**SHOUGANG CONCORD CENTURY HOLDINGS LIMITED**

Stock Code : 103

# CONTINUED GROWTH

ANNUAL REPORT 2010

# CONTENTS

# CORPORATE PROFILE

**Shougang Concord Century Holdings Limited** ("Shougang Century"; together with its subsidiaries, collectively the "Group") has been listed on The Stock Exchange of Hong Kong Limited since April 1992. Shougang HK, a wholly owned subsidiary of Shougang Corporation, and its controlled corporations, and Bekaert and Li Ka Shing Foundation are the substantial shareholders of Shougang Century.

The Group is primarily involved in the following activities:

1. manufacturing of steel cord for radial tyres
2. sales and processing and trading of copper and brass products

## CORPORATE'S VISION AND MISSION

*Shougang Century's Vision is to:*

- deliver world-class products and services to our customers
- contribute to the economic and social development of the communities in which we operate
- maximize our shareholders' return

*Shougang Century's Mission is to:*

- strive for a successful "Eastern" brand awareness and recognition in steel cord industry
- be an enterprise of 200,000 tonne annual production capacity in steel cord manufacturing
- be one of the top three independent manufacturers in China steel cord industry

*To learn more about Shougang Century, please visit http://www.shougangcentury.com.hk.*

# CORPORATE INFORMATION

## BOARD OF DIRECTORS

### Executive Directors

Li Shaofeng *(Chairman and Managing Director)*
Tong Yihui *(Deputy Managing Director)*
Tang Cornor Kwok Kau
*(Deputy Managing Director)*
Yang Kaiyu *(Deputy Managing Director)*
Zhang Zhong

### Non-executive Director

Leung Shun Sang, Tony

### Independent Non-executive Directors

Yip Kin Man, Raymond
Law, Yui Lun
Chan Chung Chun

## AUDIT COMMITTEE

Yip Kin Man, Raymond *(Chairman)*
Law, Yui Lun
Chan Chung Chun

## REMUNERATION COMMITTEE

Leung Shun Sang, Tony *(Chairman)*
Li Shaofeng *(Vice Chairman)*
Yip Kin Man, Raymond
Law, Yui Lun
Chan Chung Chun

## NOMINATION COMMITTEE

Li Shaofeng *(Chairman)*
Leung Shun Sang, Tony *(Vice Chairman)*
Yip Kin Man, Raymond
Law, Yui Lun
Chan Chung Chun

## AUTHORISED REPRESENTATIVES

Tang Cornor Kwok Kau
Chan Lai Yee

## COMPANY SECRETARY

Chan Lai Yee

## QUALIFIED ACCOUNTANT

Wu Siu Man

## PRINCIPAL BANKERS

Bank of China
Bank of China (Hong Kong) Limited
CITIC Bank International Limited
Hang Seng Bank Limited
Industrial and Commercial Bank of China
Industrial and Commercial Bank of
China (Asia) Limited
The Bank of East Asia, Limited

## AUDITORS

Deloitte Touche Tohmatsu
*Certified Public Accountants*

## SHARE REGISTRAR

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

## REGISTERED OFFICE

5th Floor, Bank of East Asia Harbour View Centre,
51-57 Gloucester Road
Wanchai
Hong Kong

## WEBSITE

http://www.shougangcentury.com.hk

## HKEx STOCK CODE

103

## LISTING DATE

9 April 1992

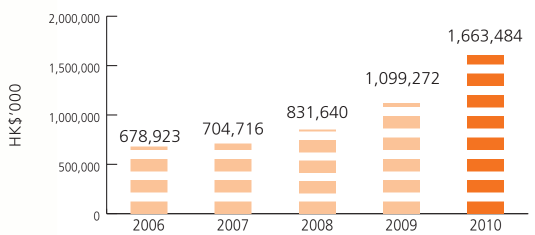
# FINANCIAL HIGHLIGHTS

| | For the year ended 31 December 2010 HK$'000 | 2009 HK$'000 | % Change |
|---|---|---|---|
| **Operations** | | | |
| Revenue | **1,663,484** | 1,099,272 | **+51.3** |
| Gross profit | **287,550** | 180,495 | **+59.3** |
| Earnings before interest, tax, depreciation and amortisation | **415,376** | 282,979 | **+46.8** |
| Profit for the year | **200,441** | 171,314 | **+17.0** |
| Core profit for the year *(Note)* | **92,999** | 40,156 | **+131.6** |
| Earnings per Share (basic) (HK cents) | **10.43** | 9.03 | **+15.5** |

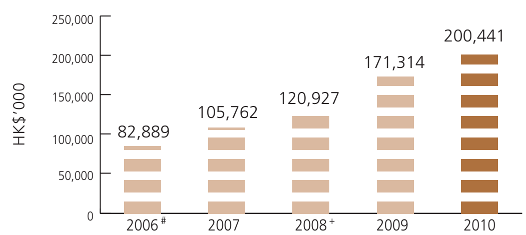
*Note:* Excluding government grants (net of tax) of HK$77,358,000 (2009: HK$82,296,000) and gain on disposal of listed available-for-sale investments of HK$30,084,000 (2009:HK$30,999,000) and gain on disposal of jointly controlled entity (net of tax) of HK$17,863,000 for the year ended 31 December 2009 (2010: Nil).

| | At 31 December 2010 HK$'000 | 2009 HK$'000 | % Change |
|---|---|---|---|
| **Financial position** | | | |
| Total assets | **3,767,274** | 3,038,112 | **+24.0** |
| Shareholders' equity | **2,251,968** | 2,065,826 | **+9.0** |
| Return on average equity (%) | **9.3** | 8.8 | **+5.7** |
| Net asset value per Share (HK$) | **1.17** | 1.08 | **+8.3** |

## REVENUE

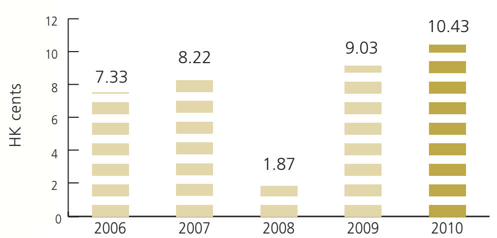



## NET PROFIT

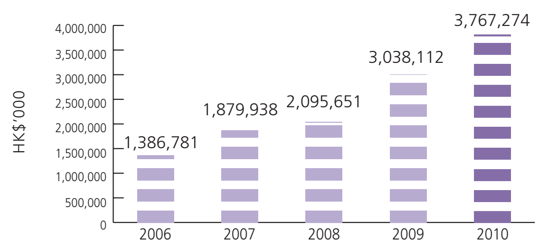



# Excluding one-off dilution loss on share reform of an associate
\+ Before allowance for inventories and non-cash/non-recurring expenses

## EARNINGS PER SHARE (BASIC)




## TOTAL ASSETS



# INFORMATION FOR INVESTORS

## SHARE INFORMATION

| | |
|---|---|
| Board lot size: | 2,000 Shares |
| Nominal value per Share: | HK$0.10 |
| Shares outstanding as at the last trading day of 2010: | 1,922,300,556 Shares |
| Market capitalisation as at the last trading day of 2010: | HK$1,787,739,517 |
| Closing share price as at the last trading day of 2010: | HK$0.93 |

Earnings per Share (basic) for 2010:

| | | |
|---|---|---|
| Interim | : | HK4.74 cents |
| Final | : | HK10.43 cents |

Dividend for 2010

| | | |
|---|---|---|
| Interim Dividend | : | HK1 cent per Share |
| Final Dividend | : | HK1.5 cents per Share |

## KEY DATE

| | |
|---|---|
| Payment Date of 2010 Final Dividend: | 20 June 2011 |
| Closure of Register of Members for 2010 Final Dividend: | 17 to 19 May 2011 |
| 2011 Annual General Meeting: | 19 May 2011 |
| Announcement of 2010 Final Results: | 29 March 2011 |

## INVESTOR RELATIONS CONTACT

| | | |
|---|---|---|
| Address | : | 5th Floor, Bank of East Asia Harbour View Centre<br>51-57 Gloucester Road, Wanchai, Hong Kong |
| Telephone | : | (852) 2527 2218 |
| Fax | : | (852) 2861 3527 |
| E-mail address | : | business_link@shougangcentury.com.hk<br>ir@shougangcentury.com.hk<br>scchl@shougangcentury.com.hk |
| Website | : | http://www.shougangcentury.com.hk |

## SHAREHOLDER ENQUIRIES

Any matters relating to your shareholding, e.g. transfer of Shares, change of name or address, lost share certificates and dividend warrants, should be sent in writing to:

### Tricor Tengis Limited

| | | |
|---|---|---|
| Address | : | 26th Floor, Tesbury Centre, 28 Queen's Road East, Hong Kong |
| Telephone | : | (852) 2980 1888 |
| Fax | : | (852) 2810 8185 |
| Website | : | http://www.hk.tricorglobal.com |

# BUSINESS CONTACTS

### Jiaxing Eastern Steel Cord Co., Ltd.

| | |
|---|---|
| Address: | 1 Dong Fang Road, Jiaxing Economic Development Zone<br>Zhejiang Province, PRC |
| Postal code: | 314003 |
| Telephone: | (86) 573 8221 3511 |
| Fax: | (86) 573 8220 0076 |
| Website: | http://www.jesc.com.cn |
| E-mail address: | market.dep@jesc.com.cn |

### Tengzhou Eastern Steel Cord Co., Ltd.

| | |
|---|---|
| Address: | 1 Dong Fang Road, Tengzhou Economic Development Zone<br>Shandong Province, PRC |
| Postal code: | 277500 |
| Telephone: | (86) 632 525 2100 |
| Fax: | (86) 632 525 2111 |
| Website: | http://www.tesc.com.cn |
| E-mail address: | tesc@tesc.com.cn |

### Hing Cheong Metals (China & Hong Kong) Limited

| | |
|---|---|
| Address: | Unit 2-3, G/F., TCL Tower, 8 Tai Chung Road<br>Tsuen Wan, Hong Kong |
| Telephone: | (852) 2498 7800 |
| Fax: | (852) 2498 7912 |
| E-mail address: | hingcheong_m@ctimail.com |

### 東莞興銅五金有限公司

| | |
|---|---|
| Address: | San Zhong Jinlong Industrial Zone, Qingxi, Dongguan<br>Guangdong Province, PRC |
| Postal code: | 523660 |
| Telephone: | (86) 769 8709 1818 |
| Fax: | (86) 769 8709 1810 |

**Mr. Li Shaofeng**, aged 44, Mr. Li holds a Bachelor Degree in Automation from University of Science and Technology Beijing. He joined Shougang Corporation in 1989. Mr. Li joined the Group in March 2000 and was appointed as deputy managing director of the Company. He was subsequently appointed as the managing director of the Company and deputy managing director of Shougang HK, a wholly owned subsidiary of Shougang Corporation, in September 2003 and September 2007 respectively. At present, he holds directorship in certain wholly owned subsidiaries of the Company. In addition to above, he also is a non-executive director of Sinocop Resources (Holdings) Limited ("Sinocop"), a Hong Kong listed company.

With effect from 10 May 2010, Mr. Li was appointed as the chairman of the Company and the chairman and executive director of each of Shougang Technology, Shougang Grand, Global Digital Creations Holdings Limited ("Global Digital"), the managing director of Shougang International and deputy managing director of China Shougang International Trade and Engineering Corporation and also re-designated as the deputy chairman and general manager of Shougang HK. Besides, Mr. Li was appointed as the chairman and vice-chairman of the Nomination Committee and Remuneration Committee of the Company respectively. In all, Mr. Li has extensive experience in management of, and investment in, listed companies, sino-foreign joint ventures and steel industry.

Other than his directorship disclosed above, Mr. Li does not hold any directorship in the last three years in public companies the securities of which are listed on any securities market in Hong Kong or overseas and does not have any relationship with any other Directors, senior management or substantial Shareholders or controlling Shareholders. At the date of this annual report, he beneficially owns 7,652,000 Shares within the meaning of Part XV of the SFO. In addition, he has a personal interest of 44,414,000 underlying Shares attached to the share options granted by the Company. Mr. Li is entitled to receive a HK$250,000 monthly salary at present under his service contract with the Company. The service contract may be terminated by either party by giving to other party not less than three months' notice without payment of any compensation (other than statutory compensation). There is no specified or proposed length of service for Mr. Li with the Company as he is subject to retirement by rotation and re-election at the annual general meetings of the Company in accordance with the Articles. The emoluments of Directors are determined by reference to the Company's performance and profitability, as well as remuneration benchmark in the industry and the prevailing market conditions.

Save as disclosed above, there are no other matters relating to his particulars as being a Director that need to be brought to the attention of the Shareholders and there is no other information which is required to be disclosed pursuant to Rule 13.51(2)(h) to (v) of the Listing Rules.

# BIOGRAPHICAL DETAILS OF DIRECTORS

**Mr. Tong Yihui**, aged 61, is a Senior Engineer. Mr. Tong graduated from Yan Shan University in the PRC. Mr. Tong joined the Group in 1998 and serves as the deputy managing director of the Company. At present, he holds directorship in certain wholly owned subsidiaries of the Company. Prior to joining the Group, Mr. Tong had held the positions in Shougang Strip Steel Company Limited, Shenzhen Guan Shen Enterprise Company Limited, JESC and Shougang Machinery Design & Research Institute. He has extensive experience in the management of steel cord manufacturing.

Other than his directorship disclosed above, Mr. Tong does not hold any directorship in the last three years in public companies the securities of which are listed on any securities market in Hong Kong or overseas and does not have any relationship with any other Directors, senior management or substantial Shareholders or controlling Shareholders. At the date of this annual report, he beneficially owns 5,152,000 Shares within the meaning of Part XV of the SFO. In addition, he has a personal interest of 48,268,000 underlying Shares attached to the share options granted by the Company. Mr. Tong is entitled to receive a HK$165,000 monthly salary at present under his service contract with the Company. The service contract may be terminated by either party by giving to other party not less than three months' notice without payment of any compensation (other than statutory compensation). There is no specified or proposed length of service for Mr. Tong with the Company as he is subject to retirement by rotation and re-election at the annual general meetings of the Company in accordance with the Articles. The emoluments of Directors are determined by reference to the Company's performance and profitability, as well as remuneration benchmark in the industry and the prevailing market conditions. Mr. Tong will retire from office by rotation and not offer himself for re-election at the forthcoming annual general meeting.

Save as disclosed above, there are no other matters relating to his particulars as being a Director that need to be brought to the attention of the Shareholders and there is no other information which is required to be disclosed pursuant to Rule 13.51(2)(h) to (v) of the Listing Rules.

**Mr. Leung Shun Sang, Tony**, aged 68, was appointed a non-executive director of the Company in 1995. He is also a non-executive director of Shougang International, Shougang Technology, Shougang Grand, Global Digital and Fushan International Energy Group Limited. He also serves as the vice-chairman of the Nomination Committee and the chairman of the Remuneration Committee of the Company. Mr. Leung holds a Master Degree in Business Administration from New York State University and has over 40 years' experience in finance, investment and corporate management. He is also the managing director of CEF Group.

Other than his directorship disclosed above, he has not previously held any position with the Group. Mr. Leung does not hold any directorship in the last three years in public companies the securities of which are listed on any securities market in Hong Kong or overseas and does not have any relationship with any other Directors, senior management or substantial Shareholders or controlling Shareholders. At the date of this annual report, he beneficially owns 7,652,000 Shares within the meaning of Part XV of the SFO. In addition, he has a personal interest of 16,592,000 underlying Shares attached to the share options granted by the Company. A service contract was entered into between Mr. Leung and the Company for a term of three years commencing from 1 January 2011. However, he will also be subject to retirement by rotation and re-election at the annual general meetings of the Company in accordance with the Articles. He will receive a director's fee as the Company may determine from time to time. At present, he receives a director's fee of HK$190,000 per annum. The emoluments of Directors are determined by reference to the Company's performance and profitability, as well as remuneration benchmark in the industry and the prevailing market conditions.

Save as disclosed above, there are no other matters relating to his particulars as being a Director that need to be brought to the attention of the Shareholders and there is no other information which is required to be disclosed pursuant to Rule 13.51(2)(h) to (v) of the Listing Rules.

# BIOGRAPHICAL DETAILS OF DIRECTORS

**Mr. Tang Cornor Kwok Kau**, aged 50, Mr. Tang joined the Group in 1998 and was appointed as the deputy managing director of the Company in March 2000. At present, he holds directorship in certain wholly owned subsidiaries of the Company. He holds a Bachelor and a Master Degrees in Business Administration from York University in Canada. Prior to joining the Group, Mr. Tang had held senior positions with various international investment banks. He also has over 15 years' experience in corporate and investment banking.

