Notes to the Financial Statements

For The Year Ended 31 December 2005

1. GENERAL

The Company is incorporated in Hong Kong with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). As at 31 December 2005, the Company's ultimate holding company is Shougang Corporation, a company established in the People's Republic of China (the "PRC"). Shougang Corporation, together with its subsidiaries and associates other than members of the Group, will hereinafter be referred to as the "Shougang Group". The addresses of the registered office and principal place of business of the Company are disclosed in Corporate Information of the annual report.

The Company is an investment holding company. The principal activities of the Company's principal subsidiaries and associates are set out in note 53.

The financial statements are presented in Hong Kong dollars, which is the same as the functional currency of the Company.

2. BASIS OF PREPARATION

The Group had net current liabilities of approximately HK$1,840,353,000 as at 31 December 2005. Notwithstanding, the Directors are of opinion that the preparation of these financial statements under going concern basis is appropriate due to the following considerations:

(a) New bank facility

In January 2006, a subsidiary of the Company entered into a facility agreement with a bank and US$20,000,000 facility was granted. In February 2006, the Company entered into a facility agreement with a number of banks and a term loan facility of HK$163,800,000 and US$129,000,000 (equivalent to approximately HK$1,006,200,000) was made available by the banks to the Company.

(b) Issuance of shares

The Company issued 929,000,000 new ordinary shares to a subscriber on 1 March 2006 and raised net proceeds of approximately HK$492,000,000.

(c) Most of the bank financing of the Group is in form of short-term bank loans in the PRC. As a result, the Group had net current liabilities of approximately HK$1,840,353,000 as at 31 December 2005. The directors are confident that the Group will be able to renew its short-term bank loan facilities upon maturity or to identify new sources of financing to replace the current ones.

Besides, the ultimate holding company has committed to provide financial support to enable the Group to meet in full its financial obligations as and when they arise and to continue its operations in the foreseeable future.

3. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS/CHANGES IN ACCOUNTING POLICIES

In the current year, the Group and the Company has applied, for the first time, a number of new Hong Kong Financial Reporting Standards ("HKFRSs"), Hong Kong Accounting Standards ("HKASs") and Interpretations (hereinafter collectively referred to as "new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") that are effective for accounting periods beginning on or after 1 January 2005. The application of the new HKFRSs has resulted in a change in the presentation of the consolidated income statement, consolidated balance sheet and consolidated statement of changes in equity. In particular, the presentation of share of tax of associates and minority interests have been changed. The changes in presentation have been applied retrospectively. The adoption of the new HKFRSs has resulted in changes to the Group's accounting policies in the following areas that have an effect on how the results for the current and prior accounting years are prepared and presented:

(a) Business Combinations

In the current year, the Group has applied HKFRS 3 Business Combinations which is effective for business combinations for which the agreement date is on or after 1 January 2005.

Goodwill

Goodwill arising on acquisition after 1 January 2001 was capitalised and amortised over its estimated useful life. The Group has applied the relevant transitional provisions in HKFRS 3. With respect to goodwill previously capitalised on the balance sheet, the Group on 1 January 2005 eliminated the carrying amount of the related accumulated amortisation of HK$10,032,000 with a corresponding decrease in the cost of goodwill (see Note 19). The Group has discontinued amortising such goodwill from 1 January 2005 onwards and such goodwill will be tested for impairment at least annually. Goodwill arising on acquisition after 1 January 2005 is measured at cost less accumulated impairment losses (if any) after initial recognition. As a result of this change in accounting policy, no amortisation of goodwill has been charged in the current year. Comparative figures for 2004 have not been restated (see Note 3A for the financial impact).

Notes to the Financial Statements

For The Year Ended 31 December 2005

3. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS/CHANGES IN ACCOUNTING POLICIES (continued)

(a) Business Combinations (continued)

Goodwill (continued)

Excess of the Group's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost (previously known as "negative goodwill")

In accordance with HKFRS 3, any excess of the Group's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over the cost of acquisition ("discount on acquisition") is recognised immediately in profit or loss in the period in which the acquisition takes place. In previous periods, negative goodwill arising on acquisition prior to 1 January 2001 was held in goodwill reserve and negative goodwill arising on acquisition after 1 January 2001 was presented as a deduction from assets and released to income based on an analysis of the circumstances from which the balance resulted. In accordance with the relevant transitional provisions in HKFRS 3, the Group has derecognised negative goodwill held in goodwill reserve of HK$11,238,000 and negative goodwill stated in the balance sheet of HK$3,710,000 on 1 January 2005, with a corresponding decrease to accumulated losses (see Note 3A for financial impact).

(b) Financial Instruments

In the current year, the Group and the Company has applied HKAS 32 Financial Instruments: Disclosure and Presentation and HKAS 39 Financial Instruments: Recognition and Measurement. HKAS 32 requires retrospective application. HKAS 39, which is effective for annual periods beginning on or after 1 January 2005, generally does not permit the recognition, derecognition or measurement of financial assets and liabilities on a retrospective basis. The principal effects resulting from the implementation of HKAS 32 and HKAS 39 are summarised below:

Convertible note

The principal impact of HKAS 32 on the Group and the Company is in relation to convertible note issued by the Company that contains both liability and equity components. Previously, convertible note was classified as liabilities on the balance sheet. HKAS 32 requires an issuer of a compound financial instrument that contains both financial liability and equity components to separate the compound financial instrument into the liability and equity components on initial recognition and to account for these components separately. In subsequent periods, the liability component is carried at amortised cost using the effective interest method. Because HKAS 32 requires retrospective application, comparative figures have been restated (see Note 3A for the financial impact).

3. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS/CHANGES IN ACCOUNTING POLICIES (continued)

(b) Financial Instruments (continued)

Interest-free non-current loans

Prior to the application of HKAS 39, interest-free non-current loans to the subsidiaries were stated at the nominal amount. HKAS 39 requires all financial assets and financial liabilities to be measured at fair value on initial recognition. Such interest-free loans are measured at amortised cost determined using the effective interest method at subsequent balance sheet dates. The Company has applied the relevant transitional provisions in HKAS 39. As a result of this change in the accounting policy, the carrying amounts of the loans as at 1 January 2005 has been decreased by HK$326,345,000 in order to state the loans at amortised costs in accordance with HKAS 39. Adjustment to cost of investments is accounted as deemed capital contribution. The Company's cost of investment as at 1 January 2005 has been increased by HK$326,345,000. Profit for the year of the Company has been increased by HK$48,832,000 due to the recognition of imputed interest income of the Company.

Derivatives

From 1 January 2005 onwards, all derivatives that are within the scope of HKAS 39 are required to be carried at fair value at each balance sheet date regardless of whether they are deemed as held for trading or designated as effective hedging instruments. Under HKAS 39, derivatives (including embedded derivatives separately accounted for from the host contracts) are deemed as held-for-trading financial assets or financial liabilities, unless they qualify and are designated as effective hedging instruments. For derivatives that are classified as held for trading, changes in fair values of such derivatives are recognised in profit or loss for the period in which they arise. As at 31 December 2005, all derivatives are carried at fair value on the balance sheet.

3. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS/CHANGES IN ACCOUNTING POLICIES (continued)

(c) Owner-occupied Leasehold Interest in Land

In previous years, owner-occupied leasehold land and buildings were included in property, plant and equipment and measured using the cost model. In the current year, the Group has applied HKAS 17 Leases. Under HKAS 17, the land and buildings elements of a lease of land and buildings are considered separately for the purposes of lease classification, unless the lease payments cannot be allocated reliably between the land and buildings elements, in which case, the entire lease is generally treated as a finance lease. To the extent that the allocation of the lease payments between the land and buildings elements can be made reliably, the leasehold interests in land are reclassified to prepaid lease rentals under operating leases, which are carried at cost and amortised over the lease term on a straight-line basis. This change in accounting policy has been applied retrospectively and one of the associates which previously recorded the leasehold land and buildings at revaluation model, has restated the revaluated amount of the prepaid lease rentals to cost. Alternatively, where the allocation between the land and buildings elements cannot be made reliably, the leasehold interests in land continue to be accounted for as property, plant and equipment. Accordingly, the interests in associates, accumulated losses and the corresponding revaluation reserve have been restated (see Note 3A for the financial impact).

3A. SUMMARY OF THE EFFECTS OF THE CHANGES IN ACCOUNTING POLICIES

The effects of the changes in the accounting policies described above on the results for the current and prior years are as follows:

For the year ended 31 December 2005

	HKAS 1	**HKAS 17**	**HKFRS 3**	**HKAS 39**	**Total effect**
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
	(Note 3)	*(Note 3c)*	*(Note 3a)*	*(Note 3b)*	
THE GROUP					
Decrease in amortisation of goodwill	–	–	13,674	–	13,674
Decrease in release of negative goodwill	–	–	(185)	–	(185)
(Decrease) increase in share of results of associates	(1,710)	132	1,025	–	(553)
Decrease in income tax expense	1,710	–	–	–	1,710
Loss on derivative financial instruments	–	–	–	(2,103)	(2,103)
Increase (decrease) in profit for the year	–	132	14,514	(2,103)	12,543

For the year ended 31 December 2004

	HKAS 1	**HKAS 17**	**Total effect**
	HK$'000	HK$'000	HK$'000
	(Note 3)	*(Note 3c)*	
THE GROUP			
(Decrease) increase in share of results of associates	(9,153)	114	(9,039)
Decrease in income tax expense	9,153	–	9,153
Increase in loss on deemed disposal of a partial interest in an associate	–	(6)	(6)
Increase in profit for the year	–	108	108

Notes to the Financial Statements

For The Year Ended 31 December 2005

3A. SUMMARY OF THE EFFECTS OF THE CHANGES IN ACCOUNTING POLICIES (continued)

The cumulative effects of the new HKFRSs as at 31 December 2004 and 1 January 2005 are summarised below:

	As at 31 December 2004 (originally stated)	Retrospective adjustments HKAS 1 and HKAS 27	HKAS 17	HKAS 32	As at 31 December 2004 (restated)	Adjustment on 1 January 2005 HKFRS 3	As at 1 January 2005 (restated)
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
		(Note 3)	*(Note 3c)*	*(Note 3b)*		*(Note 3a)*	
THE GROUP							
Balance sheet							
Property, plant and equipment	815,105	–	(76,688)	–	738,417	–	738,417
Prepaid lease rentals	–	–	76,688	–	76,688	–	76,688
Interests in associates	480,808	–	(2,263)	–	478,545	–	478,545
Negative goodwill	(3,710)	–	–	–	(3,710)	3,710	–
Other assets and liabilities	580,737	–	–	–	580,737	–	580,737
Total effects on assets and liabilities	1,872,940	–	(2,263)	–	1,870,677	3,710	1,874,387
Share capital	927,450	–	–	–	927,450	–	927,450
Share premium	1,411,312	–	–	6,805	1,418,117	–	1,418,117
Revaluation reserve	4,700	–	(1,760)	–	2,940	–	2,940
Exchange reserve	24,734	–	(2)	–	24,732	–	24,732
Goodwill reserve	11,238	–	–	–	11,238	(11,238)	–
Accumulated losses	(2,594,141)	–	(501)	(6,805)	(2,601,447)	14,948	(2,586,499)
Other reserves	1,891,380	–	–	–	1,891,380	–	1,891,380
Equity holders of the parent	1,676,673	–	(2,263)	–	1,674,410	3,710	1,678,120
Minority interests	–	196,267	–	–	196,267	–	196,267
Total effects on equity	1,676,673	196,267	(2,263)	–	1,870,677	3,710	1,874,387
Minority interests	196,267	(196,267)	–	–	–	–	–
	1,872,940	–	(2,263)	–	1,870,677	3,710	1,874,387

3A. SUMMARY OF THE EFFECTS OF THE CHANGES IN ACCOUNTING POLICIES (continued)

The financial effects of the application of the new HKFRSs to the Group's equity at 1 January 2004 are summarised below:

	As originally stated	HKAS 1 and HKAS 27	HKAS 17	HKAS 32	As restated
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
		(Note 3)	*(Note 3c)*	*(Note 3b)*	
THE GROUP					
Share capital	529,109	–	–	–	529,109
Revaluation reserve	4,382	–	(1,527)	–	2,855
Exchange reserve	18,876	–	(2)	–	18,874
Accumulated losses	(2,865,381)	–	(609)	(6,805)	(2,872,795)
Other reserves	2,834,999	–	–	9,240	2,844,239
Equity holders of the parent	521,985	–	(2,138)	2,435	522,282
Minority interests	–	420,032	–	–	420,032
Total effects on equity	521,985	420,032	(2,138)	2,435	942,314

Notes to the Financial Statements

For The Year Ended 31 December 2005

3A. SUMMARY OF THE EFFECTS OF THE CHANGES IN ACCOUNTING POLICIES (continued)

The Group and the Company have not early applied the following new Standards, Amendments and Interpretations that have been issued but are not yet effective. Except for the financial impact on adoption of HKAS 39 & HKFRS 4 (Amendments) "Financial guarantee contracts" which requires financial guarantee contracts within the scope of HKAS 39 to be measured at fair value on initial recognition, the directors of the Company anticipate that these Standards, Amendments or Interpretations will have no material impact on the financial statements of the Group. The Group is not yet in a position to reasonably estimate the impact on adoption of HKAS 39 & HKFRS 4 (Amendments).

HKAS 1 (Amendment)	Capital disclosures[1]
HKAS 19 (Amendment)	Actuarial gains and losses, group plans and disclosures[2]
HKAS 21 (Amendment)	Net investment in a foreign operation[2]
HKAS 39 (Amendment)	Cash flow hedge accounting of forecast intragroup transactions[2]
HKAS 39 (Amendment)	The fair value option[2]
HKAS 39 & HKFRS 4 (Amendments)	Financial guarantee contracts[2]
HKFRS 6	Exploration for and evaluation of mineral resources[2]
HKFRS 7	Financial instruments: disclosures[1]
HK(IFRIC) – INT 4	Determining whether an arrangement contains a lease[2]
HK(IFRIC) – INT 5	Rights to interests arising from decommissioning, restoration and environmental rehabilitation funds[2]
HK(IFRIC) – INT 6	Liabilities arising from participating in a specific market – waste electrical and electronic equipment[3]
HK(IFRIC) – INT 7	Applying the restatement approach under HKAS 29 Financial Reporting in Hyperinflationary Economies[4]

1 Effective for annual periods beginning on or after 1 January 2007.

2 Effective for annual periods beginning on or after 1 January 2006.

3 Effective for annual periods beginning on or after 1 December 2005.

4 Effective for annual periods beginning on or after 1 March 2006.

4. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared on the historical cost basis except for certain properties and financial instruments which are measured at fair values, as explained in the accounting policies set out below.

