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**THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION**

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**If you are in any doubt** as to any aspect of this document, you should consult a licensed securities dealer, bank manager, solicitor, professional accountant or other professional adviser.

**If you have sold or transferred** all your shares in Shougang Concord Century Holdings Limited, you should at once hand this document and the accompanying forms of proxy to the purchaser or the transferee or to the bank or licensed securities dealer or other agent through whom the sale was effected for transmission to the purchaser or the transferee.

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**Shougang Concord Century Holdings Limited**  
**首長寶佳集團有限公司**

*(Incorporated in Hong Kong with limited liability)*

**CONNECTED TRANSACTION**

**PROPOSED SUBSCRIPTION OF NEW SHARES AND  
APPLICATION FOR WHITEWASH WAIVER**

**Financial adviser to Shougang Concord Century Holdings Limited**



**Independent financial adviser to the independent board committee of  
Shougang Concord Century Holdings Limited**

**KIM ENG**

CAPITAL

**Kim Eng Capital (Hong Kong) Limited**

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A letter from the board of directors of Shougang Concord Century Holdings Limited is set out on pages 4 to 13 of this document. A letter from the independent board committee of Shougang Concord Century Holdings Limited containing its advice to the independent shareholders of Shougang Concord Century Holdings Limited in connection with the proposed subscription of new shares in Shougang Concord Century Holdings Limited and the application for the whitewash waiver is set out on page 14 of this document. A letter from Kim Eng Capital (Hong Kong) Limited, the independent financial adviser to the independent board committee of Shougang Concord Century Holdings Limited, containing its advice to the independent board committee of Shougang Concord Century Holdings Limited in connection with the proposed subscription of new shares in Shougang Concord Century Holdings Limited and the application for the whitewash waiver is set out on pages 15 to 26 of this document.

A notice convening the extraordinary general meeting of Shougang Concord Century Holdings Limited to be held on 25 June 2003 are set out on pages 75 to 76 of this document. Whether or not you are able to attend the extraordinary general meeting of Shougang Concord Century Holdings Limited, you are strongly urged to complete and sign the enclosed form of proxy, in accordance with the instructions printed thereon, and to lodge them with the share registrars of Shougang Concord Century Holdings Limited, Tengis Limited, Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong, as soon as possible but in any event not later than 48 hours before the time appointed for the holding of the extraordinary general meeting or any adjourned meeting (as the case may be). Completion and return of the form of proxy will not preclude you from attending and voting in person at the extraordinary general meeting of Shougang Concord Century Holdings Limited or any adjourned meeting should you so wish.

6 June 2003

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## DEFINITIONS

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*In this document, the following expressions have the following meanings unless the context requires otherwise:*

|                                 |  |
|---------------------------------|--|
| “Announcement”                  | the announcement dated 7 May 2003 issued by the Company containing, <i>inter alia</i> , details of the Proposed SHHK Subscription, the Whitewash Waiver and the Proposed Placement   |
| “Associate(s)”                  | has the meaning ascribed thereto under the Listing Rules   |
| “Board”                         | the board of Directors   |
| “Business Day(s)”               | any day(s) (excluding a Saturday) on which banks in Hong Kong are opened for business throughout their normal business hours   |
| “Company” or “Issuer”           | Shougang Concord Century Holdings Limited, a company incorporated in Hong Kong with limited liability, the shares of which are listed on the Stock Exchange  |
| “Concert Parties”               | Shougang HK and Shougang International   |
| “Director(s)”                   | the director(s) of the Company   |
| “Executive”                     | the Executive Director of the Corporate Finance Division of the Securities and Futures Commission or any delegate of the Executive Director  |
| “Extraordinary General Meeting” | the extraordinary general meeting of the Company to be held at 11:00 a.m. on 25 June 2003 at Salon III & IV, Grand Hyatt Hong Kong, 1 Harbour Road, Hong Kong, the notice of which is set out on pages 75 to 76 of this document, or any adjournment thereof |
| “Group”                         | the Company and its subsidiaries   |
| “Hong Kong”                     | the Hong Kong Special Administrative Region of the PRC   |
| “Independent Board Committee”   | the independent board committee of the Company comprising Mr. Yip Kin Man, Raymond, which has been established in connection with the Proposed SHHK Subscription and the Whitewash Waiver  |
| “Independent Shareholder(s)”    | the shareholder(s) of the Company other than those interested or involved in the Proposed SHHK Subscription and/or the application for the Whitewash Waiver (as the case may be)   |
| “Jiaxing Eastern”               | Jiaxing Eastern Steel Cord Co., Ltd., a company registered on 26 July 1994 in the PRC with limited liability and is indirectly owned as to 71.8% by the Company  |

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## DEFINITIONS

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|------------------------------|---|
| “Kim Eng Capital”            | Kim Eng Capital (Hong Kong) Limited, a deemed licensed corporation registered with the Securities and Futures Commission under the SFO and the independent financial adviser to the Independent Board Committee in respect of the Proposed SHHK Subscription and the Whitewash Waiver   |
| “Latest Practicable Date”    | 3 June 2003, being the latest practicable date prior to the issue of this document for ascertaining certain information contained herein  |
| “Listing Committee”          | The Listing Committee of the Stock Exchange   |
| “Listing Rules”              | The Rules Governing the Listing of Securities on the Stock Exchange   |
| “Placing Agent”              | CITIC Capital Markets Limited, a deemed licensed corporation with the Securities and Futures Commission under the SFO, whereby it and its beneficial owner(s) are independent of and not connected with Shougang HK, Shougang International, the Company, their respective directors, chief executives or substantial shareholders or any of their subsidiaries or any of their respective associates (as defined in the Takeovers Code) or any parties acting in concert (as defined in the Takeovers Code) with any of them |
| “Placing Agreement”          | a conditional placing agreement dated 6 May 2003 entered into between the Company and the Placing Agent in connection with the Proposed Placement   |
| “Placing Shares”             | the 63,492,000 new Shares to be issued upon completion of the Proposed Placement  |
| “PRC”                        | the People’s Republic of China (excluding Hong Kong for the purpose of this document)   |
| “Proposed SHHK Subscription” | the proposed subscription of the Subscription Shares by the Subscriber under the Subscription Agreement   |
| “Proposed Placement”         | the proposed placement of the Placing Shares by the Placing Agent, on a fully-underwritten basis, under the Placing Agreement   |
| “Rothschild”                 | N M Rothschild & Sons (Hong Kong) Limited, a deemed registered institution under the SFO with the Hong Kong Monetary Authority from 1 April 2003 (previously an investment adviser registered with the Securities and Futures Commission), and the financial adviser to the Company in relation to the Proposed SHHK Subscription and the Proposed Placement  |

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## DEFINITIONS

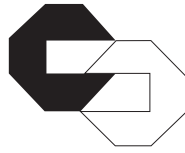
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|--------------------------|--|
| “SFO”                    | Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) as amended from time to time   |
| “Shareholder(s)”         | registered holder(s) of Shares   |
| “Share(s)”               | ordinary share(s) of nominal value of HK\$0.10 each in the share capital of the Company  |
| “Shougang Corp”          | Shougang Corporation, a state-owned enterprise in the PRC and the holding company of Shougang HK   |
| “Shougang International” | Shougang Concord International Enterprises Company Limited, a company incorporated in Hong Kong with limited liability, the shares of which are listed on the Stock Exchange |
| “Shougang HK”            | Shougang Holding (Hong Kong) Limited, a company incorporated in Hong Kong with limited liability and is a wholly-owned subsidiary of Shougang Corp                           |
| “Stock Exchange”         | The Stock Exchange of Hong Kong Limited  |
| “Subscriber”             | Shougang HK and/or its nominee(s)  |
| “Subscription Agreement” | a conditional subscription agreement dated 6 May 2003 entered into between the Company and the Subscriber in connection with the Proposed SHHK Subscription                  |
| “Subscription Shares”    | the 126,984,000 new Shares to be issued upon completion of the Subscription Agreement  |
| “Takeovers Code”         | the Hong Kong Code on Takeovers and Mergers  |
| “Whitewash Waiver”       | a waiver from a general offer obligation under the Takeovers Code pursuant to Note 1 of the Notes on dispensations from Rule 26 of the Takeovers Code                        |
| “HK\$”                   | Hong Kong dollar(s), the lawful currency of Hong Kong  |
| “%”                      | per cent.  |

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## LETTER FROM THE BOARD

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# Shougang Concord Century Holdings Limited 首長寶佳集團有限公司

(Incorporated in Hong Kong with limited liability)

*Directors*

Cao Zhong (*Chairman*)  
Tong Yihui (*Managing Director*)  
Leung Shun Sang, Tony  
Li Shaofeng  
Xu Xianghua  
Cheng Xiaoyu  
Tang Kwok Kau  
Yip Kin Man, Raymond\*  
Lai Kam Man\*

*Registered office*

6th Floor, Bank of East Asia  
Harbour View Centre  
51-57 Gloucester Road  
Wanchai  
Hong Kong

\* *Independent non-executive Director*

6 June 2003

*To the Shareholders*

Dear Sir or Madam,

### CONNECTED TRANSACTION PROPOSED SUBSCRIPTION OF NEW SHARES AND APPLICATION FOR WHITEWASH WAIVER

#### INTRODUCTION

It was announced on 7 May 2003 that the Subscription Agreement was entered into on 6 May 2003. Pursuant to the Subscription Agreement, the Company has conditionally agreed to issue and the Subscriber has conditionally agreed to subscribe for the Subscription Shares at HK\$0.315 each. It was also announced on 7 May 2003 that the Placing Agreement was entered into on 6 May 2003. Pursuant to the Placing Agreement, the Company has conditionally agreed to issue and the Placing Agent has conditionally agreed, on a fully-underwritten basis, to procure independent placee(s) to subscribe for the Placing Shares at HK\$0.315 each.

Shougang HK was interested in approximately 39.2% of the existing issued share capital of Shougang International which in turn was interested in approximately 36.6% of the existing issued share capital of the Company as at the Latest Practicable Date. The Proposed SHHK Subscription is deemed to be a connected transaction for the Company under Rule 14.26 of the Listing Rules. Accordingly, the Proposed SHHK Subscription is subject to, amongst other things, the approval by the Independent Shareholders at the Extraordinary General Meeting.

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## LETTER FROM THE BOARD

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Under Rule 26 of the Takeovers Code, the Concert Parties would be obliged to make a mandatory general offer to acquire all the Shares other than those already owned by the Concert Parties upon completion of the Subscription Agreement as their aggregate shareholding interest in the Company will increase by more than 2% within a 12-month period as a result of the completion of the Proposed SHHK Subscription (from the existing holding of approximately 36.6% to approximately 45.6% upon completion of the Proposed SHHK Subscription or approximately 42.6% upon completion of the Proposed SHHK Subscription and the Proposed Placement). The Concert Parties have made an application to the Executive to apply for the Whitewash Waiver, the granting of which will be subject to the approval by the Independent Shareholders on votes taken by way of a poll at the Extraordinary General Meeting.

In view of the Concert Parties' interests in the Proposed SHHK Subscription and the Whitewash Waiver, the Concert Parties together with their respective Associates and any other Shareholders who are interested or involved in the Proposed SHHK Subscription and/or the Whitewash Waiver will abstain from voting at the Extraordinary General Meeting in respect of the Proposed SHHK Subscription and the Whitewash Waiver.

The purpose of this document is to provide further information on the Proposed SHHK Subscription and the application of the Whitewash Waiver, the recommendation of the Independent Board Committee to the Independent Shareholders in respect of the Proposed SHHK Subscription and the Whitewash Waiver, the advice of Kim Eng Capital in respect of the Proposed SHHK Subscription and the Whitewash Waiver, additional information as required under the Takeovers Code and the Listing Rules and the notice of the Extraordinary General Meeting to approve the Proposed SHHK Subscription and the granting of the Whitewash Waiver by the Executive.

As Mr. Cao Zhong and Ms. Xu Xianghua are both common directors of Shougang HK, Shougang International and the Company, they are not considered to be sufficiently independent under the Takeovers Code for the purpose of advising the Independent Shareholders in respect of the Proposed SHHK Subscription and the Whitewash Waiver. Mr. Leung Shun Sang, Tony is a director of each of the Company, a subsidiary of Shougang HK and Shougang International, Mr. Li Shaofeng is a director of each of the Company and various subsidiaries of Shougang HK, and Ms. Cheng Xiaoyu had been an employee of Shougang HK in the past two years, and accordingly they are also not considered to be sufficiently independent under the Takeovers Code for the purpose of advising the Independent Shareholders in respect of the Proposed SHHK Subscription and the Whitewash Waiver. Mr. Tong Yihui (also an employee of Shougang HK) and Mr. Tang Kwok Kau are salaried Directors, and Mr. Lai Kam Man is an independent non-executive director of Shougang International and accordingly they are also not considered to be sufficiently independent under the Takeovers Code for the purpose of advising the Independent Shareholders in respect of the Proposed SHHK Subscription and the Whitewash Waiver. As such, the Independent Board Committee comprising Mr. Yip Kin Man, Raymond, an independent non-executive Director, has been established in connection with the Proposed SHHK Subscription and the Whitewash Waiver. Kim Eng Capital has been appointed as the independent financial adviser to advise the Independent Board Committee in this respect.

Rothschild has been appointed as the financial adviser to the Company in respect of the Proposed SHHK Subscription and the Proposed Placement.

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## LETTER FROM THE BOARD

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A notice of the Extraordinary General Meeting is set out on pages 75 to 76 of this document. The letter from the Independent Board Committee containing its recommendation to the Independent Shareholders in connection with the Proposed SHHK Subscription and the Whitewash Waiver is set out on page 14 of this document. The letter from Kim Eng Capital containing its advice to the Independent Board Committee in connection with the Proposed SHHK Subscription and the Whitewash Waiver is set out on pages 15 to 26 of this document.

