ANNUAL REPORT

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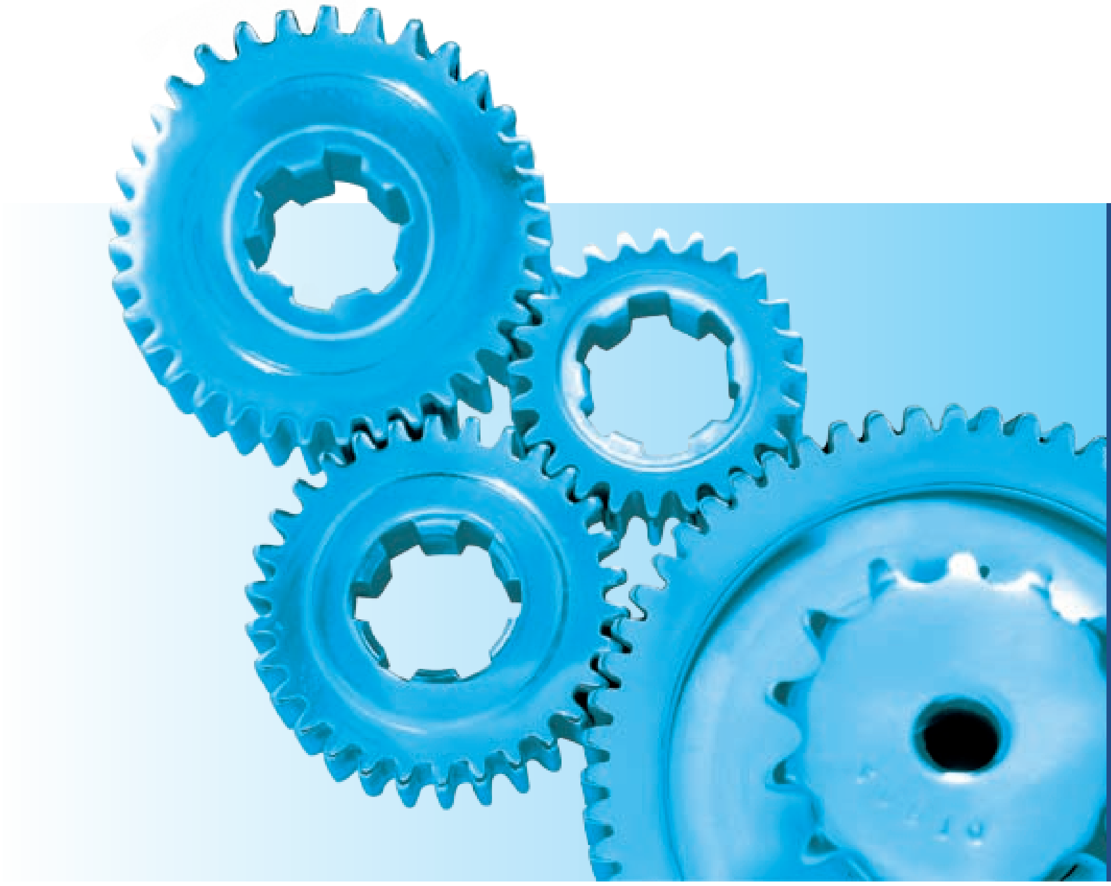


Full Steam Ahead
Striking for the Best

Shougang Concord
International Enterprises Company Limited

Stock Code: 697

Contents

Corporate Information

Board of Directors

Wang Qinghai *(Chairman)*
Cao Zhong *(Managing Director)*
Chen Zhouping *(Deputy Managing Director)*
Zhang Wenhui *(Deputy Managing Director)*
Luo Zhenyu *(Deputy Managing Director)*
Ip Tak Chuen, Edmond *(Non-executive Director)*
Leung Shun Sang, Tony *(Non-executive Director)*
Kan Lai Kuen, Alice
(Independent Non-executive Director)
Wong Kun Kim
(Independent Non-executive Director)
Leung Kai Cheung
(Independent Non-executive Director)

Executive Committee

Cao Zhong *(Chairman)*
Chen Zhouping
Zhang Wenhui
Luo Zhenyu

Audit Committee

Wong Kun Kim *(Chairman)*
Kan Lai Kuen, Alice
Leung Kai Cheung

Nomination Committee

Cao Zhong *(Chairman)*
Leung Shun Sang, Tony *(Vice Chairman)*
Kan Lai Kuen, Alice
Wong Kun Kim
Leung Kai Cheung

Remuneration Committee

Leung Shun Sang, Tony *(Chairman)*
Cao Zhong *(Vice Chairman)*
Kan Lai Kuen, Alice
Wong Kun Kim
Leung Kai Cheung

Company Secretary

Cheng Man Ching

Qualified Accountant

Wong Hon Ming

Auditor

Deloitte Touche Tohmatsu

Share Registrars

Tricor Tengis Limited
26th Floor, Tesbury Centre
28 Queen's Road East
Wanchai
Hong Kong

Registered Office

7th Floor
Bank of East Asia Harbour View Centre
56 Gloucester Road
Wanchai
Hong Kong

Stock Code

697

Website

www.shougang-intl.com.hk

Directors' Biographies

Mr. Wang Qinghai, aged 49, senior engineer. Mr. Wang was appointed the Chairman of the Company, Shougang Holding (Hong Kong) Limited ("Shougang Holding"), a substantial shareholder of the Company within the meaning of Part XV of the Securities and Futures Ordinance ("SFO"), and Shougang Concord Grand (Group) Limited ("Shougang Grand") in April 2001. He is the General Manager of Shougang Corporation, the ultimate holding company of Shougang Holding, and has extensive experience in management and operation.

Mr. Cao Zhong, aged 48, graduated from Zhejiang University, the People's Republic of China and Graduate School, The Chinese Academy of Social Sciences with a bachelor degree in engineering and a master degree in economics. Mr. Cao was appointed the Managing Director of the Company, the Chairman of each of Shougang Concord Technology Holdings Limited ("Shougang Technology") and Shougang Concord Century Holdings Limited ("Shougang Century") in November 2001. He was appointed the Deputy Chairman and General Manager of Shougang Holding in November 2001 and a director of each of Grand Invest International Limited ("Grand Invest") and China Gate Investments Limited ("China Gate") in January and March 2002 respectively, each of Shougang Holding, Grand Invest and China Gate is a substantial shareholder of the Company within the meaning of Part XV of the SFO. He was also appointed the Vice Chairman of Shougang Grand in November 2001 and has acted concurrently as the Managing Director of Shougang Grand since February 2006. He was appointed the Joint Chairman of Global Digital Creations Holdings Limited ("GDC"), a non-wholly owned subsidiary of Shougang Grand, in February 2005 and is currently the Chairman of GDC. He was appointed an Executive Director of APAC Resources Limited ("APAC") in April 2007 and was re-designated as the Chairman of APAC in May 2007. He also acts as the Assistant General Manager of Shougang Corporation and the Chairman of China Shougang International Trade and Engineering Corporation. Mr. Cao has extensive experience in corporate management and operation.

Mr. Chen Zhouping, aged 42, is a member of the Chinese Institute of Certified Public Accountants. Mr. Chen was appointed a Deputy Managing Director of the Company in November 2002. He was also appointed a Deputy Managing Director of Shougang Holding in November 2001 and a director of each of Grand Invest and China Gate in January and March 2002 respectively, each of Shougang Holding, Grand Invest and China Gate is a substantial shareholder of the Company within the meaning of Part XV of the SFO. Mr. Chen was the Managing Director of Shougang Grand during the period from February 2002 to November 2002. He has extensive experience in steel industry, engineering design, human resources and management.

Mr. Zhang Wenhui, aged 52, graduated from the University of Science and Technology Beijing. Mr. Zhang was appointed a Deputy Managing Director of the Company in September 2006. Mr. Zhang joined Shougang Corporation in 1982 and had been working in various companies under Shougang Corporation during the period from 1990 to 2001. Mr. Zhang was appointed the General Manager of the Shipping Division of the Company in July 2001. He was also appointed the Deputy Managing Director of Shougang Holding in June 2004 and a director of each of Grand Invest and China Gate in November 2004, each of Shougang Holding, Grand Invest and China Gate is a substantial shareholder of the Company within the meaning of Part XV of the SFO. Mr. Zhang previously held directorship as the Deputy Managing Director of the Company for the period from July 2002 to January 2005. He was a Director and the President of Shougang Technology during the period from July 2004 to July 2006, and was the Vice Chairman of Shougang Technology from July 2006 to September 2006. Mr. Zhang has extensive experience in management and company operations.

Directors' Biographies

Mr. Luo Zhenyu, aged 38, graduated from Tianjin University and Graduate School, the Chinese Academy of Social Sciences with a bachelor degree in technology and a doctor degree in economics respectively. Mr. Luo was appointed a Deputy Managing Director of the Company in January 2005. He has extensive experience in corporate investment.

Mr. Ip Tak Chuen, Edmond, aged 55. Mr. Ip was appointed a Director of the Company in 1993. He is also a deputy managing director of Cheung Kong (Holdings) Limited and a director of Max Same Investment Limited, both being substantial shareholders of the Company within the meaning of Part XV of the SFO, a deputy chairman of Cheung Kong Infrastructure Holdings Limited, an executive director of CK Life Sciences Int'l., (Holdings) Inc. and a non-executive director of TOM Group Limited. He holds a bachelor of arts degree in economics and a master of science degree in business administration.

Mr. Leung Shun Sang, Tony, aged 65. Mr. Leung was appointed a Director of the Company in November 1992. He is also a Director of each of Shougang Grand, Shougang Technology, Shougang Century and GDC. He holds a master degree in business administration from New York State University and has over 30 years of experience in finance, investment and corporate management. Mr. Leung is the managing director of CEF Group.

Ms. Kan Lai Kuen, Alice, aged 53. Ms. Kan was appointed an Independent Non-executive Director of each of the Company and Shougang Technology in September 2004. She is a fellow member of The Association of Chartered Certified Accountants, a fellow member of the CPA Australia and an associate member of The Hong Kong Institute of Certified Public Accountants. She is also a fellow member of the Hong Kong Institute of Directors. She has over 15 years of experience in corporate finance and is well experienced in both the equity and debt markets. She held various senior positions in international and local banks and financial institutions and is currently a controlling shareholder and the managing director of each of Asia Investment Management Limited and Asia Investment Research Limited, both companies are licensed corporations under the SFO. Ms. Kan is licensed as a responsible officer of each of Asia Investment Management Limited, Asia Investment Research Limited and Lotus Asset Management Limited under the SFO. Ms. Kan is also an independent non-executive director of each of Regal Hotels International Holdings Limited, G-Vision International (Holdings) Limited, Sunway International Holdings Limited, Shimao Property Holdings Limited and CASIL Telecommunications Holdings Limited, all of which are listed companies in Hong Kong.

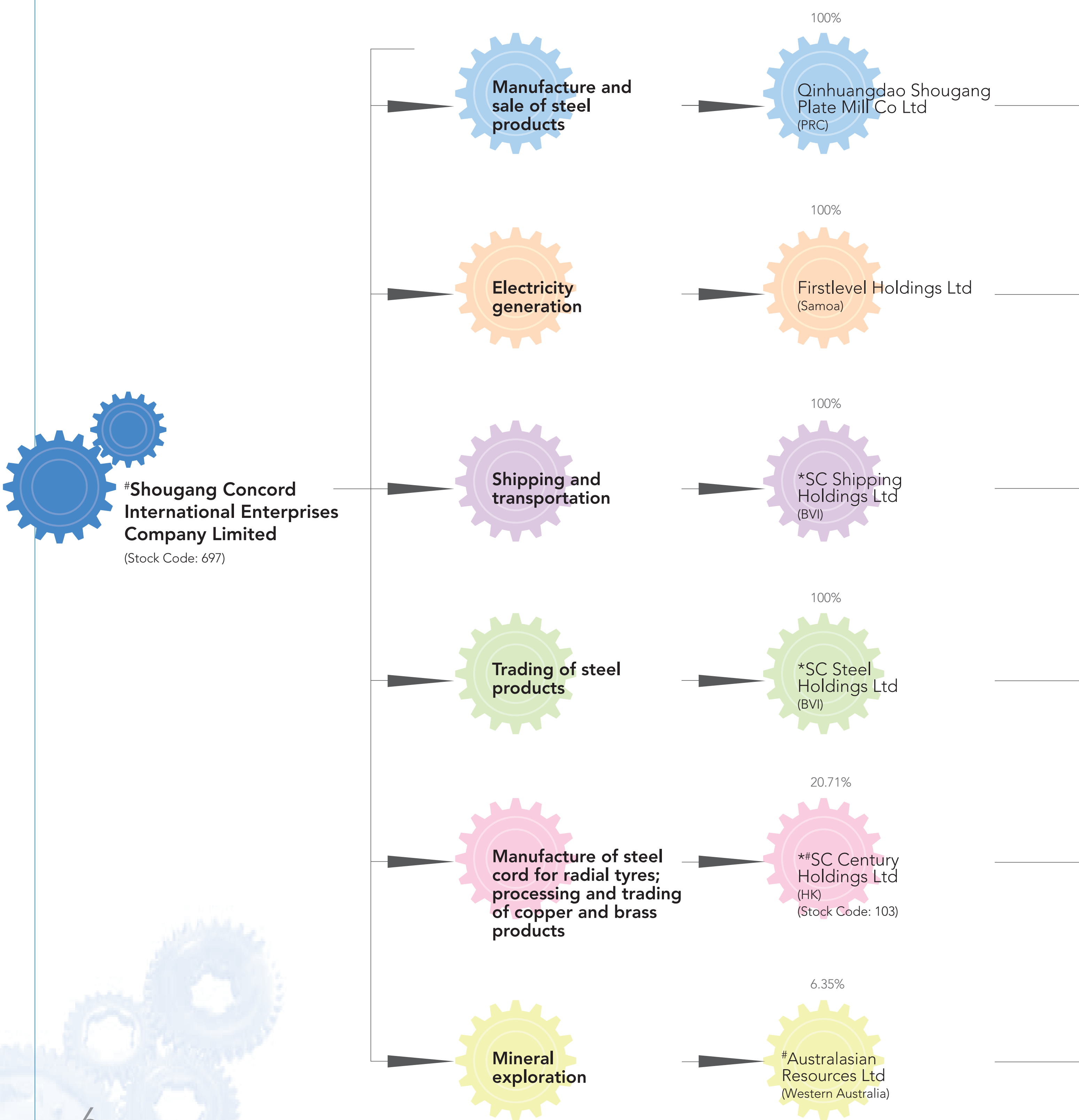
Mr. Wong Kun Kim, aged 63. Mr. Wong was appointed an Independent Non-executive Director of each of the Company and Shougang Technology in September 2004. He holds a bachelor degree in economics, a master degree in business administration and a doctorate of philosophy. He is a member of the Chartered Institute of Marketing and Chartered Management Institute and is licensed as a responsible officer of each of Asia Investment Management Limited and Asia Investment Research Limited under the SFO. Mr. Wong has over 30 years of experience working as senior executives for various multinational corporations engaged in trading, manufacturing, finance and real estates. He had served as consultants and directors for different listed companies in Mainland China, Hong Kong, Taiwan and United States of America and is currently an independent non-executive director of Sunway International Holdings Limited, a Hong Kong listed company.

Directors' Biographies

Mr. Leung Kai Cheung, aged 62. Mr. Leung was appointed an Independent Non-executive Director of each of the Company and Shougang Technology in June 2006. He graduated from the Chinese University of Hong Kong with a bachelor degree in business. He had been a senior executive of Citibank, N.A. and the general manager of Barclays Bank PLC in charge of Kowloon and New Territories district. He is currently the chairman of each of Star International Enterprises Limited and Shinon Technologies Limited. He is one of the founding shareholders of Prosticks International Holdings Limited whose shares are listed on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited. Mr. Leung has extensive financial knowledge and business management experience and is familiar with the business environment of both Hong Kong and Mainland China and the operation of listed companies.

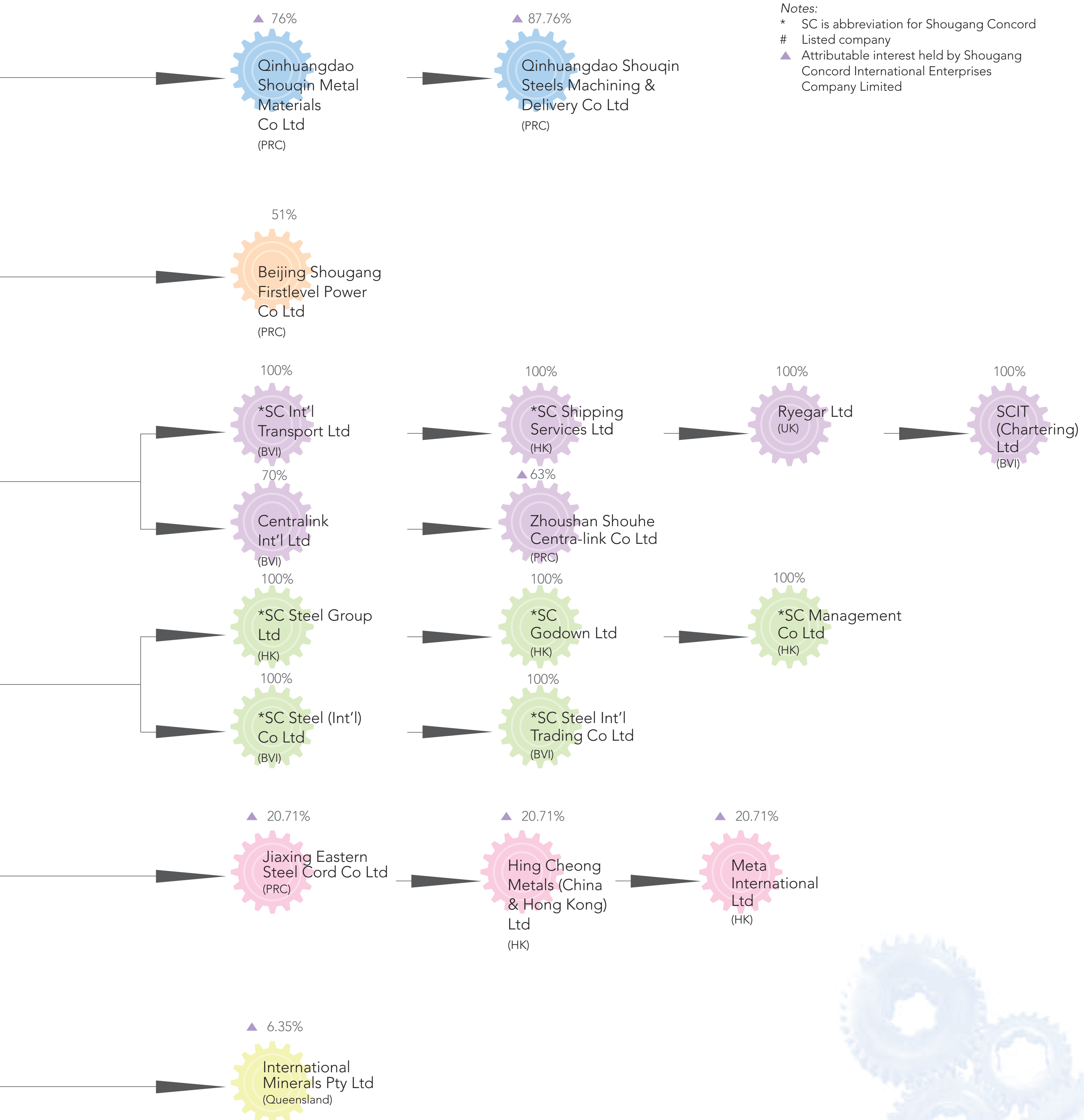
Main Operational Structure

As at 31 December 2007



Main Operational Structure

As at 31 December 2007



Notes:

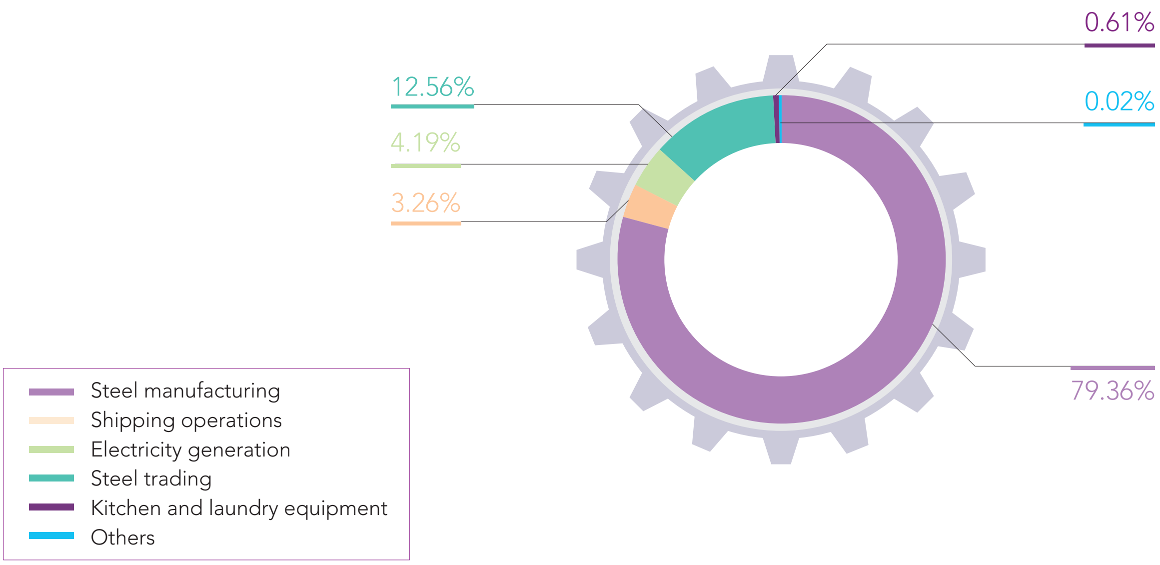
* SC is abbreviation for Shougang Concord

\# Listed company

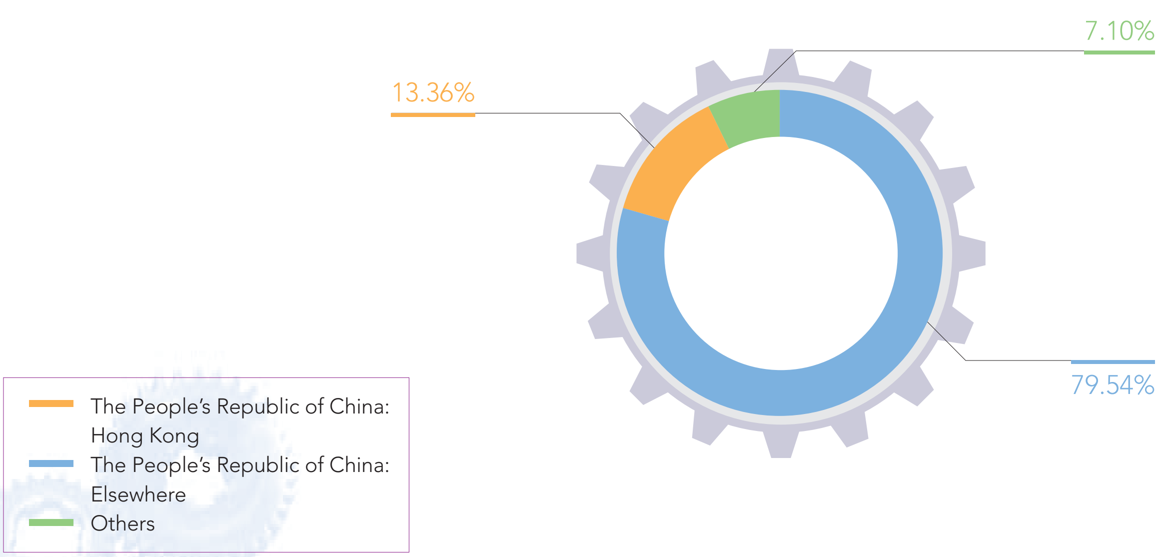
▲ Attributable interest held by Shougang Concord International Enterprises Company Limited

Financial Highlights

Turnover by principal activity for the year 2007

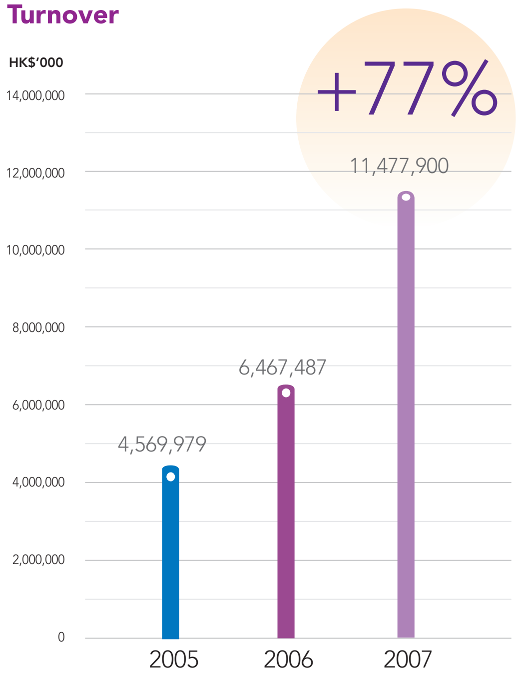


Turnover by geographical location for the year 2007

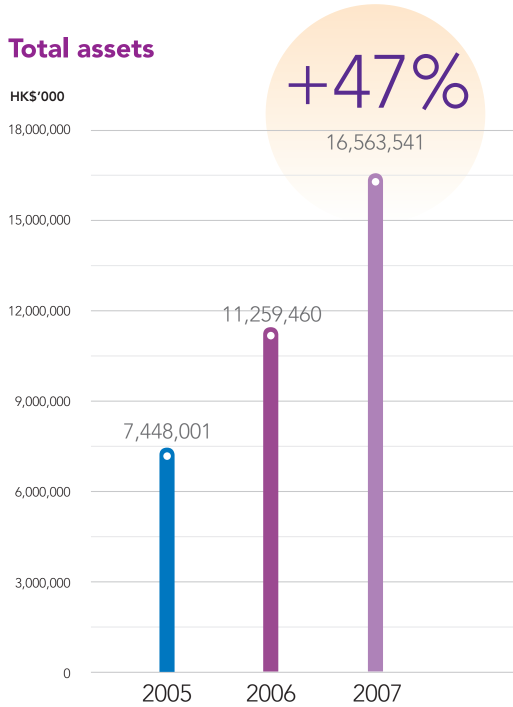


Financial Highlights

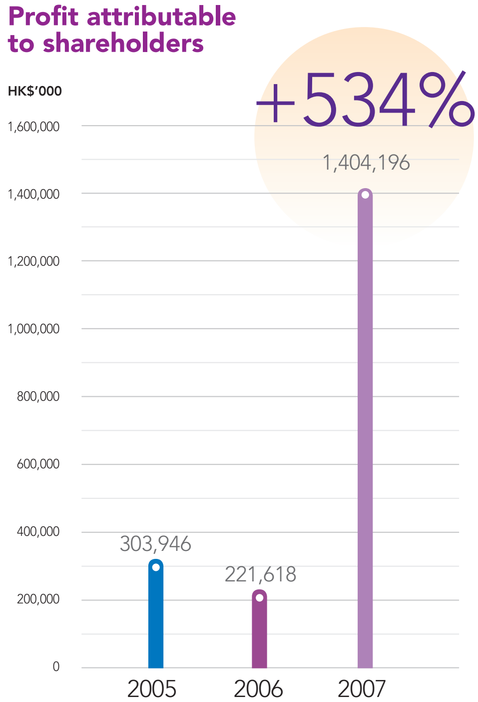
Turnover



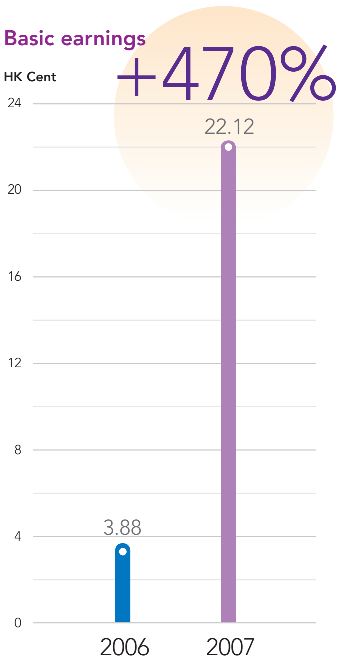
Total assets

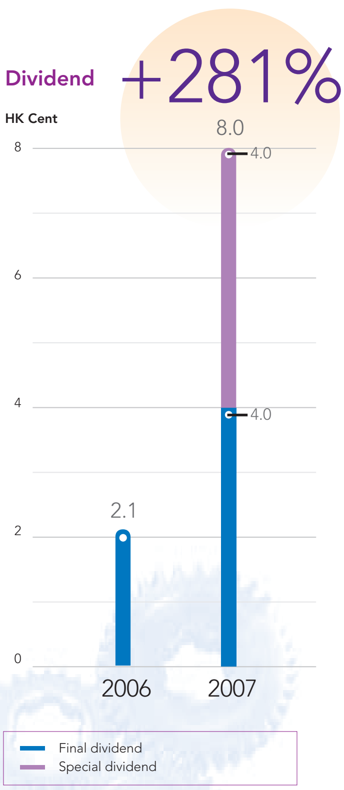


Profit attributable to shareholders



Chairman's Statement





By all accounts 2007 was a landmark year for our Group since establishment. Following the official implementation of Phase II of Shouqin, we have constructed our world's leading heavy plate production lines. Especially through consistent successful research and development of high value-adding products, combined with a solid customer base and capital strength, we expect that Shouqin shall remain a major revenue contributor of the Group. In addition, we have augmented upstream and downstream investments in this segment, thus progressing to be one of the most competitive integrated heavy plate manufacturers in China and globally.

The year 2007 is also remarkable for the good results produced by the Group, mainly driven by the enhanced plate production volume and higher steel prices. In the current year, consolidated revenues increased by 77.5% to reach HK$11,477.9 million, while net profit attributable to shareholders was HK$1,404.2 million, a significant increase of 5.3 times over that of 2006. Given the strong financial position of the Group, the Board has proposed to pay a final dividend of HK4 cents per share, representing a rise of 0.9 times from that of last year and a special dividend of HK4 cents per share.

Looking forward, the Group shall sharpen its focus in developing heavy plate business, divest other businesses and follow through vertical integration to expand profit base, providing even better return for our shareholders.