The financial statements have been prepared in accordance with HKFRSs. In addition, the financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and the Companies Ordinance.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries.

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

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Minority interests in the net assets of consolidated subsidiaries are identified separately from the Group's equity therein. Minority interests consist of the amount of those interests at the date of the original business combination and the minority's share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

Notes to the Financial Statements

For The Year Ended 31 December 2005

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Business combinations

A subsidiary of the Company represents an entity controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of any entity so as to obtain benefits from its activities.

The acquisition of subsidiaries is accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under HKFRS 3 are recognised at their fair values at the acquisition date.

For business combination involves more than one exchange transaction through successive share purchases. Each exchange transaction are treated separately, using the cost of the transaction and fair value information at the date of each exchange transaction, to determine the amount of any goodwill associated with that transaction. Any adjustments to those fair values relating to previously held interests is accounted for as increase in revaluation reserve.

Goodwill

Goodwill arising on acquisition prior to 1 January 2005

Goodwill arising on an acquisition of a subsidiary or an associate for which the agreement date is before 1 January 2005 represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of the relevant subsidiary or associate at the date of acquisition.

For previously capitalised goodwill arising on acquisition after 1 January 2001, the Group has discontinued amortisation from 1 January 2005 onwards, and such goodwill is tested for impairment annually, and whenever there is an indication that the cash generating unit to which the goodwill relates may be impaired (see the accounting policy below).

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Goodwill (continued)

Goodwill arising on acquisition on or after 1 January 2005

Goodwill arising on an acquisition of a subsidiary for which the agreement date is on or after 1 January 2005 represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets, liabilities and contingent liabilities of the relevant subsidiary at the date of acquisition. Such goodwill is carried at cost less any accumulated impairment losses.

Capitalised goodwill arising on an acquisition of a subsidiary is presented separately in the balance sheet as an intangible asset.

For the purposes of impairment testing, goodwill arising from an acquisition is allocated to each of the relevant cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the acquisition. A cash-generating unit to which goodwill has been allocated is tested for impairment annually, and whenever there is an indication that the unit may be impaired. For goodwill arising on an acquisition in a financial year, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that financial year. When the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated to reduce the carrying amount of any goodwill allocated to the unit first, and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in the income statement. An impairment loss for goodwill is not reversed in subsequent periods.

On subsequent disposal of a subsidiary, the attributable amount of goodwill capitalised is included in the determination of the amount of profit or loss on disposal.

As explained in note 3 above, all negative goodwill as at 1 January 2005 has been derecognised with a corresponding adjustment to the Group's accumulated losses.

Notes to the Financial Statements

For The Year Ended 31 December 2005

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Interests in associates

The results and assets and liabilities of associates are incorporated in these financial statements using the equity method of accounting. Under the equity method, investments in associates are carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group's share of the profit or loss and of changes in equity of the associate, less any identified impairment loss. When the Group's share of losses of an associate equals or exceeds its interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. An additional share of losses is provided for and a liability is recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate.

Where a group entity transacts with an associate of the Group, profits and losses are eliminated to the extent of the Group's interest in the relevant associate.

Revenue recognition

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

Service income is recognised when services are rendered.

Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Dividend income from investments is recognised when the shareholders' rights to receive payment have been established.

Rental income including rental invoiced in advance, from letting of properties under operating leases is recognised on a straight line basis over the term of the relevant lease.

Sales of electricity are recognised when electricity is generated and supplied to the power grid operated by the customers.

Sales of steam and hot water are recognised based on steam and hot water supplied as recorded by meters reading during the year.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition (continued)

Charter hire income from chartered-in vessels is recognised in accordance with the following basis:

Vessels time chartered-in and time chartered-out	Time proportion

Freight revenues from chartered-in vessels are recognised in accordance with the following basis:

Time chartered-in and voyage chartered-out	Time proportion
Voyage chartered-in and voyage chartered-out	Completion of loading

Hire income from floating cranes is recognised on a time proportion basis.

Property, plant and equipment

Property, plant and equipment, other than construction in progress, are stated at cost less subsequent accumulated depreciation and accumulated impairment losses.

Construction in progress is stated at cost which includes all construction costs and other direct costs, including borrowing costs capitalised, attributable to such projects. Construction in progress is not depreciated until completion of construction. Costs on completed construction work are transferred to the appropriate categories of property, plant and equipment.

Depreciation is provided to write off the costs of items of property, plant and equipment over their estimated useful lives and after taking into account of their estimated residual value, using the straight line method, at the following rates per annum:

Buildings and structure	2% to 10%, or over the terms of the leases, whichever is shorter
Leasehold improvements	2.5% to 25%, or over the terms of the leases, whichever is shorter
Furniture, fixtures and equipment	12.5% to 25%
Plant and machinery	3.6% to 15%
Motor vehicles	10% to 25%
Vessels	5% to 18%

Notes to the Financial Statements

For The Year Ended 31 December 2005

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment (continued)

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, the term of the relevant lease.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the income statement in the year in which the item is dereognised.

Investment properties

On initial recognition, investment properties are measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are measured using the fair value model. Gains or losses arising from changes in the fair value of investment properties are included in profit or loss for the year in which they arise.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use or no future economic benefits are expected from its disposals. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the income statement in the year in which the item is derecognised.

Construction contracts

Where the outcome of a construction contract can be estimated reliably, revenue and costs are recognised by reference to the stage of completion of the contract activity at the balance sheet date, as measured by the proportion that contract costs incurred for work performed to date bear to the estimated total contract costs, except where this would not be representative of the stage of completion. Variations in contract work, claims and incentive payments are included to the extent that they have been agreed with the customer.

When the outcome of a construction contract can be estimated reliably, revenue from cost plus contracts is recognised by reference to the recoverable costs incurred during the period plus the fee earned, measured by the proportion that costs incurred to date bear to the estimated total costs of the contract.

When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

Notes to the Financial Statements

For The Year Ended 31 December 2005

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Construction contracts (continued)

Where contract costs incurred to date plus recognised profits less recognised losses exceed progress billings, the surplus is shown as an amount due from customers for contract work. For contracts where progress billings exceed contract costs incurred to date plus recognised profits less recognised losses, the surplus is shown as an amount due to customers for contract work. Amounts received before the related work is performed are included in the balance sheet, as a liability, as advances received. Amounts billed for work performed but not yet paid by the customer are included in the balance sheet under trade and other receivables.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessor

Rental income from operating leases is recognised in the income statement on a straight line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised as an expense on a straight-line basis over the lease term.

The Group as lessee

Assets held under finance leases are recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to profit or loss.

Rentals payable under operating leases are charged to profit or loss on a straight line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight line basis.

Prepaid lease rentals

Payment for obtaining land use rights accounted for as prepaid lease rentals and are charged to the income statement on a straight-line basis over the lease terms.

Notes to the Financial Statements

For The Year Ended 31 December 2005

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in its functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are re-translated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are re-translated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not re-translated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise, except for exchange differences arising on a monetary item that forms part of the Group's net investment in a foreign operation, in which case, such exchange differences are recognised in equity in the consolidated financials statements. Exchange differences arising on the re-translation of non-monetary items carried at fair value are included in profit or loss for the year except for differences arising on the re-translation of non-monetary items in respect of which gains and losses are recognised directly in equity, in which cases, the exchange differences are also recognised directly in equity.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. Hong Kong dollars) at the rate of exchange prevailing at the balance sheet date, and their income and expenses are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised as a separate component of equity (the translation reserve). Such exchange differences are recognised in profit or loss in the period in which the foreign operation is disposed of.

Goodwill and fair value adjustments on identifiable assets acquired arising on an acquisition of a foreign operation on or after 1 January 2005 are treated as assets and liabilities of that foreign operation and translated at the rate of exchange prevailing at the balance sheet date. Exchange differences arising are recognised in the translation reserve.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, are capitalised as part of the cost of those assets. Capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in period in which they are incurred.

Retirement benefits costs

Payments to the defined contribution retirement benefits scheme are charged as expenses as they fall due.

Taxation

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

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

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

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

Notes to the Financial Statements

For The Year Ended 31 December 2005

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Taxation (continued)

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

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

Intangible assets

On initial recognition, intangible assets acquired separately are recognised at cost. After initial recognition, intangible assets with finite useful lives are carried at costs less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is provided on a straight line basis over their estimated useful lives.

Gains or losses arising from derecognition of an intangible asset are measured at the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the income statement when the asset is derecognised.

Intangible assets with finite useful lives are tested for impairment when there is an indication that an asset may be impaired (see the accounting policies in respect of impairment losses for tangible and intangible assets below).

Research and development expenditures

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from development expenditure is recognised only if it is anticipated that the development costs incurred on a clearly-defined project will be recovered through future commercial activity. The resultant asset is amortised on a straight-line basis over its useful life, and carried at cost less subsequent accumulated amortisation and any accumulated impairment losses.

Where no internally-generated intangible asset can be recognised, development expenditure is charged to profit or loss in the period in which it is incurred.

Notes to the Financial Statements

For The Year Ended 31 December 2005

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the first-in, first-out method or weighted average method.

Financial instruments

Financial assets and financial liabilities are recognised on the balance sheet when a Group entity becomes a party to the contractual provisions of the instruments. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

Other than derivatives which are deemed as financial assets held for trading, the Group's financial assets are classified as loans and receivables. The accounting policy adopted in respect of loans and receivables is set out below.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initial recognition, loans and receivables (including trade and bills receivables, deposits, other receivables, bank balances and deposits, amounts due from related companies, amounts due from associates, amount due from a minority shareholder of a subsidiary and ultimate holding company) are carried at amortised cost using the effective interest method, less any identified impairment losses. An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the assets' carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. Impairment losses are reversed in subsequent periods when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to a restriction that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Notes to the Financial Statements

For The Year Ended 31 December 2005

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial liabilities and equity

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities. The accounting policies adopted in respect of financial liabilities and equity instruments are set out below.

Financial liabilities

Financial liabilities (other than derivatives which are deemed as financial liabilities held for trading) including trade and bills payables, other payables, bank borrowings, obligations under a finance lease, amounts due to related companies, loans from ultimate holding company, amount due to ultimate holding company and loan from a fellow subsidiary are subsequently measured at amortised cost, using the effective interest rate method.

Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Derivatives that do not qualify for hedge accounting

Derivatives that do not qualify for hedge accounting are deemed as financial liabilities held for trading or financial liabilities held for trading. Changes in fair values of such derivatives are recognised directly in profit or loss.

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and the cumulative gain or loss that had been recognised directly in equity is recognised in profit or loss.

For financial liabilities, they are removed from the balance sheet (i.e. when the obligation specified in the relevant contract is discharged, cancelled or expired). The difference between the carrying amount of the financial liability derecognised and the consideration paid or payable is recognised in profit or loss.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment losses (other than goodwill – see the accounting policies in respect of goodwill above)

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

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

Equity settled share-based payment transactions

Share options granted and vested to employees before 1 January 2005

The financial impact of share options granted and vested before 1 January 2005 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 recognised in the income statement in respect of the value of options granted and vested before 1 January 2005. Upon the exercise of the share options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company in the share premium account. Options which lapse or are cancelled prior to their exercise date are deleted from the register of outstanding options.

Provisions

Provisions are recognised when the Group has a present obligation as a result of a past event, and it is probable that the Group will be required to settle that obligation. Provisions are measured at the directors' best estimate of the expenditure required to settle the obligation at the balance sheet date, and are discounted to present value where the effect is material.

Notes to the Financial Statements

For The Year Ended 31 December 2005

5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

Critical judgement in applying accounting policies

In the process of applying the accounting policies which are described in note 4, management has made the following judgment that have significant effect on the amounts recognised in the financial statements.

Going concern

As at 31 December 2005, the Group had net current liabilities of approximately HK$1,840,353,000. The Directors are of the opinion that the preparation of these financial statements is based on a going concern and the basis of a going concern has been disclosed in note 2. Should there be any problem in the going concern of the Group, all the assets and liabilities have to be stated at net realisable values.

Key sources of estimation uncertainty

The key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are also discussed below.

Allowance for bad and doubtful debts

As at 31 December 2005, the Group has allowance for bad and doubtful debts of approximately HK$273,382,000 (2004: HK$284,951,000). The policy for allowance of bad and doubtful debts of the Group is based on the evaluation of collectability and aging analysis of accounts and on management's estimates. A considerable amount of judgment is required in assessing the ultimate realisation of these receivables, including the current creditworthiness and the past collection history of each customer. If the financial conditions of customers of the Group were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required.

Depreciation

The Group depreciates the plant and machinery on a straight line basis over the estimated useful lives of seven to twenty-eight years, and after taking into account of their estimated residual value, using the straight line method, commencing from the date the equipment is ready for intended use. The estimated useful life and dates that the Group places the equipment into intended use reflects the directors' estimate of the periods that the Group intends to derive future economic benefits from the use of the Group's plant and machinery.

5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (continued)

Key sources of estimation uncertainty (continued)

Depreciation (continued)

The Group intends to apply for an extension of the tenure from 20 years to 50 years for Qinhuangdao Shougang Plate Mill Co., Ltd. ("Qinhuangdao Plate Mill"), a subsidiary of the Company. Such an application can only be made during the six-month period prior to the expiry of the original tenure in 2012, and the directors believe that such an extension will be granted upon application. Accordingly, the costs of the relevant items of property, plant and equipment of this enterprise are depreciated on the straight line basis to write off the cost of the assets over their estimated useful lives on the basis that a new tenure will be granted.

