Notes to the Financial Statements

For the Year Ended 31 December 2006

1. GENERAL

The Company is a public limited company incorporated in Hong Kong. The shares of the Company are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The addresses of the registered office and principal place of business of the Company are disclosed in the "Corporate Information" section of the annual report.

The functional currency of the Company is Renminbi. For the convenience of the financial statements users because the Company is listed in Hong Kong, the results and financial position of the Group are expressed in Hong Kong dollar, the presentation currency for the consolidated financial statements.

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

2. APPLICATION OF NEW HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")/CHANGES IN ACCOUNTING POLICIES

In the current year, the Group and the Company have applied, for the first time, a number of new standard, amendments and interpretations (the "new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants, which are either effective for accounting periods beginning on or after 1 December 2005 or 1 January 2006. The adoption of the new HKFRSs had no material effect on how the results and financial position for the current or prior accounting periods have been prepared and presented. Accordingly, no prior period adjustment has been required.

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

2. APPLICATION OF NEW HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")/CHANGES IN ACCOUNTING POLICIES (continued)

[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

3. SIGNIFICANT ACCOUNTING POLICIES

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

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and by the Companies Ordinance.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and 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 into line with those used by other members of the Group.

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

Notes to the Financial Statements

For the Year Ended 31 December 2006

3. 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 acquisition 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, 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.

Goodwill arising on acquisition on or after 1 January 2005

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Goodwill (continued)

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

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

Investments in subsidiaries

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

Interests in jointly controlled entities

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

The results and assets and liabilities of jointly controlled entities are incorporated in the consolidated financial statements using the equity method of accounting. Under the equity method, investments in jointly controlled entities are carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group's share of the profit or loss and of changes in equity of the jointly controlled entities, less any identified impairment loss. When the Group's share of losses of a jointly controlled entity equals or exceeds its interest in that jointly controlled entity (which includes any long-term interests that, in substance, form part of the Group's net investment in the jointly controlled entity), 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 jointly controlled entity.

Notes to the Financial Statements

For the Year Ended 31 December 2006

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Interests in jointly controlled entities (continued)

When a group entity transacts with a jointly controlled entity of the Group, unrealised profits or losses are eliminated to the extent of the Group's interest in the jointly controlled entity, except to the extent that unrealised losses provide evidence of an impairment of the asset transferred, in which case, the full amount of losses is recognised.

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 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.

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.

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 property are included in profit or loss for the period in which they arise.

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

Property, plant and equipment

Property, plant and equipment are stated at cost or fair value less subsequent accumulated depreciation and accumulated impairment loss.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment (continued)

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

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

Construction in progress represents buildings and plant and machinery under construction, which is stated at cost less any recognised impairment losses, and is not depreciated. Cost comprises the direct costs of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Depreciation is provided to write off the cost or fair values 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 values, using the straight-line method, at the following rates per annum:

Leasehold land and buildings	Over the estimated useful life of 25 to 50 years
Leasehold improvements	18% – 20%
Plant and machinery	4% – 20%
Furniture, fixtures and equipment	9% – 20%
Motor vehicles	11% – 20%

Notes to the Financial Statements

For the Year Ended 31 December 2006

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment (continued)

An investment property is transferred to property, plant and equipment when it is evidenced by the commencement of owner-occupation. The fair value, at the date of transfer, which is the deemed cost of the property for subsequent accounting is in accordance with HKAS 16 *Property, Plant and Equipment*. The property interest held under an operating lease which was previously classified as investment property under the fair value model continues to be accounted for as a finance lease after the transfer.

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

Club memberships

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

Inventories

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

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 the tax rates that have been enacted or substantively enacted by the balance sheet date.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Taxation (continued)

Deferred tax is the tax expected to be payable or recoverable 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 profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

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

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

Revenue recognition

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

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

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

Notes to the Financial Statements

For the Year Ended 31 December 2006

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Non-current assets held for sale

Non-current assets are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset is available for immediate sale in its present condition.

Non-current assets classified as held for sale are measured at the lower of the asset's previous carrying amount and fair value less costs to sell.

Leasing

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

The Group as lessor

Rental income from operating leases is recognised in the 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

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.

Leasehold land and building

The land and building elements of a lease of land and building are considered separately for the purpose of lease classification, leasehold land which title is not expected to pass to the lessee by the end of the lease term is classified as an operating lease unless the lease payments cannot be allocated reliably between the land and building elements, in which case, the entire lease is classified as a finance lease.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in its functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated 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 retranslated.

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. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for differences arising on the retranslation 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.

Borrowing costs

All borrowing costs are recognised as and included in finance costs in the consolidated income statement in the period in which they are incurred.

Retirement benefits costs

Payments to state-managed retirement benefits schemes and the Mandatory Provident Fund Scheme are charged as an expense when employees have rendered services entitled them to the contribution.

Notes to the Financial Statements

For the Year Ended 31 December 2006

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments

Financial assets and financial liabilities are recognised on the balance sheet when a group entity becomes a party to the contractual provisions of the instruments. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (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.

Financial assets

The Group's financial assets are classified into available-for-sale financial assets and loans and receivables and the accounting policies adopted in respect of each category of financial assets are set out below. The Company's financial assets are loans and receivables.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated or not classified as financial assets at fair value through profit or loss, loans and receivables or held-to-maturity investments.

For available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured, they are measured at cost less any identified impairment losses at each balance sheet date subsequent to initial recognition. An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired. The amount of the impairment loss is measured as the difference between the carrying amount of the asset and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses will not reverse in subsequent periods.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

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 advances to subsidiaries, trade and bills receivables and other receivables, amount due from a related company, pledged bank deposits and bank balances 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.

Financial liabilities and equity

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

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

Financial liabilities

Financial liabilities including trade payables, other payables and accruals, bank borrowings, amount due to a related company and amounts due to subsidiaries, are subsequently measured at amortised cost, using the effective interest method.

Equity instruments

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Derivative financial instruments

Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at each balance sheet date. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

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

Derecognition

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

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

Equity-settled share-based payment transactions

Share options granted to employees

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 options reserve).

At each balance sheet date, the Group revises its estimates of the number of options that are expected to ultimately vest. The impact of the revision of the 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 options reserve will be transferred to share premium. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share options reserve will be transferred to retained profits.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Equity settled share-based payment transactions (continued)

Share options granted to employees (continued)

In relation to share options granted before 1 January 2005, the Group chooses not to apply HKFRS 2 *Share-based Payments* with respect to share options granted after 7 November 2002 and vested before 1 January 2005, no amount has been recognised in the consolidated financial statements in respect of these equity-settled shared-based payments.

Impairment losses (other than goodwill)

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

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

4. FINANCIAL INSTRUMENTS

a. Financial risk management objectives and policies

The Group's major financial instruments include bank borrowings, trade receivables, bills receivable, other receivables, trade payables, other payables and bank balances. 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.

Notes to the Financial Statements

For the Year Ended 31 December 2006

4. FINANCIAL INSTRUMENTS (continued)

a. Financial risk management objectives and policies (continued)

Market risk

Fair value interest rate risk

The Group's fair value interest rate risk relates to fixed-rate bank deposits (see note 28 for details) and fixed-rate borrowings (see note 32 for details of these borrowings). The management will consider hedging significant fair value interest rate exposure should the need arise.