Finally, I would like to extend my warmest regards to all our shareholders who have supported us over the years. Specifically, I would also like to thank our Board of Directors, management and staff who have showed much dedication and contributions to the Group.

Wang Qinghai
Chairman

16 April 2008

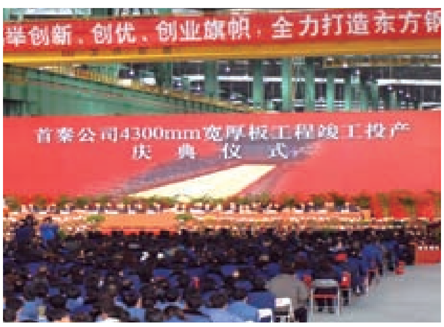
Management Discussion and Analysis

OVERVIEW

This year under review marks Shougang Concord International's Steel manufacturing segment new heights in production and sales volume as well as its superior full-year results.

For the year ended 31 December 2007, the Group recorded a consolidated turnover of HK$11,477.9 million[1], representing a sharp increase of 77.5% over that of the last year. Through higher sales volume and selling prices in the steel manufacturing segment, the Group has recorded net profit attributable to shareholders at HK$1,404.2 million[1], representing an increase of over 5.3 times when comparing to that of last year. Basic and diluted earnings per share were HK22.1 cents and HK21.1 cents respectively.

1. Significant growth in production scale and profitability of Steel manufacturing segment



The successful implementation of heavy plate hot rolling facility of Qinhuangdao Shouqin Metal Materials Co., Ltd. ("Shouqin") in April 2007 means significant expansion of the Group's scale of production. During the year, steel manufacturing segment of the Group has produced in total 2.07 million mt of steel plates and 2.43 million mt of steel slabs, representing a rise of 1.5 times and 25.0% respectively over that of last year. Through tight supply in heavy plates, unit selling price has continued to rise, resulting in a 6.3 times increase in profit contribution by this segment over that of last year.

Note 1: These amounts include turnover and profit attributable to shareholders contributed by kitchen and laundry equipment division, which is presented as discontinued operation in accordance with HKFRS5. The respective amounts of the discontinued operation are separately disclosed in the analysis of turnover and profit.

Management Discussion and Analysis

2. Investment in upstream assets

In order to secure upstream resource assets of the Group, Shougang Concord International has put in A$28 million (HK$186.8 million) in exchange of approximately 6.4% equity interest in Australasian Resources Limited ("ARH"), an Australian-listed company, in June 2007. The purpose of which is to support ARH's feasibility studies into an iron ore mine in Pilbara Region of Western Australia. Such a move has given us an opportunity to work more closely with ARH in order to secure iron ore resources.

3. Encouraging performance of shipping segment

In 2007 the dry bulk market soared, resulting in significant increase in hire income of the Group's two vessels under time charter. Shipping segment has recorded respective increase of 63% and 1.9 times in turnover and net profit when comparing to that of last year.

FINANCIAL REVIEW

Year ended 31 December 2007 compared to year ended 31 December 2006

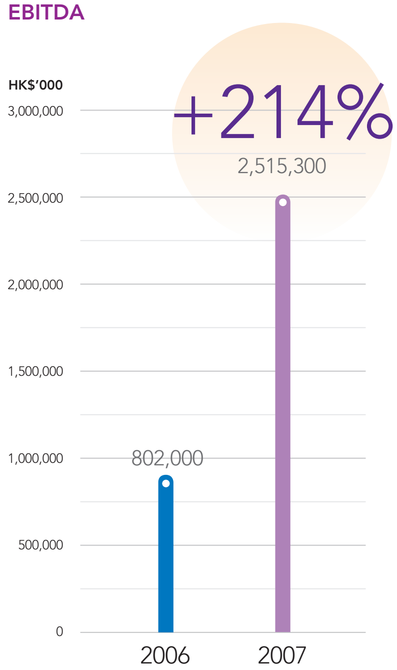
Turnover and Cost of Sales

For the year under review, the Group recorded a consolidated turnover of HK$11,477.9 million as compared to HK$6,467.5 million last year, rising by HK$5,010.4 million, or 77.5%. The increase is principally due to higher sales of Shouqin's heavy plates since reaching design capacity in April 2007, its turnover has jumped by HK$3,502.0 million when comparing to that in 2006. Sales of Qinhuangdao Shougang Plate Mill Co., Ltd. ("Qinhuangdao Plate Mill") also rose.

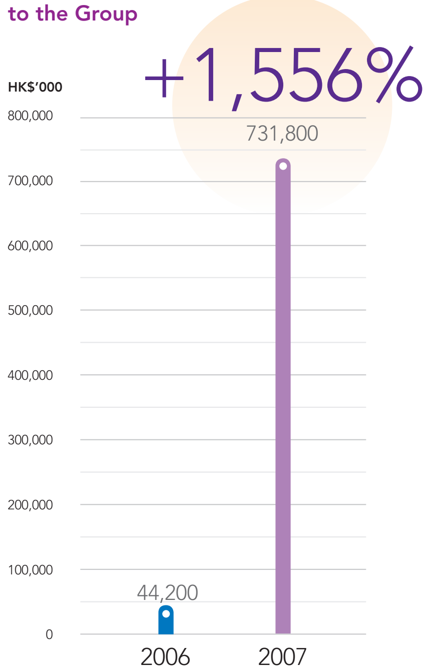
Cost of sales in the current year was HK$9,164.7 million as compared to HK$5,604.4 million last year, representing an increase of HK$3,560.3 million, or 63.5%. The resulting gross profit margin was 20.2% in the current year, improved from 13.3% last year, principally due to higher gross margin of 14.8% of steel manufacturing segment, while that of shipping segment has risen from 36.5% to 60.6%, and continued lower contribution by steel trading segment with an overall gross profit margin of about 2.1%, making the overall figure much higher.

Management Discussion and Analysis

EBITDA



Net profit of Shouqin attributable to the Group



EBITDA and Core Operating Profit

In the year under review, earnings before interest, tax, depreciation and amortization ("EBITDA") of the Group reached HK$2,515.3 million, which has increased by nearly 2.1 times when comparing to HK$802.0 million last year. EBITDA margin increased from 12.4% last year to 21.9% this year. On the other hand, profit after tax of the year includes gain on disposal of 20% equity interest in Shouqin at HK$92.0 million, gain on fair valuation of ARH options at HK$150.4 million, employee share option expenses at HK$59.7 million and loss on disposal of kitchen and laundry equipment segment at HK$7.0 million, core operating profit of the Group after taking out these items amounted to HK$1,228.5 million.

Finance cost

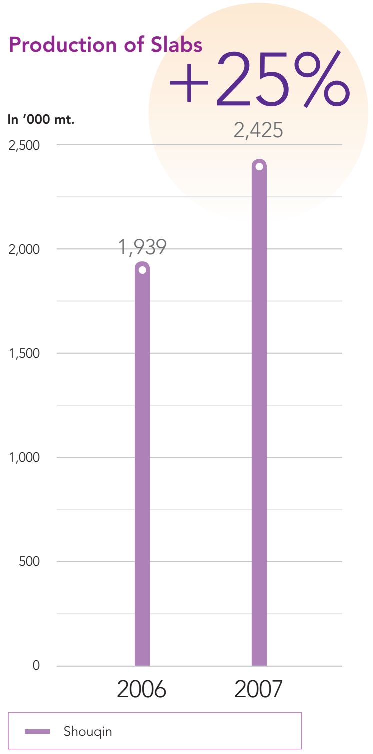
In the current year, finance cost increased to HK$358.1 million, comparing to HK$260.8 million last year, or 37.3%. Apart from rising interest rates, the increase was attributable to the fact that most interest expenses flow into profit and loss instead of being capitalized with Shouqin's completion in construction. All the debts in the company level have been repaid in September 2007, alleviating interest outlays.

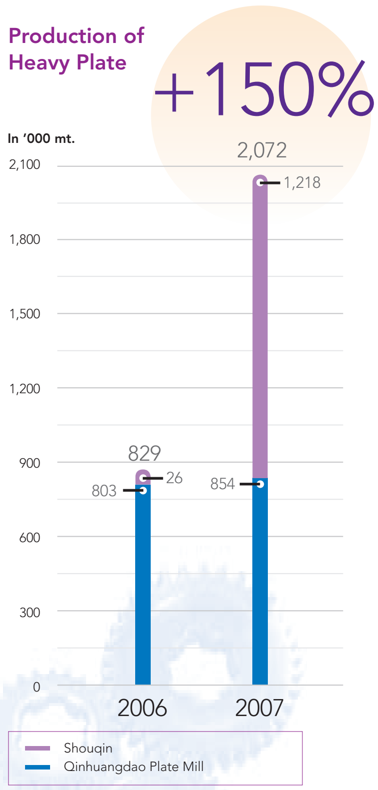
REVIEW OF OPERATIONS

Manufacture and Sale of Steel Products

The Group operates in this business segment through a wholly-owned subsidiary Qinhuangdao Plate Mill and 76%-owned Shouqin since February 2007 (2006: 96%). This segment has contributed 79% of the Group's turnover (2006: 70%). China has continued to record high growth in 2007 with a 11.9% increase in GDP. China has also been enjoying booming shipbuilding, petrochemical and other heavy industries, especially that demand of specialized types of heavy plates such as

Management Discussion and Analysis





ship plates, pipeline steel and bridge plates has far outstripped supply. Domestic production cannot satisfy the current demand, sustaining increase in selling price of such products. Summary of production and sales quantities of the two manufacturing plants under this segment is as follows:

In '000 mt.	**Slabs**		**Heavy Plates**	
	2007	2006	**2007**	2006
(i) Production				
Shouqin	**2,425**	1,939	**1,218**	26*
Qinhuangdao Plate Mill	**–**	–	**854**	803
Total	**2,425**	1,939	**2,072**	829
(ii) Sales				
Shouqin	**1,310**	1,852	**1,076**	10*
Qinhuangdao Plate Mill	**–**	–	**812**	761
Total	**1,310**	1,852	**1,888**	771

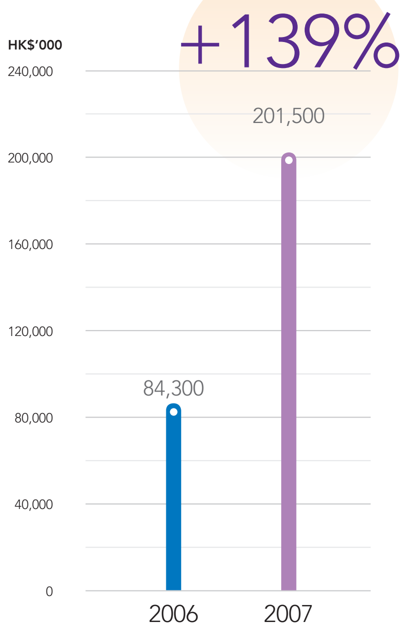
* *Trial production only*

Shouqin

Shouqin is an integrated facility encompassing the entire process from iron, steel, slab to plate with world's leading production lines. Hyundai Heavy, world's largest shipbuilder, has already owned 20% equity interest in it. The plant has an annual production capacity of 1.80 million tonnes in high value-adding heavy plates, with applications covering industries such as shipbuilding, petrochemical and machinery manufacturing. Shouqin achieved good performance in 2007 and recorded a turnover of HK$9,141.5 million (before elimination of intersegment sales), comparing to HK$4,912.5 million last year, or a rise of 86.1%. Apart from selling 1.3 million mt of steel slabs, heavy plate sales reached 1.1 million mt. Since its Phase I inception in mid 2004, Phase II of the plant started production in the first half of 2006, whilst its 4300mm width plate rolling system only reached design capacity since April 2007, with a current monthly production of over 120,000 mt., which is already 30% higher than the 2007 average. In the fourth quarter of 2007, domestic heavy plate market has enjoyed a rare run-up in a usually-slow season, with selling prices lingering at soaring levels, this has not retreated as of date of writing. Shouqin has an encouraging 2007, and is expected to keep its strong pace of growth in the next few years, through deep processing facilities nearing completion which can trigger an even higher efficiency gain of its existing assets.

Management Discussion and Analysis

Net profit of Qinhuangdao Plate Mill attributable to the Group



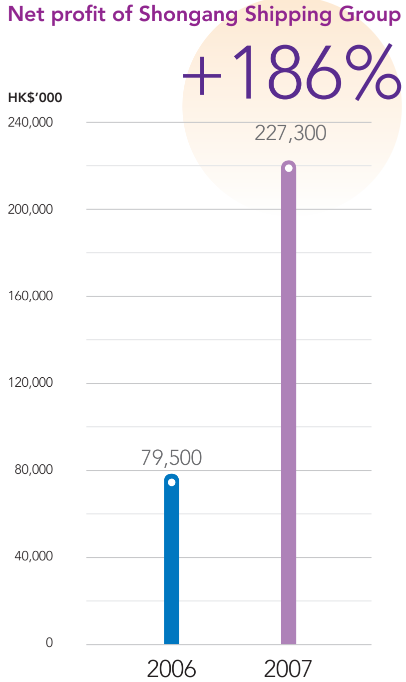
For the year ended 31 December 2007, net profit attributable to the Group from Shouqin amounted to HK$731.8 million, versus a profit contribution of HK$44.2 million last year, registering an increase of 15.6 times. With higher turnover and improved product mix though dragged by trial production in the first quarter of the year, Shouqin's consolidated gross profit margin still reached 17.0% with plate segment's at 21.2%, it is expected both figures shall register remarkable growth in 2008.

Qinhuangdao Plate Mill

Turnover of Qinhuangdao Plate Mill was HK$3,908.5 million (before elimination of intersegment sales) for the year, representing an increase of HK$986.2 million from that of last year. With sales volume of major steel products increased from 761,000 mt to 812,000 mt this year, or 6.7%, the average selling price has also increased by approximately 17.5% over that of last year to about HK$4,354 (or, RMB 4,231) per mt. The gross profit margin has jumped to 9.4%, against 7.8% last year. As a result, net profit for the current year attributable to the Group was HK$201.5 million (excluding the share of 24% results in Shouqin), rising by about 1.4 times comparing to that of last year.

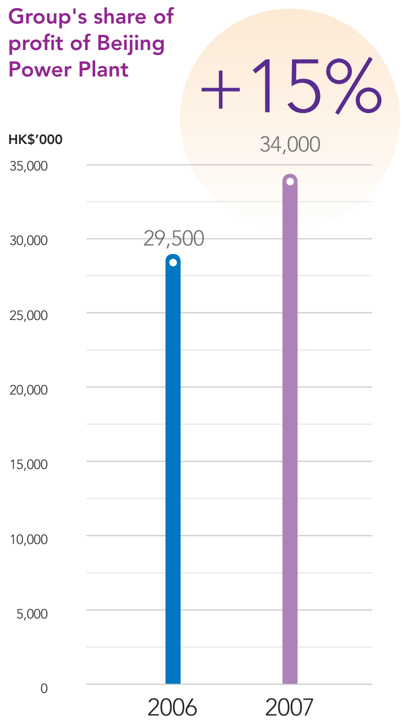
Shipping operations

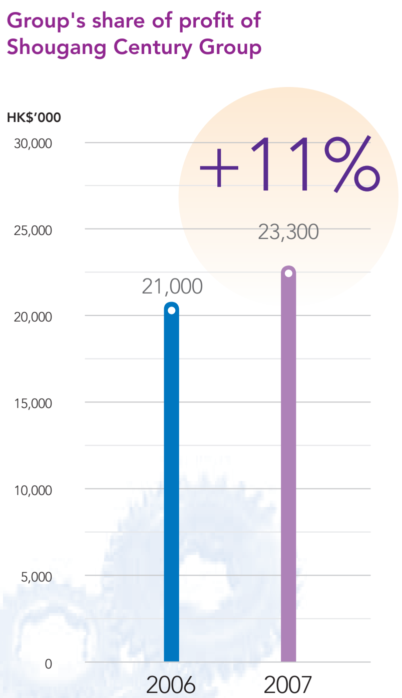
Net profit of Shongang Shipping Group



Shougang Concord Shipping Holdings Limited and its subsidiaries ("Shougang Shipping Group") is mainly engaged in the time charter business and is benefited from the rising market. This segment comprises two capesize dry bulk vessels on 15-year charter, mainly for transporting of iron ore and coal. Owing to factors including the relentless growth in demand for raw materials from China and port congestion, Baltic Dry Index rose to record highs in 2007, squeezing the charter hire income substantially, whilst the charter cost has been fixed on straight line amortization, profitability soared. In the current year, its turnover and operating profit were HK$373.8 million and HK$226.3 million respectively, registering a rise of 63% and 170.7%. For the year ended 31 December 2007, Shougang Shipping Group reported a net profit attributable to shareholders of HK$227.3 million, an increase of 1.9 times from that of last year. In order to lessen profit fluctuation, our strategy remains locking in one vessel at longer term charter. Powered by continued growth in industrialization of developing countries, current

Management Discussion and Analysis





charter hire income is still very healthy, and exceeds the full year average for 2007, therefore we look forward Shougang Shipping Group with much confidence.

Electricity generation

Our 51%-owned Beijing Shougang Firstlevel Power Company Limited ("Beijing Power Plant") reported total turnover of HK$481.2 million for the current year, representing an increase of 13.3% from last year. After deducting minority interests, the Group's share of profit of Beijing Power Plant for the current year amounted to HK$34.0 million, which showed a moderate increase of 15.3% as compared to HK$29.5 million for the last year. Higher profitability for the current year is a result of increase in market tariff and successful cost savings.

Manufacture of steel cord for radial tyres; processing and trading of copper and brass products

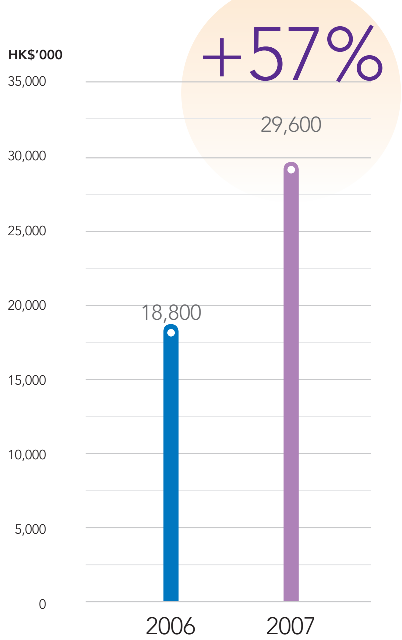
Shougang Concord Century Holdings Limited and its subsidiaries ('Shougang Century Group") reported surge in net profit of HK$29.8 million to HK$105.8 million for the current year, including post-tax gain of HK$59.6 million through the disposal of equity interest in an associated company. With a slight drop in equity proportion from 22.5% to 20.7% due to its share placement, the Group's share of net profit still rose from HK$21.0 million to HK$23.3 million in the current year, representing an increase of 11%.

Shougang Century Group enjoyed a marked increase in sales of its steel cord manufacturing segment, with turnover rising by 10.9% to HK$436.7 million. Its processing and trading of copper and brass product segment recorded fair performance without favorable market factor of sharp increase in copper price as in last year.

The Group is optimistic over the future development of Shougang Century Group, trusting that its cooperation with its significant shareholder NV Bekaert shall develop very well in the steel cord market. In this regard, we have signed a share subscription agreement in November 2007 to increase our stake in Shougang Century Group to 36.4%, this transaction has completed in the first quarter of 2008.

Management Discussion and Analysis

Net profit of Shougang Steel Group



Trading of steel products; manufacture and installation of kitchen and laundry equipment

Shougang Concord Steel Holdings Limited and its subsidiaries ("Shougang Steel Group") reported turnover and net profit of HK$1,512.1 million and HK$29.6 million respectively, representing an increase of 16.1% and 57.4% in comparison with last year. Within this segment, trading of steel products has increased significantly by 18.6% to HK$1,441.7 million, while that of the installation of kitchen and laundry equipment segment has been disposed of in June 2007, recording an one-off loss of HK$7.0 million.

Liquidity and Financial Resources

We aim to diversify our funding sources through utilization of both banking and capital markets. To the extent possible, financing is arranged to match business characteristics and cash flows.

1. *Leverage*

The financial leverage of the Group as at 31 December 2007, as compared to 31 December 2006, is summarized below:

HK$ million	**31 December 2007 Audited**	31 December 2006 Audited	Change
Total Debt			
– from banks	**4,160**	4,577	-9.1%
– from parent company	**1,071**	1,125	-4.8%
Sub-total	**5,231**	5,702	-8.3%
Cash and bank deposits	**3,326**	1,855	+79.3%
Net debt	**1,905**	3,847	-50.5%
Total capital (Equity and debt)	**12,046**	8,645	+39.3%
Financial leverage			
– Net debt to total capital	**15.8%**	44.5%	-64.5%
– Net debt to total assets	**11.5%**	34.1%	-66.3%

It can be observed that net debt has decreased sharply; financial leverage has also noticeable improvement between the year 2007 and 2006, corresponding to the fact that Group has generated strong net cash flows and debt financing is used in a controlled manner.

Management Discussion and Analysis

2. *Currency and Interest Rate Risk*

The Group conducts its businesses mainly in Hong Kong and Mainland China, with small equity investment in Australia. Therefore, we are subject to the foreign exchange fluctuations of HK Dollars, US Dollars, Renminbi and Australian Dollars. To minimize currency exposure, non Hong Kong Dollar assets are usually financed in the same currency as the asset or cash flow from it via borrowings. For the year ended 31 December 2007, approximately 79.1% of the Group's turnover was denominated in Renminbi. A mixture of fixed and floating rate borrowings are used in order to stabilize interest costs despite rate movements.

Capital Structure

At the beginning of the current year, the issued share capital of the Company was HK$1,172.8 million, represented by 5,864,057,214 ordinary shares at par value of HK$0.20 each. During the year, the Company entered into respective share subscription agreements with China Gate Investments Limited ("China Gate") and Grand Invest International Limited ("Grand Invest"). According to such subscription agreements, China Gate has subscribed to 200,000,000 new ordinary shares of the Company at HK$1.00 per share in June and to 500,000,000 new ordinary shares of the Company at HK$2.26 per share in August, whilst Grand Investment has subscribed to 300,000,000 new ordinary shares of the Company at HK$2.26 per share in August. Moreover, certain employees of the Group exercised the granted options, pursuant to which 139,140,000 new ordinary shares were issued at an average exercise price of HK$0.319 per share. As a result of the aforesaid events, the issued share capital of the Company increased to HK$1,400.6 million, represented by 7,003,197,214 ordinary shares as at 31 December 2007.

Employees, Remuneration Policies and Training Scheme

The Group has a total of approximately 4,062 employees as at 31 December 2007.

Management Discussion and Analysis

The remuneration policies of the Group are to ensure fairness and competitiveness of total remuneration in order to motivate and retain current employees as well as to attract potential ones. Remuneration packages are carefully structured to take into account local practices under various geographical locations in which the Group operates.

The remuneration packages of employees in Hong Kong include salary, discretionary bonuses, medical subsidies and a hospitalization scheme. All of the subsidiaries of the Group in Hong Kong provide pension schemes to the employees. The remuneration packages of employees in the PRC include salary, discretionary bonuses, medical subsidies and a welfare fund contribution as part of their staff benefits.

PROSPECTS

In recent years, steel manufacturing segment of the Group has developed rapidly. In the foreseeable future, strong demand for high value-adding heavy plates in Asia should continue, especially propelled by China and Korea. China's production capacity for high value-adding heavy plates is insufficient, with undersupply in both quantities and qualities. The Group should become key beneficiary in this situation. Meanwhile, the construction of heat treatment facilities and deep processing centre since 2007 exemplifies our objectives of being a professional, specialized, with deep processing abilities and strong company. In terms of our upstream assets, investment in iron ore project in Western Australia is a necessary route to secure raw material supply. Shipping segment can act as a hedge against rising cost of raw material transport, while the vessels can also be relocated for carrying our own iron ore or other upstream assets in the future.

Even though the uncertainties surrounding the global economy have elevated recently, the Group's integrated operating model does not simply rely on the rise and fall of any single industry, whilst urbanization and industrialization of China should not reverse. In short, Shougang Concord International shall capture opportunities and continue to focus on its core businesses, so as to bring higher returns for our shareholders.

Corporate Governance Report

The Company is committed to maintaining good corporate governance standard and procedures to safeguard the interests of all shareholders and to enhance accountability and transparency.

CORPORATE GOVERNANCE PRACTICES

The Company has complied with the Code on Corporate Governance Practices (the "Code") as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") (the "Listing Rules") during the financial year ended 31 December 2007, except for the following deviations:–

- Under code provision A.4.1 of the Code, non-executive directors should be appointed for a specific term and subject to re-election.

  None of the existing Non-executive Directors of the Company was appointed for a specific term. However, Non-executive Directors of the Company are subject to retirement by rotation and re-election at annual general meetings at least once every three years in accordance with the provisions of the articles of association of the Company (the "Articles"). As such, the Company considers that sufficient measures have been taken to ensure that the Company's corporate governance practices are no less exacting than those in the Code. In order to comply with code provision A.4.1 of the Code, an engagement letter has been entered with each of the Non-executive Directors of the Company for a term of three years commencing on 1 January 2008.

- Under the first part of code provision E.1.2 of the Code, the chairman of the board should attend the annual general meeting and arrange for the chairman of the audit, remuneration and nomination committees (as appropriate) or in the absence of the chairman of such committees, another member of the committee or failing this his duly appointed delegate, to be available to answer questions at the annual general meeting.

  The Chairman of the Board of Directors of the Company had not attended the annual general meeting of the Company held on 6 June 2007 (the "Meeting") as he had another business engagement. The Managing Director of the Company, who took the chair of the Meeting, together with other members of the Board and the Audit, Remuneration and Nomination Committees attended the Meeting. The Company considers that the members of the Board and the Audit, Remuneration and Nomination Committees who attended the Meeting were already of sufficient calibre and number for answering questions at the Meeting.

Corporate Governance Report

BOARD OF DIRECTORS

Composition

The Board currently comprises four Executive Directors, three Non-executive Directors and three Independent Non-executive Directors. The list of Directors is set out in the section headed "Report of the Directors" of this annual report.

The Board includes a balanced composition of Executive and Non-executive Directors so that there is a strong independent element on the Board, which can effectively exercise independent judgement.

Non-executive Directors are of sufficient calibre and number for their views to carry weight. The functions of Non-executive Directors include, but not limited to:

- bringing an independent judgement at Board meetings;
- taking the lead where potential conflicts of interests arise;
- serving on Board committees if invited; and
- scrutinising the Company's performance.

The Board members have no financial, business, family or other material/relevant relationships with each other.

The Board has a balance of skills and experience appropriate for the requirements of the business of the Company. The Directors' biographical information is set out in the section headed "Directors' Biographies" of this annual report.

Composition of the Board, including names of Independent Non-executive Directors of the Company, is disclosed in all corporate communications to shareholders.

Role and function

The Board is responsible for overall strategic formulation and performance monitoring of the Company and its subsidiaries (the "Group"). It delegates day-to-day operations of the Company to the Executive Committee and senior management within the control and authority framework set by the Board. In addition, the Board has also delegated various responsibilities to the Audit Committee, the Remuneration Committee and the Nomination Committee. Further details of these committees are set out in this report.

Corporate Governance Report

BOARD OF DIRECTORS (continued)

Board meetings

The Board has four scheduled meetings a year at approximately quarterly intervals. Additional meetings would be arranged, if and when required. The Directors can attend meetings in persons or through other means of electronic communication in accordance with the Articles.

The Company Secretary assists the Chairman in drawing the agenda of each meeting and each Director may request inclusion of matters in the agenda. Generally, at least 14 days' notice of a regular Board meeting is given and the Company aims at giving reasonable notice for all other Board meetings. The Company also aims at sending the agenda and the accompanying board papers, which are prepared in such form and quality as will enable the Board to make an informed decision on matters placed before it, to all Directors at least 3 days before the intended date of a Board meeting.

All Directors have access to the Company Secretary who is responsible for ensuring that Board procedures are complied with and all applicable rules and regulations are followed.

The Company Secretary is responsible for taking minutes of Board and Board committee meetings, drafts and final versions of which would be sent to Directors for comments and records respectively, in both cases within a reasonable time after each meeting. Minutes are recorded in sufficient detail the matters considered by the Board and decisions reached, including any concerns raised by Directors or dissenting views (if any) expressed. Minutes of Board meetings and meetings of Board committees are kept by the Company Secretary and are open for inspection by any Director/committee member.

If a substantial shareholder or a Director has a conflict of interest in a matter (including material transaction with connected persons) which the Board has determined to be material, a Board meeting will be held instead of by way of circulation.

Corporate Governance Report

BOARD OF DIRECTORS (continued)

Attendance records

During the financial year ended 31 December 2007, the Directors have made active contribution to the affairs of the Group and seven Board meetings were held to consider various projects contemplated by the Group and to review and approve the interim results and annual results of the Group.

Details of Directors' attendance records in 2007 are as follows:

	Meetings attended/Eligible to attend
Chairman	
Wang Qinghai	0/7
Executive Directors	
Cao Zhong	6/7
Chen Zhouping	7/7
Zhang Wenhui	7/7
Luo Zhenyu	3/7
Non-executive Directors	
Ip Tak Chuen, Edmond	2/7
Leung Shun Sang, Tony	7/7
Independent Non-executive Directors	
Kan Lai Kuen, Alice	7/7
Wong Kun Kim	6/7
Leung Kai Cheung	7/7

Access to information

The Directors may seek independent professional advice in appropriate circumstances, at the Company's expenses. The Company will, upon request, provide separate independent professional advice to Directors to assist the relevant Directors to discharge their duties to the Company.

The Board is supplied with relevant information by the senior management pertaining to matters to be brought before the Board for decision as well as reports relating to operational and financial performance of the Group before each Board meeting. Where any Director requires more information than is volunteered by the management, each Director has the right to separately and independently access to the Company's senior management to make further enquiries if necessary.

Corporate Governance Report

BOARD OF DIRECTORS (continued)

Appointments and re-election of Directors

Appointment of new Directors is a matter for consideration by the Nomination Committee. The Nomination Committee will review the profiles of the candidates and make recommendations to the Board on the appointment, re-nomination and retirement of Directors.

All the Non-executive Directors have formal letters of engagement for a term of three years commencing on 1 January 2008 setting out the major terms and conditions of their appointment.

According to the Articles, any Director so appointed by the Board shall hold office, in the case of filling a casual vacancy, only until the next following general meeting of the Company or, in the case of an addition to their number, until the next following annual general meeting of the Company who shall then be eligible for re-election at such annual general meeting. Every Director, including those appointed for a specific term, is subject to retirement by rotation at least once every three years.