### PRINCIPAL TERMS OF THE SUBSCRIPTION AGREEMENT

The principal terms and conditions of the Subscription Agreement were arrived at after arm's length negotiation between the parties involved and are summarised below:

- Date of the Subscription Agreement: 6 May 2003
- Subscriber: Shougang HK and/or its nominee(s)
- Issuer: The Company
- Number of Subscription Shares: The 126,984,000 new Shares to be issued under the Subscription Agreement represent approximately 16.6% of the existing issued share capital of the Company and approximately 14.2% of the issued share capital of the Company as enlarged by the Proposed SHHK Subscription and approximately 13.3% of the issued share capital of the Company as enlarged by the Proposed SHHK Subscription and the Proposed Placement
- Subscription Price: HK\$0.315 per Share, representing a discount of approximately 13.7% to the closing price of HK\$0.365 as quoted on the Stock Exchange on the Latest Practicable Date, a discount of approximately 8.7% to the closing price of HK\$0.345 per Share as quoted on the Stock Exchange on 6 May 2003, the date of the Subscription Agreement, a discount of approximately 6.8% to the average closing price of approximately HK\$0.338 per Share over the last five consecutive trading days up to and including 6 May 2003 and a discount of approximately 5.1% to the average closing price of approximately HK\$0.332 per Share over the last ten consecutive trading days up to and including 6 May 2003
- Ranking of the Subscription Shares: The Subscription Shares, when fully paid, will rank pari passu in all respects with the existing Shares in issue as at the date of the issue of the Subscription Shares



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## LETTER FROM THE BOARD

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Lock-up period: The Subscriber has undertaken to the Company that it will not sell or otherwise dispose of any of the Subscription Shares on or before the date which is six months after the completion of the Subscription Agreement. The Subscriber has no intention to transfer the Subscription Shares to any person (other than its wholly-owned subsidiary) after the expiry of this lock-up period

### CONDITIONS OF THE SUBSCRIPTION AGREEMENT

Completion of the Subscription Agreement will be conditional upon the following conditions being satisfied on or before 15 July 2003 (or such other time and date as the Company and the Subscriber may agree in writing):

- (a) the passing of an ordinary resolution by the Independent Shareholders for the Subscription Agreement and the issuance of the Subscription Shares under the Subscription Agreement at the Extraordinary General Meeting by way of a poll;
- (b) the Listing Committee granting the listing of, and permission to deal in, the Subscription Shares to be allotted and issued under the Subscription Agreement;
- (c) the obtaining by all parties concerned of all necessary consents, approvals or waivers to effect the signing and completion of the Subscription Agreement;
- (d) the granting of the Whitewash Waiver by the Executive; and
- (e) the approval of the granting of the Whitewash Waiver by the Independent Shareholders at the Extraordinary General Meeting by way of a poll.

An application has been made to the Stock Exchange for the granting of the listing of, and permission to deal in, the Subscription Shares. Completion of the Subscription Agreement shall take place on or before the third Business Day following the date on which all the conditions precedents are fulfilled. Under the Subscription Agreement, none of the aforesaid conditions can be waived, and the Subscription Agreement will lapse if the aforesaid conditions are not satisfied on or before 15 July 2003 (or such other time and date as the Company and the Subscriber may agree in writing), and an announcement will be made in such circumstance in accordance with the Takeovers Code and the Listing Rules.

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## LETTER FROM THE BOARD

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### EFFECTS ON SHAREHOLDING OF THE COMPANY UPON COMPLETION

The following table shows the shareholding structures of the Company (a) as at the Latest Practicable Date; (b) upon completion of the Proposed SHHK Subscription; and (c) upon completion of the Proposed SHHK Subscription and the Proposed Placement, assuming none of the share options of the Company outstanding as at the Latest Practicable Date have been exercised and no Shares have been repurchased up to the completion of the Proposed SHHK Subscription and the Proposed Placement:

|   | As at the Latest Practicable Date |              | Upon completion of the Proposed SHHK Subscription |              | Upon completion of the Proposed SHHK Subscription and the Proposed Placement |              |
|---|-----------------------------------|--------------|---|--------------|--|--------------|
|   | <i>Number of Shares held</i>      | <i>%</i>     | <i>Number of Shares held</i>                      | <i>%</i>     | <i>Number of Shares held</i>   | <i>%</i>     |
| Shougang International                              | 279,797,400                       | 36.6         | 279,797,400                                       | 31.4         | 279,797,400  | 29.3         |
| Shougang HK   | 0                                 | 0            | 126,984,000                                       | 14.2         | 126,984,000  | 13.3         |
| Sub-total of Shougang International and Shougang HK | 279,797,400                       | 36.6         | 406,781,400                                       | 45.6         | 406,781,400  | 42.6         |
| Public  | 485,574,600                       | 63.4         | 485,574,600                                       | 54.4         | 549,066,600  | 57.4         |
| Total <sup>(1)</sup>                                | <u>765,372,000</u>                | <u>100.0</u> | <u>892,356,000</u>                                | <u>100.0</u> | <u>955,848,000</u>   | <u>100.0</u> |

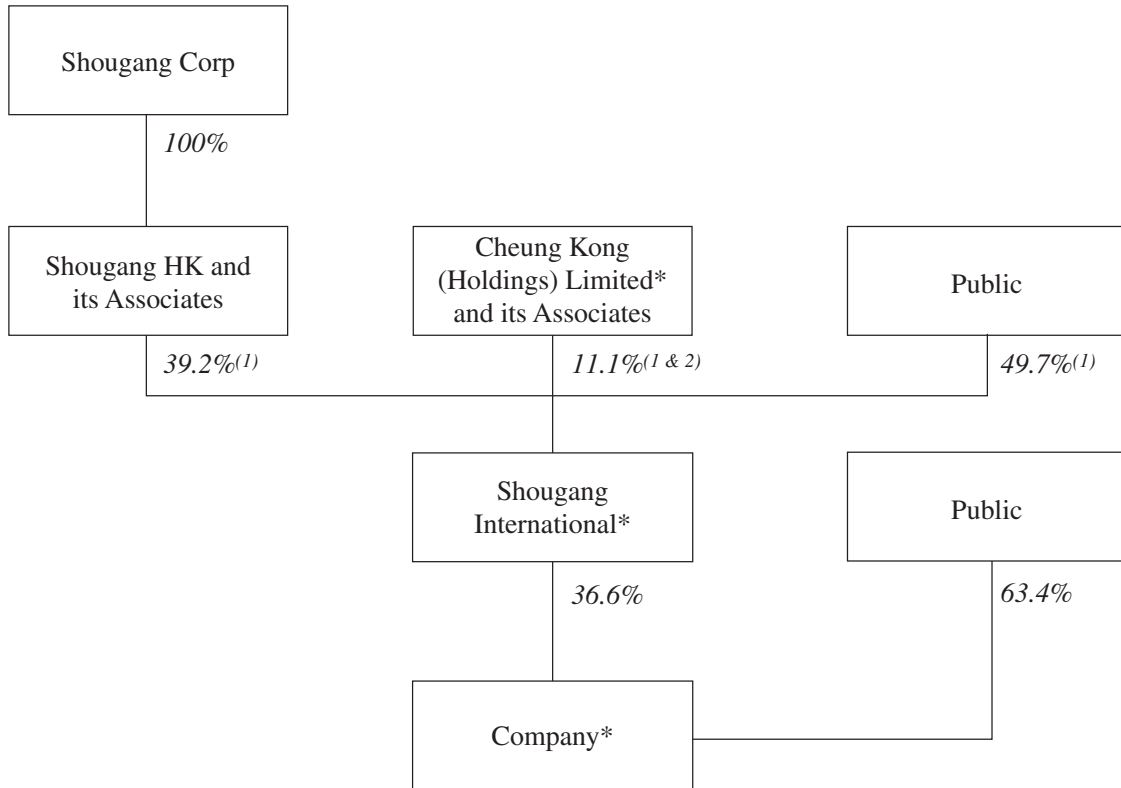
Note:

- (1) There were a total of 76,524,000 share options of the Company outstanding as at the Latest Practicable Date which were granted to directors, employees and consultants of the Company under the share option scheme of the Company adopted on 7 June 2002. These share options can be exercised into 76,524,000 Shares in aggregate. A total of 38,642,000 of these 76,524,000 share options were held by parties acting in concert with Shougang HK and/or Shougang International as at the Latest Practicable Date, further details of which are set out in Appendix II to this document.

## LETTER FROM THE BOARD

The following charts show the shareholding structures of the Company and Shougang International (a) as at the Latest Practicable Date; (b) upon completion of the Proposed SHHK Subscription; and (c) upon completion of the Proposed SHHK Subscription and the Proposed Placement, assuming none of the share options of the Company outstanding as at the Latest Practicable Date have been exercised and no Shares have been repurchased up to the completion of the Proposed SHHK Subscription and the Proposed Placement:

### Existing shareholding structure as at the Latest Practicable Date



*Notes:*

(1) *The shareholding interest in Shougang International held by Shougang HK and its Associates will be approximately 51.4% upon full conversion of the convertible note of Shougang International held by a wholly-owned subsidiary of Shougang HK at the initial conversion price of HK\$0.35 per share, further details of which are set out in the shareholders' circular of Shougang International dated 17 May 2002.*

(2) *This is the latest shareholding information of Cheung Kong (Holdings) Limited and its Associates as recorded in the register required to be kept by Shougang International under the SFO.*

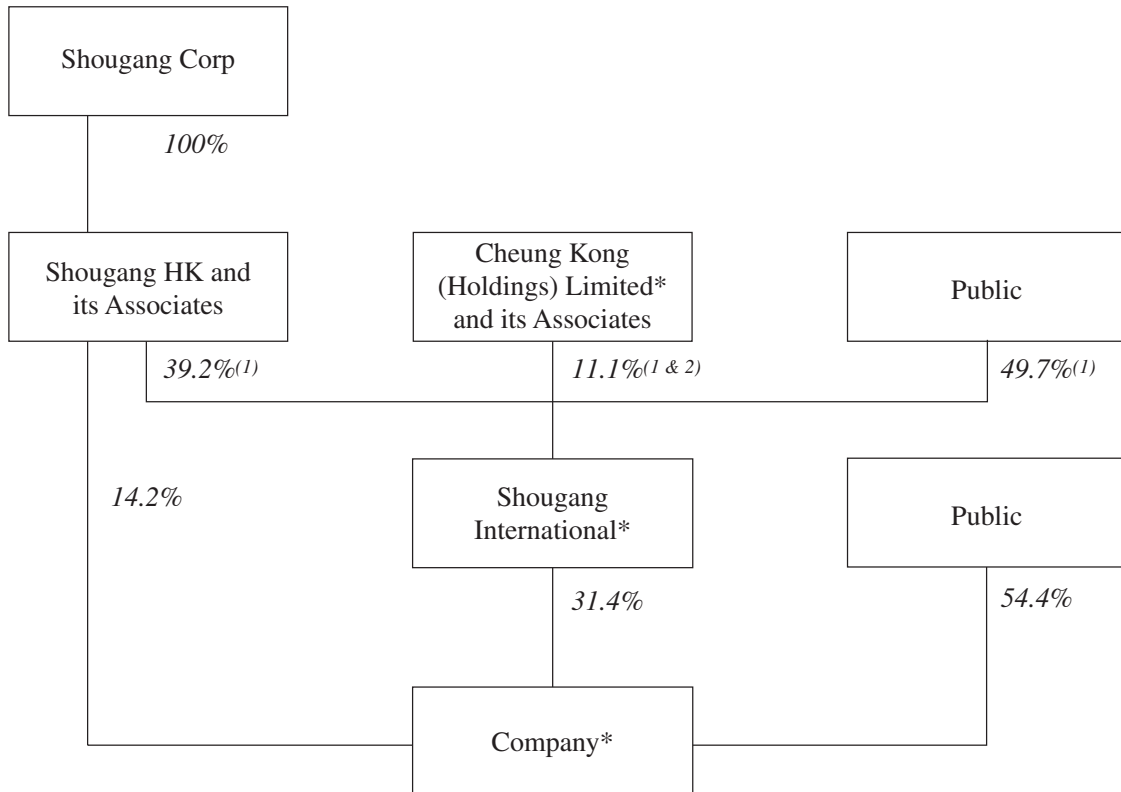
\* *Listed on the Stock Exchange*

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## LETTER FROM THE BOARD

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### Shareholding structure upon completion of the Proposed SHHK Subscription



*Notes:*

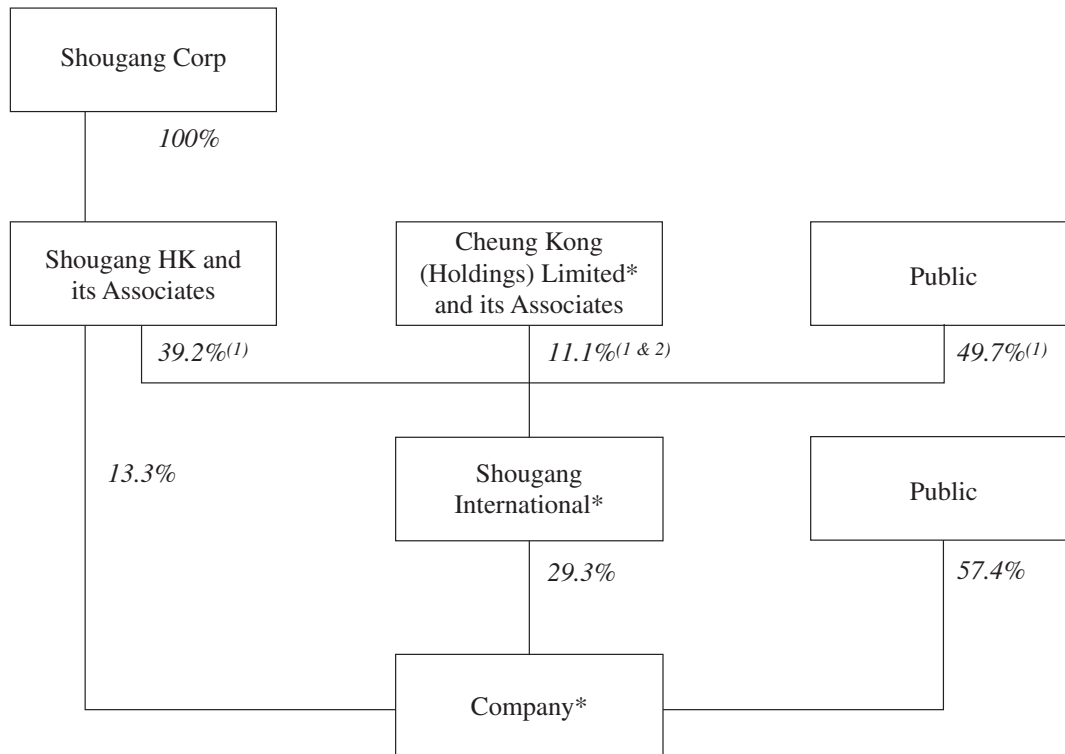
(1) *The shareholding interest in Shougang International held by Shougang HK and its Associates will be approximately 51.4% upon full conversion of the convertible note of Shougang International held by a wholly-owned subsidiary of Shougang HK at the initial conversion price of HK\$0.35 per share, further details of which are set out in the shareholders' circular of Shougang International dated 17 May 2002.*

