</b>	<u>3,870</u>
	<b><u>8,386</u></b>	<u><u>8,000</u></u>

Investment properties situated in Hong Kong are rented out under operating leases, while investment properties situated in other regions in the PRC are vacant.

## 13. PROPERTY, PLANT AND EQUIPMENT

	Leasehold		Plant and machinery	Furniture, fixtures and equipment		Motor vehicles	Construction in progress	Total
	land and buildings	Leasehold improvements						
	HK\$'000	HK\$'000		HK\$'000	HK\$'000			
<b>THE GROUP</b>								
COST OR VALUATION								
At 1 January 2003	53,230	1,013	344,695	7,471	6,103	24,044	436,556	
Additions	2,404	141	1,328	336	1,218	23,608	29,035	
Reclassifications	-	-	20,266	-	-	(20,266)	-	
Disposals	(2,600)	(19)	(6)	(1,149)	-	-	(3,774)	
Deficit on revaluation, net	(3,316)	-	-	-	-	-	(3,316)	
	<u>49,718</u>	<u>1,135</u>	<u>366,283</u>	<u>6,658</u>	<u>7,321</u>	<u>27,386</u>	<u>458,501</u>	
At 31 December 2003								
Comprising:								
At cost	-	1,135	366,283	6,658	7,321	27,386	408,783	
At valuation	<u>49,718</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>49,718</u>	
	<u>49,718</u>	<u>1,135</u>	<u>366,283</u>	<u>6,658</u>	<u>7,321</u>	<u>27,386</u>	<u>458,501</u>	
ACCUMULATED								
DEPRECIATION								
At 1 January 2003	-	987	103,622	6,102	4,435	-	115,146	
Provided during the year	2,383	20	21,601	361	449	-	24,814	
Eliminated on disposals	(46)	(19)	(6)	(1,144)	-	-	(1,215)	
Write back on revaluation	(2,337)	-	-	-	-	-	(2,337)	
	<u>-</u>	<u>988</u>	<u>125,217</u>	<u>5,319</u>	<u>4,884</u>	<u>-</u>	<u>136,408</u>	
At 31 December 2003								
NET BOOK VALUE								
At 31 December 2003	<u>49,718</u>	<u>147</u>	<u>241,066</u>	<u>1,339</u>	<u>2,437</u>	<u>27,386</u>	<u>322,093</u>	
At 31 December 2002	<u>53,230</u>	<u>26</u>	<u>241,073</u>	<u>1,369</u>	<u>1,668</u>	<u>24,044</u>	<u>321,410</u>	

## Notes to Financial Statements

31 December 2003

**13. PROPERTY, PLANT AND EQUIPMENT** (continued)

	<b>Furniture, fixtures and equipment</b>	
	HK\$'000	
<b>THE COMPANY</b>		
COST		
At 1 January 2003 and at 31 December 2003		276
ACCUMULATED DEPRECIATION		
At 1 January 2003		274
Provided during the year		2
At 31 December 2003		276
NET BOOK VALUE		
At 31 December 2003		–
At 31 December 2002		2
<b>THE GROUP</b>		
	<b>2003</b>	2002
	<b>HK\$'000</b>	HK\$'000
The carrying amount of leasehold land and buildings comprises:		
Medium-term leases in Hong Kong	<b>7,000</b>	5,480
Long-term leases in other regions in the PRC	<b>1,415</b>	1,300
Medium-term leases in other regions in the PRC	<b>41,303</b>	46,450
	<b>49,718</b>	53,230

The leasehold land and buildings of the Group were valued at 31 December 2003 by Vigers International on an open market value basis. Vigers International is not connected with the Group.

**13. PROPERTY, PLANT AND EQUIPMENT** (continued)

If leasehold land and buildings had not been revalued, they would have been included in these financial statements at historical cost less accumulated depreciation of HK\$57,956,000 (2002: HK\$60,699,000).

The net book value of property, plant and machinery includes plant and machinery of HK\$1,601,000 (2002: HK\$1,419,000) and motor vehicles of HK\$303,000 (2002: HK\$394,000) held under finance leases.