Every newly appointed Director will be given an introduction of regulatory requirements. The Directors are continually updated on the latest development of the Listing Rules and other applicable statutory requirements to ensure compliance and upkeep of good corporate governance practice.

Independent Non-executive Directors

Pursuant to Rules 3.10(1) and 3.10(2) of the Listing Rules, the Company has appointed three Independent Non-executive Directors. One of the Independent Non-executive Directors has appropriate professional qualifications or accounting or related financial management expertise.

The Company has received from each of its Independent Non-executive Directors an annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules and the Company considers that all of the Independent Non-executive Directors are independent.

Directors' and officers' liability

Appropriate insurance cover on directors' and officers' liabilities has been in force to protect the Directors and officers of the Group from their risk exposure arising from the businesses of the Group.

Corporate Governance Report

CHAIRMAN AND MANAGING DIRECTOR

The roles of Chairman and Managing Director are separate and are not performed by the same individual to reinforce their independence and accountability. Mr. Wang Qinghai assumes the role of the Chairman and Mr. Cao Zhong serves as the Managing Director of the Company. The Chairman provides leadership for the Board. The Managing Director has overall chief executive responsibility for the Group's business development and day-to-day management generally. The division of responsibilities between the Chairman and the Managing Director is clearly established and set out in writing.

With the support of Executive Directors and the Company Secretary, the Chairman seeks to ensure that all Directors are properly briefed on issues arising at Board meetings and receive adequate and reliable information in a timely manner.

BOARD COMMITTEE

The Board has established the following committees to oversee particular aspects of the Company's affairs and to assist in the execution of the Board's responsibilities. All committees have their own terms of reference. All resolutions passed by the committees will be reported to the Board at the next Board meeting.

Executive Committee

An Executive Committee of the Board was established in February 2005 and comprises all Executive Directors of the Company.

As at 31 December 2007, the members of the Executive Committee were as follows:–

- Cao Zhong *(Chairman)*
- Chen Zhouping
- Zhang Wenhui
- Luo Zhenyu

The Executive Committee has been conferred with the general powers of the Board (except those matters specifically reserved for the Board) to manage and oversee the operations of the Group. The Executive Committee meets as and when required. During the year, twenty-six meetings of the Executive Committee were held.

Corporate Governance Report

BOARD COMMITTEE (continued)

Audit Committee

The Company has an Audit Committee which was established with reference to "A Guide for the Formation of an Audit Committee" issued by the Hong Kong Institute of Certified Public Accountants in December 1997. In January 2006, the Board adopted new terms of reference as the terms of reference of the Audit Committee for compliance with the requirements of the Listing Rules. The terms of reference of the Audit Committee are available on request and are posted on the Company's website.

The principal duties of the Audit Committee include, among other things:

- overseeing the relationship with the Company's auditor;
- reviewing the interim and annual financial statements; and
- reviewing the Company's financial reporting system and internal control procedures.

The Audit Committee has explicit authority to investigate any activity within its terms of reference and the authority to obtain outside legal or other independent professional advice if it considers necessary. It is given access to and assistance from the employees and reasonable resources to discharge its duties properly.

The Audit Committee comprised three Independent Non-executive Directors of the Company. None of the members of the Audit Committee are former partners of the auditors of the Company. The members of the Audit Committee during the year and their attendance were as follows:–

	Meetings attended/Eligible to attend
Wong Kun Kim *(Chairman)*	2/2
Kan Lai Kuen, Alice	2/2
Leung Kai Cheung	2/2

During the year, two meetings of the Audit Committee were held for, amongst other things:

- reviewing the final results of the Group for the financial year ended 31 December 2006; and
- reviewing the interim results of the Group for the six months ended 30 June 2007.

During the year, the Board had no disagreement with the Audit Committee's view on the selection, appointment, resignation or dismissal of the external auditor.

Corporate Governance Report

BOARD COMMITTEE (continued)

Nomination Committee

The Company established the Nomination Committee in February 2005 with specific written terms of reference which deal clearly with its authority and duties. The terms of reference of the Nomination Committee are available on request and are posted on the Company's website.

The principal duties of the Nomination Committee include:

- reviewing the structure, size and composition of the Board;
- identifying individuals suitably qualified to become Board members and select or make recommendations to the Board;
- making recommendations to the Board on relevant matters relating to the appointment and re-appointment of Directors and succession planning for Directors; and
- assessing the independence of Independent Non-executive Directors.

Where vacancies exist at the Board, candidates are proposed and put forward to the Nomination Committee for consideration. The recommendations of the Nomination Committee will then be tendered to the Board for approval. In considering the nomination of a new Director, the Nomination Committee will take into account the qualification, ability, working experience, leadership and professional ethics of the candidates. In determining the independence of Directors, the Board follows the requirements set out in the Listing Rules.

The Nomination Committee has explicit authority to seek any necessary information from the employees within its scope of duties and the authority to obtain outside independent professional advice if it considers necessary.

The members of the Nomination Committee during the year and their attendance were as follows:–

	Meeting attended/Eligible to attend
Cao Zhong *(Chairman)*	1/1
Leung Shun Sang, Tony *(Vice Chairman)*	1/1
Kan Lai Kuen, Alice	1/1
Wong Kun Kim	1/1
Leung Kai Cheung	1/1

The Independent Non-executive Directors of the Company constitute the majority of the committee.

During the year, one meeting of the Nomination Committee was held for reviewing the structure of the Board.

Corporate Governance Report

BOARD COMMITTEE (continued)

Remuneration Committee

The Company established the Remuneration Committee in February 2005 with specific written terms of reference which deal clearly with its authority and duties. The terms of reference of the Remuneration Committee are available on request and are posted on the Company's website.

The principal duties of the Remuneration Committee include:

- making recommendations to the Board on the Company's policy and structure for all remuneration of Directors and senior management of the Group;
- reviewing and approving performance-based remuneration;
- determining the specific remuneration packages of all Executive Directors and senior management and to make recommendation to the Board of the remuneration of Non-executive Directors;
- reviewing and approving the compensation payable to Executive Directors and senior management and the compensation arrangements relating to dismissal or removal of Directors for misconduct; and
- ensuring that no Director or any of his associates is involved in deciding his own remuneration.

The Remuneration Committee may consult the Chairman about their proposals relating to the remuneration of other Executive Directors. It has explicit authority to seek any necessary information from the employees within its scope of duties and the authority to obtain outside independent professional advice if it considers necessary.

The remuneration policies for the Company as well as the Directors are market alignment and reward for performance. The Company reviews the remuneration package annually taking into consideration of the market practice, competitive market position and individual performance.

The members of the Remuneration Committee during the year and their attendance were as follows:–

	Meetings attended/Eligible to attend
Leung Shun Sang, Tony *(Chairman)*	3/3
Cao Zhong *(Vice Chairman)*	2/3
Kan Lai Kuen, Alice	3/3
Wong Kun Kim	3/3
Leung Kai Cheung	3/3

Corporate Governance Report

BOARD COMMITTEE (continued)

Remuneration Committee (continued)

The Independent Non-executive Directors of the Company constitute the majority of the committee.

During the year, three meetings of the Remuneration Committee were held for, amongst other things:

- reviewing the remuneration and terms of service contracts of the Executive Director of the Company;
- determining the bonuses of the Executive Directors of the Company for the years 2006 and 2007; and
- making recommendations to the Board on the directors' fee of the Non-executive Directors of the Company for the years 2007 and 2008.

INTERNAL CONTROL

The Board is of the opinion that sound internal control systems will contribute to the effectiveness and efficiency of operations of the Group and to the safeguard of the Group's assets as well as the shareholders' investment.

The Board is responsible for overall ensuring, maintaining and overseeing the internal control systems of the Group. The Executive Committee and the Audit Committee help the Board to discharge its responsibilities of ensuring and maintaining sound internal control functions by regularly and continuously reviewing and monitoring the internal control systems and processes so as to ensure that they can provide reasonable assurance against material errors of the Group.

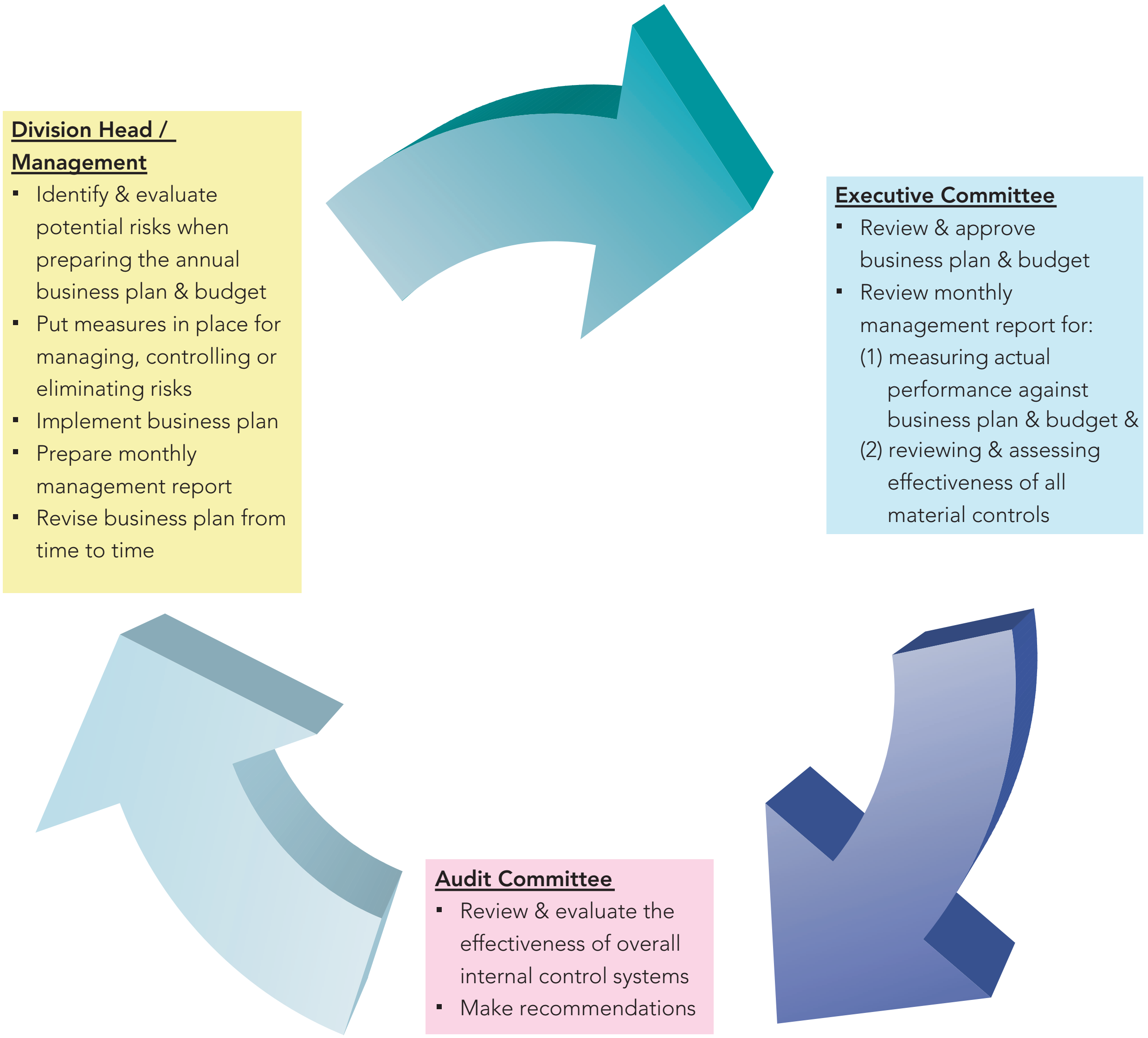
The internal control system is embedded within the business processes so that it functions as an integral part of the overall operations of the Group. The system comprises a comprehensive organization structure with assignment of definite accountabilities and delegation of the corresponding authorities to each post. Based on the organization structure, a reporting system has been developed which includes a reporting system from division head of each principal business unit to the Executive Committee.

Business plan and budget are prepared by the division head of each principal business unit annually. In preparing the business plans and budgets, the management identifies and evaluates any potential risks. Measures will be put in place with an aim to ultimately manage, control or eliminate such risks.

The business plans and budgets are subject to review and approval by the Executive Committee. The Executive Committee reviews monthly management report on the operational and financial results of each principal business unit and measures the actual performance of the Group against the business plan and budget concerned. In this course, the Executive Committee also reviews and assesses the effectiveness of all material controls. The Executive Committee holds periodical meetings with the senior management of each principal business unit and the finance team to, amongst other matters, address the issues in such controls, identify areas of improvement and put the appropriate measures in place.

Corporate Governance Report

INTERNAL CONTROL (continued)



The internal control system is documented and if any revision is required, such information will be submitted to the Audit Committee for evaluation.

Corporate Governance Report

INTERNAL CONTROL (continued)

The Board considers that it is an ongoing and continuous process for the Group to review and improve its internal control systems in order to ensure that they can meet with the dynamic and ever changing business environment. During the year under review, the Board has been, through the Executive Committee and the Audit Committee, continuously reviewing the effectiveness of the Group's internal control systems. On the recommendation of the Audit Committee, the Group engaged a professional firm to carry out independent internal control review on the key internal control systems of the Group and the review was completed in early 2007. During the year, the Company contemplated the recommendations on the internal control report and took certain measures to further improve its internal control systems.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") of the Listing Rules as a code of conduct of the Company for Directors' securities transactions.

Having made specific enquiry of all Directors, the Directors have complied with the required standard set out in the Model Code and the Company's code of conduct regarding Directors' securities transactions throughout the year ended 31 December 2007.

Employees who are deemed to be in possession of unpublished price sensitive information in relation to the Company or its shares are required to prohibit from dealing in shares of the Company during the black-out period.

AUDITOR'S REMUNERATION

During the year, the remuneration paid to the Company's auditor, Messrs. Deloitte Touche Tohmatsu, is set out as follows:

Services rendered	**Fee paid/payable** *HK$'000*
Audit services	2,266
Non-audit services:	
Interim review	445
Professional services rendered for connected transactions	41
Review preliminary results announcement for 2006	30
	2,782

Corporate Governance Report

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The Directors acknowledge their responsibility for preparing financial statements of the Group which give a true and fair view of the state of affairs of the Group on a going concern basis and in presenting the interim and annual financial statements, announcements and other financial disclosures required under the Listing Rules, the Directors aim to present a balanced, clear and understandable assessment of the Group's position and prospects.

The statement of the auditor of the Company, Messrs. Deloitte Touche Tohmatsu, about their reporting responsibilities on the financial statements of the Group is set out in the Report of the Auditor on pages 52 to 53 of this annual report.

COMMUNICATION WITH SHAREHOLDERS

To foster effective communications with the shareholders, the Company provides extensive information in its annual and interim reports and announcements. All shareholders' communications are also available on the Company's website at www.shougang-intl.com.hk.

The annual general meeting of the Company provides a useful forum for shareholders to exchange views with the Board. All Directors will make an effort to attend. External auditor is also available at the annual general meeting to address shareholders' queries. In case of any general meeting to approve a connected transaction or any other transaction that is subject to independent shareholders' approval, members of the independent Board committee will also make an effort to attend to address shareholders' queries.

Separate resolutions are proposed at general meetings on each substantially separate issue, including the election of individual Directors.

Details of the poll voting procedures and rights of shareholders to demand a poll are included in the Company's circulars convening a general meeting. The chairman of a general meeting also explains the procedures for demanding and conducting a poll before putting a resolution to the vote on a show of hands and (except where a poll is demanded) reveals how many proxies for and against have been filed in respect of each resolution. The results of the poll, if any, will be published on the websites of the Stock Exchange and the Company respectively.

Report of the Directors

The Directors herein present their report and the audited financial statements of the Company and its subsidiaries (the "Group") for the year ended 31 December 2007.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The activities of its principal subsidiaries and associates are set out in note 52 to the financial statements.

RESULTS

The results of the Group for the year ended 31 December 2007 and the state of affairs of the Group at that date are set out in the financial statements on pages 54 to 169.

The Board of Directors of the Company recommends a final dividend of HK$0.04 per share (2006: HK$0.021 per share) and a special dividend of HK$0.04 per share (2006: Nil) for the year ended 31 December 2007 payable to shareholders whose names appear on the register of members of the Company on Friday, 6 June 2008. These dividends are subject to shareholders' approval at the Company's annual general meeting to be held on Friday, 6 June 2008. The register of members of the Company will be closed from Thursday, 5 June 2008 to Friday, 6 June 2008 (both days inclusive), during which period no transfer of shares of the Company will be registered. The final and special dividends are expected to be paid on Tuesday, 17 June 2008.

FIVE YEAR FINANCIAL SUMMARY

A summary of the published results and of the assets and liabilities of the Group for the last five financial years is set out on page 170 of this annual report.

INVESTMENT PROPERTIES

Details of movements in the investment properties of the Group during the year are set out in note 16 to the financial statements.

Particulars of the major investment properties of the Group as at the balance sheet date are summarised on page 171 of this annual report.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the year are set out in note 17 to the financial statements.

Report of the Directors

SHARE CAPITAL

Details of movements in the Company's share capital during the year are set out in note 39 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 58 to 60 of this annual report and in note 41 to the financial statements, respectively.

DIRECTORS

The Directors of the Company during the year were as follows:

Wang Qinghai
Cao Zhong
Chen Zhouping
Zhang Wenhui
Luo Zhenyu
Ip Tak Chuen, Edmond
Leung Shun Sang, Tony
Kan Lai Kuen, Alice*
Wong Kun Kim*
Leung Kai Cheung*

* *Independent Non-executive Directors*

In accordance with clause 103(A) of the Company's articles of association, Messrs. Wang Qinghai, Luo Zhenyu, Leung Shun Sang, Tony and Wong Kun Kim will retire and, being eligible, offer themselves for re-election at the forthcoming annual general meeting of the Company.

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 of compensation other than statutory compensation.

Report of the Directors

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

The Directors of the Company who held office at 31 December 2007 had the following interests in the shares and underlying shares of the Company and its associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) at the balance sheet date as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"):

(a) Long positions in the shares and underlying shares of the Company

Name of Director	Capacity in which interests are held	Number of shares/ underlying shares held in the Company: Interests in shares	Interests under equity derivatives*	Total interests	Total interests as to % to the issued share capital of the Company as at 31.12.2007
Cao Zhong	Beneficial owner	–	179,770,000	179,770,000	2.57%
Chen Zhouping	Beneficial owner	–	111,568,000	111,568,000	1.59%
Zhang Wenhui	Beneficial owner	–	110,746,000	110,746,000	1.58%
Luo Zhenyu	Beneficial owner	–	25,000,000	25,000,000	0.36%
Ip Tak Chuen, Edmond	Beneficial owner	–	12,590,000	12,590,000	0.18%
Leung Shun Sang, Tony	Beneficial owner	12,590,000	–	12,590,000	0.18%
Kan Lai Kuen, Alice	Beneficial owner	–	1,500,000	1,500,000	0.02%
Wong Kun Kim	Beneficial owner	–	1,500,000	1,500,000	0.02%
Leung Kai Cheung	Beneficial owner	–	1,500,000	1,500,000	0.02%

* *The relevant interests are unlisted physically 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$0.20 each in the share capital of the Company are issuable. The share options are personal to the respective Directors. Further details of the share options are set out in the section headed "Share Option Scheme" below.*

Report of the Directors

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

(b) Long positions in underlying shares of an associated corporation, Shougang Concord Century Holdings Limited ("Shougang Century"), attached to the share options granted by Shougang Century

Name of Director	Options to subscribe for shares of Shougang Century: At the beginning of the year	Exercised during the year	At the end of the year	Date of grant	Exercise period	Exercise price per share	Capacity in which interests are held	Interests as to % to the issued share capital of Shougang Century as at 31.12.2007
Cao Zhong	7,652,000	–	7,652,000	23.8.2002	23.8.2002 – 22.8.2012	HK$0.295	Beneficial owner	
	57,350,000	–	57,350,000	2.10.2003	2.10.2003 – 1.10.2013	HK$0.780	Beneficial owner	
	65,002,000	–	65,002,000					4.70%
Chen Zhouping	7,652,000	–	7,652,000	23.8.2002	23.8.2002 – 22.8.2012	HK$0.295	Beneficial owner	0.55%
Luo Zhenyu	7,652,000	–	7,652,000	12.3.2003	12.3.2003 – 11.3.2013	HK$0.325	Beneficial owner	0.55%
Leung Shun Sang, Tony	4,592,000	–	4,592,000	23.8.2002	23.8.2002 – 22.8.2012	HK$0.295	Beneficial owner	
	3,060,000	–	3,060,000	12.3.2003	12.3.2003 – 11.3.2013	HK$0.325	Beneficial owner	
	4,592,000	–	4,592,000	25.8.2003	25.8.2003 – 24.8.2013	HK$0.740	Beneficial owner	
	12,244,000	–	12,244,000					0.88%
	92,550,000	–	92,550,000					

The above share options are unlisted physically settled options granted pursuant to the share option scheme of Shougang Century adopted on 7 June 2002. Upon exercise of the share options in accordance with the share option scheme of Shougang Century, ordinary shares of HK$0.10 each in the share capital of Shougang Century are issuable. The share options are personal to the respective Directors.

Report of the Directors

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

Save as disclosed above, at the balance sheet date, none of the Company's Directors, chief executives or their respective associates had any other personal, family, corporate and other interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Apart from as disclosed in the section headed "Directors' and Chief Executives' Interests and Short Positions in Shares, Underlying Shares and Debentures" above, 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 spouses 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.

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

No contracts of significance to which the Company or any of its subsidiaries was a party and in which a Director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

Report of the Directors

DIRECTORS' INTERESTS IN COMPETING BUSINESSES

Pursuant to Rule 8.10 of the Listing Rules, the following Directors have declared interests in the following businesses (other than those businesses where the Directors of the Company were appointed as directors to represent the interests of the Company and/or any member of the Group) which are considered to compete or are likely to compete, either directly or indirectly, with the businesses of the Group during the year:

Name of Director	Name of entity whose businesses 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 or likely to compete with the businesses of the Group	Nature of interest of the Director in the entity
Wang Qinghai	Shougang Corporation#	Manufacture, sale and trading of steel products, shipping services and electricity generation	Director
Cao Zhong	China Shougang International Trade and Engineering Corporation#	Manufacture, sale and trading of steel products	Director
	Shougang Holding (Hong Kong) Limited ("Shougang Holding")#	Manufacture, sale and trading of steel products	Director
Chen Zhouping	Shougang Holding#	Manufacture, sale and trading of steel products	Director
Zhang Wenhui	Shougang Holding#	Manufacture, sale and trading of steel products	Director

\# *Such businesses may be carried out through its subsidiaries or associates or by way of other forms of investments.*

The Board of Directors of the Company is independent from the boards of the above-mentioned entities and is accountable to the Company's shareholders. Coupled with the diligence of its Independent Non-executive Directors whose views carry significant weight in the Board's decisions, the Group is capable of carrying on its businesses independently of, and at arm's length from, the businesses of these entities.

Report of the Directors

INTERESTS AND SHORT POSITIONS OF SHAREHOLDERS DISCLOSEABLE UNDER THE SFO

At the balance sheet date, according to the register kept by the Company under Section 336 of the SFO, the following companies and persons had interests or short positions of 5% or more in the shares or underlying shares of the Company which fell to be disclosed to the Company under Divisions 2 and 3 of Part XV of the SFO:

(a) Long positions in the shares of the Company

Name of shareholder	Capacity in which interests are held	Number of shares held in the Company	Interests as to % to the issued share capital of the Company as at 31.12.2007	*Note(s)*
Shougang Holding	Beneficial owner, interests of controlled corporations	2,845,706,686	40.63%	*1*
Grand Invest International Limited ("Grand Invest")	Beneficial owner	868,340,765	12.40%	*1*
China Gate Investments Limited ("China Gate")	Beneficial owner	1,529,904,761	21.85%	*1*
Argepa S.A. ("Argepa")	Beneficial owner, Interests of controlled corporations	699,000,000	9.98%	*2*
Zygmunt Zaleski Stichting ("ZZS")	Interests of controlled corporations	569,000,000	8.12%	*2*
Carlo Tassara S.p.A. ("CT S.p.A.")	Interests of controlled corporations	569,000,000	8.12%	*2*
Carlo Tassara International S.A. ("CTI S.A.")	Beneficial owner	569,000,000	8.12%	*2*
Cheung Kong (Holdings) Limited ("Cheung Kong")	Interests of controlled corporations	455,401,955	6.50%	*3, 4*

Report of the Directors

INTERESTS AND SHORT POSITIONS OF SHAREHOLDERS DISCLOSEABLE UNDER THE SFO (continued)

(a) Long positions in the shares of the Company (continued)

Name of shareholder	Capacity in which interests are held	Number of shares held in the Company	Interests as to % to the issued share capital of the Company as at 31.12.2007	Note(s)
Max Same Investment Limited ("Max Same")	Beneficial owner	423,054,586	6.04%	3
Li Ka-shing	Interests of controlled corporations, founder of discretionary trusts	455,401,955	6.50%	4
Li Ka-Shing Unity Trustee Company Limited ("TUT1")	Trustee	455,401,955	6.50%	4
Li Ka-Shing Unity Trustee Corporation Limited ("TDT1")	Trustee, beneficiary of a trust	455,401,955	6.50%	4
Li Ka-Shing Unity Trustcorp Limited ("TDT2")	Trustee, beneficiary of a trust	455,401,955	6.50%	4
UBS AG	Beneficial owner, person having a security interest in shares, interests of controlled corporations	391,214,150	5.59%	
Baring Asset Management Limited	Investment manager	351,750,000	5.02%	

Report of the Directors

INTERESTS AND SHORT POSITIONS OF SHAREHOLDERS DISCLOSEABLE UNDER THE SFO (continued)

(b) Short positions in the underlying shares of the Company

Name of shareholder	Capacity in which interests are held	Number of underlying shares of the Company interested under cash settled unlisted derivatives	Interests as to % to the issued share capital of the Company
UBS AG	Beneficial owner	280,000	0.004%

Notes:

1. Both Grand Invest and China Gate were wholly-owned subsidiaries of Shougang Holding and their respective interests were included in the interests held by Shougang Holding.

2. CTI S.A. was a wholly-owned subsidiary of CT S.p.A. which in turn was controlled by Argepa and ZZS as to 48.8% and 47.15% respectively. By virtue of the SFO, each of CT S.p.A., Argepa and ZZS was deemed to be interested in the interests held by CTI S.A.

3. Max Same was a wholly-owned subsidiary of Cheung Kong and its interest was included in the interests held by Cheung Kong.

4. Li Ka-Shing Unity Holdings Limited ("Unity Holdco"), of which each of Mr. Li Ka-shing, Mr. Li Tzar Kuoi, Victor and Mr. Li Tzar Kai, Richard was interested in one-third of the entire issued share capital, owned the entire issued share capital of TUT1. TUT1 as trustee of The Li Ka-Shing Unity Trust ("UT1"), together with certain companies which TUT1 as trustee of UT1 was entitled to exercise or control the exercise of more than one-third of the voting power at their general meetings, held more than one-third of the issued share capital of Cheung Kong.

   In addition, Unity Holdco also owned the entire issued share capital of TDT1 as trustee of The Li Ka-Shing Unity Discretionary Trust ("DT1") and TDT2 as trustee of another discretionary trust ("DT2"). Each of TDT1 and TDT2 held units in UT1.

   By virtue of the SFO, each of Mr. Li Ka-shing, being the settlor and may being regarded as a founder of each of DT1 and DT2 for the purpose of the SFO, TUT1, TDT1 and TDT2 was deemed to be interested in the same block of shares in which Cheung Kong was interested under the SFO.

Save as disclosed above, at the balance sheet date, the Company has not been notified of any other person (other than the Directors and chief executives of the Company) who had an interest or short position of 5% or more in the shares and underlying shares of the Company which fell to be disclosed to the Company under Divisions 2 and 3 of Part XV of the SFO.

Report of the Directors

PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors of the Company, there is a sufficiency of public float of the Company's securities as required under the Listing Rules as at the date of this report.

SHARE OPTION SCHEME

On 7 June 2002, the Scheme which complies with the requirements of Chapter 17 of the Listing Rules was adopted by the shareholders of the Company.

The purpose of the Scheme is to enable the Company to grant share options to selected participants as incentives or rewards for their contributions to the Company and/or its subsidiaries and/or its associated companies. The Scheme will remain in force for a period of 10 years commencing on 7 June 2002, being the date of adoption of the Scheme, to 6 June 2012.

Under the Scheme, the Directors may, at their discretion, offer Directors (including Executive and Non-executive Directors), executives, officers, employees or shareholders of the Company or any of its subsidiaries or any of the associated companies, and any suppliers, customers, consultants, advisers, agents, partners or business associates who, in the sole discretion of the Directors, will contribute or have contributed to the Company or any of its subsidiaries or any of the associated companies, share options to subscribe for shares of the Company.

The total number of shares which may be issued upon exercise of all outstanding share options granted under the Scheme is 248,700,000 which represents approximately 3.43% of the issued share capital of the Company as at the date of this annual report. The maximum number of shares available for issue upon exercise of all share options which may be granted under the Scheme is 707,894,321, representing approximately 9.75% of the issued share capital of the Company as at the date of this annual report. The total number of shares issued and to be issued upon the exercise of share options granted under the Scheme (including exercised, cancelled and outstanding share options) to each grantee in any 12-month period up to the date of grant shall not exceed 1% of the issued share capital of the Company as at the date of grant. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting. Share options granted to a Director, chief executive or substantial shareholder of the Company, or to any of their associates, are subject to approval in advance by the Independent Non-executive Directors. In addition, any share options granted to a substantial shareholder or an Independent Non-executive Director of the Company, or to any of their associates, in excess of in aggregate 0.1% of the shares of the Company in issue (based on the date of offer) or an aggregate value of HK$5 million (based on the closing price of the Company's shares at the date of each offer), within any 12-month period, are subject to shareholders' approval in advance in a general meeting.

Report of the Directors

SHARE OPTION SCHEME (continued)

The period during which a share option may be exercised will be determined by the Directors of the Company at their absolute discretion, save that no share option may be exercised more than 10 years after it has been granted under the Scheme. There is no requirement that a share option must be held for any minimum period before it can be exercised but the Directors of the Company are empowered to impose at their discretion any such minimum period at the time of grant of any share options.

