Notes to the Consolidated Financial Statements

For The Year Ended 31 December 2006

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"). The Company's ultimate holding company of controlling shareholder is Shougang Corporation, a company established in the People's Republic of China (the "PRC"). Shougang Corporation, together with its subsidiaries 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 51.

The functional currency of the Company is Renminbi ("RMB"), the currency of the primary economic environment in which the principal subsidiaries of the Company operates. As the Company was incorporated in Hong Kong, the financial statements are presented in Hong Kong dollars.

2. BASIS OF PREPARATION

The Group had net current liabilities of approximately HK$2,554,682,000 as at 31 December 2006. Notwithstanding, the Directors are of opinion that the preparation of these financial statements under going concern basis is appropriate because the Group is able to obtain financial support from the ultimate holding company of controlling shareholder.

The ultimate holding company of controlling shareholder 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.

Notes to the Consolidated Financial Statements

For The Year Ended 31 December 2006

3. APPLICATION OF NEW HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

In the current year, the Group has applied, for the first time, a number of new Hong Kong Accounting Standards ("HKASs"), HKFRSs, amendments and interpretations (hereinafter collectively referred to as "new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") which are either effective for accounting periods beginning on or after 1 December 2005 or 1 January 2006. 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 and financial position for the current and prior accounting years are prepared and presented:

Financial guarantee contracts

In the current year, the Group and the Company has applied HKAS 39 and HKFRS 4 (Amendments) *Financial Guarantee Contracts* which is effective for annual periods beginning on or after 1 January 2006.

A financial guarantee contract is defined by HKAS 39 *Financial Instruments: Recognition* and *Measurement* as "a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument".

Prior to 1 January 2006, financial guarantee contracts granted by the Company to its subsidiaries' lenders were not recognised but disclosed as related party transactions and contingent liabilities.

Upon the application of these amendments, financial guarantee contracts granted by the Company to its subsidiaries and not designated as at fair value through profit or loss are recognised initially at its fair value. Subsequent to initial recognition, the Company measures the financial guarantee contracts at the higher of: (i) the amount determined in accordance with HKAS 37 *Provisions, Contingent Liabilities and Contingent Assets*; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with HKAS 18 *Revenue*.

In relation to this change in accounting policy, the Company has applied the transitional provisions in HKAS 39. The adoption of HKAS 39 and HKFRS 4 (Amendments) has no material effect on how the results and financial position for the prior accounting periods before 1 January 2005 are prepared and presented. However, this change in accounting policy has resulted in an increase in the Company's profit for the year by HK$4,780,000 (2005: HK$1,602,000) and the increase in other financial liabilities as at 31 December 2005 by HK$3,258,000.

3. APPLICATION OF NEW HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (continued)

The adoption of this amendment has no effect on how the results and financial position of the Group in the current or prior accounting periods are prepared and presented.

The Group and the Company have not early applied the following new HKFRSs, amendment and interpretations that have been issued but are not yet effective. The Directors of the Company anticipate that the application of these HKFRSs, amendment or interpretations will have no material impact on the results and the financial position of the Group.

HKAS 1 (Amendment)	Capital disclosures[1]
HKFRS 7	Financial instruments: Disclosures[1]
HKFRS 8	Operating Segments[2]
HK(IFRIC) – INT 7	Applying the restatement approach under HKAS 29 Financial Reporting in Hyperinflationary Economies[3]
HK(IFRIC) – INT 8	Scope of HKFRS 2[4]
HK(IFRIC) – INT 9	Reassessment of embedded derivatives[5]
HK(IFRIC) – INT 10	Interim financial reporting and impairment[6]
HK(IFRIC) – INT 11	HKFRS 2 – Group and Treasury Share Transactions[7]
HK(IFRIC) – INT 12	Service Concession Arrangements[8]

1 Effective for annual periods beginning on or after 1 January 2007
2 Effective for annual periods beginning on or after 1 January 2009
3 Effective for annual periods beginning on or after 1 March 2006
4 Effective for annual periods beginning on or after 1 May 2006
5 Effective for annual periods beginning on or after 1 June 2006
6 Effective for annual periods beginning on or after 1 November 2006
7 Effective for annual periods beginning on or after 1 March 2007
8 Effective for annual periods beginning on or after 1 January 2008

Notes to the Consolidated Financial Statements

For The Year Ended 31 December 2006

4. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared under 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 Hong Kong Companies Ordinance.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities (including special purpose entities) controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

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 presented separately from the Group's equity therein. Minority interests in the net assets 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 Consolidated Financial Statements

For The Year Ended 31 December 2006

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Business combinations

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 *Business Combinations* are recognised at their fair values at the acquisition date.

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If, after reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in profit or loss.

The interest of minority shareholders in the acquiree is initially measured at the minority's proportion of the net fair value of the assets, liabilities and contingent liabilities recognised.

Goodwill

Goodwill arising on acquisitions prior to 1 January 2005

Goodwill arising on an acquisition of a subsidiary 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 at the date of acquisition.

For previously capitalised goodwill arising on acquisitions of subsidiaries 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).

Notes to the Consolidated Financial Statements

For The Year Ended 31 December 2006

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Goodwill (continued)

Goodwill arising on acquisitions 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 consolidated 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 consolidated 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.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Interests in associates

An associate is an entity over which the investor has significant influence and that is neither a subsidiary nor an interest in a joint venture.

The results and assets and liabilities of associates are incorporated in these consolidated 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 net assets 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.

Goodwill arising on acquisitions prior to 1 January 2005

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities of the associate recognised at the date of acquisition is recognised as goodwill. From 1 January 2005 onwards, the Group has discontinued amortisation of goodwill and such goodwill is included within the carrying amount of the investment and is assessed for impairment as part of the investment.

Goodwill arising on acquisitions on or after 1 January 2005

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the associate recognised at the date of acquisition is recognised as goodwill. The goodwill is included within the carrying amount of the investment and is assessed for impairment as part of the investment.

Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after assessment, is recognised immediately in profit or loss.

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.

Notes to the Consolidated Financial Statements

For The Year Ended 31 December 2006

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition

Revenue is measured at fair value of the consideration received or receivable and represents amounts receivable for goods and services provided in the normal course of business, net of discounts and sales related taxes.

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

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.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

Depreciation is provided to write off the costs of items of property, plant and equipment, other than construction in progress, 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%

Construction in progress represents property, plant and equipment in the course of construction for production or for its own use purposes. Construction in progress is carried at cost less any recognised impairment loss. Construction in progress is classified to the appropriate category of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

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 consolidated income statement in the year in which the item is derecognised.

Notes to the Consolidated Financial Statements

For The Year Ended 31 December 2006

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

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 owner-occupied property is transferred to investment property when it is evidenced by the end of owner occupation at fair value. The difference between the fair value and the carrying amount at the date of transfer is recognised as a revaluation increase in accordance with HKAS 16 *Property, Plant and Equipment*.

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.

Where the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised to the extent of contract costs incurred that it is probable will be recoverable. Contract costs are recognised as expenses in the period in which they are incurred.

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 consolidated balance sheet, as a liability, under other payables. Amounts billed for work performed but not yet paid by the customers are included in the consolidated 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.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Leasing (continued)

The Group as lessor

Rental income from operating leases is recognised in the consolidated 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.

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.

Notes to the Consolidated Financial Statements

For The Year Ended 31 December 2006

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currencies (continued)

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 financial 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 Company (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.

Goodwill and fair value adjustments arising on acquisition of a foreign operation prior to 1 January 2005 are treated as non-monetary foreign currency items of the acquirer and reported using the historical exchange rate prevailing at the date of the acquisition.

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 the period in which they are incurred.

Notes to the Consolidated Financial Statements

For The Year Ended 31 December 2006

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Retirement benefits costs

Payments to the defined contribution retirement benefits scheme/state-managed retirement benefit schemes are charged as an expense when employees have rendered service entitling them to the contributions.

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 consolidated 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 bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable 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.

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 profit or loss, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Notes to the Consolidated Financial Statements

For The Year Ended 31 December 2006

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

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 consolidated 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).

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 instrument. 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 (other than financial assets and financial liabilities at fair value through profit or loss) 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.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets

The Group's financial assets are mainly classified as financial assets at fair value through profit or loss and loans and receivables. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date/settlement date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace. The accounting policies adopted in respect of each category of financial assets are set out below.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss comprise derivatives which do not qualify for hedge accounting and are deemed as held for trading .