**14. LAND USE RIGHTS**

	<b>THE GROUP</b>
	HK\$'000
<hr/>	
VALUATION	
At 1 January 2003	13,500
Surplus on revaluation	<u>3,481</u>
At 31 December 2003	<u>16,981</u>
ACCUMULATED AMORTISATION	
At 1 January 2003	–
Provided during the year	614
Write back on revaluation	<u>(614)</u>
At 31 December 2003	<u>–</u>
NET BOOK VALUE	
At 31 December 2003	<u><u>16,981</u></u>
At 31 December 2002	<u><u>13,500</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.

## Notes to Financial Statements

31 December 2003

**14. LAND USE RIGHTS** (continued)

The Group's land use rights were revalued at 31 December 2003 by Vigers International on an open market value basis. A revaluation surplus of HK\$4,095,000 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\$8,005,000 (2002: HK\$8,386,000).

As at 31 December 2002, the Group's land use rights with a net book value of HK\$13,500,000 were pledged to secure certain bank borrowings granted to the Group. The Group's land use rights had not been pledged as at 31 December 2003.

**15. INTERESTS IN SUBSIDIARIES**

	<b>THE COMPANY</b>	
	<b>2003</b>	2002
	<b>HK\$'000</b>	HK\$'000
Unlisted shares, at cost	<b>2,769</b>	2,769
Amounts due from subsidiaries	<b>696,316</b>	518,382
	<b>699,085</b>	521,151
Less: Allowances for amounts due from subsidiaries	<b>(203,814)</b>	(203,814)
	<b>495,271</b>	317,337
Less: Current portion of amount due from a subsidiary	<b>(23,000)</b>	–
	<b>472,271</b>	317,337
Non-current portion of amounts due to subsidiaries	<b>3,622</b>	12,230

The amounts due from subsidiaries are unsecured, interest free and have no fixed repayment terms. Except for the balance due from a subsidiary of HK\$14,490,000 (2002: HK\$14,043,000) which bears interest at the London Interbank Offered Rate ("LIBOR") plus 3% (2002: LIBOR plus 3%) per annum, the remaining balances are interest free. In the opinion of the directors, except for the amount due from a subsidiary of HK\$23,000,000 (2002: HK\$Nil), the amounts will not be repayable within twelve months from the balance sheet date and the balances are therefore classified as non-current.

Details of the Company's principal subsidiaries at 31 December 2003 are set out in note 36 to the financial statements.

**16. INTERESTS IN JOINTLY CONTROLLED ENTITIES**

	THE GROUP		THE COMPANY	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Unlisted investments, at cost	-	-	56,550	56,550
Share of net assets	48,911	47,439	-	-
Dividend receivable	-	3,658	-	-
	<b>48,911</b>	51,097	<b>56,550</b>	56,550
Less: Impairment losses	-	-	(56,550)	(56,550)
	<b>48,911</b>	51,097	-	-

Particulars of the Group's principal jointly controlled entities are set out in note 37 to the financial statements.

**17. INTERESTS IN ASSOCIATES**

	THE GROUP	
	2003 HK\$'000	2002 HK\$'000
Share of net assets	44,813	44,079

Particulars of the Group's associates are set out in note 38 to the financial statements.

## Notes to Financial Statements

31 December 2003

**18. GOODWILL**

	<b>THE GROUP</b>
	<b>HK\$'000</b>
<hr/>	
COST	
Arising on acquisition of additional interests in subsidiaries and balance at 31 December 2003	<b>44,450</b>
AMORTISATION	
Charge for the year and balance at 31 December 2003	<u>556</u>
NET BOOK VALUE	
At 31 December 2003	<u><u>43,894</u></u>

The amortisation period adopted for goodwill is 20 years.