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

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

No share option was cancelled or lapsed in accordance with the terms of the Scheme during the year. Details of movements in the share options under the Scheme during the year were as follows:

	Options to subscribe for shares of the Company						
Category or name of grantees	At the beginning of the year	Granted during the year[1]	Exercised during the year[2]	At the end of the year	Date of grant	Exercise period	Exercise price per share
Directors of the Company							
Wang Qinghai	22,950,000	–	(22,950,000)	–	23.8.2002	23.8.2002 – 22.8.2012	HK$0.295
Cao Zhong	22,950,000	–	–	22,950,000	23.8.2002	23.8.2002 – 22.8.2012	HK$0.295
	91,820,000[3]	–	–	91,820,000	18.11.2003	18.11.2003 – 17.11.2013	HK$0.410
	–	65,000,000[4]	–	65,000,000	20.12.2007	20.12.2007 – 19.12.2014	HK$2.944
	114,770,000	65,000,000	–	179,770,000			
Chen Zhouping	9,180,000	–	–	9,180,000	12.3.2003	12.3.2003 – 11.3.2013	HK$0.280
	57,388,000[3]	–	–	57,388,000	18.11.2003	18.11.2003 – 17.11.2013	HK$0.410
	–	45,000,000[4]	–	45,000,000	20.12.2007	20.12.2007– 19.12.2014	HK$2.944
	66,568,000	45,000,000	–	111,568,000			

Report of the Directors

SHARE OPTION SCHEME (continued)

Category or name of grantees	Options to subscribe for shares of the Company: At the beginning of the year	Granted during the year[1]	Exercised during the year[2]	At the end of the year	Date of grant	Exercise period	Exercise price per share
Zhang Wenhui	22,950,000	–	–	22,950,000	23.8.2002	23.8.2002 – 22.8.2012	HK$0.295
	52,796,000[3]	–	–	52,796,000	18.11.2003	18.11.2003 – 17.11.2013	HK$0.410
	–	35,000,000[4]	–	35,000,000	20.12.2007	20.12.2007 – 19.12.2014	HK$2.944
	75,746,000	35,000,000	–	110,746,000			
Luo Zhenyu	–	25,000,000[4]	–	25,000,000	20.12.2007	20.12.2007 – 19.12.2014	HK$2.944
Ip Tak Chuen, Edmond	8,000,000	–	–	8,000,000	23.8.2002	23.8.2002 – 22.8.2012	HK$0.295
	4,590,000	–	–	4,590,000	12.3.2003	12.3.2003 – 11.3.2013	HK$0.280
	12,590,000	–	–	12,590,000			
Leung Shun Sang, Tony	8,000,000	–	(8,000,000)	–	23.8.2002	23.8.2002 – 22.8.2012	HK$0.295
	4,590,000	–	(4,590,000)	–	12.3.2003	12.3.2003 – 11.3.2013	HK$0.280
	12,590,000	–	(12,590,000)	–			
Kan Lai Kuen, Alice	–	1,500,000	–	1,500,000	20.12.2007	20.12.2007 – 19.12.2014	HK$2.944
Wong Kun Kim	–	1,500,000	–	1,500,000	20.12.2007	20.12.2007 – 19.12.2014	HK$2.944
Leung Kai Cheung	–	1,500,000	–	1,500,000	20.12.2007	20.12.2007 – 19.12.2014	HK$2.944
	305,214,000	174,500,000	(35,540,000)	444,174,000			
Employees of the Group	110,000	–	–	110,000	12.3.2003	12.3.2003 – 11.3.2013	HK$0.280
	6,000,000	–	(6,000,000)	–	18.3.2004	18.3.2004 – 17.3.2014	HK$0.660
	–	38,000,000[4]	–	38,000,000	20.12.2007	20.12.2007 – 19.12.2014	HK$2.944
	6,110,000	38,000,000	(6,000,000)	38,110,000			
Other participants	53,750,000	–	(53,700,000)	50,000	23.8.2002	23.8.2002 – 22.8.2012	HK$0.295
	61,850,000	–	(38,900,000)	22,950,000	12.3.2003	12.3.2003 – 11.3.2013	HK$0.280
	5,000,000	–	(5,000,000)	–	18.3.2004	18.3.2004 – 17.3.2014	HK$0.660
	–	1,000,000[4]	–	1,000,000	20.12.2007	20.12.2007 – 19.12.2014	HK$2.944
	120,600,000	1,000,000	(97,600,000)	24,000,000			
	431,924,000	213,500,000	(139,140,000)	506,284,000			

Report of the Directors

SHARE OPTION SCHEME (continued)

Notes:

1. (a) The closing price of the shares of the Company immediately before the date on which the share options were granted was HK$2.81 per share.

   (b) The fair value per option of which on the date of grant was HK$1.2168, HK$1.2493, HK$1.3054, HK$1.3475 and HK$1.3724 for options start to vest on 20 December 2007, 20 December 2008, 20 December 2009, 20 December 2010 and 20 December 2011 respectively. These fair values were calculated using the Binominal Option Pricing Model. The inputs into the model were as follows:–

Share price on grant date	HK$2.85
Exercise price	HK$2.944
Expected volatility	59.36%
Contractual life	7 years
Risk-free rate	3.103%
Expected dividend yield	2.6%

   Expected volatility was determined by using the historical volatility of the share price of the Company over the previous years. The expected life used in the model has been adjusted, based on the Company's management's best estimate, for the effects of non transferability, exercise restrictions and behavioral considerations. The value of an option varies with different variables of certain subjective assumptions.

   The Group recognised the total expense of HK$59,726,000 for the year ended 31 December 2007 in relation to share options granted by the Company.

2. The weighted average closing price of the shares of the Company immediately before the date on which the share options were exercised was approximately HK$2.74 per share.

3. The number of share options granted to Mr. Cao Zhong, Mr. Chen Zhouping and Mr. Zhang Wenhui, all being Directors of the Company as at 31 December 2007, on 18 November 2003 each exceeded the individual limit of 1% of the shares of the Company then in issue and were approved by the shareholders of the Company on 18 November 2003.

4. Such share options are subject to the restrictions that up to 20%, 40%, 60%, 80% and 100% of the total options granted will be exercisable during the period of 12th, 24th, 36th, 48th and the expiry of the 48th months respectively from the date of acceptance of the grant of options by the relevant grantees.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities (whether on the Stock Exchange or otherwise) during the year.

Report of the Directors

DISTRIBUTION RESERVES

At the balance sheet date, the Company had approximately HK$690,763,000 reserves available for distribution as calculated in accordance with the provisions of Section 79B of the Companies Ordinance, of which approximately HK$560,256,000 has been proposed as final and special dividends for the year.

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the five largest customers accounted for less than 30% of the total sales for the year. Purchases from the five largest suppliers accounted for 40% of the total purchases for the year and purchases from the largest supplier included therein amounted to 26%. The Company's ultimate holding company has beneficial interests in 3 of the Group's five largest suppliers. Save as disclosed above, none of the Directors of the Company or any of their associates or any shareholders (which, to the best knowledge of the Directors, own more than 5% of the Company's share capital) had any beneficial interest in the Group's five largest customers and suppliers.

CONNECTED TRANSACTIONS

Continuing connected transactions

The following continuing connected transactions were recorded during the year and up to the date of this annual report:

The continuing connected transactions as mentioned in item (a) below for a period of three financial years ended 31 December 2007, the continuing connected transactions as mentioned in items (b), (c) and (d) below for a period of three financial years ending 31 December 2009 and the continuing connected transactions as mentioned in item (e) below for a period of three financial years ending 31 December 2010 have been approved by the shareholders of the Company other than Shougang Holding and its associates (the "Independent Shareholders") in compliance with the Listing Rules:

(a) the purchases of raw materials and products principally iron ore and steel products from Shougang Corporation and/or its associates (collectively "Shougang Group") by Shougang Concord Steel International Trading Co. Ltd. ("Shougang Concord Steel"), a wholly-owned subsidiary of the Company.

Report of the Directors

CONNECTED TRANSACTIONS (continued)

Continuing connected transactions (continued)

(b) (i) the sales of energy, raw materials and products (including electricity, steam and hot water) to Shougang Group by the Company's non-wholly owned subsidiary, Beijing Shougang Firstlevel Power Co., Ltd. and/or its associates (collectively "Beijing Power Plant") (the "BSFPCL Sales"); and (ii) the purchases of energy, raw materials (including water, coal, gas, nitrogen, coal gas for high temperature boilers and furnaces, compressed air, steam and chemicals), products (including spare parts and components) and services (including construction, repair and maintenance and daily amenity services) by Beijing Power Plant from Shougang Group (the "BSFPCL Purchases").

(c) (i) the sales of steel products (including steel slabs and steel plates), services (including processing services) and other related products and/or services to Shougang Group by the Company's non-wholly owned subsidiary, Qinhuangdao Shouqin Metal Materials Co., Ltd. and/or its associates (collectively "Shouqin") (the "Shouqin Sales"); and (ii) the purchases of raw materials (including ore powders and iron ores), materials (including steel materials, wire-rods, flame durable bricks and flame durable materials), fuel (including coal and coking coal), equipment (including various types of equipment for the production of steel products) and services (including repair and maintenance services) from Shougang Group by Shouqin (the "Shouqin Purchases").

(d) (i) the sales of steel products (including steel plates), scrap materials (including scrap metals), services (including processing services) and other related products to Shougang Group by the Company's wholly-owned subsidiary, Qinhuangdao Shougang Plate Mill Co., Ltd. and/or its associates (collectively "Qinhuangdao Plate Mill") (the "QHD Sales"); and (ii) the purchases of raw materials (including steel billets, iron ingots and steel slabs), spare parts, energy and services (including repair and maintenance services) in relation to the production of steel products and other related products by Qinhuangdao Plate Mill from Shougang Group (the "QHD Purchases").

(e) (i) the sales of raw materials (including iron ore) and steel products and other related products to Shougang Group by Shougang Concord Steel and/or its associates (the "Steel Sales"); and (ii) the purchases of raw materials (including steel slabs) and products (including steel products) by Shougang Concord Steel and/or its associates from Shougang Group (the "Steel Purchases").

Details of the continuing connected transactions as mentioned in item (a) above have been included in the Company's previous annual report in compliance with the Listing Rules. The details of the continuing connected transactions as mentioned in items (b) to (e) above are as follows:

Report of the Directors

CONNECTED TRANSACTIONS (continued)

Continuing connected transactions (continued)

As set out in the Company's circular dated 12 October 2007, each of Beijing Power Plant, Shouqin, Qinhuangdao Plate Mill and Shougang Concord Steel entered into a master agreement (the "Master Agreement" and collectively the "Master Agreements") governing the connected transactions mentioned in items (b), (c), (d) and (e) above respectively with Shougang Corporation, a connected person of the Company by virtue of it being the holding company of Shougang Holding which in turn is the controlling shareholder of the Company on, 21 September 2007. Each of the Master Agreements governing the transactions as mentioned in items (b) to (d) above has a fixed term of three financial years ending 31 December 2009 and the Master Agreement governing the transactions as mentioned in item (e) above has a fixed term of three financial years ending 31 December 2010. The proposed cap amounts of the transactions contemplated under the Master Agreements will not exceed the followings:

	Financial year ending 31 December			
Types of transactions	**2007**	**2008**	**2009**	**2010**
	HK$' million	*HK$' million*	*HK$' million*	*HK$' million*
BSFPCL Sales	600	600	600	N/A
BSFPCL Purchases	400	450	450	N/A
Shouqin Sales	5,500	7,500	7,500	N/A
Shouqin Purchases	6,000	6,000	6,000	N/A
QHD Sales	800	1,100	1,400	N/A
QHD Purchases	150	230	420	N/A
Steel Sales	N/A	300	300	300
Steel Purchases	N/A	1,000	1,000	1,000

As Shougang Corporation is one of the largest steel producers in the People's Republic of China (the "PRC"), the transactions with Shougang Corporation contemplated under the Master Agreements would guarantee a stable source of supply of raw materials/steel products and regular sales to one of the largest steel companies in the PRC.

The transactions contemplated under the Master Agreements are subject to various conditions as set out in the said circular. Each of the Master Agreements was ratified, approved and confirmed and the said proposed cap amounts were approved by the Independent Shareholders on 30 October 2007.

The above 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:

(1) the transactions were entered into in the ordinary and usual course of business of the relevant members of the Group;

Report of the Directors

CONNECTED TRANSACTIONS (continued)

Continuing connected transactions (continued)

(2) the transactions were conducted on normal commercial terms, or if there is no available comparison, on terms that are no less favourable than terms available to or from (as the case may be) independent third parties; and

(3) the transactions were entered into in accordance with the relevant agreements governing such transactions on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

The auditor of the Company has provided a letter to the Board of Directors of the Company confirming the matters stated in Rule 14A.38 of the Listing Rules in respect of the continuing connected transactions took place during the year.

Subscription of new shares of Shougang Century

As set out in the Company's circular dated 21 December 2007, the Company entered into a subscription agreement (the "Subscription Agreement") with Shougang Century on 29 November 2007. Pursuant to the Subscription Agreement, the Company conditionally agreed to subscribe for and Shougang Century conditionally agreed to issue, a total of 400,000,000 new ordinary shares of HK$0.10 each in the share capital of Shougang Century (the "Subscription Shares") to the Company at the price of HK$1.03 per Subscription Share (the "Subscription").

As at the date of the Subscription Agreement, Shougang Holding and its associates held an aggregate of approximately 35.5% of the issued share capital of Shougang Century and an aggregate of approximately 40.7% of the issued share capital of the Company. The Subscription constituted a connected transaction for the Company under Rule 14A.13(1)(b)(i) of the Listing Rules. The Subscription can strengthen the Company's control over Shougang Century and it is expected that Shougang Century can further contribute to the profitability of the Group having taken into account of the business prospect of Shougang Century. The Subscription Agreement was ratified, approved and confirmed by the Independent Shareholders on 10 January 2008 and was completed subsequent to the balance sheet date on 18 January 2008. Upon completion of the Subscription Agreement, the interests in Shougang Century held by the Company increased from approximately 22.3% as at the date of the Subscription Agreement to approximately 36.4%.

As far as the transactions set out in note 51 to the financial statements under the heading of "Related Party Disclosures" are concerned, the transactions as set out in notes (a), (b), (c), (f), (j), (k) and (l) were continuing connected transactions which have been previously approved by the independent shareholders of the Company. The transactions as set out in notes (d), (e), (g), (h), (i) and (m) were connected transactions or incidental to the connected transactions which were exempt from any disclosure and shareholders' approval requirements under the Listing Rules.

Report of the Directors

DISCLOSURE UNDER RULE 13.18 OF THE LISTING RULES

(a) Under the dual currency facility agreement dated 1 February 2006 entered into between a number of banks and the Company in relation to the facility in the amounts of HK$163,800,000 and US$129,000,000 (equivalent to an aggregate of approximately US$150,000,000) made available by the banks to the Company, each of the following will constitute an event of default upon which the facility will, among others, become immediately due and payable: (i) Shougang Holding ceases to be the single largest beneficial shareholder of the Company; (ii) Shougang Holding ceases to have management control in the Company; (iii) Shougang Holding ceases to be a wholly-owned subsidiary of Shougang Corporation, the holding company of Shougang Holding; and (iv) Shougang Corporation ceases to have management control in Shougang Holding. The facility is a term loan facility which shall be repaid by the Company by instalments with the last instalment due on the date falling 60 months after the date of the facility agreement, subject to early repayment on the date following 36 months after the date of the facility agreement upon the relevant bank(s) giving not less than 6 months' prior notice. During the year, the Company repaid all loan together with the relevant accrued interest under the facility agreement.

(b) Under the loan agreement dated 22 November 2007 entered into between Bank of China (Hong Kong) Limited and Shouqin, a 76% indirectly owned subsidiary of the Company, in relation to a loan in an amount of RMB1,500,000,000, breach of any of the following undertakings by Shougang Corporation during the term of the loan agreement will constitute an event of default upon which the loan will, among others, become immediately due and payable: (i) Shougang Corporation will beneficially own at least 51% interests in Beijing Shougang Company Limited; (ii) Shougang Corporation will beneficially own at least 35% of the issued share capital of the Company; and (iii) the net asset value of Shougang Corporation will not be less than RMB15,000,000,000. The loan shall be repaid by Shouqin by instalments with the last instalment due on the date falling 36 months after the date of first drawn of the loan.

(c) Under the facility agreement dated 28 February 2008 entered into between a syndicate of banks and the Company in relation to term and revolving credit facilities in a total principal amount of US$320,000,000 made available by the banks to the Company, each of the following will constitute an event of default upon which the facilities will, among others, become immediately due and payable: (i) Shougang Holding ceases to be the single largest beneficial shareholder of the Company; (ii) Shougang Holding ceases to be a wholly-owned subsidiary of Shougang Corporation; and (iii) Shougang Corporation ceases to have management control in Shougang Holding. The US$200,000,000 term loan facility shall be repaid by the Company by instalments with the last instalment due on the date falling 48 months after the date of the facility agreement. The US$120,000,000 revolving loan facility may be reborrowed by the Company subject to the final maturity day being the date which is falling 48 months after the date of the facility agreement.

Report of the Directors

(d) Under the loan agreements entered or to be entered into between certain banks and Shouqin in relation to loans in an aggregate amount of RMB600,000,000, breach of any of the following undertakings by Shougang Corporation during the term of the loan agreements will constitute an event of default upon which the loans will, among others, become immediately due and payable: (i) Shougang Corporation will beneficially own at least 51% interests in Beijing Shougang Company Limited; (ii) Shougang Corporation will beneficially own at least 35% of the issued share capital of the Company; and (iii) the net asset value of Shougang Corporation will not be less than RMB15,000,000,000. The loans shall be repaid by Shouqin by instalments with the last instalment due on 23 November 2010.

CORPORATE GOVERNANCE

The Company's corporate governance practices are set out in the Corporate Governance Report on pages 20 to 32 of this annual report.

POST BALANCE SHEET EVENTS

Details of significant events occurring after the balance sheet date are set out in note 50 to the financial statements.

AUDITOR

A resolution will be submitted to the forthcoming annual general meeting to re-appoint Messrs. Deloitte Touche Tohmatsu as auditor of the Company.

By Order of the Board
Cao Zhong
Managing Director

Hong Kong, 16 April 2008

Independent Auditor's Report

Deloitte.
德勤

TO THE MEMBERS OF
SHOUGANG CONCORD INTERNATIONAL ENTERPRISES COMPANY LIMITED
首長國際企業有限公司
(incorporated in Hong Kong with limited liability)

We have audited the financial statements of Shougang Concord International Enterprises Company Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 54 to 169, which comprise the consolidated balance sheet and Company's balance sheet as at 31 December 2007, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the consolidated financial statements

The Directors of the Company are responsible for the preparation and the true and fair presentation of these consolidated financial statements in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with section 141 of the Hong Kong Companies Ordinance and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the consolidated financial statements are free from material misstatement.

Independent Auditor's Report

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2007 and of the Group's profit and cash flows for the year then ended in accordance with HKFRSs and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
16 April 2008

Consolidated Income Statement

For the year ended 31 December 2007

	Notes	2007 HK$'000	2006 HK$'000
Continuing operations			
Revenue	6	11,407,570	6,381,328
Cost of sales		(9,099,228)	(5,527,481)
Gross profit		2,308,342	853,847
Other income and gains	7	352,398	101,184
Distribution costs		(176,540)	(115,336)
Administrative expenses		(542,457)	(315,277)
Finance costs	8	(358,083)	(260,780)
Share of profit of an associate		23,282	20,974
Gain on disposal of partial interest in a subsidiary	9	103,710	–
Gain (loss) on deemed disposal of partial interest in an associate		5,166	(4,582)
Profit before taxation		1,715,818	280,030
Income tax expense	10	(35,127)	(26,613)
Profit for the year from continuing operations		1,680,691	253,417
Discontinued operation			
(Loss) profit for the year from discontinued operation	11	(7,872)	2,347
Profit for the year	12	1,672,819	255,764
Attributable to:			
Equity holders of the parent		1,404,196	221,618
Minority interests		268,623	34,146
		1,672,819	255,764
Dividends recognised as distribution during the year	14		
Final dividend of HK2.1 cents (2006: HK0.6 cent) per ordinary share		123,162	35,185
Earnings per share	15		
From continuing and discontinued operations:			
– Basic		22.12 HK cents	3.88 HK cents
– Diluted		21.10 HK cents	3.75 HK cents
From continuing operations:			
– Basic		22.24 HK cents	3.84 HK cents
– Diluted		21.22 HK cents	3.71 HK cents

Consolidated Balance Sheet

At 31 December 2007

	Notes	2007 HK$'000	2006 HK$'000
NON-CURRENT ASSETS			
Investment properties	16	32,217	35,660
Property, plant and equipment	17	7,818,140	6,911,247
Prepaid lease rentals	18	354,243	275,535
Intangible assets	19	77	472
Goodwill	20	283,122	292,170
Interest in an associate	23	310,368	215,022
Available-for-sale investments	24	467,573	–
Deposits for acquisition of property, plant and equipment	25	319,774	174,620
		9,585,514	7,904,726
CURRENT ASSETS			
Amounts due from customers for contract work	26	–	186
Inventories	27	1,299,129	847,013
Trade and bill receivables	28	845,043	375,192
Prepayments, deposits and other receivables	28	359,709	81,137
Prepaid lease rentals	18	9,431	8,976
Tax recoverable		8,778	4,936
Amounts due from related companies	29	679,893	177,979
Amount due from a minority shareholder of a subsidiary	29	3,204	2,990
Amount due from ultimate holding company of controlling shareholder	30	269,570	1,703
Other financial assets	31	177,654	–
Restricted deposits	32	68,779	116,277
Pledged deposit	33	–	10,123
Bank balances and cash	33	3,256,837	1,728,222
		6,978,027	3,354,734
CURRENT LIABILITIES			
Amounts due to customers for contract work	26	–	562
Trade and bill payables	34	954,829	523,834
Other payables and accrued liabilities	34	1,597,538	884,821
Tax payable		16,233	2,825
Amounts due to related companies	29	546,797	633,165
Amount due to ultimate holding company of controlling shareholder	30	209,281	56,676
Obligation under a finance lease – due within one year	35	–	267
Bank borrowings – due within one year	36	3,194,900	3,021,425
Other financial liabilities	31	13,949	91
Loans from ultimate holding company of controlling shareholder	37	1,070,663	785,750
		7,604,190	5,909,416
NET CURRENT LIABILITIES		(626,163)	(2,554,682)
TOTAL ASSETS LESS CURRENT LIABILITIES		8,959,351	5,350,044

Consolidated Balance Sheet

At 31 December 2007

	Notes	2007 HK$'000	2006 HK$'000
NON-CURRENT LIABILITIES			
Bank borrowings – due after one year	36	**965,044**	1,555,781
Other payables		**–**	149,268
Deferred tax liabilities	38	**50,374**	44,153
Loans from ultimate holding company of controlling shareholder	37	**–**	338,814
		1,015,418	2,088,016
		7,943,933	3,262,028
CAPITAL AND RESERVES			
Share capital	39	**1,400,639**	1,172,811
Share premium and reserves		**5,414,092**	1,770,783
Equity attributable to equity holders of the parent		**6,814,731**	2,943,594
Minority interests		**1,129,202**	318,434
		7,943,933	3,262,028

The financial statements on pages 54 to 169 were approved and authorised for issue by the Board of Directors on 16 April 2008 and are signed on its behalf by:

Cao Zhong
DIRECTOR

Chen Zhouping
DIRECTOR

Balance Sheet

At 31 December 2007

	Notes	2007 HK$'000	2006 HK$'000
NON-CURRENT ASSETS			
Interests in subsidiaries	22	534,797	454,688
Amounts due from subsidiaries	22	2,466,882	1,852,794
		3,001,679	2,307,482
CURRENT ASSETS			
Other receivables	28	4,405	3,503
Tax recoverable		870	–
Pledged deposit	33	–	10,123
Bank balances and cash	33	1,596,516	851,515
		1,601,791	865,141
CURRENT LIABILITIES			
Other payables and accrued liabilities	34	15,373	9,484
Amount due to a related company	29	12	–
Other financial liabilities	31	20,166	3,654
		35,551	13,138
NET CURRENT ASSETS		1,566,240	852,003
TOTAL ASSETS LESS CURRENT LIABILITIES		4,567,919	3,159,485
NON-CURRENT LIABILITIES			
Bank borrowings – due after one year	36	–	1,157,176
		4,567,919	2,002,309
CAPITAL AND RESERVES			
Share capital	39	1,400,639	1,172,811
Share premium and reserves	41	3,167,280	829,498
		4,567,919	2,002,309

Cao Zhong
DIRECTOR

Chen Zhouping
DIRECTOR

Consolidated Statement of Changes In Equity

For the year ended 31 December 2007

	Attributable to equity holders of the parent														
	Share capital HK$'000	Share premium HK$'000	Capital redemption reserve HK$'000	Revaluation reserve HK$'000 (Note c)	Exchange reserve HK$'000	Share option reserve HK$'000	Special capital reserve HK$'000 (Note a)	Capital reserve HK$'000	Enterprise expansion fund and statutory reserve fund HK$'000 (Note b)	Security investment reserve HK$'000	Non-distributable reserve HK$'000	Accumulated profits HK$'000	Total HK$'000	Minority interests HK$'000	Total HK$'000
At 1 January 2006	986,811	112,169	1,019	47,584	57,002	–	292,655	537	162,226	–	–	515,895	2,175,898	257,907	2,433,805
Movements in reserves of an associate	–	–	–	624	6,284	–	–	–	–	–	–	103	7,011	–	7,011
Exchange differences arising on translation	–	–	–	–	80,676	–	–	–	–	–	–	–	80,676	10,481	91,157
Surplus on revaluation of properties	–	–	–	3,217	–	–	–	–	–	–	–	–	3,217	–	3,217
Net income recognised directly in equity	–	–	–	3,841	86,960	–	–	–	–	–	–	103	90,904	10,481	101,385
Released on deemed disposal of partial interest in an associate	–	–	–	(30)	(2,080)	–	–	(106)	(2,271)	–	–	2,271	(2,216)	–	(2,216)
Profit for the year	–	–	–	–	–	–	–	–	–	–	–	221,618	221,618	34,146	255,764
Total recognised income and expense for the year	–	–	–	3,811	84,880	–	–	(106)	(2,271)	–	–	223,992	310,306	44,627	354,933
Acquisition of additional equity interest in a subsidiary	–	–	–	–	–	–	–	–	–	–	–	–	–	(3,780)	(3,780)
Transfer in reserves of associates	–	–	–	–	–	–	–	–	4,739	–	–	(4,739)	–	–	–
Transfer to enterprise expansion and statutory reserve fund	–	–	–	–	–	–	–	–	26,681	–	–	(26,681)	–	–	–
Shares issued at premium	185,800	306,570	–	–	–	–	–	–	–	–	–	–	492,370	–	492,370
Effects of share options	200	95	–	–	–	–	–	–	–	–	–	–	295	–	295
Share issue expenses	–	(90)	–	–	–	–	–	–	–	–	–	–	(90)	–	(90)
Contribution from a minority shareholder	–	–	–	–	–	–	–	–	–	–	–	–	–	30,975	30,975
Dividends paid to minority interests	–	–	–	–	–	–	–	–	–	–	–	–	–	(11,295)	(11,295)
Dividends recognised as distributions	–	–	–	–	–	–	–	–	–	–	–	(35,185)	(35,185)	–	(35,185)
Sub-total	186,000	306,575	–	–	–	–	–	–	31,420	–	–	(66,605)	457,390	15,900	473,290
At 31 December 2006	1,172,811	418,744	1,019	51,395	141,882	–	292,655	431	191,375	–	–	673,282	2,943,594	318,434	3,262,028

Consolidated Statement of Changes In Equity

For the year ended 31 December 2007

	Attributable to equity holders of the parent														
	Share capital HK$'000	Share premium HK$'000	Capital redemption reserve HK$'000	Revaluation reserve HK$'000 (Note c)	Exchange reserve HK$'000	Share option reserve HK$'000	Special capital reserve HK$'000 (Note a)	Capital reserve HK$'000	Enterprise expansion fund and statutory reserve fund HK$'000 (Note b)	Security investment reserve HK$'000	Non-distributable reserve HK$'000	Accumulated profits HK$'000	Total HK$'000	Minority interests HK$'000	Total HK$'000
Movements in reserves of an associate	–	–	–	970	10,446	–	–	(407)	–	60,366	–	–	71,375	–	71,375
Exchange differences arising on translation	–	–	–	–	219,431	–	–	–	–	–	–	–	219,431	56,483	275,914
Effect of changes in tax rate	–	–	–	(2,877)	–	–	–	–	–	–	–	–	(2,877)	–	(2,877)
Change in fair value of available-for-sale investments	–	–	–	–	–	–	–	–	–	255,470	–	–	255,470	–	255,470
Net (expenses) income recognised directly in equity	–	–	–	(1,907)	229,877	–	–	(407)	–	315,836	–	–	543,399	56,483	599,882
Released on deemed disposal of partial interest in an associate	–	–	–	(65)	(1,521)	–	–	(24)	(875)	–	–	875	(1,610)	–	(1,610)
Disposal of properties	–	–	–	(1,158)	–	–	–	–	–	–	–	1,158	–	–	–
Disposal of partial interest in a subsidiary	–	–	–	(17,447)	(13,660)	–	–	–	(11,325)	–	–	28,772	(13,660)	312,714	299,054
Profit for the year	–	–	–	–	–	–	–	–	–	–	–	1,404,196	1,404,196	268,623	1,672,819
Total recognised income and expense for the year	–	–	–	(20,577)	214,696	–	–	(431)	(12,200)	315,836	–	1,435,001	1,932,325	637,820	2,570,145
Transfer to enterprise expansion and statutory reserve fund	–	–	–	–	–	–	–	–	275,713	–	–	(275,713)	–	–	–
Transfer to accumulated profits *(Note a)*	–	–	–	–	–	–	(292,655)	–	–	–	–	292,655	–	–	–
Transfer from general reserve	–	–	–	–	–	–	–	–	(51,979)	–	51,979	–	–	–	–
Shares issued at premium	200,000	1,808,000	–	–	–	–	–	–	–	–	–	–	2,008,000	–	2,008,000
Effects of share options	27,828	16,580	–	–	–	–	–	–	–	–	–	–	44,408	–	44,408
Share issue expenses	–	(50,160)	–	–	–	–	–	–	–	–	–	–	(50,160)	–	(50,160)
Dividends paid to minority interests	–	–	–	–	–	–	–	–	–	–	–	–	–	(13,949)	(13,949)
Dividends recognised as distribution	–	–	–	–	–	–	–	–	–	–	–	(123,162)	(123,162)	–	(123,162)
Recognition of equity-settled share based payment	–	–	–	–	–	59,726	–	–	–	–	–	–	59,726	–	59,726
Disposal of subsidiaries	–	–	–	–	–	–	–	–	–	–	–	–	–	(25)	(25)
Contribution from a minority shareholder	–	–	–	–	–	–	–	–	–	–	–	–	–	186,922	186,922
Sub-total	227,828	1,774,420	–	–	–	59,726	(292,655)	–	223,734	–	51,979	(106,220)	1,938,812	172,948	2,111,760
At 31 December 2007	1,400,639	2,193,164	1,019	30,818	356,578	59,726	–	–	402,909	315,836	51,979	2,002,063	6,814,731	1,129,202	7,943,933

Consolidated Statement of Changes In Equity

For the year ended 31 December 2007

Notes:

(a) Special Capital Reserve of the Group was created through cancellation of share premium and capital reserve accounts (the "Cancellation") pursuant to the order of the High Court of Hong Kong (the "High Court") made on 1 September 2005.

