



Report of the Directors

The directors herein present their report and the audited financial statements of the Company and the Group for the year ended 31 December 2006.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Further details of the principal activities of the principal subsidiaries are set out in note 43 to the financial statements. There were no significant changes in the nature of the Group's principal activities during the year.

RESULTS

The Group's profit for the year ended 31 December 2006 and the state of affairs of the Group and the Company at that date are set out in the financial statements on pages 52 to 117.

SUMMARY OF FINANCIAL INFORMATION

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

	2006 HK\$'000	2005 HK\$'000	2004 HK\$'000	2003 HK\$'000	2002 HK\$'000
PROFIT FOR THE YEAR	<u>76,031</u>	<u>62,228</u>	<u>148,524</u>	<u>66,324</u>	<u>42,481</u>
TOTAL ASSETS	1,385,083	967,215	939,780	717,245	599,209
TOTAL LIABILITIES	(427,729)	(273,462)	(305,538)	(131,028)	(69,218)
MINORITY INTERESTS	—	—	—	—	(86,502)
	<u>957,354</u>	<u>693,753</u>	<u>634,242</u>	<u>586,217</u>	<u>443,489</u>

INVESTMENT PROPERTIES AND PROPERTY, PLANT AND EQUIPMENT

Details of movements in the investment properties and property, plant and equipment of the Company and the Group during the year are set out in notes 14 and 15, respectively to the financial statements.

Particulars of the Group's investment properties as at 31 December 2006 are summarised on page 118 of this annual report.

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SHARE CAPITAL AND SHARE OPTIONS

Details of movements in the share capital of the Company are set out in note 35 to the financial statements. The Company introduced a share option scheme in 2002. Details of share options are set out under the headings "SHARE OPTION SCHEME", "DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES, DEBENTURES OR UNDERLYING SHARES" hereunder and in note 41 to the financial statements.

RESERVES

Details of movements in the reserves of the Group and the Company during the year are set out in the consolidated statement of changes in equity on pages 56 and 57 of this annual report and in note 36 to the financial statements.

DISTRIBUTABLE RESERVES

As at 31 December 2006, the Company's reserves available for distribution, calculated in accordance with the provisions of Section 79B of the Companies Ordinance, amounted to HK\$17,124,000, of which approximately HK\$12,761,000 has been proposed as final dividend for the year.

FINAL DIVIDEND

The directors are pleased to recommend to shareholders the payment of a final dividend of HK1 cent per share for the year ended 31 December 2006 and the balance of the profit will be retained. Subject to the approval of the shareholders at the forthcoming annual general meeting, the final dividend will be payable on or about 29 June 2007 to the shareholders whose names appear at the Register of Members of the Company as at the close of business on 6 June 2007.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members will be closed from 1 June 2007 to 6 June 2007, both days inclusive, during which period no share transfer will be registered. In order to qualify for the proposed final dividend, all transfer accompanied by the relevant share certificates must be lodged with the Company's share registrars, Tengis Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Hong Kong not later than 4:00 p.m. on 31 May 2007.



Report of the Directors

DIRECTORS

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

Cao Zhong (*Chairman*)

Li Shaofeng (*Managing Director*)

Tong Yihui (*Deputy Managing Director*)

Leung Shun Sang, Tony

Tang Cornor Kwok Kau (*Deputy Managing Director*)

Geert Johan Roelens

(appointed on 15 December 2006)

Yip Kin Man, Raymond (*Independent Non-executive Director*)

Law, Yui Lun (*Independent Non-executive Director*)

Chu, Kwok Tsu Gilbert (*Independent Non-executive Director*)

The directors of the Company, including the independent non-executive directors, are subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with articles 91 and 92 of the Company's articles of association. Messrs. Cao Zhong, Tang Cornor Kwok Kau and Law, Yui Lun will retire and, being eligible, offer themselves for re-election at the forthcoming annual general meeting. In addition, Mr. Geert Johan Roelens will retire and, being eligible, offer himself for re-election at the forthcoming annual general meeting pursuant to the articles 95 and 96 of the Company's articles of association.

DIRECTORS' SERVICE CONTRACTS

No director proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable by the Company within one year without payment other than statutory compensation.