(2) *This is the latest shareholding information of Cheung Kong (Holdings) Limited and its Associates as recorded in the register required to be kept by Shougang International under the SFO.*

\* *Listed on the Stock Exchange*

## LETTER FROM THE BOARD

### Shareholding structure upon completion of the Proposed SHHK Subscription and the Proposed Placement



Notes:

- (1) The shareholding interest in Shougang International held by Shougang HK and its Associates will be approximately 51.4% upon full conversion of the convertible note of Shougang International held by a wholly-owned subsidiary of Shougang HK at the initial conversion price of HK\$0.35 per share, further details of which are set out in the shareholders' circular of Shougang International dated 17 May 2002.
- (2) This is the latest shareholding information of Cheung Kong (Holdings) Limited and its Associates as recorded in the register required to be kept by Shougang International under the SFO.

\* Listed on the Stock Exchange

### REASONS FOR THE PROPOSED SHHK SUBSCRIPTION AND THE PROPOSED PLACEMENT, AND THE USE OF PROCEEDS

The principal activities of the Group include the manufacturing and sale of steel cords, processing and trading of copper and brass products and property investment. The Company intends to apply the net proceeds of approximately HK\$57.3 million from the Proposed SHHK Subscription and the Proposed Placement for its investment in Jiaying Eastern, further details of which are set out below, and for general corporate and working capital requirements of the Group.

Jiaying Eastern is owned as to 71.8%, 10.2% and 18.0% by the Company, a wholly-owned subsidiary of Everbest Century Holdings Limited ("Everbest"), a company listed on the Stock Exchange whose single largest shareholder is Mr. Chan Chun Keung (who owns approximately 27.3% of Everbest), and Mottingham Investments Limited, a company incorporated in the British Virgin Islands and beneficially owned as to 50% by Cheung Kong (Holdings) Limited and 50% by Canadian Imperial Bank of Commerce, a financial institution incorporated in Canada, respectively. Everbest is independent of and not connected with the Company, the Company's directors, chief executives or substantial shareholders or any of their

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## LETTER FROM THE BOARD

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respective subsidiaries or associates (as defined in the Listing Rules). Cheung Kong (Holdings) Limited is a substantial shareholder of Shougang International. Jiaxing Eastern is principally engaged in the manufacturing of steel cords in the PRC. Jiaxing Eastern ranked third, in terms of production volume, in the PRC steel cord manufacturing industry and has an estimated market share of approximately 10% of the total sales of steel cords for radial tyre manufacturing industry in the PRC in 2002. Jiaxing Eastern recorded an audited operating profit of approximately HK\$74.8 million (which included a recovery of bad debts totalling approximately HK\$14.0 million) for the financial year ended 31 December 2002, representing an increase of approximately 129.3% from the financial year ended 31 December 2001. The Board believes the strong economic growth in the PRC, specifically the rapid development of the domestic motor vehicles market and freeway and expressway network, will continue to boost the demand for radial tyres, and hence the demand for steel cords as steel cord is one of the raw materials required for the production of radial tyres. Jiaxing Eastern is one of the major suppliers of steel cords to the PRC radial tyre manufacturers, which in turn are the major suppliers of radial tyres to automobile manufacturers in the PRC. Accordingly, the Board is confident in the future prospects of Jiaxing Eastern. In view of this, the Group has expanded the annual production capacity of Jiaxing Eastern to approximately 12,000 tonnes of steel cord, which has already commenced operation during the first quarter of 2003. In addition, the Group has planned to further expand the annual production capacity of Jiaxing Eastern progressively in the coming three years to 30,000 tonnes of steel cord per annum. The total investment in this respect is expected to be in the region of approximately HK\$300-350 million of which approximately HK\$140 million is expected to be incurred in 2003. The Board believes that the aforesaid expansion of the production capacity of Jiaxing Eastern would enable it to maintain its leading position in the PRC steel cord manufacturing industry. The Board has not yet decided such investment structure (including whether the aforesaid required investment would be in the form of capital investment and/or shareholder's loan to Jiaxing Eastern and the respective contributions by each of the shareholders of Jiaxing Eastern, which will be subject to arm's length negotiations among the parties involved, and in the event that the contributions by the respective shareholders of Jiaxing Eastern are not on a proportional basis, the Company will comply with the relevant requirements under Chapter 14 of the Listing Rules) and further announcement(s) will be made in this respect, if required, according to the relevant requirements under the Listing Rules and/or the Takeovers Code.

The Group intends to finance the investment in Jiaxing Eastern by the net proceeds from the Proposed SHHK Subscription and the Proposed Placement, and its internal working capital and bank loans.

Before entering into the Subscription Agreement and the Placing Agreement, the Board has considered other methods of funding such as bank financing. Having considered the aforesaid required funding for the investment in Jiaxing Eastern, and that the Proposed SHHK Subscription and the Proposed Placement would reduce the required internal resources of the Group as well as the need for external bank borrowings and at the same time strengthen the Group's capital base, the Board is of the view that the entering into the Subscription Agreement and the Placing Agreement to be in the interest of the Group.

### **FINANCIAL EFFECTS OF THE PROPOSED SHHK SUBSCRIPTION AND THE PROPOSED PLACEMENT**

#### **(a) Earnings**

The Board does not expect any immediate material impact on earnings as a result of the completion of the Proposed SHHK Subscription and the Proposed Placement.

#### **(b) Net assets**

The net asset value of the Group, on a pro forma basis, would increase from approximately HK\$444.5 million (equivalent to approximately HK\$0.581 per Share) as at 31 December 2002 to approximately HK\$481.8 million (equivalent to approximately HK\$0.540 per Share) upon completion of the Proposed SHHK Subscription or approximately HK\$501.8 million (equivalent to approximately HK\$0.525 per Share) upon completion of the Proposed SHHK Subscription and the Proposed Placement. Further details of the adjustments to the net asset value of the Group as a result of the completion of the

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## LETTER FROM THE BOARD

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Proposed SHHK Subscription and the Proposed Placement are set out in the section headed “3. Unaudited pro forma adjusted consolidated net tangible asset value of the Group” in Appendix I to this document.

**(c) Net cash**

The Group had net cash (defined as cash and bank balances add time deposits add pledged time deposits less bank borrowings less finance lease payables) of approximately HK\$5.2 million as at 31 December 2002. On a pro forma basis, the Group would have net cash of approximately HK\$42.5 million upon completion of the Proposed SHHK Subscription or approximately HK\$62.5 million upon completion of the Proposed SHHK Subscription and the Proposed Placement.

### **TAKEOVERS CODE IMPLICATIONS UPON COMPLETION OF THE PROPOSED SHHK SUBSCRIPTION**

As at the Latest Practicable Date, Shougang HK was interested in approximately 39.2% of the existing issued share capital of Shougang International which in turn was interested in approximately 36.6% of the existing issued share capital of the Company. Under Rule 26 of the Takeovers Code, the Concert Parties would be obliged to make a mandatory general offer to acquire all the Shares other than those already owned by the Concert Parties upon completion of the Subscription Agreement as their aggregate shareholding interest in the Company will increase by more than 2% within a 12-month period as a result of the completion of the Proposed SHHK Subscription (from the existing holding of approximately 36.6% to approximately 45.6% upon completion of the Proposed SHHK Subscription or approximately 42.6% upon completion of the Proposed SHHK Subscription and the Proposed Placement). The Concert Parties have made an application to the Executive to apply for the Whitewash Waiver, the granting of which will be subject to the approval by the Independent Shareholders on votes taken by way of a poll. In view of the Concert Parties' interests in the Proposed SHHK Subscription and the Whitewash Waiver, the Concert Parties together with their respective Associates and any other Shareholders who are interested or involved in the Proposed SHHK Subscription and the Whitewash Waiver will abstain from voting at the Extraordinary General Meeting in respect of the Proposed SHHK Subscription and the Whitewash Waiver. Should the Whitewash Waiver be granted, the Concert Parties will not be required to make a general offer even if their aggregate shareholding interest in the Company increases by more than 2% within a 12-month period resulting from the subscription of the Subscription Shares under the Proposed SHHK Subscription.

The Executive has indicated that the Whitewash Waiver will be granted, subject to the approval of the granting of the Whitewash Waiver by the Independent Shareholders on votes taken by way of a poll at the Extraordinary General Meeting.

### **FUTURE INTENTIONS**

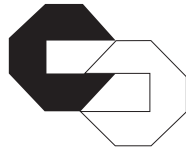
The respective boards of directors of Shougang HK, Shougang International and the Company intend to maintain the existing businesses of the Group upon successful completion of the Subscription Agreement. They do not intend to introduce any major changes to the existing operation and management structure of the Group, or to discontinue the employment of any employees of the Group, or to redeploy any material fixed assets of the Group, as a result of the completion of the Subscription Agreement. Accordingly, the respective boards of directors of Shougang HK, Shougang International and the Company believe that there will be no material change to the existing businesses and employment of the existing employees of the Group as a result of the completion of the Subscription Agreement.

### **FURTHER INFORMATION**

Independent Shareholders are strongly urged to read the letters from the Independent Board Committee and Kim Eng Capital set out on page 14 and pages 15 to 26 of this document respectively before deciding how to vote at the Extraordinary General Meeting.

Shareholders are also urged to read carefully the further information set out in the appendices to this document.

Yours faithfully,  
For and on behalf of the Board  
**Cao Zhong**  
*Chairman*



**Shougang Concord Century Holdings Limited**  
**首長寶佳集團有限公司**

*(Incorporated in Hong Kong with limited liability)*

6 June 2003

*To the Independent Shareholders*

Dear Sir or Madam,

**CONNECTED TRANSACTION**  
**PROPOSED SUBSCRIPTION OF NEW SHARES AND**  
**APPLICATION FOR WHITEWASH WAIVER**

It was announced on 7 May 2003 that the Subscription Agreement was entered into on 6 May 2003, further details of which are set out in the “Letter from the Board” on pages 4 to 13 of the document of the Company dated 6 June 2003 (the “Document”), of which this letter forms part. The terms used in this letter shall have the same meanings as defined in the Document unless the context otherwise required. The Independent Board Committee has been established to give a recommendation to the Independent Shareholders in respect of the Proposed SHHK Subscription and the Whitewash Waiver. Kim Eng Capital has been appointed as the independent financial adviser to advise me in this respect.

Having taken into account the opinion of Kim Eng Capital and, in particular, the factors, reasons and recommendation as set out in its letter on pages 15 to 26 of the Document, I consider that the terms of the Proposed SHHK Subscription and the granting of the Whitewash Waiver by the Executive are fair and reasonable so far as the Independent Shareholders are concerned. Accordingly, I recommend the Independent Shareholders to vote in favour of the resolutions to approve the Proposed SHHK Subscription and the granting of the Whitewash Waiver by the Executive.

Yours faithfully,

For and on behalf of the Independent Board Committee

**Yip Kin Man, Raymond**

*Independent non-executive Director*



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## LETTER FROM KIM ENG CAPITAL

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*The following is the text of a letter of advice from Kim Eng Capital, which has been prepared for the purpose of incorporation into this document, setting out its advice to the Independent Board Committee in connection with the Proposed SHHK Subscription and the Whitewash Waiver.*

# KIM ENG CAPITAL

## **Kim Eng Capital (Hong Kong) Limited**

Room 1901, Bank of America Tower,  
12 Harcourt Road,  
Central, Hong Kong

6 June 2003

*To the Independent Board Committee*

Dear Sirs,

### **CONNECTED TRANSACTION PROPOSED SUBSCRIPTION OF NEW SHARES AND APPLICATION FOR WHITEWASH WAIVER**

#### **INTRODUCTION**

We refer to our appointment as the independent financial adviser to advise the Independent Board Committee in respect of (i) the terms of the Proposed SHHK Subscription; and (ii) the Whitewash Waiver, details of which are set out in the letter from the Board (the “Letter”) contained in this document (the “Document”) dated 6 June 2003 issued by the Company to the Shareholders, of which this letter forms part. Terms used in this letter shall have the same meanings as defined in the Document unless the context requires otherwise.

It was announced on 7 May 2003 that the Subscription Agreement was entered into on 6 May 2003. Pursuant to the Subscription Agreement, the Company has conditionally agreed to issue and the Subscriber has conditionally agreed to subscribe for the Subscription Shares at HK\$0.315 each. It was also announced on 7 May 2003 that the Placing Agreement was entered into on 6 May 2003. Pursuant to the Placing Agreement, the Company has conditionally agreed to issue and the Placing Agent has conditionally agreed, on a fully-underwritten basis, to procure independent placee(s) to subscribe for the Placing Shares at HK\$0.315 each.