Other than his directorship disclosed above, Mr. Tang does not hold any directorship in the last three years in public companies the securities of which are listed on any securities market in Hong Kong or overseas and does not have any relationship with any other Directors, senior management or substantial Shareholders or controlling Shareholders. At the date of this annual report, he beneficially owns 10,000,000 Shares and in which of 200,000 Shares are jointly owned by his wife within the meaning of Part XV of the SFO. In addition, he has a personal interest of 10,000,000 underlying Shares attached to the share options granted by the Company. Mr. Tang is entitled to receive a HK$165,000 monthly salary at present under his service contract with the Company. The service contract may be terminated by either party by giving to other party not less than three months' notice without payment of any compensation (other than statutory compensation). There is no specified or proposed length of service for Mr. Tang with the Company as he is subject to retirement by rotation and re-election at the annual general meetings of the Company in accordance with the Articles. The emoluments of Directors are determined by reference to the Company's performance and profitability, as well as remuneration benchmark in the industry and the prevailing market conditions.

Save as disclosed above, there are no other matters relating to his particulars as being a Director that need to be brought to the attention of the Shareholders and there is no other information which is required to be disclosed pursuant to Rule 13.51(2)(h) to (v) of the Listing Rules.

**Mr. Yang Kaiyu**, aged 49, was appointed as the deputy general manager of the Company on 15 July 2008 and re-designated as the deputy managing director on 10 May 2010. At present, he holds directorship in certain wholly owned subsidiaries of the Company. He holds a Bachelor Diploma in Engineering Mechanics from Shanghai Jiaotong University and a Master Degree in Industry Management and Engineering from The Katholieke Universiteit Leuven in Belgium. He also attended the General Management Development and Operation Management Programs organised by INSEAD, France and Creative Leadership Development Programme organized by CCL Institute, the United States. Mr. Yang has over 15 years of experience in operation management and worldwide procurement in steel wire and steel cord industries. Prior to joining the Company, he held various positions in Bekaert Group since 1993.

Other than his directorship disclosed above, Mr. Yang does not hold any directorship in the last three years in public companies the securities of which are listed on any securities market in Hong Kong or overseas and does not have any relationship with any other Directors, senior management or substantial Shareholders or controlling Shareholders. At the date of this annual report, Mr. Yang's spouse beneficially owns 3,596,000 Shares within the meaning of Part XV of the SFO. In addition, he has a personal interest of 18,000,000 underlying Shares attached to the share options granted by the Company. A service contract was entered into between Mr. Yang and the Company for a term commencing from 10 May 2010 and ending on 31 December 2012. The service contract may be terminated by either party by giving to other party not less than three months' notice without payment of any compensation (other than statutory compensation). However, he is also subject to retirement by rotation and re-election at the annual general meetings of the Company in accordance with the Articles. Mr. Yang is entitled to receive a HK$165,000 monthly salary at present under his service contract with the Company. The emoluments of Directors are determined by reference to the Company's performance and profitability, as well as remuneration benchmark in the industry and the prevailing market conditions.

Save as disclosed above, there are no other matters relating to his particulars as being a Director that need to be brought to the attention of the Shareholders and there is no other information which is required to be disclosed pursuant to Rule 13.51(2)(h) to (v) of the Listing Rules.

## BIOGRAPHICAL DETAILS OF DIRECTORS

**Mr. Zhang Zhong**, aged 49, Mr. Zhang achieved a Master Degree in Sciences, Physics and an Executive Master of Business Administration from Université de Toulouse, France and Hautes Etudes Commerciale, Paris, France respectively. He also obtained his title of Civil Engineer from Ecole des Mines de Paris, France. In addition, he had attended the Advanced Management Program organized by Wharton School, University of Pennsylvania, USA. Mr. Zhang was appointed as an executive director of the Company with effect from 15 December 2010. He is currently general manager of Steelcord North Asia in Bekaert Group. Prior to joining Bekaert, he had held senior management positions of several reputable European companies such as Schneider Electric and Saint Gobain. At present, Mr. Zhang acts as an independent director of Guangzhou Tech-Long Packing Machine Co., Ltd., a limited company whose shares are listed on the Shenzhen Stock Exchange. Besides, he is an adviser to French External Trade Board and a member of Young President Organization. In all, Mr. Zhang has over 25 years of experience in operations, general management and business development.

Other than his directorship disclosed above, Mr. Zhang does not hold any directorship in the last three years in public companies the securities of which are listed on any securities market in Hong Kong or overseas and does not have any relationship with any other Directors, senior management or substantial Shareholders or controlling Shareholders. In addition, he has not previously held any position with the Group. At the date of this annual report, he has a personal interest of 2,000,000 underlying Shares attached to the share options granted by the Company within the meaning of Part XV of the SFO. There is no service contract with the Company and Mr. Zhang while he will be subject to retirement by rotation and re-election at the annual general meetings of the Company in accordance with the Articles. He will receive a director's fee as the Company may determine from time to time. At present, he receives a director's fee of HK$150,000 per annum. The emoluments of Directors are determined by reference to the Company's performance and profitability, as well as remuneration benchmark in the industry and the prevailing market conditions.

Save as disclosed above, there are no other matters relating to his particulars as being a Director that need to be brought to the attention of the Shareholders and there is no other information which is required to be disclosed pursuant to Rule 13.51(2)(h) to (v) of the Listing Rules.

**Mr. Yip Kin Man, Raymond**, aged 64, Mr. Yip was appointed the independent non-executive director of the Company in 1993, and was appointed the independent non-executive director of Shougang Grand in January 2007. He also serves as the chairman of the Audit Committee and a member of each of the Nomination Committee and Remuneration Committee of the Company. Mr. Yip is a practising solicitor, notary public, Attesting Officer appointed by the Ministry of Justice of the PRC.

Other than the directorship disclosed above, Mr. Yip has not previously held any position with the Group, and is independent of and not connected with the Directors, chief executives and substantial shareholders or controlling shareholders of the Company or its subsidiaries or an associate of any of them. He does not hold any directorship in the last three years in public companies the securities of which are listed on any securities market in Hong Kong or overseas. At the date of this annual report, he has a personal interest of 2,816,000 underlying Shares attached to the share options granted by the Company within the meaning of Part XV of the SFO. A service contract was entered into between Mr. Yip and the Company for a term of three years commencing from 1 January 2011. However, he will also be subject to retirement by rotation and re-election at the annual general meetings of the Company in accordance with the Articles. He will receive a director's fee as the Company may determine from time to time. At present, he receives a director's fee of HK$240,000 per annum. The emoluments of Directors are determined by reference to the Company's performance and profitability, as well as remuneration benchmark in the industry and the prevailing market conditions.

Save as disclosed above, there are no other matters relating to his particulars as being a Director that need to be brought to the attention of the Shareholders and there is no other information which is required to be disclosed pursuant to Rule 13.51(2)(h) to (v) of the Listing Rules.

**Mr. Law, Yui Lun**, aged 48, Mr. Law is a Certified Public Accountant (Practising) of the Hong Kong Institute of Certified Public Accountants. He is also an associate member of each of the Hong Kong Institute of Certified Public Accountants and the Taxation Institute of Hong Kong and a fellow member of the Association of Chartered Certified Accountants of the United Kingdom respectively. Mr. Law holds a Master Degree in Business Administration from Oklahoma City University (USA). He was appointed as the independent non-executive director and a member of each of the Audit Committee, Nomination Committee and Remuneration Committee of the Company in April 2005. Apart from this, he also acts as the independent non-executive director of China Boon Holdings Limited (formally known as "Vision Tech International Holdings Limited"), a listed company in Hong Kong, since 10 June 2009. At present, Mr. Law is the sole proprietor of a Certified Public Accountants firm in Hong Kong. Prior to setting up his own practice, Mr. Law had worked for the audit department of KPMG and the China Division of the Hong Kong office of Ernst & Young for a total of 8 years. He had also been a partner in a medium-sized local accounting firm in Hong Kong for over 3 years. In all, Mr. Law has substantial professional experience in the fields of auditing, accounting, corporate taxation, company liquidation and insolvency, financial advisory and management.

Other than the directorship disclosed above, Mr. Law has not previously held any position with the Group, and is independent of and not connected with the Directors, chief executives and substantial shareholders or controlling shareholders of the Company or its subsidiaries or an associate of any of them. He does not hold any directorship in the last three years in public companies the securities of which are listed on any securities market in Hong Kong or overseas. At the date of this annual report, he has a personal interest of 2,816,000 underlying Shares attached to the share options granted by the Company within the meaning of Part XV of the SFO. A service contract was entered into between Mr. Law and the Company for a term of three years commencing from 1 January 2011. However, he will also be subject to retirement by rotation and re-election at the annual general meetings of the Company in accordance with the Articles. He will receive a director's fee as the Company may determine from time to time. At present, he receives a director's fee of HK$240,000 per annum. The emoluments of Directors are determined by reference to the Company's performance and profitability, as well as remuneration benchmark in the industry and the prevailing market conditions.

Save as disclosed above, there are no other matters relating to his particulars as being a Director that need to be brought to the attention of the Shareholders and there is no other information which is required to be disclosed pursuant to Rule 13.51(2)(h) to (v) of the Listing Rules.

**Mr. Chan Chung Chun**, aged 51, Mr. Chan is a fellow member and an associate member of the Hong Kong Institute of Certified Public Accountants and the Australian Society of Certified Practising Accountants respectively. Mr. Chan holds a Bachelor Degree in Commerce from James Cook University of North Queensland and a Master Degree in Commerce from University of New South Wales in Australia. He had worked for the audit department of Ernst & Young for about 7 years. He was appointed as the independent non-executive director and a member of each of the Audit Committee, Nomination Committee and Remuneration Committee of the Company in October 2007. In all, he has extensive working experience in accounting and commercial fields, particularly in the manufacturing, marketing and retailing of consumer products in Hong Kong and the PRC. Mr. Chan is currently the deputy chairman and executive director of Sinocop.

Other than the directorship disclosed above, Mr. Chan has not previously held any position with the Group, and is independent of and not connected with the Directors, chief executives and substantial shareholders or controlling shareholders of the Company or its subsidiaries or an associate of any of them. He does not hold any directorship in the last three years in public companies the securities of which are listed on any securities market in Hong Kong or overseas. At the date of this annual report, he has a personal interest of 1,800,000 underlying Shares attached to the share options granted by the Company within the meaning of Part XV of the SFO. A service contract was entered into between Mr. Chan and the Company for a term of three years commencing from 1 January 2011. However, he will also be subject to retirement by rotation and re-election at the annual general meetings of the Company in accordance with the Articles. He will receive a director's fee as the Company may determine from time to time. At present, he receives a director's fee of HK$240,000 per annum. The emoluments of Directors are determined by reference to the Company's performance and profitability, as well as remuneration benchmark in the industry and the prevailing market conditions.

Save as disclosed above, there are no other matters relating to his particulars as being a Director that need to be brought to the attention of the Shareholders and there is no other information which is required to be disclosed pursuant to Rule 13.51(2)(h) to (v) of the Listing Rules.

# MAIN OPERATIONAL STRUCTURE

As at 29 March 2011

**Shougang Concord Century Holdings Limited**
http://www.shougangcentury.com.hk

- **Manufacturing of Steel Cord for Radial Tyres**
  - 100% JEsc Jiaxing Eastern Steel Cord Co., Ltd. (Zhejiang, PRC) http://www.jesc.com.cn
  - 100% TEsc Tengzhou Eastern Steel Cord Co., Ltd. (Shandong, PRC) http://www.tesc.com.cn
- **Sales and Processing and Trading of Copper and Brass Products**
  - 100% Hing Cheong Metals (China & Hong Kong) Limited (Hong Kong)

Dear Shareholders,

## RESULTS FOR THE YEAR

2010 was a year of intransigent. However, we are pleased that Shougang Century has enjoyed breakthroughs in a number of aspects during the year. In addition to the enlargement of production capacity of our two plants in Jiaxing and Tengzhou, our Steel cord segment achieved an unprecedented production and sales volume during the year under review. Our Copper and brass products segment also improved its operating results significantly despite the uncertainties in the global economy during the year.

We recorded profit of HK$200,441,000 for the year, representing an increase of 17.0% when compared to that of the last year. When we excluded the non-recurring items, our core profit would be HK$92,999,000 for the year under review, a significant increase of 131.6% when compared to HK$40,156,000 for year 2009. The Group's revenue also increased by 51.3% over that of the previous year from HK$1,099,272,000 to HK$1,663,484,000. Earnings per share amounted to HK10.43 cents, an increase of 15.5% when compared with that of 2009. Net asset value per share was also increased by 8.3% to HK$1.17.

## BUSINESS DEVELOPMENT

Our Steel cord segment completed installation and commissioning of machineries for an additional 40,000 tonnes of annual production capacity in 2010. Based on our internal market data, we believe our market share in the PRC steel cord industry had grown from 6.1% in 2009 to 7.4% in 2010. It is expected that the remaining 30,000 tonnes of annual production capacity in our Tengzhou plant will be completed by the end of 2011 which will render TESC's annual production capacity to 100,000 tonnes. With our Tengzhou plant becoming fully operational, the aggregate annual production capacity of steel cord will reach 175,000 tonnes which brings us a step closer to our short term goal of being a 200,000 tonne class steel cord manufacturer in the PRC. In respect of our Copper and brass products segment, its growth in sales volume of 88.4% to 7,822 tonnes reckoned us as one of the leading copper and brass traders in the Pearl River Delta.

## DIVIDEND

The Board recommended the payment of a final dividend of HK1.5 cents per Share for the year ended 31 December 2010.

## LOOKING AHEAD

The overall economic performance of China had been outstanding. Fuelled by a GDP growth of approximately 10% during 2010 (as shown in the information provided by National Bureau of Statistics of China) and State policies to encourage purchase of small/medium size automobiles in the first half year, domestic consumption expenditure and confidence continued to increase and created a favorable operating environment for automobile and tyre industries and so as steel cord industry in China. 2011 is the first year of the 12th Five-Year Plan of the PRC and we understand that the average GDP growth is targeted at 8%. Despite it is substantially lower than the 10.3% actual average growth of the 11th Five-year Plan period, it continues to stage a strong platform for land transport and car ownership in the PRC. We are also pleased to see that the economies of the developed countries have posted some encouraging recovery which could beckon more goods (including tyres) to be exported from China.

The PRC remains as a net copper importer which will continue to cumulate demand for our products. The Group will stay with its strategy to put more effort on domestic sales of the Copper and brass products segment so as to consolidate its leading market position in the Pearl River Delta Region.

Shougang Century is approaching to 20th anniversary since it was listed on the Stock Exchange in 1992. We are committed to maintain sustainable growth of the Group and continue to provide our Shareholders with satisfactory return for years to come.

## ACKNOWLEDGEMENTS

Taking this opportunity, being the newly appointed Chairman, I would like to express my heartfelt thanks to all of our staff and the management for their loyal services, and relentless efforts made during the year. I would also like to express my sincere gratitude to our Shareholders, business partners, banks and customers for their continuous support and trust.

By order of the Board

**Li Shaofeng**
*Chairman and Managing Director*
Hong Kong
29 March 2011

# MANAGEMENT DISCUSSION AND ANALYSIS

## BUSINESS REVIEW

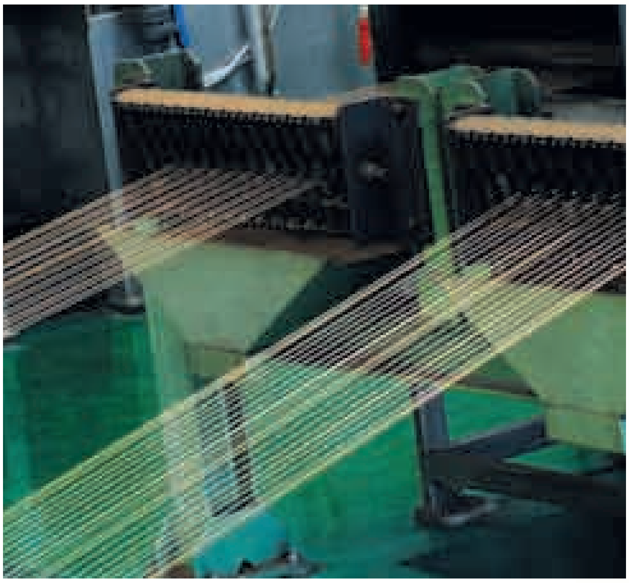
In 2010, the PRC economy maintained its fast growing track with increase in gross domestic product of 10.3% over that of the previous year. Investments in fixed assets and the value of imports and exports achieved strong growth over the previous year. Together with the steady increase in domestic consumption, these economic activities stimulated further expansion of road transportation and automobile industries in the PRC.

According to the National Bureau of Statistics, the total volume of freight for highways was 24.25 billion tonnes for the year, an increase of 14.0% as compared to that of the previous year; while the turnover volume of freight transport for highways was 4,300.54 billion tonnes per kilometre for the year, an increase of 15.6% as compared to that of the previous year. In addition, the manufacture and sales of vehicles continued to record strong growth during the year. According to the China Association of Automobile Manufacturers, approximately 18,264,700 units and 18,061,900 units of vehicles were manufactured and sold during the year, representing an increase of 32.44% and 32.37% over that of the previous year respectively. The palpable growth in land transportation and new vehicle sales spurred the demand for radial tyres, and hence steel cords during the year.

Further to the increasing demand of steel cords, our steel cord production plants accomplished a lower production cost base, as a result of improved operational efficiency and enlarged production capacity. Therefore, the Steel cord segment achieved a remarkable growth in sales and profit for the year.