Estimated impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. As at 31 December 2005, the carrying amount of goodwill is HK$292,170,000. Details of the recoverable amount calculation are disclosed in note 20.

Allowance for inventories

As at 31 December 2005, the Group has allowance for inventories of approximately HK$13,752,000 (2004: HK$1,544,000). The management of the Group reviews an aging analysis at each balance sheet date, and makes allowance for obsolete and slow-moving inventory items identified that are no longer suitable for use in production. The management estimates the net realisable value for such finished goods and work-in progress based primarily on the latest invoice prices and current market conditions. The Group carries out an inventory review on a product-by-product basis at each balance sheet date and makes allowance for obsolete items.

Income taxes

No deferred tax asset has been recognised in respect of tax losses of approximately HK$524 million due to the unpredictability of future profit streams. In cases where the actual future profits generated are more than expected, a material deferred tax asset may be recognised.

Notes to the Financial Statements

For The Year Ended 31 December 2005

6. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's major financial instruments include restricted deposits, trade and bill receivables, other receivables, amounts due from (to) related companies, loans from ultimate holding company, bank balances and cash, amount due from (to) ultimate holding company, loan from a fellow subsidiary, trade and bill payables, other payables and bank borrowings. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Currency risk

Certain trade receivables, trade payables and borrowings of the Group are denominated in foreign currencies. The Group currently does not have a foreign currency hedging policy. However, the management monitors foreign exchange exposure and enter into foreign currency forward contracts to hedge significant foreign currency exposure when the need arises.

Interest rate risk

The Group is exposed to fair value and cash flow interest rate risk through the impact of rate changes on interest bearing restricted deposits, bank balances and cash, bank borrowings and obligations under a finance leases. The interest rate and terms of repayment of restricted deposits, bank balances and cash, obligations under a finance lease and bank borrowings of the Group are disclosed in notes 30, 31, 34 and 35 respectively. The Group currently does not have an interest rate hedging policy. However, the management monitors interest rate change exposure and will consider hedging significant interest rate change exposure should the need arises.

Credit risk

The Group's maximum exposure to credit risk in the event of the counterparties failure to perform their obligations as at 31 December 2005 in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated balance sheet. In order to minimise credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

6. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Credit risk (continued)

Although the bank balances are concentrated on certain counterparties, the credit risk on liquid funds is limited because the counterparties are banks with high credit ratings assigned by international credit rating agencies.

The Group has no significant concentration of credit risk, with exposure spread over a number of counterparties and customers.

7. REVENUE AND BUSINESS AND GEOGRAPHICAL SEGMENTS

Revenue represents the net amounts received and receivable for goods sold by the Group to outside customers, less returns and allowances, revenue arising from sales of steel products, electricity, steam and hot water, leasing income and charter hire income during the year.

Business segments

For management purposes, the Group is currently organised into the following divisions. These divisions are the basis on which the Group reports its primary segment information:

Steel manufacturing	– manufacture and sale of steel products;
Shipping operations	– vessel chartering and the hiring of floating cranes;
Electricity generation	– generation of electricity, steam and hot water;
Steel trading	– trading of steel products;
Kitchen and laundry equipment	– manufacture and installation of kitchen and laundry equipment; and
Others	– management services business.

Notes to the Financial Statements

For The Year Ended 31 December 2005

7. REVENUE AND BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

Segment information about these businesses is presented below:

INCOME STATEMENT

For the year ended 31 December 2005

	Steel manufacturing HK$'000	Shipping operations HK$'000	Electricity generation HK$'000	Steel trading HK$'000	Kitchen and laundry equipment HK$'000	Others HK$'000	Elimination HK$'000	Consolidated HK$'000
Revenue								
External customers	2,762,955	230,859	411,023	1,086,341	77,105	1,696	–	4,569,979
Inter-segment sales	338,654	–	–	–	–	–	(338,654)	–
Total	3,101,609	230,859	411,023	1,086,341	77,105	1,696	(338,654)	4,569,979
Segment results	120,689	71,916	72,082	14,039	613	5,648	–	284,987
Unallocated other operating income								7,335
Unallocated corporate expenses								(32,658)
Interest expenses								(39,947)
Share of results of associates	130,241	–	–	–	–	–	–	130,241
Gain on disposal of an associate	–	–	–	4,355	–	–	–	4,355
Profit before taxation								354,313
Income tax expense								(20,995)
Profit for the year								333,318

Inter-segment sales are charged at the terms agreed by both parties.

7. REVENUE AND BUSINESS AND GEOGRAPHICAL SEGMENTS

(continued)

BALANCE SHEET

At 31 December 2005

	Steel manufacturing	Shipping operations	Electricity generation	Steel trading	Kitchen and laundry equipment	Others	Consolidated
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
ASSETS							
Segment assets	5,668,446	33,724	620,008	78,109	38,081	18,043	6,456,411
Interests in associates	193,835	–	–	–	–	–	193,835
Unallocated corporate assets							797,755
Consolidated total assets							7,448,001
LIABILITIES							
Segment liabilities	1,361,035	25,191	25,912	18,553	19,199	8,080	1,457,970
Unallocated corporate liabilities							3,505,790
Consolidated total liabilities							4,963,760

Notes to the Financial Statements

For The Year Ended 31 December 2005

7. REVENUE AND BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

OTHER INFORMATION

For the year ended 31 December 2005

	Steel manufacturing	Shipping operations	Electricity generation	Steel trading	Kitchen and laundry equipment	Others	Consolidated
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Capital additions	577,972	453	8,916	–	405	1,228	588,974
Capital additions through acquisition of a subsidiary	3,736,776	–	–	–	–	–	3,736,776
Depreciation of property, plant and equipment	50,916	1,439	19,990	178	721	497	73,741
Amortisation of intangible assets	665	–	–	–	–	–	665
Amortisation of prepaid lease rental	495	–	4,012	116	106	–	4,729
Surplus arising on revaluation of investment properties	–	–	–	(1,856)	–	(3,600)	(5,456)
Gain on disposal of an associate	–	–	–	(4,355)	–	–	(4,355)
Loss (gain) on disposal of property, plant and equipment	10,716	6	–	(8)	(14)	–	10,700
Loss on disposal of land use rights	1,594	–	–	–	–	–	1,594
(Recovery of) allowance for bad and doubtful debts, net	(6,984)	(5,430)	–	(446)	202	–	(12,658)
Allowance for inventories	10,443	–	–	–	456	–	10,899

7. REVENUE AND BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

INCOME STATEMENT

For the year ended 31 December 2004 (Restated)

	Steel manufacturing HK$'000	Shipping operations HK$'000	Electricity generation HK$'000	Steel trading HK$'000	Kitchen and laundry equipment HK$'000	Others HK$'000	Elimination HK$'000	Consolidated HK$'000
Revenue								
External customers	2,377,903	275,807	381,408	186,982	66,227	1,224	–	3,289,551
Inter-segment sales	39,612	–	–	–	–	–	(39,612)	–
Total	2,417,515	275,807	381,408	186,982	66,227	1,224	(39,612)	3,289,551
Segment results	171,756	113,074	63,319	(10,720)	12,232	1,224	–	350,885
Unallocated other operating income								4,352
Unallocated corporate expenses								(23,597)
Interest expenses								(12,870)
Share of results of associates	54,966	–	–	–	–	–	–	54,966
Loss on deemed disposal of a partial interest in an associate	(819)	–	–	–	–	–	–	(819)
Profit before taxation								372,917
Income tax expense								(486)
Profit for the year								372,431

Inter-segment sales are charged at the terms agreed by both parties.

Notes to the Financial Statements

For The Year Ended 31 December 2005

7. REVENUE AND BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

BALANCE SHEET

At 31 December 2004 (Restated)

	Steel manufacturing HK$'000	Shipping operations HK$'000	Electricity generation HK$'000	Steel trading HK$'000	Kitchen and laundry equipment HK$'000	Others HK$'000	Consolidated HK$'000
ASSETS							
Segment assets	1,039,046	24,163	528,197	80,612	38,726	12,618	1,723,362
Interests in associates	478,543	–	–	2	–	–	478,545
Unallocated corporate assets							516,209
Consolidated total assets							2,718,116
LIABILITIES							
Segment liabilities	298,548	16,440	24,449	19,655	24,750	3,156	386,998
Unallocated corporate liabilities							460,441
Consolidated total liabilities							847,439

Notes to the Financial Statements

For The Year Ended 31 December 2005

7. REVENUE AND BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

OTHER INFORMATION

For the year ended 31 December 2004 (Restated)

	Steel manufacturing	Shipping operations	Electricity generation	Steel trading	Kitchen and laundry equipment	Others	Consolidated
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Capital additions	229,627	495	401	371	1,847	3,068	235,809
Depreciation of property, plant and equipment	30,236	1,389	25,064	89	1,186	106	58,070
Amortisation of intangible assets	1,026	–	–	–	–	–	1,026
Amortisation of prepaid lease rentals	1,544	–	3,973	117	556	–	6,190
Amortisation of goodwill	2,663	–	3,634	–	–	–	6,297
Deficit (surplus) arising on revaluation of investment properties	471	–	–	(220)	–	(1,000)	(749)
Impairment loss recognised in respect of investment securities	11,503	–	–	–	–	–	11,503
Loss (gain) on disposal of property, plant and equipment	26,484	37	150	–	(3,010)	383	24,044
Loss on deemed disposal of a partial interest in an associate	819	–	–	–	–	–	819
(Recovery of) allowance for bad and doubtful debts, net	(15,543)	(3,770)	–	4,304	94	–	(14,915)

Notes to the Financial Statements

For The Year Ended 31 December 2005

7. REVENUE AND BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

Geographical segments

The Group's operations are located in the PRC including Hong Kong.

The following table provides an analysis of the Group's revenue by geographical market, irrespective of the origin of the goods or services:

	Revenue	
	2005	2004
	HK$'000	HK$'000
PRC, excluding Hong Kong	**3,287,404**	2,526,930
Hong Kong	**397,874**	295,925
Others	**884,701**	466,696
	4,569,979	3,289,551

The following is an analysis of the carrying amount of segment assets and capital additions, analysed by the geographical area in which the assets are located:

	Carrying amount of segment assets		Capital additions	
	2005	2004	**2005**	2004
	HK$'000	HK$'000 (restated)	**HK$'000**	HK$'000
PRC, excluding Hong Kong	**6,774,053**	2,107,004	**587,297**	232,156
Hong Kong	**673,948**	611,112	**1,677**	3,653
	7,448,001	2,718,116	**588,974**	235,809

8. OTHER INCOME

	2005 HK$'000	2004 HK$'000
Change in fair value/surplus arising on revaluation of investment properties	**5,456**	749
Compensation income	**3,706**	2,564
Interest income	**7,335**	4,352
Recovery of bad and doubtful debt, net	**12,658**	14,915
Scrap sales income	**11,568**	4,053
Sundry income	**9,316**	3,385
Tax refund on reinvestment of retained profits to subsidiaries	**9,878**	–
Refund of value added tax	**3,820**	–
	63,737	30,018

9. INTEREST EXPENSES

	2005 HK$'000	2004 HK$'000
Interest on		
– bank and other borrowings wholly repayable within five years	**46,099**	12,838
– convertible note	**–**	16
– finance leases	**32**	16
Total borrowing costs	**46,131**	12,870
Less: amounts capitalised	**(6,184)**	–
	39,947	12,870

Borrowing costs capitalised during the year arose on the general borrowing pool and are calculated by applying a capitalisation rate ranges from 4.65% to 5.76% to expenditure on qualifying assets.

Notes to the Financial Statements

For The Year Ended 31 December 2005

10. PROFIT BEFORE TAXATION

	2005 HK$'000	2004 HK$'000 (restated)
Profit before taxation has been arrived at after charging:		
Staff costs, including Directors' emoluments		
– basic salaries and allowances	111,940	88,166
– retirement benefits scheme contributions	10,290	9,803
	122,230	97,969
Amortisation of goodwill (included in administrative expenses)	–	6,095
Amortisation of intangible assets (included in administrative expenses)	665	1,026
Amortisation of prepaid lease rentals	4,729	6,190
Depreciation of property, plant and equipment	73,741	58,070
Total depreciation and amortisation	79,135	71,381
Allowance for inventories	10,899	–
Auditors' remuneration	2,347	1,352
Charter hire costs	156,573	158,381
Cost of inventories recognised as expenses	3,919,428	2,597,592
Exchange loss	413	1,050
Impairment loss recognised in respect of investment securities	–	11,503
Loss on disposal of land use rights (included in prepaid lease rentals)	1,594	–
Loss on disposal of property, plant and equipment	10,700	24,044
Loss on derivative financial instruments	2,103	–
Minimum lease payments under operating leases in respect of land and buildings	1,883	1,632
Share of tax of associates (included in share of results of associates)	1,710	9,153

10. PROFIT BEFORE TAXATION (continued)

	2005 HK$'000	2004 HK$'000 (restated)
and after crediting:		
Change in fair value/surplus arising on revaluation of investment properties	**5,456**	749
Gain on disposal of an investment property	**–**	1,397
Interest income	**7,335**	4,352
Rental income from investment properties under operating leases, less outgoings of HK$110,000 (2004: HK$280,000)	**1,377**	1,367
Reversal of provision for compensation	**344**	–
Recovery of bad and doubtful debt, net	**12,658**	14,915
Write-back of other payables and accrued liabilities	**34**	75
Write-back of allowance for inventories	**–**	20

Notes to the Financial Statements

For The Year Ended 31 December 2005

11. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

(a) Directors' emoluments

The emoluments paid or payable to each of the twelve (2004: thirteen) directors were as follows:

	Wang Qinghai HK$'000	Cao Zhong HK$'000	Chen Zhouping HK$'000	Zhang Wenhui HK$'000	Tsoi Wai Kwong HK$'000	Luo Zhenyu HK$'000	Choy Hok Man HK$'000	Ip Tak Chuen HK$'000	Leung Shun Sang HK$'000	Kan Lai Kuen HK$'000	Kwan Bo Ren HK$'000	Wong Kun Kim HK$'000	Total 2005 HK$'000
2005													
Fees	120	–	–	–	–	–	150	120	120	150	150	150	960
Other emoluments													
Salaries and other benefits	210	3,153	2,082	300	840	1,768	–	–	–	–	–	–	8,353
Contributions to retirement benefits schemes	–	190	120	–	40	87	–	–	–	–	–	–	437
Performance related incentive payments *(Note)*	–	1,200	450	–	–	180	–	–	–	–	–	–	1,830
Total emoluments	330	4,543	2,652	300	880	2,035	150	120	120	150	150	150	11,580

	Wang Qinghai HK$'000	Cao Zhong HK$'000	Chen Zhouping HK$'000	Zhang Wenhui HK$'000	Tsoi Wai Kwong HK$'000	Xu Xianghua HK$'000	Choy Hok Man HK$'000	Ip Tak Chuen HK$'000	Leung Shun Sang HK$'000	Kan Lai Kuen HK$'000	Kwan Bo Ren HK$'000	Wong Kun Kim HK$'000	Lai Kam Man HK$'000	Total 2004 HK$'000
2004														
Fees	–	–	–	–	–	–	50	15	15	30	30	30	100	270
Other emoluments														
Salaries and other benefits	208	2,247	1,682	892	1,345	44	–	–	–	–	–	–	–	6,418
Contributions to retirement benefits schemes	–	–	–	–	65	–	–	–	–	–	–	–	–	65
Performance related incentive payments *(Note)*	–	250	180	–	–	–	–	–	–	–	–	–	–	430
Total emoluments	208	2,497	1,862	892	1,410	44	50	15	15	30	30	30	100	7,183

Note: The performance related incentive payments are determined by Board of Directors.