Shougang HK was interested in approximately 39.2% of the existing issued share capital of Shougang International which in turn was interested in approximately 36.6% of the existing issued share capital of the Company as at the Latest Practicable Date. The Proposed SHHK Subscription is deemed to

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## LETTER FROM KIM ENG CAPITAL

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be a connected transaction for the Company under Rule 14.26 of the Listing Rules. Accordingly, the Proposed SHHK Subscription is subject to, amongst other things, the approval by the Independent Shareholders at the Extraordinary General Meeting.

Under Rule 26 of the Takeovers Code, Shougang HK and Shougang International (together referred to as the “Concert Parties”) would be obliged to make a mandatory general offer to acquire all the Shares other than those already owned by the Concert Parties upon completion of the Subscription Agreement as their aggregate shareholding interest in the Company will increase by more than 2% within a 12-month period as a result of the completion of the Proposed SHHK Subscription (from the existing holding of approximately 36.6% to approximately 45.6% upon completion of the Proposed SHHK Subscription or approximately 42.6% upon completion of the Proposed SHHK Subscription and the Proposed Placement). The Concert Parties have made an application to the Executive to apply for the Whitewash Waiver, the granting of which will be subject to the approval by the Independent Shareholders on votes taken by way of a poll at the Extraordinary General Meeting.

Completion of the Subscription Agreement is conditional upon, among other things, the granting of the Whitewash Waiver by the Executive and the approval of the granting of the Whitewash Waiver and the passing of an ordinary resolution for the Subscription Agreement and the issuance of the Subscription Shares under the Subscription Agreement by the Independent Shareholders at the Extraordinary General Meeting by way of a poll.

In view of the Concert Parties’ interests in the Proposed SHHK Subscription and the Whitewash Waiver, the Concert Parties, together with their respective Associates and any other Shareholders who are interested or involved in the Proposed SHHK Subscription and/or the Whitewash Waiver, will abstain from voting at the Extraordinary General Meeting in respect of the Proposed SHHK Subscription and the Whitewash Waiver.

As Mr. Cao Zhong, and Ms. Xu Xianghua are both common directors of Shougang HK, Shougang International and the Company, they are not considered to be sufficiently independent under the Takeovers Code for the purpose of advising the Independent Shareholders in respect of the Proposed SHHK Subscription and the Whitewash Waiver. Mr. Leung Shun Sang, Tony is a director of each of the Company, a subsidiary of Shougang HK and Shougang International, Mr. Li Shaofeng is a director of each of the Company and various subsidiaries of Shougang HK, and Ms. Cheng Xiaoyu had been an employee of Shougang HK in the past two years, and accordingly they are also not considered to be sufficiently independent under the Takeovers Code for the purpose of advising the Independent Shareholders in respect of the Proposed SHHK Subscription and the Whitewash Waiver. Mr. Tong Yihui (also an employee of Shougang HK) and Mr. Tang Kwok Kau are salaried Directors, and Mr. Lai Kam Man is an independent non-executive director of Shougang International and accordingly they are also not considered to be sufficiently independent under the Takeovers Code for the purpose of advising the Independent Shareholders in respect of the Proposed SHHK Subscription and the Whitewash Waiver. As such, the Independent Board Committee comprising Mr. Yip Kin Man, Raymond, an independent non-executive Director, has been established in connection with the Proposed SHHK Subscription and the Whitewash Waiver.

As the independent financial adviser to the Independent Board Committee, our role is to give an independent opinion to the Independent Board Committee for its recommendation to the Independent Shareholders as to whether or not the terms and conditions of the Proposed SHHK Subscription and the Whitewash Waiver are fair and reasonable so far as the Independent Shareholders are concerned.

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## LETTER FROM KIM ENG CAPITAL

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### **BASIS OF OUR OPINION**

In forming our opinion, we have relied on the information and representations as contained in the Document and have assumed that all information and representations made or referred to in the Document were true, accurate and complete at the time when they were made and continue to be true, accurate and complete as at the date of this Document. We have also assumed that all statements of belief, opinion and intention made by the Directors and as contained in the Document were reasonably made by them after their due enquiry and careful consideration and that there are no other facts the omission of which would make any statement in the Document misleading in any respect. Notwithstanding the aforesaid, we consider that we have reviewed sufficient information to reach a reasonably informed view to justify our reliance on the accuracy of the information contained in the Document as aforesaid and to provide reasonable grounds for our advice. Furthermore, we have no reason to doubt the truth, accuracy and/or completeness of the information and representations as provided to us by the Directors. We have not, however, conducted any independent in-depth investigation into any of the business affairs, financial position and/or future prospects of the Group nor have we carried out any independent verification of the information supplied therefor.

### **PRINCIPAL FACTORS AND REASONS CONSIDERED**

In formulating our opinion regarding the terms of the Proposed SHHK Subscription and the Whitewash Waiver, we have taken into consideration the following principal factors and reasons:

#### **The Proposed SHHK Subscription**

##### ***1. Business and operating results of the Group***

The principal activities of the Group include the manufacturing and sale of steel cords, processing and trading of copper and brass products and property investment. As set out in the Company's annual report for the year ended 31 December 2002, the Group recorded an annual turnover of approximately HK\$187.1 million and HK\$234.9 million for the two years ended 31 December 2002 respectively. For the same periods, the Group recorded net profits of approximately HK\$20.1 million and HK\$42.3 million respectively.

As stated in the Letter, Jiaxing Eastern is owned as to 71.8%, 10.2% and 18.0% by the Company, a wholly-owned subsidiary of Everbest Century Holdings Limited ("Everbest") a company listed on the Stock Exchange whose single largest shareholder is Mr. Chan Chun Keung (who owns approximately 27.3% of Everbest), and Mottingham Investments Limited, a company incorporated in the British Virgin Islands and beneficially owned as to 50% by Cheung Kong (Holdings) Limited and 50% by Canadian Imperial Bank of Commerce, a financial institution incorporated in Canada, respectively. Everbest is independent of and not connected with the Company, the Company's directors, chief executives or substantial shareholders or any of their respective subsidiaries or associates (as defined in the Listing Rules). Cheung Kong (Holdings) Limited is a substantial shareholder of Shougang International. Jiaxing Eastern is principally engaged in the manufacturing of steel cords in the PRC. Jiaxing Eastern ranked third, in terms of production volume, in the PRC steel cord manufacturing industry and has an estimated market share of approximately 10% of the total sales of steel cords for radial tyre manufacturing industry in the PRC in 2002. Jiaxing Eastern recorded an audited operating profit of approximately HK\$74.8

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## LETTER FROM KIM ENG CAPITAL

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million (which included a recovery of bad debts totalling approximately HK\$14.0 million) for the financial year ended 31 December 2002, representing an increase of approximately 129.3% from the financial year ended 31 December 2001. According to the Board, the competition in relation to the manufacturing and sale of steel cords remains intense in the PRC. Accordingly, the Group has exerted discernible effort to raise the technical standard, improve the consistency of its product quality and strengthen sales to increase market share for the purpose maintaining the profitability of the business. It was stated in the Letter that the Board believes the strong economic growth in the PRC, specifically the rapid development of the domestic motor vehicles market and freeway and expressway network, will continue to boost the demand for radial tyres, and hence the demand for steel cords as steel cord is one of the raw materials required for the production of radial tyres. Jiaxing Eastern is one of the major suppliers of steel cords to the PRC radial tyre manufacturers, which in turn are the major suppliers of radial tyres to automobile manufacturers in the PRC. Accordingly, the Board is confident in the future prospects of Jiaxing Eastern. In view of this, the Group has expanded the annual production capacity of Jiaxing Eastern to approximately 12,000 tonnes of steel cords, which has already commenced operation during the first quarter of 2003. In addition, the Group has planned to further expand the annual production capacity of Jiaxing Eastern progressively in the coming three years to 30,000 tonnes of steel cords per annum. The total investment in this respect is expected to be in the region of approximately HK\$300-350 million of which approximately HK\$140 million is expected to be incurred in 2003. The Board believes that the aforesaid expansion of the production capacity of Jiaxing Eastern would enable it to maintain its leading position in the PRC steel cord manufacturing industry. The Board has not yet decided such investment structure (including whether the aforesaid required investment would be in the form of capital investment and/or shareholders' loan to Jiaxing Eastern and the respective contributions by each of the shareholders of Jiaxing Eastern, which will be subject to arm's length negotiations among the parties involved, and in the event that the contributions by the respective shareholders of Jiaxing Eastern are not on a proportional basis, the Company will comply with the relevant requirements under Chapter 14 of the Listing Rules) and further announcement(s) will be made in this respect, if required, according to the relevant requirements under the Listing Rules and/or the Takeovers Code. The Group intends to finance the investment in Jiaxing Eastern by the net proceeds from the Proposed SHHK Subscription and the Proposed Placement, and its internal working capital and bank loans.

The following is an extract from the annual reports of the Company in relation to the operational performance of Jiaxing Eastern for the past few years:

### For the year ended 31 December

|                           | 1999<br><i>HK\$'000</i> | 2000<br><i>HK\$'000</i> | 2001<br><i>HK\$'000</i> | 2002<br><i>HK\$'000</i> |
|---------------------------|-------------------------|-------------------------|-------------------------|-------------------------|
| <b>Jiaxing Eastern</b>    |                         |                         |                         |                         |
| Turnover                  | 66,510                  | 90,999                  | 144,593                 | 177,705                 |
| % to the Group            | 24.7                    | 53.8                    | 77.3                    | 75.7                    |
| Operating Profit / (loss) | (10,834)                | 6,833                   | 32,610                  | 74,771                  |
| % to the Group            | 16.2                    | 92.3                    | >100                    | >100<br><i>(Note 2)</i> |
| <b>The Group</b>          |                         |                         |                         |                         |
| Turnover                  | 268,820                 | 169,117                 | 187,139                 | 234,891                 |
| Operating Profit / (loss) | (66,846)                | 7,402                   | 22,543                  | 54,526                  |
|                           | <i>(Note 1)</i>         |                         |                         |                         |

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## LETTER FROM KIM ENG CAPITAL

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*Note 1: As we were given to understand from the Company and based on the information stated in the annual report of the Company for the year ended 1999, the loss was due mainly to the reasons that the operation of Jiaxing Eastern commenced in year 1997 and that the Company was still in the process of enhancing its product quality and securing sales for its products in that year.*

*Note 2: The improvement of operating results for both the Group and Jiaxing Eastern since 1999 was mainly due to (i) the improvement in technical standard; (ii) better control of product quality; and (iii) increasing demand for steel cords.*

As discussed above, Jiaxing Eastern is one of the major suppliers of steel cords to the PRC radial tyre manufacturers, which in turn are the major suppliers of radial tyres to automobile manufacturers in the PRC. According to the statistics from the National Bureau of Statistics, we noted that the overall output of vehicles in the PRC exceeded 3,200,000 vehicles in year 2002 and represented an increase of over 35% compared with the output of year 2001. According to the statistics from China Association of Automobile Manufacturers, the overall output of vehicles in the PRC exceeded 1,360,000 vehicles from January to April 2003 and represented an increase of over 39% compared that with the same period of year 2002.

Although we have not conducted any in-depth review on the business of the Group and its future prospect, after assessing the Directors' opinions and representations and taken into account our understanding of the economic growth in the PRC and the information discussed above, it is reasonable to anticipate that the demand for steel cords will continue to increase in the coming years. We were given to understand from the Company that, based on the availability of limited public/published information, the competition with respect to steel cord manufacturing business is high in the PRC yet establishing the business of the same nature as Jiaxing Eastern would require significant capital investment and a lengthy period of testing and implementation to bring the business to a sizeable operation. Given that Jiaxing Eastern has been in operation since 1997 and taken into consideration the past operating results of Jiaxing Eastern (as shown above, the turnover and operating results of Jiaxing Eastern have increased substantially since 1999) and its estimated market position as shown above, the extent of contribution of the results of Jiaxing Eastern to the operating results of the Group for the past few years, the economic growth and the trend of increasing demand in steel cords (as supported by the statistics mentioned above) in the PRC, we consider that having additional investment (which shall be financed partly by part of the net proceeds generated from the Proposed SHHK Subscription and the Proposed Placement) in and hence increasing the production capacity of Jiaxing Eastern is in the interest of the Company and its Shareholders as a whole and is a right move for the Group. In the event that the Company fails to complete the Subscription Agreement, the Group has to resort to financing the planned additional investment in Jiaxing Eastern by means of other means, which will likely be additional bank borrowings. The consequences of which will be an increase in finance cost and the gearing ratio of the Group. This, in our view, is not beneficial to the Company and its Shareholders as a whole in the long run. In the event that the expansion of the production capacity in Jiaxing Eastern fails to materialize because of one reason or the others, it is the Directors' view that there would be no immediate material impact on the operating results of Jiaxing Eastern. However, given the economic growth and the increasing demand of steel cords in the PRC, we consider that it will not be in the interest of the Company and its Shareholders as a whole to miss the opportunity of enhancing the business operations of Jiaxing Eastern.

It was also stated in the Letter that before entering into the Subscription Agreement and the Placing Agreement, the Board has considered other methods of funding such as bank financing. Having considered the aforesaid required funding for the investment in Jiaxing Eastern, and that the Proposed SHHK Subscription and the Proposed Placement would reduce the required internal resources of the

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## LETTER FROM KIM ENG CAPITAL

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Group as well as the need for external bank borrowings and at the same time strengthen the Group's capital base, the Board is of the view that the entering into the Subscription Agreement and the Placing Agreement to be in the interest of the Group. Having considered the amount of additional capital required for the investment in Jiaxing Eastern, the extent of dilution and other effects that may bring to the existing Independent Shareholders by means of any rights issue, the interest costs that the Group has to carry by means of bank borrowing and/or issue of convertible bonds, we concur that the issue of new Shares under the Proposed SHHK Subscription will be the best means of raising part of the capital required for the additional investment in Jiaxing Eastern.