With respect to Copper and brass products segment, the demand from overseas customers rejuvenated and our marketing thrust of domestic sales in the PRC maintained as planned, sales increased tremendously as compared to that of the previous year. As such, this segment recorded a significant growth in profit over that of the previous year.

In summary, the Group achieved net profit of HK$200,441,000 for the year, increased by 17.0% as compared to HK$171,314,000 for the previous year. Core profit of the Group, excluding government grants (net of tax) and gain on disposal of listed available-for-sale investments (the "Grant and Gain") was HK$92,999,000 for the year, significantly increased by 131.6% as compared to HK$40,156,000 (excluding the Grant and Gain and gain on disposal of a jointly controlled entity (net of tax)) for the previous year, reflecting the strong performance of the Group's core business of manufacturing of steel cords for the year.



## Steel cord

### *Overall performance*

Pushed by the rising demand of steel cords and the enlarged production capacities of our steel cord manufacturing plants, Steel cord segment recorded revenue growth of 37.3% over that of the previous year. Coupled with lowered production costs, this segment achieved an increase in operating profit of 33.8% over that of the previous year to HK$276,069,000 for the year. When government grants were excluded, operating profit of this segment would be HK$194,815,000 (2009: HK$110,188,000), significantly increased by 76.8% over that of the previous year.

### *Revenue*

This segment achieved an increase in sales volume of 41.0% over that of the previous year to 85,195 tonnes (2009: 60,407 tonnes) for the year. The breakdown of sales volume is as follows:

| | **2010** | | 2009 | | |
|---|---|---|---|---|---|
| | **Sales volume (tonne)** | **% of total sales volume** | Sales volume (tonne) | % of total sales volume | **% change** |
| Steel cord for: | | | | | |
| – truck tyres | **65,750** | **77.2** | 45,294 | 75.0 | **+45.2** |
| – off the road truck tyres | **2,133** | **2.5** | 1,436 | 2.4 | **+48.5** |
| – passenger car tyres | **16,895** | **19.8** | 13,529 | 22.4 | **+24.9** |
| Total for steel cord | **84,778** | **99.5** | 60,259 | 99.8 | **+40.7** |
| Half product of sawing wire | **298** | **0.4** | – | – | **N/A** |
| Other steel wire | **119** | **0.1** | 148 | 0.2 | **–19.6** |
| Total | **85,195** | **100.0** | 60,407 | 100.0 | **+41.0** |

The sales volume attributable to the two manufacturing plants, JESC and TESC for the year is as follows:

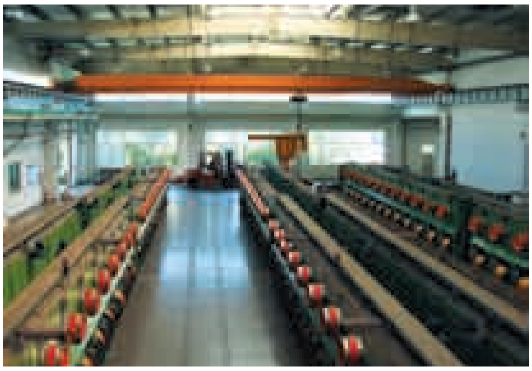
| | JESC (Tonne) | TESC (Tonne) | **Total (Tonne)** |
|---|---|---|---|
| Steel cord for: | | | |
| – truck tyres | 52,791 | 12,959 | **65,750** |
| – off the road truck tyres | 2,133 | – | **2,133** |
| – passenger car tyres | 14,728 | 2,167 | **16,895** |
| Half product of sawing wire | 298 | – | **298** |
| Other steel wire | 119 | – | **119** |
| **Total** | 70,069 | 15,126 | **85,195** |
| Sales volume in 2009 | 59,199 | 1,208 | **60,407** |
| **Growth over 2009** | **18.4%** | **1,152.2%** | **41.0%** |

The average selling price of steel cord was RMB12,815 per tonne for the year, lowered by 3.9% as compared to RMB13,341 per tonne of the previous year, this was primarily attributable to the decline in raw material prices since the second half year of 2009. In summary, the increase in sales volume contributed to the growth in revenue of this segment by 37.3% over that of the previous year to HK$1,255,043,000 (2009: HK$914,031,000) for the year.

### *Gross profit*

Gross profit of this segment substantially increased by 58.5% over that of the previous year to HK$269,272,000 (2009: HK$169,907,000) for the year. Gross profit margin was 21.5% for the year, an improvement of 2.9 percentage points as compared to 18.6% for the previous year.

The principal contributor to the improved gross profit margin was JESC, whose gross profit margin significantly increased from 20.8% in the previous year to 28.0% for the year, which was brought forth by greater economies of scale from increased production volume, improvement in raw materials procurement strategies and enhancement of production efficiency.



In respect of the steel cord manufacturing plant at TESC, its first phase development with 30,000 tonnes of annual production capacity was completed and production already commenced at the end of 2009. Additional machineries for 40,000 tonnes of production capacity were installed and commissioned during the year with the goal to increase the production capacity to 100,000 tonnes per annum in 2011. Nonetheless, TESC was at the stage of getting the approval and recognition of its various specifications of steel cords by radial tyre manufacturers, therefore the volume of production and sales remained low with utilization of production capacity of less than 50% during the year. Owing to the low production and sales, and considerable initial operating costs incurred, TESC incurred gross loss of HK$26,446,000 for the year.

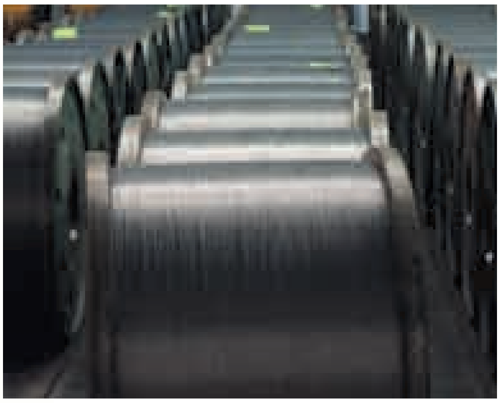
### *Investment and other income*

Investment and other income of this segment dropped by 7.6% to HK$89,809,000 (2009: HK$97,241,000) for the year as the amount of government grants received during the year decreased by 15.5% as compared to that of the previous year to HK$81,254,000 (2009: HK$96,101,000).

### *Distribution and selling expenses*

Distribution and selling expenses increased by 34.9% over that of the previous year to HK$27,717,000 (2009: HK$20,553,000) for the year primarily attributable to the higher transportation expenses incurred which were in line with the increase in sales.

### *Administrative expenses and other expenses*



Administrative expenses increased by 25.6% over that of the previous year to HK$45,509,000 (2009: HK$36,220,000) for the year, reflecting the needed marketing effort in new steel cord specifications, certification of TESC's products and establishment of a solid foundation for the expanding production and sales activities.

Other expenses of HK$15,954,000 (2009: Nil) represents research and development expenditures incurred for the development of new specifications of steel cords, advancement of production techniques and process.

## Copper and brass products

### *Overall performance*

The operating performance of Copper and brass products segment improved significantly as compared to that of the previous year. Its sales recovered sharply from the doldrums last year as the global economy gradually regained its momentum since the second quarter of 2009. Domestic sales in the PRC also recorded huge growth during the year. As a result of the significant increase in sales, this segment achieved an increase in operating profit of 109.2% to HK$8,786,000 (2009: HK$4,200,000) for the year.

### *Revenue*

This segment achieved a remarkable growth in revenue of 132.5% over that of the previous year to HK$421,406,000 (2009: HK$181,216,000) for the year. Sales volume increased by 88.4% to 7,822 tonnes (2009: 4,152 tonnes), the breakdown by geographical location is as follows:

| | **2010** | | 2009 | | |
|---|---|---|---|---|---|
| | **Sales volume (tonne)** | **% of total sales volume** | Sales volume (tonne) | % of total sales volume | **% change** |
| Mainland China | **3,441** | **44.0** | 1,505 | 36.2 | **+128.6** |
| Other regions | **4,381** | **56.0** | 2,647 | 63.8 | **+65.5** |
| Total | **7,822** | **100.0** | 4,152 | 100.0 | **+88.4** |

As copper price rebounded since early 2009, average selling price climbed from HK$43,644 per tonne in the previous year to HK$53,875 per tonne for the year, representing an increase of 23.4%. The higher sales volume and rising average selling price contributed to the revenue growth of 132.5% over that of the previous year.

### *Gross profit*

Gross profit of this segment amounted to HK$17,435,000 for the year, increased by 55.7% as compared to HK$11,196,000 for that of the previous year. However, gross profit margin dropped from 6.2% in the previous year to 4.1% for the year. During the year, the movement of copper price was more volatile than that of the previous year, especially during the second quarter of 2010 when the European sovereign debt crisis occurred. Such volatility in copper price increased the difficulty in the management of inventory and sales. However, the management had endeavoured to take appropriate measures to minimize the impact of such volatility to the gross profit margin of this segment.

### Listed available-for-sale investments

The Group disposed of the remaining 4,966,141 'A' shares of Xinyu Iron during the year at an average price of RMB6.54 per share on the Shanghai Stock Exchange and recorded a gain of approximately HK$30,084,000 on such disposals, while in the previous year, 3,712,500 'A' shares of Xinyu Iron were disposed of and recorded a gain on disposal of approximately HK$30,999,000. All 'A' shares of Xinyu Iron held by the Group had been disposed of.

## FINANCIAL REVIEW

The Group recorded profit of HK$200,441,000 for the year, increased by 17.0% as compared to HK$171,314,000 for the previous year. Core profit of the Group, excluding government grants (net of tax) and gain on disposal of listed available-for-sale investments (the "Grant and Gain") was HK$92,999,000 for the year, increased by 131.6% as compared to HK$40,156,000 (excluding the Grant and Gain and gain on disposal of a jointly controlled entity (net of tax)) of the previous year, as follows:

| | **2010**<br>**HK$'000** | 2009<br>HK$'000 | **% change** |
|---|---|---|---|
| Profit for the year | **200,441** | 171,314 | **+17.0** |
| Less: Government grants (net of tax) | **77,358** | 82,296 | **–6.0** |
| Gain on disposal of listed available-for-sale investments | **30,084** | 30,999 | **–3.0** |
| Gain on disposal of a jointly controlled entity (net of tax) | **–** | 17,863 | **–100.0** |
| **Core profit for the year** | **92,999** | 40,156 | **+131.6** |

## Revenue

Revenue of the Group increased by 51.3% over that of the previous year to HK$1,663,484,000 (2009: HK$1,099,272,000) for the year. The breakdown of revenue by business segments is as follows:

| | **2010** | | 2009 | | |
|---|---|---|---|---|---|
| | | **% of total** | | % of total | |
| | **HK$'000** | **revenue** | HK$'000 | revenue | **% change** |
| Steel cord | **1,255,043** | **75.4** | 914,031 | 83.1 | **+37.3** |
| Copper and brass products | **421,406** | **25.3** | 181,216 | 16.5 | **+132.5** |
| Sub-total | **1,676,449** | **100.7** | 1,095,247 | 99.6 | **+53.1** |
| Elimination of inter-segment sales | **(17,041)** | **(1.0)** | (10,155) | (0.9) | **+67.8** |
| Other operations (Note) | **4,076** | **0.3** | 14,180 | 1.3 | **–71.3** |
| Total | **1,663,484** | **100.0** | 1,099,272 | 100.0 | **+51.3** |

Note: Mainly comprises trading of other metal products and property investment.

## Gross profit

Gross profit of the Group increased by 59.3% over that of the previous year to HK$287,550,000 (2009: HK$180,495,000) for the year. Gross profit margin was 17.3%, moderately increased by 0.9 percentage point as compared to 16.4% of the previous year. The breakdown of gross profit by business segments is as follows:

| | **2010** | | 2009 | | |
|---|---|---|---|---|---|
| | | **Gross profit** | | Gross profit | |
| | **HK$'000** | **margin (%)** | HK$'000 | margin (%) | **% change** |
| Steel cord | **269,272** | **21.5** | 169,907 | 18.6 | **+58.5** |
| Copper and brass products | **17,435** | **4.1** | 11,196 | 6.2 | **+55.7** |
| Sub-total | **286,707** | **N/A** | 181,103 | N/A | **+58.3** |
| Other operations | **843** | **20.7** | (608) | –4.3 | **N/A** |
| Total | **287,550** | **17.3** | 180,495 | 16.4 | **+59.3** |

### Investment and other income

Investment and other income dropped by 9.1% as compared to that of the previous year to HK$90,763,000 (2009: HK$99,841,000) for the year primarily because the amount of government grants received decreased by 15.2% as compared to that of the previous year to HK$81,472,000 (2009: HK$96,101,000) for the year.

### Other gains and losses

The Group recorded net gain of HK$58,184,000 for the year, increased by 18.2% as compared to HK$49,230,000 for the previous year. The Group recorded net foreign exchange gains of HK$19,904,000 for the year, as compared to net foreign exchange losses of HK$4,574,000 for the previous year. Such exchange gains were primarily contributed by the effect of appreciation of RMB exchange rate by approximately 3.5% against HKD over the year on the Group's HKD and USD denominated bank borrowings. The breakdown of other gains and losses is as follows:

| | **2010 HK$'000** | 2009 HK$'000 | **% change** |
|---|---|---|---|
| Gain on disposal of listed available-for-sale investments, as mentioned in the section "Listed available-for-sale investments" above | **30,084** | 30,999 | **–3.0** |
| Foreign exchange gains (losses), net | **19,904** | (4,574) | **N/A** |
| Increase in fair value of investment properties | **5,097** | 3,997 | **+27.5** |
| Gain on disposal of a jointly controlled entity | **–** | 20,465 | **–100.0** |
| Others | **3,099** | (1,657) | **N/A** |
| Total | **58,184** | 49,230 | **+18.2** |

### Distribution and selling expenses

Distribution and selling expenses increased by 33.2% over that of the previous year to HK$28,326,000 (2009: HK$21,266,000) for the year as higher amount of transportation expenses was incurred to commensurate with the increase in revenue of 51.3% over that of the previous year.

### Administrative expenses and other expenses

Administrative expenses of the Group amounted to HK$100,736,000 (2009: HK$92,193,000) for the year, representing an increase of 9.3% over that of the previous year. As revenue of the Group increased by 51.3% over the previous year, the ratio of administrative expenses to revenue lowered from 8.4% in the previous year to 6.1% for the year.

Other expenses of HK$15,954,000 (2009: Nil) represents research and development expenditures incurred by Steel cord segment during the year.

### Segment results

Profit from the Group's business segments amounted to HK$284,855,000 for the year, increased by 35.3% as compared to HK$210,489,000 for the previous year. When the amounts of government grants received by the Steel cord segment were excluded, the increase would be 78.0% as compared to that of the previous year. The breakdown of the operating results of the Group's business segments is as follows:

| | **2010**<br>**HK$'000** | 2009<br>HK$'000 | **% change** |
|---|---|---|---|
| Steel cord | | | |
| – Core operating profit | **194,815** | 110,188 | **+76.8** |
| – Government grants | **81,254** | 96,101 | **–15.5** |
| Sub-total for Steel cord | **276,069** | 206,289 | **+33.8** |
| Copper and brass products | **8,786** | 4,200 | **+109.2** |
| Total | **284,855** | 210,489 | **+35.3** |

### Finance costs

Finance costs significantly increased by 391.5% over that of the previous year to HK$32,559,000 (2009: HK$6,624,000) for the year. Such discernible increase in finance costs arose primarily due to: (i) the raising of additional bank borrowings to finance the capacity expansion plan of the Steel cord segment, in particular the expansion of the production capacity of TESC during the year; and (ii) the increase in working capital borrowings to provide funding for the expansion of production and sales of the Group's products.

### Income tax expenses

Income tax expenses of the Group increased by 59.3% over that of the previous year to HK$58,481,000 (2009: HK$36,708,000) for the year, primarily attributable to the increase in profit of Steel cord segment. The effective tax rate of the Group and our Steel cord segment was 22.6% and 22.6% respectively, higher as compared to 17.6% and 17.0% for the previous year, as the tax rate of the Company's major subsidiaries in the PRC increased from 20% for the year ended 31 December 2009 to 22% in the current year in accordance with the implementation of the Law of the PRC on Enterprise Income Tax in 2008.

## SHARE CAPITAL, LIQUIDITY AND FINANCIAL RESOURCES

The Company manages its capital structure with the objectives of ensuring that the businesses of the Group can continue to maintain a sustainable growth and providing a long-term reasonable return to its shareholders. It is imperative to maintain the debt and equity ratio of the Group at a secure and manageable level.

During the year, 500,000 share options were exercised and therefore the same number of new Shares was issued accordingly. The issued share capital of the Company then increased from 1,921,800,556 Shares at 31 December 2009 to 1,922,300,556 Shares at 31 December 2010. The net asset value of the Group was HK$2,252,808,000 at 31 December 2010, increased by 9.0% as compared to HK$2,066,666,000 at 31 December 2009; net asset value per Share increased by 8.3% over the end of 2009 to HK$1.17 per Share at 31 December 2010.