No Director has waived any emoluments for the year ended 31 December 2005. In April 2005, a Director, Mr. Kwan Bo Ren has agreed to waive his emoluments of HK$30,000 for the year ended 31 December 2004.

11. DIRECTORS' AND EMPLOYEES' EMOLUMENTS (continued)

(b) Employees' emoluments

Of the five individuals with the highest emoluments in the Group, four (2004: four) were Directors of the Company whose emoluments are included in the disclosures in note 11(a) above. The emoluments of the remaining one (2004: one) individual are as follows:

	2005 **HK$'000**	2004 HK$'000
Salaries and other benefits	**859**	802
Retirement benefits scheme contributions	**43**	40
	902	842

12. INCOME TAX EXPENSE

	2005 **HK$'000**	2004 HK$'000 (restated)
Current tax:		
PRC	**22,287**	21,311
Other jurisdictions	**17**	13
Overprovision in prior years	**(166)**	(16,415)
	22,138	4,909
Deferred tax *(Note 38)*:		
Current year	**(1,143)**	(4,423)
	20,995	486

Pursuant to Income Tax Law of the PRC for Enterprises with Foreign Investment and Foreign Enterprises, Qinhuangdao Plate Mill, a principal subsidiary of the Company operating in Economic and Technology Development Zone of the PRC, is entitled to a preferential income tax rate of 15%. In addition, Qinhuangdao Plate Mill is subject to a local income tax rate of 3%. Pursuant to an approval granted by the local tax bureau in October 2004, Qinhuangdao Plate Mill is entitled to a reduction of income tax rate to 10% for the years from 2003 to 2005 as an Advanced Technology Enterprise and is exempted from the local income tax.

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12. INCOME TAX EXPENSE (continued)

Qinhuangdao Plate Mill and certain other subsidiaries of the Company operating in the PRC are eligible for certain tax holidays and concessions in respect of PRC income tax and are exempted from PRC income taxes for the year. The PRC income tax charges are arrived at after taking into account these tax incentives.

Taxation arising in other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions.

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

	2005	2004
	HK$'000	HK$'000
		(restated)
Profit before taxation	**354,313**	372,917
Taxation at the income tax rate of 18% (2004: 18%) *(Note)*	**63,776**	67,125
Tax effect of share of results of associates	**(23,443)**	(9,894)
Tax effect of expenses not deductible for tax purpose	**5,777**	39,999
Tax effect of income not taxable for tax purpose	**(24,920)**	(48,237)
Overprovision in respect of prior years	**(166)**	(16,415)
Tax effect of tax loss not recognised	**5,640**	6,082
Tax effect of tax assets not recognised	**–**	217
Tax effect of utilisation of tax losses previously not recognised	**(2,869)**	(2,014)
Tax effect of utilisation of tax assets previously not recognised	**(346)**	(8,329)
Effect of tax exemption granted to a PRC subsidiary	**(275)**	(11,132)
Effect of different tax rates of subsidiaries	**12,679**	128
Income tax on concessionary rate	**(14,858)**	(17,044)
Tax expense for the year	**20,995**	486

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

13. DIVIDENDS

	2005 HK$'000	2004 HK$'000
Final dividend proposed: HK0.6 cent per share (2004: Nil)	**29,604**	–

The Directors propose that final dividend of HK0.6 cent (2004: Nil) per share will be paid to shareholders and this dividend is subject to approval by shareholders at the Annual General Meeting.

The proposed dividend for 2005 is payable to all shareholders on the Register of Members on 26 May 2006.

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14. EARNINGS PER SHARE

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

	2005 HK$'000	2004 HK$'000 (restated)
Profit for the purposes of basic earnings per share	**305,032**	279,343
Effect of dilutive potential ordinary shares:		
Adjustment to the share of result of an associate based on dilution of its earnings per share	**(631)**	(3,841)
Interest on convertible note	**–**	16
Earnings for the purposes of diluted earnings per share	**304,401**	275,518
Weighted average number of ordinary shares for the purposes of basic earnings per share	**4,717,802,025**	3,708,709,632
Effect of dilutive potential ordinary shares:		
Options	**169,766,575**	128,441,080
Convertible note	**–**	1,561,280
Weighted average number of ordinary shares for the purposes of diluted earnings per share	**4,887,568,600**	3,838,711,992

The following table summarises the impact on basic and diluted earnings per share as a result of:

	Impact on basic earnings per share		Impact on diluted earnings per share	
	2005 HK cents	2004 HK cents	**2005 HK cents**	2004 HK cents
Reported figures before adjustments	**6.2**	7.5	**5.9**	7.2
Adjustments arising from changes in accounting policies *(Note 3A)*	**0.3**	–	**0.3**	–
Restated	**6.5**	7.5	**6.2**	7.2

15. INVESTMENT PROPERTIES

	THE GROUP
	HK$'000
FAIR VALUE	
At 1 January 2004	18,309
Exchange adjustments	13
Net increase in fair value recognised in the income statement	749
Disposals	(3,430)
Transfers from prepaid lease rentals	1,111
Transfer from property, plant and equipment	271
At 1 January 2005	17,023
Exchange adjustments	126
Net increase in fair value recognised in the income statement	5,456
At 31 December 2005	22,605

The fair value of the Group's investment properties at 31 December 2005 have been arrived at on the basis of a valuation carried out on that date by AA Property Services Limited, independent qualified professional valuers not connected with the Group. AA Property Services Limited is a member of the Royal Institution of Chartered Surveyors, and has appropriate qualifications in the valuation of similar properties in the relevant locations. The valuation was arrived at by reference to market evidence of transaction prices for similar properties.

All of the Group's investment properties are held for rental income under operating leases.

Notes to the Financial Statements

For The Year Ended 31 December 2005

15. INVESTMENT PROPERTIES (continued)

The carrying value of investment properties shown above situated in:

	2005 HK$'000	2004 HK$'000
Hong Kong and held under		
– medium-term lease	**12,000**	8,400
– long lease	**4,838**	2,982
	16,838	11,382
The PRC and held under medium-term land use right	**5,767**	5,641
	22,605	17,023

The Group has pledged certain of its investment properties to secure banking facilities granted to the Group (see Note 50(a) for details).

Notes to the Financial Statements

For The Year Ended 31 December 2005

16. PROPERTY, PLANT AND EQUIPMENT

	Buildings and structure HK$'000	Leasehold improvements HK$'000	Furniture, fixtures and equipment HK$000	Plant and machinery HK$'000	Motor vehicles HK$'000	Vessels HK$000	Construction in progress HK$'000	Total HK$'000
THE GROUP								
COST								
At 1 January 2004	283,623	48,279	45,492	1,073,853	23,851	26,754	7,252	1,509,104
Exchange adjustments	530	91	81	2,106	36	–	15	2,859
Additions	215	2,147	4,391	4,635	4,350	–	13,430	29,168
Transfers from construction in progress	–	–	329	4,799	–	–	(5,128)	–
Transfer to investment properties	–	(405)	–	–	–	–	–	(405)
Disposals	(12,292)	(614)	(4,674)	(52,576)	(17,009)	–	–	(87,165)
At 31 December 2004	272,076	49,498	45,619	1,032,817	11,228	26,754	15,569	1,453,561
Exchange adjustments	8,250	1,025	956	24,633	163	409	3,227	38,663
Additions	9,066	327	3,177	33,834	4,402	–	487,427	538,233
Arising on acquisition of a subsidiary	1,002,290	–	16,478	723,210	6,818	–	1,800,966	3,549,762
Transfer from construction in progress	43,680	–	1,092	111,480	–	–	(156,252)	–
Disposals	(27)	–	(3,001)	(19,326)	(1,961)	–	–	(24,315)
At 31 December 2005	1,335,335	50,850	64,321	1,906,648	20,650	27,163	2,150,937	5,555,904
DEPRECIATION, AMORTISATION AND IMPAIRMENT								
At 1 January 2004	60,928	31,074	25,490	552,749	20,891	15,928	–	707,060
Exchange adjustments	93	61	42	1,020	29	–	–	1,245
Provided for the year	7,186	99	2,246	46,095	1,416	1,028	–	58,070
Transfer to investment properties	–	(134)	–	–	–	–	–	(134)
Eliminated on disposals	(8,074)	(233)	(4,499)	(24,190)	(14,101)	–	–	(51,097)
At 31 December 2004	60,133	30,867	23,279	575,674	8,235	16,956	–	715,144
Exchange adjustments	2,521	678	472	12,967	111	212	–	16,961
Provided for the year	15,039	267	3,058	52,350	1,979	1,048	–	73,741
Eliminated on disposals	(1)	–	(2,910)	(6,877)	(1,874)	–	–	(11,662)
At 31 December 2005	77,692	31,812	23,899	634,114	8,451	18,216	–	794,184
CARRYING VALUES								
At 31 December 2005	1,257,643	19,038	40,422	1,272,534	12,199	8,947	2,150,937	4,761,720
At 31 December 2004	211,943	18,631	22,340	457,143	2,993	9,798	15,569	738,417

Notes to the Financial Statements

For The Year Ended 31 December 2005

16. PROPERTY, PLANT AND EQUIPMENT (continued)

The carrying value of properties shown above situated:

	2005 HK$'000	2004 HK$'000 (restated)
Situated in the PRC and held under:		
– medium-term land use rights	1,256,401	210,642
– long term land use rights	1,242	1,301
	1,257,643	211,943

The net book value of plant and machinery includes an amount of HK$1,310,000 (2004: HK$1,483,000) in respect of assets held under a finance lease.

17. PREPAID LEASE RENTALS

	THE GROUP	
	2005 HK$'000	2004 HK$'000
The Group's prepaid lease rentals comprise:		
Medium-term leasehold land outside Hong Kong	283,196	72,975
Medium-term leasehold land in Hong Kong	3,596	3,713
	286,792	76,688
Analysed for reporting purposes as:		
Current asset	8,706	4,874
Non-current asset	278,086	71,814
	286,792	76,688

18. INTANGIBLE ASSETS

	THE GROUP Deferred product design fees HK$'000
COST	
At 1 January 2004	10,395
Exchange adjustments	20
At 31 December 2004	10,415
Exchange adjustments	233
At 31 December 2005	10,648
AMORTISATION	
At 1 January 2004	7,738
Exchange adjustments	13
Charge for the year	1,026
At 31 December 2004	8,777
Exchange adjustments	203
Charge for the year	665
At 31 December 2005	9,645
CARRYING VALUES	
At 31 December 2005	1,003
At 31 December 2004	1,638

The above intangible assets have definite useful lives. Such intangible assets are amortised on a straight line basis over a period from 5 years to 10 years.

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For The Year Ended 31 December 2005

19. GOODWILL

	THE GROUP
	HK$'000
COST	
At 1 January 2004	72,677
Arising on acquisition of an additional equity interest in a subsidiary	196,951
At 31 December 2004	269,628
Elimination of accumulated amortisation upon the application of HKFRS 3 (see Note 3A)	(10,032)
Transfer from interests in associates (Note 23)	9,488
Arising on acquisition of a subsidiary (Note 44)	22,486
Arising on acquisition of an additional equity interest in a subsidiary	600
At 31 December 2005	292,170
AMORTISATION	
At 1 January 2004	3,937
Charge for the year	6,095
At 31 December 2004	10,032
Elimination of accumulated amortisation upon the application of HKFRS 3 (see Note 3A)	(10,032)
At 31 December 2005	–
CARRYING VALUES	
At 31 December 2005	292,170
At 31 December 2004	259,596

Particulars regarding impairment testing on goodwill are disclosed in note 20.

Until 31 December 2004, goodwill had been amortised over its estimated useful life for 20 years.

20. IMPAIRMENT TESTING ON GOODWILL

As explained in note 7, the Group uses business segments as its primary segment for reporting segment information. For the purposes of impairment testing, goodwill set out in note 19 has been allocated to three individual cash generating units (CGUs), including two subsidiaries in steel manufacturing segment and one subsidiary in electricity generation segment. The carrying amounts of goodwill (net of accumulated impairment losses) as at 31 December 2005 allocated to these units are as follows:

	Goodwill
	HK$'000
Electricity generation – Beijing Shougang Firstlevel Power Limited ("SC Power") (Unit A)	65,107
Steel manufacturing – Qinhuangdao Plate Mill (Unit B)	194,489
Steel manufacturing – Qinhuangdao Shouqin Metal Materials Co., Ltd ("Shouqin") (Unit C)	32,574
	292,170

During the year ended 31 December 2005, management of the Group determines that there are no impairments of any of its CGUs containing goodwill.