Cash flow interest rate risk

The Group's cash flow interest rate risk primarily relates to variable-rate bank balances and bank borrowings. It is the Group's policy to minimise its exposures to cash flow interest rate risk for borrowings by hedging should the need arise. As at 31 December 2006, the Group entered into some interest rate swaps to partially hedge its cash flow interest rate risk (see note 34 for details).

Credit risk

As at 31 December 2006, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties and financial guarantees issued by the Group and the Company arising from:

- the carrying amount of the respective recognised financial assets as stated in the consolidated balance sheet; and

- the amount of contingent liabilities disclosed in note 39.

As at 31 December 2006, the Company's maximum exposure to credit risk which will cause a financial loss to the Company due to failure to discharge an obligation by the counterparties and financial guarantees issued by the Company arising from:

- the carrying amount of the respective recognised financial assets as stated in the Company's balance sheet; and

- the amount of contingent liabilities disclosed in note 39.

4. FINANCIAL INSTRUMENTS (continued)

a. Financial risk management objectives and policies (continued)

Credit risk (continued)

In order to minimise the credit risk, the management of the Group and the Company have 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 and the Company review the recoverable amount of each individual 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.

The credit risk of liquid funds and derivative financial instruments is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies.

The Group's concentration of credit risk by geographical locations is mainly the People's Republic of China (the "PRC") which accounted for 59% of the revenue for the year ended 31 December 2006.

The Company's concentration of credit risk is on advances to subsidiaries.

Liquidity risk

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. The management monitors the utilisation of bank borrowings and ensures compliance with loan covenants.

The Group relies on bank borrowings as a significant source of liquidity. As at 31 December 2006, the Group have available undrawn borrowing facilities of approximately HK$297,018,000 (2005: HK$307,908,000).

Notes to the Financial Statements

For the Year Ended 31 December 2006

4. FINANCIAL INSTRUMENTS (continued)

b. Fair value

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

- 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 or using prices from observable current market transactions; and

- the fair values of derivative instruments are quoted by financial institution which was determined with reference to estimated cash flows with appropriate yield curve for equivalent instruments at balance sheet date.

The directors consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the financial statements approximate their fair values.

5. REVENUE

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

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

	2006	2005
	HK$'000	HK$'000
Sales of goods		
Manufacturing of steel cords	**393,726**	411,865
Processing and trading of copper and brass products	**283,695**	164,620
Others (trading of metal and metal ore)	**679**	15,849
	678,100	592,334
Rental income	**823**	555
	678,923	592,889

6. BUSINESS AND GEOGRAPHICAL SEGMENTS

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

(a) Business segments

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

(i) the steel cord segment comprises the manufacturing of steel cords; and

(ii) the copper and brass products segment comprises the processing and trading of copper and brass products.

Other operation mainly comprises property investment and trading of metal and metal ore.

Notes to the Financial Statements

For the Year Ended 31 December 2006

6. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

(a) Business segments (continued)

Segment information about these businesses is presented below:

For the year ended 31 December 2006

	Steel cord HK$'000	Copper and brass products HK$'000	Others HK$'000	Consolidated HK$'000
Segment revenue				
External sales	393,726	283,695	1,502	678,923
Result				
Segment result	65,668	39,823	3,306	108,797
Unallocated income				3,368
Unallocated expenses				(23,317)
Dilution loss on share reform of an associate				(6,858)
Finance costs				(18,904)
Share of result of a jointly controlled entity				10,245
Share of result of an associate				9,952
Profit before taxation				83,283
Income tax expenses				(7,252)
Profit for the year				76,031

6. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

(a) Business segments (continued)

For the year ended 31 December 2006 (continued)

	Steel cord HK$'000	Copper and brass products HK$'000	Others HK$'000	Consolidated HK$'000
OTHER INFORMATION				
Capital expenditure	9,072	219	416	9,707
Depreciation	38,302	1,094	696	40,092
Allowance for bad and doubtful debts	1,223	601	–	1,824
Allowance for inventories	–	267	–	267
Loss on disposal of property, plant and equipment	70	5	92	167
Gain on disposal of property held for sale	–	–	339	339

At 31 December 2006

	Steel cord HK$'000	Copper and brass products HK$'000	Others HK$'000	Consolidated HK$'000
BALANCE SHEET				
Assets				
Segment assets	1,013,438	123,738	30,689	1,167,865
Interests in a jointly controlled entity				54,452
Interests in an associate				49,148
Goodwill	41,672	–	–	41,672
Unallocated corporate assets				71,946
Consolidated total assets				1,385,083
Liabilities				
Segment liabilities	14,960	7,003	778	22,741
Unallocated corporate liabilities				404,988
Consolidated total liabilities				427,729

Notes to the Financial Statements

For the Year Ended 31 December 2006

6. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

(a) Business segments (continued)

For the year ended 31 December 2005 (restated)

	Steel cord HK$'000	Copper and brass products HK$'000	Others HK$'000	Consolidated HK$'000
Segment revenue				
External sales	411,865	164,620	16,404	592,889
Result				
Segment result	77,743	7,665	3,146	88,554
Unallocated income				296
Unallocated expenses				(20,078)
Finance costs				(14,468)
Share of result of a jointly controlled entity				9,133
Share of result of an associate				4,781
Profit before taxation				68,218
Income tax expenses				(5,990)
Profit for the year				62,228

6. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

(a) Business segments (continued)

For the year ended 31 December 2005 (continued)

	Steel cord HK$'000	Copper and brass products HK$'000	Others HK$'000	Consolidated HK$'000
OTHER INFORMATION				
Capital expenditure	7,138	66	1,251	8,455
Depreciation	36,948	1,153	693	38,794
(Recovery of) allowance for bad and doubtful debts	(2,042)	103	–	(1,939)
Loss on disposal of property, plant and equipment	297	1	1	299

	Steel cord HK$'000	Copper and brass products HK$'000	Others HK$'000	Consolidated HK$'000
At 31 December 2005 (restated)				
BALANCE SHEET				
Assets				
Segment assets	688,292	80,174	16,550	785,016
Interests in a jointly controlled entity				49,025
Interests in an associate				48,234
Goodwill	41,672	–	–	41,672
Unallocated corporate assets				43,268
Consolidated total assets				967,215
Liabilities				
Segment liabilities	10,945	7,949	2,206	21,100
Unallocated corporate liabilities				252,362
Consolidated total liabilities				273,462

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For the Year Ended 31 December 2006

6. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

(b) Geographical segments

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

	Hong Kong		Other regions in the PRC		Others		Consolidated	
	2006	2005	**2006**	2005	**2006**	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Segment revenue:								
Sales to external customers	**261,924**	67,203	**400,489**	521,178	**15,687**	3,953	**678,100**	592,334
Gross rental income	**455**	450	**368**	105	**–**	–	**823**	555
	262,379	67,653	**400,857**	521,283	**15,687**	3,953	**678,923**	592,889
Other segment information:								
Segment assets	**123,105**	65,631	**1,044,760**	719,385	**–**	–	**1,167,865**	785,016
Interests in a jointly controlled entity	**–**	–	**54,452**	49,025	**–**	–	**54,452**	49,025
Interests in an associate	**–**	–	**49,148**	48,234	**–**	–	**49,148**	48,234
Capital expenditure	**131**	1,189	**9,576**	7,266	**–**	–	**9,707**	8,455

7. DILUTION LOSS ON SHARE REFORM OF AN ASSOCIATE

The completion of the share reform plan for the conversion of the non-freely transferable shares of Xinhua Metal Products Co., Ltd. ("Xinhua Metal"), an associate of the Group, into shares freely transferable on the Shanghai Stock Exchange (the "Share Reform Plan") took place during the year. Under the Share Reform Plan, the non-freely transferable shareholders of Xinhua Metal, including a wholly-owned subsidiary of the Company, would offer holders of freely transferable share of Xinhua Metal 3.3 non-freely transferable shares for every 10 freely transferable shares held by such holders, in exchange for the consent by the holders of freely transferable share of Xinhua Metal to the conversion of all non-freely transferable shares into freely transferable shares of Xinhua Metal. Followed by the completion of the Share Reform Plan, the Group's equity interest in Xinhua Metal was diluted from approximately 16.75% to 14.49%. A loss on share reform of approximately HK$6,858,000 was recognised during the year.