At each balance sheet date subsequent to initial recognition, financial assets at fair value through profit or loss are measured at fair value, with changes in fair value recognised directly in profit or loss in the period in which they arise.

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 bill receivables, other receivables, bank balances and deposits, amounts due from related companies, amounts due from a minority shareholder of a subsidiary and ultimate holding company of controlling shareholder) 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 asset's 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 Consolidated Financial Statements

For The Year Ended 31 December 2006

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial liabilities and equity instruments

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 Group's financial liabilities are generally classified into financial liabilities at fair value through profit or loss and other financial liabilities. The accounting policies adopted in respect of financial liabilities and equity instruments are set out below.

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss comprise derivatives which do not qualify for hedge accounting and are deemed as held for trading.

At each balance sheet date subsequent to initial recognition, financial liabilities at fair value through profit or loss are measured at fair value, with changes in fair value recognised directly in profit or loss in the period in which they arise.

Other financial liabilities

Other financial liabilities including trade and bill payables, other payables, bank borrowings, amounts due to related companies, loans from ultimate holding company of controlling shareholder, amount due to ultimate holding company of controlling shareholder and loan from a related company 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.

Notes to the Consolidated Financial Statements

For The Year Ended 31 December 2006

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument. A financial guarantee contract issued by the Group and not designed as at fair value through profit or loss is recognised initially at its fair value less transaction costs that are directly attributable to the issue of the financial guarantee contract. Subsequent to initial recognition, the Group measures the financial guarantee contact at the higher of: (i) the amount determined in accordance with HKAS 37 *Provisions, Contingent Liabilities and Contingent Assets*; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with HKAS 18 *Revenue*.

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 receivable is recognised in profit or loss.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration is recognised in profit or loss.

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 revaluated amount in which case the impairment loss is treated as revaluation decrease.

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.

Notes to the Consolidated Financial Statements

For The Year Ended 31 December 2006

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Equity settled share-based payment transactions

Share options granted to employees of the Group

The fair value of services received determined by reference to the fair value of share options granted at the grant date is expensed on a straight-line basis over the vesting period, with a corresponding increase in equity (share option reserve).

At each balance sheet date, the Group revises its estimate of the number of options that are expected to ultimately vest. The impact of the revision of estimates, if any, is recognised in profit or loss, with a corresponding adjustment to share options reserve.

At the time when the share options are exercised, the amount previously recognised in share option reserve will be transferred to share premium. When the share options are forfeited or are still not exercised at the expiry date, the amount previously recognised in the share option reserve will continue to be held in the share option reserve.

For share options granted before 11 November 2002 and share options granted after 11 November 2002 but vested prior to 1 January 2005, share based payment expenses are not recognised in accordance with the transitional provisions of HKFRS 2.

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.

5. RESTATEMENT OF COMPARATIVE FINANCIAL INFORMATION

Before 1 January 2006, the Group recognised operating lease expenses in relation to vessels leasing in accordance with the payment terms specified in the lease agreement. Under HKAS 17 *Lease*, lease payments under an operating lease shall be recognised as an expense on a straight-line basis over the lease term unless another systematic basis is more representative of the time pattern of the user's benefit. Accordingly, adjustments have been made retrospectively by means of a restatement of comparative financial information to all related items and the 2005 comparative figures of the Group have been restated by the following amounts:

	As at 31 December 2005 (originally stated)	**Restatement**	**As at 31 December 2005 (restated)**
	HK$'000	HK$'000	HK$'000
THE GROUP			
Balance sheet			
Other payables and accrued liabilities	(290,464)	(50,436)	(340,900)
Other assets and liabilities	2,774,705	–	2,774,705
Total effects on assets and liabilities	2,484,241	(50,436)	2,433,805
Share capital	986,811	–	986,811
Accumulated profits	536,727	(50,436)	486,291
Other reserves	702,796	–	702,796
Equity holders of the parent	2,226,334	(50,436)	2,175,898
Minority interests	257,907	–	257,907
Total effect on equity	2,484,241	(50,436)	2,433,805

The profit for the year ended 31 December 2006 and 31 December 2005 has been increased and decreased by HK$1,745,000 and HK$1,086,000 respectively.

Notes to the Consolidated Financial Statements

For The Year Ended 31 December 2006

5. RESTATEMENT OF COMPARATIVE FINANCIAL INFORMATION (continued)

The effect of the application of the new HKFRSs on the Group's equity at 1 January 2005 are summarised below:

	As at 1 January 2005 (originally stated) HK$'000	Restatement HK$'000	As at 1 January 2005 (restated) HK$'000
THE GROUP			
Accumulated losses and total effects on equity	(2,586,499)	(49,350)	(2,635,849)

THE COMPANY

The details of the restatement of comparative information of the Company's balance sheet and income statements resulted from the adoption of new HKFRSs are set out in note 3.

6. 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.

Estimated impairment of trade receivable

In determining whether there is objective evidence of impairment loss, the Group takes into consideration the estimation of future cash flows. The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). Where the actual future cash flows are less than expected, a material impairment loss may arise.

Notes to the Consolidated Financial Statements

For The Year Ended 31 December 2006

6. KEY SOURCES OF ESTIMATION UNCERTAINTY (continued)

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 2006, the carrying amount of goodwill is HK$292,170,000. Details of the recoverable amount calculation are disclosed in note 21.

Allowance for inventories

As at 31 December 2006, the Group has accumulated allowance for inventories of approximately HK$14,914,000 (2005: HK$13,752,000). 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.

If the conditions of inventory of the Group become no longer suitable for use in production, additional allowance may be required.

Income taxes

No deferred tax asset has been recognised in respect of tax losses of approximately HK$524 million, of which HK$221 million is subject to Inland Revenue Department's ("IRD") confirmation (2005: HK$506 million, of which HK$203 million was subject to IRD's confirmation) due to the unpredictability of future profit streams. In cases where the actual future profits generated are more than expected, a deferred tax asset may be recognised.

Notes to the Consolidated Financial Statements

For The Year Ended 31 December 2006

7. FINANCIAL INSTRUMENTS

7a. Financial risk management objectives and policies

The Group's major financial instruments include retricted deposits, trade and bill receivables, other receivables, amounts due from (to) related companies, loans from ultimate holding company of controlling shareholder, bank balances and deposits, amount due from (to) ultimate holding company of controlling shareholder, amount due from a minority shareholder of a subsidiary, loan from a related company, 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 subsidiaries of the Company have foreign currency investments, which expose the Group to foreign currency risk. In order to mitigate the foreign currency risk, foreign currency forward contracts are entered into in respect of certain foreign currency forecast investments.

Certain trade receivables, trade payables and borrowings of the Group are denominated in foreign currencies. Except for the foreign currency forward contacts set out in note 35, the Group has not entered into other hedging transactions. However, the management will continue to monitor foreign exchange exposure and will consider entering into other 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 loans from ultimate holding company of controlling shareholder. The interest rate and terms of repayment of restricted deposits, bank balances and cash, bank borrowings and loans from ultimate holding company of controlling shareholder of the Group are disclosed in notes 29, 30, 34 and 38 respectively. The Group currently does not have specific interest rate hedging policy. However, the management will continue to monitor interest rate change exposure and will consider hedging significant interest rate risk exposure should the need arises.

7. FINANCIAL INSTRUMENTS (continued)

7a. Financial risk management objectives and policies (continued)

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 2006 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.

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.

Liquidity risk

The Group has net current liabilities. The Group is exposed to liquidity risk if insufficient funds are raised to meet their financial obligations. The Group relies on the support by the ultimate holding company of controlling shareholder which has agreed to provide adequate funds to enable the Group to meet in full their financial obligations as they fall due in the foreseeable future.

Notes to the Consolidated Financial Statements

For The Year Ended 31 December 2006

7. FINANCIAL INSTRUMENTS (continued)

7b. Fair value

The fair value of financial assets and financial liabilities are determined as follows:

- the fair value of derivative instruments are calculated using quoted prices. Where such prices are not available, the fair value of a non-option derivative is estimated using discounted cash flow analysis and the applicable yield curve;

- the fair value of other financial assets and financial liabilities (excluding derivative instruments) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions; and

- the fair value of financial guarantee contracts are calculated using the guarantee fee rate estimated by reference to the probability of default of the recipients or using market approach by making reference to the fees received for the provision of financial guarantee contracts by Hong Kong listed companies to related companies. The fair value is estimated by reference to the higher of the rates derived from the above two methods.