The recoverable amounts of the Units A, B and C have been determined on the basis of value in use calculations. Their recoverable amounts are based on certain similar key assumptions. All value in use calculations use cash flow projections based on financial budgets approved by management covering a five-year period and at a discount rate of 8.3247%. All sets of cash flows beyond the five-year period are extrapolated with zero growth rate. The key assumptions for the value in use calculations are those regarding the discount rates, growth rates and expected changes to selling prices and direct costs during the budget period which have been determined based on past performance and management's expectations for the market development.

Notes to the Financial Statements

For The Year Ended 31 December 2005

21. NEGATIVE GOODWILL

	THE GROUP
	HK$'000
GROSS AMOUNT	
Arising on acquisition during 2004 and at 31 December 2004	3,710
Derecognised upon the application of HKFRS 3	(3,710)
At 1 January 2005 and 31 December 2005	–

The negative goodwill arose on the Group's additional acquisition of 2% equity interest in Qinhuangdao Plate Mill for a cash consideration of HK$10,652,000 in December 2004. No negative goodwill was released to income during 2004 as the acquisition was just completed by the end of 2004.

As explained in note 3, all negative goodwill arising on acquisition prior to 1 January 2005 was derecognised as a result of the application of HKFRS 3.

22. INTERESTS IN SUBSIDIARIES/AMOUNTS DUE FROM (TO) SUBSIDIARIES

	THE COMPANY	
	2005	2004
	HK$'000	HK$'000
Unlisted shares, at cost	**527,464**	527,464
Deemed capital contribution	**457,822**	–
Less: Impairment loss recognised	**(527,462)**	(527,458)
	457,824	6
Amounts due from subsidiaries	**1,561,410**	1,604,867
Less: Impairment losses recognised	**(353,778)**	(353,767)
	1,207,632	1,251,100
Amount due from a subsidiary – repayable within twelve months and shown under current assets	**80,189**	–
Amount due to a subsidiary – repayable within twelve months and shown under current liabilities	**–**	(57,230)

22. INTERESTS IN SUBSIDIARIES/AMOUNTS DUE FROM (TO) SUBSIDIARIES (continued)

At 31 December 2005, the amounts due from subsidiaries are unsecured, interest-free and have no fixed repayment terms, except for an amount of HK$80,189,000 due from a subsidiary which is repayable within twelve months, which is shown as current. In the opinion of the directors, the remaining amounts will not be repaid within twelve months of the balance sheet date and they are therefore shown as non-current. The directors consider that the carrying amount of amounts due from subsidiaries approximate their fair value.

At 31 December 2004, the amount due to a subsidiary was unsecured, interest-free and was fully repaid during the year.

Particulars of the Company's principal subsidiaries as at 31 December 2005 are set out in note 53.

23. INTERESTS IN ASSOCIATES

	THE GROUP	
	2005	2004
	HK$'000	HK$'000
		(restated)
Cost of investments in associates		
Listed in Hong Kong	**254,656**	254,656
Unlisted	**–**	254,934
Goodwill	**–**	9,488
Share of post-acquisition profits and reserves, net of dividends received	**(60,821)**	(40,533)
	193,835	478,545
Market value of listed investments	**106,062**	214,991

Notes to the Financial Statements

For The Year Ended 31 December 2005

23. INTERESTS IN ASSOCIATES (continued)

At 31 December 2004, included in the cost of investment in associates was goodwill of HK$9,488,000 arising on acquisitions of associates in prior years. The movement of goodwill is set out below.

	HK$'000
COST	
Arising on acquisition of an associate during 2004 and at 31 December 2004	9,690
Elimination of accumulated amortisation upon the application of HKFRS 3 *(see Note 3A)*	(202)
Transfer *(Note 19)*	(9,488)
At 31 December 2005	–
AMORTISATION	
At 1 January 2004	–
Charge for 2004 and at 31 December 2004	202
Elimination of accumulated amortisation upon the application of HKFRS 3 *(see Note 3A)*	(202)
At 31 December 2005	–
CARRYING VALUES	
At 31 December 2005	–
At 31 December 2004	9,488

Until 31 December 2004, goodwill had been amortised on a straight line basis over 20 years.

The amount was transferred to goodwill (Note 19) in 2005 upon the acquisition of a 45% further interests in Shouqin in 2005 and Shouqin then became a subsidiary of the Group.

23. INTERESTS IN ASSOCIATES (continued)

The summarised financial information in respect of the Group's associates is set out below:

	2005	2004
	HK$'000	HK$'000
	(Note)	(restated)
Total assets	**967,215**	3,568,795
Total liabilities	**(273,462)**	(2,362,652)
Net assets	**693,753**	1,206,143
Group's share of net assets of associates	**193,835**	468,877
Revenue	**592,889**	1,806,062
Profit for the year	**62,228**	203,386
Group's share of result of associates for the year	**17,387**	54,966

Note: The summarised financial information for the year ended 31 December 2005 only included the financial information of Shougang Concord Century Holdings Limited ("Shougang Concord"). The summarised financial information for the year ended 31 December 2004 included the financial information of Shougang Concord, Shouqin and Gainrise Holdings Limited ("Gainrise"). During the year ended 31 December 2005, Shouqin became the subsidiary of the Group and Gainrise was disposed of.

Information of the associate is set out in note 53.

24. DEPOSITS FOR ACQUISITION OF PROPERTY, PLANT AND EQUIPMENT

The balances represent deposits paid for acquisition of property, plant and equipment. Included in the amount, approximately HK$29,431,000 (2004: Nil) was paid to the Shougang Group.

Notes to the Financial Statements

For The Year Ended 31 December 2005

25. AMOUNTS DUE FROM (TO) CUSTOMERS FOR CONTRACT WORK

	THE GROUP	
	2005	2004
	HK$'000	HK$'000
Contracts in progress at the balance sheet date:		
Contract costs incurred to date plus recognised profits less recognised losses	**209,277**	216,793
Less: Progress billings	**(209,831)**	(207,526)
	(554)	9,267
Represented by:		
Amounts due from customers included in current assets	**312**	9,914
Amounts due to customers included in current liabilities	**(866)**	(647)
	(554)	9,267

At 31 December 2005, retentions held by customers for contract works amounted to HK$1,026,000 (2004: HK$1,233,000).

26. INVENTORIES

	THE GROUP	
	2005	2004
	HK$'000	HK$'000
COST		
Raw materials	**454,060**	251,449
Work in progress	**8,842**	5,894
Finished goods	**78,876**	23,916
	541,778	281,259

27. TRADE AND BILL RECEIVABLES

	THE GROUP	
	2005	2004
	HK$'000	HK$'000
Trade and bill receivables	**598,003**	418,220
Less: Allowance for bad and doubtful debts	**(273,382)**	(284,951)
	324,621	133,269

Trading terms with customers are largely on credit, except for new customers, where payment in advance is normally required. The Group allows a range of credit period to its customers normally not more than 30 days, except for certain well established customers, where the terms are extended to 60 days. The following is an aged analysis of trade and bill receivables at the reporting date:

	THE GROUP	
	2005	2004
	HK$'000	HK$'000
Within 60 days	**204,585**	122,861
61 – 90 days	**3,613**	3,381
91 – 180 days	**42,715**	6,027
181 – 365 days	**70,661**	677
1 – 2 years	**3,047**	323
	324,621	133,269

The Directors consider that the carrying amounts of the Group's trade and bill receivables at 31 December 2005 approximate to the corresponding fair values.

Notes to the Financial Statements

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28. AMOUNTS DUE FROM (TO) RELATED COMPANIES

The balances represent amounts due from (to) the members of the Shougang Group. The balances are unsecured, interest-free and are repayable on demand except for the following:

(i) At 31 December 2004, interest payable amounting to HK$16,393,000 arising from the short term loans from Shougang Corporation was waived by Shougang Corporation. The remaining balances were fully repaid during the year ended 31 December 2004.

(ii) The trade receivables from related companies and an aged analysis of such balances are as follows:

	THE GROUP	
	2005	2004
	HK$'000	HK$'000
Within 60 days	**92,002**	96,320
61 – 90 days	**32,483**	32,915
91 – 180 days	**9,056**	177
181 – 365 days	**74**	11
1 – 2 years	**–**	98
Over 2 years	**3,024**	5,851
	136,639	135,372

The Group allows a range of a credit period normally not more than 60 days for sales to its related companies.

28. AMOUNTS DUE FROM (TO) RELATED COMPANIES (continued)

(iii) The trade payables to related companies and an aged analysis of such balances are as follows:

	THE GROUP	
	2005	2004
	HK$'000	HK$'000
Within 90 days	**71,036**	13,444
91 – 180 days	**36,205**	545
181 – 365 days	**10,570**	716
1 – 2 years	**2,978**	–
Over 2 years	**8,223**	8,223
	129,012	22,928

The Directors consider that the carrying amounts of amounts due from (to) related companies approximate their fair values.

29. AMOUNTS DUE FROM ASSOCIATES

The amounts were unsecured, interest-free and were fully repaid during the year.

30. RESTRICTED DEPOSITS

The amounts represent the bank deposits pledged to certain banks to secure the issuance of letters of credit. The deposits carry interest at 0.72% to 2.07% per annum.

The deposits will be released upon the settlement of the letters of credit. The Directors consider that the carrying amounts of restricted deposits approximate their fair values.

31. OTHER FINANCIAL ASSETS

Time deposits, bank balances and cash

The Group's deposits carry interest rate at prevailing bank savings deposits rate and mature within 3 months. The directors of the Company consider that the carrying amounts of the Group's bank balances and cash approximate to their fair values.

32. TRADE AND BILL PAYABLES

An aged analysis of trade and bill payables is as follows:

	THE GROUP	
	2005	2004
	HK$'000	HK$'000
Within 90 days	**421,018**	32,643
91 – 180 days	**12,747**	5,335
181 – 365 days	**39,187**	1,324
1 – 2 years	**45,765**	742
Over 2 years	**2,293**	2,536
	521,010	42,580

The Directors consider that the carrying amounts of the Group's trade and bill payables at 31 December 2005 approximate to the corresponding fair values.

33. AMOUNT DUE FROM (TO) ULTIMATE HOLDING COMPANY

The balances are unsecured, interest-free and are repayable on demand.

Trade receivables from ultimate holding company of approximately HK$12,596,000 are aged between 61 to 90 days.

The Group allows a range of a credit period normally not more that 60 days for sales to its ultimate holding company.

The amount due to ultimate holding company includes trade payables to ultimate holding company of approximately HK$303,142,000 which is aged within 90 days.

The Directors consider that carrying amount of the amount due from (to) ultimate holding company approximates its fair value.

34. OBLIGATIONS UNDER A FINANCE LEASE

	THE GROUP			
	Minimum lease payments		Present value of minimum lease payments	
	2005	2004	**2005**	2004
	HK$'000	HK$'000	**HK$'000**	HK$'000
Amounts payable under a finance lease:				
Within one year	**566**	561	**534**	534
In more than one year but not more than two years	**283**	809	**267**	801
	849	1,370	**801**	1,335
Less: Future finance charges	**(48)**	(35)	**–**	–
Present value of lease obligations	**801**	1,335	**801**	1,335
Less: Amount due for settlement within one year shown under current liabilities			**(534)**	(534)
Amount due for settlement after one year			**267**	801

The average lease term is 3 years. For the year ended 31 December 2005, the average effective borrowing rate is 2% (2004: 2%) per annum. Interest rates are fixed at the contract date. The lease is on a fixed repayment basis and no arrangements have been entered into for contingent rental payments.

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

All finance lease obligations are denominated in Hong Kong dollars, the functional currency of the subsidiary entered into these arrangements.

The Directors consider that the carrying amount of the obligations under a finance lease approximates its fair value.

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35. BANK BORROWINGS

Bank borrowings are repayable as follows:

	THE GROUP	
	2005	2004
	HK$'000	HK$'000
Within one year	**1,994,372**	301,825
In the second year	**237,409**	–
In the third to fifth years inclusive	**192,233**	–
	2,424,014	301,825
Less: Amount due within one year shown under current liabilities	**(1,994,372)**	(301,825)
	429,642	–

	2005	2004
	HK$'000	HK$'000
Secured	**69,051**	57,162
Unsecured	**2,354,963**	244,663
	2,424,014	301,825

The exposure of the Group's fixed-rate borrowings and the contractual maturity dates are as follows:

	2005	2004
	HK$'000	HK$'000
Fixed-rate borrowings		
Within one year	**1,955,978**	249,154
In more than one year but not more than two years	**237,409**	–
In more than two years but not more than three years	**192,233**	–
	2,385,620	249,154

35. BANK BORROWINGS (continued)

In addition, the Group has variable-rate borrowings which carry interest at 1% over and above the London Interbank Offered Rate.

The ranges of effective interest rates (which are also equal to contracted interest rates) on the Group's borrowings are as follows:

	2005	2004
Effective interest rate per annum:		
Fixed-rate borrowings	**5.02% to 5.85%**	4.78% to 5.58%
Variable-rate borrowings	**5.38% to 5.39%**	4.29% to 4.30%

The borrowings are secured by certain assets and are guaranteed by ultimate holding company. Details are set out in notes 50 and 52 respectively.

The Directors consider that the carrying amounts of bank borrowings approximate their fair values.

The Group's borrowings that are denominated in currencies other the functional currencies of the relevant group entities are set out below:

	US$'000	EUR'000
As at 31 December 2005	4,366	250
As at 31 December 2004	6,691	22

36. PROVISION FOR A COMPENSATION CLAIM

	THE GROUP	
	2005	2004
	HK$'000	HK$'000
Analysed for reporting purposes at current liabilities	–	707

A provision for compensation payable was recognised in 2001 as the Group failed to complete certain obligations arising from certain contracts of affreightment and was, under the terms of such contracts, liable to compensate the counterparties of such contracts. The claim was settled during the year.