8. FINANCE COSTS

	THE GROUP	
	2006	2005
	HK$'000	HK$'000
Interest on bank and other borrowings wholly repayable within five years	**17,849**	13,682
Amortisation of borrowing costs	**1,055**	780
Interest on finance leases	**–**	6
Total borrowing costs	**18,904**	14,468

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For the Year Ended 31 December 2006

9. PROFIT BEFORE TAXATION

	THE GROUP	
	2006	2005
	HK$'000	HK$'000
Profit before taxation has been arrived at after charging (crediting):		
Cost of inventories recognised as an expense	**553,269**	497,034
Staff costs, including directors' remuneration *(note 11)*:		
– Salaries, wages and other benefits	**36,512**	34,075
– Retirement benefit scheme contributions	**1,941**	1,652
Total staff costs	**38,453**	35,727
Allowance for inventories	**267**	–
Depreciation	**40,092**	38,794
Auditors' remuneration	**630**	530
Amortisation of prepaid lease payments (included in "Cost of sales")	**432**	421
Foreign exchange gains, net	**(3,710)**	(4,575)
Loss on disposal of property, plant and equipment	**167**	299
Gain on disposal of property held for sale	**(339)**	–
Increase in fair value of investment properties	**(2,810)**	(2,695)
Surplus on revaluation of leasehold land and buildings, net	**(140)**	(337)
Gross rental income	**(823)**	(555)
Less: direct operating expenses for investment property that generates rental income	**85**	72
Net rental income	**(738)**	(483)
Interest income	**(2,018)**	(275)
Share of tax of a jointly controlled entity (included in "Share of result of a jointly controlled entity")	**1,913**	1,700
Share of tax of an associate (included in "Share of result of an associate")	**1,901**	1,563

10. INCOME TAX EXPENSES

	THE GROUP	
	2006	2005
	HK$'000	HK$'000
Current tax:		
Hong Kong	**1,773**	–
Other regions in the PRC	**5,216**	5,114
	6,989	5,114
Underprovision in prior years:		
Hong Kong	**1**	–
Other regions in the PRC	**29**	–
	30	–
Deferred taxation *(note 33)*:		
Current year	**233**	876
Taxation attributable to the Company and its subsidiaries	**7,252**	5,990

Hong Kong Profits Tax is calculated at 17.5% of the estimated assessable profit for the year. The charge for the year to Hong Kong Profits Tax has been relieved by approximately HK$2,901,000 as a result of tax losses brought forward from previous years.

No tax is payable on the profit for the year ended 31 December 2005 arising in Hong Kong since the assessable profit was wholly absorbed by tax losses brought forward.

Pursuant to the relevant laws and regulations in the PRC, operations of the Group in Zhejiang and Shanghai in the PRC have qualified for tax concessions in the form of reduced income tax rate to 15%. Besides, a subsidiary of the Group operating in the PRC is exempted from PRC income tax for two years starting from its first profit-making year, followed by a 50% reduction of PRC income tax for the next three years, which was expired in the year ended 31 December 2005. Accordingly, the PRC income tax has been provided taking into account of these tax concessions.

Notes to the Financial Statements

For the Year Ended 31 December 2006

10. INCOME TAX EXPENSES (continued)

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

	2006		2005	
	HK$'000	**%**	HK$'000	%
Profit before taxation	**83,283**		68,218	
Tax at the applicable PRC income tax rate of 15% (2005: 15%) *(Note 1)*	**12,492**	**15.00**	10,233	15.00
Tax effect of expenses not deductible in determining taxable profit	**1,771**	**2.13**	1,665	2.44
Tax effect of income not taxable in determining taxable profit	**(472)**	**(0.57)**	(159)	(0.23)
Tax effect of tax losses not recognised	**3,213**	**3.86**	2,145	3.14
Tax effect of recognition of deferred tax assets previously not recognised	**–**	**–**	(33)	(0.05)
Tax effect on utilisation of tax losses previously not recognised	**(2,295)**	**(2.76)**	(977)	(1.43)
Tax effect on deferred tax assets not recognised	**57**	**0.07**	–	–
Tax credit on qualified plant and machineries acquired *(Note 2)*	**(3,664)**	**(4.40)**	–	–
Tax effect on share of result of a jointly controlled entity	**(1,537)**	**(1.85)**	(1,370)	(2.01)
Tax effect on share of result of an associate	**(1,492)**	**(1.79)**	(717)	(1.05)
Effect of tax exemptions and concessions granted to subsidiaries	**(1,166)**	**(1.40)**	(4,915)	(7.20)
Effect of different tax rates in other jurisdictions	**285**	**0.34**	44	0.06
Underprovision in respect of prior year	**30**	**0.04**	–	–
Others	**30**	**0.04**	74	0.11
Tax expense for the year	**7,252**	**8.71**	5,990	8.78

Note:

1. The tax rate in the jurisdiction where the operation of the Group is substantially based is used.

2. Pursuant to approval from documents numbers 2004 No. 360, 362 and 515, 2005 No. 461 and 2006 No. 227 issued by the Jiaxing State Tax Bureau, a subsidiary of the Company can enjoy the tax credit of approximately RMB7,777,000 against its enterprise income tax for purchasing the plant and machineries. The Company recognised approximately RMB3,687,000 (2005: Nil), equivalent to HK$3,664,000 (2005: Nil), during the year ended 31 December 2006.

In addition to the amount charged to the income statement, deferred tax relating to the revaluation of the Group's leasehold land and buildings has been charged directly to equity (see note 33).

11. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

(a) Directors' emoluments

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

For the year ended 31 December 2006

	Cao Zhong HK$'000	Li Shaofeng HK$'000	Tong Yihui HK$'000	Leung Shun Sang, Tony HK$'000	Tang Cornor Kwok Kau HK$'000	Geert Johan Roelens HK$'000	Yip Kin Man, Raymond HK$'000	Law, Yui Lun HK$'000	Chu, Kwok Tsu Gilbert HK$'000	Total HK$'000
Fees	–	–	–	120	–	5	150	150	150	575
Other emoluments										
Salaries and other benefits	–	2,080	1,786	–	1,690	–	–	–	–	5,556
Retirement benefit scheme contributions	–	124	97	–	97	–	–	–	–	318
Discretionary bonus *(Note)*	525	525	260	–	260	–	–	–	–	1,570
Total emoluments	525	2,729	2,143	120	2,047	5	150	150	150	8,019

For the year ended 31 December 2005

	Cao Zhong HK$'000	Li Shaofeng HK$'000	Tong Yihui HK$'000	Leung Shun Sang, Tony HK$'000	Tang Cornor Kwok Kau HK$'000	Yip Kin Man, Raymond HK$'000	Law, Yui Lun HK$'000	Chu, Kwok Tsu Gilbert HK$'000	Chen Siu Min, Kelvin HK$'000	Hui, Hung Stephen HK$'000	Total HK$'000
Fees	–	–	–	–	–	125	75	25	63	100	388
Other emoluments											
Salaries and other benefits	–	1,950	1,560	–	1,690	–	–	–	–	–	5,200
Retirement benefit scheme contributions	–	120	88	–	98	–	–	–	–	–	306
Discretionary bonus *(Note)*	500	450	195	–	275	–	–	–	–	–	1,420
Total emoluments	500	2,520	1,843	–	2,063	125	75	25	63	100	7,314

Note: The discretionary bonus is determined having regard to individual performance, the Group's performance and profitability, remuneration benchmark in the industry and prevailing market condition.