Pursuant to the order of the High Court, subjecting to the provisos of the court order, the Company shall be at liberty to transfer the Special Capital Reserve to the general reserves of the Company and the same shall become available for distribution.

During the year ended 31 December 2006, the Company fulfilled one of the provisos of the court order and decided to transfer the Special Capital Reserve to the accumulated profit during the year ended 31 December 2007.

Details of the transfer are set out in note 41.

(b) Enterprise expansion fund and statutory reserve fund, which are non-distributable, are appropriated from the profit after taxation of the Company's subsidiaries and associates under the applicable laws and regulations in the People's Republic of China (other than Hong Kong).

(c) Revaluation reserve mainly represented the fair value recognised on prepaid lease rentals upon the acquisition of Qinhuangdao Shouqin Metal Materials Co., Ltd. ("Shouqin") in 2005.

Consolidated Cash Flow Statement

For the year ended 31 December 2007

	Notes	2007 HK$'000	2006 HK$'000
OPERATING ACTIVITIES			
Profit before tax from continuing and discontinued operations		**1,708,424**	282,404
Adjustments for:			
Interest income		**(94,004)**	(52,163)
Interest expenses		**358,099**	260,812
Share of results of associates		**(23,282)**	(20,974)
Share based payments		**59,726**	–
(Gain) loss on deemed disposal of partial interest in an associate		**(5,166)**	4,582
Increase in fair value of investment properties		**(3,033)**	(4,358)
Gain on disposal of partial interest in a subsidiary		**(103,710)**	–
Loss on disposal of subsidiaries		**7,053**	–
Loss on disposal of property, plant and equipment		**3,066**	1,182
Depreciation of property, plant and equipment		**439,149**	249,038
Amortisation of intangible assets		**414**	556
Discount on acquisition of additional equity interest in a subsidiary		**–**	(3,780)
Amortisation of prepaid lease rentals		**9,169**	9,236
Fair value change on option to subscribe for shares of a listed company in Australia		**(150,409)**	–
Fair value changes on derivative financial instruments		**(12,291)**	(2,012)
(Reversal of) allowance for inventories		**(10,606)**	1,001
Write-back of amount due to related company		**(13)**	–
(Reversal of) allowance for bad and doubtful debt, net		**(16,240)**	1,231
Operating cash flows before movements in working capital		**2,166,346**	726,755
Decrease in amounts due from customers for contract work		**186**	126
Increase in inventories		**(381,441)**	(311,177)
Increase in trade and bill receivables		**(480,002)**	(42,682)
Increase in prepayments, deposits and other receivables		**(272,269)**	(51,133)
Increase in amounts due from related companies		**(488,814)**	(18,320)
(Increase) decrease in amount due from ultimate holding company of controlling shareholder		**(266,702)**	11,356
Decrease in amounts due to customers for contract work		**(562)**	(304)
Increase (decrease) in trade and bill payables		**399,075**	(4,372)
Increase in other payables and accrued liabilities		**931,116**	550,874
Increase in amount due to ultimate holding company of controlling shareholder		**96,522**	(315,954)
(Decrease) increase in amounts due to related companies		**(212,007)**	386,934
Cash generated from operations		**1,491,448**	932,103
Interest paid		**(354,374)**	(304,153)
Income taxes paid		**(25,318)**	(18,709)
Income taxes refunded		**531**	1,521
NET CASH FROM OPERATING ACTIVITIES		**1,112,287**	610,762

Consolidated Cash Flow Statement

For the year ended 31 December 2007

	Notes	2007 HK$'000	2006 HK$'000
INVESTING ACTIVITIES			
Purchase of property, plant and equipment		(1,010,377)	(2,008,244)
Purchase of investment properties		(1,249)	–
Increase in deposits for acquisition of property, plant and equipment		(306,498)	(173,142)
Addition of prepaid lease rentals		(75,332)	(428)
Purchase of available-for-sale investments		(212,103)	–
Decrease in restricted deposits		56,339	95,770
Decrease (increase) in pledged deposits		10,123	(10,123)
Interest received		91,573	52,163
Increase in amount due from ultimate holding company of controlling shareholder		(1,036)	–
Proceeds from disposal of property, plant and equipment		2,121	5,748
Decrease in amounts due from related companies		1,275	6,980
Proceeds from disposal of partial interest in a subsidiary		411,812	–
Net cash outflow from disposal of subsidiaries	11	(394)	–
Dividends received from an associate		2,867	–
Proceeds from disposal of investment properties		17,910	–
NET CASH USED IN INVESTING ACTIVITIES		(1,012,969)	(2,031,276)
FINANCING ACTIVITIES			
New borrowings raised		3,806,102	3,862,707
Proceeds from issue of shares		2,052,408	492,665
Expenses on issue of shares		(50,160)	(90)
(Repayment of) loan from ultimate holding company of controlling shareholder		(139,395)	298,954
Capital contribution from a minority shareholder of a subsidiary		186,922	30,975
Repayment of bank borrowings		(4,480,663)	(1,797,238)
Repayment of loan from a related company		–	(242,189)
Increase in amounts due to related companies		78,564	26,791
Increase (decrease) in amount due to ultimate holding company of controlling shareholder		51,774	(53,351)
Payment of dividend		(123,162)	(35,185)
Dividend paid to minority shareholders of a subsidiary		(13,949)	(11,295)
Repayment of a finance lease		(267)	(534)
NET CASH FROM FINANCING ACTIVITIES		1,368,174	2,572,210
NET INCREASE IN CASH AND CASH EQUIVALENTS		1,467,492	1,151,696
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		1,728,222	558,317
Effect of foreign exchange rate changes		61,123	18,209
CASH AND CASH EQUIVALENTS AT END OF THE YEAR, represented by bank balances and cash		3,256,837	1,728,222

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

1. GENERAL

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

The Company is an investment holding company. The principal activities of the Company's principal subsidiaries and associates are set out in note 52.

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

2. BASIS OF PREPARATION OF FINANCIAL STATEMENTS

The Group had net current liabilities of approximately HK$626,163,000 at 31 December 2007. Notwithstanding, the Directors are of the opinion that the preparation of these financial statements under a going concern basis is appropriate because new banking facilities have been obtained.

In November 2007, a subsidiary of the Company entered into a facility agreement with a bank and RMB1,500 million (equivalent to approximately HK$1,608 million) loan facility was granted. As at 31 December 2007, RMB1,100 million (equivalent to approximately HK$1,179 million) loan facility has not yet been utilised. In February 2008, the Company entered into another facility agreement with a number of banks and a long-term loan facility of US$320 million (equivalent to approximately HK$2,496 million) was made available by those banks to the Company as disclosed in note 50(c). The Company is able to utilise these banking facilities to meet in full its financial obligations as and when they arise and to continue its operations in the foreseeable future.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

In the current year, the Group has applied, for the first time, a new standard, an amendment and interpretations ("new HKFRSs") issued by the Hong Kong Institute of Certificate Public Accountants ("HKICPA"), which are effective for the Group's financial year beginning 1 January 2007.

HKAS 1 (Amendment)	Capital Disclosures
HKFRS 7	Financial Instruments: Disclosures
HK(IFRIC) – Int 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies
HK(IFRIC) – Int 8	Scope of HKFRS 2
HK(IFRIC) – Int 9	Reassessment of Embedded Derivatives
HK(IFRIC) – Int 10	Interim Financial Reporting and Impairment

The adoption of these 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 applied the disclosure requirements under HKAS 1 (Amendment) and HKFRS 7 retrospectively. Certain information presented in prior year under the requirements of HKAS 32 has been removed and the relevant comparative information based on the requirements of HKAS 1 (Amendment) and HKFRS 7 has been presented for the first time in the current year.

The Group has not early applied the following new and revised standards or interpretations that have been issued but are not yet effective.

HKAS 1 (Revised)	Presentation of Financial Statements[1]
HKAS 23 (Revised)	Borrowing Costs[1]
HKAS 27 (Revised)	Consolidated and Separate Financial Statements[2]
HKFRS 2 (Amendment)	Vesting Conditions and Cancellations[1]
HKFRS 3 (Revised)	Business Combinations[2]
HKFRS 8	Operating Segments[1]
HK(IFRIC)-Int 11	HKFRS 2: Group and Treasury Share Transactions[3]
HK(IFRIC)-Int 12	Service Concession Arranagements[4]
HK(IFRIC)-Int 13	Customer Loyalty Programmes[5]
HK(IFRIC)-Int 14	HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction[4]

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (continued)

[1] Effective for annual periods beginning on or after 1 January 2009

[2] Effective for annual periods beginning on or after 1 July 2009

[3] Effective for annual periods beginning on or after 1 March 2007

[4] Effective for annual periods beginning on or after 1 January 2008

[5] Effective for annual periods beginning on or after 1 July 2008

The adoption of HKFRS 3 (Revised) may affect the accounting for business combination for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009. HKAS 27 (Revised) will affect the accounting treatment for changes in a parent's ownership interest in a subsidiary that do not result in a loss of control, which will be accounted for as equity transactions.

The Directors of the Company anticipate that the application of these standards or interpretations will have no material impact on the results and financial position of the Group.

4. SIGNIFICANT ACCOUNTING POLICIES

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

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

Basis of consolidation

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

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of consolidation (continued)

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

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

Business combinations

The acquisition of businesses 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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Goodwill

Goodwill arising on an acquisition of a business 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 business at the date of acquisition. Such goodwill is carried at cost less any accumulated impairment losses.

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

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

On subsequent disposal of the relevant cash-generating unit, the attributable amount of goodwill capitalised is included in the determination of the amount of profit or loss on disposal.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Interests in associates

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

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

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

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition

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

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

Service and agency income is recognised when services are rendered.

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

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

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

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

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

Freight revenue from time charter which is operating lease in nature, is recognized on a straight-line basis over the period of each charter.

Freight revenue from voyage charter is recognized on a percentage-of-completion basis, which is determined on the time proportion method of each individual voyage.

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment

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

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

Buildings and structure	2% to 4%, or over the terms of the leases, whichever is shorter
Leasehold improvements	2.5% to 25%, or over the terms of the leases, whichever is shorter
Furniture, fixtures and equipment	12.5% to 25%
Plant and machinery	3.6% to 15%
Motor vehicles	10% to 25%
Vessels	5% to 18%

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

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Investment properties

Investment properties are properties held to earn rentals and/or for capital appreciation.

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

An owner-occupied property is transferred to investment property at fair value when it is evidenced by the end of owner occupation. The difference between the fair value and the carrying amount at the date of transfer is recognised as a revaluation increase in accordance with HKAS 16 *Property, Plant and Equipment*. On the subsequent sale or retirement of assets, the relevant revaluation reserve will be transferred directly to accumulated profits.

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.

Construction contracts

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

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

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

The Group as lessee

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

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

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, unless the lease payments cannot be allocated reliably between the land and building elements, in which case, the entire lease is generally treated as a finance lease and accounted for as property, plant and equipment. To the extent the allocation of the lease payments can be made reliably, leasehold interests in land are accounted for as operating leases, except for those that are classified and accounted for as an investment property under the fair value model.

Prepaid lease rentals

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currencies

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

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

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Borrowing costs

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

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

Retirement benefits costs

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

Taxation

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

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

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Taxation (continued)

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

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

Intangible assets

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

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

Inventories

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

Financial instruments

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets

The Group's financial assets are mainly classified as financial assets at fair value through profit or loss ("FVTPL"), loans and receivables and available-for-sale financial assets. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset, or, where appropriate, a shorter period.

Income is recognised on an effective interest basis for debt instruments other than those financial assets designated as at FVTPL, for which interest income is included in net gains or losses.

Financial assets at fair value through profit or loss

Financial assets at FVTPL has two subcategories, financial assets held for trading and those designated at FVTPL on initial recognition.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near future; or
- it is a part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets (continued)

Financial assets at fair value through profit or loss (continued)

A financial asset other than a financial asset held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and HKAS 39 permits the entire combined contract (asset or liability) to be designated as at FVTPL.

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

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initial recognition, loans and receivables (including trade and bill receivables, other receivables, bank balances and deposits, amounts due from related companies, amount due from a minority shareholder of a subsidiary and ultimate holding company of controlling shareholder) are carried at amortised cost using the effective interest method, less any identified impairment losses (See accounting policy on impairment on financial assets below).

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets (continued)

Available-for-sale financial assets

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

At each balance sheet date subsequent to initial recognition, available-for-sale financial assets are measured at fair value. Changes in fair value are recognised in equity, until the financial asset is disposed of or is determined to be impaired, at which time, the cumulative gain or loss previously recognised in equity is removed from equity and recognised in profit or loss (see accounting policy on impairment loss on financial assets below).

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 and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments, they are measured at cost less any identified impairment losses at each balance sheet date subsequent to initial recognition (see accounting policy on impairment loss on financial assets below).

Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been impacted.

For an available-for sale equity investment, a significant or prolonged decline in the fair value of that investment below its cost is considered to be objective evidence of impairment.

For all other financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets (continued)

Impairment of financial assets (continued)

For financial assets carried at amortised cost, 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.

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount 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 loss will not be reversed in subsequent periods.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade and bills receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment losses was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent 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.

Impairment losses on available-for-sale equity investments will not be reversed in profit or loss in subsequent periods. Any increase in fair value subsequent to impairment loss is recognised directly in equity.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial liabilities and equity

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

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. The Group's financial liabilities are generally classified into financial liabilities at FVTPL and other financial liabilities.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

Interest expense is recognised on an effective interest basis other than those financial liabilities designated as at FVTPL, of which the interest expense is included in net gains or losses.

Financial liabilities at fair value through profit or loss

A financial liability is classified as held for trading if:

- it has been incurred principally for the purpose of repurchasing in the near future; or
- it is a part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial liabilities and equity (continued)

Other financial liabilities

Other financial liabilities including trade and bill payables, other payables, bank borrowings, amounts due to related companies, loans from ultimate holding company of controlling shareholder and amount due to ultimate holding company of controlling shareholder are subsequently measured at amortised cost, using the effective interest rate method.

Equity instruments

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

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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial guarantee contracts

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

Derecognition

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

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

Impairment losses on tangible and intangible assets other than goodwill (see the accounting policies in respect of goodwill above)

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Equity settled share-based payment transactions

Share options granted to employees and other eligible participants of the Group and vested before 1 January 2005

For share options granted before and after 7 November 2002 but vested prior to 1 January 2005, share based payment expenses are not recognised in accordance with the transitional provisions of HKFRS 2.

The financial impact of share options granted is not recorded in the consolidated financial statements until such time as the options are exercised, and no charge is recognised in the consolidated income statement in respect of the value of options granted. Upon the exercise of the share options, the resulting shares issued are recorded as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded as share premium. Options which lapse or are cancelled prior to their exercise date are deleted from the register of outstanding options.

Share options granted to employees and other eligible participants of the Group after 7 November 2002 and vested on or after 1 January 2005

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

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

5. KEY SOURCES OF ESTIMATION UNCERTAINTY

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

Estimated impairment of trade receivables

In determining whether there is objective evidence of impairment loss, the Group takes into consideration the estimation of future cash flows. The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). Where the actual future cash flows are less than expected, a material impairment loss may arise. The movement of the impairment recognised during the year is set out in note 28.

Estimated impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. As at 31 December 2007, the carrying amount of goodwill is HK$283,122,000 (2006: HK$292,170,000). Details of the recoverable amount calculation are set out in note 21.

Allowance for inventories

As at 31 December 2006, the Group has accumulated allowance for inventories of approximately HK$14,914,000 (2007: nil). The management of the Group reviews an aging analysis at each balance sheet date, and makes allowance for obsolete and slow-moving inventory items identified that are no longer suitable for use in production. The Group carries out an inventory review on a product-by-product basis at each balance sheet date and makes allowance for obsolete items. The management also estimates the net realisable value for finished goods, work-in progress and raw materials based primarily on the latest invoice prices and current market conditions.

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

5. KEY SOURCES OF ESTIMATION UNCERTAINTY (continued)

Income taxes

No deferred tax asset has been recognised in respect of tax losses of approximately HK$540 million, of which HK$247 million is subject to Inland Revenue Department's ("IRD" confirmation) (2006: HK$524 million, of which HK$221 million was subject to IRD's confirmation) due to the unpredictability of future profit streams. In cases where the actual future profits generated are more than expected, a deferred tax asset may be recognised.

Fair value of option to subscribe for shares of a listed company in Australia

The fair value for the option to subscribe for shares of a listed company in Australia is established by using valuation techniques. The Group has established a process to ensure that valuation techniques are developed by qualified personnel and are validated and reviewed by personnel independent of those that developed the valuation techniques. Valuation techniques are certified before being implemented for valuation and are calibrated to ensure that outputs reflect actual market conditions. However, it should be noted that some inputs, such as volatility of share price and dividend yield of Australasian Resources Limited ("ARH"), require management estimates. Management estimates and assumptions are reviewed periodically and are adjusted if necessary. Should any of the estimates and assumptions change, it may lead to a change in the fair value of the option to subscribe for shares. The carrying amount of the option to subscribe for shares of a listed company in Australia is HK$150,409,000 (2006: nil). Details of the assumptions used are set out in note 31.

Depreciation

The Group's net book value of property, plant and equipment as at 31 December 2007 was approximately HK$7,818,140,000 (2006: HK6,911,247,000). The Group depreciates the property, plant and equipment on a straight-line basis over their estimated useful lives of 4 to 50 years, and after taking into account their estimated residual value, commencing from the date the property, plant and equipment is available for use. The estimated useful lives and dates that the Group places the property, plant and equipment into productive use reflects the Directors' estimate of the periods that the Group intends to derive future economic benefits from the use of the Group's property, plant and equipment. If the estimated useful life of property, plant and equipment did not reflect its true useful life, additional depreciation may be required.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

6. REVENUE AND BUSINESS AND GEOGRAPHICAL SEGMENTS

Revenue arising from sales of steel products, electricity, steam and hot water, installation of kitchen and laundry equipment, leasing income, charter hire income and management services income during the year, for both continuing and discontinued operations, is as follows:

	2007 HK$'000	2006 HK$'000
Continuing operations		
Sale of steel products	10,550,620	5,725,078
Vessel chartering and floating cranes leasing income	373,773	229,137
Electricity, steam and hot water generation income	481,179	424,641
Management services income	1,998	2,472
	11,407,570	6,381,328
Discontinued operation		
Revenue from manufacturing and installation of kitchen and laundry equipment	70,330	86,159
Total	11,477,900	6,467,487

Business segments

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

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

During the year, the segment of kitchen and laundry equipment was disposed. Details of the discontinued operation are set out in note 11.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

6. REVENUE AND BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

Business segments (continued)

Segment information about these businesses is presented below:

INCOME STATEMENT

For the year ended 31 December 2007

	Continuing operations							Discontinued operation	
	Steel manufacturing *HK$'000*	Shipping operations *HK$'000*	Electricity generation *HK$'000*	Steel trading *HK$'000*	Others *HK$'000*	Elimination *HK$'000*	Total consolidated *HK$'000*	Kitchen and laundry equipment *HK$'000*	Consolidated *HK$'000*
Revenue									
External customers	9,108,887	373,773	481,179	1,441,733	1,998	–	11,407,570	70,330	11,477,900
Inter-segment sales	813,576	–	–	–	1,500	(815,076)	–	–	–
Total	9,922,463	373,773	481,179	1,441,733	3,498	(815,076)	11,407,570	70,330	11,477,900
Segment results	1,441,131	218,773	86,949	29,846	3,498	–	1,780,197	(296)	1,779,901
Unallocated other income							283,243	(29)	283,214
Unallocated corporate expenses							(121,697)	–	(121,697)
Finance costs							(358,083)	(16)	(358,099)
Share of profit of an associate	23,282	–	–	–	–	–	23,282	–	23,282
Gain on disposal of partial interest in a subsidiary	103,710	–	–	–	–	–	103,710	–	103,710
Gain on deemed disposal of partial interest in an associate	5,166	–	–	–	–	–	5,166	–	5,166
Profit (loss) before taxation							1,715,818	(341)	1,715,477
Income tax expense							(35,127)	(478)	(35,605)
Loss on disposal of subsidiaries							–	(7,053)	(7,053)
Profit (loss) for the year							1,680,691	(7,872)	1,672,819

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

6. REVENUE AND BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

Business segments (continued)

BALANCE SHEET

At 31 December 2007

	Steel manufacturing *HK$'000*	Shipping operations *HK$'000*	Electricity generation *HK$'000*	Steel trading *HK$'000*	Others *HK$'000*	Consolidated *HK$'000*
ASSETS						
Segment assets	10,917,626	16,754	797,146	242,563	12,294	11,986,383
Interest in an associate	–	–	–	–	310,368	310,368
Unallocated corporate assets						4,266,790
Consolidated total assets						16,563,541
LIABILITIES						
Segment liabilities	2,875,775	70,521	34,812	29,302	17,870	3,028,280
Unallocated corporate liabilities						5,591,328
Consolidated total liabilities						8,619,608

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

6. REVENUE AND BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

Business segments (continued)

OTHER INFORMATION

For the year ended 31 December 2007

	Continuing operations						Discontinued operation	
	Steel manufacturing	Shipping operations	Electricity generation	Steel trading	Others	Total consolidated	Kitchen and laundry equipment	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Capital additions	909,205	6	12,165	101	84	921,561	–	921,561
Depreciation of property, plant and equipment	418,852	1,580	17,288	120	981	438,821	328	439,149
Amortisation of intangible assets	414	–	–	–	–	414	–	414
Amortisation of prepaid lease rental	4,654	–	4,343	121	–	9,118	51	9,169
Change in fair value of investment properties	412	–	–	(3,445)	–	(3,033)	–	(3,033)
Loss on disposal of property, plant and equipment	2,994	43	–	18	4	3,059	7	3,066

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

6. REVENUE AND BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

Business segments (continued)

INCOME STATEMENT

For the year ended 31 December 2006

	Continuing operations							Discontinued operation	
	Steel manufacturing	Shipping operations	Electricity generation	Steel trading	Others	Elimination	Total consolidated	Kitchen and laundry equipment	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Revenue									
External customers	4,509,069	229,137	424,641	1,216,009	2,472	–	6,381,328	86,159	6,467,487
Inter-segment sales	933,250	–	–	–	1,560	(934,810)	–	–	–
Total	5,442,319	229,137	424,641	1,216,009	4,032	(934,810)	6,381,328	86,159	6,467,487
Segment results	335,589	77,530	74,973	12,589	4,123	–	504,804	(1,890)	502,914
Unallocated other income							68,921	516	69,437
Unallocated corporate expenses							(49,307)	–	(49,307)
Finance costs							(260,780)	(32)	(260,812)
Share of profit of an associate	20,974	–	–	–	–	–	20,974	–	20,974
Discount on acquisition of additional equity interest in a subsidiary	–	–	–	–	–	–	–	3,780	3,780
Loss on deemed disposal of partial interest in an associate	(4,582)	–	–	–	–	–	(4,582)	–	(4,582)
Profit before taxation							280,030	2,374	282,404
Income tax expense							(26,613)	(27)	(26,640)
Profit for the year							253,417	2,347	255,764

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

6. REVENUE AND BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

Business segments (continued)

BALANCE SHEET

At 31 December 2006

	Steel manufacturing	Shipping operations	Electricity generation	Steel trading	Kitchen and laundry equipment	Others	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
ASSETS							
Segment assets	8,325,286	21,199	686,437	75,425	30,356	27,303	9,166,006
Interest in an associate	215,022	–	–	–	–	–	215,022
Unallocated corporate assets							1,878,432
Consolidated total assets							11,259,460
LIABILITIES							
Segment liabilities	1,786,300	59,142	23,145	29,782	28,705	10,701	1,937,775
Unallocated corporate liabilities							6,059,657
Consolidated total liabilities							7,997,432

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

6. REVENUE AND BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

Business segments (continued)

OTHER INFORMATION

For the year ended 31 December 2006

	Continuing operations						Discontinued operation	
	Steel manufacturing	Shipping operations	Electricity generation	Steel trading	Others	Total consolidated	Kitchen and laundry equipment	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Capital additions	2,206,767	376	32,360	–	1,765	2,241,268	202	2,241,470
Depreciation of property, plant and equipment	225,693	1,491	20,216	119	942	248,461	577	249,038
Amortisation of intangible assets	556	–	–	–	–	556	–	556
Amortisation of prepaid lease rental	4,895	–	4,120	116	–	9,131	105	9,236
Change in fair value of investment properties	(293)	–	–	(1,065)	(3,000)	(4,358)	–	(4,358)
Loss (gain) on disposal of property, plant and equipment	1,196	–	3	(3)	31	1,227	(45)	1,182
Discount on acquisition of equity interest in a subsidiary	–	–	–	–	–	–	(3,780)	(3,780)

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

6. REVENUE AND BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

Geographical segments

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

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

	Revenue	
	2007	2006
	HK$'000	*HK$'000*
Continuing operations		
PRC, excluding Hong Kong	**9,069,822**	5,045,404
Hong Kong	**1,523,400**	254,313
Others	**814,348**	1,081,611
	11,407,570	6,381,328
Discontinued operation		
PRC, excluding Hong Kong	**60,084**	61,347
Hong Kong	**10,246**	24,812
	70,330	86,159
Total	**11,477,900**	6,467,487

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

6. REVENUE AND BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

Geographical segments (continued)

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

	Carrying amount of segment assets		Capital additions	
	2007	2006	**2007**	2006
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
PRC, excluding Hong Kong	**11,493,456**	8,764,413	**921,376**	2,239,503
Hong Kong	**492,927**	401,593	**185**	1,967
	11,986,383	9,166,006	**921,561**	2,241,470

7. OTHER INCOME AND GAINS

	2007	2006
	HK$'000	*HK$'000*
Continuing operations		
Change in fair value of investment properties	**3,033**	4,358
Compensation income	**217**	153
Interest income on bank deposits	**93,942**	52,010
Recovery of bad and doubtful debt	**16,264**	–
Refund of value added tax	**5,610**	4,276
Scrap sales income	**3,604**	15,458
Sundry income	**23,709**	7,974
Tax refund on reinvestment of dividends to subsidiaries	**20,029**	15,137
Exchange gain	**18,005**	–
Change in fair value of option to subscribe for shares of a listed company in Australia *(note 31(b))*	**150,409**	–
Realised gain on derivative financial instruments	**5,285**	–
Change in fair value of derivative financial instruments	**12,291**	1,818
	352,398	101,184
Discontinued operation	**164**	969
Total	**352,562**	102,153

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

8. FINANCE COSTS

	2007 HK$'000	2006 HK$'000
Continuing operations		
Interest on bank and other borrowings wholly repayable within five years	351,657	299,597
Cost of arrangement of bank borrowings	10,151	4,524
Total borrowing costs	361,808	304,121
Less: amounts capitalised	(3,725)	(43,341)
	358,083	260,780
Discontinued operation		
Interest on finance leases	16	32
Total	358,099	260,812

Borrowing costs capitalised during the year arose from the general borrowing pool and are calculated by applying a capitalisation rate at 6.57% (2006: ranges from 5.58% to 6.12%) per annum to expenditure on qualifying assets.

9. GAIN ON DISPOSAL OF PARTIAL INTEREST IN A SUBSIDIARY

On 8 November 2006, the Company and Central Pro Investments Limited ("Central Pro"), a wholly owned subsidiary of the Company, entered into an equity interest transfer agreement ("Agreement") with an independent third party, Hyundai Heavy Industries Co., Ltd. ("HHI") pursuant to which Central Pro transferred 20% of the registered capital of Shouqin to HHI at a consideration of RMB410 million (equivalent to approximately HK$412 million) ("Purchase Price") ("Disposal"). The transaction was completed on 7 February 2007 and the interests of the Group in Shouqin were reduced from 96% to 76%. The gain on Disposal amounting to approximately HK$104 million.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

9. GAIN ON DISPOSAL OF PARTIAL INTEREST IN A SUBSIDIARY (continued)

The Company has granted a put option to HHI to require the Company to purchase or procure a third party to purchase from HHI the entire equity interest in Shouqin held by HHI by giving one month's notice at the Purchase Price plus interest calculated at 7% per annum, compounded annually, with adjustments for dividends received, at any time within 42 months from the date on which Shouqin received the approval from the People's Republic of China ("PRC") approval authority in connection with the transaction (i.e. 17 January 2007), if any of the following conditions occurs:

(1) Central Pro or the Company is in material breach of any of its representations, warranties, undertakings and/or obligations under the Agreement or any other documents executed in connection therewith;

(2) Shouqin fails to implement the business plan approved by board of Shouqin from time to time in any material aspect otherwise than as a result of a force majeure event;

(3) Any termination or suspension of the purchase agreements and product take-off contracts between Shouqin and Shougang Corporation and/or its direct or indirect subsidiaries or affiliates without prior approval of HHI which is of material adverse effect to Shouqin;

(4) Shouqin ceases or suspends its business for more than six months, in the aggregate, during any continuous twelve-month period otherwise than as a result of a force majeure event; or

(5) Shouqin is in violation of any applicable laws and regulations in material respects such that Shouqin may not continue to conduct ordinary business activities in the reasonable judgment of HHI.

The Directors are of the opinion that the above put option represents general performance warranty provisions which are within the control of the Group and which did not have any financial impact on the Group during the year.