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37. DERIVATIVE FINANCIAL INSTRUMENTS

	THE GROUP	
	2005	2004
	HK$'000	HK$'000
Foreign currency forward contracts, current liability	**2,103**	–

At 31 December 2005, the Group entered into forward foreign currency contracts, the major terms of the outstanding contracts are as follows:

Notional amount	Maturity	Forward exchange rates
Sell US$2,200,000	27.1.2006	RMB8.0316 to US$1
Sell US$2,200,000	28.2.2006	RMB8.0097 to US$1
Sell US$2,200,000	31.3.2006	RMB7.9875 to US$1
Sell US$2,200,000	28.4.2006	RMB7.9656 to US$1
Sell US$2,200,000	31.5.2006	RMB7.9367 to US$1
Sell HK$17,000,000	16.2.2006	RMB1.0337 to HK$1
Sell HK$17,000,000	16.3.2006	RMB1.0310 to HK$1
Sell HK$17,000,000	17.4.2006	RMB1.0278 to HK$1
Sell HK$17,000,000	16.5.2006	RMB1.0247 to HK$1
Sell HK$17,000,000	16.6.2006	RMB1.0218 to HK$1

The above derivatives are measured at fair value at each balance sheet date. Their fair values are determined based on the quoted prices by the bankers based on forward foreign currency contracts with similar notional amounts and similar outstanding periods as at balance sheet date.

38. DEFERRED TAX

The following are the major deferred tax liabilities (assets) recognised and movements thereon during the current and prior year:

THE GROUP

	Accelerated tax depreciation HK$'000	Revaluation of properties HK$'000	Tax losses HK$'000	Total HK$'000
At 1 January 2004	30,781	1,295	(1,553)	30,523
Exchange differences	67	–	–	67
Charge (credit) to income for the year *(Note 12)*	(4,591)	169	(1)	(4,423)
At 1 January 2005	26,257	1,464	(1,554)	26,167
Exchange differences	566	–	(3)	563
Credit to income for the year *(Note 12)*	(996)	(96)	(51)	(1,143)
Acquisition of a subsidiary	–	14,398	(1,208)	13,190
At 31 December 2005	25,827	15,766	(2,816)	38,777

For the purpose of balance sheet presentation, certain deferred tax assets and liabilities have been offset.

At 31 December 2005, the Group has unused tax losses of approximately HK$524 million (2004: HK$508 million) available to offset against future profits. At 31 December 2005, the Group has deductible temporary difference of approximately HK$143 million (2004: HK$145 million). The unrecognised tax losses may be carried forward indefinitely. The above deferred tax assets have not been recognised due to the unpredictability of future profit streams.

THE COMPANY

At the balance sheet date, the Company has unused tax losses of approximately HK$138 million (2004: HK$122 million) available for offset against future profits. No deferred tax asset has been recognised due to the unpredictability of future profit streams.

Notes to the Financial Statements

For The Year Ended 31 December 2005

39. LOAN FROM A FELLOW SUBSIDIARY

THE GROUP AND THE COMPANY

The amount at 31 December 2005 is unsecured, interest bearing at 5.14% to 5.2% per annum and repayable within one year.

The amount at 31 December 2004 was unsecured, interest-free and fully repaid during the year.

The Directors consider that the carrying amount of the loan approximates its fair value.

40. LOANS FROM ULTIMATE HOLDING COMPANY

THE GROUP

The amounts are unsecured, interest bearing at 5.22% to 5.76% per annum and are not repayable within twelve months from the balance sheet date. The Directors consider that the carrying amounts of the loans approximate their fair values.

Notes to the Financial Statements

For The Year Ended 31 December 2005

41. SHARE CAPITAL

	Number of shares	Amount
		HK$'000
Ordinary shares of HK$0.20 each		
Authorised:		
At 1 January 2004	5,000,000,000	1,000,000
Increase in authorised share capital *(Note a)*	5,000,000,000	1,000,000
At 31 December 2004, 1 January 2005 and 31 December 2005	10,000,000,000	2,000,000
Issued and fully paid:		
At 1 January 2004	2,645,546,454	529,109
Issue of shares upon conversion of convertible note *(Note b)*	571,428,571	114,286
Issue of shares on subscriptions *(Note c)*	450,000,000	90,000
Issue of shares in consideration for the acquisition of further interest in a subsidiary *(Note d)*	958,476,190	191,695
Issue of shares upon exercise of share options *(Note e)*	11,800,000	2,360
At 31 December 2004	4,637,251,215	927,450
Issue of shares upon exercise of share options *(Note f)*	25,146,000	5,030
Issue of shares in consideration for the acquisition of further interest in an associate which then became a subsidiary *(Note g)*	271,659,999	54,331
At 31 December 2005	4,934,057,214	986,811

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For The Year Ended 31 December 2005

41. SHARE CAPITAL (continued)

Notes:

(a) Pursuant to the ordinary resolution passed at the extraordinary general meeting held on 28 September 2004, the Company increased its authorised share capital from HK$1,000,000,000 to HK$2,000,000,000 by the creation of 5,000,000,000 shares of HK$0.20 each.

(b) On 2 January 2004, Shougang Holding (Hong Kong) Limited ("Shougang HK"), an immediate holding company, exercised in full its conversion right of the convertible note of the Company at the conversion price of HK$0.35 per share, resulting in an issue of 571,428,571 ordinary shares of the Company with a par value of HK$0.20 each.

(c) On 1 March 2004, arrangements were made for a private placement to independent private investors of 300,000,000 shares of HK$0.20 each in the Company held by Shougang HK, at a price of HK$0.66 per share, representing a discount of approximately 7.04% to the closing price of the Company's shares on 1 March 2004 as quoted on the Stock Exchange.

On the same date, the Company entered into a subscription agreement with Shougang HK for the subscription of 300,000,000 new shares of HK$0.20 each in the Company at a price of HK$0.66 per share. The proceeds would be used to invest in the Company's existing business and provide additional general working capital for the Company.

On 18 August 2004, the Company entered into a subscription agreement with Max Same Investment Limited, a wholly-owned subsidiary of Cheung Kong (Holdings) Limited, for subscription of 150,000,000 new shares of HK$0.20 each in the Company at a price of HK$0.315 per share, representing a discount of 10.0% to the closing price of the Company's shares on 17 August 2004 as quoted on the Stock Exchange. The proceeds were used to finance the acquisition of Equity Dragon Assets Limited ("Equity Dragon"), a wholly-owned subsidiary of the Company (see Note (d) below). On 13 October 2004, the new shares were issued pursuant to an ordinary resolution passed at the extraordinary general meeting of the Company held on 28 September 2004.

(d) On 18 August 2004, Firstlevel Holdings Limited ("Firstlevel Holdings"), a wholly-owned subsidiary of the Company, entered into an acquisition agreement with Shougang HK to acquire the entire issued share capital of, and the shareholder's loan to, Equity Dragon for a total consideration of HK$377,400,000, which was satisfied as to HK$301,920,000 by the issue of 958,476,190 shares ("Consideration Shares") and as to the remaining of HK$75,480,000 in cash. The principal asset of Equity Dragon is its 47% interest in the registered capital of Qinhuangdao Plate Mill. The Consideration Shares were valued and recognised in the financial statements of the Company at the closing price of the Company's shares of HK$0.435 per share as quoted on the Stock Exchange on 13 October 2004, being the completion date of the transaction.

Details of this acquisition were set out in the circular issued by the Company to the shareholders dated 10 September 2004.

41. SHARE CAPITAL (continued)

Notes: (continued)

(e) During the year ended 31 December 2004, 11,800,000 share options were exercised at prices ranging from HK$0.295 to HK$0.41 per share, resulting in issues of a total of 11,800,000 ordinary shares of HK$0.20 each in the Company.

(f) During the year ended 31 December 2005, 25,146,000 share options were exercised at prices ranging from HK$0.295 to HK$0.41 per share, resulting in issuance of a total of 25,146,000 ordinary shares of HK$0.20 each in the Company.

(g) On 5 August 2005, Central Pro Investments Limited ("Central Pro"), a wholly-owned subsidiary of the Company, entered into an agreement with Mr. Guo Fengshan, Silver Plus Development Limited and Middle Asia Limited to acquire the entire issued share capital of Hong Kong-Canada Welcen Kingsway International Investments (Holdings) Limited, which has a 35% equity interest in the registered capital of Shouqin, for an aggregate consideration of approximately HK$335,623,000, which was satisfied as to HK$211,764,000 in cash and as to HK$123,859,000 by the issue of 213,550,909 new shares (the "Consideration Shares 1") of the Company. The Consideration Shares 1 were valued and recognised in the financial statements of the Company at the closing price of the Company's shares of HK$0.58 per share as quoted on the Stock Exchange on 21 October 2005, being the completion date of the transaction.

On 6 August 2005, Central Pro entered into an agreement with Profit Access Investments Limited to acquire the entire issued share capital in Standnew Limited, which has a 10% equity interest in the registered capital of Shouqin, for a consideration of approximately HK$90,069,000, which was satisfied as to HK$57,528,000 in cash and as to HK$32,541,000 by the issue of 58,109,090 new shares (the "Consideration Shares 2") of the Company. The Consideration Shares 2 were valued and recognised in the financial statements of the Company at the closing price of the Company's shares of HK$0.56 per share as quoted on the Stock Exchange on 15 November 2005, being the completion date of the transaction.

All new shares issued rank pari passu with the then existing shares in all respects.

Notes to the Financial Statements

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42. SHARE OPTION SCHEME

The Company adopted a share option scheme (the "Scheme") on 7 June 2002.

The purpose of the Scheme is to enable the Company to grant share options to selected participants as incentives or rewards for their contribution to the Company and/or its subsidiaries and/or its associated companies (as defined under the Scheme). The Scheme will remain in force for a period of 10 years commencing 7 June 2002.

Under the Scheme, the Directors may, at their discretion, offer Directors (including executive and non-executive Directors), executives, officers, employees or certain other eligible participants (including ex-directors and ex-employees of the Group), share options to subscribe for shares of the Company.

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

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

42. SHARE OPTION SCHEME (continued)

The following tables disclose details of the share options held by Directors, employees and other eligible participants and movements in such holdings during the years ended 31 December 2005 and 2004:

	Number of share options						
Grantees	At 1.1.2005	Transferred to other category during the year *(Note)*	Exercised during the year	At 31.12.2005	Date of grant	Exercise period	Exercise price per share HK$
Directors of the Company	85,850,000	(22,950,000)	–	62,900,000	23.8.2002	23.8.2002 – 22.8.2012	0.295
	18,360,000	–	–	18,360,000	12.3.2003	12.3.2003 – 11.3.2013	0.280
	223,750,000	(52,796,000)	(21,746,000)	149,208,000	18.11.2003	18.11.2003 – 17.11.2013	0.410
	327,960,000	(75,746,000)	(21,746,000)	230,468,000			
Other employees of the Group	3,100,000	–	(3,100,000)	–	23.8.2002	23.8.2002 – 22.8.2012	0.295
	110,000	–	–	110,000	12.3.2003	12.3.2003 – 11.3.2013	0.280
	11,000,000	–	–	11,000,000	18.3.2004	18.3.2004 – 17.3.2014	0.660
	14,210,000	–	(3,100,000)	11,110,000			
Other eligible participants	54,050,000	22,950,000	(300,000)	76,700,000	23.8.2002	23.8.2002 – 22.8.2012	0.295
	61,850,000	–	–	61,850,000	12.3.2003	12.3.2003 – 11.3.2013	0.280
	–	52,796,000	–	52,796,000	18.11.2003	18.11.2003 – 17.11.2013	0.410
	5,000,000	–	–	5,000,000	18.3.2004	18.3.2004 – 17.3.2014	0.660
	120,900,000	75,746,000	(300,000)	196,346,000			
	463,070,000	–	(25,146,000)	437,924,000			
Exercisable at the end of the year				437,924,000			

Note: The share options were held by a grantee who ceased to be a Director of the Company during the year but remained as a Director of the Company's subsidiaries.

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For The Year Ended 31 December 2005

42. SHARE OPTION SCHEME (continued)

Grantees	At 1.1.2004	Transferred during the year (Note)	Granted during the year	Exercised during the year	At 31.12.2004	Date of grant	Exercise period	Exercise price per share HK$
	Number of share options							
Directors of the Company	114,000,000	(23,950,000)	–	(4,200,000)	85,850,000	23.8.2002	23.8.2002 – 22.8.2012	0.295
	18,360,000	–	–	–	18,360,000	12.3.2003	12.3.2003 – 11.3.2013	0.280
	229,550,000	–	–	(5,800,000)	223,750,000	18.11.2003	18.11.2003 – 17.11.2013	0.410
	361,910,000	(23,950,000)	–	(10,000,000)	327,960,000			
Other employees of the Group	3,900,000	–	–	(800,000)	3,100,000	23.8.2002	23.8.2002 – 22.8.2012	0.295
	–	110,000	–	–	110,000	12.3.2003	12.3.2003 – 11.3.2013	0.280
	–	–	11,000,000	–	11,000,000	18.03.2004	18.3.2004 – 17.3.2014	0.660
	3,900,000	110,000	11,000,000	(800,000)	14,210,000			
Other eligible participants	31,100,000	23,950,000	–	(1,000,000)	54,050,000	23.8.2002	23.8.2002 – 22.8.2012	0.295
	61,960,000	(110,000)	–	–	61,850,000	12.3.2003	12.3.2003 – 11.3.2013	0.280
	–	–	5,000,000	–	5,000,000	18.3.2004	18.3.2004 – 17.3.2014	0.660
	93,060,000	23,840,000	5,000,000	(1,000,000)	120,900,000			
	458,870,000	–	16,000,000	(11,800,000)	463,070,000			
Exercisable at the end of the year					463,070,000			

Note: Transfer of share options upon the redemption/termination of services of certain Directors and employees during the year.

No share options were granted during the year.

The fair values of the Company's share at the dates of issue for the exercise of share option during the year are HK$0.61, HK$0.67 and HK$0.69.