**19. CLUB MEMBERSHIPS**

	<b>THE GROUP</b>		<b>THE COMPANY</b>	
	<b>2003</b>	2002	<b>2003</b>	2002
	<b>HK\$'000</b>	HK\$'000	<b>HK\$'000</b>	HK\$'000
<hr/>				
Club memberships, at cost	<b>2,010</b>	2,010	<b>820</b>	820
Less: Impairment losses	<b>(1,335)</b>	(1,335)	<b>(505)</b>	(505)
	<u>675</u>	<u>675</u>	<u>315</u>	<u>315</u>

**20. INVESTMENT SECURITIES**

	<b>THE GROUP</b>	
	<b>2003</b>	2002
	<b>HK\$'000</b>	HK\$'000
<hr/>		
Unlisted equity investment, at cost	<b>1,123</b>	1,123
Less: Impairment losses	<b>(1,123)</b>	(1,123)
	<u>-</u>	<u>-</u>

**21. INVENTORIES**

	<b>THE GROUP</b>	
	<b>2003</b>	2002
	<b>HK\$'000</b>	HK\$'000
Raw materials	<b>21,523</b>	16,837
Work in progress	<b>3,056</b>	5,903
Finished goods	<b>19,319</b>	9,824
	<b>43,898</b>	32,564

The inventories were stated at cost.

**22. TRADE RECEIVABLES**

The Group normally allows credit periods of 30 – 120 days to its trade customers.

The following is an aged analysis of trade receivables as at the balance sheet date:

	<b>THE GROUP</b>	
	<b>2003</b>	2002
	<b>HK\$'000</b>	HK\$'000
0 – 90 days	<b>52,470</b>	42,529
91 – 180 days	<b>1,071</b>	4,127
Over 180 days	<b>57</b>	1,292
	<b>53,598</b>	47,948

## Notes to Financial Statements

31 December 2003

### 23. PLEDGE OF ASSETS

The bank deposits were pledged to secure certain short-term bank borrowings as set out in note 25 to the financial statements.

#### Other pledged assets

At 31 December 2003, the Group's shares in certain subsidiaries were pledged as security for the financing of part of the acquisition cost of approximately 28.24% equity interest in Online Investments Limited.

The Group's investment properties amounting to HK\$8,386,000 (2002: HK\$8,000,000) and net book value of leasehold land and buildings amounting to HK\$8,415,000 (2002: HK\$32,929,000) as set out in notes 12 and 13 to the financial statements were also pledged to secure certain bank borrowings as set out in note 25 to the financial statements.

### 24. TRADE PAYABLES

The following is an aged analysis of trade payables as at the balance sheet date:

	THE GROUP	
	2003 HK\$'000	2002 HK\$'000
0 – 90 days	6,937	5,356
91 – 180 days	37	13
Over 180 days	975	973
	<u>7,949</u>	<u>6,342</u>

## 25. BANK BORROWINGS

	THE GROUP		THE COMPANY	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Trust receipt loans	37,359	16,944	8,177	3,498
Bank loans	72,171	5,655	60,000	—
	<u>109,530</u>	<u>22,599</u>	<u>68,177</u>	<u>3,498</u>
Secured	109,086	22,599	68,177	3,498
Unsecured	444	—	—	—
	<u>109,530</u>	<u>22,599</u>	<u>68,177</u>	<u>3,498</u>

The above amounts bear interest at floating interest rates and are repayable as follows:

	THE GROUP		THE COMPANY	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Within one year	61,530	22,599	20,177	3,498
In the second year	24,000	—	24,000	—
In the third to fifth year inclusive	24,000	—	24,000	—
	<u>109,530</u>	<u>22,599</u>	<u>68,177</u>	<u>3,498</u>
Less: Amount due for settlement within one year (shown under current liabilities)	<u>(61,530)</u>	<u>(22,599)</u>	<u>(20,177)</u>	<u>(3,498)</u>
Amount due for settlement after one year	<u>48,000</u>	<u>—</u>	<u>48,000</u>	<u>—</u>

## Notes to Financial Statements

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## 26. OBLIGATIONS UNDER FINANCE LEASES

	Minimum lease payments		Present value of minimum lease payments	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Amounts payable under finance leases:				
Within one year	956	934	922	872
In the second to fifth year inclusive	211	714	206	698
	<u>1,167</u>	<u>1,648</u>	<u>1,128</u>	<u>1,570</u>
Less: Future finance charges	(39)	(78)	–	–
Present value of lease obligations	<u><u>1,128</u></u>	<u><u>1,570</u></u>	<u><u>1,128</u></u>	<u><u>1,570</u></u>
Less: Amount due for settlement within one year (shown under current liabilities)			(922)	(872)
Amount due for settlement after one year			<u><u>206</u></u>	<u><u>698</u></u>

The Group leased certain of its plant and machinery and motor vehicles under finance leases. The average lease term is two years. For the year ended 31 December 2003, the average effective borrowing rate was Hong Kong Dollar prime rate plus 0.25% (2002: Hong Kong Dollar prime rate plus 0.25%) per annum. Interest rates are fixed at the contract date. All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments.