No director waived any emoluments in the years ended 31 December 2006 and 2005.

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For the Year Ended 31 December 2006

11. DIRECTORS' AND EMPLOYEES' EMOLUMENTS (continued)

(b) Employees' emoluments

The emoluments of the five highest paid individuals, excluding directors, for the year are as follows:

	2006 HK$'000	2005 HK$'000
Salaries and other benefits	**3,190**	2,921
Retirement benefit scheme contributions	**60**	60
Discretionary bonus	**614**	304
	3,864	3,285

Their emoluments were within the following bands:

	Number of employees	
	2006	2005
HK$Nil to HK$1,000,000	**4**	5
HK$1,000,001 to HK$1,500,000	**1**	–

12. DIVIDENDS

	2006 HK$'000	2005 HK$'000
No dividend was paid for the year ended 31 December 2006 while a final dividend of HK1.5 cents per share was paid for the year ended 31 December 2005	**–**	15,391

The final dividend of HK1.0 cent (2005: Nil) per share has been proposed by the directors and is subject to approval by the shareholders of the Company in the forthcoming annual general meeting.

13. EARNINGS PER SHARE

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

	THE GROUP	
	2006	2005
	HK$'000	HK$'000
Earnings		
Profit for the year for the purpose of calculation of basic and diluted earnings per share	**76,031**	62,228

	THE GROUP	
	2006	2005
Number of shares		
Weighted average number of ordinary shares for the purposes of basic earnings per share	**1,037,710,392**	1,026,066,556
Effect of dilutive potential ordinary shares: Share options	**58,949,314**	38,706,181
Weighted average number of ordinary shares for the purposes of diluted earnings per share	**1,096,659,706**	1,064,772,737

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For the Year Ended 31 December 2006

14. INVESTMENT PROPERTIES

	THE GROUP
	HK$'000
At 1 January 2005	8,966
Transfer to property, plant and equipment at fair value	(1,321)
Increase in fair value, net	2,695
At 1 January 2006	10,340
Transfer to property, plant and equipment at fair value	(930)
Increase in fair value	2,810
At 31 December 2006	12,220

The fair value of the Group's investment properties at 31 December 2006 has been arrived at on the basis of valuation carried out by Messrs. Vigers International Property Consultant ("Vigers International"), an independent professional valuer not connected with the Group. Vigers International is a member of Institute of Valuers and has appropriate qualifications and recent experiences in the valuation of similar properties in the relevant locations.

The valuation, which conforms to International Valuation Standards, was arrived at by reference to market evidence of transaction prices for similar properties.

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

	THE GROUP	
	2006	2005
	HK$'000	HK$'000
Long-term lease in Hong Kong	**8,650**	7,760
Medium-term lease in other regions in the PRC	**3,570**	2,580
	12,220	10,340

All investment properties are rented out under operating leases.

15. PROPERTY, PLANT AND EQUIPMENT

	Leasehold land and buildings HK$'000	Leasehold improvements HK$'000	Plant and machinery HK$'000	Furniture, fixtures and equipment HK$'000	Motor vehicles HK$'000	Construction in progress HK$'000	Total HK$'000
THE GROUP							
COST OR VALUATION							
At 1 January 2005	61,871	2,140	560,355	4,593	6,940	435	636,334
Exchange realignment	1,036	6	11,158	53	72	8	12,333
Additions	3	9	2,226	795	1,612	3,810	8,455
Reclassification	1,854	–	1,008	–	–	(2,862)	–
Transfer from investment properties	1,321	–	–	–	–	–	1,321
Transfer to asset held for sale	(2,700)	–	–	–	–	–	(2,700)
Disposals	–	–	(710)	(19)	–	–	(729)
Surplus on revaluation, net	(2,206)	–	–	–	–	–	(2,206)
At 31 December 2005 and 1 January 2006	61,179	2,155	574,037	5,422	8,624	1,391	652,808
Exchange realignment	1,867	10	20,375	117	148	50	22,567
Additions	–	72	606	276	542	8,211	9,707
Reclassification	–	–	6,242	–	–	(6,242)	–
Transfer from investment properties	930	–	–	–	–	–	930
Disposals	–	(141)	(32)	(530)	(323)	–	(1,026)
Surplus on revaluation, net	284	–	–	–	–	–	284
At 31 December 2006	64,260	2,096	601,228	5,285	8,991	3,410	685,270
Comprising:							
At cost	–	2,096	601,228	5,285	8,991	3,410	621,010
At valuation	64,260	–	–	–	–	–	64,260
	64,260	2,096	601,228	5,285	8,991	3,410	685,270

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For the Year Ended 31 December 2006

15. PROPERTY, PLANT AND EQUIPMENT (continued)

	Leasehold land and buildings HK$'000	Leasehold improvements HK$'000	Plant and machinery HK$'000	Furniture, fixtures and equipment HK$'000	Motor vehicles HK$'000	Construction in progress HK$'000	Total HK$'000
ACCUMULATED DEPRECIATION							
At 1 January 2005	–	1,083	147,384	2,690	4,964	–	156,121
Exchange realignment	34	1	3,276	34	46	–	3,391
Provided for the year	3,200	236	34,166	527	665	–	38,794
Eliminated on disposals	–	–	(333)	(16)	–	–	(349)
Eliminated on revaluation	(3,171)	–	–	–	–	–	(3,171)
Transfer to asset held for sale	(63)	–	–	–	–	–	(63)
At 31 December 2005 and 1 January 2006	–	1,320	184,493	3,235	5,675	–	194,723
Exchange realignment	68	4	7,199	73	98	–	7,442
Provided for the year	3,416	219	35,088	637	732	–	40,092
Eliminated on disposals	–	(63)	(19)	(478)	(237)	–	(797)
Eliminated on revaluation	(3,484)	–	–	–	–	–	(3,484)
At 31 December 2006	–	1,480	226,761	3,467	6,268	–	237,976
NET BOOK VALUE							
At 31 December 2006	64,260	616	374,467	1,818	2,723	3,410	447,294
At 31 December 2005	61,179	835	389,544	2,187	2,949	1,391	458,085

15. PROPERTY, PLANT AND EQUIPMENT (continued)

	THE GROUP	
	2006	2005
	HK$'000	HK$'000
The carrying amount of leasehold land and buildings comprises:		
Land in Hong Kong:		
Long-term leases	**1,180**	–
Medium-term leases	**5,700**	5,699
Land in other regions in the PRC:		
Long-term lease	**2,450**	1,960
Medium-term lease	**54,930**	53,520
	64,260	61,179

All leasehold land and buildings of the Group were valued at 31 December 2006 by Vigers International on an open market value basis. Vigers International is not connected with the Group.