43. RESERVES

	Share premium HK$'000	Capital redemption reserve HK$'000	Other reserve HK$'000	Capital reserve HK$'000	Special capital reserve HK$'000	Dividend reserve HK$'000	Accumulated (losses) profits HK$'000	Total HK$'000
THE COMPANY								
At 1 January 2004	955,444	1,019	–	1,800,000	–	–	(2,819,891)	(63,428)
Effect of change in accounting policies *(Note 3)*	–	–	9,240	–	–	–	(6,805)	2,435
At 1 January 2004 (restated)	955,444	1,019	9,240	1,800,000	–	–	(2,826,696)	(60,993)
Premium arising on issue of shares upon conversion of convertible note	92,519	–	(9,240)	–	–	–	–	83,279
Premium arising on issue of shares	382,280	–	–	–	–	–	–	382,280
Share issue expenses	(12,126)	–	–	–	–	–	–	(12,126)
Loss for the year	–	–	–	–	–	–	(116,924)	(116,924)
At 31 December 2004	1,418,117	1,019	–	1,800,000	–	–	(2,943,620)	275,516
Eliminated against accumulated losses	(1,412,855)	–	–	(1,800,000)	292,655	–	2,920,200	–
Premium arising on issue of shares	106,959	–	–	–	–	–	–	106,959
Share issue expenses	(52)	–	–	–	–	–	–	(52)
Proposed final 2005 dividend	–	–	–	–	–	29,604	(29,604)	–
Profit for the year	–	–	–	–	–	–	158,297	158,297
At 31 December 2005	112,169	1,019	–	–	292,655	29,604	105,273	540,720

Pursuant to a special resolution passed at an extraordinary general meeting of the Company held on 13 June 2005 and the subsequent order of the High Court of Hong Kong (the "High Court") made on 1 September 2005, the entire amounts of approximately HK$1,412,855,000 and HK$1,800,000,000 standing to the credit of the Company's share premium and capital reserve account as at 31 March 2005 respectively were cancelled in accordance with Section 60 of the Companies Ordinance (the "Cancellation").

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43. RESERVES (continued)

Out of the credit arising from the Cancellation, approximately HK$2,920,200,000 was applied to eliminate the accumulated losses of the Company as at 30 June 2004. An undertaking was given by the Company in connection with the Cancellation. Pursuant to the undertaking, the balance of approximately HK$292,655,000 of the credit arising from the Cancellation has been credited to a special capital reserve ("Special Capital Reserve") in the account records of the Company. Secondly, in the event of making any future recoveries (by revaluation) in respect of the property, plant and equipment of the Company (against which depreciation in value was recorded in the accounts of the Company as at 30 June 2004), then such sum realised in excess of the written down value up to an aggregate amount of approximately HK$124,000 will be credited to the Special Capital Reserve. Finally, any future recoveries (by realisation) in respect of any advances of the Company as at 30 June 2004 amounted to approximately HK$2,755,579,000 will be credited to the Special Capital Reserve.

While any debt or claim against the Company at the date of the Cancellation remains outstanding and the persons entitled to the benefit thereof have not agreed otherwise, the Special Capital Reserve shall not be treated as realised profits for the purposes of Section 79B of the Companies Ordinance and shall (for so long as the Company shall remain a listed company) be treated as an undistributed reserve for the purposes of Section 79C of the Companies Ordinance. The undertaking, however, is subject to the following provisos:

(a) the amount standing to the credit of the Special Capital Reserve may be applied for the same purposes as a share premium account may be applied;

(b) the amount standing to the credit of the Special Capital Reserve may be reduced by the amount of any increase of the Company's paid up share capital or share premium account resulting from the payment up of shares by the receipt of the new consideration or capitalisation of distributable profits and the Company shall be at liberty to transfer the amount of such reduction to the general reserves of the Company and the same shall become available for distribution;

(c) the overall aggregate limit in respect of the Special Capital Reserve may be reduced by the amount of any increase in the paid up share capital or share premium account resulting from the payment up of shares by the receipt of the new consideration or capitalisation of distributable profits and the Company shall be at liberty to transfer the amount of such reduction to the general reserves of the Company and the same shall become available for distribution;

43. RESERVES (continued)

(d) the overall aggregate limit in respect of the Special Capital Reserve may be reduced upon the disposal of property, plant and equipment and/or realisation of the advances by the amount of the total provision made in relation to the property, plant and equipment and the advances as at 30 June 2004 less such amount (if any) as is credited to the Special Capital Reserve as a result of such disposal or realisation; and

(e) in the event that the amount standing to the credit of the Special Capital Reserve exceeds the overall aggregate limit of HK$292,654,712, after any reduction of such overall aggregate limit pursuant to provisos (c) and/or (d) above, the Company shall be at liberty to transfer the amount of any such excess to the general reserves of the Company and the same shall become available for distribution.

44. ACQUISITION OF A SUBSIDIARY

In October 2005, the Group further acquired 35% of the registered capital of Shouqin for a consideration of approximately HK$335,623,000 (the "Acquisition"). The Acquisition has been accounted for using the purchase method. The amount of goodwill arising as a result of the Acquisition was approximately HK$22,486,000.

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44. ACQUISITION OF A SUBSIDIARY (continued)

The fair value of the identifiable assets and liabilities of the subsidiary acquired during the year have no significant differences from their respective carrying amounts. The net assets acquired in the transaction, and the goodwill arising, are as follows:

	Acquiree's carrying amount	**Fair value adjustments**	**Acquiree's carrying amount and fair value**
	HK$'000	HK$'000	HK$'000
Net assets acquired:			
Property, plant and equipment	3,549,762	–	3,549,762
Prepaid lease rentals	85,380	101,634	187,014
Deferred tax assets (liabilities)	1,208	(14,398)	(13,190)
Inventories	315,578	–	315,578
Trade and bill receivables	74,835	–	74,835
Other current assets	231,126	–	231,126
Bank balances and cash	86,810	–	86,810
Restricted deposits	187,657	–	187,657
Trade and bill payables	(223,675)	–	(223,675)
Other current liabilities	(1,643,562)	–	(1,643,562)
Bank borrowings	(1,857,677)	–	(1,857,677)
	807,442	87,236	894,678
35% of net assets acquired			313,137
Goodwill *(Note 19)*			22,486
			335,623
Total consideration, satisfied by:			
– share exchange *(Note)*			123,859
– cash			211,764
			335,623

44. ACQUISITION OF A SUBSIDIARY (continued)

Note: As part of the consideration for the acquisition of Shouqin, 213,550,909 ordinary shares of the Company with par value of HK$0.2 each were issued. The fair value of the ordinary shares of the Company, determined using the published price available at the date of the acquisition, amounted to HK$123,859,000.

	HK$'000
Net cash outflow arising on acquisition:	
Cash consideration paid	(211,764)
Cash and cash equivalents acquired	86,810
	(124,954)

In November 2005, the Group further acquired 10% of the registered capital of Shouqin for a consideration of approximately HK$90,069,000 (the "Additional Acquisition"). The amount of goodwill arising as a result of the Additional Acquisition which was difference of the consideration paid and the fair value of the identifiable assets and liabilities of the subsidiary acquired was approximately HK$600,000.

The goodwill arising on the acquisition of Shouqin is attributable to the anticipated profitability of the distribution of the Group's products in the new markets and the anticipated future operating synergies from the combination.

Shouqin contributed HK$186,839,000 revenue and net losses of HK$80,108,000 to the Group's profit for the year between the date of acquisition and the balance sheet date.

If the acquisition of the additional interest of 35% and 10% had been completed on 1 January 2005, total group revenue for the period would have been HK$5,334,755,000, and profit for the year would have been HK$433,054,000. The proforma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2005, nor is it intended to be a projection of future results.

Notes to the Financial Statements

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45. MAJOR NON-CASH TRANSACTIONS

(a) During 2005, part of the consideration of approximately HK$156,400,000 for the acquisition of Shouqin was satisfied by issue of 213,550,909 shares and 58,109,090 shares which were valued at HK$0.58 and HK$0.56 per share respectively (see Note 41(g)).

(b) During 2005, interests in an associate of approximately HK$411,795,000 was derecognised upon the Acquisition.

(c) During 2004, part of the consideration of approximately HK$416,937,000 for the acquisition of Equity Dragon was satisfied by an issue of 958,476,190 shares which were valued at HK$0.435 per share (see Note 41(d)).

(d) During 2004, Shougang HK exercised in full its conversion right of the convertible note with a principal amount of HK$200,000,000 at the conversion price of HK$0.35 per share, resulting in an issue of 571,428,571 ordinary shares of the Company with a par value of HK$0.20 each.

(e) During 2004, the Group completed the relevant registration procedures for the acquisition of a 24% equity interest in Shouqin and the deposit amounting to HK$123,862,000 paid by the Group in 2003 was transferred to interest in associates.

(f) During 2004, an amount of HK$16,393,000 due to the ultimate holding company was waived (see Note 28).

(g) During 2004, the Group entered into a finance lease arrangement in respect of assets with a total capital value at the inception of the lease of HK$1,602,000.

46. OPERATING LEASE ARRANGEMENTS

The Group as lessee

	THE GROUP	
	2005	2004
	HK$'000	HK$'000
Minimum lease payments paid under operating leases during the year are as follows:		
Land and buildings	**1,883**	1,632
Vessels time charter hire	**137,794**	134,073
	139,677	135,705

At the balance sheet date, the Group had commitments for future minimum lease payments under non-cancellable operating leases in respect of rented premises and vessels time charter hire which fall due as follows:

	Vessels time charter hire		Land and buildings		Total	
	2005	2004	**2005**	2004	**2005**	2004
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Within one year	**140,608**	137,761	**408**	375	**141,016**	138,136
In the second to fifth years inclusive	**583,387**	576,039	**504**	493	**583,891**	576,532
After five years	**287,423**	435,379	**1,501**	1,592	**288,924**	436,971
	1,011,418	1,149,179	**2,413**	2,460	**1,013,831**	1,151,639

The Group leases vessels through two time charter hires. The time charter hires commenced on 26 September 1997 and with a lease period of 15 years, plus two months more or less at the Group's option. The daily rates of the time charter hires increase by US$250 every half year until December 2007, and thereafter the daily rates will increase by US$125 every half year.

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46. OPERATING LEASE ARRANGEMENTS (continued)

The Group as lessee (continued)

The Group leases certain of its office premises and staff quarters in Hong Kong and the PRC under operating lease arrangements. Leases for properties are negotiated for terms ranging from one to two years. In addition, one of the Company's subsidiaries in the PRC leases land use rights for certain of its office premises and factories under an operating lease arrangement. Lease for the land use rights is negotiated for the tenure of that subsidiary.

The Company had no non-cancellable operating lease commitments at the balance sheet date.

The Group as lessor

Property rental income earned during the year is approximately HK$1,487,000 (2004: HK$1,647,000). Leases are generally negotiated for an average term of one year.

At 31 December 2005, the Group had contracted with tenants for future minimum lease payments under non-cancellable operating leases in respect of rented premises amounting to approximately HK$514,000 which fall due within one year. At 31 December 2004, the Group had no non-cancellable operating lease commitments with tenants.

47. COMMITMENTS

	THE GROUP	
	2005	2004
	HK$'000	HK$'000
Capital expenditure contracted for but not provided in the financial statements in respect of acquisition of property, plant and equipment	**644,505**	19,067
Capital expenditure authorised but not contracted for in respect of acquisition of property, plant and equipment	**1,815,703**	–

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

48. RETIREMENT BENEFITS SCHEMES

The Group operated a Mandatory Provident Fund Scheme for all qualifying employees in Hong Kong. The assets of these schemes were separately held from those of the Group, in funds under the control of trustees. The cost charged to the income statement represented contributions payable to the funds by the Group at rates specified in the rules of the schemes.

In addition to the Mandatory Provident Fund Scheme for the Group's employees in Hong Kong, the Group is required to contribute to central pension schemes for certain Group's employees in the PRC based on applicable rates of monthly salary in accordance with government regulations.

49. CONTINGENT LIABILITIES

	THE GROUP		THE COMPANY	
	2005	2004	**2005**	2004
	HK$'000	HK$'000	**HK$'000**	HK$'000
Guarantees in favour of a bank to secure credit facilities granted to subsidiaries	**–**	–	**44,532**	10,152
Guarantees in favour of certain banks to secure credit facilities granted to third parties	**–**	18,616	**–**	–
	–	18,616	**44,532**	10,152

The Company has provided guarantees to vessel owners for the due and punctual performance and observance by a wholly-owned subsidiary of the Company of each and every of its obligation, undertakings and liabilities as time charterer under two time charter hires entered into by that subsidiary, further details of which are set out in note 46.

Notes to the Financial Statements

For The Year Ended 31 December 2005

50. PLEDGE OF ASSETS

THE GROUP

The following items were used to secure banking facilities granted to the Group:

(a) pledge of the Group's investment properties and prepaid lease rentals with carrying amount of HK$14,838,000 (2004: HK$9,782,000) and HK$3,596,000 (2004: HK$3,713,000), respectively; and

(b) pledge of the Group's plant and machinery with net book value of HK$316,534,000 (2004: HK$308,150,000).

51. POST BALANCE SHEET EVENTS

(a) On 1 February 2006, the Company entered into a dual currency facility agreement (the "Facility Agreement") with a number of banks (the "Banks") whereby the Banks agreed to make available the facility in the amounts of HK$163,800,000 and US$129,000,000 (equivalent to an aggregate of approximately US$150,000,000) (the "Facility") to the Company upon the terms and conditions as stated therein. The Facility is a term loan facility which shall be repaid by the Company by instalments according to the repayment schedule with the last instalment due on the date falling 60 months after the date of the Facility Agreement, subject to early repayment on the date following 36 months after the date of the Facility Agreement upon the relevant Bank(s) giving not less than 6 months' prior notice.

(b) On 13 February 2006, the Company and Carlo Tassara International S.A. (the "Subscriber"), an independent third party and a company incorporated in Luxembourg, entered into a subscription agreement (the "Subscription Agreement"), pursuant to which the Subscriber agreed to subscribe for 929,000,000 ordinary shares (the "Subscription Shares") of HK$0.2 each of the Company at an issue price of HK$0.53 per share (the "Subscription"), raising proceeds of HK$492,370,000, or net proceeds of approximately HK$492,000,000 (equivalent to a net subscription price of HK$0.5296 per share) after deducting expenses. The aggregate nominal value of the Subscription Shares is HK$185,800,000. Based on the closing price of HK$0.58 per share as at 10 February 2006, the last trading date of the shares of the Company prior to the date of the Subscription Agreement, the market value of the Subscription Shares was HK$538,820,000. The Company intends to apply all of the net proceeds of HK$492,000,000 as additional working capital of the Company. Details of the Subscription were set out in the Company's announcement dated 14 February 2006.