### **2. *Financial position of the Group***

In formulating our opinion on the Proposed SHHK Subscription, we have considered the following financial aspects of the Group.

#### *(a) Net cash*

The Group had net cash (defined as cash and bank balances add time deposits add pledged time deposits less bank borrowings less finance lease payables) of approximately HK\$5.2 million as at 31 December 2002.

#### *(b) Net assets*

As shown in Appendix I to the Document, the Group had net assets of approximately HK\$393.7 million and HK\$444.5 million as at 31 December 2001 and 31 December 2002 respectively. The audited consolidated net asset value per Share as at 31 December 2002 was approximately HK\$0.581.

#### *(c) Earnings*

As shown in Appendix I to the Document, the Group recorded a net profit of approximately HK\$20.1 million and approximately HK\$42.3 million for the two years ended 31 December 2002 respectively, representing earnings per Share of 2.62 cents and 5.52 cents for the respective financial years.

### **3. *Principal terms of the Subscription Agreement***

As stated in the Letter, the principal terms and conditions of the Subscription Agreement were arrived at after arm's length negotiation between the parties involved and are summarised below:

Date of the Subscription Agreement: 6 May 2003

Subscriber: Shougang HK and/or its nominee(s)

Issuer: The Company

Number of Subscription Shares: The 126,984,000 new Shares to be issued under the Subscription Agreement

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## LETTER FROM KIM ENG CAPITAL

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|                                     |   |
|-------------------------------------|---|
| Subscription price:                 | HK\$0.315 per Share (the “Subscription Price”)  |
| Ranking of the Subscription Shares: | The Subscription Shares, when fully paid, will rank pari passu in all respects with the existing Shares in issue as at the date of the issue of the Subscription Shares   |
| Lock-up period:                     | Shougang HK has undertaken to the Company that it will not sell or otherwise dispose of any of the Subscription Shares on or before the date which is six months after the completion of the Subscription Agreement |

It should be noted that the Subscription Price under the Proposed SHHK Subscription is the same as the issue price of the Placing Shares. We have been given to understand that the Placing Shares will be issued to independent placee(s) and the principal terms of the Proposed SHHK Subscription are the same as the Proposed Placement, save and except for an undertaking from Shougang HK with respect to the lock-up period as mentioned above. It was also noted that completion of the Placing Agreement is conditional upon the completion of the Subscription Agreement.

(a) *Comparison of the Subscription Price with the market price per Share*

The following chart sets out the daily historical closing price of the Shares traded on the Stock Exchange starting from June 2002, one year prior to the month of release of the announcement in respect of the Proposed SHHK Subscription, the Whitewash Waiver and the Proposed Placement (the “Announcement”), and the latest period up to and including the Latest Practicable Date.



Source: Bloomberg



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## LETTER FROM KIM ENG CAPITAL

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As shown in the above chart, the market price of the Shares increased from HK\$0.22 since January 2003 and reached HK\$0.37 on 9 April 2003 and thereafter traded within the range of HK\$0.30 to HK\$0.36. Since the resumption of trading of the Shares after the Announcement and up to the Latest Practicable Date, the Shares were traded between the range from HK\$0.33 to HK\$0.39.

As stated in the Letter, the Subscription Price was negotiated between the parties involved on an arm's length basis and represents:

- (i) a discount of approximately 8.7% to the closing price of HK\$0.345 per Share as quoted on the Stock Exchange on 6 May 2003, being the date of the Subscription Agreement;
- (ii) a discount of approximately 6.8% to the average closing price of approximately HK\$0.338 per Share over the last five consecutive trading days up to and including 6 May 2003;
- (iii) a discount of approximately 5.1% to the average closing price of approximately HK\$0.332 per Share over the last ten consecutive trading days up to and including 6 May 2003; and
- (iv) a discount of approximately 13.7% to the closing price of HK\$0.365 per Share as quoted on the Stock Exchange on the Latest Practicable Date.

(b) *Price earning multiples*

The following is a table prepared for the purpose of comparing the price earning multiples ("PE ratio") of the Company and those of the other similar companies which we consider to be suitable comparables in view of the business involved by these companies and, to the best of our knowledge, represent a complete list of those companies that are engaged in the manufacturing of steel products business and listed on the Stock Exchange:

|   |  | <b>PE ratio<br/>on the Latest<br/>Practicable Date<br/>(Note 1)</b> | <b>PE ratio<br/>on 7 May<br/>2003</b>       |
|---|--|---|---|
| Chongqing Iron & Steel Co. Ltd.<br>(Stock code: 1053) | Manufacture and sale of steel products such as medium-gauge steel plates and steel sections and wire rods  | 5.74  | 4.18  |
| <b>The Company</b>                                    | <b>Manufacturing and sale of steel cords, processing and trading of copper and brass products and property investment</b>  | <b>5.7<br/>(Note 2)</b>   | <b>6.16</b>                                 |
| Angang New Steel Co. Ltd.<br>(Stock code: 347)        | Production and sale of billets, wire rods, thick plates, cold rolled sheets and large steel products   | 8.49  | 6.34  |
| Maanshan Iron & Steel Co. Ltd.<br>(Stock code: 323)   | Manufacture and sale of iron steel products, and other products such as coke, pig iron and coking chemical products  | 22.0  | 14.67                                       |
| Shougang International<br>(Stock code: 697)           | Manufacturing, sale and trading of steel products, manufacturing and installation of kitchen and laundry equipment, shipping, property investment and management services business | N/A<br>(Loss for the latest financial year)                         | N/A<br>(Loss for the latest financial year) |



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## LETTER FROM KIM ENG CAPITAL

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*Note 1: Save for the Company, the PE ratio is calculated with reference to the trading price per share on the Latest Practicable Date divided by the earnings per share (based on the respective companies' latest annual results)*

*Note 2: The Company's PE ratio of 5.7 is calculated with reference to the Subscription Price of HK\$0.315 divided by the earnings per Share of HK\$0.0552 (based on the Company's annual results for the year ended 31 December 2002).*

When compared to the range of the PE ratio of the aforesaid comparable companies, the PE ratio of the Company with respect to the Subscription Price is within the range of those comparable companies.

*(c) Conclusion*

The subscription price for any issue of new shares for a company with business operation similar to that of the Company, the performance of which is assessed based on its operating profits, is normally determined with reference to the latest average market price of the shares of that company and not its net asset value. For a company, such as the Company, which is involved in manufacturing and sale of a product, the PE ratio is the most appropriate way of assessing that company's value and the net asset value will not be as appropriate as the assets maintained by such companies will only be of value if they are able to generate any profits from operations, otherwise, their net realizable value especially upon immediate disposition will be of no significant value. Accordingly, no comparison of the Subscription Price is made with the net asset value per share of the Company as it is considered to be irrelevant. It should be noted that the terms and conditions of the Subscription Agreement are the same as the Proposed Placement and in addition, Shougang HK agreed to a lock-up period provision in respect of the Subscription Shares which is not provided by the independent placee(s). Taken into consideration the matters discussed above, we are of the view that the discount of the Subscription Price to the prevailing market price of the Shares is acceptable in the circumstances and is considered to be fair and reasonable.

#### **4. Effects of the Proposed SHHK Subscription**

*(a) Net cash*

The Group would have net cash (calculated based on the formula stated in paragraph 2 above) of approximately HK\$42.5 million upon completion of the Proposed SHHK Subscription (equivalent to approximately HK\$0.0476 per Share) or approximately HK\$62.5 million upon completion of the Proposed SHHK Subscription and the Proposed Placement (equivalent to approximately HK\$0.0654 per Share). Please refer to our discussion in paragraph 1 above.

*(b) Net assets*

The net asset value of the Group, on a pro forma basis, would increase from approximately HK\$444.5 million (equivalent to approximately HK\$0.581 per Share) as at 31 December 2002 to approximately HK\$481.8 million (equivalent to approximately HK\$0.540 per Share) upon completion of the Proposed SHHK Subscription or approximately HK\$501.8 million (equivalent to approximately HK\$0.525 per Share) upon completion of the Proposed SHHK Subscription and the Proposed Placement. Please refer to our discussion in paragraph 3 above.

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## LETTER FROM KIM ENG CAPITAL

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(c) *Earnings*

As stated in the Letter, the Board does not expect any immediate material impact on earnings as a result of the completion of the Proposed SHHK Subscription and the Proposed Placement. Please refer to our discussions in paragraphs 1 and 3 above.

(d) *Dilution of the Independent Shareholders' interests in the Company*

The effects of the Proposed SHHK Subscription on the shareholding structure of the Company are set out in the Letter. Immediately upon completion of the Proposed SHHK Subscription, the Independent Shareholders' interest in the Company will be diluted by approximately 9% which, in our view, is acceptable.

(e) *Effect to existing controlling shareholder, board of directors and management of the Company*

As stated in the Letter, the respective boards of directors of Shougang HK, Shougang International and the Company intend to maintain the existing business of the Group upon successful completion of the Subscription Agreement. They do not intend to introduce any major changes to the existing operation and management structure of the Group, or to discontinue the employment of any employees of the Group, or to redeploy any material fixed assets of the Group, as a result of the completion of the Subscription Agreement. We consider such intention is in the interests of the Company and its Shareholders in view of the operational results achieved by the Group in the past years (details of which are set out above).

(f) *Conclusion*

Although the aggregate percentage shareholding of the existing Independent Shareholders will be reduced by approximately 9% as a result of the Proposed SHHK Subscription, the net cash and net asset positions of the Group will be improved. Taking into account the above factors and the potential effect to the business operations of the Group as discussed in paragraph 1 above, we concur with the Directors' view that the Proposed SHHK Subscription is in the interest of the Company and the Shareholders as a whole and the dilution to existing Independent Shareholders is acceptable in the circumstances.

### **5. *Our advice with respect to the terms of the Proposed SHHK Subscription***

In formulating our opinion on the fairness and reasonableness of the Proposed SHHK Subscription and their terms, we have taken into account the following factors:

- (a) The total net asset of the Group will increase from approximately HK\$444.5 million to approximately HK\$481.8 million after completion of the Proposed SHHK Subscription and the net asset value per Share will decrease from HK\$0.581 before the Proposed SHHK Subscription to HK\$0.540 upon completion of the Proposed SHHK Subscription.

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## LETTER FROM KIM ENG CAPITAL

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- (b) The Group could capture the strong growth of the PRC economy and expand the annual production capacity of Jiaying Eastern in the coming three years to 30,000 tonnes from its existing annual production capacity of approximately 12,000 tonnes of steel cords.
- (c) We are of the view that the dilution effect of the Proposed SHHK Subscription on the Shareholders' interests in the Company is acceptable in the circumstances given the potential effect to the business operations of the Group.
- (d) The Subscription Price is the same as the issue price of the Shares to independent placee(s) under the Proposed Placement. In addition, Shougang HK has undertaken to the Company that it will not sell or otherwise dispose of any of the Subscription Shares on or before the date which is six months after the completion of the Subscription Agreement.
- (e) The PE ratio of the Subscription Price is within the range of those comparable companies as discussed in paragraph 3 above.

Taking into account of the above factors, we are of the opinion that the Proposed SHHK Subscription is in the interest of the Company and its Shareholders (including the Independent Shareholders) as a whole and the terms of which are fair and reasonable so far as the Independent Shareholders are concerned.

### **The Whitewash Waiver and the effect of approval for granting the Whitewash Waiver**

The Proposed SHHK Subscription is conditional upon, among other things, the granting of the Whitewash Waiver by the Executive. The Concert Parties have made an application pursuant to Note 1 to the Notes on Dispensations from Rule 26 of the Takeovers Code to the Executive for such Whitewash Waiver. The Executive has indicated that the Whitewash Waiver will be granted subject to the approval of the granting of the Whitewash Waiver by the Independent Shareholders on votes taken by way of poll at the Extraordinary General Meeting. In the event that the Whitewash Waiver is not approved by the Independent Shareholders, the Proposed SHHK Subscription will lapse and the Subscription Agreement will not proceed. In that case, the obligation of Shougang HK and Shougang International to make a mandatory general offer will not arise.

Taking into account the effects and the potential benefits to the Company by reasons aforesaid, we concur with the Directors' view that the Proposed SHHK Subscription is beneficial to the Independent Shareholders. In light of the aforesaid, we are of the opinion that granting of the Whitewash Waiver is fair and reasonable to the Company and its Shareholders as a whole and is in the interest of the Independent Shareholders.

### **RECOMMENDATION**

Having considered the principal factors and reasons set out in this letter, we are of the view that the Proposed SHHK Subscription is in the interest of the Company and its Shareholders (including the Independent Shareholders) as a whole and that the terms of the Proposed SHHK Subscription are fair and reasonable so far as the Independent Shareholders are concerned. We are also of the opinion that the

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granting of the Whitewash Waiver is in the interest of the Company and its Shareholders as a whole and is fair and reasonable so far as the Independent Shareholders are concerned, given that the Whitewash Waiver is a condition precedent to the Subscription Agreement. We, accordingly, advise the Independent Board Committee to recommend the Independent Shareholders to vote in favour of the respective resolutions in relation to the Proposed SHHK Subscription and the Whitewash Waiver to be proposed at the Extraordinary General Meeting.