DIRECTORS' RIGHTS TO ACQUIRE SHARES AND DEBENTURES

Apart from as disclosed under the heading "DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES, DEBENTURES OR UNDERLYING SHARES" and in note 41 to the financial statements, at no time during the year was the Company or any of its subsidiaries a party to any arrangement to enable the Company's directors or their respective spouse or children under 18 years of age to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

Report of the Directors

APPOINTMENT OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received from each of the Independent Non-executive Directors an annual confirmation of his independence pursuant to Rule 3.13 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules"). The Company considers all of the Independent Non-executive Directors are independent.

SHARE OPTION SCHEME

Particulars of the Company's share option scheme and details of movements in the Company's share options during the year are set out under the heading "DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES, DEBENTURES OR UNDERLYING SHARES" hereunder and in note 41 to the financial statements.

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES, DEBENTURES OR UNDERLYING SHARES

As at 31 December 2006, save for the interest of the Directors in the shares and share options of the Company set out as below, none of the Directors had any interests and short positions in the shares, debentures or underlying shares of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) which had to be notified to the Company and the Stock Exchange of Hong Kong Limited pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he was taken or deemed to have under such provisions of the SFO) or which were required pursuant to Section 352 of the SFO, to be entered in the register referred therein or which were required to be disclosed herein pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers.

Long position in shares

(a) Ordinary shares of HK\$0.10 each of the Company

Name of Director	Number of shares held	Approximate % of the issued share capital as at 31 December 2006	Capacity in which interest is held
Tang Cornor Kwok Kau (“Mr. Tang”)	2,496,000	0.19	beneficial owner (Note)

Note: Those shares were beneficially owned by Mr. Tang and in which of 200,000 shares were also jointly owned by his wife.



Report of the Directors

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES, DEBENTURES OR UNDERLYING SHARES (continued)

(b) Share options

As at 31 December 2006, there were a total of 163,196,000 outstanding share options of the Company granted to directors of the Company, details of which are summarized in the following table:

Name of director	Options to subscribe for shares of the Company						Exercise period	Exercise price per share HK\$	Capacity in which interests are held	Approximate % of the issued share capital as at 31 December 2006
	Number of share options held at the beginning of the year	Number of share options granted during the year	Number of share options exercised during the year	Date of exercise	Number of outstanding share options at the end of the year	Date of grant (Note b)				
Cao Zhong	7,652,000	-	-	-	7,652,000	23/8/2002	23/8/2002 to 22/8/2012	0.295		
	57,350,000 (Note a)	-	-	-	57,350,000	2/10/2003	2/10/2003 to 1/10/2013	0.780		
	65,002,000	-	-	-	65,002,000				Beneficial owner	5.09
Li Shaofeng	7,652,000	-	-	-	7,652,000	23/8/2002	23/8/2002 to 22/8/2012	0.295		
	30,614,000 (Note a)	-	-	-	30,614,000	25/6/2003	25/6/2003 to 24/6/2013	0.365		
	38,266,000	-	-	-	38,266,000				Beneficial owner	2.99
Tong Yihui	7,652,000	-	-	-	7,652,000	23/8/2002	23/8/2002 to 22/8/2012	0.295		
	38,268,000 (Note a)	-	-	-	38,268,000	25/6/2003	25/6/2003 to 24/6/2013	0.365		
	45,920,000	-	-	-	45,920,000				Beneficial owner	3.60
Leung Shun Sang, Tony	4,592,000	-	-	-	4,592,000	23/8/2002	23/8/2002 to 22/8/2012	0.295		
	3,060,000	-	-	-	3,060,000	12/3/2003	12/3/2003 to 11/3/2013	0.325		
	4,592,000	-	-	-	4,592,000	25/8/2003	25/8/2003 to 24/8/2013	0.740		
	12,244,000	-	-	-	12,244,000				Beneficial owner	0.96
Mr. Tang	1,000,000	-	-	-	1,000,000	25/8/2003	25/8/2003 to 24/8/2013	0.740	Beneficial owner	0.08
Yip Kin Man, Raymond	382,000	-	-	-	382,000	23/8/2002	23/8/2002 to 22/8/2012	0.295		
	382,000	-	-	-	382,000	25/8/2003	25/8/2003 to 24/8/2013	0.740		
	764,000	-	-	-	764,000				Beneficial owner	0.06
	163,196,000	-	-	-	163,196,000					

Report of the Directors

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES, DEBENTURES OR UNDERLYING SHARES (continued)

(b) Share options (continued)

Other than the holdings and option holdings disclosed above, none of the directors, chief executives and their associates had any interests or short positions in any shares, debentures or underlying shares of the Company or any of its associated corporations at 31 December 2006.