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For the year ended 31 December 2007

10. INCOME TAX EXPENSE

	Continuing operations		Discontinued operation		Consolidated	
	2007	2006	**2007**	2006	**2007**	2006
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Current tax:						
Hong Kong	**492**	–	**–**	–	**492**	–
PRC Enterprise Income tax	**33,124**	21,190	**482**	27	**33,606**	21,217
Other jurisdictions	**–**	23	**–**	–	**–**	23
Underprovision in prior years:						
Hong Kong	**–**	991	**–**	–	**–**	991
PRC Enterprise Income Tax	**189**	–	**(4)**	–	**185**	–
	33,805	22,204	**478**	27	**34,283**	22,231
Deferred tax *(note 38)*:						
Current year	**(2,114)**	(1,487)	**–**	–	**(2,114)**	(1,487)
Attributable to a change in tax rate	**3,436**	5,896	**–**	–	**3,436**	5,896
Income tax expense	**35,127**	26,613	**478**	27	**35,605**	26,640

Hong Kong Profits Tax is calculated at 17.5% of the estimated assessable profit for the year ended 31 December 2007.

No provision for Hong Kong Profits Tax had been made for the year ended 31 December 2006 as the group companies which were subject to Hong Kong Profits Tax either incurred tax losses for that year or have tax losses brought forward to set off against assessable profit for that year.

Pursuant to Income Tax Law of the PRC for Enterprises with Foreign Investment and Foreign Enterprises, Qinhuangdao Shougang Plate Mill Co., Ltd. ("Qinhuangdao Plate Mill"), a principal subsidiary of the Company operating in Economic and Technology Development Zone of the PRC, is entitled to a preferential income tax rate of 24%. In addition, Qinhuangdao Plate Mill is subject to a local income tax rate of 3%. Pursuant to an approval granted by the local tax bureau in December 2006, Qinhuangdao Plate Mill is entitled to a reduction of income tax rate to 14% for 2006, 11% for 2007 and 17% for the years from 2008 to 2010.

Shouqin and certain other subsidiaries of the Company operating in the PRC are eligible for certain tax holidays and concessions in respect of PRC income tax and are exempted from PRC income taxes for the two years commencing from their first profit making year of operation and thereafter, these PRC subsidiaries will be entitled to a 50% relief from PRC income tax for the following three years. The PRC income tax charges are arrived at after taking into account these tax incentives.

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

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For the year ended 31 December 2007

10. INCOME TAX EXPENSE (continued)

On 16 March 2007, the PRC promulgated the Law on Enterprise Income Tax (the "New Law") by Order No. 63 issued by the Tenth National People's Congress. On 6 December 2007, the State Council of the PRC issued Implementation Regulations of the New Law. The New Law and Implementation Regulations will change the tax rate to 25%. The New Law provides a five-year transition period from 1 January 2008 for those subsidiaries which were established before the promulgation date of the New Law and which are entitled to a preferential lower tax rate under the effective tax laws or regulations and hence the 25% tax rate will only be applicable to certain subsidiaries after the expiry of tax holidays and concessions. The deferred tax balance has been adjusted to reflect the tax rates that are expected to apply to the respective periods when the underlying asset is realised or the liability is settled.

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

	2007 HK$'000	2006 HK$'000
Profit (loss) before taxation:		
Continuing operations	1,715,818	280,030
Discontinued operation	(7,394)	2,374
	1,708,424	282,404
Taxation at the income tax rate of 27% *(Note a)*	461,274	76,249
Tax effect of share of results of associates	(6,286)	(5,663)
Tax effect of expenses not deductible for tax purposes	52,698	32,657
Tax effect of income not taxable for tax purposes	(138,966)	(36,175)
Underprovision in respect of prior years	185	991
Tax effect of tax loss not recognised	7,557	8,660
Tax effect of deferred tax assets not recognised	2,663	–
Tax effect of utilisation of tax losses previously not recognised	(1,403)	(3,690)
Tax effect of utilisation of deferred tax assets previously not recognised	(4,216)	(6,481)
Effect of tax exemption granted to a PRC subsidiary *(Note b)*	(286,176)	(24,286)
Effect of different tax rates of subsidiaries	(16,287)	(626)
Income tax on concessionary rate	(38,874)	(20,892)
Increase in opening deferred tax liability resulting from an increase in applicable tax rate	3,436	5,896
Tax expense for the year	35,605	26,640

Note

a. The domestic tax rate in the jurisdiction where the operations of the Group are substantially based is used.

b. Pursuant to an approval granted by the local tax bureau in July 2005, a steel manufacturing subsidiary is entitled to an exemption of income tax during the year.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

11. DISCONTINUED OPERATION

On 27 June 2007, the Group entered into a sale agreement to dispose of Radnor Limited and its subsidiaries, which carried out all of the Group's kitchen and laundry equipment operations. The disposal was completed on 27 June 2007, on which date control of Radnor Limited and its subsidiaries passed to the acquirer.

The (loss) profit for the period/year from the discontinued operation is analysed as follows:

	1 January 2007 to 27 June 2007 ***HK$'000***	1 January 2006 to 31 December 2006 *HK$'000*
(Loss) profit of kitchen and laundry equipment operation for the period/year	**(819)**	2,347
Loss on disposal of kitchen and laundry equipment operation	**(7,053)**	–
(Loss) profit of kitchen and laundry equipment operation for the period/year attributable to the Group	**(7,872)**	2,347

The results of the kitchen and laundry equipment operation were as follows:

	1 January 2007 to 27 June 2007 ***HK$'000***	1 January 2006 to 31 December 2006 *HK$'000*
Revenue	**70,330**	86,159
Cost of sales	**(65,450)**	(76,932)
Other income	**164**	969
Distribution costs	**(1,119)**	(2,209)
Administrative expenses	**(4,250)**	(9,361)
Finance costs	**(16)**	(32)
Discount on acquisition of additional equity interest in a subsidiary	**–**	3,780
(Loss) profit before tax	**(341)**	2,374
Income tax expense	**(478)**	(27)
(Loss) profit for the period/year	**(819)**	2,347

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

11. DISCONTINUED OPERATION (continued)

The net assets of Radnor Limited and its subsidiaries at the date of disposal were as follows:

	27 June 2007 *HK$'000*
Net assets disposed of:	
Property, plant and equipment	1,493
Prepaid lease rentals	239
Inventories	4,075
Trade and other receivables	40,219
Bank balances and cash	4,014
Trade and other payables	(38,039)
Bank overdrafts	(681)
Deferred tax liabilities	(622)
	10,698
Minority interests	(25)
Loss on disposal	(7,053)
Total consideration	3,620
Satisfied by:	
Cash consideration	3,620
Net cash outflow arising on disposal:	
Cash consideration	3,620
Bank balances and cash on disposal	(4,014)
	(394)

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

11. DISCONTINUED OPERATION (continued)

	1 January 2007 to 27 June 2007 *HK$'000*	1 January 2006 to 31 December 2006 *HK$'000*
Cash flows from Radnor Limited and its subsidiaries:		
Net cash (outflows) inflows from operating activities	**(6,451)**	26,548
Net cash inflows (outflows) from investing activities	**62**	(4)
Net cash outflows from financing activities	**(5,038)**	(19,110)
Net cash (outflows) inflows	**(11,427)**	7,434

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

12. PROFIT FOR THE YEAR

	Continuing operations		Discontinued operation		Consolidated	
	2007	2006	**2007**	2006	**2007**	2006
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Profit for the year has been arrived at after charging (crediting):						
Staff costs, including Directors' emoluments						
– basic salaries and allowances	**260,193**	175,837	**3,733**	4,979	**263,926**	180,816
– retirement benefits scheme contributions	**32,209**	23,220	**59**	241	**32,268**	23,461
– share-based payments	**59,726**	–	**–**	–	**59,726**	–
	352,128	199,057	**3,792**	5,220	**355,920**	204,277
Amortisation of intangible assets (included in administrative expenses)	**414**	556	**–**	–	**414**	556
Depreciation of property, plant and equipment	**438,821**	248,461	**328**	577	**439,149**	249,038
Total depreciation and amortisation	**439,235**	249,017	**328**	577	**439,563**	249,594
Auditors' remuneration	**2,795**	2,092	**121**	223	**2,916**	2,315
Cost of inventories recognised as expenses	**8,951,769**	5,381,935	**63,197**	76,432	**9,014,966**	5,458,367
Loss (gain) on disposal of property, plant and equipment	**3,059**	1,227	**7**	(45)	**3,066**	1,182
Minimum lease payments under operating leases in respect of land and buildings	**3,167**	3,438	**5**	5	**3,172**	3,443
Amortisation of prepaid lease rentals	**9,118**	9,131	**51**	105	**9,169**	9,236
(Reversal of) allowance for inventories	**(13,324)**	981	**2,718**	20	**(10,606)**	1,001

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For the year ended 31 December 2007

12. PROFIT FOR THE YEAR (continued)

	Continuing operations		Discontinued operation		Consolidated	
	2007	2006	**2007**	2006	**2007**	2006
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Rental income from investment properties under operating leases, less outgoings of HK$124,000 (2006: HK$120,000)	**(495)**	(1,408)	**–**	–	**(495)**	(1,408)
(Reversal of) allowance for bad and doubtful debt	**(16,264)**	(1,791)	**24**	3,022	**(16,240)**	1,231
Exchange (gain) loss, net	**(18,005)**	487	**91**	(169)	**(17,914)**	318

During the year ended 31 December 2007, there was significant increase in net realisable value of finished goods because the market price of certain finished goods increased. As a result, a reversal of allowance for inventories of HK$13,324,000 (2006: HK$10,902,000) had been recognised in cost of sales in that year.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

13. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

(a) Directors' emoluments

The emoluments paid or payable to each of the ten (2006: twelve) Directors were as follows:

	Wang Qinghai *HK$'000*	Cao Zhong *HK$'000*	Chen Zhouping *HK$'000*	Zhang Wenhui *HK$'000*	Luo Zhenyu *HK$'000*	Ip Tak Chuen, Edmond *HK$'000*	Leung Shun Sang, Tony *HK$'000*	Kan Lai Kuen, Alice *HK$'000*	Wong Kun Kim *HK$'000*	Leung Kai Cheung *HK$'000*	Total 2007 *HK$'000*
2007											
Fees	120	–	–	–	–	120	120	150	150	150	810
Other emoluments											
Salaries and other benefits	228	2,876	2,070	2,053	1,680	–	–	–	–	–	8,907
Contributions to retirement benefits schemes	–	430	210	188	126	–	–	–	–	–	954
Performance related incentive payments *(Note)*	–	6,000	2,250	1,800	960	–	–	–	–	–	11,010
Share-based payments	–	16,872	11,681	9,085	6,489	–	–	1,825	1,825	1,825	49,602
Total emoluments	348	26,178	16,211	13,126	9,255	120	120	1,975	1,975	1,975	71,283

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

Note: The performance related incentive payments are determined by the Remuneration Committee of the Board of Directors at discretion.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

13. DIRECTORS' AND EMPLOYEES' EMOLUMENTS (continued)

(b) Employees' emoluments

Of the five individuals with the highest emoluments in the Group, four (2006: four) were Directors of the Company whose emoluments are included in the disclosures in note 13(a) above. The emoluments of the remaining one (2006: one) individual are as follows:

	2007 HK$'000	2006 HK$'000
Salaries and other benefits	1,136	856
Retirement benefits scheme contributions	100	52
Performance related incentive payments *(Note)*	960	280
Share-based payment	6,489	–
	8,685	1,188

Note: The performance related incentive payments are determined by the Remuneration Committee of the Board of Directors at discretion.

14. DIVIDENDS

	2007 HK$'000	2006 HK$'000
Dividends recognised as distribution during the year:		
Final – HK2.1 cents (2006: HK0.6 cent) per share	123,162	35,185

The final dividend of HK4 cents (2006: HK2.1 cents) per share and special dividend of HK4 cents per share have been proposed by the Directors and are subject to approval by shareholders at the forthcoming annual general meeting of the Company.

The proposed dividends for 2007 are payable to all shareholders whose names appear on the register of members on 6 June 2008.

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15. EARNINGS PER SHARE

From continuing and discontinued operations

The calculation of the basic and diluted earnings per share attributable to the ordinary equity holders of the Company is based on the following data:

	2007 HK$'000	2006 HK$'000
Earnings		
Earnings for the purpose of basic earnings per share		
(Profit for the year attributable to equity holders of the Company)	**1,404,196**	221,618
Effect of dilutive potential ordinary shares:		
Adjustment to the share of profit of an associate based on		
dilution of its earnings per share	**(1,548)**	(1,147)
Earnings for the purpose of diluted earnings per share	**1,402,648**	220,471

	2007	2006
Number of shares		
Weighted average number of ordinary shares for the		
purpose of basic earnings per share	**6,349,475,407**	5,713,517,484
Effect of dilutive potential ordinary shares on share options	**297,559,030**	166,773,490
Weighted average number of ordinary shares for the		
purpose of diluted earnings per share	**6,647,034,437**	5,880,290,974

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15. EARNINGS PER SHARE (continued)

From continuing operations

The calculation of basic and diluted earnings per share from continuing operations attributable to the ordinary equity holders of the parent entity is based on the following data:

	2007 HK$'000	2006 HK$'000
Earnings figures are calculated as follow:		
Profit for the year attributable to equity holders of the parent	1,404,196	221,618
Add: Loss (profit) from discontinued operation	7,872	(2,347)
Earnings for the purpose of basic earnings per share from continuing operations	1,412,068	219,271
Effect of dilutive potential ordinary shares:		
Adjustment to the share of profit of an associate based on dilution of its earnings per share	(1,548)	(1,147)
Earnings for the purpose of diluted earnings per share from continuing operations	1,410,520	218,124

The denominators used are the same as those detailed above for both basic and diluted earnings per share.

From discontinued operation

Basic loss per share from discontinued operation is HK0.12 cent per share (2006: basic earnings per share from discontinued operation is HK0.04 cent per share) and diluted loss per share from the discontinued operation is HK0.12 cent per share (2006: diluted earnings per share from discontinued operation is HK0.04 cent per share), based on the loss for the period from the discontinued operation of HK$7,872,000 (2006: profit for the year from the discontinued operation of HK$2,347,000) and the denominators detailed above for both basic and diluted earnings per share.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

16. INVESTMENT PROPERTIES

	THE GROUP HK$'000
FAIR VALUE	
At 1 January 2006	22,605
Transfer from property, plant and equipment	8,479
Exchange adjustments	218
Changes in fair value recognised in the consolidated income statement	4,358
At 31 December 2006	35,660
Addition	10,235
Transfer from prepaid lease rentals	277
Disposal	(17,910)
Exchange adjustments	922
Changes in fair value recognised in the consolidated income statement	3,033
At 31 December 2007	32,217

The fair value of the Group's investment properties at 31 December 2007 and 2006 have been arrived at on the basis of a valuation carried out on that date by AA Property Services Limited, independent qualified professional valuers not connected with the Group. AA Property Services Limited is a member of the Royal Institution of Chartered Surveyors, and has appropriate qualifications in the valuation of similar properties in the relevant locations. The valuation, which conforms to International Valuation Standards, was arrived at by reference to market evidence of transaction prices for similar properties and where appropriate by the capitalisation of the rental income from the properties.

All of the Group's property interests held under operating leases to earn rentals are measured using the fair value model and are classified and accounted for as investment properties.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

16. INVESTMENT PROPERTIES (continued)

The carrying value of investment properties shown above situated in:

	2007 HK$'000	2006 HK$'000
Hong Kong and held under		
– medium-term lease	–	15,000
– long-term lease	6,861	5,393
	6,861	20,393
The PRC and held under		
– medium-term lease	12,867	15,267
– long-term lease	12,489	–
	32,217	35,660

As at 31 December 2006, the Group had pledged certain of its investment properties to secure banking facilities granted to the Group. The Group had no such pledge as at 31 December 2007 (see note 49(c) for details).

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17. PROPERTY, PLANT AND EQUIPMENT

	Buildings and structure HK$'000	Leasehold improvements HK$'000	Furniture, fixtures and equipment HK$000	Plant and machinery HK$'000	Motor vehicles HK$'000	Vessels HK$000	Construction in progress HK$'000	Total HK$'000
THE GROUP								
COST								
At 1 January 2006	1,335,335	50,850	64,321	1,906,648	20,650	27,163	2,150,937	5,555,904
Exchange adjustments	49,054	1,728	2,258	69,850	585	769	79,142	203,386
Additions	218	–	2,970	37,069	7,613	–	2,193,172	2,241,042
Transfer to investment properties	(9,641)	–	–	–	–	–	–	(9,641)
Transfer from construction in progress	1,658,403	–	1,314	2,325,231	29,198	–	(4,014,146)	–
Surplus on valuation	3,217	–	–	–	–	–	–	3,217
Disposals	(4,628)	–	(1,390)	(3,211)	(1,769)	–	–	(10,998)
At 31 December 2006	3,031,958	52,578	69,473	4,335,587	56,277	27,932	409,105	7,982,910
Exchange adjustments	230,493	3,703	4,776	329,070	3,835	1,553	31,370	604,800
Additions	1,346	–	3,921	26,482	17,768	–	796,712	846,229
Transfer from construction in progress	156,999	–	–	340,877	6,680	–	(504,556)	–
Disposals	(782)	–	(151)	(8,844)	(1,828)	–	–	(11,605)
Disposals of subsidiaries	–	–	(767)	(7,056)	(665)	–	–	(8,488)
At 31 December 2007	3,420,014	56,281	77,252	5,016,116	82,067	29,485	732,631	9,413,846
DEPRECIATION, AMORTISATION AND IMPAIRMENT								
At 1 January 2006	77,692	31,812	23,899	634,114	8,451	18,216	–	794,184
Exchange adjustments	4,349	1,145	930	26,525	284	438	–	33,671
Provided for the year	72,142	282	5,554	164,581	5,391	1,088	–	249,038
Eliminated on disposals	(198)	–	(1,359)	(1,272)	(1,239)	–	–	(4,068)
Transfer to investment properties	(1,162)	–	–	–	–	–	–	(1,162)
At 31 December 2006	152,823	33,239	29,024	823,948	12,887	19,742	–	1,071,663
Exchange adjustments	16,319	2,464	2,329	75,157	1,071	967	–	98,307
Provided for the year	112,400	288	6,476	309,570	9,251	1,164	–	439,149
Eliminated on disposals	(231)	–	(102)	(4,294)	(1,791)	–	–	(6,418)
Disposal of subsidiaries	–	–	(730)	(5,886)	(379)	–	–	(6,995)
At 31 December 2007	281,311	35,991	36,997	1,198,495	21,039	21,873	–	1,595,706
CARRYING VALUES								
At 31 December 2007	3,138,703	20,290	40,255	3,817,621	61,028	7,612	732,631	7,818,140
At 31 December 2006	2,879,135	19,339	40,449	3,511,639	43,390	8,190	409,105	6,911,247

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17. PROPERTY, PLANT AND EQUIPMENT (continued)

The carrying value of properties shown above situated in PRC and located on land held under medium-term lease.

As at 31 December 2006, the net book value of plant and machinery included an amount of HK$1,002,000 (2007: nil) in respect of assets held under a finance lease.

Included in property, plant and equipment is interest capitalised of HK$53,250,000 (2006: HK$49,525,000).

18. PREPAID LEASE RENTALS

	THE GROUP	
	2007	2006
	HK$'000	*HK$'000*
The Group's prepaid lease rentals comprise:		
Medium-term leasehold land outside Hong Kong	**360,592**	281,031
Medium-term leasehold land in Hong Kong	**3,082**	3,480
	363,674	284,511
Analysed for reporting purposes as:		
Current asset	**9,431**	8,976
Non-current asset	**354,243**	275,535
	363,674	284,511

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19. INTANGIBLE ASSETS

	THE GROUP Deferred product design fees *HK$'000*
COST	
At 1 January 2006	10,648
Written off	(2,592)
Exchange adjustments	392
At 31 December 2006	8,448
Exchange adjustments	642
At 31 December 2007	9,090
AMORTISATION	
At 1 January 2006	9,645
Written off	(2,592)
Exchange adjustments	367
Charge for the year	556
At 31 December 2006	7,976
Exchange adjustments	623
Charge for the year	414
At 31 December 2007	9,013
CARRYING VALUES	
At 31 December 2007	77
At 31 December 2006	472

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

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20. GOODWILL

	THE GROUP *HK$'000*
COST	
At 1 January 2006 and 31 December 2006	292,170
Release on disposal of a partial interest in a subsidiary	(9,048)
At 31 December 2007	283,122

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

21. IMPAIRMENT TESTING ON GOODWILL

For the purposes of impairment testing, the goodwill set out in note 20 has been allocated to three individual cash generating units (CGUs), including two subsidiaries in the steel manufacturing business segment and one subsidiary in the electricity generation business segment. The carrying amounts of goodwill (net of accumulated impairment losses) as at 31 December 2007 allocated to these units are as follows:

	Goodwill	
	2007 ***HK$'000***	2006 *HK$'000*
Electricity generation – Beijing Shougang Firstlevel Power Co., Ltd ("Beijing Power Plant") (Unit A)	**65,107**	65,107
Steel manufacturing – Qinhuangdao Plate Mill (Unit B)	**194,489**	194,489
Steel manufacturing – Shouqin (Unit C)	**23,526**	32,574
	283,122	292,170

During the year ended 31 December 2007, management of the Group determine that there were no impairments of any of its CGUs containing goodwill.

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21. IMPAIRMENT TESTING ON GOODWILL (continued)

The recoverable amounts of the Units A, B and C have been determined on the basis of value in use calculations. Their recoverable amounts are based on certain similar key assumptions. All value in use calculations use cash flow projections based on financial budgets approved by management covering a five-year period and at a discount rate of 13.0737% (2006: 8.0414%) for Unit A and 9.7088% (2006: 8.0414%) for Unit B and C. All sets of cash flows beyond the five-year period are extrapolated with zero growth rate. The key assumptions for the value in use calculations are those regarding the discount rates, growth rates and expected changes to selling prices and direct costs during the budget period which have been determined based on past performance and management's expectations for the market development.

22. INTERESTS IN SUBSIDIARIES/AMOUNTS DUE FROM SUBSIDIARIES

	THE COMPANY	
	2007	2006
	HK$'000	*HK$'000*
Unlisted shares, at cost	**527,477**	527,467
Deemed capital contribution *(Note)*	**548,799**	464,624
Less: Impairment loss recognised	**(541,479)**	(537,403)
	534,797	454,688
Amounts due from subsidiaries	**2,525,668**	2,206,561
Less: Impairment losses recognised	**(337,889)**	(353,767)
	2,187,779	1,852,794

Note: Deemed capital contribution represented the imputed interest on the interest-free loans.

Amounts due from subsidiaries are unsecured, interest-free and have no fixed repayment terms in the opinion of the Directors, the amounts will not be repayable in the next 12 months but will be repayable within 4 years.

Particulars of the Company's principal subsidiaries as at 31 December 2007 are set out in note 52.

Notes to the Consolidated Financial Statements

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23. INTEREST IN AN ASSOCIATE

	THE GROUP	
	2007	2006
	HK$'000	*HK$'000*
Cost of investment in an associate		
Listed in Hong Kong	**254,656**	254,656
Share of post-acquisition profits and reserves, net of dividends received	**55,712**	(39,634)
	310,368	215,022
Fair value of listed investment	**309,588**	180,593

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

	2007	2006
	HK$'000	*HK$'000*
Total assets	**1,879,938**	1,385,083
Total liabilities	**(380,009)**	(427,729)
Net assets	**1,499,929**	957,354
Group's share of net assets of an associate	**310,368**	215,022
Revenue	**704,716**	678,923
Profit for the year	**105,762**	76,031
Group's share of result of an associate for the year	**23,282**	20,974

Details of the associate is set out in note 52.

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24. AVAILABLE-FOR-SALE INVESTMENTS

Available-for-sale investments comprise:

	2007 HK$'000	2006 HK$'000
Equity securities listed in Australia, at fair value	442,267	–
Unlisted equity securities, at cost	25,306	–
Total	467,573	–

The above unlisted investments represent investments in unlisted equity securities issued by private entities incorporated in the PRC. They are measured at cost less impairment at each balance sheet date because the range of reasonable fair value estimates is so significant that the Directors of the Company are of the opinion that their fair values cannot be measured reliably.

25. DEPOSITS FOR ACQUISITION OF PROPERTY, PLANT AND EQUIPMENT

The balances represent deposits paid for acquisition of property, plant and equipment. Included in the amount, approximately HK$195,855,000 (2006: HK$169,007,000) was paid to the Shougang Group.

Notes to the Consolidated Financial Statements

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

	THE GROUP	
	2007	2006
	HK$'000	*HK$'000*
Contracts in progress at the balance sheet date:		
Contract costs incurred to date plus recognised profits less recognised losses	–	212,339
Less: Progress billings	–	(212,715)
	–	(376)
Represented by:		
Amounts due from customers included in current assets	–	186
Amounts due to customers included in current liabilities	–	(562)
	–	(376)

At 31 December 2006, retentions held by customers for contract work amounted to HK$141,000 (2007: nil).

27. INVENTORIES

	THE GROUP	
	2007	2006
	HK$'000	*HK$'000*
COST		
Raw materials	**733,645**	535,113
Work in progress	**366,841**	36,939
Finished goods	**198,643**	274,961
	1,299,129	847,013

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28. TRADE AND BILL RECEIVABLES AND PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	THE GROUP	
	2007	2006
	HK$'000	*HK$'000*
Trade and bill receivables	**1,042,484**	596,246
Less: Allowance for bad and doubtful debts	**(197,441)**	(221,054)
	845,043	375,192
Prepayments and deposits	**352,663**	77,314
Other receivables	**7,046**	3,823
	359,709	81,137
	1,204,752	456,329

For most customers, in particular in steel manufacturing segment, the Group requires a certain level of deposits to be paid or settlement by bank bills before delivery. The Group allows a range of credit period to its customers normally not more than 30 days, except for certain well established customers, where the terms are extended to 60 days. The following is an aged analysis of trade and bill receivables net of allowance for bad and doubtful debts at the balance sheet date:

	THE GROUP	
	2007	2006
	HK$'000	*HK$'000*
Within 60 days	**720,504**	219,150
61 – 90 days	**3,336**	56,428
91 – 180 days	**121,160**	94,873
181 – 365 days	**43**	4,741
	845,043	375,192

Before accepting any new customer, the Group has assesses the credit quality of each potential customer and defines a credit rating and limit for each customer. In addition, the Group reviews the repayment history of receivables by each customer with reference to the payment terms stated in contracts to determine the recoverability of a trade receivable. In the opinion of Directors, the trade and bill receivables that are not past due nor impaired were of good credit quality at the balance sheet date.

Included in the Group's trade and bill receivables balance are debtors with an aggregate carrying amount of HK$127,157,000 (2006: HK$162,676,000) which are past due at the reporting date for which the Group has not provided for impairment. The Group does not hold any collateral over these balances. The average age of these receivables is 132 days (2006: 115 days).

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For the year ended 31 December 2007

28. TRADE AND BILL RECEIVABLES AND PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES (continued)

The aged analysis of trade receivables which are past due but not impaired

	THE GROUP	
	2007	2006
	HK$'000	*HK$'000*
Within 60 days	**2,620**	6,634
61 – 90 days	**3,334**	56,428
91 – 180 days	**121,160**	94,873
181 – 365 days	**43**	4,741
Total	**127,157**	162,676

The Group has provided fully for all receivables over 365 days because historical experience is such that receivables that are past due beyond 365 days are generally not recoverable.

Movement in the allowance for bad and doubtful debts

	2007	2006
	HK$'000	*HK$'000*
Balance at beginning of the year	**221,054**	273,382
Impairment losses recognised on receivables	**434**	5,801
Amounts written off as uncollectible	**(4,998)**	(54,395)
Impairment losses reversed	**(15,285)**	(5,365)
Disposal of subsidiaries	**(8,279)**	–
Exchange adjustments	**4,515**	1,631
Balance at end of the year	**197,441**	221,054

In determining the recoverability of a trade receivable, the Group considers any change in credit quality of the trade receivables from the date credit was initially granted up to the financial statements approval dates. In order to minmise credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. Accordingly, the Directors believe that no further allowance is required in excess of the allowance for bad and doubtful debts.

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

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

The amounts due from (to) related companies represent amounts due from (to) the members of the Shougang Group. The trade receivables/payables from/(to) related companies are unsecured, interest-free and repayable within 60 days. The non-trade receivables/payables from/(to) related companies are unsecured, interest-free and are repayable on demand.

The trade receivables from related companies and an aged analysis of such balances net of allowance for bad and doubtful debts are as follows:

	THE GROUP	
	2007	2006
	HK$'000	*HK$'000*
Within 60 days	**513,274**	136,209
61 – 90 days	**38,219**	19,717
91 – 180 days	**91,777**	–
181 – 365 days	**18,858**	168
1 – 2 years	**166**	–
Over 2 years	**–**	3,011
	662,294	159,105

The Group allows a range of a credit period normally not more than 60 days for sales to its related companies. In the opinion of Directors, the trade receivables from related companies that are not past due nor impaired were of good credit quality at the balance sheet date.

Included in these trade receivables from related companies are receivables with an aggregate carrying amount of HK$149,020,000 (2006: HK$22,896,000) which are past due at the reporting date for which the Group has not provided for impairment loss. The Group does not hold any collateral over these balances. The average age of these receivables is 154 days (2006: 187 days).

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

The aged analysis of trade receivables from related companies which are past due but not impaired

	2007 ***HK$'000***	2006 *HK$'000*
61 – 90 days	**38,219**	19,717
91 – 180 days	**91,777**	–
181 – 365 days	**18,858**	168
1 – 2 years	**166**	–
Over 2 years	**–**	3,011
Total	**149,020**	22,896

The Group has provided fully for all receivables over 2 years if the right to set off with the respective trade payable to related parties does not exist because historical experience is such that receivables that are past due beyond 2 years are generally not recoverable.

Movement in the allowance for bad and doubtful debts on trade receivables from related companies

	2007 ***HK$'000***	2006 *HK$'000*
Balance at beginning of the year	**24,314**	23,572
Impairment losses recognised on receivables	**107**	–
Impairment losses reversed	**(993)**	(125)
Exchange adjustments	**1,801**	867
Balance at end of the year	**25,229**	24,314

In determining the recoverability of trade and non-trade receivables from related companies, the Group considers any change in credit quality of the trade and non-trade receivables from the date credit was initially granted up to the respective balance sheet dates. Accordingly, the Directors believe that no further allowance is required in excess of the allowance for bad and doubtful debts.