The Group's bank balances and cash amounted to HK$276,448,000 at 31 December 2010, lowered by 29.5% as compared to HK$392,343,000 (including restricted bank deposits) at 31 December 2009. Total bank borrowings of the Group were HK$1,215,255,000 at 31 December 2010, increased by 52.5% as compared to HK$796,664,000 at 31 December 2009.

At 31 December 2010, HK$1,066,202,000 of bank borrowings were floating-rate borrowings, while HK$149,053,000 of bank borrowings were collared at rate ranging from 1.58% to 6.37% per annum. The nature and maturing profile of the Group's bank borrowings at 31 December 2010 based on contracted repayment schedules were as follows:

| | HK$'000 | % of total bank borrowings |
|---|---|---|
| Due within one year or on demand: | | |
| – Trust receipt loans | 39,326 | 3.2 |
| – Bank advances for discounted bills | 176 | – |
| – Working capital loans | 180,629 | 14.9 |
| – Current portion of medium term loans | 266,509 | 21.9 |
| | 486,640 | 40.0 |
| Medium term loan | | |
| – Due in the second year | 302,184 | 24.9 |
| – Due in the third year | 331,351 | 27.3 |
| – Due in the fourth year | 98,514 | 8.1 |
| | 1,218,689 | 100.3 |
| Unamortized loan arrangement fees | (3,434) | (0.3) |
| Total | 1,215,255 | 100.0 |

As a result of the increased bank borrowings during the year to finance the capacity expansion plan of the Steel cord segment and working capital requirements, the gearing ratio (bank borrowings less bank balances and cash/shareholders' equity) of the Group increased from 19.6% at 31 December 2009 to 41.7% at 31 December 2010.

Despite the increased gearing level, the liquidity position of the Group remained healthy. Although current ratio of the Group dropped from 2.2 times (as restated) at 31 December 2009 to 1.5 times at 31 December 2010, however, when the classification of bank borrowings was based on contracted repayment schedules, current ratio of the Group at 31 December 2010 would be 2.2 times, that we considered a healthy and manageable level.

## FOREIGN CURRENCY AND INTEREST RATE EXPOSURES

The Group's sources of revenue are principally denominated in RMB and HKD, while purchases and payments are concentrated on RMB, HKD and USD. Under this circumstance, the Group shall mainly raise borrowings in these currencies to minimize the risk of significant mismatch between the sources of revenue with bank borrowings, while endeavour to take advantage of the lower borrowing rates of HKD and USD as compared to those of the RMB. As at 31 December 2010, the currency breakdown of the Group's bank borrowings was as follows:

| | **31 December 2010** | 31 December 2009 |
|---|---|---|
| | **%** | % |
| HKD | **55.5** | 38.7 |
| RMB | **27.9** | 42.2 |
| USD | **16.6** | 13.8 |
| Others | **–** | 5.3 |
| Total | **100.0** | 100.0 |

In respect of exposure to interest rate risk, even though the majority of the bank borrowings are at floating rate, the Group had not entered into any interest rate swaps to contain any upside risks on interest rate to the profit and cashflows of the Group as we were of the view that interest rate would remain at a relatively low level for a considerable period of time.

In all, we would keep monitoring the currency and interest rate composition of the Group's bank borrowings under the guidance of the Internal Control Manual and take appropriate action to minimize our exchange and interest rate risks when needed.

## BUSINESS DEVELOPMENT PLAN AND CAPITAL COMMITMENTS

### Steel cord

TESC completed the installation and commissioning of the plant and machineries for another 40,000 tonnes of annual production capacity in 2010 and reached to 70,000 tonnes of annual production capacity at 31 December 2010. The remaining 30,000 tonnes of annual production capacity will be added in 2011 to achieve an annual production capacity of 100,000 tonnes by the end of 2011. Capital expenditures incurred by the Steel cord segment during the year amounted to approximately HK$492,504,000. The capital expenditures to be incurred in 2011 are estimated to be approximately HK$273,389,000, which will be financed by the Group's internal resources and bank borrowings.

## EMPLOYEES, REMUNERATION POLICIES AND TRAINING SCHEME OF THE GROUP

At 31 December 2010, the Group had a total of 2,282 employees located in Hong Kong and the PRC. The emolument policy regarding the employees of the Group is based on their merit, qualifications and competence as well as the prevailing market condition of the industry. Remuneration packages, which include an element of discretionary bonuses, are generally reviewed annually. In addition to salary payments, other employee benefits include medical subsidies, hospitalization scheme and a defined contribution provident fund, Mandatory Provident Fund Scheme and other retirement scheme or other similar defined contribution provident fund stipulated by the State Regulations of the PRC which provided retirement benefits to employees in Hong Kong and the PRC respectively. The Group's contributions to these schemes are charged against profits as they are incurred. The amount charged to consolidated income statement for the year amounted to approximately HK$12,828,000. The Group had also provided training programme or course for the mainland staff at all levels from different departments so as to further enhance their technical skills in production operation.

The emoluments of the Directors are decided by the remuneration committee of the Company, having regard to individual performance, the Group's performance and profitability, remuneration benchmark in the industry and prevailing market condition.

In addition, the Company had adopted a share option scheme (the "Scheme"). Under the Scheme, the Board shall, subject to and in accordance with the provisions of the Scheme and the Listing Rules, grant share options to any eligible participant to subscribe for Shares for the purpose of providing incentives or rewards to him/her for contribution to the Group. The Scheme will remain in force for a period of ten years from the date of its adoption. During the year, 2,000,000 share options were granted, while a total of 500,000 share options to subscribe for Shares and 700,000 share options were exercised and cancelled respectively.

## PLEDGE OF ASSETS

At 31 December 2010, the following assets had been pledged to the Group's bankers for banking facilities granted to the Group:

1. Leasehold land and buildings with an aggregate net book value of HK$7,350,000;

2. Prepaid lease payments amounted to HK$90,834,000; and

3. Equity interests in certain subsidiaries of the Company.

## BUSINESS OUTLOOK

Whilst uncertainty still lingers in the United States and European economies in the new financial year, we believe the engine of growth remains in China. The PRC is the world's second largest economy both in nominal and purchasing power parity terms after the United States. The year 2011 is the first year of the 12th Five-Year Plan of China and the upcoming changes in the PRC sovereign leadership casts due consideration on the balance between growth and inflation, harmony vis-à-vis disparity. Hence, we expect market environment in the PRC will be even more competitive. We are also sensitive to the unprecedented price increase in commodities including that of natural rubber and if the trend continues, will add more challenge to a challenging market of the PRC. Nonetheless, we are not fazed by these undulations as the PRC economy is targeted to a GDP growth of 8% in 2011 with an average growth of 7% in the next five years (2011 to 2016) and incessant investments will be made in the automobile industry. 2010 was the first stage of the Group's quantum leap plan and in our view, we had succeeded particularly considering the satisfactory performance of JESC and the encouraging improvement in TESC. With increasing utilization of TESC's added capacity, we are adamant that our market share in the Chinese steel cord market will continue to expand forging us to be the fastest growing steel cord manufacturer in the country. The latest economic statistics of the US are pointing to the realisation of a recovery. We believe that there will be a widening window in the export markets in the US and ASEAN countries. In addition to strengthening our market share in the steel cord business, we have embarked on the half product of sawing wire in 2010 with spirited results. We are minded to make investment in the production of sawing wire in the near future following considerations (among others) on the prospective demand situation and potential return on investment with a view to becoming a diversified metal product manufacturer capable of consistently purveying premium quality steel cord and sawing wire products.

Further increase in the domestic sales of copper and brass products continues to be the Group's risk diversification strategy, which is appropriate and well recognized, in the Copper and brass products segment in light of the anticipated strong demand in the PRC market. We expect we can achieve further profit enhancement from the increase of domestic sales in the next financial year.

# CORPORATE GOVERNANCE REPORT

The Board is committed to practicing and achieving a high standard of corporate governance. The Board also recognizes that an effective internal control system is crucial to the long term development of the Company. In order to maintain a sound and effective internal control system, the Board periodically reviews the daily governance practices and procedures of the Company. As such, the Company has strictly complied with the relevant laws and regulations, and the rules and guidelines of regulatory bodies.

## CORPORATE GOVERNANCE PRACTICES

The Company has made detailed disclosures in relation to the accounting period covered in this annual report in compliance with the requirements of Corporate Governance Report set out in Appendix 23 of the Listing Rules. Also, the Company has applied and complied with all the principles and the Code throughout the year ended 31 December 2010, except for a deviation from code provision A.2.1 of the Code which is explained under the heading "**CHAIRMAN AND MANAGING DIRECTOR**" below.

## DIRECTORS' SECURITIES TRANSACTION

On 6 April 2004, the Board has adopted a SCCHL Code on terms no less exacting than the required standard of the Model Code as the Company's code of conduct and rules governing dealing by all Directors in the securities of the Company. In order to bring the SCCHL Code in line with the changes brought upon by the relevant amendments to law, rules and regulations, the Board has also adopted the revised SCCHL Code on 4 April 2005, 7 April 2008 and 1 January 2009. All Directors have confirmed, following specific enquiry by the Company, that they have complied with the required standard set out in the Model Code and SCCHL Code for the year ended 31 December 2010.

## THE BOARD

The Board is currently consists of nine members, including five executive Directors (namely Messrs. Li Shaofeng, Tong Yihui, Tang Cornor Kwok Kau, Yang Kaiyu and Zhang Zhong), a non-executive Director (namely Mr. Leung Shun Sang, Tony) and three independent non-executive Directors (namely Messrs. Yip Kin Man, Raymond, Law, Yui Lun and Chan Chung Chun). The Directors' biographical details are set out on pages 7 to 15 under the heading "**BIOGRAPHICAL DETAILS OF DIRECTORS**". Mr. Tong Yihui will retire from office by rotation and not offer himself for re-election at the forthcoming annual general meeting.

The major duties of the Board are set out below:

- Formulating the strategies, planning and development of the Company;
- Setting up objectives of management;
- Monitoring the performance of management;
- Ensuring that a framework of prudent and effective controls is in place to enable risks to be assessed and managed;
- Reviewing and approving the Company's results and operations to be disclosed on a regular basis to the public; and
- Approving the Group's operating strategies, budget and strategies in collaboration with various jurisdictions enterprises, as well as other major investments, application of funds and other substantial exercises with other enterprises.

In order to have a clear guideline in relation to the matters specifically reserved to the Board for decision, functions between the Board and the management are formalized in the Internal Control Manual. In short, the Board is responsible for directing and supervising the Company's affairs to safeguard the best interest of the Company as a whole. The affairs reserved to the Board including but not limited to the preparation of financial reporting and the expansion and development of any new business. The management is responsible for the implementation of the strategies and directions set by the Board, applying business principles and ethics enshrined in the Internal Control Manual.

Each Director owes a fiduciary duty towards the Company. He should act in good faith and in the best interests for both the Company and its Shareholders as a whole. Also, the Board has three independent non-executive Directors which represents one-third of the Board so that there is a strong element of independence in the Board. Each of the independent non-executive Directors has different professional qualification and experience in various aspects: including but not limited to (i) legal professional qualification and experience; (ii) auditing, accounting and tax professional; and (iii) financial and commercial management expertise, which has fully complied with Rules 3.10(1) and (2) of the Listing Rules. Hence, we believe that we have of sufficient caliber and number for their views to carry weight.

The Company has received from each of the independent non-executive Directors an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules. Also, the Company considers all of independent non-executive Directors are independent throughout the year under review. Furthermore, all Directors, including independent non-executive Directors, should be re-elected at least every three years at annual general meeting and the reasons the Board believes that the individual to be independent are set out in the relevant circulars. In addition to the above, to the best knowledge of the Directors, there is no financial, business, family or other material/relevant relationship among members of the Board.

During the year under review, the Company held four board meetings and the details of Directors' attendance (including the board meetings, audit committee meetings, remuneration committee meetings, nomination committee meetings and annual general meeting) are set out in the following table:

**Record of attendance of Directors at the meetings held during the year ("Attendance Record")**

| | Number of Meetings Attended and Held | | | | |
|---|---|---|---|---|---|
| **Name of Director** | **Board Meetings** | **Audit Committee Meetings** | **Remuneration Committee Meetings** | **Nomination Committee Meetings** | **Annual General Meeting** |
| Cao Zhong *(Note a)* | 2/2 | N/A | 1/1 | 1/1 | 0/0 |
| Li Shaofeng *(Note b)* | 4/4 | N/A | 1/1 | 1/1 | 1/1 |
| Tong Yihui | 4/4 | N/A | N/A | N/A | 1/1 |
| Leung Shun Sang, Tony | 4/4 | N/A | 2/2 | 2/2 | 1/1 |
| Tang Cornor Kwok Kau | 3/4 | N/A | N/A | N/A | 1/1 |
| Yang Kaiyu *(Note c)* | 1/2 | N/A | N/A | N/A | 1/1 |
| Geert Johan Roelens *(Note d)* | 0/4 | N/A | N/A | N/A | 1/1 |
| Zhang Zhong *(Note e)* | 0/0 | N/A | N/A | N/A | 0/0 |
| Yip Kin Man, Raymond | 4/4 | 4/4 | 2/2 | 2/2 | 1/1 |
| Law, Yui Lun | 3/4 | 4/4 | 2/2 | 2/2 | 1/1 |
| Chan Chung Chun | 3/4 | 4/4 | 2/2 | 2/2 | 1/1 |

*Notes:*

a. *Mr. Cao Zhong resigned as Chairman and Executive Director, chairman of Nomination Committee and vice-chairman of Remuneration Committee of the Company with effect from 10 May 2010.*

b. *Mr. Li Shaofeng was appointed as Chairman, chairman of Nomination Committee and vice-chairman of Remuneration Committee of the Company with effect from 10 May 2010.*

c. *Mr. Yang Kaiyu was appointed as Deputy Managing Director and Executive Director of the Company with effect from 10 May 2010.*

d. *Mr. Geert Johan Roelens resigned as Executive Director of the Company with effect from 15 December 2010.*

e. *Mr. Zhang Zhong was appointed as Executive Director of the Company with effect from 15 December 2010.*

## CHAIRMAN AND MANAGING DIRECTOR

The roles of Chairman and Managing Director were not separate. Mr. Li Shaofeng was the chairman and managing director of the Company. In view of Mr. Li's extensive experience in the industry and deep understanding of the Group's businesses, vesting the roles of both chairman and managing director in Mr. Li allows for more effective planning and enhances efficiency in decision-making. This structure will not impair the balance of power and authority between the Board and the management. However, the roles of the Chairman and Managing Director are segregated and performed by Mr. Li and Mr. Yang Kaiyu respectively with effect from 1 April 2011 in order to comply with all the principles and the Code.

## NON-EXECUTIVE DIRECTORS

Non-executive Directors (including independent non-executive Directors) of the Company are appointed for a specific term of three years commencing from 1 January 2011, and also subject to retirement by rotation and re-election at least every three years at annual general meeting in accordance with the Articles.

## BOARD COMMITTEES

The Board has established the Board Committees, namely Remuneration Committee, Nomination Committee and Audit Committee to manage particular aspects of the Company's affairs and aid in sharing the responsibilities of the Board. Moreover, all the Board Committees have formulated their specific written terms of reference in accordance with the requirements of the Code. The Board Committee members will also from time to time report their decisions and recommendations to the Board, if necessary.

### Remuneration Committee

The Remuneration Committee has been established on 4 April 2005 and consists of five members with a majority of independent non-executive Directors. They are:

Mr. Leung Shun Sang, Tony *(Chairman)*
Mr. Li Shaofeng *(Vice-Chairman)* (appointed on 10 May 2010)
Mr. Yip Kin Man, Raymond *(Independent Non-executive Director)*
Mr. Law, Yui Lun *(Independent Non-executive Director)*
Mr. Chan Chung Chun *(Independent Non-executive Director)*

and its terms of reference are summarized as follows:

i) to make recommendations to the Board on the Company's policy and structure for all remuneration of Directors and on the establishment of a formal and transparent procedure for developing policy on such remuneration;

ii) to have the delegated responsibility to determine the specific remuneration packages of all executive Directors, including benefits in kind, pension rights and compensation payments, including any compensation payable for loss or termination of their office or appointment, and make recommendations to the Board of the remuneration of non-executive Directors. The Remuneration Committee should consider factors such as salaries paid by comparable companies, time commitment and responsibilities of the Directors, employment conditions elsewhere in the Group and desirability of performance-based remuneration;

iii) to review and approve performance-based remuneration by reference to corporate goals and objectives resolved by the Board from time to time;

iv) to review and approve the compensation payable to executive Directors in connection with any loss or termination of their office or appointment to ensure that such compensation is determined in accordance with relevant contractual terms and that such compensation is otherwise fair and not excessive for the Company;

v) to review and approve compensation arrangements relating to dismissal or removal of Directors for misconduct to ensure that such arrangements are determined in accordance with relevant contractual terms and that any compensation payment is otherwise reasonable and appropriate;

vi) to ensure that no Director or any of his associates is involved in deciding his own remuneration;

vii) to exercise such other powers, authorities and discretion, and perform such other duties, of the Directors in relation to the remuneration as the Board may from time to time delegate to it, having regard to the Code; and

viii) to advise Shareholders on how to vote with respect to any service contracts of Directors that require Shareholders' approval under Rule 13.68 of the Listing Rules amended from time to time.