If the leasehold land and buildings had not been revalued, they would have been included in these financial statements at historical cost less accumulated depreciation of approximately HK$63,007,000 (2005: HK$64,736,000).

16. PREPAID LEASE PAYMENTS

	THE GROUP	
	2006	2005
	HK$'000	HK$'000
The Group's prepaid lease payments comprise:		
Medium-term prepaid lease payments located in the PRC	**7,930**	8,084
Analysed for reporting purposes as:		
Current asset	**441**	426
Non-current asset	**7,489**	7,658
	7,930	8,084

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For the Year Ended 31 December 2006

17. INVESTMENT IN SUBSIDIARIES/ADVANCES TO SUBSIDIARIES

	THE COMPANY	
	2006	2005
	HK$'000	HK$'000
Unlisted shares, at cost	**15,182**	15,182
Capital contributions	**350,467**	176,085
	365,649	191,267
Advances to subsidiaries	**415,593**	330,918

Capital contributions represent imputed interest on interest-free advances to subsidiaries.

Except for the balances with a subsidiary of HK$15,372,000 (2005: HK$15,372,000) which bears interest at the London Interbank Offered Rate ("LIBOR") plus 3% (2005: LIBOR plus 3%) per annum and with a subsidiary of HK$9,587,000 (2005: HK$9,587,000) which bears interest at Hong Kong Dollar Prime Rate (2005: 2%) per annum, the remaining balances are interest free. In the opinion of the directors, the Company will not demand repayment within one year from the balance sheet date and are therefore considered as non-current. Such interest-free loans are measured at amortised cost determined using the effective interest method at subsequent balance sheet dates. As at 31 December 2006, the effective interest rate used was 7.75% (2005: 7.75%), being the prevailing market borrowing rate of interest for a similar instrument.

Details of the Company's principal subsidiaries at 31 December 2006 are set out in note 43.

Notes to the Financial Statements

For the Year Ended 31 December 2006

18. INTERESTS IN A JOINTLY CONTROLLED ENTITY

	THE GROUP	
	2006	2005
	HK$'000	HK$'000
Cost of investment in a jointly controlled entity	**19,500**	19,500
Share of post-acquisition profits and reserves, net of dividend received	**34,952**	29,525
	54,452	49,025

The summarised financial information in respect of the Group's jointly controlled entity which is accounted for using the equity method is set out below:

	THE GROUP	
	2006	2005
	HK$'000	HK$'000
Current assets	**71,070**	63,953
Non-current assets	**19,860**	20,501
Current liabilities	**(36,478)**	(35,429)
Income	**114,712**	117,995
Expenses	**(104,467)**	(108,862)

Particulars of the Group's jointly controlled entity is set out in note 44.

Notes to the Financial Statements

For the Year Ended 31 December 2006

19. INTERESTS IN AN ASSOCIATE

	THE GROUP	
	2006	2005
	HK$'000	HK$'000
Cost of investment	**5,282**	5,282
Share of post-acquisition profits and reserves, net of dividend received	**43,866**	42,952
	49,148	48,234
Fair value of listed investments	**112,875**	N/A

The cost of investment represents the Group's 14.49% (2005: 16.75%) interest in Xinhua Metal, a company listed on the Shanghai Stock Exchange. During the year, Xinhua Metal implemented a share reform plan, details of which are outlined in note 7.

Under the Share Reform Plan, the shares of Xinhua Metal held by the Group will be subject to a lock-up period of 12 months ("Lock-up Period") upon such shares becoming freely transferable shares. The Group undertakes not to sell the number of shares in Xinhua Metal in exceed of (i) 5% of its entire issued share capital for 12 months; and (ii) 10% of its entire issued share capital for 24 months, after the Lock-up Period. Following the 24 months after the Lock-Up period, the Group will be able to dispose its shareholding in Xinhua Metal free from any restriction.

The fair value of the listed investments is based on the price quoted on the Shanghai Stock Exchange.

19. INTERESTS IN AN ASSOCIATE (continued)

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

	THE GROUP	
	2006	2005
	HK$'000	HK$'000
Total assets	**653,289**	606,307
Total liabilities	**(314,104)**	(318,343)
Net assets	**339,185**	287,964
Group's share of net assets of an associate	**49,148**	48,234
Revenue	**980,112**	785,576
Profit for the year	**63,905**	28,542
Group's share of result of an associate for the year	**9,952**	4,781

Particulars of the Group's associate is set out in note 45.

20. GOODWILL

The carrying amount of goodwill at the balance sheet date is approximately HK$41,672,000 (2005: HK$41,672,000).

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

21. IMPAIRMENT TESTING ON GOODWILL

As explained in note 6, 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 have been allocated to a subsidiary in steel cord segment, Jiaxing Eastern Steel Cord Co., Ltd..

During the year ended 31 December 2006, management of the Group determines that there are no impairments of any of its cash-generating units ("CGU") containing goodwill.

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For the Year Ended 31 December 2006

21. IMPAIRMENT TESTING ON GOODWILL (continued)

The recoverable amount of the above CGU have been determined on the basis of value in use calculations. The recoverable amounts are based on certain key assumptions. The value in use calculations use cash flow projections based on financial budgets approved by management covering a 5-year period, and a discount rate of 7.6%. The cashflow of the CGU beyond the 5-year period is extrapolated for further thirteen years using zero growth rate. Cash flow projections during the budget period for the CGU are based on the expected gross revenue and gross margins during the budget period. Budgeted gross revenue and gross margins have been determined based on past performance and management's expectations for the market development. Management believes that any reasonably possible change in any of these assumptions would not cause the carrying amount of the above CGU inclusive of goodwill to exceed the recoverable amount of the above CGU.

22. CLUB MEMBERSHIPS

	THE GROUP		THE COMPANY	
	2006	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000
Club memberships, at cost	**2,010**	2,010	**820**	820
Less: Impairment losses	**(1,335)**	(1,335)	**(505)**	(505)
	675	675	**315**	315

23. AVAILABLE-FOR-SALE INVESTMENT

	THE GROUP	
	2006	2005
	HK$'000	HK$'000
Unlisted equity investment, at cost	**1,123**	1,123
Less: Impairment losses	**(1,123)**	(1,123)
	–	–

The above unlisted investment represents investment in unlisted equity securities issued by a private entity incorporated in the PRC which were fully impaired in prior years.

Notes to the Financial Statements

For the Year Ended 31 December 2006

24. INVENTORIES

	THE GROUP	
	2006	2005
	HK$'000	HK$'000
Raw materials	**34,599**	36,340
Work in progress	**11,656**	10,620
Finished goods	**41,576**	37,200
	87,831	84,160

25. TRADE RECEIVABLES/BILLS RECEIVABLE

	THE GROUP	
	2006	2005
	HK$'000	HK$'000
Trade receivables	**183,302**	143,528
Less: accumulated impairment	**(5,306)**	(3,356)
	177,996	140,172
Bill receivables	**186,272**	71,448
	364,268	211,620

Included in bills receivable, HK$44,272,000 (2005: Nil) was discounted to banks.