Note:

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

The above share options are unlisted cash settled options granted pursuant to the Company's share option scheme adopted on 7 June 2002 (the "Scheme"). Upon exercise of the share options in accordance with the Scheme, ordinary shares of HK\$0.10 each in the share capital of the Company are issuable. The share options are personal to the respective directors.

DIRECTORS' INTERESTS IN CONTRACTS

No director had a material interest in any contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party during the year.



Report of the Directors

DIRECTORS' INTERESTS IN COMPETING BUSINESSES

During the year, save as disclosed below, none of the directors is considered to have interest in the following businesses which are considered to compete or likely to compete, either directly or indirectly, with businesses of the Group pursuant to Rule 8.10 of the Listing Rules:

Name of director	Name of entity which businesses which are considered to compete or likely to compete with the businesses of the Group	Description of businesses of the entity which are considered to compete with the businesses of the Group	Nature of director's interest in the entity
Geert Johan Roelens	Bekaert Management (Shanghai) Co., Ltd.	Manufacturing of steel cord	General Manager
	Bekaert Hlohovec, a.s.	Manufacturing and sale of steel wire and/or cord products	Director
	Bekaert Binjiang Steel Cord Co., Ltd.	Manufacturing and sale of steel wire and/or cord products	Director
	Bekaert-Shenyang Steel Cord Co., Ltd.	Manufacturing and sale of steel wire and/or cord products	Director
	Bekaert (Shandong) Tire Cord Co., Ltd.	Manufacturing and sale of steel wire and/or cord products	Director
	Bekaert Shenyang Advanced Products Co., Ltd.	Manufacturing and sale of steel wire and/or cord products	Director
	Bekaert Japan Co., Ltd.	Manufacturing and sale of steel wire and/or cord products	Director
	China Bekaert Steel Cord Company Limited	Manufacturing and sale of steel wire and/or cord products	Director

Report of the Directors

DIRECTORS' INTERESTS IN COMPETING BUSINESSES (continued)

Pursuant to a subscription agreement and a supplemental agreement (the "Bekaert Subscription") entered into by the Company and NV Bekaert SA ("Bekaert") in September 2006 and after the completion of the Bekaert Subscription on 15 December 2006, a nominee of Bekaert should be appointed as an executive director of the Company to represent the interest of Bekaert. Notwithstanding, the whole board of directors owes fiduciary duties towards the Company as a whole and as such it will act in the best interest of the Company and its shareholders in carrying on its businesses.

INTERESTS AND SHORT POSITIONS OR UNDERLYING SHARES OF THE SHAREHOLDERS OF THE COMPANY UNDER THE SFO

As at 31 December 2006, so far as was known to the Directors, the following parties had an interest or long position or short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or which were required pursuant to Section 336 of the SFO, to be entered in the register referred therein:

Long position in shares or underlying shares

Name of shareholder	Total number of shares/ underlying shares held	Approximate % of the issued share capital as at 31 December 2006	Capacity in which interests are held
Richson Limited ("Richson")	148,537,939	11.64	Beneficial owner
Fair Union Holdings Limited ("Fair Union")	286,655,179	22.46	Beneficial owner and interests of controlled corporations ⁽¹⁾
Shougang Concord International Enterprises Company Limited ("Shougang International")	286,655,179	22.46	Interests of controlled corporations ⁽²⁾
Able Legend Investments Limited ("Able Legend")	126,984,000	9.95	Beneficial owner ⁽³⁾
Shougang Holding (Hong Kong) Limited ("Shougang HK")	455,883,179	35.73	Interests of controlled corporations ⁽⁴⁾



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INTERESTS AND SHORT POSITIONS OR UNDERLYING SHARES OF THE SHAREHOLDERS OF THE COMPANY UNDER THE SFO (continued)

Long position in shares or underlying shares (continued)

Name of shareholder	Total number of shares/ underlying shares held	Approximate % of the issued share capital as at 31 December 2006	Capacity in which interests are held
Bekaert Holding B.V. ("Bekaert Holding")	250,000,000	19.59	Beneficial owner ⁽⁵⁾
NV Bekaert SA ("Bekaert")	250,000,000	19.59	Interests of controlled corporations ⁽⁶⁾
Cao Zhong	65,002,000	5.09	Beneficial owner ⁽⁷⁾