Yours faithfully,  
For and on behalf of  
**Kim Eng Capital (Hong Kong) Limited**  
**Winnie Kong**  
*Director*

## 1. SHARE CAPITAL

The authorised and issued share capital of the Company (a) as at the Latest Practicable Date; (b) upon completion of the Proposed SHHK Subscription; and (c) upon completion of the Proposed SHHK Subscription and the Proposed Placement were and will be as follows:

|  |                 |
|--|-----------------|
| <i>Authorised as at the Latest Practicable Date:</i>   | <i>HK\$'000</i> |
| 1,000,000,000 Shares   | <u>100,000</u>  |
| <i>Issued and to be issued and fully paid:</i>   |                 |
| 765,372,000 Shares in issue as at the Latest Practicable Date  | 76,537          |
| 126,984,000 new Shares to be allotted and issued upon completion of the Proposed SHHK Subscription       | <u>12,698</u>   |
| 892,356,000 Shares in issue upon completion of the Proposed SHHK Subscription                            | <u>89,235</u>   |
| 63,492,000 new Shares to be allotted and issued upon completion of the Proposed Placement                | <u>6,349</u>    |
| 955,848,000 Shares in issue upon completion of the Proposed SHHK Subscription and the Proposed Placement | <u>95,584</u>   |

All of the Shares currently in issue rank pari passu in all respects with each other, including, in particular, as to dividends, voting rights and capital. No part of the share capital of the Company is listed or dealt in any other stock exchange other than the Stock Exchange and no application has been made or is currently proposed or sought for the Shares to be listed or dealt in any other stock exchange. No new Shares have been issued since 31 December 2002 (the date to which the latest audited financial statements of the Group were made up) and up to the Latest Practicable Date. All of the new Shares to be allotted and issued upon completion of the Proposed SHHK Subscription and the Proposed Placement will rank pari passu in all respects with the Shares in issue as at the date when the Subscription Shares and the Placing Shares are issued.

There were a total of 76,524,000 share options of the Company outstanding as at the Latest Practicable Date which were granted to directors, employees and consultants of the Company under the share option scheme of the Company adopted on 7 June 2002. These share options can be exercised into 76,524,000 Shares in aggregate. A total of 38,642,000 of these 76,524,000 share options were held by parties acting in concert with Shougang HK and/or Shougang International as at the Latest Practicable Date, further details of which are set out under the section headed “2. Disclosure of interests and dealings” in Appendix II to this document.

Save as set out herein, there were no other options, warrants, derivatives or convertible securities of the Company outstanding as at the Latest Practicable Date.

## 2. AUDITED FINANCIAL INFORMATION

## (a) Summary of audited financial results for the three years ended 31 December 2002

The following is a summary of the audited consolidated profit and loss accounts of the Group for the three years ended 31 December 2002.

|  | Year ended 31 December |                  |                  |
|--|------------------------|------------------|------------------|
|  | 2002<br>HK\$'000       | 2001<br>HK\$'000 | 2000<br>HK\$'000 |
| TURNOVER   | 234,891                | 187,139          | 169,117          |
| PROFIT FROM<br>OPERATING ACTIVITIES                                    | 54,526                 | 22,543           | 7,402            |
| Finance costs  | (2,024)                | (4,969)          | (10,465)         |
| Share of profits and losses of<br>jointly controlled entities          |                        |                  |                  |
| Continuing operations  | 6,853                  | 7,198            | 9,558            |
| Discontinued operations  | –                      | –                | (1,016)          |
| Share of profit of an associate  | 4,885                  | 4,733            | 4,590            |
| PROFIT BEFORE TAX  | 64,240                 | 29,505           | 10,069           |
| Tax  | (1,638)                | (2,157)          | (6,895)          |
| PROFIT BEFORE<br>MINORITY INTERESTS                                    | 62,602                 | 27,348           | 3,174            |
| Minority interests   | (20,319)               | (7,287)          | 1,565            |
| NET PROFIT FROM<br>ORDINARY ACTIVITIES<br>ATTRIBUTABLE TO SHAREHOLDERS | 42,283                 | 20,061           | 4,739            |
| DIVIDEND   | –                      | –                | –                |
| EARNINGS PER SHARE –<br>Basic  | HK5.52 cents           | HK2.62 cents     | HK0.62 cent      |
| DIVIDEND PER SHARE   | –                      | –                | –                |

The Group had no extraordinary or exceptional items for the three years ended 31 December 2002.

**(b) Latest audited financial statements**

The following is an extract of the audited financial statements of the Group for the latest financial year ended 31 December 2002:

**Consolidated Profit and Loss Account**

*Year ended 31 December 2002*

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

## Consolidated Balance Sheet

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



**Consolidated Summary Statement of Changes in Equity**  
*Year ended 31 December 2002*

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

**Consolidated Cash Flow Statement***Year ended 31 December 2002*

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

**Consolidated Cash Flow Statement (continued)***Year ended 31 December 2002*

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

**Balance Sheet**

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

## Notes to Financial Statements

### 1. CORPORATE INFORMATION

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

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

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

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

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

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

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

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

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

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

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### **Basis of preparation**

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

#### **Basis of consolidation**

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

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

#### **Subsidiaries**

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

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

#### **Joint venture companies**

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

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

A joint venture company is treated as:

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

**Jointly controlled entities**

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

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

The results of jointly controlled entities are included in the Company's profit and loss account to the extent of dividends received and receivable. The Company's interests in jointly controlled entities are treated as long term assets and are stated at cost less any impairment losses.

**Associates**

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

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

**Goodwill**

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

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

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

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

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

**Negative goodwill**

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

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

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

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

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

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

#### **Impairment of assets**

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

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

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

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

#### **Fixed assets and depreciation**

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

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



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

|                                   |  |
|-----------------------------------|--|
| Leasehold land and buildings      | Over the estimated useful life of 25 to 50 years |
| Leasehold improvements            | 20% – 25%  |
| Plant and machinery               | 4% – 30%   |
| Furniture, fixtures and equipment | 9% – 30%   |
| Motor vehicles                    | 11% – 30%  |

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

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

#### **Investment properties**

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

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

#### **Club memberships**

Club memberships are stated at cost less any impairment losses.

#### **Long term investment**

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

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

#### **Land use rights**

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

Changes in the value of land use rights are dealt with as movements in the land use rights revaluation reserve. If the total of this reserve is insufficient to cover a deficit, on an individual asset basis, the excess of the deficit is charged to the profit and loss account. Any subsequent revaluation surplus is credited to the profit and loss account to the extent of the deficit previously charged. On disposal of a revalued asset, the relevant portion of the land use rights revaluation reserve realised in respect of previous valuations is transferred to retained profits/accumulated losses as a movement in reserves.

**Properties for sale**

Properties for sale, consisting of completed properties and properties under development intended for sale, are classified as current assets and are stated at the lower of cost and net realisable value. Costs include all development expenditure and other direct costs attributable to such properties. Net realisable value is determined by reference to prevailing market prices on an individual property basis less any estimated costs to be incurred to disposal.

**Properties under development**

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

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

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

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

**Leased assets**

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

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

**Inventories**

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

**Deferred tax**

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

**Revenue recognition**

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

- (a) from the sales of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;

- (b) interest income, on a time proportion basis taking into account the principal outstanding and the effective interest rate applicable;
- (c) rental income, on a time proportion basis over the lease terms;
- (d) dividends, when the shareholders' right to receive payment is established;
- (e) revenue from the sale of completed properties, upon the execution of the sales agreement; and
- (f) revenue from the pre-sale of properties, on the basis set out under the heading "Properties under development" above.

**Foreign currencies**

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

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

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

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

**Employee benefits***Paid leave carried forward*

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

*Employment Ordinance long service payments*

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

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

*Share option scheme*

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

*Retirement benefits scheme*

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

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

**Related parties**

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

**Cash and cash equivalents**

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

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

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

**4. SEGMENT INFORMATION**

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

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

different from those of the other business segments. Summary details of the business segments are as follows:

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

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

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

**(a) Business segments**

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

**Group**

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

**Group**

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

**(b) Geographical segments**

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

**Group**

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

## 5. TURNOVER, REVENUE AND GAINS

The Group's turnover represents the net invoiced value of goods sold after allowances for returns and trade discounts, and commission and gross rental income. All significant intercompany transactions are eliminated on consolidation.

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

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

## 6. PROFIT FROM OPERATING ACTIVITIES

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

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

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

## 7. FINANCE COSTS

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



**8. DIRECTORS' REMUNERATION**

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

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

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

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

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

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

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

**9. FIVE HIGHEST PAID INDIVIDUALS**

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

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

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

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

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

| 10. TAX                                   | 2002<br><i>HK\$'000</i> | 2001<br><i>HK\$'000</i> |
|---|-------------------------|-------------------------|
| Group:                                    |                         |                         |
| Hong Kong                                 |                         |                         |
| Underprovision in prior years             | –                       | 49                      |
| Mainland China                            |                         |                         |
| Provision for the year                    | 21                      | 187                     |
| Overprovision in prior years              | (14)                    | –                       |
| Arising from the disposal of a subsidiary | –                       | 356                     |
|   | <u>7</u>                | <u>592</u>              |
| Jointly controlled entities:              |                         |                         |
| Mainland China                            | 876                     | 798                     |
| Associate:                                |                         |                         |
| Mainland China                            | <u>755</u>              | <u>767</u>              |
| Tax charge for the year                   | <u><u>1,638</u></u>     | <u><u>2,157</u></u>     |

No provision for Hong Kong profits tax has been made as the Group did not have any assessable profits arising in Hong Kong during the year. The income tax in Mainland China is calculated at the applicable tax rates on the estimated assessable profits for the year based on existing legislation, interpretation and practices in respect thereof. In accordance with the relevant tax rules and regulations in Mainland China, certain of the Group's subsidiaries, jointly controlled entities and associate in Mainland China enjoy income tax exemptions and reductions.

#### 11. NET LOSS FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS

The net loss from ordinary activities attributable to shareholders dealt with in the financial statements of the Company is HK\$2,591,000 (2001: net profit of HK\$1,818,000). The Group's share of profits retained by the jointly controlled entities and an associate for the year amounted to HK\$5,977,000 (2001: HK\$6,400,000) and HK\$4,130,000 (2001: HK\$3,966,000), respectively.

#### 12. EARNINGS PER SHARE

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

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

## 13. FIXED ASSETS

## Group

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

## Company

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

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

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

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

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

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

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

#### 14. LAND USE RIGHTS

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

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

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

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

#### 15. INTERESTS IN SUBSIDIARIES

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

The balances with subsidiaries are unsecured, interest-free and have no fixed terms of repayment, except for an advance to a subsidiary amounting to approximately HK\$14,043,000 (2001: HK\$27,974,000) which bears interest at LIBOR plus 3% per annum and is repayable after more than one year.

Particulars of the Company's principal subsidiaries are set out in note 34 to the financial statements.

#### 16. INTERESTS IN JOINTLY CONTROLLED ENTITIES

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

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

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

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

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

## 17. INTERESTS IN ASSOCIATES

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

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

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

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

## 18. CLUB MEMBERSHIPS

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

## 19. LONG TERM INVESTMENT

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

## 20. INVENTORIES

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

**21. TRADE RECEIVABLES**

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

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

**22. PLEDGED TIME DEPOSITS**

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

**23. TRADE PAYABLES**

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

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

**24. INTEREST-BEARING BANK AND OTHER BORROWINGS, SECURED**

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

## 25. INTEREST-BEARING BANK LOANS, SECURED

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

The Group's bank loans are secured by:

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

## 26. FINANCE LEASE PAYABLES

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

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



**27. PROVISION FOR LONG SERVICE PAYMENTS**

|                              | <b>Group</b>    |                 |
|------------------------------|-----------------|-----------------|
|                              | <b>2002</b>     | <b>2001</b>     |
|                              | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Balance at beginning of year | –               | –               |
| Provision for the year       | 1,319           | –               |
| At 31 December               | <u>1,319</u>    | <u>–</u>        |

**28. DEFERRED TAX**

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

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

|  | <b>Group</b>    |                 |
|--|-----------------|-----------------|
|  | <b>2002</b>     | <b>2001</b>     |
|  | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Tax losses available for future relief | 3,870           | 3,839           |
| Accelerated capital allowances         | (100)           | (273)           |
|  | <u>3,770</u>    | <u>3,566</u>    |

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

**29. SHARE CAPITAL****Shares**

|  | <b>2002</b>     | <b>2001</b>     |
|--|-----------------|-----------------|
|  | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Authorised:                                    |                 |                 |
| 1,000,000,000 ordinary shares of HK\$0.10 each | <u>100,000</u>  | <u>100,000</u>  |
| Issued and fully paid:                         |                 |                 |
| 765,372,000 ordinary shares of HK\$0.10 each   | <u>76,537</u>   | <u>76,537</u>   |

**Share options**

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

**30. SHARE OPTION SCHEME**

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

The Group had adopted a share option scheme (the "1992 Scheme") for the purpose of granting share options to any director and employee as an incentive to his/her contribution to the Group in 1992. There was no share option outstanding under the 1992 Scheme as at 1 January 2002 and no share option was granted during the period from 1 January 2002 to 10 March 2002, being the expiry date of the 1992 Scheme. A new option scheme (the "2002 Scheme") was adopted by the shareholders of the Company at

the annual general meeting held on 7 June 2002. Under the 2002 Scheme, the board of directors (the “Board”) of the Company shall, subject to and in accordance with the provisions of the 2002 Scheme and the Listing Rules, grant share options to any eligible participant to subscribe for shares in the capital of the Company. A summary of the 2002 Scheme is set out as follows:

**1. Purpose**

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

**2. Eligible participants**

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

**3. Maximum number of shares**

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

**4. Maximum entitlement of each eligible participant**

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

**5. Time of exercise of option**

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

**6. The minimum period for holding option before exercise**

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

**7. Acceptance of offers**

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

**8. Basis of determining the option exercise price**

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

### 9. The remaining life of the 2002 Scheme

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

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

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

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

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

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

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

## 31. RESERVES

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

Notes: 1. The fixed asset revaluation reserve and land use rights revaluation reserve are non-distributable reserves.