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

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

	THE GROUP	
	2007	2006
	HK$'000	*HK$'000*
Within 90 days	**346,330**	481,076
91 – 180 days	**3,945**	5,202
181 – 365 days	**418**	11,977
1 – 2 years	**6,568**	21,488
Over 2 years	**5,985**	8,435
	363,246	528,178

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

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

The trade receivables/payables from (to) ultimate holding company of controlling shareholder are unsecured, interest-free and repayable within 60 days. The non-trade receivables/payables from (to) ultimate holding company of controlling shareholder are unsecured, interest-free and are repayable on demand.

Trade receivables from the ultimate holding company of the controlling shareholder of approximately HK$268,534,000 (2006: 1,703,000) aged within 60 days.

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

In determining the recoverability of trade and non-trade receivables from ultimate holding company of controlling shareholder, the Group considers any change in credit quality of the trade and non-trade receivables from the date credit was initially granted up to the respective balance sheet dates. No impairment is considered necessary as the counterparty has good credit rating and majority of the balance has been repaid subsequent to the balance sheet date.

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

The trade payables to the ultimate holding company of the controlling shareholder and an aged analysis of such balance are as follows:

	2007 HK$'000	2006 HK$'000
Within 90 days	51,952	–
91 – 180 days	23,454	–
181 – 365 days	25,417	113
1 – 2 years	121	–
	100,944	113

31. OTHER FINANCIAL ASSETS/LIABILITIES

Other financial assets

	THE GROUP		THE COMPANY	
	2007 HK$'000	2006 HK$'000	2007 HK$'000	2006 HK$'000
Foreign currency forward contracts *(Note a)*	27,245	–	–	–
Option to subscribe for shares of a listed company in Australia *(Note b)*	150,409	–	–	–
	177,654	–	–	–

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31. OTHER FINANCIAL ASSETS/LIABILITIES (continued)

Notes:

a. At 31 December 2007, the Group entered into forward foreign currency contracts with banks, the major terms of the outstanding contracts are as follows:

Notional amount	Maturity	Forward exchange rates
Sell United States Dollar ("USD") 3 million to USD5 million for each maturity date and total notional amount is USD125 million	From 29.01.2008 to 03.11.2008	Ranged from RMB7.0844 to USD1 to RMB7.3975 to USD1

The fair value of foreign currency forward contracts are measured using quoted forward exchange rates.

b. On 20 March 2007, Timefull Investments Limited ("Timefull"), a subsidiary of the Company entered into a share and option subscription agreement with ARH, a company listed on the Australian Securities Exchange, whereby Timefull will subscribe 28,000,000 newly-issued shares of ARH ("ARH Shares") at one Australian Dollar ("AUD") each, representing approximately 6.4% of the enlarged issued share capital of ARH and 14 million call options were granted to Timefull at an exercise price of AUD1.5 ("ARH Option") at a consideration of AUD28 million (equivalent to approximately HK$187 million). Each ARH Option entitles Timefull to subscribe for one fully paid ordinary share in ARH. Each ARH option may be exercised within 3 years after the date of the issue of the options on 7 June 2007. The transaction was completed in June 2007.

The ARH Shares acquired was recognised as available-for-sale investments and disclosed in note 24. The ARH Option was deemed as held for trading on initial recognition and the Directors consider that the fair value of the ARH Option is insignificant at the date of acquisition. As at 31 December 2007, the fair value of the ARH Option was determined by the Directors with reference to a valuation report carried out by Greater China Appraisal Limited, independent and recognised international business valuers and the fair value of each ARH Option is AUD1.5644. For the year ended 31 December 2007, HK$150,409,000 has been recognised in the consolidated income statement.

Binomial Option Pricing model is used for valuation of call option. The inputs into the model were as follows:

	31 December 2007
Stock price	AUD2.3
Exercise price	AUD1.50
Volatility	97.87%
Dividend yield	0%
Option life	2.44 years
Risk free rate	6.85%

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31. OTHER FINANCIAL ASSETS/LIABILITIES (continued)

Other financial liabilities

	THE GROUP		THE COMPANY	
	2007	2006	**2007**	2006
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Foreign currency forward contracts, current liability	**13,949**	91	**13,949**	91
Financial guarantee contracts	**–**	–	**6,217**	3,563
	13,949	91	**20,166**	3,654

At 31 December 2007, the Group and the Company entered into forward foreign currency contracts, the major terms of the outstanding contracts are as follows:

Notional amount	Maturity	Forward exchange rates
Buy USD34 million	18.05.2009	HKD7.746 to USD1
Buy AUD11,250,000	07.11.2008	Ranged from USD0.824 to AUD1 to USD0.860 to AUD1
Buy USD3.9 million to USD8 million for each maturity date and total notional amount is USD125 million	From 29.01.2008 to 03.11.2008	Ranged from RMB6.953 to USD1 to RMB7.335 to USD1

The fair values of foreign currency forward contracts are measured using quoted forward exchange rates.

32. RESTRICTED DEPOSITS

The amounts represent the bank deposits pledged to certain banks to secure the issuance of letters of credit. The deposits carry interest at 0.72% to 0.81% (2006: 0.72%) per annum.

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

33. PLEDGED DEPOSIT AND BANK BALANCES AND CASH

Bank balances and time deposits carry interest at market rates which range from 0.65% to 6.95% (2006: 0.51% to 6.17%) per annum.

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34. TRADE AND BILL PAYABLES, OTHER PAYABLES AND ACCRUED LIABILITIES

	THE GROUP	
	2007	2006
	HK$'000	*HK$'000*
Trade and bill payables	**954,829**	523,834
Advance from customers	**1,020,556**	395,422
Other payables and accrued liabilities	**576,982**	489,399
	2,552,367	1,408,655

The following is an aged analysis of trade and bill payables at the balance sheet date:

	THE GROUP	
	2007	2006
	HK$'000	*HK$'000*
Within 90 days	**806,873**	492,690
91 – 180 days	**136,819**	14,362
181 – 365 days	**6,652**	5,649
1 – 2 years	**2,236**	7,602
Over 2 years	**2,249**	3,531
	954,829	523,834

The average credit period on purchase of goods is 90 days. The Group has financial risk management policies in place to ensure that all payables are within the credit timeframe.

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

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For the year ended 31 December 2007

35. OBLIGATION UNDER A FINANCE LEASE

	THE GROUP			
	Minimum lease payments		Present value of minimum lease payments	
	2007	2006	**2007**	2006
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Amounts payable under a finance lease:				
Within one year	–	283	–	267
Less: Future finance charges	–	(16)	–	–
Present value of lease obligations	–	267	–	267
Less: Amount due for settlement within one year shown under current liabilities			–	(267)
Amount due for settlement after one year			–	–

For the year ended 31 December 2006, the average effective borrowing rate was 2% per annum and the average lease term was 3 years. Interest rates were fixed at the contract date. The lease was on a fixed repayment basis and no arrangements had been entered into for contingent rental payments.

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

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For the year ended 31 December 2007

36. BANK BORROWINGS

Bank borrowings are repayable as follows:

	THE GROUP		THE COMPANY	
	2007	2006	**2007**	2006
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Within one year	**3,194,900**	3,021,425	**–**	–
In the second year	**536,136**	622,401	**–**	223,796
In the third to fifth years inclusive	**428,908**	933,380	**–**	933,380
	4,159,944	4,577,206	**–**	1,157,176
Less: Amount due within one year shown under current liabilities	**(3,194,900)**	(3,021,425)	**–**	–
Amount due after one year	**965,044**	1,555,781	**–**	1,157,176
Secured	**132,307**	1,157,176	**–**	1,157,176
Unsecured	**4,027,637**	3,420,030	**–**	–
	4,159,944	4,577,206	**–**	1,157,176

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

	THE GROUP		THE COMPANY	
	2007	2006	**2007**	2006
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Fixed-rate borrowings				
Within one year	**2,535,921**	2,493,274	**–**	–
In more than one year but not more than two years	**536,136**	298,954	**–**	–
	3,072,057	2,792,228	**–**	–

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36. BANK BORROWINGS (continued)

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

	THE GROUP		THE COMPANY	
	2007	2006	**2007**	2006
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Variable-rate borrowings				
Within one year	**658,979**	528,151	**–**	–
In more than one year but not more than two years	**–**	323,447	**–**	223,796
In more than two years but not more than three years	**428,908**	933,380	**–**	933,380
	1,087,887	1,784,978	**–**	1,157,176

The effective interest rates (which are also equal to contracted interest rates) on the Group's fixed-rate borrowings are ranged from 5.08% to 7.29% (2006: from 5.02% to 6.12%) per annum.

The variable-rate bank borrowings of HK$68 million (2006: HK$993 mlllion) and HK$66 million (2006: HK$164 million) which carry interest at the London Interbank Offered Rates ("LIBOR") plus 0.5% (2006: LIBOR plus 1.3%) and LIBOR plus 0.4% (2006: Hong Kong Interbank Offered Rates ("HIBOR") plus 1.3%) per annum respectively. The remaining variable-rate borrowings carry interest at the People's Bank of China's lending rate ("lending rate"), or with a 5% to 10% reduction on the lending rate, which are ranged from 6.16% to 7.10% (2006: from 5.56% to 6.16%) per annum.

In 2007 and 2006, the Group's borrowings were secured by certain assets and are guaranteed by the ultimate holding company of the controlling shareholder. Details are set out in notes 49 and 51 respectively.

In 2006, the Company's borrowings were secured by certain of its assets and certain assets of subsidiaries (details are set out in note 49), and are guaranteed by a subsidiary, Shougang Concord Shipping Holdings Limited.

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36. BANK BORROWINGS (continued)

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

	THE GROUP *US$'000*	THE COMPANY *US$'000*
As at 31 December 2007	**17,122**	–
As at 31 December 2006	129,000	129,000

37. LOANS FROM ULTIMATE HOLDING COMPANY OF CONTROLLING SHAREHOLDER

THE GROUP

The amounts are unsecured, interest bearing at fixed-rates ranged from 5.76% to 6.84% (2006: 5.76% to 6.12%) per annum and are repayable within twelve months from the balance sheet date. As at 31 December 2006, loans amounted to HK$338,814,000 (2007: nil) included in the total were not repayable within twelve months.

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38. DEFERRED TAX

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

THE GROUP

	Accelerated tax depreciation *HK$'000*	Fair value adjustment and revaluation of properties *HK$'000*	Tax losses *HK$'000*	Total *HK$'000*
At 1 January 2006	25,827	15,766	(2,816)	38,777
Exchange differences	1,012	–	(45)	967
Credit to income statement for the year *(note 10)*	(2,116)	616	13	(1,487)
Effect of change in tax rate	5,896	–	–	5,896
At 1 January 2007	30,619	16,382	(2,848)	44,153
Exchange differences	2,095	–	(73)	2,022
(Credit) charge to income statement for the year *(note 10)*	(1,861)	(1,592)	1,339	(2,114)
Disposal of subsidiaries	(15)	–	15	–
Effect of change in tax rate	(2,968)	9,281	–	6,313
At 31 December 2007	27,870	24,071	(1,567)	50,374

At 31 December 2007, the Group has unused tax losses of approximately HK$540 million, of which HK$247 million is subject to IRD's confirmation (2006: HK$524 million of which HK$221 million was subject to IRD's confirmation) available to offset against future profits. A deferred tax asset has been recognised in respect of approximately HK$5 million (2006: HK$9 million) of such losses. At 31 December 2007, the Group had deductible temporary differences of approximately HK$117 million (2006: HK$119 million). The unrecognised tax losses may be carried forward indefinitely. These deferred tax assets have not been recognised due to the unpredictability of future profit streams.

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38. DEFERRED TAX (continued)

THE COMPANY

At the balance sheet date, the Company has unused tax losses of approximately HK$179 million of which HK$136 million was subject to IRD's confirmation (2006: HK$152 million of which HK$16 million was subject to IRD's confirmation) available to offset against future profits. No deferred tax asset has been recognised due to the unpredictability of future profit streams.

39. SHARE CAPITAL

	Number of shares	Amount *HK$'000*
Ordinary shares of HK$0.20 each		
Authorised:		
At 1 January 2006, 31 December 2006 and 31 December 2007	10,000,000,000	2,000,000
Issued and fully paid:		
At 1 January 2006	4,934,057,214	986,811
Issue of shares upon exercise of share options *(Note a)*	1,000,000	200
Issue of shares on subscription *(Note b)*	929,000,000	185,800
At 31 December 2006	5,864,057,214	1,172,811
Issue of shares upon exercise of share options *(Note c)*	139,140,000	27,828
Issue of shares on subscription *(Note d)*	1,000,000,000	200,000
At 31 December 2007	7,003,197,214	1,400,639

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39. SHARE CAPITAL (continued)

Notes:

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

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

(c) During the year ended 31 December 2007, 139,140,000 share options were exercised at the prices ranging from HK$0.28 to HK$0.66 per share, resulting in the issuance of 139,140,000 ordinary shares of HK$0.2 each in the Company.

(d) On 29 May 2007, the Company, China Gate Investments Limited ("China Gate"), a subsidiary of Shougang HK, Shougang HK and a placing agent entered into a placing and subscription agreement. Pursuant to the placing and subscription agreement, the placing agent agreed to, on a fully underwritten basis, procure purchasers to acquire, and China Gate agreed to sell 200,000,000 shares of HK$0.2 each of the Company at the placing price of HK$1.00 per share. China Gate also conditionally agreed to subscribe for 200,000,000 shares of HK$0.2 each of the Company at the subscription price of HK$1.00 per share, raising net proceeds of HK$197,348,000. Such proceeds would be used as general working capital of the Group.

On 25 July 2007, the Company, Shougang HK and two of its subsidiaries, China Gate and Grand Invest International Limited ("Grand Invest"), (Shougang HK, China Gate and Grand Invest collectively known as the "Vendors"), and two independent placing agents entered into a placing, underwriting and subscription agreement (the "Placing and Subscription Agreement"). Pursuant to the Placing and Subscription Agreement, the placing agents agreed, on a fully underwritten basis, to procure purchasers to acquire, and the Vendors agreed to sell 800,000,000 shares of HK$0.2 each of the Company at the placing price of HK$2.26 per share. The Vendors also conditionally agreed to subscribe for 800,000,000 ordinary shares of HK$0.2 each of the Company at the subscription price of HK$2.26 per share, raising net proceeds of HK$1,760,524,000. The Company intends to apply approximately HK$600,000,000 as additional capital for Shouqin for product quality improvement facilities and approximately HK$150,000,000 as additional capital for Shouqin for deep processing facilities for plates and the balance as general working capital of the Group or other projects as may be identified by the Company.

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

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40. SHARE OPTION SCHEME

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

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

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

The exercise price in relation to each share option will be determined by the Directors at their discretion and shall not be less than the highest of (i) the official closing price of the shares of the Company as stated in the daily quotation sheet of the Stock Exchange on the date of offer of share options; (ii) the average of the official closing prices of the shares of the Company as stated in the daily quotation sheets of the Stock Exchange for the five business days immediately preceding the date of offer of share options; and (iii) the nominal value of a share of the Company on the date of offer of share options. Each of the grantees is required to pay HK$1 as consideration for the grant of share options in accordance with the Scheme. The offer of a grant of share options must be accepted within 60 days from the date of the offer. All share options except for 167,200,000 share options granted during the year are vested upon date of grant.

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

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40. SHARE OPTION SCHEME (continued)

The following tables disclose details of the share options held by Directors, employees and other eligible participants and movements in such holdings during the year ended 31 December 2007:

Grantees	Number of share options At 1.1.2007	Granted during the year	Exercised during the year	At 31.12.2007	Date of grant	Exercise period	Exercise price per share HK$
Directors of the Company	84,850,000	–	(30,950,000)	53,900,000	23.8.2002	23.8.2002 to 22.8.2012	0.295
	18,360,000	–	(4,590,000)	13,770,000	12.3.2003	12.3.2003 to 11.3.2013	0.280
	202,004,000	–	–	202,004,000	18.11.2003	18.11.2003 to 17.11.2013	0.410
	–	38,500,000	–	38,500,000	20.12.2007	20.12.2007 to 19.12.2014	2.944
	–	34,000,000	–	34,000,000	20.12.2007	20.12.2008 to 19.12.2014	2.944
	–	34,000,000	–	34,000,000	20.12.2007	20.12.2009 to 19.12.2014	2.944
	–	34,000,000	–	34,000,000	20.12.2007	20.12.2010 to 19.12.2014	2.944
	–	34,000,000	–	34,000,000	20.12.2007	20.12.2011 to 19.12.2014	2.944
	305,214,000	174,500,000	(35,540,000)	444,174,000			
Other employees of the Group	110,000	–	–	110,000	12.3.2003	12.3.2003 to 11.3.2013	0.280
	6,000,000	–	(6,000,000)	–	18.3.2004	18.3.2004 to 17.3.2014	0.660
	–	7,600,000	–	7,600,000	20.12.2007	20.12.2007 to 19.12.2014	2.944
	–	7,600,000	–	7,600,000	20.12.2007	20.12.2008 to 19.12.2014	2.944
	–	7,600,000	–	7,600,000	20.12.2007	20.12.2009 to 19.12.2014	2.944
	–	7,600,000	–	7,600,000	20.12.2007	20.12.2010 to 19.12.2014	2.944
	–	7,600,000	–	7,600,000	20.12.2007	20.12.2011 to 19.12.2014	2.944
	6,110,000	38,000,000	(6,000,000)	38,110,000			

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40. SHARE OPTION SCHEME (continued)

Grantees	Number of share options: At 1.1.2007	Granted during the year	Exercised during the year	At 31.12.2007	Date of grant	Exercise period	Exercise price per share HK$
Other eligible participants	53,750,000	–	(53,700,000)	50,000	23.8.2002	23.8.2002 to 22.8.2012	0.295
	61,850,000	–	(38,900,000)	22,950,000	12.3.2003	12.3.2003 to 11.3.2013	0.280
	5,000,000	–	(5,000,000)	–	18.3.2004	18.3.2004 to 17.3.2014	0.660
	–	200,000	–	200,000	20.12.2007	20.12.2007 to 19.12.2014	2.944
	–	200,000	–	200,000	20.12.2007	20.12.2008 to 19.12.2014	2.944
	–	200,000	–	200,000	20.12.2007	20.12.2009 to 19.12.2014	2.944
	–	200,000	–	200,000	20.12.2007	20.12.2010 to 19.12.2014	2.944
	–	200,000	–	200,000	20.12.2007	20.12.2011 to 19.12.2014	2.944
	120,600,000	1,000,000	(97,600,000)	24,000,000			
	431,924,000	213,500,000	(139,140,000)	506,284,000			
Exercisable at the end of the year				339,084,000			

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

40. SHARE OPTION SCHEME (continued)

The following tables disclose details of the share options held by Directors, employees and other eligible participants and movements in such holdings during the year ended 31 December 2006:

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

40. SHARE OPTION SCHEME (continued)

Notes:

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

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

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

The following table discloses details of 213,500,000 share options granted to the relevant option holders during the year:

Grant date	Number of options granted	Exercise price	Vesting period	Exercise period	Fair value per option'
		HK$			*HK$*
20 December 2007	46,300,000	2.944	Nil	20 December 2007 to 19 December 2014	1.2168
20 December 2007	41,800,000	2.944	20 December 2007 to 19 December 2008	20 December 2008 to 19 December 2014	1.2493
20 December 2007	41,800,000	2.944	20 December 2007 to 19 December 2009	20 December 2009 to 19 December 2014	1.3054
20 December 2007	41,800,000	2.944	20 December 2007 to 19 December 2010	20 December 2010 to 19 December 2014	1.3475
20 December 2007	41,800,000	2.944	20 December 2007 to 19 December 2011	20 December 2011 to 19 December 2014	1.3724
	213,500,000				

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For the year ended 31 December 2007

40. SHARE OPTION SCHEME (continued)

The options granted in the year will expire on 20 December 2014.

During the year ended 31 December 2007, 139,140,000 share options were exercised at prices ranging from HK$0.28 to HK$0.66 per share, resulting in the issuance of 139,140,000 ordinary shares of HK$0.2 each in the Company.

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

The fair values of the options granted during the year were calculated using the Binominal Option Pricing Model. The inputs into the model were as follows:

	2007
Share price on grant date	HK$2.85
Exercise price	HK$2.944
Expected volatility	59.36%
Contractual life	7 years
Risk-free rate	3.103%
Expected dividend yield	2.6%

Expected volatility was determined by using the historical volatility of the Company's share price over the previous years. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non transferability, exercise restrictions and behavioural considerations.

The Group recognised the total expense of HK$59,726,000 for the year ended 31 December 2007 (2006: Nil) in relation to share options granted by the Company.

The Binomial Option Pricing Model has been used to estimate the fair value of the options. The variables and assumptions used in computing the fair value of the share options are based on the management's best estimate. The value of an option varies with different variables of certain subjective assumptions.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

41. RESERVES

	Share premium HK$'000	Share option reserve HK$'000	Capital redemption reserve HK$'000	Special capital reserve HK$'000 (Note)	Accumulated profits HK$'000	Total HK$'000
THE COMPANY						
At 1 January 2006	112,169	–	1,019	292,655	131,619	537,462
Premium arising on issue of shares	306,665	–	–	–	–	306,665
Share issue expenses	(90)	–	–	–	–	(90)
Final 2005 dividend paid	–	–	–	–	(35,185)	(35,185)
Profit for the year	–	–	–	–	20,646	20,646
At 31 December 2006	418,744	–	1,019	292,655	117,080	829,498
Shares issued at premium	1,808,000	–	–	–	–	1,808,000
Effects of share options	16,580	–	–	–	–	16,580
Share issue expenses	(50,160)	–	–	–	–	(50,160)
Recognition of equity-settled share based payments	–	59,726	–	–	–	59,726
Dividends recognised as distribution	–	–	–	–	(123,162)	(123,162)
Recovery of advances to a subsidiary	–	–	–	9,569	(9,569)	–
Transfer from special capital reserve	–	–	–	(302,224)	302,224	–
Profit for the year	–	–	–	–	626,798	626,798
At 31 December 2007	2,193,164	59,726	1,019	–	913,371	3,167,280

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

41. RESERVES (continued)

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

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

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

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

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

41. RESERVES (continued)

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

During the year ended 31 December 2007, advances of the Company amounting to approximately HK$9,569,000 were recovered from a subsidiary. Pursuant to proviso (d) above, such amount is credited to the Special Capital Reserve as a result of such realisation.

During the year ended 31 December 2006, the Company issued 930,000,000 shares. The Company's paid up share capital increased by HK$186,000,000 and share premium account increased by HK$306,665,000. Pursuant to proviso (c) above, the Special Capital Reserve may be reduced by the amount of any increase of the Company's paid up share capital or share premium account resulting from the payment up of shares by the receipt of the new consideration and the Company shall be at liberty to transfer the amount of such reduction to the general reserves of the Company and the amount shall become available for distribution. As the aggregate increase in the paid up share capital and share premium account amounting to HK$492,665,000 has exceeded the Special Capital Reserve of HK$302,224,000, the Company transferred the total Special Capital Reserve of HK$302,224,000 to accumulated profit during the year ended 31 December 2007.

42. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance. The Group's and the Company's overall strategy remains unchanged from prior year.

The capital structure of the Group consists of net debt, which includes the borrowings disclosed in note 36, loans from ultimate holding company of controlling shareholder disclosed in note 37, net of cash and cash equivalents and equity attributable to equity holders of the Company, comprising issued share capital, reserves and retained earnings.

The Directors of the Company review the capital structure on a semi-annual basis. As part of this review, the Directors consider the cost of capital and the risks associates with each class of capital. Based on recommendations of the Directors, the Group will balance its overall capital structure through the payment of dividends, new share issues and share buy-backs as well as the issue of new debt or the redemption of existing debt.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

43. FINANCIAL INSTRUMENTS

43a. Categories of financial instruments

	THE GROUP	
	2007	2006
	HK$'000	*HK$'000*
Financial assets		
Deemed as held for trading on initial recognition	**150,409**	–
Held for trading	**27,245**	–
Loans and receivables (including cash and cash equivalents)	**5,130,372**	2,416,495
Available-for-sale financial assets	**467,573**	–
Financial liabilities		
Held for trading	**13,949**	91
Amortised cost	**7,441,445**	7,475,252

	THE COMPANY	
	2007	2006
	HK$'000	*HK$'000*
Financial assets		
Loans and receivables (including cash and cash equivalents)	**3,787,440**	2,715,965
Financial liabilities		
Held for trading	**13,949**	91
Amortised cost	**114**	1,162,408
Financial guarantee contracts	**6,217**	3,563

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

43. FINANCIAL INSTRUMENTS (continued)

43b. Financial risk management objectives and policies

The Group's major financial instruments include available-for-sale investments, restricted deposits, trade and bill receivables, other receivables, amounts due from (to) related companies, loans from ultimate holding company of controlling shareholder, bank balances and deposits, amount due from (to) ultimate holding company of controlling shareholder, amount due from a minority shareholder of a subsidiary, trade and bill payables, other payables, bank borrowings and derivative financial instruments. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (currency risk, interest rate risk and other price risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The Group's overall risk management strategy focuses on the unpredictability of financial markets and seeks to minimize the impact of exchange rate and interest rate fluctuations on the Group's financial performance and price fluctuations on the Group's available-for-sale investments. Risk management for the Group's operations is carried out under the guidance of the Board of Directors. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Market risk

(i) *Currency risk*

Several subsidiaries of the Company have foreign currency sales and purchases. Certain trade receivables, bank balances, trade payables and bank borrowings of the Group are denominated in foreign currencies other than the functional currencies of the relevant group entities, which expose the Group to foreign currency risk. Approximately 21% (2006: 22%) of the Group's sales are denominated in currencies other than the functional currency of the group entity making the sale, whilst almost 82% (2006: 76%) of costs are denominated in the group entity's functional currency.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

43. FINANCIAL INSTRUMENTS (continued)

43b. Financial risk management objectives and policies (continued)

Market risk (continued)

(i) *Currency risk* (continued)

The carrying amounts of the Group's and the Company's foreign currency denominated monetary assets and monetary liabilities at the reporting date are as follows:

	THE GROUP			
	Liabilities		Assets	
	2007	2006	**2007**	2006
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
AUD	**437**	–	**454,530**	41,797
USD	**173,872**	1,017,561	**925,891**	914,385
HKD	**115**	154,705	**1,036,863**	77,145
Euro ("EUR")	**–**	–	**5,190**	14

	THE COMPANY			
	Liabilities		Assets	
	2007	2006	**2007**	2006
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
AUD	**437**	–	**12,442**	41,797
USD	**19,496**	1,011,212	**546,194**	744,973
HKD	**743**	154,850	**1,036,025**	76,402

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

43. FINANCIAL INSTRUMENTS (continued)

43b. Financial risk management objectives and policies (continued)

Market risk (continued)

(i) *Currency risk* (continued)

Sensitivity analysis

The Group is mainly exposed to exchange rate fluctuations of AUD, USD and HKD against RMB. As HKD was pegged to USD, the exposure to fluctuations in exchange rate of HKD against USD is not considered significant and thus the effect is not considered in the sensitivity analysis.

The following table details the Group's sensitivity to a 5% increase and decrease in RMB against the relevant foreign currencies. 5% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the year end for a 5% change in foreign currency rates. The negative number below indicates a decrease in post-tax profit and equity where RMB strengthens 5% against the relevant currency. For a 5% weakening of RMB against the relevant currency, there would be an equal and opposite impact on the profit or loss for the year.

	THE GROUP					
	AUD		USD		HKD	
	2007	2006	**2007**	2006	**2007**	2006
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Profit or loss for the year	**(488)**	(1,722) *(i)*	**(18,253)**	9,884 *(ii)*	**(42,731)**	3,215 *(iii)*

	THE COMPANY					
	AUD		USD		HKD	
	2007	2006	**2007**	2006	**2007**	2006
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Profit or loss for the year	**(488)**	(1,722) *(i)*	**(21,812)**	10,979 *(ii)*	**(42,705)**	3,234 *(iii)*

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

43. FINANCIAL INSTRUMENTS (continued)

43b. Financial risk management objectives and policies (continued)

Market risk (continued)

(i) *Currency risk* (continued)

Sensitivity analysis (continued)

(i) This is mainly attributable to the exposure outstanding on AUD receivables and payables at year end in the Group and the Company.

(ii) This is mainly attributable to the exposure outstanding on USD receivables and payables at year end in the Group and the Company.

(iii) This is mainly attributable to the exposure to outstanding HKD receivables and payables at the year end in the Group and the Company.

(ii) *Interest rate risk*

The Group is exposed to fair value interest rate risk in relation to fixed-rate bank balances, bank borrowings (see note 36 for details of these borrowings) and loans from ultimate holding company of controlling shareholder (see note 37 for details of these loans).

The Group and the Company is also exposed to cash flow interest rate risk in relation to variable-rate bank balances and bank borrowings. The Group currently does not enter into any interest rate swaps to convert floating rate to fixed rate obligations. However, the management closely monitors interest rate change exposure and will consider hedging significant interest rate change exposure should the need arises.

No sensitivity analysis was presented on the Group's and the Company's variable-rate bank balances as the amounts are not significant.

The sensitivity analysis below presents the effects on the Group's and the Company's post-tax profit for the year as a result of change in interest expense on variable-rate borrowings. The sensitivity to interest rate used is considered reasonable given the market forecasts available at balance sheet date and under the economic environments in which the Group operates, with all other variables held constant.

Sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to interest rates for non-derivative instruments at the balance sheet date. For variable-rate bank borrowings, the analysis is prepared assuming the amount of liability outstanding at the balance sheet date was outstanding for the whole year. A 100 basis point increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

43. FINANCIAL INSTRUMENTS (continued)

43b. Financial risk management objectives and policies (continued)

Market risk (continued)

(ii) ***Interest rate risk*** (continued)

Sensitivity analysis (continued)

If interest rates had been 100 basis points higher/lower and all other variables were held constant, the Group's profit for the year ended 31 December 2007 would decrease/increase by HK$9,818,000 (2006: decrease/increase by HK$15,476,000). This is mainly attributable to the Group's exposure to interest rates on its variable-rate bank borrowings.

If interest rates had been 100 basis points higher/lower and all other variables were held constant, the Company's profit for the year ended 31 December 2006 would decrease/increase by HK$9,547,000 (2007: nil) . This is mainly attributable to the Company's exposure to interest rates on its variable-rate bank borrowings.

The Group's and the Company's sensitivity to interest rates has decreased during the current year mainly due to the decrease in variable rate debt instruments.

(iii) ***Other price risk***

The Group is exposed to equity price risk through its investments in listed and unlisted equity security and option to subscribe for shares of a listed company in Australia. The Group does not engage into trading in equity securities as such investments are only held for long term strategic purpose.