The Directors consider the carrying amounts of financial assets and financial liabilities carried at amortised cost in the consolidated financial statements approximate their fair value.

8. 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 Consolidated Financial Statements

For The Year Ended 31 December 2006

8. REVENUE AND BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

Business segments (continued)

Segment information about these businesses is presented below:

INCOME STATEMENT

For the year ended 31 December 2006

	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	4,509,069	229,137	424,641	1,216,009	86,159	2,472	–	6,467,487
Inter-segment sales	–	–	–	–	–	1,560	(1,560)	–
Total	4,509,069	229,137	424,641	1,216,009	86,159	4,032	(1,560)	6,467,487
Segment results	335,589	77,530	74,973	6,334	4,896	14,496	–	513,818
Unallocated other operating income								58,533
Unallocated corporate expenses								(49,307)
Finance costs								(260,812)
Share of result of associate	20,974	–	–	–	–	–	–	20,974
Discount on acquisition of additional equity interest in a subsidiary	–	–	–	–	3,780	–	–	3,780
Loss on deemed disposal of partial interest in an associate	(4,582)	–	–	–	–	–	–	(4,582)
Profit before taxation								282,404
Income tax expense								(26,640)
Profit for the year								255,764

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

Notes to the Consolidated Financial Statements

For The Year Ended 31 December 2006

8. REVENUE AND BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

Business segments (continued)

BALANCE SHEET

At 31 December 2006

	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	8,325,286	21,199	686,437	75,425	30,356	27,303	9,166,006
Interests in associates	215,022	–	–	–	–	–	215,022
Unallocated corporate assets							1,878,432
Consolidated total assets							11,259,460
LIABILITIES							
Segment liabilities	1,786,300	59,142	23,145	29,782	28,705	10,701	1,937,775
Unallocated corporate liabilities							6,059,657
Consolidated total liabilities							7,997,432

8. REVENUE AND BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

Business segments (continued)

OTHER INFORMATION

For the year ended 31 December 2006

	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
Capital additions	2,206,767	376	32,360	–	202	1,765	2,241,470
Depreciation of property, plant and equipment	225,693	1,491	20,216	119	577	942	249,038
Amortisation of intangible assets	556	–	–	–	–	–	556
Amortisation of prepaid lease rental	4,895	–	4,120	116	105	–	9,236
Change in fair value of investment properties	(293)	–	–	(1,065)	–	(3,000)	(4,358)
Loss (gain) on disposal of property, plant and equipment	1,196	–	3	(3)	(45)	31	1,182
Allowance for (recovery of) bad and doubtful debts, net	356	–	–	(2,147)	3,022	–	1,231
Allowance for inventories, net	981	–	–	–	20	–	1,001
Loss on deemed disposal of partial interest in an associate	4,582	–	–	–	–	–	4,582
Discount on acquisition of equity interest in a subsidiary	–	–	–	–	(3,780)	–	(3,780)

Notes to the Consolidated Financial Statements

For The Year Ended 31 December 2006

8. REVENUE AND BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

Business segments (continued)

INCOME STATEMENT

For the year ended 31 December 2005 (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	2,762,955	230,859	411,023	1,086,341	77,105	1,696	–	4,569,979
Inter-segment sales	–	–	–	–	–	1,540	(1,540)	–
Total	2,762,955	230,859	411,023	1,086,341	77,105	3,236	(1,540)	4,569,979
Segment results	122,598	70,925	72,082	12,377	613	2,048	–	280,643
Unallocated other operating income								10,593
Unallocated corporate expenses								(32,658)
Finance costs								(39,947)
Share of results of associates	130,241	–	–	–	–	–	–	130,241
Gain on disposal of an associate	–	–	–	4,355	–	–	–	4,355
Profit before taxation								353,227
Income tax expense								(20,995)
Profit for the year								332,232

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

Notes to the Consolidated Financial Statements

For The Year Ended 31 December 2006

8. REVENUE AND BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

Business segments (continued)

BALANCE SHEET

At 31 December 2005 (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
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	75,627	25,912	18,553	19,199	8,080	1,508,406
Unallocated corporate liabilities							3,505,790
Consolidated total liabilities							5,014,196

Notes to the Consolidated Financial Statements

For The Year Ended 31 December 2006

8. REVENUE AND BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

Business segments (continued)

OTHER INFORMATION

For the year ended 31 December 2005 (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
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
Change in fair value 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

8. 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	
	2006	2005
	HK$'000	HK$'000
PRC, excluding Hong Kong	**5,106,751**	3,287,404
Hong Kong	**279,125**	397,874
Others	**1,081,611**	884,701
	6,467,487	4,569,979

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	
	2006	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000
PRC, excluding Hong Kong	**8,764,413**	6,041,294	**2,239,503**	4,324,073
Hong Kong	**401,593**	415,117	**1,967**	1,677
	9,166,006	6,456,411	**2,241,470**	4,325,750

Notes to the Consolidated Financial Statements

For The Year Ended 31 December 2006

9. OTHER INCOME

	2006 HK$'000	2005 HK$'000 (restated)
Change in fair value of investment properties	**4,358**	5,456
Compensation income	**153**	3,706
Change in fair value of derivative financial instruments	**2,012**	(2,103)
Interest income on bank deposit	**52,163**	7,240
Recovery of bad and doubtful debt, net	**–**	12,658
Refund of value added tax	**4,276**	3,820
Scrap sales income	**15,971**	11,568
Sundry income	**8,083**	9,411
Tax refund on reinvestment of dividends to subsidiaries	**15,137**	9,878
	102,153	61,634

10. FINANCE COSTS

	2006 HK$'000	2005 HK$'000
Interest on		
– bank and other borrowings wholly repayable within five years	**299,597**	46,099
– finance leases	**32**	32
Cost of arrangement of bank borrowings	**4,524**	–
Total borrowing costs	**304,153**	46,131
Less: amounts capitalised	**(43,341)**	(6,184)
	260,812	39,947

Borrowing costs capitalised during the year arose on the general borrowing pool and are calculated by applying a capitalisation rate ranges from 5.58% to 6.12% (2005: 4.65% to 5.76%) per annum to expenditure on qualifying assets.

Notes to the Consolidated Financial Statements

For The Year Ended 31 December 2006

11. PROFIT BEFORE TAXATION

	2006 HK$'000	2005 HK$'000 (restated)
Profit before taxation has been arrived at after charging:		
Staff costs, including Directors' emoluments		
– basic salaries and allowances	**180,816**	111,940
– retirement benefits scheme contributions	**23,461**	11,886
	204,277	123,826
Amortisation of intangible assets (included in administrative expenses)	**556**	665
Depreciation of property, plant and equipment	**249,038**	73,741
Total depreciation and amortisation	**249,594**	74,406
Allowance for inventories, net	**1,001**	10,899
Allowance for bad and doubtful debt, net	**1,231**	–
Auditors' remuneration	**2,315**	2,347
Charter hire costs	**143,129**	157,659
Cost of inventories recognised as expenses	**5,386,188**	3,919,428
Exchange loss	**318**	413
Loss on disposal of land use rights (included in prepaid lease rentals)	**–**	1,594
Loss on disposal of property, plant and equipment	**1,182**	10,700
Minimum lease payments under operating leases in respect of land and buildings	**3,443**	1,883
Amortisation of prepaid lease rentals	**9,236**	4,729
Share of tax of associates (included in share of results of associates)	**2,116**	1,710
and after crediting:		
Rental income from investment properties under operating leases, less outgoings of HK$120,000 (2005: HK$110,000)	**1,408**	1,377
Reversal of provision for compensation	**–**	344
Recovery of bad and doubtful debt, net	**–**	12,658
Write-back of other payables and accrued liabilities	**50**	34

Notes to the Consolidated Financial Statements

For The Year Ended 31 December 2006

12. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

(a) Directors' emoluments

The emoluments paid or payable to each of the twelve (2005: twelve) directors were as follows:

	Wang Qinghai HK$'000	Cao Zhong HK$'000	Chen Zhouping HK$'000	Zhang Wenhui HK$'000	Luo Zhenyu HK$'000	Choy Hok Man, Constance HK$'000	Ip Tak Chuen, Edmond HK$'000	Leung Shun Sang, Tony HK$'000	Kan Lai Kuen, Alice HK$'000	Kwan Bo Ren, Dick HK$'000	Wong Kun Kim HK$'000	Leung Kai Cheung HK$'000	Total 2006 HK$'000
2006													
Fees	120	-	-	-	-	63	120	120	150	79	150	81	883
Other emolument													
Salaries and other benefits	228	2,862	2,070	679	1,680	-	-	-	-	-	-	-	7,519
Contributions to retirement benefits schemes	-	190	120	55	90	-	-	-	-	-	-	-	455
Performance related incentive payments *(Note)*	-	1,200	450	450	240	-	-	-	-	-	-	-	2,340
Total emoluments	348	4,252	2,640	1,184	2,010	63	120	120	150	79	150	81	11,197

	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, Constance HK$'000	Ip Tak Chuen, Edmond HK$'000	Leung Shun Sang, Tony HK$'000	Kan Lai Kuen, Alice HK$'000	Kwan Bo Ren, Dick 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

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

12. DIRECTORS' AND EMPLOYEES' EMOLUMENTS (continued)

(b) Employees' emoluments

Of the five individuals with the highest emoluments in the Group, four (2005: four) were Directors of the Company whose emoluments are included in the disclosures in note 12(a) above. The emoluments of the remaining one (2005: one) individual are as follows:

	2006 HK$'000	2005 HK$'000
Salaries and other benefits	**1,136**	859
Retirement benefits scheme contributions	**52**	43
	1,188	902

13. INCOME TAX EXPENSE

	2006 HK$'000	2005 HK$'000
Current tax:		
PRC	**21,217**	22,287
Other jurisdictions	**23**	17
Under(over)provision in prior years	**991**	(166)
	22,231	22,138
Deferred tax *(Note 36)*:		
Current year	**(1,487)**	(1,143)
Attributable to a change in tax rate	**5,896**	–
	26,640	20,995

No tax was payable on the profit for the year arising in Hong Kong since the assessable profit is wholly absorbed by tax losses brought forward.

Notes to the Consolidated Financial Statements

For The Year Ended 31 December 2006

13. INCOME TAX EXPENSE (continued)

Pursuant to Income Tax Law of the PRC for Enterprises with Foreign Investment and Foreign Enterprises, Qinhuangdao Shougang Plate Mill Co., Ltd. ("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 24% (2005: 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 December 2006, Qinhuangdao Plate Mill is entitled to a reduction of income tax rate to 14% and 20% for the years from 2006 to 2007 and from 2008 to 2010 respectively.

Qinhuangdao Shouqin Metal Materials Co., Ltd. ("Shouqin") 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.

Notes to the Consolidated Financial Statements

For The Year Ended 31 December 2006

13. INCOME TAX EXPENSE (continued)

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

	2006 HK$'000	2005 HK$'000 (restated)
Profit before taxation	**282,404**	353,227
Taxation at the income tax rate of 27% (2005: 18%) *(Note)*	**76,249**	63,581
Tax effect of share of results of associates	**(5,663)**	(23,443)
Tax effect of expenses not deductible for tax purpose	**32,657**	5,972
Tax effect of income not taxable for tax purpose	**(36,175)**	(24,920)
Under(over)provision in respect of prior years	**991**	(166)
Tax effect of tax loss not recognised	**8,660**	5,640
Tax effect of utilisation of tax losses previously not recognised	**(3,690)**	(2,869)
Tax effect of utilisation of tax assets previously not recognised	**(6,481)**	(346)
Effect of tax exemption granted to a PRC subsidiary	**(24,286)**	(275)
Effect of different tax rates of subsidiaries	**(626)**	12,679
Income tax on concessionary rate	**(20,892)**	(14,858)
Increase in opening deferred tax liability resulting from an increase in applicable tax rate	**5,896**	–
Tax expense for the year	**26,640**	20,995

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

Notes to the Consolidated Financial Statements

For The Year Ended 31 December 2006

14. DIVIDENDS

	2006	2005
	HK$'000	HK$'000
Dividends recognised as distribution during the year:		
Final – HK0.6 cent per share (2005: Nil)	**35,185**	–

The final dividend of HK2.1 cents (2005: HK0.6 cent) per share has been proposed by the directors and is subject to approval by shareholders at the Annual General Meeting.

The proposed dividend for 2006 is payable to all shareholders whose names appear on the Register of Members on 6 June 2007.

15. EARNINGS PER SHARE

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

	2006	2005
	HK$'000	HK$'000
		(restated)
Profit for the purposes of basic earnings per share	**221,618**	303,946
Effect of dilutive potential ordinary shares:		
Adjustment to the share of result of an associate based on dilution of its earnings per share	**(1,147)**	(631)
Earnings for the purposes of diluted earnings per share	**220,471**	303,315
Weighted average number of ordinary shares for the purposes of basic earnings per share	**5,713,517,484**	4,717,802,025
Effect of dilutive potential ordinary shares:		
Options	**166,773,490**	169,766,575
Weighted average number of ordinary shares for the purposes of diluted earnings per share	**5,880,290,974**	4,887,568,600

Notes to the Consolidated Financial Statements

For The Year Ended 31 December 2006

16. INVESTMENT PROPERTIES

	THE GROUP HK$'000
FAIR VALUE	
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
Transfer from property, plant and equipment	8,479
Exchange adjustments	218
Net increase in fair value recognised in the income statement	4,358
At 31 December 2006	35,660

The fair value of the Group's investment properties at 31 December 2006 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 fair value was arrived at by reference to market evidence of transaction prices for similar properties and where appropriate by the capitalisation of the rental income from the properties.

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

The carrying value of investment properties shown above situated in:

	2006 HK$'000	2005 HK$'000
Hong Kong and held under		
– medium-term lease	**15,000**	12,000
– long lease	**5,393**	4,838
	20,393	16,838
The PRC and held under medium-term lease	**15,267**	5,767
	35,660	22,605

The Group has pledged certain of its investment properties to secure banking facilities granted to the Group (see Note 48(a) for details).

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For The Year Ended 31 December 2006

17. 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 2005	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
Exchange adjustments	49,054	1,728	2,258	69,850	585	769	79,142	203,386
Additions	218	–	2,970	37,069	7,613	–	2,193,172	2,241,042
Transfer to investment properties	(9,641)	–	–	–	–	–	–	(9,641)
Transfer from construction in progress	1,658,403	–	1,314	2,325,231	29,198	–	(4,014,146)	–
Surplus on valuation	3,217	–	–	–	–	–	–	3,217
Disposals	(4,628)	–	(1,390)	(3,211)	(1,769)	–	–	(10,998)
At 31 December 2006	3,031,958	52,578	69,473	4,335,587	56,277	27,932	409,105	7,982,910
DEPRECIATION, AMORTISATION AND IMPAIRMENT								
At 1 January 2005	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
Exchange adjustments	4,349	1,145	930	26,525	284	438	–	33,671
Provided for the year	72,142	282	5,554	164,581	5,391	1,088	–	249,038
Eliminated on disposals	(198)	–	(1,359)	(1,272)	(1,239)	–	–	(4,068)
Transfer to investment properties	(1,162)	–	–	–	–	–	–	(1,162)
At 31 December 2006	152,823	33,239	29,024	823,948	12,887	19,742	–	1,071,663
CARRYING VALUES								
At 31 December 2006	2,879,135	19,339	40,449	3,511,639	43,390	8,190	409,105	6,911,247
At 31 December 2005	1,257,643	19,038	40,422	1,272,534	12,199	8,947	2,150,937	4,761,720

17. PROPERTY, PLANT AND EQUIPMENT (continued)

During the year, the Group transferred certain buildings and structures to investment properties. At the date of transfer, the surplus on revaluation of those buildings and structures was HK$3,217,000, which was credited to revaluation reserve.

The carrying value of properties shown above situated:

	2006 HK$'000	2005 HK$'000
Situated in the PRC and held under:		
– medium-term land use rights	**2,879,135**	1,256,401
– long term land use rights	**–**	1,242
	2,879,135	1,257,643

The net book value of plant and machinery includes an amount of HK$1,002,000 (2005: HK$1,310,000) in respect of assets held under a finance lease.

Included in property, plant and equipment is interest capitalised of HK$49,525,000 (2005: HK$6,184,000).