During the year under review, two Remuneration Committee Meetings were held and the works performed by the Remuneration Committee included approval of service contracts of non-executive Directors (including independent non-executive Directors) and remuneration of the newly nominated executive Director, consideration of the granting of share options to the newly nominated executive Director and the extension of option period of share options held by resigned executive Directors, review and approval of the performance-based remuneration of executive Directors and recommendation of remuneration of non-executive Directors (including independent non-executive Directors) to the Board. The attendance record of the Remuneration Committee members is set out in the table: Attendance Record on page 34 of this report.

The information in respect of emolument policy of the Group is set out in the Report of the Directors.

**Nomination Committee**

The Nomination Committee has been established on 4 April 2005 and consists of five members with a majority of independent non-executive Directors. They are:

Mr. Li Shaofeng *(Chairman)* (appointed on 10 May 2010)
Mr. Leung Shun Sang, Tony *(Vice-Chairman)*
Mr. Yip Kin Man, Raymond *(Independent Non-executive Director)*
Mr. Law, Yui Lun *(Independent Non-executive Director)*
Mr. Chan Chung Chun *(Independent Non-executive Director)*

and its terms of reference are summarized as follows:

i) to review and monitor the structure, size and composition of the Board and make recommendations to the Board with particular regard to ensuring a substantial majority of the Directors on the Board being independent of management;

ii) to identify and/or nominate and then select qualified individuals for appointment as additional Directors other than the Chairman and Managing Director or Chief Executive Officer or to fill Board vacancies as and when they arise. Such appointment is subject to the approval of the Board; and

iii) the committee shall make a statement or report to the Board after each meeting about its activities, the process used for appointments and explain if external advice has been used and disclose and publish in the annual report or other report as required subject to the Listing Rules amended from time to time.

During the year under review, two Nomination Committee Meetings were held and the works performed by the Nomination Committee included review and approval of the nomination of two new executive Directors and the recommendation to the Board for approval of such appointment. The attendance record of the Nomination Committee members is set out in the table: Attendance Record on page 34 of this report.

**Audit Committee**

The Audit Committee has been established on 30 September 1998. At present, it consists of three members and all of them are independent non-executive Directors. They are:

Mr. Yip Kin Man, Raymond *(Chairman)*
Mr. Law, Yui Lun
Mr. Chan Chung Chun

and its terms of reference are summarized as follows:

***Relationship with the Company's external auditors***

i) to be primarily responsible for making recommendation to the Board on the appointment, reappointment and removal of the external auditors, and to approve the remuneration and terms of engagement of the external auditors, and any questions of resignation or dismissal of the external auditors;

*Note:* Rule 13.51(4) of the Listing Rules requires an announcement to be published when there is a change of auditors. The announcement must also include a statement as to whether there are any matters that need to be brought to holders of securities of the issuer.

ii) to review and monitor the external auditors' independence and objectivity;

iii) to review and monitor the effectiveness of the audit process in accordance with applicable standards and to discuss with the external auditors the nature and scope of the audit and reporting obligations before the audit commences;

iv) to develop and implement policy on the engagement of external auditors to supply non-audit services. For this purpose, external auditors shall include any entity that is under common control, ownership or management with the audit firm or any entity that a reasonable and informed third party having knowledge of all relevant information would reasonably conclude as part of the audit firm nationally or internationally;

v) to report to the Board, identifying any matters in respect of which it considers that action or improvement is needed and making recommendations as to the steps to be taken;

***Review of financial information of the Company***

vi) to monitor integrity of financial statements of the Company and the Company's annual report and accounts, half-year report and, if prepared for publication, quarterly reports, and to review any significant financial reporting judgments contained in them. In this regard, in reviewing the Company's annual report and accounts, half year report and quarterly reports (if applicable) before submission to the Board and the Audit Committee shall focus particularly on:

(a) any changes in accounting policies and practices;

(b) major judgmental areas;

(c) significant adjustments resulting from audit;

(d) the going concern assumptions and any qualifications;

(e) compliance with accounting standards; and

(f) compliance with the Listing Rules and any other legal requirements in relation to financial reporting.

vii) In regard to (vi) above:

(a) members of the Audit Committee must liaise with the Board and senior management;

(b) the Audit Committee must meet, at least once a year, with the Company's external auditors; and

(c) the Audit Committee shall consider any significant or unusual items that are, or may need to be, reflected in such reports and accounts and must give due consideration to any matters that have been raised by the Company's staff responsible for the accounting and financial reporting function, compliance officer (if any) (or person occupying the same position), or external auditors.

***Oversight of the Company's financial reporting system and internal control procedures***

viii) to review the Company's financial controls, internal control and risk management systems;

ix) to discuss with the management the system of internal control and ensure that management has discharged its duty to have an effective internal control system including the adequacy of resources, qualifications and experience of staff of the Company's accounting and financial reporting function, and their training programmes and budget;

x) to consider any findings of major investigations of internal control matters as delegated by the Board or on its own initiative and management's response;

xi) to ensure co-ordination between the internal auditors (if any) and external auditors and to ensure that the internal audit function (if any) is adequately resourced and has appropriate standing within the Company, and to review and monitor the effectiveness of the internal audit function;

xii) to review the Group's financial and accounting policies and practices;

xiii) to review the external auditors' management letter, any material queries raised by the external auditors to management in respect of the accounting records, financial accounts or systems of control and the management's response;

xiv) to ensure that the Board will provide a timely response to the issues raised in the external auditors' management letter;

xv) to report on all of the above matters to the Board; and

xvi) to consider any other matters specifically referred to the Audit Committee by the Board.

During the year under review, four Audit Committee Meetings were held and the attendance record of the committee members is set out in the table: Attendance Record on page 34 of this report.

The Audit Committee members met with the external auditors to discuss the half year and annual financial statements for the financial year of 2010. The external auditors also met the Audit Committee members without executive Director (save for the Financial Controller and the Company Secretary who may attend to answer any query regarding the financial results) present.

The Audit Committee members also discuss matters falling within its terms of reference with the external auditors in the presence of the Financial Controller and the Company Secretary from time to time as they request. When there are uncertainties or ambiguities in interpretation of accounting standards in preparing the half year and annual accounts that may likely to materially impact the financial position of the Group, the Company will prepare certain analysis explaining the scenario in relation thereto for the Audit Committee members consideration and understanding. The Audit Committee members have full access to, and the co-operation of, the Company's management in ensuring that it is satisfied with the Company's internal controls.

During the financial year of 2010, the Audit Committee members had made valuable and positive contribution, and independent and informed comments for the development of the Company's strategy and policies. The Audit Committee members had also reviewed certain areas of the internal control system and given advice to the management of the Company to further improve the internal control policy of the core subsidiaries of the Company, especially the risk management and the Board had adopted the recommendation of the Audit Committee members in such area.

## RESPONSIBILITY FOR PREPARATION AND REPORTING OF FINANCIAL STATEMENTS

The Directors acknowledge their responsibility for preparing the financial statements of the Group in accordance with statutory requirements and applicable accounting standards. The Directors will in line with statutory requirements and applicable accounting standards to select suitable accounting policies and apply them consistently, make judgements and estimates that are prudent, fair and reasonable and prepare the financial statements on a going concern basis.

### Auditors' Remuneration

During the year ended 31 December 2010, the fees paid/payable to the external auditors in respect of audit and non-audit services provided by the auditors to the Group were as follows:

The fees charged by the external auditors of the Company, Deloitte Touche Tohmatsu for the year ended 31 December 2010 amounted to HK$1,200,000 for audit services and HK$360,000 for non audit services comprising fees for review of interim financial statements.

## SHAREHOLDERS' RIGHTS

The Board recognizes its responsibility to ensure the interests of the Shareholders, to communicate with Shareholders and to enhance their value. In order to maintain ongoing dialogue with Shareholders, the Company has particular opportunities of direct communication with Shareholders at various annual general meetings and other general meetings where Shareholders are encouraged to actively attend. In addition, the chairman of the Board and the chairman of each of Remuneration Committee, Nomination Committee and Audit Committee were present to answer any Shareholder's questions at the 2010 annual general meeting.

The procedures of 2010 annual general meeting are in line with the standard of the Code. Notice of annual general meeting and related papers (including circular together with proxy form) are despatched to all Shareholders at least 20 clear business days prior to the meeting. For any other general meeting, the related papers are sent to Shareholders at least 10 clear business days prior to the meeting unless the business to be conducted at the meeting requires special notice. Moreover, circular regarding granting of general mandates for the issuance and repurchases of Shares and notice of the annual general meeting has set out the details of each proposed resolutions, voting procedures and other relevant information. The chairman of the meeting will explain the procedures for conducting a poll at the commencement of the meeting and there will be sufficient time for Shareholders to raise their questions and opinions. After the general meeting, Shareholders have opportunity to talk with any Executive Director face to face to learn more about the businesses of the Group, if appropriate.

## INVESTOR RELATIONS

The Company puts a high regard for the aspect of investor relations and it recognizes that establishment of investor relations can enhance its transparency, maximize its value and increase investors' understanding of and trust in the Company. Therefore, the management regularly meets with Shareholders, potential and institutional investors and research analysts. The management also may provide them with the information of the latest business development of the Group and answer their queries subject to the Company's continuous disclosure obligation policy. The corresponding presentation material is available upon requested, if appropriate.

In order to further promote a sound communication between the public, the Company fully utilizes its website (http://www.shougangcentury.com.hk) as a means to provide the latest and updated information in a timely manner and from time to time enhances the homepage of the website. The Company can release its information regarding business development by way of press release on the Company's website. Also, the Company Secretarial Department of the Company will respond to the telephone enquiries and email correspondences from Shareholders or investors in respect of various issues subject to the Company's continuous disclosure obligation policy. Any opinions, view and suggestions of Shareholders will be solicited and brought to the attention of the Board and management, if necessary.

During the year, the 2010 annual general meeting was held on 8 June 2010 to approve ordinary businesses of annual general meeting. The resolutions of annual general meeting were duly passed by way of poll.

## INTERNAL CONTROLS

The Board is responsible for maintaining an adequate internal control system of the Company and also for reviewing and monitoring the internal operation of the Company. The Company has adopted the Internal Control Manual and implemented the internal control system since 1999. The internal control system covers all material functions, including financial, operational and compliance controls and risk management. In order to align with the changes of relevant laws, rules and regulations as well as further improve the internal control system, the Board will review and refine the system periodically, if necessary.

During the year under review, the Company requested Enterprise Risk Services Division of Deloitte Touche Tohmatsu, the auditors of the Company, in January 2010 to give opinion and make recommendation on the Internal Control Manual and their recommendation was dealt with at Audit Committee Meeting. As such, the Company's Internal Control Manual has been updated and revised for the Board's review and adoption on 24 September 2010.

In view of the scale of the businesses of the Group, the Board also considers the adequacy of resources, qualifications and experience of staff of the Group's accounting and financial reporting function, and their training programmes and budget are sufficient.

# REPORT OF THE DIRECTORS

The Directors herein present their report and the audited financial statements of the Company and the Group for the year ended 31 December 2010.

## PRINCIPAL ACTIVITIES

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

## RESULTS

The Group's profit for the year ended 31 December 2010 and the state of affairs of the Group and the Company at that date are set out in the financial statements on pages 67 to 158.

An interim dividend of HK1 cent per Share amounting to HK$19,218,000 was paid to Shareholders during the year. The Directors now recommend the payment of a final dividend of HK1.5 cents per Share to the Shareholders whose names appear on the register of members of the Company at the close of business on 19 May 2011, and the remaining profit for the year will be retained.

## SUMMARY OF FINANCIAL INFORMATION

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

| | **2010** | 2009 | 2008 | 2007 | 2006 |
|---|---|---|---|---|---|
| | **HK$'000** | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| PROFIT FOR THE YEAR | **200,441** | 171,314 | 34,762 | 105,762 | 76,031 |
| TOTAL ASSETS | **3,767,274** | 3,038,112 | 2,095,651 | 1,879,938 | 1,386,781 |
| TOTAL LIABILITIES | **(1,514,466)** | (971,446) | (258,966) | (380,009) | (429,427) |
| | **2,252,808** | 2,066,666 | 1,836,685 | 1,499,929 | 957,354 |
| MINORITY INTEREST | **(840)** | (840) | (840) | (840) | – |
| SHAREHOLDERS' EQUITY | **2,251,968** | 2,065,826 | 1,835,845 | 1,499,089 | 957,354 |

## INVESTMENT PROPERTIES AND PROPERTY, PLANT AND EQUIPMENT

Details of movements in the investment properties and property, plant and equipment of the Company and the Group during the year are set out in notes 15 and 16, respectively to the financial statements.

Particulars of the Group's investment properties as at 31 December 2010 are summarised on page 159 of this annual report.

## SHARE CAPITAL AND SHARE OPTIONS

Details of movements in the share capital of the Company are set out in note 33 to the financial statements. The Company introduced a share option scheme in 2002. Details of share options are set out under the headings "**SHARE OPTION SCHEME**", "**DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES, DEBENTURES OR UNDERLYING SHARES**" hereunder and in note 41 to the financial statements.

## RESERVES

Details of movements in the reserves of the Group and the Company during the year are set out in the consolidated statement of changes in equity on pages 72 and 73 of this annual report and in note 34 to the financial statements.

## DISTRIBUTABLE RESERVES

As at 31 December 2010, the Company's reserves available for distribution, calculated in accordance with the provisions of section 79B of the Companies Ordinance, amounted to HK$82,957,000.

## DONATIONS

Charitable donations made by the Group during the year amounted to HK$228,000.

## DIRECTORS

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

| | |
|---|---|
| Li Shaofeng *(Chairman and Managing Director)* | (re-designated on 10 May 2010) |
| Cao Zhong | (resigned on 10 May 2010) |
| Tong Yihui *(Deputy Managing Director)* | |
| Leung Shun Sang, Tony *(Non-executive Director)* | |
| Tang Cornor Kwok Kau *(Deputy Managing Director)* | |
| Yang Kaiyu *(Deputy Managing Director)* | (appointed on 10 May 2010) |
| Zhang Zhong *(Executive Director)* | (appointed on 15 December 2010) |
| Geert Johan Roelens | (resigned on 15 December 2010) |
| Yip Kin Man, Raymond *(Independent Non-executive Director)* | |
| Law, Yui Lun *(Independent Non-executive Director)* | |
| Chan Chung Chun *(Independent Non-executive Director)* | |

The Directors are subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with articles 91 and 92 of the Articles. Messrs. Li Shaofeng and Chan Chung Chun will retire from office by rotation and, being eligible, offer themselves for re-election at the forthcoming annual general meeting. Mr. Tong Yihui will retire from office by rotation and not offer himself for re-election at the said meeting.

In accordance with article 96 of the Articles, Mr. Zhang Zhong will retire from office and, being eligible, offer himself for re-election at the forthcoming annual general meeting.

## DIRECTORS' SERVICE CONTRACTS

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

## DIRECTORS' RIGHTS TO ACQUIRE SHARES AND DEBENTURES

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

## INDEPENDENT NON-EXECUTIVE DIRECTORS

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

## SHARE OPTION SCHEME

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

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

As at 31 December 2010, save for the interest of the Directors in the Shares and share options of the Company set out as below, none of the Directors had any interests and short positions in the Shares, debentures or underlying Shares or any of its associated corporations (within the meaning of Part XV of the SFO) which had to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he was taken or deemed to have under such provisions of the SFO) or which were required pursuant to section 352 of the SFO, to be entered in the register referred therein or which were required to be disclosed herein pursuant to the Model Code.

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

### Long position in Shares

*(a) Ordinary Shares of HK$0.10 each of the Company*

| Name of Director | Total number of Shares held | Approximate % of the issued share capital | Capacity in which interests are held |
|---|---|---|---|
| Li Shaofeng ("Mr. Li") | 7,652,000 | 0.39 | Beneficial owner |
| Tong Yihui ("Mr. Tong") | 5,152,000 | 0.26 | Beneficial owner |
| Leung Shun Sang, Tony ("Mr. Leung") | 7,652,000 | 0.39 | Beneficial owner |
| Tang Cornor Kwok Kau ("Mr. Tang") | 10,000,000 | 0.52 | Beneficial owner *Note (a)* |
| Yang Kaiyu ("Mr. Yang") | 3,596,000 | 0.18 | Family interest *Note (b)* |

*Notes:*

*(a)* Those Shares were beneficially owned by Mr. Tang and in which of 200,000 Shares were also jointly owned by his wife.

*(b)* All those Shares were beneficially owned by Mr. Yang's wife.