The Group's obligations under finance leases are secured by the lessor's charge over the leased assets.

## 27. DEFERRED TAX LIABILITIES

The following are the major deferred tax liabilities (assets) recognised by the Group and movements thereon during the year and prior reporting period:

THE GROUP	Allowance						Total HK\$'000
	Accelerated tax depreciation HK\$'000	for bad and doubtful debts HK\$'000	Allowance for inventories HK\$'000	Revaluation of properties HK\$'000	Revaluation of land use rights HK\$'000	Tax losses HK\$'000	
At 1 January 2002							
– as previously stated	–	–	–	–	–	–	–
– adjustment on adoption of SSAP 12 (Revised)	25	–	–	438	709	–	1,172
– as restated	25	–	–	438	709	–	1,172
Charge (credit) to income statement for the year	90	(357)	(43)	–	–	–	(310)
Charge to equity for the year	–	–	–	252	181	–	433
At 31 December 2002 and 1 January 2003	115	(357)	(43)	690	890	–	1,295
Effect of change in tax rate							
Charge to income statement	23	49	6	–	–	–	78
Credit to equity	–	–	–	(76)	(123)	–	(199)
Charge (credit) to income statement for the year	174	159	(7)	–	–	(255)	71
(Credit) charge to equity for the year	–	–	–	(478)	556	–	78
At 31 December 2003	312	(149)	(44)	136	1,323	(255)	1,323

## Notes to Financial Statements

31 December 2003

### 27. DEFERRED TAX LIABILITIES (continued)

As at the balance sheet date, the Group has unprovided deferred tax assets in respect of unrecognised tax losses amounting to HK\$49,542,000 (2002: HK\$41,117,000) which may be carried forward indefinitely.

The above deferred tax assets have not been recognised due to the unpredictability of future profit streams.

The Company had no significant unprovided deferred taxation for the year or at the balance sheet date.

## 28. SHARE CAPITAL

	2003		2002	
	Number of shares	Nominal value HK\$'000	Number of shares	Nominal value HK\$'000
Ordinary shares of HK\$0.10 each				
Authorised:				
At 1 January	1,000,000,000	100,000	1,000,000,000	100,000
Increased on 25 June 2003	1,000,000,000	100,000	–	–
At 31 December	<u>2,000,000,000</u>	<u>200,000</u>	<u>1,000,000,000</u>	<u>100,000</u>
Issued and fully paid:				
At 1 January	765,372,000	76,537	765,372,000	76,537
Issued on share placing (Notes i and ii)	123,492,000	12,349	–	–
Issued on subscription of new shares (Note i)	126,984,000	12,699	–	–
Exercise of share options	3,732,000	373	–	–
At 31 December	<u>1,019,580,000</u>	<u>101,958</u>	<u>765,372,000</u>	<u>76,537</u>

## Notes:

- (i) In order to finance the expansion of its subsidiary, Jiaxing Eastern Steel Cord Co., Ltd. ("Jiaxing Eastern") and to generate working capital for the Group, the Company entered into a subscription agreement and placing agreement on 6 May 2003 pursuant to which the Company issued and allotted 126,984,000 and 63,492,000 ordinary shares of HK\$0.10 each in the Company at a price of HK\$0.315 per share to a nominee of Shougang Holding (Hong Kong) Limited ("Shougang HK") and to independent places respectively.
- (ii) In order to finance the acquisition of remaining equity interest of Online Investments Limited, an intermediate holding company of Jiaxing Eastern, and to generate working capital for the Group, the Company entered into a placing agreement on 21 August 2003 with placing agents pursuant to which the Company issued and allotted 60,000,000 ordinary shares of HK\$0.10 each in the Company at a price of HK\$0.68 per share to independent places.