Notes:

- (1) Fair Union is beneficially interested in 135,721,936 shares and by virtue of the SFO, it is deemed to be interested in the 148,537,939 shares held by Richson and the 2,395,304 shares held by Casula Investments Limited ("Casula") as Richson and Casula are its wholly owned subsidiaries.
- (2) By virtue of the SFO, Shougang International is deemed to be interested in the 135,721,936 shares held by Fair Union, the 148,537,939 shares held by Richson and the 2,395,304 shares held by Casula as Richson and Casula are wholly owned by Fair Union, a wholly owned subsidiary of Shougang International.
- (3) Able Legend is beneficially interested in 126,984,000 shares.
- (4) By virtue of the SFO, Shougang HK is deemed to be interested in the 126,984,000 shares and the 28,374,000 shares held by Able Legend and Prime Success Investments Limited ("Prime Success") respectively as Able Legend and Prime Success are its wholly owned subsidiaries and is deemed to be interested in the 13,870,000 shares held by Lyre Terrace Management Limited, a subsidiary of Shougang Concord Grand (Group) Limited ("Shougang Grand") and Shougang HK is the controlling shareholder of Shougang Grand. It is also deemed to be interested in the 135,721,936 shares held by Fair Union, the 148,537,939 shares held by Richson and the 2,395,304 shares held by Casula as it is the controlling shareholder of Shougang International.
- (5) Bekaert Holding is beneficially interested in the 250,000,000 shares.
- (6) By virtue of the SFO, Bekaert is deemed to be interested in the 250,000,000 shares held by Bekaert Holding, which is a wholly owned subsidiary of Bekaert.
- (7) By virtue of the SFO, Mr. Cao Zhong is deemed to be interested in 65,002,000 shares as he holds 65,002,000 underlying shares of the Company as attached share options granted to him by the Company. The details of his share options are set out under the heading "DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES, DEBENTURES OR UNDERLYING SHARES" hereabove.

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SUBSTANTIAL SHAREHOLDERS' INTERESTS IN CONTRACTS

Details of the contracts of significance between the Group, Shougang HK and its subsidiaries, Shougang International and its subsidiaries, and Bekaert and its subsidiaries, respectively are set out under the heading "CONNECTED TRANSACTIONS" and in note 42 to the financial statements.

CORPORATE GOVERNANCE

The Company is committed to practicing and achieving a high standard of corporate governance and the Board has approved and adopted a Shougang Concord Century Holdings Limited Code on Corporate Governance (the "SCCH Code") on terms no less exacting than those set out in the Code Provisions of the Code on Corporate Governance Practices – Appendix 14 of the Listing Rules save for certain deviations of Code Provisions. Further information on the Company's Corporate Governance Practices is set out in the Corporate Governance Report on pages 21 to 34 of this annual report.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES

Neither the Company, nor any of its subsidiaries has purchased, redeemed or sold any of the Company's listed securities during the year.

RELATED PARTY TRANSACTIONS

The Group entered into certain transactions with parties regarded as "Related Parties" under applicable accounting standard. These mainly relate to contracts entered into by the Group in the ordinary course of business which contracts were negotiated on normal commercial terms and on an arm's length basis. Further details are set out in note 42 to the financial statements.

Some of these transactions also constituted "Connected Transaction" under the Listing Rules, as identified below.



Report of the Directors

CONNECTED TRANSACTIONS

The Group has the following connected transactions required to be disclosed under the Listing Rules:

(a) Continuing Connected Transactions exempt from the Independent Shareholders' Approval Requirements

Hing Cheong Metals (China & Hong Kong) Limited ("Hing Cheong") and Meta International Limited ("Meta International"), both are engaged in processing and trading of copper and brass products, the wholly owned subsidiaries of the Company entered into between Santai Manufacturing Limited ("Santai"), a wholly owned subsidiary of Shougang Concord Technology Holdings Limited ("Shougang Technology") which is defined as connected person pursuant to the Listing Rules (prior to conducting certain corporate exercise by Shougang Technology as stated below) whereby Santai purchased, and Hing Cheong and Meta International sold, copper sheets and brass sheets (the "Transactions"). The Transactions constituted connected transactions of the Company and would extend over a period of time and would take place on continuing basis. The transactions were entered into under the ordinary course of business basis. The aggregate amount of the Transactions during the year was approximately HK\$1,915,000 which was fell within the proposed annual cap as disclosed in the published announcement of the Company dated 4 May 2004.