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

### Long position in Shares (continued)

### *(b) Share options*

As at 31 December 2010, there were a total of 146,706,000 outstanding share options of the Company granted to Directors, details of which are summarized in the following table:

| | Options to subscribe for Shares | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Name of Director | Number of outstanding share options held at the beginning of the year | Number of share options granted during the year | Number of share options exercised during the year | Date of exercise | Number of outstanding share options held at the end of the year | Date of grant *Note (a)* | Exercise period | Exercise price per Share HK$ | Capacity in which interests are held | Approximate % of the issued share capital |
| Mr. Li | 30,614,000 *Note (b)* | – | – | – | 30,614,000 | 25/6/2003 | 25/6/2003 to 24/6/2013 | 0.365 | | |
| | 13,800,000 | – | – | – | 13,800,000 | 28/1/2008 | 28/1/2008 to 27/1/2018 | 0.864 | | |
| | 44,414,000 | – | – | | 44,414,000 | | | | Beneficial owner | 2.31 |
| Mr. Tong | 38,268,000 *Note (b)* | – | – | – | 38,268,000 | 25/6/2003 | 25/6/2003 to 24/6/2013 | 0.365 | | |
| | 10,000,000 | – | – | – | 10,000,000 | 28/1/2008 | 28/1/2008 to 27/1/2018 | 0.864 | | |
| | 48,268,000 | – | – | | 48,268,000 | | | | Beneficial owner | 2.51 |
| Mr. Leung | 4,592,000 | – | – | – | 4,592,000 | 25/8/2003 | 25/8/2003 to 24/8/2013 | 0.740 | | |
| | 12,000,000 | – | – | – | 12,000,000 | 28/1/2008 | 28/1/2008 to 27/1/2018 | 0.864 | | |
| | 16,592,000 | – | – | | 16,592,000 | | | | Beneficial owner | 0.86 |
| Mr. Tang | 10,000,000 | – | – | – | 10,000,000 | 28/1/2008 | 28/1/2008 to 27/1/2018 | 0.864 | Beneficial owner | 0.52 |
| Mr. Yang | 5,400,000 | – | – | – | 5,400,000 | 13/7/2009 | 13/7/2009 to 12/7/2019 | 0.680 | | |
| | 5,400,000 | – | – | – | 5,400,000 *Note (c)* | 13/7/2009 | 1/1/2010 to 12/7/2019 | 0.680 | | |
| | 7,200,000 | – | – | – | 7,200,000 *Note (c)* | 13/7/2009 | 1/1/2011 to 12/7/2019 | 0.680 | | |
| | 18,000,000 | – | – | | 18,000,000 | | | | Beneficial owner | 0.93 |

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

### Long position in Shares (continued)

### *(b) Share options (continued)*

| | Options to subscribe for Shares | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Name of Director | Number of outstanding share options held at the beginning of the year | Number of share options granted during the year | Number of share options exercised during the year | Date of exercise | Number of outstanding share options held at the end of the year | Date of grant *Note (a)* | Exercise period | Exercise price per Share HK$ | Capacity in which interests are held | Approximate % of the issued share capital |
| Zhang Zhong | – | 2,000,000 | – | – | 2,000,000 | 14/12/2010 | 14/12/2010 to 13/12/2020 | 0.940 | Beneficial owner | 0.10 |
| Yip Kin Man, Raymond | 382,000 | – | – | – | 382,000 | 23/8/2002 | 23/8/2002 to 22/8/2012 | 0.295 | | |
| | 382,000 | – | – | – | 382,000 | 25/8/2003 | 25/8/2003 to 24/8/2013 | 0.740 | | |
| | 252,000 | – | – | – | 252,000 | 26/1/2007 | 26/1/2007 to 25/1/2017 | 0.656 | | |
| | 1,800,000 | – | – | – | 1,800,000 | 28/1/2008 | 28/1/2008 to 27/1/2018 | 0.864 | | |
| | 2,816,000 | – | – | | 2,816,000 | | | | Beneficial owner | 0.14 |
| Law, Yui Lun | 1,016,000 | – | – | – | 1,016,000 | 26/1/2007 | 26/1/2007 to 25/1/2017 | 0.656 | | |
| | 1,800,000 | – | – | – | 1,800,000 | 28/1/2008 | 28/1/2008 to 27/1/2018 | 0.864 | | |
| | 2,816,000 | – | – | | 2,816,000 | | | | Beneficial owner | 0.14 |
| Chan Chung Chun | 1,800,000 | – | – | – | 1,800,000 | 28/1/2008 | 28/1/2008 to 27/1/2018 | 0.864 | Beneficial owner | 0.09 |
| | 144,706,000 | 2,000,000 | – | | 146,706,000 | | | | | |

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

### Long position in Shares (continued)

#### *(b) Share options (continued)*

*Notes:*

*(a)* Share options granted are exercisable within the period from the date of grant to the end of the exercise period except for the share options set out under *Note (c)* below.

*(b)* These share options granted were in excess of the individual limit and the approval from Shareholders was obtained in general meeting held on 25 June 2003.

*(c)* 5,400,000 share options have a vesting period from the date of grant to 31 December 2009 and 7,200,000 share options have a vesting period from the date of grant to 31 December 2010.

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

Other than the holdings and option holdings disclosed above, none of the Directors, chief executives and their associates had any interests or short positions in any Shares, debentures or underlying Shares or any of the Company's associated corporations at 31 December 2010.

## DIRECTORS' INTERESTS IN CONTRACTS

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

## DIRECTORS' INTERESTS IN COMPETING BUSINESSES

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

| Name of Director | Name of entity 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 Director's interest in the entity |
|---|---|---|---|
| Li Shaofeng *(Note 1)* | Sinocop Resources (Holdings) Limited | Trading of metals and minerals | Non-executive Director |
| Zhang Zhong *(Note 2)* | Bekaert (Huizhou) Steel Cord Co., Ltd | Manufacturing and sale of steel wire and/or cord products | Director |
| | Bekaert (Shandong) Tire Cord Co., Ltd. | Manufacturing and sale of steel wire and/or cord products | Director |
| | Bekaert Ansteel Tire Cord (Chongqing) Co., Ltd. | Manufacturing and sale of steel wire and/or cord products | Director |
| | Bekaert Binjiang Advanced Products Co., Ltd. | Manufacturing and sale of steel wire and/or cord products | Director |
| | Bekaert Binjiang Steel Cord Co., Ltd. | Manufacturing and sale of steel wire and/or cord products | Director |

## DIRECTORS' INTERESTS IN COMPETING BUSINESSES (continued)

| 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 Director's interest in the entity |
|---|---|---|---|
| Zhang Zhong *(Note 2)* (continued) | Bekaert Shenyang Advanced Products Co., Ltd. | Manufacturing and sale of steel wire and/or cord products | Director |
| | China Bekaert Steel Cord Co., Ltd. | Manufacturing and sale of steel wire and/or cord products | Director |
| Chan Chung Chun *(Note 3)* | Sinocop Resources (Holdings) Limited | Trading of metals and minerals | Deputy Chairman and Executive Director |
| | Sinocop Resources (Chile) Limited (Formerly known as "Zhong Xing Heng He Holdings Limited") | Trading of metals and minerals | Director |
| Geert Johan Roelens *(Note 2)* | Bekaert Ansteel Tire Cord (Chongqing) Co., Ltd. | Manufacturing and sale of steel wire and/or cord products | Director |
| | Bekaert Binjiang Steel Cord Co., Ltd. | Manufacturing and sale of steel wire and/or cord products | Chairman and Legal Representative |
| | Bekaert Industries Private Limited | Manufacturing and sale of steel wire and/or cord products | Director |

## DIRECTORS' INTERESTS IN COMPETING BUSINESSES (continued)

| 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 Director's interest in the entity |
|---|---|---|---|
| Geert Johan Roelens *(Note 2)* (continued) | Bekaert Japan Co., Ltd. | Sale of steel wire and/or cord products | Director |
| | Bekaert (Shandong) Tire Cord Co., Ltd. | Manufacturing and sale of steel wire and/or cord products | Chairman and Legal Representative |
| | Bekaert Binjiang Advanced Products Co., Ltd. | Manufacturing and sale of steel wire and/or cord products | Chairman and Legal Representative |
| | Bekaert Shenyang Advanced Products Co., Ltd. | Manufacturing and sale of steel wire and/or cord products | Chairman and Legal Representative |
| | Bekaert-Shenyang Steel Cord Co., Ltd. | Manufacturing and sale of steel wire and/or cord products | Chairman and Legal Representative |
| | China Bekaert Steel Cord Co., Ltd. | Manufacturing and sale of steel wire and/or cord products | Chairman and Legal Representative |
| | Bekaert (Huizhou) Steel Cord Co., Ltd | Manufacturing and sale of steel wire and/or cord products | Chairman and Legal Representative |

## DIRECTORS' INTERESTS IN COMPETING BUSINESSES (continued)

| 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 Director's interest in the entity |
|---|---|---|---|
| Geert Johan Roelens *(Note 2)* (continued) | Bekaert (China) Technology Research and Development Co., Ltd. | Manufacturing and sale of steel wire and/or cord products | Chairman and Legal Representative |
| | Bekaert Management (Shanghai) Co., Ltd. | Management company | Vice Chairman |
| | Bekaert Holding Hong Kong Limited | Holding company | Director |
| | OOO Bekaert Lipetsk | Manufacturing and sale of steel wire and/or cord products | Chairman |
| | Bekaert Slovakia, s.r.o. | Manufacturing and sale of steel wire and/or cord products | Managing Director |
| | Bekaert Hlohovec, a.s. | Manufacturing and sale of steel wire and/or cord products | Supervisory Board Member |
| | OOO Bekaert Wire | Manufacturing and sale of steel wire and/or cord products | Director |
| | Bekaert North America Management Corporation | Holding company | Director |

## DIRECTORS' INTERESTS IN COMPETING BUSINESSES (continued)

| 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 Director's interest in the entity |
|---|---|---|---|
| Geert Johan Roelens *(Note 2)* (continued) | Bekaert | Manufacturing and sale of steel wire and/or cord products | Group Executive Vice President |
| | Industrias del Ubierna, S.A. | Manufacturing and sale of steel wire and/or cord products | Director General |
| | Bekaert Ibérica Holding, S.L | Holding company | Director |
| | Bekaert Investments Italia S.p.A. | Holding company | Director |
| | Bekaert Sardegna S.p.A. | Manufacturing and sale of steel wire and/or cord products | President |
| | Bekaert Izmit Celik Kord Sanayi ve Ticaret A.S. | Manufacturing and sale of steel wire and/or cord products | Chairman |
| | BMB-Belgo Mineira Bekaert Artefatos de Arame Ltda | Manufacturing and sale of steel wire and/or cord products | President of the Consultative Board |
| | PT Bekaert Indonesia | Manufacturing and sale of steel wire and/or cord products | President Commissioner |

## DIRECTORS' INTERESTS IN COMPETING BUSINESSES (continued)

*Notes:*

1 Mr. Li Shaofeng acts as a non-executive director of Sinocop Resources (Holdings) Limited ("Sinocop") and does not participate in any decision making on daily operation of Sinocop. He is the chairman and managing director of the Company and shall perform his duties towards the interest of the Company.

2 Pursuant to a subscription agreement and a supplemental agreement (the "Bekaert Subscription") entered into by the Company and Bekaert in September 2006, a nominee of Bekaert should be appointed as an executive Director to represent the interest of Bekaert after the completion of the Bekaert Subscription on 15 December 2006 and as such, Mr. Geert Johan Roelens ("Mr. Roelens") was appointed. On 15 December 2010, Mr. Roelens resigned and Mr. Zhang Zhong was appointed to replace Mr. Roelens as an executive Director of the Company.

3 Mr. Chan Chung Chun was appointed as an independent non-executive director of the Company on 1 October 2007. He shall perform his duties towards the interest of the Company.

In general, directors should owe their fiduciary duties towards the company as a whole and as such the Board believes that all Board members will act in the best interest of the Company and its Shareholders when they discharge their duties and responsibilities as Directors.

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

As at 31 December 2010, so far as was known to the Directors, the following parties had an interest or long position or short position in the Shares or underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or which were required pursuant to section 336 of the SFO, to be entered in the register referred therein:

### Long position in Shares or underlying Shares

| Name of Shareholder | Total number of Shares/ underlying Shares held | Approximate % of the issued share capital | Capacity in which interests are held |
|---|---|---|---|
| Richson | 148,537,939 | 7.72 | Beneficial owner |
| Fair Union | 686,655,179 | 35.72 | Beneficial owner and interests of controlled corporations Note (1) |
| Casula | 402,395,304 | 20.93 | Beneficial owner |
| Shougang International | 686,655,179 | 35.72 | Interests of controlled corporations Note (2) |
| Able Legend | 126,984,000 | 6.60 | Beneficial owner |
| Shougang HK | 887,145,179 | 46.15 | Interests of controlled corporations Note (3) |
| Bekaert Holding | 250,000,000 | 13.00 | Beneficial owner Note (4) |
| Bekaert | 250,000,000 | 13.00 | Interests of controlled corporations Note (5) |
| Li Ka Shing Foundation | 100,000,000 | 5.20 | Beneficial owner Note (6) |

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

### Long position in Shares or underlying Shares (continued)

*Notes:*

*(1)* Fair Union is beneficially interested in 135,721,936 Shares and by virtue of the SFO, it is deemed to be interested in the 148,537,939 Shares held by Richson and the 402,395,304 Shares held by Casula as Richson and Casula are its wholly owned subsidiaries.

*(2)* By virtue of the SFO, Shougang International is deemed to be interested in the 135,721,936 Shares held by Fair Union, the 148,537,939 Shares held by Richson and the 402,395,304 Shares held by Casula as Richson and Casula are wholly owned by Fair Union, a wholly owned subsidiary of Shougang International.

*(3)* By virtue of the SFO, Shougang HK is deemed to be interested in the 126,984,000 Shares and the 59,636,000 Shares held by Able Legend and Prime Success Investments Limited ("Prime Success") respectively as Able Legend and Prime Success are its wholly owned subsidiaries and is deemed to be interested in the 13,870,000 Shares held by Lyre Terrace Management Limited, a subsidiary of Shougang Grand as Shougang HK is the controlling shareholder of Shougang Grand. It is also deemed to be interested in the 135,721,936 Shares held by Fair Union, the 148,537,939 Shares held by Richson and the 402,395,304 Shares held by Casula as it is the controlling shareholder of Shougang International.

*(4)* Bekaert Holding is beneficially interested in 250,000,000 Shares.

*(5)* By virtue of the SFO, Bekaert is deemed to be interested in the 250,000,000 Shares held by Bekaert Holding, which is a wholly owned subsidiary of Bekaert.

*(6)* Li Ka Shing Foundation is beneficially interested in 100,000,000 Shares.

## SUBSTANTIAL SHAREHOLDERS' INTERESTS IN CONTRACTS

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

## CORPORATE GOVERNANCE

The Company is committed to practicing and achieving a high standard of corporate governance and the Board has approved and adopted the SCCHL Corporate Governance Code on terms no less exacting than those set out in the provisions of the Code. Further information on the Company's Corporate Governance Practices is set out in the Corporate Governance Report on pages 32 to 43 of this annual report.

## PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

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

## RELATED PARTY TRANSACTIONS

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

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

### (A) Continuing connected transactions exempt from the independent Shareholders' approval requirements

***Tenancy Agreement***

*i)* A tenancy agreement dated 31 December 2009 whereby a portion of the 5th Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong with an aggregate gross floor area of approximately 6,000 square feet was leased by Billioncorp Development Limited, an indirect wholly owned subsidiary of Shougang HK, to a wholly owned subsidiary of the Company for a term of three years commencing from 1 January 2010 to 31 December 2012 at a monthly rental of HK$150,000 (exclusive of rates, management fees and other charges payable to independent third parties not connected with Shougang HK or any of its subsidiaries or any of their respective directors, chief executives or substantial shareholders or any of their respective associates in respect of the use of the premises during the term).

*ii)* A tenancy agreement dated 31 December 2009 whereby a premises known as Flat 1612, Block Q, Kornhill, 6-8 Hong On Street, Hong Kong with an aggregate gross floor area of approximately 756 square feet was leased by Linksky Limited, an indirect wholly owned subsidiary of Shougang Grand which is an associate of Shougang HK, to a wholly owned subsidiary of the Company for a term of three years commencing from 1 January 2010 to 31 December 2012 at a monthly rental of HK$11,800 (exclusive of rates, management fees and other charges payable to independent third parties not connected with Shougang HK or any of its subsidiaries or any of their respective directors, chief executives or substantial shareholders or any of their respective associates in respect of the use of the premises during the term).

## RELATED PARTY TRANSACTIONS (continued)

### (A) Continuing connected transactions exempt from the independent Shareholders' approval requirements (continued)

***Tenancy Agreement (continued)***

*ii)* *(continued)*

This tenancy agreement was terminated on 1 July 2010.

*iii)* A tenancy agreement dated 31 December 2009 whereby a premises known as Flat 1906A, Hongway Garden, 8 New Market Street, Sheung Wan, Hong Kong with an aggregate gross floor area of approximately 508 square feet was leased by Shougang HK to a wholly owned subsidiary of the Company for a term of three years commencing from 1 January 2010 to 31 December 2012 at a monthly rental of HK$10,000 (exclusive of rates, management fees and other charges payable to independent third parties not connected with Shougang HK or any of its subsidiaries or any of their respective directors, chief executives or substantial shareholders or any of their respective associates in respect of the use of the premises during the term).