18. PREPAID LEASE RENTALS

	THE GROUP	
	2006 HK$'000	2005 HK$'000
The Group's prepaid lease rentals comprise:		
Medium-term leasehold land outside Hong Kong	**281,031**	283,196
Medium-term leasehold land in Hong Kong	**3,480**	3,596
	284,511	286,792
Analysed for reporting purposes as:		
Current asset	**8,976**	8,706
Non-current asset	**275,535**	278,086
	284,511	286,792

Notes to the Consolidated Financial Statements

For The Year Ended 31 December 2006

19. INTANGIBLE ASSETS

	THE GROUP Deferred product design fees HK$'000
COST	
At 1 January 2005	10,415
Exchange adjustments	233
At 31 December 2005	10,648
Written off	(2,592)
Exchange adjustments	392
At 31 December 2006	8,448
AMORTISATION	
At 1 January 2005	8,777
Exchange adjustments	203
Charge for the year	665
At 31 December 2005	9,645
Written off	(2,592)
Exchange adjustments	367
Charge for the year	556
At 31 December 2006	7,976
CARRYING VALUES	
At 31 December 2006	472
At 31 December 2005	1,003

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.

Notes to the Consolidated Financial Statements

For The Year Ended 31 December 2006

20. GOODWILL

	THE GROUP
	HK$'000
COST	
At 1 January 2005	259,596
Transfer from interests in associates *(Note 23)*	9,488
Arising on acquisition of a subsidiary *(Note 42)*	22,486
Arising on acquisition of an additional equity interest in a subsidiary	600
At 31 December 2005 and 31 December 2006	292,170

Particulars regarding impairment testing on goodwill are disclosed in note 21.

21. IMPAIRMENT TESTING ON GOODWILL

As explained in note 8, the Group uses business segments as its primary segment for reporting segment information. For the purposes of impairment testing, goodwill set out in note 20 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 2006 allocated to these units are as follows:

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

During the year ended 31 December 2006, management of the Group determines that there are no impairments of any of its CGUs containing goodwill.

Notes to the Consolidated Financial Statements

For The Year Ended 31 December 2006

21. IMPAIRMENT TESTING ON GOODWILL (continued)

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 8.0414% (2005: 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.

22. INTERESTS IN SUBSIDIARIES/AMOUNTS DUE FROM SUBSIDIARIES

	THE COMPANY	
	2006	2005
	HK$'000	HK$'000
Unlisted shares, at cost	**527,467**	527,464
Deemed capital contribution	**464,624**	462,681
Less: Impairment loss recognised	**(537,403)**	(532,321)
	454,688	457,824
Amounts due from subsidiaries	**2,206,561**	1,561,410
Less: Impairment losses recognised	**(353,767)**	(353,778)
	1,852,794	1,207,632
Amount due from a subsidiary – repayable within twelve months and shown under current assets	**–**	80,189

At 31 December 2005, the amount due from a subsidiary was unsecured, interest-free and had no fixed repayment terms, except for an amount of HK$80,189,000 (2006: Nil) due from a subsidiary which is repayable within twelve months, which was shown as current and was repaid during the year.

Particulars of the Company's principal subsidiaries as at 31 December 2006 are set out in note 51.

23. INTERESTS IN ASSOCIATES

	THE GROUP	
	2006	2005
	HK$'000	HK$'000
Cost of investments in associates		
Listed in Hong Kong	**254,656**	254,656
Share of post-acquisition profits and reserves, net of dividends received	**(39,634)**	(60,821)
	215,022	193,835
Market value of listed investments	**180,593**	106,062

At 1 January 2005, 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	
At 1 January 2005	9,488
Transfer *(Note 20)*	(9,488)
At 31 December 2005 and 31 December 2006	–

The amount was transferred to goodwill (Note 20) in 2005 upon the acquisition of a 45% further interests in Shouqin in 2005 and Shouqin then became a subsidiary of the Group.

Notes to the Consolidated Financial Statements

For The Year Ended 31 December 2006

23. INTERESTS IN ASSOCIATES (continued)

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

	2006 **HK$'000**	2005 HK$'000
Total assets	**1,385,083**	967,215
Total liabilities	**(427,729)**	(273,462)
Net assets	**957,354**	693,753
Group's share of net assets of associates	**215,022**	193,835
Revenue	**678,923**	592,889
Profit for the year	**76,031**	62,228
Group's share of result of associates for the year	**20,974**	17,387

Information of the associate is set out in note 51.

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$169,007,000 (2005: HK$29,431,000) was paid to the Shougang Group.

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

	THE GROUP	
	2006	2005
	HK$'000	HK$'000
Contracts in progress at the balance sheet date:		
Contract costs incurred to date plus recognised profits less recognised losses	**212,339**	209,277
Less: Progress billings	**(212,715)**	(209,831)
	(376)	(554)
Represented by:		
Amounts due from customers included in current assets	**186**	312
Amounts due to customers included in current liabilities	**(562)**	(866)
	(376)	(554)

At 31 December 2006, retentions held by customers for contract work amounted to HK$141,000 (2005: HK$1,026,000).

26. INVENTORIES

	THE GROUP	
	2006	2005
	HK$'000	HK$'000
COST		
Raw materials	**535,113**	454,060
Work in progress	**36,939**	8,842
Finished goods	**274,961**	78,876
	847,013	541,778

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For The Year Ended 31 December 2006

27. TRADE AND BILL RECEIVABLES AND OTHER RECEIVABLES

	THE GROUP	
	2006	2005
	HK$'000	HK$'000
Trade and bill receivables	**596,246**	598,003
Less: Allowance for bad and doubtful debts	**(221,054)**	(273,382)
	375,192	324,621

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	
	2006	2005
	HK$'000	HK$'000
Within 60 days	**219,150**	204,585
61 – 90 days	**56,428**	3,613
91 – 180 days	**94,873**	42,715
181 – 365 days	**4,741**	70,661
1 – 2 years	**–**	3,047
	375,192	324,621

The Group' trade and bill receivables that are denominated in currencies other than the functional currency of the group entities are set out below:

	THE GROUP
	US$'000
As at 31 December 2006	7,999
As at 31 December 2005	9,836

Other receivables are unsecured, interest-free and repayable on demand.

28. AMOUNTS DUE FROM (TO) RELATED COMPANIES AND AMOUNT DUE FROM A MINORITY SHAREHOLDER OF A SUBSIDIARY

The amounts due from (to) related companies represent amounts due from (to) the members of the Shougang Group. The amounts are unsecured, interest-free and are repayable on demand.

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

	THE GROUP	
	2006	2005
	HK$'000	HK$'000
Within 60 days	**136,209**	92,002
61 – 90 days	**19,717**	32,483
91 – 180 days	**–**	9,056
181 – 365 days	**168**	74
Over 2 years	**3,011**	3,024
	159,105	136,639

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

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

	THE GROUP	
	2006	2005
	HK$'000	HK$'000
Within 90 days	**481,076**	71,036
91 – 180 days	**5,202**	36,205
181 – 365 days	**11,977**	10,570
1 – 2 years	**21,488**	2,978
Over 2 years	**8,435**	8,223
	528,178	129,012

The amount due from a minority shareholder of a subsidiary is unsecured, interest bearing at 3.25% (2005: 3.25%) per annum and is repayable on demand.

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29. 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% (2005: 0.72% to 2.07%) per annum.

The deposits will be released upon the settlement of the letters of credit.

30. PLEDGED DEPOSIT AND BANK BALANCES AND CASH

Bank balances and time deposits carry interest at market rates which range from 0.51% to 6.17% per annum. The pledged deposit carries fixed interest rate of 1.95% per annum. Pledged bank deposit represents a deposit pledged to banks to secure banking facilities granted to the Group and the Company. The pledged bank deposit will be released upon the settlement of relevant bank borrowings.

31. TRADE AND BILL PAYABLES AND OTHER PAYABLES

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

	THE GROUP	
	2006	2005
	HK$'000	HK$'000
Within 90 days	**492,690**	421,018
91 – 180 days	**14,362**	12,747
181 – 365 days	**5,649**	39,187
1 – 2 years	**7,602**	45,765
Over 2 years	**3,531**	2,293
	523,834	521,010

The Group's trade and bill payables that are denominated in currencies other than the functional currency of the group entities are set out below:

	THE GROUP	
	US$'000	**EUR'000**
As at 31 December 2006	1,231	–
As at 31 December 2005	32	25

Other payables are unsecured, interest-free and repayable on demand.