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

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

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

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

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

### 32. GOODWILL AND NEGATIVE GOODWILL

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

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

### 33. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

#### (a) Prior year adjustments

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

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

## (b) Major non-cash transactions

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

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

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

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

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

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

## 34. PARTICULARS OF THE PRINCIPAL SUBSIDIARIES

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

| Name   | Place of incorporation and operations | Issued and paid-up capital   | Percentage of equity attributable to the Company |  | Principal activities                                |                             |
|--|---------------------------------------|--|--|--|---|-----------------------------|
|  |                                       |  | 2002   | 2001   |   |                             |
| Bogay Investment Limited                       | Hong Kong                             | 100 ordinary shares of HK\$1 each<br>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<br>18,000,000 non-voting deferred shares of HK\$1 each | 100#   | 100#   | Investment holding                                  |                             |
| Meta International Limited                     | Hong Kong/<br>PRC                     | 2 ordinary shares of HK\$1 each  | 100#   | 100#   | Processing and trading of copper and brass products |                             |
| Hing Cheong Metals (China & Hong Kong) Limited | Hong Kong                             | 1,000,000 ordinary shares of HK\$1 each  | 91   | 91   | Processing and trading of copper and brass products |                             |
| Fair Win Development Limited                   | Hong Kong/<br>PRC                     | 500,000 ordinary shares of HK\$1 each  | 100  | 100  | Property investment                                 |                             |
| Heroland Investment Limited                    | Hong Kong                             | 2 ordinary shares of HK\$1 each  | 100  | 100  | Property investment                                 |                             |
| Bigland Investment Limited                     | Hong Kong/<br>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/<br>Hong Kong  | 31,000,000 ordinary shares of US\$1 each   | 71.8   | 71.8   | Investment holding                                  |                             |
| Everwinner Investments Limited                 | Hong Kong                             | 1,000,000 ordinary shares of HK\$1 each  | 71.8   | 71.8   | Investment holding                                  |                             |
| Name   | Place of registration and operations  | Business structure   | Registered capital                               | Percentage of equity attributable to the Company |   | Principal activities        |
|  |                                       |  |  | 2002   | 2001  |                             |
| Jiaxing Eastern Steel Cord Co., Ltd.           | PRC                                   | Wholly foreign owned enterprise  | US\$44,000,000                                   | 71.8   | 71.8  | Manufacturing of steel cord |

# Directly held by the Company

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

## 35. PARTICULARS OF THE PRINCIPAL JOINTLY CONTROLLED ENTITIES

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

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

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

## 36. PARTICULARS OF THE ASSOCIATES

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

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

Note:

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

## 37. CONTINGENT LIABILITIES

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

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



**38. OPERATING LEASE ARRANGEMENTS****(a) As lessor**

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

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

|                 | <b>Group</b>    |                 |
|-----------------|-----------------|-----------------|
|                 | <b>2002</b>     | <b>2001</b>     |
|                 | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Within one year | <u>131</u>      | <u>47</u>       |

**(b) As lessee**

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

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

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

**39. COMMITMENTS**

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

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

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

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

**40. RELATED PARTY TRANSACTIONS**

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

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

*Notes:*

- (i) The Group paid consultancy fees to the Shougang HK Group and paid management fees to the Shougang International Group in relation to business and strategic development services provided at rates determined between both parties.
- (ii) The Group paid rental expenses to the Shougang HK Group and the Shougang International Group for the leasing of properties in Hong Kong as office premises and staff quarters. The rental was calculated by reference to market rentals.
- (iii) The loan advanced to Shougang HK Group is unsecured, interest-free and has no fixed terms of repayment. The amount was fully repaid subsequent to the balance sheet date, on 3 April 2003.
- (iv) The loans advanced from the Shougang HK Group were secured by the Group’s interest in a jointly controlled entity with interest payable at HIBOR per annum and were fully repaid during the year.
- (v) The loan advanced by the jointly controlled entity was unsecured, interest-free and was fully repaid during the year as detailed in note 33(b) to the financial statements.
- (vi) The Group has executed corporate guarantees for bank loans granted to a jointly controlled entity to finance its working capital. These guarantees were provided in proportion to the Group’s equity interest in the jointly controlled entity and are normally renewable on an annual basis.

**41. POST BALANCE SHEET EVENT**

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

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

## 42. COMPARATIVE AMOUNTS

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

## 43. APPROVAL OF THE FINANCIAL STATEMENTS

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

## 3. UNAUDITED PRO FORMA ADJUSTED CONSOLIDATED NET TANGIBLE ASSET VALUE OF THE GROUP

The following is a statement of the unaudited pro forma adjusted consolidated net tangible assets of the Group which was computed based on the audited shareholders' funds of the Group as at 31 December 2002 and adjusted for the estimated effects of the Proposed SHHK Subscription and the Proposed Placement:

|   | <i>HK\$'000</i> |
|---|-----------------|
| Audited consolidated shareholders' funds of the Group as at 31 December 2002  | 444,489         |
| <i>Add:</i> increase in net tangible assets of the Group upon completion of the Proposed SHHK Subscription  | 40,000          |
| <i>Less:</i> estimated expenses of the Proposed SHHK Subscription and the Proposed Placement  | 2,700           |
| Unaudited pro forma adjusted consolidated net tangible assets of the Group upon completion of the Proposed SHHK Subscription  | 481,789         |
| <i>Add:</i> increase in net tangible assets of the Group upon completion of the Proposed Placement  | 20,000          |
| Unaudited pro forma adjusted consolidated net tangible assets of the Group upon completion of the Proposed SHHK Subscription and the Proposed Placement   | 501,789         |
| Audited consolidated net tangible asset value per Share as at 31 December 2002, based on a total of 765,372,000 Shares in issue as at 31 December 2002  | HK\$0.581       |
| Unaudited pro forma adjusted consolidated net tangible asset value per Share upon completion of the Proposed SHHK Subscription, based on a total of 892,356,000 Shares in issue on the date of completion of the Proposed SHHK Subscription   | HK\$0.540       |
| Unaudited pro forma adjusted consolidated net tangible asset value per Share upon completion of the Proposed SHHK Subscription and the Proposed Placement, based on a total of 955,848,000 Shares in issue on the date of completion of the Proposed SHHK Subscription and the Proposed Placement | HK\$0.525       |

**4. STATEMENT OF INDEBTEDNESS**

At the close of business on 31 March 2003 (being the latest practicable date for the purpose of this indebtedness statement prior to the printing of this document), the Group had outstanding borrowings of approximately HK\$49.2 million, comprising trust receipt loans of approximately HK\$21.9 million, finance lease payables of approximately HK\$1.3 million and other loans of approximately HK\$26.0 million. The trust receipt loans and the finance lease payables are secured by certain of the Group's leasehold land and buildings, investment properties, time deposits and inventories.

As at 31 March 2003, the Group had contingent liabilities in respect of guarantees given to a bank for banking facilities granted to a jointly controlled entity to the extent of approximately HK\$22.4 million and discounted/endorsed bills with recourse amounting to approximately HK\$5.1 million.

Save as the aforesaid and apart from intra-group liabilities, the Group did not have, as at the close of business on 31 March 2003, any outstanding mortgages, charges or debentures, loan capital, bank loans and overdrafts or similar indebtedness, finance lease commitments, hire purchase commitments, liabilities under acceptance or acceptance credits, guarantees or other material contingent liabilities.

For the purpose of the above indebtedness statement, foreign currency amounts have been translated into Hong Kong dollars at the rates of exchange prevailing at the close of business on 31 March 2003.

**5. MATERIAL CHANGE**

Save as disclosed under the section headed "Reasons for the Proposed SHHK Subscription and the Proposed Placement, and the use of proceeds" in the "Letter from the Board", and the sections headed "3. Unaudited pro forma adjusted consolidated net tangible asset value of the Group" and "4. Statement of indebtedness" in Appendix I to this document, the Directors are not aware of any material change in the financial or trading position or prospects of the Group since 31 December 2002, the date to which the latest audited consolidated financial statements of the Group were made up.

## 1. RESPONSIBILITY STATEMENTS

This document includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company.

The information (other than those in relation to Shougang HK and Shougang International) in this document has been supplied by the Directors. The issue of this document has been approved by the Directors who jointly and severally accept full responsibility for the accuracy of the information (other than those in relation to Shougang HK and Shougang International) contained in this document and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions (other than those in relation to Shougang HK and Shougang International) expressed in this document have been arrived at after due and careful consideration and there are no other facts not contained in this document, the omission of which would make any statement in this document misleading.

The information in this document relating to Shougang HK has been supplied by the directors of Shougang HK. The directors of Shougang HK jointly and severally accept full responsibility for the accuracy of the information in relation to Shougang HK contained in this document and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions in relation to Shougang HK expressed in this document have been arrived at after due and careful consideration and there are no other facts not contained in this document, the omission of which would make any statement in this document misleading.

The information in this document relating to Shougang International has been supplied by the directors of Shougang International. The directors of Shougang International jointly and severally accept full responsibility for the accuracy of the information in relation to Shougang International contained in this document and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions in relation to Shougang International expressed in this document have been arrived at after due and careful consideration and there are no other facts not contained in this document, the omission of which would make any statement in this document misleading.

## 2. DISCLOSURE OF INTERESTS AND DEALINGS

### (a) Interests or short positions of the Directors in the share capital of the Company and its associated corporations

- (i) As at the Latest Practicable Date, save for the share options held by some of the Directors, details of which are set out under the sub-section headed “Share options” 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 SFO) which had to be notified to the Company and 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 Companies and the Takeovers Code.
- (ii) As at the Latest Practicable Date and save as disclosed in paragraph 2(b) in this appendix below, none of the Concert Parties and the respective directors of Shougang International and Shougang HK had any interests in the shares, convertible securities, warrants, options and derivatives of the Company.

- (iii) As at the Latest Practicable Date, none of the Company or its subsidiaries or any of their pension funds or an adviser to the Company as specified in class (2) of the definition of associate under the Takeovers Code (other than principal traders) had any interest in any shares, convertible securities, warrants, options and derivatives of the Company.
  - (iv) None of the persons as referred to in paragraph 7 in this appendix below has any shareholding interest in any member of the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.
  - (v) As at the Latest Practicable Date, none of the Shares was owned or controlled by a person who has an arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code with the Company or with any person who is an associate of the Company by virtue of classes (1), (2), (3) and (4) of the definition of associate under the Takeovers Code.
  - (vi) As at the Latest Practicable Date, none of the Shares was owned or controlled by a person who has an arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code with the Concert Parties or any of their respective concert parties.
  - (vii) As at the Latest Practicable Date, none of the Shares was owned by discretionary fund managers (other than exempt fund managers) connected with the Company.
- (b) **Persons who have an interest or long position or short position which is discloseable under Division 2 and 3 of Part XV of the SFO and persons who are substantial Shareholders**

As at the Latest Practicable Date, so far as was known to the Directors, the following, not being a Director or a chief executive of the Company, 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 be directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group:

*Long position in Shares*

| Name of Shareholder                        | Number of Shares in which interested | Number of Shares in which interested under the Proposed SHHK Subscription | Total number of Shares | Capacity  |
|--|--------------------------------------|---|------------------------|---|
| Richson Limited<br>("Richson")             | 144,984,400                          |   | 144,984,400            | Beneficial owner                                    |
| Fair Union Holdings Limited ("Fair Union") | 279,797,400                          |   | 279,797,400            | Beneficial owner and deemed interest <sup>(1)</sup> |
| Shougang International                     | 279,797,400                          |   | 279,797,400            | Deemed interest <sup>(2)</sup>                      |
| Shougang HK                                | 279,797,400                          | 126,984,000   | 406,781,400            | Beneficial owner and deemed interest <sup>(3)</sup> |
| Hélène Zaleski                             | 52,802,000                           |   | 52,802,000             | Beneficial owner <sup>(4)</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) *Shougang HK is beneficially interested in 126,984,000 Shares under the Proposed SHHK Subscription and 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 it is the beneficial owner of approximately 39.2% of shareholding interest in Shougang International.*
- (4) *Hélène Zaleski is an individual who is not a party acting in concert with Shougang HK or Shougang International.*

Please refer to the table below under the sub-section headed "Share options" for long positions in the underlying Shares or equity derivatives.

*Share options*

As at the Latest Practicable Date, there were a total of 76,524,000 share options of the Company outstanding, details of which are summarised in the following table:

| Name or category of participant                         | Number of share options held as at the Latest Practicable Date | Date of grant <sup>(2)</sup> | Exercise period <sup>(2)</sup> | Exercise price per Share (HK\$) |
|---|--|------------------------------|--------------------------------|---------------------------------|
| <b>Directors of the Company</b>                         |  |                              |                                |                                 |
| Cao Zhong <sup>(1)</sup>                                | 7,652,000  | 23/8/2002                    | 23/8/2002 to 22/8/2012         | 0.295                           |
| Tong Yihui  | 7,652,000  | 23/8/2002                    | 23/8/2002 to 22/8/2012         | 0.295                           |
| Li Shaofeng <sup>(1)</sup>                              | 7,652,000  | 23/8/2002                    | 23/8/2002 to 22/8/2012         | 0.295                           |
| Xu Xianghua <sup>(1)</sup>                              | 7,652,000  | 23/8/2002                    | 23/8/2002 to 22/8/2012         | 0.295                           |
| Leung Shun Sang, Tony <sup>(1)</sup>                    | 4,592,000  | 23/8/2002                    | 23/8/2002 to 22/8/2012         | 0.295                           |
|   | 3,060,000  | 12/3/2003                    | 12/3/2003 to 11/3/2013         | 0.325                           |
| Cheng Xiaoyu  | 2,296,000  | 23/8/2002                    | 23/8/2002 to 22/8/2012         | 0.295                           |
|   | 5,356,000  | 12/3/2003                    | 12/3/2003 to 11/3/2013         | 0.325                           |
| Tang Kwok Kau   | 2,296,000  | 23/8/2002                    | 23/8/2002 to 22/8/2012         | 0.295                           |
| Lai Kam Man <sup>(1)</sup>                              | 382,000  | 23/8/2002                    | 23/8/2002 to 22/8/2012         | 0.295                           |
| Yip Kin Man, Raymond                                    | 382,000  | 23/8/2002                    | 23/8/2002 to 22/8/2012         | 0.295                           |
| In aggregate  | <u>48,972,000</u>  |                              |                                |                                 |
| <b>Employees and consultants of the Company</b>         |  |                              |                                |                                 |
| Employees and consultants of the Company <sup>(3)</sup> | 9,184,000  | 23/8/2002                    | 23/8/2002 to 22/8/2012         | 0.295                           |
|   | <u>18,368,000</u>  | 12/3/2003                    | 12/3/2003 to 11/3/2013         | 0.325                           |
| In aggregate  | <u>27,552,000</u>  |                              |                                |                                 |

During the period beginning 8 November 2002, the date six months prior to the date of the Announcement, and ending on the Latest Practicable Date, there were no options being exercised, cancelled or lapsed.