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

Notes to the Financial Statements

For the Year Ended 31 December 2006

25. TRADE RECEIVABLES/BILLS RECEIVABLE (continued)

An aged analysis of trade and bills receivable as at the balance sheet date is as follows:

	THE GROUP	
	2006	2005
	HK$'000	HK$'000
0 – 90 days	**249,344**	181,710
91 – 180 days	**106,378**	29,910
Over 180 days	**8,546**	–
	364,268	211,620

26. AMOUNT DUE FROM (TO) A RELATED COMPANY

The amount due from Shougang Concord Technology Holdings Limited ("Shougang TECH") and its subsidiaries (collectively "Shougang TECH Group") is trading nature, unsecured, non-interest bearing and repayable on demand. The aging as at the balance sheet date is within 180 days.

The amount due to Shougang Holding (Hong Kong) Limited ("Shougang HK") is unsecured, non-interest bearing and repayable on demand.

Shougang HK is a substantial shareholder of both Shougang TECH and the Company.

27. PLEDGE OF ASSETS

At the balance sheet date, the following assets were pledged to secure certain bank borrowings as set out in note 32.

(i) the Group's investment properties amounting to HK$3,570,000 (2005: HK$2,580,000) and certain of the leasehold land and buildings with an aggregate net book value of HK$43,934,000 (2005: HK$42,486,000);

(ii) the Group's prepaid lease payments with a net book value of HK$7,280,000 (2005: HK$8,084,000);

(iii) the Group's bills receivable amounting to HK$44,272,000 (2005: Nil);

(iv) the bank deposits of the Group and the Company amounting to HK$3,000,000 (2005: HK$3,000,000); and

(v) the Company's shares in certain subsidiaries.

As at 31 December 2005, the Group's plant and equipment with an aggregate net book values of approximately HK$136,956,000 were pledged. No plant and equipment were pledged at 31 December 2006.

28. PLEDGED BANK DEPOSITS/BANK BALANCES AND CASH

The Group

Bank balances carry interest at market rates which range from 0.5% to 3.7% per annum. The pledged bank deposits, which pledged to banks to secure short-term banking facilities granted to the Group therefore classified as current, carried fixed interest rate which range from 2.875% to 3.58% per annum.

The Company

Bank balances carry interest at market rates which range from 1.9% to 3.0% per annum. The pledged bank deposits carry fixed interest rate which range from 2.875% to 3.58% per annum.

Notes to the Financial Statements

For the Year Ended 31 December 2006

29. ASSET CLASSIFIED AS HELD FOR SALE

On 17 November 2005, the directors resolved to dispose one of the Group's properties of the others segment. Agreement has been signed before 31 December 2005 and the transaction was completed on 5 January 2006 at a gain of approximately HK$339,000. The asset which was expected to be sold within twelve months, has been classified as a disposal asset held for sale and presented separately in the balance sheet at 31 December 2005.

30. TRADE PAYABLES

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

	THE GROUP	
	2006	2005
	HK$'000	HK$'000
0 – 90 days	**8,861**	9,172
91 – 180 days	**555**	87
Over 180 days	**504**	25
	9,920	9,284

31. AMOUNTS DUE FROM (TO) SUBSIDIARIES

The amounts due from (to) subsidiaries are unsecured, interest free and have no fixed repayment terms.

32. BANK BORROWINGS

	THE GROUP		THE COMPANY	
	2006	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000
Trust receipt loans	**55,382**	79,592	**–**	7,384
Bank loans	**263,321**	163,421	**173,905**	58,271
Discounted bills with recourse	**44,272**	–	**–**	–
	362,975	243,013	**173,905**	65,655
Secured	**271,200**	185,948	**173,905**	65,655
Unsecured	**91,775**	57,065	**–**	–
	362,975	243,013	**173,905**	65,655

The above amounts are repayable as follows:

	THE GROUP		THE COMPANY	
	2006	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000
Within one year	**238,499**	200,415	**49,429**	31,750
In the second year	**124,476**	42,598	**124,476**	33,905
	362,975	243,013	**173,905**	65,655
Less: Amount due for settlement within one year (shown under current liabilities)	**(238,499)**	(200,415)	**(49,429)**	(31,750)
Amount due for settlement after one year	**124,476**	42,598	**124,476**	33,905

Bank loans include approximately HK$113,946,000 (2005: 105,150,000) fixed-rate borrowings and expose the Group to fair value interest rate risk. The fixed-rate borrowings are repayable within one year. The remaining bank loans are variable-rate borrowings thus exposing the Group to cash flow interest rate risk.

Notes to the Financial Statements

For the Year Ended 31 December 2006

32. BANK BORROWINGS (continued)

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

	2006	2005
Effective interest rate per annum:		
Fixed-rate borrowings	**4.3% – 4.9%**	2.1% – 5.0%
Variable-rate borrowings	**6.2% – 7.9%**	3.8% – 7.4%

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

	HK$'000
As at 31 December 2006	26,742
As at 31 December 2005	150,649

During the year, the Group obtained new loans in the amount of HK$314,162,000 (2005: HK$131,913,000). These fixed-rate borrowings and variable-rate borrowings bear interest at market rates ranging from 5.02% to 5.58% per annum and from 5.46% to 6.56% per annum, respectively, and will be fully repayable within two years.

33. DEFERRED TAX

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

THE GROUP	Accelerated tax depreciation	Allowance for bad and doubtful debts	Allowance for inventories	Revaluation of properties	Tax loss	Others	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
At 1 January 2005	528	(728)	(44)	461	(124)	(109)	(16)
Charge (credit) to income statement for the year	552	294	14	310	(334)	40	876
Charge to equity for the year	–	–	–	75	–	–	75
At 31 December 2005 and 1 January 2006	1,080	(434)	(30)	846	(458)	(69)	935
Exchange realignment	17	(14)	(1)	14	–	–	16
Charge (credit) to income statement for the year	267	(253)	(1)	172	(66)	114	233
Charge to equity for the year	–	–	–	408	–	–	408
At 31 December 2006	1,364	(701)	(32)	1,440	(524)	45	1,592

At the balance sheet date, the Group has unused tax losses of approximately HK$73,586,000 (2005: HK$67,088,000) available for offset against future profits. A deferred tax asset has been recognised in respect of approximately HK$2,994,000 (2005: HK$2,617,000) of such losses. No deferred tax asset has been recognised in respect of the remaining approximately HK$70,592,000 (2005: HK$64,471,000) due to the unpredictability of future profit streams. The losses may be carried forward indefinitely.

At the balance sheet date, the Group has deductible temporary differences of approximately HK$5,715,000 (2005: HK$3,557,000). A deferred tax asset has been recognised in respect of approximately HK$4,880,000 (2005: HK$3,104,000) of such losses. No deferred tax asset has been recognised in respect of the remaining approximately HK$835,000 (2005: HK$453,000) as it is not probable that taxable profit will be available against which the deductible temporary differences can be utilised.

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

Notes to the Financial Statements

For the Year Ended 31 December 2006

34. DERIVATIVE FINANCIAL INSTRUMENTS

	2006	2005
	HK$'000	HK$'000
Interest rate swaps	**294**	(46)

Major terms of the interest rate swaps are as follows:

Notional amount	**Maturity**
HK$60,000,000	17 June 2008
HK$40,000,000	15 December 2008

For interest rate swap with contract sum of HK$60,000,000, interest rate will swap from Hong Kong Interbank Offered Rate ("HIBOR") to 3.48% if the three months HIBOR is equal to or less than 4.12% in each fixing date or interest rate will swap to three months HIBOR less 0.64% if the three months HIBOR is greater than 4.12% in each fixing date.