32. AMOUNT DUE FROM (TO) ULTIMATE HOLDING COMPANY OF CONTROLLING SHAREHOLDER

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

Trade receivables from ultimate holding company of controlling shareholder of approximately HK$1,703,000 (2005: HK$12,596,000) are aged within 30 days (2005: aged between 61 to 90 days).

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

The amount due to ultimate holding company of controlling shareholder includes trade payables to ultimate holding company of controlling shareholder of approximately HK$113,000 (2005: HK$303,142,000) which is aged between 181-365 days (2005: aged between 61 to 90 days).

33. OBLIGATION UNDER A FINANCE LEASE

	THE GROUP			
	Minimum lease payments		Present value of minimum lease payments	
	2006	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000
Amounts payable under a finance lease:				
Within one year	**283**	566	**267**	534
In more than one year but not more than two years	**–**	283	**–**	267
	283	849	**267**	801
Less: Future finance charges	**(16)**	(48)	**–**	–
Present value of lease obligations	**267**	801	**267**	801
Less: Amount due for settlement within one year shown under current liabilities			**(267)**	(534)
Amount due for settlement after one year			**–**	267

Notes to the Consolidated Financial Statements

For The Year Ended 31 December 2006

33. OBLIGATION UNDER A FINANCE LEASE (continued)

The average lease term is 3 years. For the year ended 31 December 2006, the average effective borrowing rate is 2% (2005: 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 entering into these arrangements.

34. BANK BORROWINGS

Bank borrowings are repayable as follows:

	THE GROUP		THE COMPANY	
	2006	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000
Within one year	**3,021,425**	1,994,372	**–**	–
In the second year	**622,401**	237,409	**223,796**	–
In the third to fifth years inclusive	**933,380**	192,233	**933,380**	–
	4,577,206	2,424,014	**1,157,176**	–
Less: Amount due within one year shown under current liabilities	**(3,021,425)**	(1,994,372)	**–**	–
	1,555,781	429,642	**1,157,176**	–

	THE GROUP		THE COMPANY	
	2006	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000
Secured	**1,157,176**	69,051	**1,157,176**	–
Unsecured	**3,420,030**	2,354,963	**–**	–
	4,577,206	2,424,014	**1,157,176**	–

34. BANK BORROWINGS (continued)

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

	THE GROUP		THE COMPANY	
	2006	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000
Fixed-rate borrowings				
Within one year	**2,493,274**	1,955,978	**–**	–
In more than one year but not more than two years	**298,954**	237,409	**–**	–
In more than two years but not more than three years	**–**	192,233	**–**	–
	2,792,228	2,385,620	**–**	–

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

	THE GROUP		THE COMPANY	
	2006	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000
Variable-rate borrowings				
Within one year	**528,151**	38,394	**–**	–
In more than one year but not more than two years	**323,447**	–	**223,796**	–
In more than two years but not more than three years	**933,380**	–	**933,380**	–
	1,784,978	38,394	**1,157,176**	–

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For The Year Ended 31 December 2006

34. BANK BORROWINGS (continued)

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

	THE GROUP		THE COMPANY	
	2006	2005	**2006**	2005
Effective interest rate per annum:				
Fixed-rate borrowings	**5.022% to 6.120%**	5.02% to 5.85%	**–**	–
Variable-rate borrowings	**5.1125% to 6.80%**	5.38% to 5.39%	**5.1125% to 6.80%**	–

The Group's borrowings are secured by certain assets and are guaranteed by ultimate holding company of the controlling shareholder. Details are set out in notes 48 and 50 respectively.

The Company's borrowings are secured by certain of its assets and certain assets of subsidiaries, and are guaranteed by a subsidiary, Shougang Concord Shipping Holdings Limited. Details are set out in note 48.

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

	THE GROUP		THE COMPANY
	US$'000	EUR'000	US$'000
As at 31 December 2006	129,000	–	129,000
As at 31 December 2005	4,366	250	–

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35. OTHER FINANCIAL LIABILITIES

	THE GROUP		THE COMPANY	
	2006	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000
				(restated)
Foreign currency forward contracts, current liability	**91**	2,103	**91**	–
Financial guarantee contracts	**–**	–	**3,563**	3,258
	91	2,103	**3,654**	3,258

At 31 December 2006, the Group and the Company entered into forward foreign currency contracts, the major terms of the outstanding contracts are as follows:

Notional amount	Maturity	Forward exchange rates
Buy US$18,000,000	25.10.2007	HK$7.732 to US$1
Buy US$18,000,000	13.11.2007	HK$7.711 to US$1

Notes to the Consolidated Financial Statements

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36. 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 2005	26,257	1,464	(1,554)	26,167
Exchange differences	566	–	(3)	563
Credit to income statement for the year *(Note 13)*	(996)	(96)	(51)	(1,143)
Acquisition of a subsidiary	–	14,398	(1,208)	13,190
At 1 January 2006	25,827	15,766	(2,816)	38,777
Exchange differences	1,012	–	(45)	967
Credit to income statement for the year *(Note 13)*	(2,116)	616	13	(1,487)
Effect of change in tax rate	5,896	–	–	5,896
At 31 December 2006	30,619	16,382	(2,848)	44,153

At 31 December 2006, the Group has unused tax losses of approximately HK$524 million, of which HK$221 million is subject to IRD's confirmation (2005: HK$506 million of which HK$203 million was subject to IRD's confirmation) available to offset against future profits. Deferred tax assets has been recognised in respect of approximately HK$9 million (2005: HK$9 million) at such losses. At 31 December 2006, the Group has deductible temporary difference of approximately HK$119 million (2005: HK$143 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$152 million, of which HK$16 million is subject to IRD's confirmation (2005: HK$138 million, of which HK$2 million was subject to IRD's confirmation) available to offset against future profits. No deferred tax asset has been recognised due to the unpredictability of future profit streams.

37. LOAN FROM A RELATED COMPANY

THE GROUP AND THE COMPANY

The amount at 31 December 2005 was unsecured, interest bearing at 5.14% to 5.2% per annum and was fully repaid during the year.

38. LOAN FROM ULTIMATE HOLDING COMPANY OF CONTROLLING SHAREHOLDER

THE GROUP

The amounts are unsecured, interest bearing at 5.76% to 6.12% (2005: 5.22% to 5.76%) per annum and are not repayable within twelve months from the balance sheet date, except for loans amounted to HK$785,750,000(2005: Nil) which are repayable within one year.

39. SHARE CAPITAL

	Number of shares	**Amount**
		HK$'000
Ordinary shares of HK$0.20 each		
Authorised:		
At 1 January 2005, 31 December 2005 and 31 December 2006	10,000,000,000	2,000,000
Issued and fully paid:		
At 1 January 2005	4,637,251,215	927,450
Issue of shares upon exercise of share options *(Note a)*	25,146,000	5,030
Issue of shares in consideration for the acquisition of further interest in an associate which then became a subsidiary *(Notes b and c)*	271,659,999	54,331
At 31 December 2005	4,934,057,214	986,811
Issue of shares upon exercise of share options *(Note d)*	1,000,000	200
Issue of shares on subscription *(Note e)*	929,000,000	185,800
At 31 December 2006	5,864,057,214	1,172,811

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39. SHARE CAPITAL (continued)

Notes:

(a) 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$0.2 each in the Company.

(b) 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 had 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.

(c) 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 had 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.

(d) During the year ended 31 December 2006, 1,000,000 share options were exercised at the price of HK$0.295 per share, resulting in issuance of 1,000,000 ordinary shares of HK$0.2 each in the Company.

(e) On 13 February 2006, the Company entered into a subscription agreement with Carlo Tassara International S. A. for the subscription of 929,000,000 new shares of HK$0.2 each in the Company at a price of HK$0.53 (or net price of approximately HK$0.5296) per share. The proceeds would be used as working capital or applied in other investment opportunities of the Group. The new shares were issued upon completion of the subscription on 1 March 2006, on which date the closing price of the Company's shares was HK$0.59 per share as quoted on the Stock Exchange.

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

40. 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, 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 million (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.

During the year ended 31 December 2006, 1,000,000 share options were exercised at the price of HK$0.295, resulting in issuance of 1,000,000 ordinary shares of HK$0.2 each in the Company.