52. RELATED PARTY DISCLOSURES

Other than disclosed in notes 24, 40, 41(b), 41(d), the significant transactions with related parties during the year, and significant balances with them at the balance sheet date are as follows:

(I) Transactions

	Notes	2005 HK$'000	2004 HK$'000
THE GROUP			
Shougang Group			
Sales of goods by the Group	(a)	**140,207**	139,065
Provision of electricity, steam and hot water by the Group	(b)	**411,023**	381,408
Purchases of goods by the Group	(c)	**1,225,801**	448,821
Lease rentals charged to the Group	(d)	**1,788**	1,559
Management fee charged to the Group	(e)	**960**	960
Purchases of spare parts by the Group	(f)	**21,738**	19,681
Corporate guarantees for bank loans granted to the Group	(g)	**2,289,503**	164,536
Management fees charged by the Group	(h)	**880**	480
Rental income charged by the Group	(i)	**816**	744
Convertible note interest expense charged to the Group	(j)	**–**	16
Interest charged to the Group	(k)	**2,636**	–
Service fees charged to the Group	(l)	**53,189**	28,801
Service fees charged by the Group	(m)	**13,007**	619
Purchase of property, plant and equipment by the Group	(n)	**104,006**	39
Acquisition of additional interests in an associate	(o)	**–**	140,094
Acquisition of additional interests in a subsidiary	(p)	**–**	492,417
Waiver of amount due to ultimate holding company	(q)	**–**	16,393

Notes to the Financial Statements

For The Year Ended 31 December 2005

52. RELATED PARTY DISCLOSURES (continued)

(I) Transactions (continued)

	Notes	2005 HK$'000	2004 HK$'000
Associates			
Sales of goods by the Group	(a)	**133,208**	16,248
Purchase of goods by the Group	(c)	**1,966,710**	1,127,860
Services fees charged by the Group	(m)	**432**	3,911
THE COMPANY			
Shougang Group			
Management fee charged to the Company	(e)	**960**	960
Management fee charged by the Company	(h)	**880**	480
Interest charged to the Company	(k)	**2,636**	–

(II) Balances

Details of deposits for acquisition of property, plant and equipment with the Shougang Group are set out in note 24;

Details of balances with the Group's related companies are set out in note 28;

Details of balances with the Group's associates are set out in note 29;

Details of balances with the Group's ultimate holding company are set out in note 33 and 40; and

Details of balance with the Group's fellow subsidiary are set out in note 39.

52. RELATED PARTY DISCLOSURES (continued)

Notes:

(a) Qinhuangdao Plate Mill, a wholly-owned subsidiary of the Company, sold steel products and scrap materials to the Shougang Group and Shouqin.

(b) Beijing Shougang Firstlevel Power Co., Ltd. ("Beijing Power Plant"), a subsidiary of the Company sold electricity, steam and hot water to the Shougang Group.

(c) The Group purchased materials and steel products from the Shougang Group and Shouqin.

(d) The Group entered into various rental agreements with the Shougang Group for renting office and residential apartments as staff quarters.

(e) Management fees were paid to the Shougang HK for the provision of management services.

(f) The Group purchased spare parts from the Shougang Group.

(g) Shougang Corporation has provided corporate guarantees for certain bank loans granted to the Group.

(h) The Group provided business and strategic development services to the Shougang Group.

(i) The Group entered into a rental agreement with a subsidiary of Shougang Concord Technology Holdings Limited, an associate of Shougang HK, for renting an investment property.

(j) The interest expenses were charged by the Shougang Group in respect of the 3% convertible note with a principal amount of HK$200,000,000 issued by the Group. The convertible note was fully converted on 2 January 2004.

(k) The interest expenses were charged by the Shougang Group in respect of loans granted to the Group at interest rates from 5.14% to 5.2% per annum.

(l) The Shougang Group charged Qinhuangdao Plate Mill and Beijing Power Plant service fees in respect of processing and repair and maintenance services.

(m) The Group charged the Shougang Group and Shouqin service fees in respect of processing and administration services provided.

(n) The Group acquired property, plant and equipment from the Shougang Group.

Notes to the Financial Statements

For The Year Ended 31 December 2005

52. RELATED PARTY DISCLOSURES (continued)

Notes: (continued)

(o) In August 2004, Central Pro Investments Limited, a wholly-owned subsidiary of the Company, acquired a 27% equity interest in Shouqin for a total consideration of HK$140,094,000 from Shougang Corporation.

(p) In October 2004, Firstlevel Holdings, acquired from Shougang HK the entire equity interest in Equity Dragon for a cash consideration of HK$75,480,000 and a share consideration of 958,476,190 shares of the Company. The principal assets of Equity Dragon is a 47% interest in the registered capital of Qinhuangdao Plate Mill.

(q) An amount of HK$16,393,000 due to the Shougang Corporation was waived in 2004.

As Shouqin was an associate to the Group before the Acquisition, transactions entered between the Group and Shouqin before the Acquisition were related party transactions and were disclosed above.

In addition, details of share options held by directors as at 31 December 2005 were disclosed in note 42.

(III) Transactions/balances with other state-controlled entities in the PRC

The Group operates in an economic environment currently predominated by entities directly or indirectly owned or controlled by the PRC government ("state-controlled entities"). In addition, the Group itself is a part of a larger group of companies under Shougang Corporation which is controlled by the PRC government.

The Group has entered into various transactions, including deposits placements, borrowings and other general banking facilities, with certain banks and financial institutions which are state-controlled entities in its ordinary course of business. In view of the nature of those banking transactions, the directors are of the opinion that separate disclosure would not be meaningful.

Except as disclosed above, the directors are of the opinion that transactions with other state-controlled entities are not significant to the Group's operations.

52. RELATED PARTY DISCLOSURES (continued)

Compensation of key management personnel

The remuneration of directors and other members of key management during the year was as follows:

	THE GROUP		THE COMPANY	
	2005	2004	**2005**	2004
	HK$'000	HK$'000	**HK$'000**	HK$'000
Short-term benefits	**12,567**	7,556	**10,776**	6,956

The remuneration of directors and key executives is determined by the remuneration committee having regard to the performance of individuals and market trends.

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53. PARTICULARS OF PRINCIPAL SUBSIDIARIES AND ASSOCIATES

Details of the Company's principal subsidiaries at 31 December 2005 are as follows:

Name of subsidiary	Place of incorporation or registration/ operations	Issued and fully paid share/ registered capital	Proportion of issued share/registered capital held by the Company Directly %	Indirectly %	Principal activities
Central Pro Investments Limited	Samoa/ Hong Kong	US$1 Ordinary share	100	–	Investment holding
Equity Dragon Assets Limited	British Virgin Islands/Hong Kong	US$1 Ordinary shares	–	100	Investment holding
Hong Kong – Canada Welcen Kingsway International Investments (Holdings) Limited	Hong Kong	HK$10,000,000 Ordinary	–	100	Investment holding
Standnew Limited	British Virgin Islands/Hong Kong	US$100 Ordinary shares	–	100	Investment holding
Shougang Concord Steel Holdings Limited	British Virgin Islands/Hong Kong	US$1,000 Ordinary shares	100	–	Investment holding
Shougang Concord Steel Group Limited	Hong Kong	HK$25,000,000 Ordinary shares	–	100	Investment holding
Shougang Concord Construction Materials Limited	Hong Kong	HK$14,000,000 Ordinary shares	–	100	Provision of interior decoration and renovation services
Radnor Limited	Hong Kong	HK$1,775,920 Ordinary shares	–	100	Manufacture and installation of kitchen and laundry equipment and investment holding

53. PARTICULARS OF PRINCIPAL SUBSIDIARIES AND ASSOCIATES (continued)

Name of subsidiary	Place of incorporation or registration/ operations	Issued and fully paid share/ registered capital	Proportion of issued share/registered capital held by the Company Directly %	Indirectly %	Principal activities
Radnor Engineering Limited	Hong Kong/ PRC	HK$200,000 Ordinary shares	–	100	Manufacture and installation of kitchen and laundry equipment
Radnor (Macao) Limited	Macau	MOP25,000	–	100	Installation of kitchen equipment
東莞蕾洛五金制品有限公司 Dongguan Roulop Metal Products Co. Limited[ΔΔ]	PRC	HK$13,847,724 Registered capital	–	78	Manufacture and installation of kitchen and laundry equipment
江門蕾洛廚房洗衣房設備安裝維修有限公司 Jiangmen Radnor Kitchen & Laundry Engineering Limited[ΔΔ]	PRC	HK$500,000 Registered capital	–	95	Installation of kitchen and laundry equipment
Shougang Concord Godown Limited	Hong Kong	HK$2 Ordinary shares HK$2,000,000 Non-voting deferred shares	–	100	Provision of warehousing services
Shougang Concord Management Company Limited	Hong Kong	HK$100,000 Ordinary shares	–	100	Provision of management services and investment holding

Notes to the Financial Statements

For The Year Ended 31 December 2005

53. PARTICULARS OF PRINCIPAL SUBSIDIARIES AND ASSOCIATES (continued)

Name of subsidiary	Place of incorporation or registration/ operations	Issued and fully paid share/ registered capital	Proportion of issued share/registered capital held by the Company Directly %	Indirectly %	Principal activities
Shougang Concord Steel (International) Company Limited	British Virgin Islands/Hong Kong	US$1,000 Ordinary shares	–	100	Investment holding
Shougang Concord Steel International Trading Co. Ltd.	British Virgin Islands/PRC	US$1 Ordinary share	–	100	Trading of steel bars and investment holding
Star Field (H.K.) Limited	Hong Kong/ PRC	HK$10,000 Ordinary shares	–	100	Property investment
Shougang Concord Shipping Holdings Limited	British Virgin Islands/Hong Kong	US$641,025 Ordinary shares	100	–	Investment holding
Shougang Concord International Transport Limited	British Virgin Islands/Hong Kong	US$1 Ordinary share	–	100	Investment holding and chartering of vessels
Ryegar Limited	United Kingdom/ Hong Kong	£2 Ordinary shares	–	100	Chartering of vessels
Shougang Concord Shipping Services Limited	Hong Kong	HK$2 Ordinary shares	–	100	Provision of management services
SCIT (Chartering) Limited	British Virgin Islands/PRC	US$1 Ordinary share	–	100	Chartering of vessels
Centralink International Limited	British Virgin Islands/Hong Kong	US$2,000,000 Ordinary shares	–	70	Investment holding

Notes to the Financial Statements

For The Year Ended 31 December 2005

53. PARTICULARS OF PRINCIPAL SUBSIDIARIES AND ASSOCIATES (continued)

Name of subsidiary	Place of incorporation or registration/ operations	Issued and fully paid share/ registered capital	Proportion of issued share/registered capital held by the Company Directly %	Indirectly %	Principal activities
舟山首和中轉儲運有限公司 Zhoushan Shouhe Centra-link Co., Ltd.	PRC	US$5,000,000 Registered capital	#	#	Hiring of floating cranes
Fair Union Holdings Limited	Samoa/ Hong Kong	US$1 Ordinary share	100	–	Investment holding
Richson Limited	Samoa/ Hong Kong	US$1 Ordinary share	–	100	Investment holding
Casula Investments Limited	Samoa/ Hong Kong	US$1 Ordinary share	–	100	Investment holding
Firstlevel Holdings Limited	Samoa/ Hong Kong	US$1 Ordinary share	100	–	Investment holding
Shougang Concord Power Plant Holdings Limited	British Virgin Islands/Hong Kong	US$1 Ordinary share	–	100	Investment holding
秦皇島首鋼板材有限公司 Qinhuangdao Shougang Plate Mill Co., Ltd.$^{\Delta}$	PRC	US$66,000,000 Registered capital	–	100	Manufacture and sale of steel plates
秦皇島首秦金屬材料有限公司 Qinhuangdao Shouqin Metal Materials Co., Ltd.$^{\Delta\Delta}$	PRC	RMB1,350,000,000 Registered capital	–	96	Manufacture and sale of steel and related products
北京首鋼超群電力有限公司 Beijing Shougang Firstlevel Power Co., Ltd.$^{\Delta\Delta}$	PRC	RMB261,170,000 Registered capital	–	51	Power generation

Notes to the Financial Statements

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53. PARTICULARS OF PRINCIPAL SUBSIDIARIES AND ASSOCIATES (continued)

Name of subsidiary	Place of incorporation or registration/ operations	Issued and fully paid share/ registered capital	Proportion of issued share/registered capital held by the Company Directly %	Indirectly %	Principal activities
Pointer Investments Limited	Samoa/ Hong Kong	US$1 Ordinary share	–	100	Investment holding
Good News Investment Limited	Hong Kong	HK$2 Ordinary shares	–	100	Property investment
Shougang Concord Services Limited	Hong Kong	HK$2 Ordinary shares	100	–	Provision of management services

\# Zhoushan Shouhe Centra-link Co., Ltd. ("Zhoushan") is a cooperative joint venture which was established in 1993 in the PRC for a period of 30 years. The entire registered capital of Zhoushan was contributed by Centralink International Limited ("Centralink"). Centralink is a non wholly-owned subsidiary of the Company. Centralink is entitled to 90% of the net profit generated by Zhoushan but bears all losses. Upon the expiry or early termination of the tenure, all residual assets will belong to Centralink.

Δ Foreign investment enterprise established in the PRC.

ΔΔ Sino-foreign equity joint venture established in the PRC.

Details of the Company's principal associate at 31 December 2005 are as follows:

Name of associate	Form of business structure	Place of incorporation/ operations	Class of share held	Proportion of nominal value of issued capital held by the Group Indirectly %	Principal activities
Shougang Concord Century Holdings Limited	Incorporated	Hong Kong	Ordinary shares	27.9	Investment holding

The above tables list the subsidiaries and associate of the Group which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the assets and liabilities of the Group. To give details of other subsidiaries and associates would, in the opinion of the directors, result in particulars of excessive length.