The new shares rank pari passu with the existing shares in all respects.

## Notes to Financial Statements

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## 29. RESERVES

THE COMPANY	Share premium HK\$'000	Capital reserve HK\$'000	Capital redemption reserve HK\$'000	(Accumulated losses)	Total HK\$'000
				retained profits HK\$'000	
At 1 January 2002	357,181	23,990	463	(149,099)	232,535
Net loss for the year	—	—	—	(2,591)	(2,591)
At 31 December 2002 and 1 January 2003	357,181	23,990	463	(151,690)	229,944
Reduction of share premium	(149,099)	—	—	149,099	—
Share issue expenses	(4,262)	—	—	—	(4,262)
Issue of shares	75,752	—	—	—	75,752
Exercise of share options	1,232	—	—	—	1,232
Net profit for the year	—	—	—	23,971	23,971
At 31 December 2003	<u>280,804</u>	<u>23,990</u>	<u>463</u>	<u>21,380</u>	<u>326,637</u>

The capital reserve of the Company 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.

Pursuant to the order issued by the Court of First Instance of the Hong Kong Special Administrative Region, 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.

## 30. OPERATING LEASES

## The Group as lessee

	THE GROUP	
	2003 HK\$'000	2002 HK\$'000
Minimum lease payments under operating leases in respect of land and buildings during the year	<u>1,372</u>	<u>897</u>

**30. OPERATING LEASES** (continued)**The Group as lessee (continued)**

The Group leases certain of its offices, factory premises and staff quarters under operating lease arrangements. Leases are negotiated for an average term of three years.

At the balance sheet date, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	<b>THE GROUP</b>	
	<b>2003</b>	2002
	<b>HK\$'000</b>	HK\$'000
Within one year	<b>525</b>	393
In the second to fifth year inclusive	<b>181</b>	543
	<b>706</b>	936

**The Group as lessor**

Property rental income earned during the year was HK\$302,000 (2002: HK\$489,000). The Group leases its investment properties under operating lease arrangements, with leases negotiated for an average term of two years.

At the balance sheet date, the Group had contracted with tenants for the following future minimum lease payments:

	<b>THE GROUP</b>	
	<b>2003</b>	2002
	<b>HK\$'000</b>	HK\$'000
Within one year	<b>346</b>	131
In the second to fifth year inclusive	<b>391</b>	–
	<b>737</b>	131

The Company had no commitment under operating leases in both years.

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**31. CAPITAL COMMITMENTS**

	THE GROUP	
	2003 HK\$'000	2002 HK\$'000
Commitments in respect of the acquisition of property, plant and equipment		
– contracted for but not provided in the financial statements	126,210	5,818
– authorised but not contracted for	54,250	188,111
	<b>180,460</b>	<b>193,929</b>

The Company did not have any significant commitments in both years.

**32. CONTINGENT LIABILITIES**

	THE GROUP		THE COMPANY	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Guarantees given to banks in respect of banking facilities granted to subsidiaries	–	–	120,000	64,000
Guarantee for bank loans granted to a jointly controlled entity	10,721	23,360	–	–
	<b>10,721</b>	<b>23,360</b>	<b>120,000</b>	<b>64,000</b>

**33. RETIREMENT BENEFIT SCHEMES**

The Group operates a Mandatory Provident Fund Scheme (the "MPF Scheme") for all qualifying employees who are eligible to participate in the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group, in funds under the control of trustees. The Group contributes 5% of the relevant payroll costs to the MPF Scheme, which contribution is matched by employees.

The employees of the Group's subsidiaries which operates in the PRC are required to participate in a retirement scheme or other similar defined contribution provident fund operated by the local municipal government. These PRC subsidiaries are required to contribute 20% to 23% of its payroll costs to the scheme/fund. The contributions are charged to the income statement as they become payable in accordance with the rules of the scheme/fund.

### 34. SHARE OPTION SCHEME

A share 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 Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, grant share options to any eligible participant to subscribe for shares in the capital of the Company.