Following the allotment and issue of shares by Shougang Technology to other parties on 29 March 2006, Shougang Technology is not an associate of our substantial shareholder, Shougang HK under the Listing Rules and as a result, the Transactions will not constitute connected transactions of the Company under the Listing Rules thereafter.

(b) Tenancy Agreement

- i) A tenancy agreement dated 3 January 2006 whereby a portion of the 5th Floor, Bank of East Asia Harbour View Centre, 51-57 Gloucester Road, Wanchai, Hong Kong with an aggregate gross floor area of approximately 6,000 square feet was leased by Billioncorp Development Limited, an indirect wholly owned subsidiary of Shougang HK, a substantial shareholder of the Company, to a wholly owned subsidiary of the Company for a term of one year commencing from 1 January 2006 to 31 December 2006 at a monthly rental of HK\$108,000 (exclusive of rates and other charges payable to independent third parties not connected with Shougang HK or any of its subsidiaries or any of their respective directors, chief executives or substantial shareholders or any of their respective associates in respect of the use of the premises during the term).

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CONNECTED TRANSACTIONS (continued)

(b) Tenancy Agreement (continued)

- ii) A tenancy agreement dated 3 January 2006 whereby a premises known as Flat 1612, Block Q, Kornhill, Hong On Street, Quarry Bay, Hong Kong with gross floor area of approximately 756 square feet was leased by Linksky Limited, an indirect wholly owned subsidiary of Shougang Grand which is an associate of Shougang HK, a substantial shareholder of the Company, to a wholly owned subsidiary of the Company for a term of one year commencing from 1 January 2006 to 31 December 2006 at a monthly rental of HK\$10,800 (exclusive of rates and other charges payable to independent third parties not connected with Shougang HK or any of its subsidiaries or any of their respective directors, chief executives or substantial shareholders or any of their respective associates in respect of the use of the premises during the term).

- iii) A tenancy agreement dated 3 January 2006 whereby a premises known as Flat 1906A, Hongway Garden, 8 New Market Street, Sheung Wan, Hong Kong with gross floor area of approximately 508 square feet was leased by Shougang HK, a substantial shareholder of the Company, to a wholly owned subsidiary of the Company for a term of one year commencing from 1 January 2006 to 31 December 2006 at a monthly rental of HK\$8,000 (exclusive of rates and other charges payable to independent third parties not connected with Shougang HK or any of its subsidiaries or any of their respective directors, chief executives or substantial shareholders or any of their respective associates in respect of the use of the premises during the term).

The details of the above transactions are set out in the Company's announcement dated 3 January 2006.



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CONNECTED TRANSACTIONS (continued)

(c) Co-operation Agreements

Bekaert and Jiaying Eastern Steel Cord Co., Ltd. ("JESC"), both are engaged in the manufacturing or sale of steel cord in the PRC, and JESC is a wholly owned subsidiary of the Company. On 22 September 2006, Bekaert and JESC entered into two conditional contracts, including service contract and supply contract (the "Co-operation Agreements") pursuant to which Bekaert will provide certain planning and design services and supply certain materials for the manufacture of steel cord for a period of three years from the date of the completion of the Bekaert Subscription. After completion of the Bekaert Subscription on 15 December 2006, Bekaert becomes a substantial shareholder of the Company and therefore a connected person of the Company under the Listing Rules. Accordingly, the services under the service contract provided and certain materials under the supply contract supplied by Bekaert to JESC, will constitute continuing connected transactions (the "Continuing Connected Transactions"). The Continuing Connected Transactions, which took place during the year, have been reviewed by the independent non-executive directors of the Company who have confirmed that the Continuing Connected Transactions have been entered into:

- i) in the ordinary and usual course of business of the Group;
- ii) on normal commercial terms, on terms no less favourable to the Group than terms available to or from independent third parties;
- iii) in accordance with the Co-operation Agreements and relevant agreements governing them on terms that are fair and reasonable and in the best interest of the Company and its shareholders as a whole; and
- iv) the aggregate amount of the Continuing Connected Transactions was approximately HK\$835,101, of which zero service fee and sales fees of HK\$835,101. The said respective fee did not exceed the limit of annual service fee cap of HK\$295,000 and annual sales cap of HK\$998,165. Those caps were approved by the shareholders of the Company at the extraordinary general meeting on 6 November 2006.