*Notes:*

- (1) They are presumed to be parties acting in concert with Shougang HK and/or Shougang International under the Takeovers Code.
- (2) The vesting period of the share options is from the date of grant to the end of the exercise period.
- (3) This includes 7,652,000 share options held by Mr. Chen Zhouping, with an exercise price of HK\$0.295 and exercise period from 23 August 2002 to 22 August 2012. As Mr. Chen Zhouping is a director of each of Shougang HK and Shougang International, he is presumed to be a party acting in concert with the Concert Parties.



**(c) Dealings in shares and securities**

- (i) None of the persons as referred to in paragraphs 2(a)(ii), (iii), (v), (vi) and 2(d)(v) in this appendix has dealt for value in the Shares during the period beginning 8 November 2002, the date six months prior to the date of the Announcement, and ending on the Latest Practicable Date.
- (ii) None of the persons as referred to in paragraphs 2(d)(v) in this appendix below has dealt for value in the Shares or shares in Shougang International or shares in Shougang HK during the period beginning 8 November 2002, the date six months prior to the date of the Announcement, and ending on the Latest Practicable Date.
- (iii) During the six-month period immediately preceding the Announcement and ending on the Latest Practicable Date, there were no dealings in the shares, share options and other securities of the Company by the Concert Parties and their respective parties acting in concert, save and except that on 12 March 2003 the Company granted 3,060,000 share options to Mr. Leung Shun Sang, Tony in his capacity as a Director with an exercise price of HK\$0.325 and exercise period from 12 March 2003 to 11 March 2013. As Mr. Leung Shun Sang, Tony is also a director of Shougang International, he is presumed to be a party acting in concert with Shougang International.
- (iv) The Company has not dealt for value in the shares in Shougang HK during the period beginning 8 November 2002, the date six months prior to the date of the Announcement, and ending on the Latest Practicable Date.

**(d) Others**

- (i) Save for the Subscription Agreement and the Placing Agreement, there is no agreement or arrangement exists between any of the Directors and any other person which is conditional or dependent upon the outcome of the Whitewash Waiver or otherwise connected with the Whitewash Waiver.
- (ii) Save for the Subscription Agreement and the Placing Agreement, there is no agreement, arrangement or understanding (including any compensation arrangement) exists between the Concert Parties and any of the Directors and Shareholders having any connection with or dependence upon the Whitewash Waiver.
- (iii) None of the Directors nor any of the persons as referred to in paragraph 7 in this appendix below has since 31 December 2002, being the date to which the latest published audited accounts of the Group have been made up, any direct or indirect interests in any assets acquired or disposed of by or leased to or proposed to be acquired or disposed of by or leased to any member of the Group.
- (iv) None of the Directors was materially interested in any contract or arrangement subsisting as at the Latest Practicable Date which is significant in relation to the business of the Group.
- (v) As at the Latest Practicable Date, none of the Directors had any interests in the shares of the Company, Shougang HK and Shougang International.

### 3. MARKET PRICES

- (a) The Shares are traded on the Stock Exchange. The table below shows the closing prices of the Shares on the Stock Exchange on (i) the last trading day of each of the six calendar months immediately preceding 7 May 2003, the date of the Announcement; (ii) 6 May 2003, being the last trading day prior to the suspension of trading in the Shares from 9:30 a.m. on 7 May 2003, pending the issue of the Announcement; and (iii) the Latest Practicable Date:

| <b>Date</b>             | <b>Closing price</b><br><i>HK\$</i> |
|-------------------------|-------------------------------------|
| 29 November 2002        | 0.226                               |
| 31 December 2002        | 0.218                               |
| 30 January 2003         | 0.265                               |
| 28 February 2003        | 0.345                               |
| 31 March 2003           | 0.320                               |
| 30 April 2003           | 0.335                               |
| 6 May 2003              | 0.345                               |
| 30 May 2003             | 0.370                               |
| Latest Practicable Date | 0.365                               |

- (b) The highest and lowest closing prices of the Shares recorded on the Stock Exchange during the period between 7 November 2002 (being the date six months prior to the date of the Announcement) and the Latest Practicable Date were HK\$0.390 on 26 May 2003 and HK\$0.218 on 31 December 2002 respectively.

### 4. MATERIAL CONTRACTS

The following contracts (not being contracts entered into under the ordinary course of business of the Group) have been entered into by the Group within the two years immediately preceding the date of this document and are or may be material:

1. a sale and purchase agreement dated 10 August 2001 entered into between Bogay Investment Limited (“Bogay”), a wholly-owned subsidiary of the Company, and Shanxi Changda International Trade Co., Ltd. (“Shanxi Changda”) pursuant to which Bogay agreed to sell to Shanxi Changda its 63% equity interest in Shanxi Shengjia Real Estate Developing Co., Ltd., a sino-foreign equity joint venture established in the PRC, for a consideration of RMB13,860,000;
2. the Subscription Agreement; and
3. the Placing Agreement.

## 5. SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors has any existing or proposed service contract with any member of the Group which is not determinable by the Group within 1 year without payment of compensation other than statutory compensation. There is no service contract with the Group or its associated companies in force for the Directors which has more than 12 months to run from the Latest Practicable Date. None of the service agreements of the Directors has been amended or entered into within six months from the date of the Announcement.

## 6. LITIGATION

As at the Latest Practicable Date, no member of the Group is engaged in any litigation or arbitration of material importance and there is no litigation or claims of material importance known to the Directors to be pending or threatened by or against any member of the Group.

## 7. QUALIFICATION OF EXPERT

The following is the qualification of the expert who has given opinion or advice which is contained in this document:

| <b>Name</b>     | <b>Qualification</b>  |
|-----------------|---|
| Kim Eng Capital | A deemed licensed corporation registered with the Securities and Futures Commission under the SFO |

## 8. CONSENT

Kim Eng Capital has given and has not withdrawn its written consent to the issue of this document with the inclusion therein a copy of its advice letter and/or references to its name, in the form and context in which they respectively appear.

## 9. MISCELLANEOUS

- (a) The secretary of the Company is Ms. Chan Lai Yee, an associate member of each of The Institute of Chartered Secretaries and Administrators and The Hong Kong Institute of Company Secretaries.
- (b) The registered office of Shougang HK is 7th Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong. The registered office of Shougang International is 7th Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong.
- (c) The directors of Shougang Corp are Messrs. Zhu Jimin, Huo Guanglai, Xu Ning, Wang Yi and Ms. Jiang Guipong.

- (d) The directors of Shougang HK are Messrs. Wang Qinghai, Cao Zhong, Chen Zhouping and Ms. Xu Xianghua. The directors of Shougang International are Messrs. Wang Qinghai, Cao Zhong, Chen Zhouping, Zhang Wenhui, Ms. Xu Xianghua, Messrs. Tsoi Wai Kwong, Leung Shun Sang, Tony, Ip Tak Chuen, Edmond, Lai Kam Man and Ms. Choy Hok Man, Constance.
- (e) The directors of Cheung Kong (Holdings) Limited are Messrs. Li Ka-shing, Li Tzar Kuoi, Victor, George Colin Magnus, Kam Hing Lam, Ms. Wong Yick-ming, Rosanna, Ms. Hung Siu-lin, Katherine, Messrs. Yeh Yuan Chang, Anthony, Chow Nin Mow, Albert, Simon Murray, Kwok Tun-li, Stanley, Chung Sun Keung, Davy, Ip Tak Chuen, Edmond, Ms. Pau Yee Wan, Ezra, Ms. Woo Chia Ching, Grace, Messrs. Leung Siu Hon, Fok Kin-ning, Canning, Frank John Sixt, Chow Kun Chee, Roland and Chiu Kwok Hung, Justin.
- (f) As at the Latest Practicable Date, the Company has not been informed and was not aware of any person who has committed to vote for or against the Subscription Agreement and/or the Whitewash Waiver.
- (g) In the event of inconsistency, the English text of this document and the form of proxy shall prevail over the Chinese text.

#### **10. DOCUMENTS AVAILABLE FOR INSPECTION**

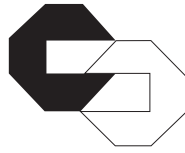
Copies of the following documents will be available for inspection at the office of Li & Partners, 22nd Floor, World Wide House, Central, Hong Kong during normal business hours on any weekday (public holidays excluded) until 25 June 2003:

- (a) The memorandum and articles of association of the Company.
- (b) The letter from the Independent Board Committee, the text of which is set out on page 14 of this document.
- (c) The letter from Kim Eng Capital, the text of which is set out on pages 15 to 26 of this document.
- (d) The audited consolidated financial statements of the Group for each of the two financial years ended 31 December 2002.
- (e) The letter of consent as referred to in this appendix.
- (f) The material contracts as referred to in this appendix.

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## NOTICE OF EXTRAORDINARY GENERAL MEETING

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# Shougang Concord Century Holdings Limited 首長寶佳集團有限公司

*(Incorporated in Hong Kong with limited liability)*

**NOTICE IS HEREBY GIVEN** that an extraordinary general meeting (the “Extraordinary General Meeting”) of Shougang Concord Century Holdings Limited (the “Company”) will be held at Salon III & IV, Grand Hyatt Hong Kong, 1 Harbour Road, Hong Kong on 25 June 2003 at 11:00 a.m. for the purpose of considering and, if thought fit, passing, with or without modifications, the following resolutions as ordinary resolutions respectively:

### ORDINARY RESOLUTIONS

- (1) **“THAT** the execution of the subscription agreement (the “Subscription Agreement”) dated 6 May 2003 and entered into between the Company and Shougang Holding (Hong Kong) Limited as subscriber in relation to the subscription (the “Subscription”) of 126,984,000 shares (“Subscription Shares”) of HK\$0.10 each in the share capital of the Company at a price of HK\$0.315 per Subscription Share, a copy of which has been produced to the meeting marked “A” and initialed by the chairman of the meeting for identification purpose and the Subscription and the performance by the Company thereof and the transactions contemplated thereby be and are hereby confirmed, ratified and approved; and that any one or more of the directors of the Company be and are hereby authorised to sign or execute such other documents or supplemental agreements or deeds on behalf of the Company and to do all such things and take all such actions as he or they may consider necessary or desirable for the purpose of giving effect to the Subscription Agreement and completing the transactions contemplated by the Subscription Agreement with such changes as any such director(s) may consider necessary, desirable or expedient.”
- (2) **“THAT** conditional upon the ordinary resolution no. 1 contained in the notice of the Extraordinary General Meeting of which this resolution forms part being approved, the waiver for Shougang Holding (Hong Kong) Limited and Shougang Concord International Enterprises Company Limited and their parties acting in concert from the obligations which may arise under Rule 26 of the Hong Kong Code on Takeovers and Mergers promulgated by the Securities and Futures Commission to make a general offer for all the shares of the Company not already owned by them as a result of the completion of the Subscription (as the term is defined in ordinary resolution no.1 contained in the notice of the Extraordinary General Meeting of which this resolution forms part) be and is hereby approved.”
- (3) **“THAT** conditional upon the ordinary resolutions nos. 1 and 2 contained in the notice of the Extraordinary General Meeting of which this resolution forms part being approved and becoming unconditional and effective, the directors of the Company be and they are hereby authorised to allot and issue 126,984,000 shares of HK\$0.10 each in the share capital of the

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## NOTICE OF EXTRAORDINARY GENERAL MEETING

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Company to Shougang Holding (Hong Kong) Limited (or to such other person or persons as it may nominate) upon the completion of the Subscription (as defined in ordinary resolution no. 1 contained in the notice of the Extraordinary General Meeting of which this resolution forms part) pursuant to the terms of the Subscription Agreement (as defined in ordinary resolution no. 1 contained in the notice of the Extraordinary General Meeting of which this resolution forms part).”

By Order of the Board  
**Shougang Concord Century Holdings Limited**  
**Cao Zhong**  
*Chairman*

Hong Kong, 6 June 2003

*Registered Office:*

6th Floor, Bank of East Asia Harbour View Centre,  
51-57 Gloucester Road,  
Wanchai,  
Hong Kong

*Notes:*

- 1. A member of the Company entitled to attend and vote at the Extraordinary General Meeting is entitled to appoint another person as his proxy to attend and vote in his stead. A member who is the holder of two or more shares may appoint more than one proxy to represent him and vote on his behalf at the Extraordinary General Meeting. A proxy need not be a member of the Company.*
- 2. In order to be valid, the form of proxy must be deposited at the Company's share registrars, Tengis Limited, at G/F, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong together with the power or attorney or other authority (if any) under which it is signed or certified copy of such power of attorney or authority, not less than 48 hours before the time appointed for holding the Extraordinary General Meeting or any adjournment thereof.*
- 3. Where there are joint holders of any share, any one of such persons may vote at the Extraordinary General Meeting either personally or by proxy, in respect of such share as if he were solely entitled thereto, but if more than one of such joint holders be present at the Extraordinary General Meeting personally or by proxy, the vote of the senior who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of the other joint holders, and for this purpose seniority shall be determined by the order in which the names stand in the register of members of the Company in respect of such joint holding.*
- 4. A form of proxy for use in connection with the Extraordinary General Meeting is enclosed.*
- 5. Ordinary resolutions nos. 1, 2 and 3 shall be voted by way of a poll.*