The Company operates the 2002 Scheme for the purpose of providing incentives and rewards to eligible participants for their contributions to the Group or potential contribution to the Group. Eligible participants of the 2002 Scheme include 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. The 2002 Scheme became effective on 7 June 2002 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

The maximum number of shares available for issue under the 2002 Scheme is 41,681,000 shares which represented 4.08% of the issued share capital of the company as at the date of approval of this annual report. The maximum number of shares issuable under the share options to each eligible participant in the 2002 Scheme within any 12-months period is limited to 1% of the issued share capital of the Company in issue under the 2002 Scheme. Any further grant of share options in excess of this limit is subject to shareholder's approval in a general meeting.

The offer of a grant of share options may be accepted within 60 days from the date of the offer, upon payment of a nominal consideration of HK\$1 by the grantee. An option may be exercised under the 2002 Scheme at any time within 10 years from the date of grant of the options or may be determined by the Board at its absolute discretion. The minimum period for which an option must be held before it can be exercised will be determined by the Board at its discretion.

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 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 shares of the Company on the date of offer of option to an eligible participant.

## Notes to Financial Statements

31 December 2003

**34. SHARE OPTION SCHEME** (continued)

Share options do not confer rights on the holders to dividends or to vote at shareholders' meeting.

Apart from the details set out under the heading "DIRECTORS' INTERESTS IN THE SHARE CAPITAL OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS" in the Report of the Directors, the following table disclose details of the Company's share options held by eligible participants and movements in such holdings in relation to the 2002 Scheme during the year:

Grantees	Number of share options for 2003				Date of grant (Note b)	Exercise period	Exercise price per share HK\$
	At 1.1.2003	Granted during the year	Exercised during the year	At 31.12.2003			
Directors of the Company	40,556,000	-	-	40,556,000	23.8.2002	23.8.2002 – 22.8.2012	0.295
	-	8,416,000	-	8,416,000	12.3.2003	12.3.2003 – 11.3.2013	0.325
	-	68,882,000	-	68,882,000	25.6.2003	25.6.2003 – 24.6.2013	0.365
	-	6,356,000	-	6,356,000	25.8.2003	25.8.2003 – 24.8.2013	0.740
	-	57,350,000	-	57,350,000	2.10.2003	2.10.2003 – 1.10.2013	0.780
	<u>40,556,000</u>	<u>141,004,000</u>	<u>-</u>	<u>181,560,000</u>			
Employees other than directors of the Company	1,532,000	-	766,000	766,000	23.8.2002	23.8.2002 – 22.8.2012	0.295
	-	3,064,000	1,966,000	1,098,000	12.3.2003	12.3.2003 – 11.3.2013	0.325
	-	28,500,000	1,000,000	27,500,000	25.8.2003	25.8.2003 – 24.8.2013	0.740
	<u>1,532,000</u>	<u>31,564,000</u>	<u>3,732,000</u>	<u>29,364,000</u>			
All other eligible participants	7,652,000	-	-	7,652,000	23.8.2002	23.8.2002 – 22.8.2012	0.295
	-	15,304,000	-	15,304,000	12.3.2003	12.3.2003 – 11.3.2013	0.325
	<u>7,652,000</u>	<u>15,304,000</u>	<u>-</u>	<u>22,956,000</u>			
	<u><u>49,740,000</u></u>	<u><u>187,872,000</u></u>	<u><u>3,732,000</u></u>	<u><u>233,880,000</u></u>			

**34. SHARE OPTION SCHEME** (continued)

Notes:

- a. The closing prices of the shares immediately before the dates on which the share options were granted during the year were as follows:

<b>Date of grant</b>	<b>Closing price immediately before the date of grant</b>
	HK\$
12.3.2003	0.315
25.6.2003	0.410
25.8.2003	0.730
2.10.2003	0.750

- b. The vesting period of the share options is from the date of grant to the end of the exercise period.
- c. The weighted average closing price of the shares immediately before the dates on which the share options were exercised by the employees other than the directors of the Company was HK\$1.19.
- d. No share option was lapsed or cancelled during the year.