For interest rate swap with contract sum of HK$40,000,000, interest rate will swap from HIBOR to 3.58% if the three months HIBOR is equal to or less than 4.28% in each fixing date or interest rate will swap to three months HIBOR less 0.70% if the three months HIBOR is greater than 4.28%.

The above derivatives are not designated as hedging instruments.

Notes to the Financial Statements

For the Year Ended 31 December 2006

35. SHARE CAPITAL

	2006		2005	
	Number of shares '000	**Nominal value HK$'000**	Number of shares '000	Nominal value HK$'000
Ordinary shares of HK$0.10 each				
Authorised:				
At 1 January and at 31 December	**2,000,000**	**200,000**	2,000,000	200,000
Issued and fully paid:				
At 1 January	**1,026,067**	**102,607**	1,026,067	102,607
Issue on subscription of new shares *(note)*	**250,000**	**25,000**	–	–
At 31 December	**1,276,067**	**127,607**	1,026,067	102,607

Note: In order to finance the expansion plan of its subsidiary, Jiaxing Eastern Steel Cord Co., Ltd., the Company entered into a subscription agreement and a supplemental agreement on 22 and 27 September 2006, respectively pursuant to which the Company issued and allotted 250,000,000 ordinary shares of HK$0.10 each in the Company at a cash price of HK$0.65 per share to NV Bekaert SA. The new shares ranked pari passu with existing shares in all respects.

Notes to the Financial Statements

For the Year Ended 31 December 2006

36. RESERVES

THE COMPANY	Share premium HK$'000	Capital reserve HK$'000	Capital redemption reserve HK$'000	Retained profits HK$'000	Total HK$'000
At 1 January 2005	287,024	23,990	1,013	16,837	328,864
Profit for the year	–	–	–	30,072	30,072
Dividend paid	–	–	–	(15,391)	(15,391)
At 31 December 2005 and 1 January 2006	287,024	23,990	1,013	31,518	343,545
Issue of shares	137,500	–	–	–	137,500
Share issue expenses	(1.089)	–	–	–	(1,089)
Profit for the year	–	–	–	32,505	32,505
At 31 December 2006	423,435	23,990	1,013	64,023	512,461

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

37. OPERATING LEASES

The Group as lessee

	THE GROUP 2006 HK$'000	THE GROUP 2005 HK$'000
Minimum lease payments under operating leases in respect of land and buildings during the year	**1,960**	1,489

The Group leases certain of its offices, factory premises and staff quarters under operating lease arrangements. Leases are negotiated for terms of one to seven years.

37. OPERATING LEASES (continued)

The Group as lessee (continued)

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

	THE GROUP	
	2006	2005
	HK$'000	HK$'000
Within one year	**942**	422
In the second to fifth year inclusive	**4,778**	220
Over five years	**2,886**	–
	8,606	642

The Group as lessor

Property rental income earned during the year was HK$823,000 (2005: HK$555,000). The Group leases its investment properties under operating lease arrangements, with leases negotiated for an average term of two years.

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

	THE GROUP	
	2006	2005
	HK$'000	HK$'000
Within one year	**513**	537
In the second to fifth year inclusive	**425**	338
	938	875

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

Notes to the Financial Statements

For the Year Ended 31 December 2006

38. CAPITAL COMMITMENTS

	THE GROUP	
	2006	2005
	HK$'000	HK$'000
Commitments in respect of the acquisition of property, plant and equipment		
– contracted for but not provided in the financial statements	**25,174**	194
– authorised but not contracted for	**375,633**	–
	400,807	194

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

39. CONTINGENT LIABILITIES

	THE GROUP		THE COMPANY	
	2006	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000
Guarantees given to banks in respect of banking facilities utilised by subsidiaries	**–**	–	**156,633**	116,419
Guarantee for bank loans utilised by a jointly controlled entity	**7,465**	10,935	**–**	–
	7,465	10,935	**156,633**	116,419

40. RETIREMENT BENEFIT SCHEMES

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

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

41. SHARE-BASED PAYMENT TRANSACTIONS

A share option scheme (the "2002 Scheme") was adopted by the shareholders of the Company at the annual general meeting held on 7 June 2002. Under the 2002 Scheme, the board of directors (the "Board") of the Company shall, subject to and in accordance with the provisions of the 2002 Scheme and The Rules Governing the Listing of Securities on the Stock Exchange, grant share options to any eligible participant to subscribe for shares in the capital of the Company.

The Company operates the 2002 Scheme for the purpose of providing incentives and rewards to eligible participants for their contributions to the Group or potential contribution to the Group. Eligible participants of the 2002 Scheme include any director (including executive and independent non-executive), executive, officer, employee or shareholder of the Company or any of the subsidiaries or any of the associates or any of the jointly controlled entity and any supplier, customer, consultant, adviser, agent, partner or business associate who will contribute or has contributed to the Group. The 2002 Scheme became effective on 7 June 2002 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

The maximum number of unexercised share options currently permitted to be granted under the 2002 Scheme is 102,222,600 shares which represented approximately 8.01% of the issued share capital of the company as at the date of approval of this annual report. The maximum number of shares issuable under the share options to each eligible participant in the 2002 Scheme within any 12-month period is limited to 1% of the issued share capital of the Company in issue under the 2002 Scheme. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting.

Notes to the Financial Statements

For the Year Ended 31 December 2006

41. SHARE-BASED PAYMENT TRANSACTIONS (continued)

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

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

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

Notes to the Financial Statements

For the Year Ended 31 December 2006

41. SHARE-BASED PAYMENT TRANSACTIONS (continued)

The following table discloses details of the Company's share options held by eligible participants and movements in such holdings in relation to the 2002 Scheme during the year:

Grantees	Number of share options for 2006 At 1.1.2006	Cancelled during the year	At 31.12.2006	Date of grant	Exercise period	Exercise price per share
				(Note a)		HK$
Directors of The Company	27,930,000	–	27,930,000	23.8.2002	23.8.2002 – 22.8.2012	0.295
	3,060,000	–	3,060,000	12.3.2003	12.3.2003 – 11.3.2013	0.325
	68,882,000	–	68,882,000	25.6.2003	25.6.2003 – 24.6.2013	0.365
	5,974,000	–	5,974,000	25.8.2003	25.8.2003 – 24.8.2013	0.740
	57,350,000	–	57,350,000	2.10.2003	2.10.2003 – 1.10.2013	0.780
	163,196,000	–	163,196,000			
Employees other than directors of the Company	27,500,000	(4,000,000) *(Note b)*	23,500,000	25.8.2003	25.8.2003 – 24.8.2013	0.740
All other eligible participants	7,652,000	–	7,652,000 *(Note c)*	23.8.2002	23.8.2002 – 12.4.2008	0.295
	9,948,000	–	9,948,000	23.8.2002	23.8.2002 – 22.8.2012	0.295
	20,660,000	–	20,660,000	12.3.2003	12.3.2003 – 11.3.2013	0.325
	38,260,000	–	38,260,000			
	228,956,000	(4,000,000)	224,956,000			