Pursuant to Rule 14A.38 of the Listing Rules, the Board engaged the auditors of the Company to perform certain agreed upon procedures in respect of the Continuing Connected Transactions of the Group. The auditors have reported their factual findings on these procedures to the Board. The independent non-executive directors have reviewed the Continuing Connected Transactions and the report of the auditors and have confirmed that the transactions have been entered into by the Company in the ordinary course of its business, on normal commercial terms, on terms no less favourable to the Group than terms available to or from independent third parties, and in accordance with the terms of the agreement governing such transactions that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

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CONNECTED TRANSACTIONS (continued)

(d) Subsequent to the balance sheet date, the following transactions also constituted continuing connected transactions of the Group:

- i) A tenancy agreement dated 3 January 2007 whereby a premises known as Flat 1906A, Hongway Garden, 8 New Market Street, Sheung Wan, Hong Kong with gross floor area of approximately 508 square feet was leased by Shougang HK, a substantial shareholder of the Company, to a wholly owned subsidiary of the Company for a term of three years commencing from 1 January 2007 to 31 December 2009 at a monthly rental of HK\$8,000 (exclusive of rates, management fees and other charges payable to independent third parties not connected with Shougang HK or any of its subsidiaries or any of their respective directors, chief executives or substantial shareholders or any of their respective associates in respect of the use of the premises during the term).
- ii) A tenancy agreement dated 3 January 2007 whereby a premises known as Flat 1612, Block Q, Kornhill, Hong On Street, Quarry Bay, Hong Kong with gross floor area of approximately 756 square feet was leased by Linksky Limited, an indirect wholly owned subsidiary of Shougang Grand which is an associate of Shougang HK, a substantial shareholder of the Company, to a wholly owned subsidiary of the Company for a term of three years commencing from 1 January 2007 to 31 December 2009 at a monthly rental of HK\$11,800 (exclusive of rates, management fees and other charges payable to independent third parties not connected with Shougang HK or any of its subsidiaries or any of their respective directors, chief executives or substantial shareholders or any of their respective associates in respect of the use of the premises during the term).
- iii) A tenancy agreement dated 3 January 2007 whereby a portion of the 5th Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong with an aggregate gross floor area of approximately 6,000 square feet was leased by Billioncorp Development Limited, an indirect wholly owned subsidiary of Shougang HK, a substantial shareholder of the Company, to a wholly owned subsidiary of the Company for a term of three years commencing from 1 January 2007 to 31 December 2009 at a monthly rental of HK\$126,000 (exclusive of rates, management fees and other charges payable to independent third parties not connected with Shougang HK or any of its subsidiaries or any of their respective directors, chief executives or substantial shareholders or any of their respective associates in respect of the use of the premises during the term).

The respective maximum aggregate annual values of the said continuing connected transactions for the year ended 31 December 2007 to 2009 is HK\$1,749,600, the details of the above transactions are set out in the Company's announcement dated 4 January 2007.



Report of the Directors

EMOLUMENT POLICY

The emolument policy regarding the employees of the Group is based on their merit, qualifications and competence as well as the prevailing market condition of the industry. The emoluments of the directors of the Company are decided by the Remuneration Committee, having regard to individual performance, the Company's performance and profitability, remuneration benchmark in the industry and prevailing market condition.

In addition, the Company has adopted a share option scheme as an incentive to directors and eligible participants, details of the scheme are set out in note 41 to the financial statements and the heading "DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES, DEBENTURES OR UNDERLYING SHARES" hereabove.

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the directors of the Company, the Company has maintained sufficient public float as required under the Listing Rules during the year and as at the latest practicable date, 16 April 2007 prior to the issue of the annual report.

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers accounted for approximately 47% (2005: 60%) of the total sales for the year and sales to the largest customer included therein amounted to approximately 14% (2005: 23%).

Purchases from the Group's five largest suppliers accounted for approximately 40% (2005: 40%) of the total purchases for the year and purchases from the largest supplier included therein amounted to approximately 12% (2005: 17%).

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

AUDITORS

Messrs. Deloitte Touche Tohmatsu will retire and a resolution for their re-appointment as auditors of the Company will be proposed at the forthcoming annual general meeting.

By Order of the Board

Cao Zhong
Chairman

Hong Kong, 19 April 2007