The financial impact of share options granted is not recorded in the Company's or the Group's balance sheet until such time as the share options are exercised, and no charge is recognised in the income statement in respect of the value of share options granted in the year. Upon the exercise of the 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 lapse or are cancelled prior to their exercise date are deleted from the register of outstanding share options.

## Notes to Financial Statements

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**35. 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 HK and its subsidiaries (collectively the “Shougang HK Group”) and jointly controlled entity of the Group. Shougang International is the substantial shareholder of the Company and Shougang HK is the controlling shareholder of Shougang International and is the substantial shareholder of the Company.

	<i>Notes</i>	<b>2003</b> <b>HK\$'000</b>	2002 HK\$'000
Consultancy fees paid to the Shougang HK Group	(i)	<b>480</b>	120
Management fees paid to the Shougang International Group	(i)	<b>240</b>	600
Rental expenses paid to the:			
Shougang HK Group	(ii)	<b>968</b>	938
Shougang International Group	(ii)	–	78
(Repayment from) advance to the Shougang HK Group	(iii)	<b>(471)</b>	471
Interest paid to the Shougang HK Group	(iv)	–	138
Corporate guarantees given to a jointly controlled entity	(v)	<b>10,721</b>	23,360

### 35. RELATED PARTY TRANSACTIONS (continued)

*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 was fully repaid during the year.
- (iv) The loans advanced from the Shougang HK Group were secured by the Group's interest in a jointly controlled entity (the "Security") with interest payable at the Hong Kong Interbank Offered Rate per annum. The loans were fully repaid and the Security was released in 2002.
- (v) 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.

## Notes to Financial Statements

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## 36. PRINCIPAL SUBSIDIARIES

Particulars of the principal subsidiaries at 31 December 2003 are as follows:

Name of subsidiary	Place of incorporation/ registration and operation	Nominal value of issued and paid-up capital/ registered capital	Attributable equity interest of the Group		Principal activities
			2003	2002	
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	100%	91%	Processing and trading of copper and brass products
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

**36. PRINCIPAL SUBSIDIARIES** (continued)

Name of subsidiary	Place of incorporation/ registration and operation	Nominal value of issued and paid-up capital/ registered capital	Attributable equity interest of the Group		Principal activities
			2003	2002	
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	100%	71.8%	Investment holding
Everwinner Investments Limited	Hong Kong	1,000,000 ordinary shares of HK\$1 each	100%	71.8%	Investment holding
Jiaxing Eastern Steel Cord Co., Ltd.#	PRC	US\$44,000,000	100%	71.8%	Manufacturing of steel cord

# A wholly foreign owned enterprise.

\* 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.

None of the subsidiaries had any loan capital subsisting at the end of the year or at any time during the year.

## Notes to Financial Statements

31 December 2003

**37. PARTICULARS OF THE PRINCIPAL JOINTLY CONTROLLED ENTITIES**

Particulars of the principal jointly controlled entities as at 31 December 2003 are as follows:

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

### 38. PARTICULARS OF THE ASSOCIATES

Particulars of the associates at 31 December 2003 are as follows:

Name	Business structure	Place of registration/ incorporation and operation	Issued and paid-up capital	Percentage of equity attributable to the Group		Principal activities
				2003	2002	
Xinhua Metal Products Co., Ltd. (Note)	Incorporated	PRC	193,220,374 shares of RMB1 each	<b>16.75%</b>	16.75%	Manufacturing of pre- stressed concrete strands and wires
Sky Fond Investment Limited	Incorporated	Hong Kong	1,500,000 ordinary shares of HK\$1 each	<b>50%</b>	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.

## Summary of Investment Properties

Particulars of the investment properties held by the Group as at 31 December 2003 are as follows:

	<b>Property</b>	<b>Use</b>	<b>Group interest</b>	<b>Category of lease</b>
1.	House 5 – 18 and carport District 5, Legend Garden Villas No. 89 Capital Airport Road Chaoyang District, Beijing People's Republic of China	Residential	100%	Medium term lease
2.	Apartment Unit 4-14-5 Level 2, Block 4-8 District 4, Legend Garden Villas No. 89 Capital Airport Road 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