Notes to the Financial Statements

For the Year Ended 31 December 2006

41. SHARE-BASED PAYMENT TRANSACTIONS (continued)

	Number of share options for 2005					
Grantees	At 1.1.2005	Cancelled during the year	At 31.12.2005	Date of grant (Note a)	Exercise period	Exercise price per share HK$
Directors of The Company	27,930,000	–	27,930,000	23.8.2002	23.8.2002 – 22.8.2012	0.295
	3,060,000	–	3,060,000	12.3.2003	12.3.2003 – 11.3.2013	0.325
	68,882,000	–	68,882,000	25.6.2003	25.6.2003 – 24.6.2013	0.365
	5,974,000	–	5,974,000	25.8.2003	25.8.2003 – 24.8.2013	0.740
	57,350,000	–	57,350,000	2.10.2003	2.10.2003 – 1.10.2013	0.780
	163,196,000	–	163,196,000			
Employees other than directors of the Company	27,500,000	–	27,500,000	25.8.2003	25.8.2003 – 24.8.2013	0.740
All other eligible participants	7,652,000	–	7,652,000 (Note c)	23.8.2002	23.8.2002 – 12.4.2006	0.295
	9,948,000	–	9,948,000	23.8.2002	23.8.2002 – 22.8.2012	0.295
	20,660,000	–	20,660,000	12.3.2003	12.3.2003 – 11.3.2013	0.325
	38,260,000	–	38,260,000			
	228,956,000	–	228,956,000			

Notes:

a. The vesting period of the share options is from the date of grant to the end of the exercise period. The share option is fully vested on grant date.

b. The 4,000,000 options, were held by an employee of the Group who resigned on 25 December 2006, which were cancelled during the year.

c. The 7,652,000 outstanding options were held by Ms. Xu Xianghua ("Ms. Xu") who resigned as director of the Company on 13 April 2004 and the exercise period were changed from 23/8/2002 – 22/8/2012 to 23/8/2002 – 12/4/2006 by the approval of the board of directors on 8 April 2004. In view of the great contribution provided by Ms. Xu during her tenure of her service for the Company, the exercise period was further extended to 12/4/2008 by the approval of the board of directors on 12 April 2006.

Notes to the Financial Statements

For the Year Ended 31 December 2006

42. RELATED PARTY TRANSACTIONS

Trading transactions/balances

In addition to balances detailed in note 26 to the financial statements, during the year, the Group had the following material transactions with Shougang HK and its subsidiaries (collectively the "Shougang HK Group") and Shougang TECH Group and a jointly controlled entity.

	2006 **HK$'000**	2005 HK$'000
Consultancy fees paid to Shougang HK Group	**960**	960
Interest paid to Shougang HK Group	**965**	–
Rental expenses paid to Shougang HK Group	**1,522**	1,080
Sales to Shougang TECH Group	**9,554**	4,154
Corporate guarantees given to a jointly controlled entity	**7,465**	10,935

Compensation of key management personnel

The key management of the Group comprises all directors of the Company, details of their emoluments and share-based payment transactions are disclosed in notes 11 and 41. The emoluments of the directors of the Company are decided by the remuneration committee having regard to individual's performance, the Group's performance and profitability, remuneration benchmark in the industry and prevailing market condition.

43. PRINCIPAL SUBSIDIARIES

Particulars of the principal subsidiaries at 31 December 2006 are as follows:

Name of subsidiary	Place of incorporation/ registration and operation	Nominal value of issued and paid-up capital/ registered capital	Attributable equity interest of the Group 2006	Attributable equity interest of the Group 2005	Principal activities
Bigland Investment Limited	Hong Kong/ PRC	2 ordinary shares of HK$1 each	**100%**	100%	Property investment
Eastern Century Metal Products Limited	Hong Kong	1,000,000 ordinary shares of HK$1 each	**100%**	100%	Trading of metals and investment holding
Everwinner Investments Limited	Hong Kong	1,000,000 ordinary shares of HK$1 each	**100%**	100%	Investment holding

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43. PRINCIPAL SUBSIDIARIES (continued)

Name of subsidiary	Place of incorporation/ registration and operation	Nominal value of issued and paid-up capital/ registered capital	Attributable equity interest of the Group 2006	2005	Principal activities
Fair Win Development Limited	Hong Kong/ PRC	500,000 ordinary shares of HK$1 each	**100%**	100%	Property investment
Heroland Investment Limited	Hong Kong	2 ordinary shares of HK$1 each	**100%**	100%	Property investment
Hing Cheong Metals (China & Hong Kong) Limited	Hong Kong	1,000,000 ordinary shares of HK$1 each	**100%***	100%*	Processing and trading of copper and brass products
Jiaxing Eastern Steel Cord Co., Ltd.# 嘉興東方鋼簾線有限公司	PRC	US$70,000,000	**100%**	100%	Manufacturing of steel cord
Meta International Limited	Hong Kong/ PRC	2 ordinary shares of HK$1 each	**100%***	100%*	Processing and trading of copper and brass products
Online Investments Limited	British Virgin Islands/ Hong Kong	31,000,000 ordinary shares of US$1 each	**100%**	100%	Investment holding

\# *A wholly foreign owned enterprise.*

* *Directly held by the Company.*

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

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

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44. PARTICULARS OF THE JOINTLY CONTROLLED ENTITY

Particulars of the jointly controlled entity as at 31 December 2006 are as follows:

Name	Business structure	Place of registration and operation	Registered capital	Percentage of equity attributable to the Group	Percentage of voting power attributable to the Group	Percentage of profit and loss attributable to the Group	Principal activities
Shanghai Shenjia Metal Products Co., Ltd. 上海申佳金屬制品有限公司	Incorporated	PRC	US$10,000,000	25%	33%	25%	Manufacturing of pre-stressed concrete strands and wires

45. PARTICULARS OF THE ASSOCIATE

Particulars of the associate at 31 December 2006 are as follows:

Name	Business structure	Place of registration and operation	Issued and paid-up capital	Percentage of equity attributable to the Group		Principal activities
				2006	2005	
Xinhua Metal Products Co., Ltd. *(Note)* 新華金屬制品股份有限公司	Incorporated	PRC	193,220,374 shares of RMB1 each	**14.49%**	16.75%	Manufacturing of pre-stressed concrete strands and wires

Note:

Xinhua Metal Products Co., Ltd. ("Xinhua Metal") is listed on the Shanghai Stock Exchange in the PRC. The shares in Xinhua Metal held by the Group are legal person shares and are not tradable on any stock exchange. The completion of the share reform plan for the conversion of the non-freely transferable shares of Xinhua Metal into shares freely transferable on the Shanghai Stock Exchange in the PRC (the "Share Reform Plan") took place during the year. Under the Share Reform Plan, the non-freely transferable shareholders of Xinhua Metal, including a wholly-owned subsidiary of the Company, would offer holders of freely transferable share of Xinhua Metal 3.3 non-freely transferable shares for every 10 freely transferable shares held by such holders, in exchange for the consent by the holders of freely transferable share of Xinhua Metal to the conversion of all non-freely transferable shares into freely transferable shares of Xinhua Metal. Followed by the completion of the Share Reform Plan, the Group's equity interest in Xinhua Metal was diluted from approximately 16.75% to 14.49%. Pursuant to the memorandum of association of Xinhua Metal, the Group is entitled to its equity share in the profits and losses and the net assets upon its cessation. Since the Group has one representative in the board of directors of Xinhua Metal, the Group is in a position to exercise significant influence over Xinhua Metal. Accordingly, Xinhua Metal has been accounted for as an associate.