Sensitivity analysis

The sensitivity analyses (excluding unlisted equity securities measured at cost less impairment) have been determined based on the exposure to equity price risks by reference to the movements of the share price quoted up till the reporting date. If the share prices of the respective equity listed in Australia had been 35% higher/lower, security investment reserve would increase/decrease by HK$154,793,000 (2006: nil) for the Group as a result of the changes in fair value of available-for-sale investments. In addition, if there is a 5% increase/decrease in HKD against AUD, security investment reserve would decrease/increase by HK$22,113,000 (2006: nil) for the Group.

Besides, the Group is required to estimate the fair value of option to subscribe for shares of a listed company in Australia at each balance sheet date with change in fair value to be recognised in the consolidated income statements. The fair value adjustment will be affected either positively or negatively, amongst others, by the changes in market interest rate, the equity's market price and share price volatility.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

43. FINANCIAL INSTRUMENTS (continued)

43b. Financial risk management objectives and policies (continued)

Market risk (continued)

(iii) *Other price risk* (continued)

Sensitivity analysis (continued)

The sensitivity analyses below have been determined based on the exposure to the share price risks of the respective equity listed in Australia at the reporting date only as the Directors of the Company consider that change in market interest rate may not have significant financial impact on the fair value of the respective option.

Based on Binomial Option Pricing Model, if the share prices of the respective equity listed in Australia had been 35% higher/lower and all other variables were held constant, the Group's profit for the year would increase/decrease by HK$69,282,000/HK$65,484,000 (2006: nil) as a result of the change in fair value of option to subscribe for shares of a listed company in Australia.

Credit risk

As at 31 December 2007, the Group's and the Company'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 provided by the Group is arising from:

- the carrying amount of the respective recognised financial assets as stated in the consolidated balance sheet; and
- the amount of contingent liabilities in relation to financial guarantee issued by the Company as disclosed in note 48.

In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the Directors of the Company consider that the Group's credit risk is significantly reduced. Besides, the Group has reduced credit risk on trade receivables by requesting trade deposits to be made or settlement by bank bills before delivery, especially in the steel manufacturing and shipping segment. The Group mainly deals with companies with a successful track record and reputation and also has policies in place to assess the credit worthiness of customers.

The Company has limited credit risk on amounts due from subsidiaries. Management periodically monitors the financial position of each of its subsidiaries to ensure each subsidiary is financially viable to settle the debts due to the Company. Adequate impairment losses are made for irrecoverable amounts.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

43. FINANCIAL INSTRUMENTS (continued)

43b. Financial risk management objectives and policies (continued)

Credit risk (continued)

The Group and the Company has limited credit risk on liquid funds as the counterparties are banks and financial institutions which are reputable and/or with high credit ratings assigned by international credit-rating agencies.

The Group and the Company has no significant concentration of credit risk for its trade and other receivables and amounts due from subsidiaries and related companies, with exposure spread over a large number of counterparties and customers.

Liquidity risk

The Group and the Company manages its liquidity risk by ensuring it has sufficient liquid cash balances and credit facilities to meet its payment obligations as they fall due. In addition, the Group and the Company can elect net or gross settlement on all derivative financial instruments so as to reduce liquidity risk. The Group and the Company believes it has a good working relationship with its lending banks and ensures compliance with the covenants as stipulated in the loan agreements.

In the management of the liquidity risk, the Group and the Company 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. A monthly report on forecasted inflow and outflow of cash is compiled for the Directors' review. 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 2007, the Group has available unutilised short-term and long-term bank loan facilities of approximately HK$1,589 million (2006: HK$620 million).

The following table details the Group's remaining contractual maturity for its financial liabilities. For non-derivative financial liabilities, the table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows.

For derivative instruments to be settled on a net basis, undiscounted net cash (inflows)/outflows are presented. For derivative instruments to be settled on a gross basis, the undiscounted gross (inflows) and outflows on these derivatives are shown in the table.

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For the year ended 31 December 2007

43. FINANCIAL INSTRUMENTS (continued)

43b. Financial risk management objectives and policies (continued)

Liquidity risk (continued)

Liquidity and interest risk tables

		THE GROUP						
	Weighted average effective interest rate % (Note)	Less than 3 month *HK$'000*	3-6 months *HK$'000*	6 months to 1 year *HK$'000*	1-2 years *HK$'000*	2-5 years *HK$'000*	Total undiscounted cash flows *HK$'000*	Carrying amount at 31.12.2007 *HK$'000*
2007								
Non-derivative financial liabilities								
Trade and bill payables		932,448	14,198	8,183	–	–	954,829	954,829
Other payables		499,931	–	–	–	–	499,931	499,931
Amount due to ultimate holding company of controlling shareholders		209,281	–	–	–	–	209,281	209,281
Amounts due to related companies		546,797	–	–	–	–	546,797	546,797
Loans from ultimate holding company of controlling shareholder	6.52	196,795	289,312	626,441	–	–	1,112,548	1,070,663
Bank loans								
– fixed rate	6.59	253,671	2,123,178	261,535	566,681	–	3,205,065	3,072,057
– variable rate	6.65	426,577	246,669	25,537	28,836	454,742	1,182,361	1,087,887
		3,065,500	2,673,357	921,696	595,517	454,742	7,710,812	7,441,445
Derivatives settled net								
Foreign exchange forward contracts		(698)	3,707	13,140	–	–	16,149	16,149
Derivatives settled gross								
Foreign exchange forward contracts								
– inflow		(51,957)	(46,806)	(93,612)	(78,010)	–	(270,385)	(270,385)
– outflow		51,297	46,476	92,952	77,460	–	268,185	268,185
		(660)	(330)	(660)	(550)	–	(2,200)	(2,200)

Note: The weighted average effective interest rates are based on the interest rate of the outstanding loans at the balance sheet date.

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43. FINANCIAL INSTRUMENTS (continued)

43b. Financial risk management objectives and policies (continued)

Liquidity risk (continued)

Liquidity and interest risk tables (continued)

	THE GROUP							
	Weighted average effective interest rate % *(Note)*	Less than 3 month *HK$'000*	3-6 months *HK$'000*	6 months to 1 year *HK$'000*	1-2 years *HK$'000*	2-5 years *HK$'000*	Total undiscounted cash flows *HK$'000*	Carrying amount at 31.12.2006 *HK$'000*
2006								
Non-derivative financial liabilities								
Amounts due to customers for contract work		562	–	–	–	–	562	562
Trade and bill payables		498,261	11,673	13,900	–	–	523,834	523,834
Other payables		409,710	–	–	149,268	–	558,978	558,978
Amounts due to related companies		633,165	–	–	–	–	633,165	633,165
Amount due to ultimate holding company of controlling shareholders		56,676	–	–	–	–	56,676	56,676
Obligation under finance lease		267	–	–	–	–	267	267
Bank borrowings								
– fixed rate	5.79	219,109	1,790,153	570,294	310,636	–	2,890,192	2,792,228
– variable rate	6.34	359,286	147,559	212,885	425,191	940,225	2,085,146	1,784,978
Loans from ultimate holding company of controlling shareholder	5.8	311,583	267,881	243,711	356,845	–	1,180,020	1,124,564
		2,488,619	2,217,266	1,040,790	1,241,940	940,225	7,928,840	7,475,252
Derivatives settled gross								
Foreign exchange forward contracts								
– inflow		(46,671)	(93,342)	(138,941)	–	–	(278,954)	(279,071)
– outflow		46,350	92,658	140,037	–	–	279,045	279,162
		(321)	(684)	1,096	–	–	91	91

Note: The weighted average effective interest rates are based on the interest rate of the outstanding loans at the balance sheet date.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

43. FINANCIAL INSTRUMENTS (continued)

43b. Financial risk management objectives and policies (continued)

Liquidity risk (continued)

Liquidity and interest risk tables (continued)

		THE COMPANY					
	Weighted average effective interest rate	Less than 3 month	3-6 months	6 months to 1 year	1-2 years	Total undiscounted cash flows	Carrying amount at 31.12.2007
	%	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
2007							
Non-derivative financial Liabilities							
Other payables		102	–	–	–	102	102
Amount due to a related company		12	–	–	–	12	12
		114	–	–	–	114	114
Derivatives settled net							
Foreign exchange forward contracts		(698)	3,707	13,140	–	16,149	16,149
Derivatives settled gross							
Foreign exchange forward contracts							
– inflow		(51,957)	(46,806)	(93,612)	(78,010)	(270,385)	(270,385)
– outflow		51,297	46,476	92,952	77,460	268,185	268,185
		(660)	(330)	(660)	(550)	(2,200)	(2,200)

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

43. FINANCIAL INSTRUMENTS (continued)

43b. Financial risk management objectives and policies (continued)

Liquidity risk (continued)

Liquidity and interest risk tables (continued)

	THE COMPANY							
	Weighted average effective interest rate % *(Note)*	Less than 3 month *HK$'000*	3-6 months *HK$'000*	6 months to 1 year *HK$'000*	1-2 years *HK$'000*	2-5 years *HK$'000*	Total undiscounted cash flows *HK$'000*	Carrying amount at 31.12.2006 *HK$'000*
2006								
Non-derivative financial Liabilities								
Bank borrowings	6.50	18,706	18,706	38,452	309,310	940,225	1,325,399	1,157,176
Other payables		5,232	–	–	–	–	5,232	5,232
		23,938	18,706	38,452	309,310	940,225	1,330,631	1,162,408
Derivatives settled net								
Foreign exchange forward contracts		–	–	–	–	–	–	–
Derivatives settled gross								
Foreign exchange forward contracts								
– inflow		(46,671)	(93,342)	(138,941)	–	–	(278,954)	(279,071)
– outflow		46,350	92,658	140,037	–	–	279,045	279,162
		(321)	(684)	1,096	–	–	91	91

Note: The weighted average effective interest rate is based on the interest rate of the outstanding loans at the balance sheet date.

At 31 December 2007 and 2006, it was not probable that the counterparty to the financial guarantee contract will claim under the contract. Consequently, the carrying amount of financial guarantee contract of HK$6,217,000 (2006: HK$3,563,000) for the Company has not been presented above.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

43. FINANCIAL INSTRUMENTS (continued)

43c. Fair value

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

- the fair value of financial assets and financial liabilities (including derivative instruments) with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market bid prices and ask prices respectively; and

- the fair value of other financial assets and financial liabilities (including derivative instruments) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices or rates from observable current market transactions as input. For an option-based derivative, the fair value is estimated using option pricing model (for example, the binomial model).

44. MAJOR NON-CASH TRANSACTIONS

During the year ended 31 December 2007, a debtor transferred an investment property to the Group to settle a long outstanding debt of HK$8,986,000, the debt was fully impaired in prior years.

45. OPERATING LEASE ARRANGEMENTS

The Group as lessee

	THE GROUP	
	2007	2006
	HK$'000	*HK$'000*
Minimum lease payments paid under operating leases during the year are as follows:		
Land and buildings	**3,172**	3,443
Vessels time charter hire	**128,930**	133,832
	132,102	137,275

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

45. OPERATING LEASE ARRANGEMENTS (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 in respect of rented premises and vessels time charter hire which fall due as follows:

	Vessels time charter hire		Land and buildings		Total	
	2007	2006	**2007**	2006	**2007**	2006
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Within one year	**139,234**	143,393	**666**	407	**139,900**	143,800
In the second to fifth years inclusive	**588,119**	589,373	**5,213**	683	**593,332**	590,056
After five years	**–**	137,980	**1,534**	1,426	**1,534**	139,406
	727,353	870,746	**7,413**	2,516	**734,766**	873,262

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

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

45. OPERATING LEASE ARRANGEMENTS (continued)

The Group as lessor

Property rental income earned during the year is approximately HK$619,000 (2006: HK$1,528,000). Leases are generally negotiated for an average term of one year.

At 31 December 2007, the Group had contracted with tenants for future minimum lease payments under non-cancellable operating leases in respect of rented premises amounting to approximately HK$567,000 (2006: nil) which fall due within one year and amounting to approximately HK$302,000 (2006: nil) which fall due within 2nd to 5th year.

46. COMMITMENTS

	THE GROUP	
	2007	2006
	HK$'000	*HK$'000*
CAPITAL COMMITMENTS		
Capital expenditure contracted for but not provided in the financial statements in respect of acquisition of property, plant and equipment	**–**	9,624
OTHER COMMITMENTS		
Capital injection in respect of an investee	**101,222**	–

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

47. RETIREMENT BENEFITS SCHEMES

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

48. CONTINGENT LIABILITIES

THE GROUP

The Group had no significant contingent liabilities at the balance sheet date.

THE COMPANY

As at 31 December 2007, the financial guarantee given to banks in respect of banking facilities utilised by subsidiaries amounted to HK$133,566,000 (2006: nil) of which HK$6,217,000 (2006: HK$3,563,000) was recognised in the financial statements.

49. PLEDGE OF ASSETS

THE GROUP

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

(a) pledge of the Group's plant and machinery with net book value of HK$302,180,000 (2006: HK$304,932,000).

(b) restricted deposits amounting to HK$68,779,000 (2006: HK$116,277,000)

(c) As at 31 December 2006, pledge of the Group's investment properties and prepaid lease rentals with carrying amount of HK$18,193,000 and HK$3,480,000, respectively. The Group had no such pledge of assets as at 31 December 2007.

(d) As at 31 December 2006, pledge of the Group's 51% equity interest in Beijing Power Plant and 100% equity interest in Qinhuangdao Plate Mill, net assets of which amount to HK$454,479,000 and HK$1,080,065,000 respectively. The Group had no such pledge of assets as at 31 December 2007.

(e) As at 31 December 2006, pledge of assets of its subsidiaries, Shougang Concord Power Plant Holdings Limited, Equity Dragon Assets Limited and Pointer Investments Limited, net assets of which amounting to HK$61,838,000, HK$196,693,000 and HK$194,839,000 respectively. The Group had no such pledge of assets as at 31 December 2007.

(f) As at 31 December 2006, pledged deposit of an amount of HK$10,123,000. The Group had no such pledge of assets as at 31 December 2007.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

49. PLEDGE OF ASSETS (continued)

THE COMPANY

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

(a) As at 31 December 2006, pledge of the Group's 51% equity interest in Beijing Power Plant and 100% equity interest in Qinhuangdao Plate Mill, net assets of which amounting to HK$454,479,000 and HK$1,080,065,000 respectively. The Company had no such pledge of assets as at 31 December 2007.

(b) As at 31 December 2006, pledged deposit of an amount of HK$10,123,000. The Company had no such pledge of assets as at 31 December 2007.

50. POST BALANCE SHEET EVENTS

(a) On 29 November 2007, the Company entered into a subscription agreement with Shougang Century Holdings Limited ("Shougang Century"), an associate company of the Group, pursuant to which the Company conditionally agreed to subscribe for and Shougang Century conditionally agreed to issue, a total of 400 million new Shougang Century Shares (the "Subscription Shares") to the Company at the price of HK$1.03 per share (the "Subscription"). Details of the Subscription were set out in the Company's announcement dated 30 November 2007 and the Company's circular dated 21 December 2007.

The transaction was completed on 18 January 2008. Upon completion of the Subscription, the interests held by the Company increased from 22.3% as at the date of the subscription agreement to 36.4% as at the date of the completion.

Completion of the Subscription is conditional upon:

(i) the passing by the shareholders of Shougang Century who are permitted to vote under the Listing rules and the Hong Kong Code on Takeovers and Mergers (the "Code") at a general meeting of Shougang Century of resolutions to approve this Subscription and a waiver from the Executive (as defined in the Code) pursuant to Note 1 on the Dispensations from Rule 26 of the Code in respect of the obligations of the Company and parties acting in concert with it to make a mandatory general offer for all the ordinary shares of HK$0.1 each in the capital of Shougang Century not already owned or agreed to be acquired by the Company or parties acting in concert with it which would otherwise arises as a result of completion of this Subscription (the "Whitewash Waiver");

(ii) the grant of the Whitewash Waiver by the Executive (as defined in the Code);

(iii) the listing of and permission to deal in the Subscription Shares being granted by the Listing Committee of the Stock Exchange (and such permission and listing not subsequently being revoked prior to the delivery of definitive share certificates representing the Subscription Shares); and

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

50. POST BALANCE SHEET EVENTS (continued)

(a) (continued)

(iv) if applicable, the passing by the shareholders of the Company who are permitted to vote under the Listing Rules at a general meeting of the Company of resolutions to approve the subscription agreement and the transactions contemplated thereunder.

(b) On 31 January 2008, the Company entered into a share purchase agreement (the "Share Purchase Agreement") with Gazmetall Holdings (Cyprus) Limited ("Gazmetall"), a company incorporated in Cyprus, pursuant to which Gazmetall agreed to sell and the Company agreed to purchase 77,436,215 ordinary shares of Mount Gibson Iron Limited ("Mount Gibson"), which is a company listed on the Australian Securities Exchange, representing approximately 9.74% of the issued ordinary share capital of Mount Gibson as at the date of the Share Purchase Agreement, at AUD2.60 per share (the "Acquisition"). The consideration of the Acquisition amounts to AUD201,334,159 (equivalent to approximately HK$1,379 million). In addition, the Company and Gazmetall entered into an option agreement (the "Option Agreement") pursuant to which the Company would be granted an option (the "Option") to acquire the 79,333,682 ordinary shares of Mount Gibson, representing approximately 9.98% of the issued ordinary share capital of Mount Gibson as at the date of the Option Agreement at an aggregate option price of AUD2.60 per option share, subject to the terms and conditions of the Option Agreement.

Details of the Acquisition and the Option were set out in the Company's announcement dated 31 January 2008 and the Company's circular dated 18 February 2008.

The Company was provided a copy of an application (the "Application") lodged by Mount Gibson with the Takeovers Panel of Australia (the "Takeovers Panel") on 18 February 2008 in which Mount Gibson seeks orders to prohibit the completion of the Share Purchase Agreement and the Option Agreement (the "Clarification"). Details of the Clarification were set out in the Company's announcement dated 19 February 2008.

On 31 March 2008, the Takeovers Panel made an order cancelling the Share Purchase Agreement and the Option Agreement, with immediate effect. This order was made following the Takeovers Panel making declaration of unacceptable circumstances within the meaning of the Australian Corporations Act 2001. Accordingly, all rights and obligations of the parties under the Share Purchase Agreement and the Option Agreement were terminated and neither the Company nor Gazmetall shall have any claim against the other. Details were set out in the Company's announcement dated 1 April 2008.

(c) On 28 February 2008, the Company entered into a facility agreement with a syndicate of banks relating to term and revolving credit facilities in a total principal amount of US$320 million. The facility includes US$200 million term loan facility which shall be repaid by the Company by instalments with the last instalment due on the date falling 48 months after the date of the facility agreement. It also includes US$120 million revolving loan facility which may be reborrowed by the Company subject to the final maturity day being the date which is falling 48 months after the date of the facility agreement. The Company shall apply the facilities towards financing the working capital requirements of the Company and its subsidiaries.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

51. RELATED PARTY DISCLOSURES

Other than disclosed in notes 25, 29, 30 and 37, the significant transactions with related parties during the year, and significant balances with them at the balance sheet date are as follows:

(I) Transactions

	Notes	2007 HK$'000	2006 HK$'000
THE GROUP			
Shougang Group			
Sales of goods by the Group	(a)	2,193,665	386,496
Provision of electricity, steam and hot water by the Group	(b)	481,179	424,641
Purchases of goods by the Group	(c)	3,613,264	2,384,264
Lease rentals charged to the Group	(d)	2,749	2,378
Management fee charged to the Group	(e)	960	960
Purchases of spare parts by the Group	(f)	116,051	49,943
Management fees charged by the Group	(g)	120	120
Rental income charged by the Group	(h)	151	151
Interest charged to the Group	(i)	75,847	66,397
Service fees charged to the Group	(j)	147,453	102,238
Service fees charged by the Group	(k)	123,034	24,703
Purchase of property, plant and equipment by the Group	(l)	555,663	610,777
Loans granted to the Group	(m)	–	488,291
THE COMPANY			
Shougang Group			
Management fee charged to the Company	(e)	960	960
Management fee charged by the Company	(g)	420	1,560
Interest charged to the Company	(h)	–	2,408

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

51. RELATED PARTY DISCLOSURES (continued)

(II) Balances

Details of deposits for acquisition of property, plant and equipment with the Shougang Group are set out in note 25;

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

Details of balances with the Group's ultimate holding company of controlling shareholder are set out in note 30 and 37;

Shougang Corporation has provided corporate guarantees for certain bank loans granted to the Group for nil consideration. At 31 December 2007, the Group has bank loans guaranteed by Shougang Corporation amounting to approximately HK$3,919,151,000 (2006: HK$3,320,379,000).

Notes:

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

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

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

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

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

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

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

51. RELATED PARTY DISCLOSURES (continued)

(II) Balances (continued)

(i) The interest expenses were charged by the Shougang Group in respect of loans granted to the Group at interest rates from 5.76% to 6.84% (2006: 5.14% to 6.12%) per annum.

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

(k) The Group charged Shougang Group service fees in respect of processing of steel plates, transportation and administration services provided.

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

(m) At 31 December 2006, Shougang Corporation had granted loans to the Group which are interest bearing at interest rates from 5.76% to 5.85% per annum.

In addition, details of share options held by Directors as at 31 December 2007 were disclosed in note 40.

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

The Group operates in an economic environment currently predominated by entities directly or indirectly owned or controlled by the PRC government ("state-controlled entities").

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

51. RELATED PARTY DISCLOSURES (continued)

Compensation of key management personnel

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

	THE GROUP	
	2007	2006
	HK$'000	*HK$'000*
Short-term employee benefits	**22,480**	11,482
Post employment benefits	**1,054**	521
Share-based payments	**50,616**	–
	74,150	12,003

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

52. PARTICULARS OF PRINCIPAL SUBSIDIARIES AND ASSOCIATES

Details of the Company's principal subsidiaries at 31 December 2007 are as follows:

Name of subsidiary	Place of incorporation or registration/ operations	Issued and fully paid share/ registered capital	Proportion of issued share/registered capital held by the Company				Principal activities
			Directly		*Indirectly*		
			2007	2006	2007	2006	
			%	%	%	%	
Central Pro Investments Limited	Samoa/ Hong Kong	US$1 Ordinary share	100	100	–	–	Investment holding
Cheer Source Limited	Samoa	US$1 Ordinary share	100	–	–	–	Investment holding
Equity Dragon Assets Limited	British Virgin Islands/Hong Kong	US$1 Ordinary share	–	–	100	100	Investment holding
Standnew Limited	British Virgin Islands/Hong Kong	US$100 Ordinary shares	–	–	100	100	Investment holding
Profit News Investments Limited	British Virgin Islands/Hong Kong	US$1 Ordinary share	–	–	100	100	Investment holding
Shougang Concord Steel Holdings Limited	British Virgin Islands/Hong Kong	US$1,000 Ordinary shares	100	100	–	–	Investment holding
Shougang Concord Steel Group Limited	Hong Kong	HK$25,000,000 Ordinary shares	–	–	100	100	Investment holding
Shougang Concord Godown Limited	Hong Kong	HK$2 Ordinary shares HK$2,000,000 Non-voting deferred shares	–	–	100	100	Provision of warehousing services

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

52. PARTICULARS OF PRINCIPAL SUBSIDIARIES AND ASSOCIATES (continued)

Name of subsidiary	Place of incorporation or registration/ operations	Issued and fully paid share/ registered capital	Proportion of issued share/registered capital held by the Company				Principal activities
			Directly		*Indirectly*		
			2007	2006	2007	2006	
			%	%	%	%	
Shougang Concord Management Company Limited	Hong Kong	HK$100,000 Ordinary shares	–	–	100	100	Provision of management services and investment holding
Shougang Concord Steel (International) Company Limited	British Virgin Islands/Hong Kong	US$1,000 Ordinary shares	–	–	100	100	Investment holding
Shougang Concord Steel International Trading Co. Ltd.	British Virgin Islands/Hong Kong	US$1 Ordinary share	–	–	100	100	Trading of steel bars and investment holding
Shougang Concord Shipping Holdings Limited	British Virgin Islands/Hong Kong	US$641,025 Ordinary shares	100	100	–	–	Investment holding
Shougang Concord International Transport Limited	British Virgin Islands/Hong Kong	US$1 Ordinary share	–	–	100	100	Investment holding and chartering of vessels
Ryegar Limited	United Kingdom/ Hong Kong	£2 Ordinary shares	–	–	100	100	Chartering of vessels
Shougang Concord Shipping Services Limited	Hong Kong	HK$2 Ordinary shares	–	–	100	100	Provision of management services
SCIT (Chartering) Limited	British Virgin Islands	US$1 Ordinary share	–	–	100	100	Chartering of vessels

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

52. PARTICULARS OF PRINCIPAL SUBSIDIARIES AND ASSOCIATES (continued)

Name of subsidiary	Place of incorporation or registration/ operations	Issued and fully paid share/ registered capital	Proportion of issued share/registered capital held by the Company				Principal activities
			Directly		*Indirectly*		
			2007	2006	2007	2006	
			%	%	%	%	
Centralink International Limited	British Virgin Islands/Hong Kong	US$2,000,000 Ordinary shares	–	–	70	70	Investment holding
舟山首和中轉儲運有限公司 Zhoushan Shouhe Centra-link Co., Ltd.	PRC	US$5,000,000 Registered capital	#	#	#	#	Hiring of floating cranes
Fair Union Holdings Limited	Samoa/ Hong Kong	US$1 Ordinary share	100	100	–	–	Investment holding
Richson Limited	Samoa/ Hong Kong	US$1 Ordinary share	–	–	100	100	Investment holding
Casula Investments Limited	Samoa/ Hong Kong	US$1 Ordinary share	–	–	100	100	Investment holding
Firstlevel Holdings Limited	Samoa/ Hong Kong	US$1 Ordinary share	100	100	–	–	Investment holding
Shougang Concord Power Plant Holdings Limited	British Virgin Islands/Hong Kong	US$1 Ordinary share	–	–	100	100	Investment holding
秦皇島首鋼板材有限公司 Qinhuangdao Plate Mill Δ	PRC	US$86,000,000 Registered capital	–	–	100	100	Manufacture and sale of steel plates
秦皇島首秦金屬材料有限公司 Shouqin ΔΔ	PRC	RMB2,100,000,000 Registered capital	–	–	76	96	Manufacture and sale of steel and related products
北京首鋼超群電力有限公司 Beijing Power Plant ΔΔ	PRC	RMB261,170,000 Registered capital	–	–	51	51	Power generation

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

52. PARTICULARS OF PRINCIPAL SUBSIDIARIES AND ASSOCIATES (continued)

Name of subsidiary	Place of incorporation or registration/ operations	Issued and fully paid share/ registered capital	Proportion of issued share/registered capital held by the Company				Principal activities
			Directly		*Indirectly*		
			2007	2006	2007	2006	
			%	%	%	%	
Pointer Investments Limited	Samoa/ Hong Kong	US$1 Ordinary share	–	–	100	100	Investment holding
Shougang Concord Services Limited	Hong Kong	HK$2 Ordinary shares	100	100	–	–	Provision of management services
Huge Ever Limited	Hong Kong	HK$1 Ordinary share	–	–	100	–	Investment holding
Froxy Investments Limited	Hong Kong	HK$1 Ordinary share	–	–	100	–	Investment holding
Host Sun Investments Limited	Hong Kong	HK$1 Ordinary share	–	–	100	–	Investment holding
Shine Tone Group Limited	Hong Kong	HK$100 Ordinary shares	–	–	100	–	Investment holding
Ultra Result Limited	Hong Kong	HK$1 Ordinary share	–	–	100	–	Investment holding
Timefull Investments Limited	Samoa/ Hong Kong	US$1 Ordinary share	100	–	–	100	Investment holding
秦皇島首秦鋼材加工配送有限公司 Qinhuangdao Shouqin Steels Machining and Delivery Co., Ltd. ΔΔ	PRC	RMB300,000,000 Registered capital	–	–	87.76	–	Steel machining and delivery

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

52. PARTICULARS OF PRINCIPAL SUBSIDIARIES AND ASSOCIATES (continued)

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

Δ Foreign investment enterprise established in the PRC.

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

Details of the Company's principal associate at 31 December 2006 and 2007 are as follows:

Name of entity	Form of business structure	Place of incorporation	Principal place of operation	Class of shares held	Proportion of nominal value of issued capital held by the Group 2007	2006	Proportion of voting power held 2007	2006	Principal activity
Shougang Concord Century Holdings Limited ("SCC")	Incorporated	Hong Kong	Hong Kong	Ordinary	20.71%	22.46%	20.71%	22.46%	Manufacturing of steel cords and processing and trading of copper and brass products

Five Year Financial Summary

Results

	Year ended 31 December				
	2003	2004	2005	2006	**2007**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	***HK$'000***
Turnover	2,326,692	3,289,551	4,569,979	6,467,487	**11,477,900**
Profit attributable to shareholders	60,698	275,791	303,946	221,618	**1,404,196**

Assets and liabilities

	At 31 December				
	2003	2004	2005	2006	**2007**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	***HK$'000***
Total assets	1,980,952	2,718,116	7,448,001	11,259,460	**16,563,541**
Total liabilities	(1,084,437)	(896,789)	(5,014,196)	(7,997,432)	**(8,619,608)**
	896,515	1,821,327	2,433,805	3,262,028	**7,943,933**
Equity attributable to equity holders of parent	476,483	1,625,060	2,175,898	2,943,594	**6,814,731**
Minority interests	420,032	196,267	257,907	318,434	**1,129,202**
	896,515	1,821,327	2,433,805	3,262,028	**7,943,933**

Summary of Investment Properties

Particulars of major investment properties held by the Group as at 31 December 2007 are as follows:

Property		Use	Group interest	Category of lease
1.	No. 158 Jianguo Lu Qinhuangdao City, Hebei Province PRC	Commercial	100%	Medium term lease
2.	No. 27 Zhujiang Dao Zhong Duan Kai Fa District Qinhuangdao City, Hebei Province PRC	Commercial	100%	Medium term lease
3.	Room Nos. 501, 502, 503 & 506 on fifth floor, Taihong Mansion Building, No. 44 Chong Wen Men Wai Da Jie, Chong Wen District, Beijing PRC	Commercial	100%	Long Lease
4.	Lot Nos. 883, 884AB, 908 916-921 in D.D. No. 77 Ping Che, Fanling New Territories Hong Kong	Commercial	100%	Long lease
5.	Flat A2 on 8th Floor Pearl City Mansion Nos. 22-36 Paterson Street Causeway Bay Hong Kong	Residential	100%	Long lease