Notes to the Consolidated Financial Statements

For The Year Ended 31 December 2006

40. 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 2006 and 2005:

	Number of share options							
Grantees	At 1.1.2006	Transferred to other category during the year	Lapsed during the year	Exercised during the year	At 31.12.2006	Date of grant	Exercise period	Exercise price per share HK$
Directors of the Company	62,900,000	22,950,000[1]	–	(1,000,000)[2]	84,850,000	23.8.2002	23.8.2002 to 22.8.2012	0.295
	18,360,000	–	–	–	18,360,000	12.3.2003	12.3.2003 to 11.3.2013	0.280
	149,208,000	52,796,000[1]	–	–	202,004,000	18.11.2003	18.11.2003 to 17.11.2013	0.410
	230,468,000	75,746,000	–	(1,000,000)	305,214,000			
Other employees of the Group	110,000	–	–	–	110,000	12.3.2003	12.3.2003 to 11.3.2013	0.280
	11,000,000	(5,000,000)[3]	–	–	6,000,000	18.3.2004	18.3.2004 to 17.3.2014	0.660
	11,110,000	(5,000,000)	–	–	6,110,000			
Other eligible participants	76,700,000	(22,950,000)[1]	–	–	53,750,000	23.8.2002	23.8.2002 to 22.8.2012	0.295
	61,850,000	–	–	–	61,850,000	12.3.2003	12.3.2003 to 11.3.2013	0.280
	52,796,000	(52,796,000)[1]	–	–	–	18.11.2003	18.11.2003 to 17.11.2013	0.410
	–	5,000,000[3]	(5,000,000)[3]	–	–	18.3.2004	18.3.2004 to 31.12.2006	0.660
	5,000,000	–	–	–	5,000,000	18.3.2004	18.3.2004 to 17.3.2014	0.660
	196,346,000	(70,746,000)	(5,000,000)	–	120,600,000			
	437,924,000	–	(5,000,000)	(1,000,000)	431,924,000			
Exercisable at the end of the year					431,924,000			

Notes:

1. The share options were held by a grantee who became a Director of the Company during the year and such share options were re-classified from the category of "Other eligible participants" to "Directors of the Company" during the year.

2. The share options were exercised by a grantee who ceased to be a Director of the Company during the year. The closing price of the shares of the Company immediately before the date on which the share options were exercised was HK$0.61 per share.

40. SHARE OPTION SCHEME (continued)

Notes: (continued)

3. The share options were held by a grantee who ceased to be an employee of the Group during the year. The Board of Directors of the Company approved the extension of the exercise period for such share options up to 31 December 2006 and such share options were re-classified from the category of "Other employees of the Group" to "Other eligible participants" during the year. Such share options lapsed upon the expiration of the exercise period on 31 December 2006.

	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 to 22.8.2012	0.295
	18,360,000	–	–	18,360,000	12.3.2003	12.3.2003 to 11.3.2013	0.280
	223,750,000	(52,796,000)	(21,746,000)	149,208,000	18.11.2003	18.11.2003 to 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 to 22.8.2012	0.295
	110,000	–	–	110,000	12.3.2003	12.3.2003 to 11.3.2013	0.280
	11,000,000	–	–	11,000,000	18.3.2004	18.3.2004 to 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 to 22.8.2012	0.295
	61,850,000	–	–	61,850,000	12.3.2003	12.3.2003 to 11.3.2013	0.280
	–	52,796,000	–	52,796,000	18.11.2003	18.11.2003 to 17.11.2013	0.410
	5,000,000	–	–	5,000,000	18.3.2004	18.3.2004 to 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 ended 31 December 2005 but remained as a Director of the Company's subsidiaries.

Notes to the Consolidated Financial Statements

For The Year Ended 31 December 2006

41. RESERVES

	Share premium	Capital redemption reserve	Capital reserve	Special capital reserve	Accumulated (losses) profits	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
THE COMPANY						
At 1 January 2005	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)
Profit for the year (restated)	–	–	–	–	155,039	155,039
At 31 December 2005, as restated	112,169	1,019	–	292,655	131,619	537,462
Premium arising on issue of shares	306,665	–	–	–	–	306,665
Share issue expenses	(90)	–	–	–	–	(90)
Final 2005 dividends, paid	–	–	–	–	(35,185)	(35,185)
Profit for the year	–	–	–	–	20,646	20,646
At 31 December 2006	418,744	1,019	–	292,655	117,080	829,498

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 Hong Kong Companies Ordinance (the "Cancellation").

41. 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 Hong Kong 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 Hong Kong 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;

Notes to the Consolidated Financial Statements

For The Year Ended 31 December 2006

41. 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.

42. 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. Prior to the acquisition, the Group held 51% of the registered capital of Shouqin, which is the associate of the Group as the Group did not control the composition of Board of Directors of Shouqin at that time.

42. ACQUISITION OF A SUBSIDIARY (continued)

The fair value of the identifiable assets and liabilities of the subsidiary acquired during the year ended 31 December 2005 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 HK$'000	Fair value adjustments HK$'000	Acquiree's carrying amount and fair value 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 20)*			22,486
			335,623
Total consideration, satisfied by:			
– share exchange *(Note)*			123,859
– cash			211,764
			335,623

Notes to the Consolidated Financial Statements

For The Year Ended 31 December 2006

42. ACQUISITION OF A SUBSIDIARY (continued)

Note: As part of the consideration for the acquisition of Shouqin, 213,550,909 ordinary share 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 dates 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 of HK$57,528,000 and 58,109,090 ordinary shares issued at total fair value of HK$32,541,000 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 31 December 2005.

If the acquisition of the additional interest of 35% and 10% had been completed on 1 January 2005, total group revenue for the year ended 31 December 2005 would have been HK$5,334,755,000, and profit for the year ended 31 December 2005 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 Consolidated Financial Statements

For The Year Ended 31 December 2006

43. 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 39(b) and (c)).

(b) During 2005, Shouqin became a subsidiary and interest in Shouqin which included in interests in associates of approximately HK$402,158,000 was derecognised upon the Acquisition.

44. OPERATING LEASE ARRANGEMENTS

The Group as lessee

	THE GROUP	
	2006	2005
	HK$'000	HK$'000
Minimum lease payments paid under operating leases during the year are as follows:		
Land and buildings	**3,443**	1,883
Vessels time charter hire	**133,832**	137,794
	137,275	139,677

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	
	2006	2005	**2006**	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Within one year	**143,393**	140,608	**407**	408	**143,800**	141,016
In the second to fifth years inclusive	**589,373**	583,387	**683**	504	**590,056**	583,891
After five years	**137,980**	287,423	**1,426**	1,501	**139,406**	288,924
	870,746	1,011,418	**2,516**	2,413	**873,262**	1,013,831

Notes to the Consolidated Financial Statements

For The Year Ended 31 December 2006

44. OPERATING LEASE ARRANGEMENTS (continued)

The Group as lessee (continued)

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.

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 sixteen 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$1,528,000 (2005: HK$1,487,000). 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 (2006: Nil) which fall due within one year.

45. COMMITMENTS

	THE GROUP	
	2006	2005
	HK$'000	HK$'000
Capital expenditure contracted for but not provided in the financial statements in respect of acquisition of property, plant and equipment	**9,624**	644,505
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.

Notes to the Consolidated Financial Statements

For The Year Ended 31 December 2006

46. RETIREMENT BENEFITS SCHEMES

The Group operated a Mandatory Provident Fund Scheme for all qualifying employees in Hong Kong. The assets of these schemes were held separately 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.

47. CONTINGENT LIABILITIES

THE GROUP

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 44.

THE COMPANY

As at 31 December 2005, the financial guarantee given to banks in respect of banking facilities utilised by subsidiaries amounted to HK$44,532,000 (2006: Nil) of which HK$3,258,000 (2006: HK$3,563,000) was recognised in the financial statements as financial guarantee contracts.

Notes to the Consolidated Financial Statements

For The Year Ended 31 December 2006

48. 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$18,193,000 (2005: HK$14,838,000) and HK$3,480,000 (2005: HK$3,596,000), respectively; and

(b) pledge of the Group's plant and machinery with net book value of HK$304,932,000 (2005:HK$316,534,000).

(c) pledge of the Group's 51% equity interest in Bejing Power Plant and 100% equity interest in Qinhuangdao Plate Mill, net assets of which amounting to HK$454,479,000 and HK$1,080,065,000 respectively. The Group had no such pledge of assets as at 31 December 2005.

(d) pledge of assets of its subsidiaries, Shougang Concord Power Plant Holdings Limited, Equity Dragon Assets Limited and Pointer Investments Limited, net assets of which amounting to HK$61,838,000 , HK$196,693,000 and HK$194,839,000 respectively. The Group had no such pledge of assets as at 31 December 2005.

(e) pledged deposit of an amount of HK$10,123,000. The Group had no such pledge of assets as at 31 December 2005.

(f) restricted deposits of an amount of HK$116,277,000 (2005: HK$204,536,000).

THE COMPANY

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

(a) pledge of the Group's 51% equity interest in Beijing Power Plant and 100% equity interest in Qinhuangdao Plate Mill, net assets of which amounting to HK$454,479,000 and HK$1,080,065,000 respectively. The Company had no such pledge of assets as at 31 December 2005.

(b) pledged deposit of an amount of HK$10,123,000. The Company had no such pledge of assets as at 31 December 2005.

49. POST BALANCE SHEET EVENTS

(a) On 8 November 2006, the Company and Central Pro entered into an equity transfer agreement with an independent third party, Hyundai Heavy Industries Co., Ltd. ("HHI") pursuant to which Central Pro transferred 20% of the registered capital of Shouqin, an indirect non-wholly owned subsidiary of the Company, to HHI at a consideration of RMB410 million ("Disposal"). Details of the Disposal were set out in the Company's announcement dated on 10 November 2006.

The transaction was completed on 7 February 2007 and the interests of the Group in Shouqin were reduced from 96% to 76%. The Directors estimated the pre-tax gain on disposal amounting to approximately HK$90 million.

(b) On 12 February 2007, Good News Investment Limited entered into a provisional agreement for sale and purchase of a property with an independent third party, at a consideration of HK$15 million. The consideration is equal to the valuation amount of the property as at 31 December 2006.

(c) On 20 March 2007, Timefull Investments Limited ("Timefull") entered into a conditional share and option subscription agreement with Australasian Resources Limited ("ARL"), whereby Timefull will subscribe 28,000,000 newly-issued shares of ARL at A$1 each, with 14,000,000 free attached options, representing approximately 6.4% of the enlarged issued share capital of ARL at a consideration of A$28 million (equivalent to approximately HK$174.2 million). The said transaction is subject to, inter alia, the approval by the Treasurer of the Commonwealth of Australia and ARL's shareholders and is not yet completed as at date of this report.

(d) On 20 March 2007, Cheer Source Limited ("Cheer Source") entered into a Sino Foreign Joint Venture Agreement with Shouqin, pursuant to which Qinhuangdao Shouqin Steels Machining & Delivery Co., Ltd ("QSSM") shall be established. QSSM will have a registered capital of RMB150 million (equivalent to approximately HK$151.5 million) and will be owned as to 49% by Cheer Source and 51% by Shouqin. The principal activities of QSSM will be processing and production of steel products. This transaction is not yet completed as at date of this report.

Notes to the Consolidated Financial Statements

For The Year Ended 31 December 2006

50. RELATED PARTY DISCLOSURES

Other than disclosed in notes 24 and 38, 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	**2006 HK$'000**	2005 HK$'000
THE GROUP			
Shougang Group			
Sales of goods by the Group	(a)	**386,496**	140,207
Provision of electricity, steam and hot water by the Group	(b)	**424,641**	411,023
Purchases of goods by the Group	(c)	**2,384,264**	1,225,801
Lease rentals charged to the Group	(d)	**2,378**	1,788
Management fee charged to the Group	(e)	**960**	960
Purchases of spare parts by the Group	(f)	**49,943**	21,738
Corporate guarantees for bank loans granted to the Group	(g)	**2,546,089**	2,289,503
Management fees charged by the Group	(h)	**120**	100
Rental income charged by the Group	(i)	**151**	–
Interest charged to the Group	(j)	**66,397**	2,636
Service fees charged to the Group	(k)	**102,238**	53,189
Service fees charged by the Group	(l)	**24,703**	13,007
Purchase of property, plant and equipment by the Group	(m)	**610,777**	104,006
Loans granted to the Group	(n)	**488,291**	–

Notes to the Consolidated Financial Statements

For The Year Ended 31 December 2006

50. RELATED PARTY DISCLOSURES (continued)

(I) Transactions (continued)

	Notes	2006 HK$'000	2005 HK$'000
Associates			
Sales of goods by the Group	(a)	–	133,208
Purchase of goods by the Group	(c)	–	1,966,710
Services fees charged by the Group	(k)	–	432
THE COMPANY			
Shougang Group			
Management fee charged to the Company	(e)	960	960
Management fee charged by the Company	(h)	1,560	880
Interest charged to the Company	(j)	2,408	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 and 37;

Details of balances with the Group's ultimate holding company of controlling shareholder are set out in note 32 and 38;

Notes to the Consolidated Financial Statements

For The Year Ended 31 December 2006

50. RELATED PARTY DISCLOSURES (continued)

Notes:

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

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

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

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

(e) Management fees were paid to Shougang Holding (Hong Kong) Limited ("Shougang HK"), the controlling shareholder, for the provision of management services.

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

(g) Shougang Corporation has provided corporate guarantees for certain bank loans granted to the Group for nil consideration. At 31 December 2006, the Group has bank loans guaranteed by Shougang Corporation amounting to approximately HK$3,320,379,000 (2005: HK$2,289,503,000).

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

(i) The Group entered into rental agreements with Shougang International Trade (Hong Kong) Limited, which is a wholly-owned subsidiary of Shougang HK for renting investment properties.

(j) The interest expenses were charged by the Shougang Group in respect of loans granted to the Group at interest rates from 5.1375% to 6.12% per annum.

(k) Shougang Group charged Qinhuangdao Plate Mill, Beijing Power Plant, Shouqin and Shougang Concord Steel International Trading Co. Ltd. service fees in respect of processing, repair and maintenance and transportation services.

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

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

(n) Shougang Corporation has granted loans to the Group which are interest bearing at interest rates from 5.76% to 5.85% per annum.

50. RELATED PARTY DISCLOSURES (continued)

In addition, details of share options held by directors as at 31 December 2006 were disclosed in note 40.

(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.

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	
	2006	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000
Short-term benefits	**12,003**	12,567	**10,504**	10,776

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

Notes to the Consolidated Financial Statements

For The Year Ended 31 December 2006

51. PARTICULARS OF PRINCIPAL SUBSIDIARIES AND ASSOCIATES

Details of the Company's principal subsidiaries at 31 December 2006 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		Principal activities
			Directly %	Indirectly %	
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 share	–	100	Investment holding
Hong Kong – Canada Welcen Kingsway International Investments (Holdings) Limited	Hong Kong	HK$10,000,000 Ordinary shares	–	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
Radnor Limited	Hong Kong	HK$1,775,920 Ordinary shares	–	100	Manufacture and installation of kitchen and laundry equipment and investment holding

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For The Year Ended 31 December 2006

51. 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$200,000 Ordinary shares	–	100	Manufacture and installation of kitchen and laundry equipment
Radnor (Macao) Limited	Macau	MOP25,000	–	100	Installation of kitchen equipment
東莞蕾洛五金制品有限公司 Dongguan Roulop Metal Products Co. Limited$^{\Delta}$	PRC	HK$14,400,000 Registered capital	–	100	Manufacture and installation of kitchen and laundry equipment
江門蕾洛廚房洗衣房設備安裝維修有限公司 Jiangmen Radnor Kitchen & Laundry Engineering Limited$^{\Delta\Delta}$	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
Shougang Concord Steel (International) Company Limited	British Virgin Islands/Hong Kong	US$1,000 Ordinary shares	–	100	Investment holding

Notes to the Consolidated Financial Statements

For The Year Ended 31 December 2006

51. 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		Principal activities
			Directly %	Indirectly %	
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	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
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

51. 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		Principal activities
			Directly %	Indirectly %	
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$1 Ordinary share	–	100	Investment holding
秦皇島首鋼板材有限公司 Qinhuangdao Plate Mill$^{\Delta}$	PRC	US$66,000,000 Registered capital	–	100	Manufacture and sale of steel plates
秦皇島首秦金屬材料有限公司 Shouqin$^{\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 Power Plant$^{\Delta\Delta}$	PRC	RMB261,170,000 Registered capital	–	51	Power generation
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

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For The Year Ended 31 December 2006

51. PARTICULARS OF PRINCIPAL SUBSIDIARIES AND ASSOCIATES (continued)

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 2006 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	22.5	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.