The details of the above transactions (collectively the "Tenancy Agreements") are set out in the Company's announcement dated 31 December 2009.

***Continuing connected transaction with Bekaert group***

*Supply Contract*

*iv)* On 28 December 2009, the Company and Bekaert entered into the supply contract (the "Supply Contract") for a period of three years from 1 January 2010 under which Bekaert agrees to manufacture, sell and deliver certain materials (including brass coated wire) for the manufacture of steel cord used for the reinforcement of rubber tyres to the Group. The details are set out in the Company's announcement dated 29 December 2009.

## RELATED PARTY TRANSACTIONS (continued)

**(B) Continuing connected transaction not exempt from the independent Shareholders' approval requirements (continued)**

***Continuing connected transactions with Bekaert group (continued)***

*Commercial Agency Contract*

On 20 April 2007, JESC entered into the commercial agency contract (the "Commercial Agency Contract") with Bekaert to appoint Bekaert group as the exclusive commercial agent for the sale of steel cord for reinforcement of radial tyres in certain territories as defined in the Commercial Agency Contract for a period of five years from the date of obtaining approval of independent Shareholders at the extraordinary general meeting held on 6 June 2007. The details are set out in the Company's announcement and circular dated 20 April and 9 May 2007 respectively.

Shougang HK and Bekaert are substantial Shareholders and therefore connected persons of the Company under the Listing Rules. Accordingly, the transactions under the Tenancy Agreements, the Supply Contract and the Commercial Agency Contract constituted continuing connected transactions (the "Continuing Connected Transactions"). The Continuing Connected Transactions to the Company, which took place during the year, have been reviewed by the Independent Non-executive Directors who have confirmed that the Continuing Connected Transactions have been entered into:

(a) in the ordinary and usual course of business of the Group;

(b) on normal commercial terms, on terms no less favourable to the Group than terms available to or from independent third parties;

(c) in accordance with the Tenancy Agreements, the Supply Contract, Commercial Agency Contract and relevant agreements governing them on terms that are fair and reasonable and in the best interest of the Company and its Shareholders as a whole; and

(d) the aggregate amount of each of the rent payable by the Group to Shougang HK group, sales payable and commission payable by the Group to Bekaert group were approximately HK$1,990,800, HK$187,890 and HK$Nil respectively during the year of 2010. The said rent payable by the Group to Shougang HK group, sales payable and commission payable for the provision of agency services by the Group to Bekaert group did not exceed the limit of annual rental cap of HK$2,061,600, annual Group's Purchase Cap of HK$8,258,000 and annual Commission Cap of HK$5,260,000 respectively.

## RELATED PARTY TRANSACTIONS (continued)

Pursuant to Rule 14A.38 of the Listing Rules, the Board engaged the auditors of the Company to report on the Continuing Connected Transactions of the Group. The auditors of the Company have issued their unqualified letter containing their findings and conclusions in respect of the Continuing Connected Transactions. The Independent Non-executive Directors have reviewed the Continuing Connected Transactions and the letter of the auditors and have confirmed that the transactions had been entered into by the Company in the ordinary and usual course of its business, on normal commercial terms, on terms no less favourable to the Group than terms available to or from independent third parties, and in accordance with the terms of the agreement governing such transactions that are fair and reasonable and in the interests of the Shareholders as a whole.

## EMOLUMENT POLICY

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

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

## SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the Directors, the Company has maintained sufficient public float as required under the Listing Rules during the year and as at the latest practicable date, 25 March 2011 prior to the issue of the annual report.

## MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers accounted for approximately 34% (2009: 44%) of the total sales for the year and sales to the largest customer included therein amounted to approximately 15% (2009: 16%).

Purchases from the Group's five largest suppliers accounted for approximately 39% (2009: 43%) of the total purchases for the year and purchases from the largest supplier, included therein amounted to approximately 12% (2009: 17%). The five largest suppliers for the year ended 31 December 2009 included Bekaert.

## MAJOR CUSTOMERS AND SUPPLIERS (continued)

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

## AUDITORS

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

By order of the Board

**Li Shaofeng**
*Chairman and Managing Director*
Hong Kong
29 March 2011

Deloitte.
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TO THE MEMBERS OF
**SHOUGANG CONCORD CENTURY HOLDINGS LIMITED**
**首長寶佳集團有限公司**
*(incorporated in Hong Kong with limited liability)*

We have audited the consolidated financial statements of Shougang Concord Century Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 67 to 158, which comprise the consolidated and Company's statements of financial position as at 31 December 2010, and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

## Directors' Responsibility for the Consolidated Financial Statements

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

## 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 about whether the consolidated financial statements are free from material misstatement.

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 of the consolidated financial statements that give a true and fair view 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 2010, and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the Hong Kong Companies Ordinance.

**Deloitte Touche Tohmatsu**
*Certified Public Accountants*
Hong Kong
29 March 2011

# CONSOLIDATED INCOME STATEMENT

For The Year Ended 31 December 2010

| | NOTES | 2010<br>HK$'000 | 2009<br>HK$'000 |
|---|---|---|---|
| Revenue | 5 | **1,663,484** | 1,099,272 |
| Cost of sales | | **(1,375,934)** | (918,777) |
| Gross profit | | **287,550** | 180,495 |
| Investment and other income | 7 | **90,763** | 99,841 |
| Other gains and losses | 8 | **58,184** | 49,230 |
| Distribution and selling expenses | | **(28,326)** | (21,266) |
| Administrative expenses | | **(100,736)** | (92,193) |
| Other expenses | | **(15,954)** | – |
| Finance costs | 9 | **(32,559)** | (6,624) |
| Share of result of a jointly controlled entity | | **–** | (1,461) |
| Profit before tax | | **258,922** | 208,022 |
| Income tax expenses | 10 | **(58,481)** | (36,708) |
| Profit for the year | 11 | **200,441** | 171,314 |
| Earnings per share | 14 | | |
| Basic | | **HK10.43 cents** | HK9.03 cents |
| Diluted | | **HK10.06 cents** | HK8.84 cents |

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For The Year Ended 31 December 2010

| | 2010<br>HK$'000 | 2009<br>HK$'000 |
|---|---|---|
| Profit for the year | **200,441** | 171,314 |
| Other comprehensive income | | |
| Exchange differences arising on translation | | |
| – group entities | **70,560** | 6,532 |
| – a jointly controlled entity | **–** | (1) |
| (Loss) gain on fair value change of listed available-for-sale investments | **(13,379)** | 57,591 |
| Reclassified from other comprehensive income upon disposal of listed available-for-sale investments | **(29,873)** | (30,827) |
| Surplus on revaluation of properties | **3,903** | 4,952 |
| Recognition of deferred tax liability on revaluation of properties | **(718)** | (1,016) |
| Other comprehensive income for the year (net of tax) | **30,493** | 37,231 |
| Total comprehensive income for the year | **230,934** | 208,545 |

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2010

| | NOTES | 2010 HK$'000 | 2009 HK$'000 (Restated) |
|---|---|---|---|
| **Non-current assets** | | | |
| Investment properties | 15 | **27,744** | 22,401 |
| Property, plant and equipment | 16 | **1,745,586** | 1,320,715 |
| Prepaid lease payments | 17 | **184,464** | 106,459 |
| Goodwill | 19 | **41,672** | 41,672 |
| Club memberships | 21 | **732** | 719 |
| Available-for-sale investments | 22 | **–** | 50,538 |
| Deposit paid for the acquisition of property, plant and equipment | | **108,269** | 79,000 |
| | | **2,108,467** | 1,621,504 |
| **Current assets** | | | |
| Inventories | 23 | **354,562** | 211,802 |
| Trade receivables | 24 | **495,156** | 322,700 |
| Bills receivable | 24 | **388,048** | 386,039 |
| Prepayments, deposits and other receivables | 25 | **136,907** | 98,862 |
| Prepaid lease payments | 17 | **7,587** | 4,489 |
| Amounts due from related companies | 26 | **–** | 277 |
| Tax recoverable | | **99** | 96 |
| Restricted bank deposits | 28 & 29 | **–** | 49,448 |
| Bank balances and cash | 29 | **276,448** | 342,895 |
| | | **1,658,807** | 1,416,608 |
| **Current liabilities** | | | |
| Trade payables | 30 | **42,514** | 46,448 |
| Other payables and accruals | 30 | **175,944** | 87,440 |
| Tax payable | | **55,469** | 29,710 |
| Bank borrowings | 31 | **811,829** | 479,264 |
| | | **1,085,756** | 642,862 |
| **Net current assets** | | **573,051** | 773,746 |
| **Total assets less current liabilities** | | **2,681,518** | 2,395,250 |

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2010

| | NOTES | **2010**<br>**HK$'000** | 2009<br>HK$'000<br>(Restated) |
|---|---|---|---|
| **Non-current liabilities** | | | |
| Bank borrowings | 31 | **403,426** | 317,400 |
| Other payable | | **1,058** | 1,007 |
| Deferred tax liabilities | 32 | **24,226** | 10,177 |
| | | **428,710** | 328,584 |
| | | **2,252,808** | 2,066,666 |
| **Capital and reserves** | | | |
| Share capital | 33 | **192,230** | 192,180 |
| Reserves | | **2,059,738** | 1,873,646 |
| Equity attributable to equity holders of the Company | | **2,251,968** | 2,065,826 |
| Share option reserve of a subsidiary | | **840** | 840 |
| | | **2,252,808** | 2,066,666 |

The consolidated financial statements on pages 67 to 158 were approved and authorised for issue by the Board of Directors on 29 March 2011 and are signed on its behalf by:

*DIRECTOR* *DIRECTOR*

# STATEMENT OF FINANCIAL POSITION

At 31 December 2010

| | NOTES | 2010 HK$'000 | 2009 HK$'000 (Restated) |
|---|---|---|---|
| **Non-current assets** | | | |
| Investments in subsidiaries | 18 | **436,034** | 425,496 |
| Advances to subsidiaries | 18 | **1,357,624** | 1,107,479 |
| Club memberships | 21 | **372** | 359 |
| | | **1,794,030** | 1,533,334 |
| **Current assets** | | | |
| Prepayments and other receivables | | **380** | 366 |
| Amounts due from subsidiaries | 27 | **496,852** | 110,000 |
| Restricted bank deposits | 28 & 29 | **–** | 1,000 |
| Bank balances and cash | 29 | **61,625** | 123,060 |
| | | **558,857** | 234,426 |
| **Current liabilities** | | | |
| Other payables and accruals | | **8,513** | 3,603 |
| Tax payable | | **16** | 36 |
| Bank borrowings | 31 | **548,943** | 152,992 |
| | | **557,472** | 156,631 |
| **Net current assets** | | **1,385** | 77,795 |
| **Total assets less current liabilities** | | **1,795,415** | 1,611,129 |
| **Non-current liability** | | | |
| Bank borrowings | 31 | **167,020** | 95,931 |
| | | **1,628,395** | 1,515,198 |
| **Capital and reserves** | | | |
| Share capital | 33 | **192,230** | 192,180 |
| Reserves | 34 | **1,436,165** | 1,323,018 |
| | | **1,628,395** | 1,515,198 |

*DIRECTOR* *DIRECTOR*

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2010

| | Share capital HK$'000 | Share premium HK$'000 | Capital reserve HK$'000 *(Note i)* | Capital redemption reserve HK$'000 | Property revaluation reserve HK$'000 | Investment revaluation reserve HK$'000 | Translation reserve HK$'000 | Share option reserve HK$'000 | PRC reserve funds HK$'000 *(Note ii)* | Retained profits HK$'000 | Total HK$'000 | Equity component of share option reserve of a subsidiary HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| At 1 January 2009 | 186,774 | 984,775 | 23,990 | 2,724 | 9,901 | 16,488 | 172,919 | 27,242 | 49,704 | 361,328 | 1,835,845 | 840 | 1,836,685 |
| Profit for the year | – | – | – | – | – | – | – | – | – | 171,314 | 171,314 | – | 171,314 |
| Exchange differences arising on translation | | | | | | | | | | | | | |
| – group entities | – | – | – | – | – | – | 6,532 | – | – | – | 6,532 | – | 6,532 |
| – a jointly controlled entity | – | – | – | – | – | – | (1) | – | – | – | (1) | – | (1) |
| Gain on fair value change of listed available-for-sale investments | – | – | – | – | – | 57,591 | – | – | – | – | 57,591 | – | 57,591 |
| Reclassified from other comprehensive income upon partial disposal of listed available-for-sale investments | – | – | – | – | – | (30,827) | – | – | – | – | (30,827) | – | (30,827) |
| Surplus on revaluation of properties | – | – | – | – | 4,952 | – | – | – | – | – | 4,952 | – | 4,952 |
| Recognition of deferred tax liability on revaluation of properties | – | – | – | – | (1,016) | – | – | – | – | – | (1,016) | – | (1,016) |
| Total comprehensive income for the year | – | – | – | – | 3,936 | 26,764 | 6,531 | – | – | 171,314 | 208,545 | – | 208,545 |
| Share issued at premium | 5,406 | 11,316 | – | – | – | – | – | – | – | – | 16,722 | – | 16,722 |
| Share issue expenses | – | (11) | – | – | – | – | – | – | – | – | (11) | – | (11) |
| Reclassified from other comprehensive income upon disposal of a jointly controlled entity | – | – | – | – | – | – | (9,809) | – | – | 9,809 | – | – | – |
| Recognition of equity settled share-based payments | – | – | – | – | – | – | – | 4,725 | – | – | 4,725 | – | 4,725 |
| Transfer | – | – | – | – | – | – | – | – | (10,889) | 10,889 | – | – | – |
| At 31 December 2009 | 192,180 | 996,080 | 23,990 | 2,724 | 13,837 | 43,252 | 169,641 | 31,967 | 38,815 | 553,340 | 2,065,826 | 840 | 2,066,666 |

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2010

| | Share capital HK$'000 | Share premium HK$'000 | Capital reserve HK$'000 *(Note i)* | Capital redemption reserve HK$'000 | Property revaluation reserve HK$'000 | Investment revaluation reserve HK$'000 | Translation reserve HK$'000 | Share option reserve HK$'000 | PRC reserve funds HK$'000 *(Note ii)* | Retained profits HK$'000 | Total HK$'000 | Equity component of share option reserve of a subsidiary HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| At 1 January 2010 | 192,180 | 996,080 | 23,990 | 2,724 | 13,837 | 43,252 | 169,641 | 31,967 | 38,815 | 553,340 | 2,065,826 | 840 | 2,066,666 |
| Profit for the year | – | – | – | – | – | – | – | – | – | 200,441 | 200,441 | – | 200,441 |
| Exchange differences arising on translation of group entities | – | – | – | – | – | – | 70,560 | – | – | – | 70,560 | – | 70,560 |
| Loss on fair value change of listed available-for-sale investments | – | – | – | – | – | (13,379) | – | – | – | – | (13,379) | – | (13,379) |
| Reclassified from other comprehensive income upon disposal of listed available-for-sale investments | – | – | – | – | – | (29,873) | – | – | – | – | (29,873) | – | (29,873) |
| Surplus on revaluation of properties | – | – | – | – | 3,903 | – | – | – | – | – | 3,903 | – | 3,903 |
| Recognition of deferred tax liability on revaluation of properties | – | – | – | – | (718) | – | – | – | – | – | (718) | – | (718) |
| Total comprehensive income (expense) for the year | – | – | – | – | 3,185 | (43,252) | 70,560 | – | – | 200,441 | 230,934 | – | 230,934 |
| Share issued at premium | 50 | 320 | – | – | – | – | – | – | – | – | 370 | – | 370 |
| Recognition of equity settled share-based payments | – | – | – | – | – | – | – | 2,883 | – | – | 2,883 | – | 2,883 |
| Cancellation of share options | – | – | – | – | – | – | – | (187) | – | 187 | – | – | – |
| Dividend paid | – | – | – | – | – | – | – | – | – | (48,045) | (48,045) | – | (48,045) |
| At 31 December 2010 | 192,230 | 996,400 | 23,990 | 2,724 | 17,022 | – | 240,201 | 34,663 | 38,815 | 705,923 | 2,251,968 | 840 | 2,252,808 |

*Notes:*

*i.* The capital reserve represented the benefit of acquiring a shareholder's loan from a previous shareholder upon the acquisition of a subsidiary in previous years.

*ii.* In accordance with the articles of association of the subsidiaries, and jointly controlled entity registered or incorporated in the People's Republic of China (the "PRC") and relevant PRC laws and regulations, these subsidiaries and jointly controlled entity are required to transfer at least 10% of their profit after taxation, which is determined in accordance with the PRC accounting rules and regulations, to a statutory reserve fund (including the general reserve fund and enterprise expansion fund, where appropriate). Transfer to this statutory reserve fund is subject to the approval of the respective board of directors, and is discretionary when the balance of such fund has reached 50% of the registered capital of the respective company. Statutory reserve fund can only be used to offset accumulated losses or to increase capital.

# CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2010

| | 2010<br>HK$'000 | 2009<br>HK$'000 |
|---|---|---|
| OPERATING ACTIVITIES | | |
| Profit before tax | **258,922** | 208,022 |
| Adjustments for: | | |
| Depreciation of property, plant and equipment | **118,739** | 64,899 |
| Amortisation of prepaid lease payments | **5,156** | 3,434 |
| Increase in fair value of investment properties | **(5,097)** | (3,997) |
| Reversal of revaluation deficit of leasehold land and buildings | **(655)** | (442) |
| Loss on disposal of property, plant and equipment, net | **346** | 152 |
| Interest income | **(2,253)** | (1,653) |
| Allowance for (reversal of allowance for) inventories, net | **6,869** | (6,734) |
| (Reversal of allowance for) allowance for bad and doubtful debts, net | **(1,870)** | 4,060 |
| Finance costs | **32,559** | 6,624 |
| Share of result of a jointly controlled entity | **–** | 1,461 |
| Foreign exchange (gain) loss, net | **(6,689)** | 3,781 |
| Gain on disposal of listed available-for-sale investments | **(30,084)** | (30,999) |
| Gain on disposal of a jointly controlled entity | **–** | (20,465) |
| Dividend income from listed available-for-sale investments | **(263)** | (591) |
| Share-based payments expenses | **2,883** | 4,725 |
| Operating cash flows before movements in working capital | **378,563** | 232,277 |
| (Increase) decrease in inventories | **(143,204)** | 28,367 |
| Increase in trade and bills receivables | **(148,914)** | (341,387) |
| Increase in prepayments, deposits and other receivables | **(37,373)** | (36,994) |
| Decrease in amounts due from related companies | **277** | 672 |
| Decrease in amount due to a jointly controlled entity | **–** | (4,189) |
| Decrease in trade payables | **(5,513)** | (29,224) |
| Increase in other payables and accruals | **13,769** | 19,105 |
| Decrease in derivative financial instruments | **–** | (1,396) |
| Cash generated from (used in) operations | **57,605** | (132,769) |
| Interest received | **2,253** | 1,653 |
| Interest paid | **(34,261)** | (7,193) |
| Hong Kong profits tax refunded | **–** | 1,319 |
| PRC Enterprise Income Tax paid | **(20,929)** | (11,828) |
| PRC Enterprise Income Tax refunded | **–** | 7,001 |
| NET CASH FROM (USED IN) OPERATING ACTIVITIES | **4,668** | (141,817) |

# CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2010

| | 2010<br>HK$'000 | 2009<br>HK$'000 |
|---|---|---|
| INVESTING ACTIVITIES | | |
| Purchase of property, plant and equipment | **(339,599)** | (520,893) |
| Deposit paid for the acquisition of property, plant and equipment | **(107,878)** | (79,000) |
| Additions to prepaid lease payments | **(82,522)** | (67,985) |
| Decrease (increase) in restricted bank deposits | **49,448** | (46,448) |
| Proceeds from disposal of listed available-for-sale investments | **37,370** | 36,443 |
| Dividend received from listed available-for-sale investments | **263** | 591 |
| Proceeds from disposal of property, plant and equipment | **39** | 195 |
| Proceeds from disposal of a jointly controlled entity | **–** | 45,189 |
| Entrusted loan repaid | **–** | 17,009 |
| NET CASH USED IN INVESTING ACTIVITIES | **(442,879)** | (614,899) |
| FINANCING ACTIVITIES | | |
| New bank loans raised | **767,795** | 731,689 |
| Bank advances for discounted bills | **353,891** | 223,336 |
| Trust receipt loans raised | **210,890** | 88,869 |
| Proceeds on issue of ordinary shares | **370** | 16,722 |
| Repayment of bank advances for discounted bills | **(392,732)** | (201,105) |
| Repayment of bank loans | **(332,354)** | (89,269) |
| Repayment of trust receipt loans | **(201,320)** | (70,556) |
| Dividend paid | **(48,045)** | – |
| Share issue expenses paid | **–** | (11) |
| NET CASH FROM FINANCING ACTIVITIES | **358,495** | 699,675 |
| NET DECREASE IN CASH AND CASH EQUIVALENTS | **(79,716)** | (57,041) |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR | **342,895** | 399,322 |
| EFFECT OF FOREIGN EXCHANGE RATE CHANGES | **13,269** | 614 |
| CASH AND CASH EQUIVALENTS AT END OF THE YEAR, Bank balances and cash | **276,448** | 342,895 |

## 1. GENERAL

The Company is a public limited company incorporated in Hong Kong and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The Company's substantial shareholder is Shougang Holding (Hong Kong) Limited ("Shougang HK"), which together with its subsidiaries and associates, held approximately 46% equity interest of the Company as at 31 December 2010, and the ultimate holding company of Shougang HK is Shougang Corporation, a company established in the People's Republic of China (the "PRC"). The addresses of the registered office and principal place of business of the Company are disclosed in the "Corporate Information" section of the annual report.

The functional currency of the Company is Renminbi ("RMB"). For the convenience of the consolidated financial statements users as the Company is listed in Hong Kong, the results and financial position of the Group are expressed in Hong Kong dollars ("HKD"), the presentation currency for the consolidated financial statements.

The principal activity of the Company is investment holding. The Group is principally engaged in the manufacturing of steel cords and processing and trading of copper and brass products.

## 2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

In the current year, the Group has applied the following new and revised Standards, Amendments and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

| | |
|---|---|
| HKFRS 2 (Amendments) | Group Cash-settled Share-based Payment Transactions |
| HKFRS 3 (as revised in 2008) | Business Combinations |
| HKAS 27 (as revised in 2008) | Consolidated and Separate Financial Statements |
| HKAS 39 (Amendments) | Eligible Hedged Items |
| HKFRSs (Amendments) | Improvements to HKFRSs issued in 2009 |
| HKFRSs (Amendments) | Amendments to HKFRS 5 as part of Improvements to HKFRSs issued in 2008 |
| HK(IFRIC) – Int 17 | Distributions of Non-cash Assets to Owners |
| HK – Int 5 | Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause |

## 2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (continued)

Except as described below, the application of the new and revised Standards, Amendments and Interpretations in the current year has had no material effect on the amounts reported in these consolidated financial statements and/or disclosures set out in these consolidated financial statements.

### Amendments to HKAS 17 Leases

As part of *Improvements to HKFRSs* issued in 2009, Hong Kong Accounting Standard 17 *Leases* ("HKAS 17") has been amended in relation to the classification of leasehold land. Before the amendments to HKAS 17, the Group was required to classify leasehold land as operating leases and to present leasehold land as prepaid lease payments in the consolidated statement of financial position. The amendments to HKAS 17 have removed such a requirement. The amendments require that the classification of leasehold land should be based on the general principles set out in HKAS 17, that is, whether or not substantially all the risks and rewards incidental to ownership of a leased asset have been transferred to the lessee.

In accordance with the transitional provisions set out in the amendments to HKAS 17, the Group reassessed the classification of unexpired leasehold land as at 1 January 2010 based on information that existed at the inception of the leases. As at 1 January 2009, 31 December 2009 and 31 December 2010, no leasehold land qualifies for finance lease classification. The application of the amendments to HKAS 17 has had no impact on the reported profit or loss for the current and prior years.

### Hong Kong Interpretation 5 Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause

Hong Kong Interpretation 5 *Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause* ("HK Int 5") clarifies that term loans that include a clause that gives the lender the unconditional right to call the loans at any time ("repayment on demand clause") should be classified by the borrower as current liabilities. The Group has applied HK Int 5 for the first time in the current year. HK Int 5 requires retrospective application.

In order to comply with the requirements set out in HK Int 5, the Group has changed its accounting policy on classification of term loans with a repayment on demand clause. In the past, the classification of such term loans was determined based on the agreed scheduled repayment dates set out in the loan agreements. Under HK Int 5, term loans with a repayment on demand clause are classified as current liabilities.

## 2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (continued)

### Hong Kong Interpretation 5 Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause (continued)

As a result, bank loans that contain a repayment on demand clause with the aggregate carrying amounts of HK$129,156,000 have been reclassified from non-current liabilities to current liabilities for both the Group and the Company as at 31 December 2009. As at 1 January 2009, the Group and the Company had no bank loan that was repayable more than one year after the end of the reporting period but contained a repayment on demand clause, accordingly, there was no effect on the financial position of the Group and the Company as at 1 January 2009. Therefore, the consolidated statement of financial position of the Group and the statement of financial position of the Company as at 1 January 2009 are not presented as there was no restatement on that date. As at 31 December 2010, bank loans (that are repayable more than one year after the end of the reporting period but contain a repayment on demand clause) with the aggregate carrying amount of HK$327,075,000 have been classified as current liabilities for both the Group and the Company. The application of HK Int 5 has had no impact on the reported profit or loss for the current and prior years.

Such term loans have been presented in the earliest time band in the maturity analysis for financial liabilities (see note 36 for details).

The effects of the above changes in accounting policies on the financial position of the Group as at 31 December 2009 are as follows:

| | As at 31 December 2009 (originally stated) HK$'000 | Adjustments HK$'000 | As at 31 December 2009 (restated) HK$'000 |
|---|---|---|---|
| Bank borrowings – current | 350,108 | 129,156 | 479,264 |
| Bank borrowings – non-current | 446,556 | (129,156) | 317,400 |
| Total effects on net assets | 796,664 | – | 796,664 |
| Total effects on equity | – | – | – |

## 2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (continued)

**Hong Kong Interpretation 5 Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause (continued)**

The effects of the above changes in accounting policies on the financial position of the Company as at 31 December 2009 are as follows:

| | As at 31 December 2009 (originally stated) HK$'000 | Adjustments HK$'000 | As at 31 December 2009 (restated) HK$'000 |
|---|---|---|---|
| Bank borrowings – current | 23,836 | 129,156 | 152,992 |
| Bank borrowings – non-current | 225,087 | (129,156) | 95,931 |
| Total effects on net assets | 248,923 | – | 248,923 |
| Total effects on equity | – | – | – |

The Group has not early applied the following new and revised Standards, Amendments and Interpretations that have been issued but are not yet effective:

| | |
|---|---|
| HKFRSs (Amendments) | Improvements to HKFRSs issued in 2010[1] |
| HKFRS 7 (Amendments) | Disclosures – Transfers of Financial Assets[3] |
| HKFRS 9 | Financial Instruments[4] |
| HKAS 12 (Amendments) | Deferred Tax: Recovery of Underlying Assets[5] |
| HKAS 24 (as revised in 2009) | Related Party Disclosures[6] |
| HKAS 32 (Amendments) | Classification of Rights Issues[7] |
| HK (IFRIC) – Int 14 (Amendments) | Prepayments of a Minimum Funding Requirement[6] |
| HK (IFRIC) – Int 19 | Extinguishing Financial Liabilities with Equity Instruments[2] |

1 Effective for annual periods beginning on or after 1 July 2010 or 1 January 2011, as appropriate.
2 Effective for annual periods beginning on or after 1 July 2010.
3 Effective for annual periods beginning on or after 1 July 2011.
4 Effective for annual periods beginning on or after 1 January 2013.
5 Effective for annual periods beginning on or after 1 January 2012.
6 Effective for annual periods beginning on or after 1 January 2011.
7 Effective for annual periods beginning on or after 1 February 2010.

## 2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (continued)

HKFRS 9 *Financial Instruments* (as issued in November 2009) introduces new requirements for the classification and measurement of financial assets. HKFRS 9 *Financial Instruments* (as revised in November 2010) adds requirements for financial liabilities and for derecognition.

- Under HKFRS 9, all recognised financial assets that are within the scope of HKAS 39 *Financial Instruments: Recognition and Measurement* are subsequently measured at either amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent accounting periods.

- In relation to financial liabilities, the significant change relates to financial liabilities that are designated as at fair value through profit or loss. Specifically, under HKFRS 9, for financial liabilities that are designated as at fair value through profit or loss, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the presentation of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Under HKAS 39, the entire amount of the change in the fair value of the financial liability designated as at fair value through profit or loss is presented in profit or loss.

HKFRS 9 is effective for annual periods beginning on or after 1 January 2013, with earlier application permitted.

The directors anticipate that HKFRS 9 that will be adopted in the Group's consolidated financial statements for financial year ending 31 December 2013. Based on the Group's financial assets and financial liabilities as at 31 December 2010, the application of the new Standard may affect the classification and measurement of the Group's financial assets but not on the Group's financial liabilities.

## 2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (continued)

The amendments to HKAS 12 titled *Deferred Tax: Recovery of Underlying Assets* mainly deal with the measurement of deferred tax for investment properties that are measured using the fair value model in accordance with HKAS 40 *Investment Property*. Based on the amendments, for the purposes of measuring deferred tax liabilities and deferred tax assets for investment properties measured using the fair value model, the carrying amounts of the investment properties are presumed to be recovered through sale, unless the presumption is rebutted in certain circumstances. The directors are still in the process of assessing the impact of the amendments to the Group.

The directors anticipate that the application of the other new and revised Standards, Amendments and Interpretations will have no material impact on the consolidated financial statements.

## 3. SIGNIFICANT ACCOUNTING POLICIES

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

The consolidated financial statements have been prepared on the historical cost basis except for certain properties and financial instruments that are measured at revalued amounts or fair values, as explained in the accounting policies set out below. Historical cost is generally based on the fair value of the consideration given in exchange for goods.

The principal accounting policies are set out below.

### Basis of consolidation

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

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

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Basis of consolidation (continued)

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

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

### Goodwill

Goodwill arising on an acquisition of a business is carried at cost less any accumulated impairment losses, if any, and is presented separately in the consolidated statement of financial position.

For the purposes of impairment testing, goodwill is allocated to each of the cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently whenever there is indication that the unit may be impaired. For goodwill arising on an acquisition in a reporting period, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that reporting period. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit 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 profit or loss in the consolidated income statement. An impairment loss recognised for goodwill is not reversed in subsequent periods.

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

### Investments in subsidiaries

Investments in subsidiaries are stated at cost less subsequent accumulated impairment losses, if any, in the Company's statement of financial position.

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Jointly controlled entities

Joint venture arrangements that involve the establishment of a separate entity in which venturers have joint control over the economic activity of the entity are referred to as jointly controlled entities.

The results and assets and liabilities of jointly controlled entities are incorporated in the consolidated financial statements using the equity method of accounting, except when the investment is classified as held for sale, in which case it is accounted for under HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*. The results and assets and liabilities of jointly controlled entities using the equity method of accounting will cease upon the reclassification of interests in jointly controlled entities into non-current assets held for sale. Under the equity method, investments in jointly controlled entities are carried in the consolidated statement of financial position at cost as adjusted for post-acquisition changes in the Group's share of profit or loss and other comprehensive income of the jointly controlled entities, less any identified impairment loss. When the Group's share of losses of a jointly controlled entity equals or exceeds its interest in that jointly controlled entity (which includes any long-term interests that, in substance, form part of the Group's net investment in the jointly controlled entity), the Group discontinues recognising its share of further losses. An additional share of losses is provided for and a liability is recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that jointly controlled entity.

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 reassessment, is recognised immediately in profit or loss.

When a group entity transacts with a jointly controlled entity of the Group, profits or losses are eliminated to the extent of the Group's interest in the jointly controlled entity.

### Investment properties

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

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

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Investment properties (continued)

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and 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 profit or loss in the period in which the item is derecognised.

### Property, plant and equipment

Property, plant and equipment including land and building held for use in the production or supply of goods or services, or for administrative purposes (other than properties under construction as described below) are stated at cost or fair value less subsequent accumulated depreciation and accumulated impairment loss, if any.

Depreciation is recognised so as to write off the cost or fair value of items of property, plant and equipment other than properties under construction less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

Properties in the course of construction for production, supply or administrative purposes are carried at cost, less any recognised impairment loss. Costs include professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Such properties are classified to the appropriate categories 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.

If an item of property, plant and equipment becomes an investment property because its use has changed as evidenced by end of owner-occupation, any difference between the carrying amount and the fair value of that item at the date of transfer is recognised in other comprehensive income and accumulated in property revaluation reserve. On the subsequent sale or retirement of the asset, the relevant revaluation reserve will be transferred directly to retained profits.

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 the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Club memberships

Club memberships are stated at cost less subsequent accumulated impairment losses, if any.

### Research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred. Expenditure on development activities is recognised as an expense unless it satisfied the capitalisation criteria.

### Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using weighted average method.

### Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets are recognised as a deduction from the carrying amount of the relevant asset in the consolidated statement of financial position and transferred to profit or loss over the useful lives of the related assets. Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

### 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 end of the reporting period.

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Taxation (continued)

Deferred tax is recognised on temporary 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. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those 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 associated with investments in subsidiaries, 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. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

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

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. Deferred tax is recognised in profit or loss, except when it relates to items that are recognised in other comprehensive income or directly in equity, in which case the deferred tax is also recognised in other comprehensive income or directly in equity respectively.

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Revenue recognition

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

Revenue from sales of goods is recognised when the goods are delivered and title has been passed, less returns and trade discounts.

Service income is recognised when services are provided.

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably. 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 on initial recognition.

Dividend income from investments is recognised when the shareholders' rights to receive payment have been established (provided that it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably).

### 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 profit or loss on a straight-line basis over the term of the relevant lease.

#### *The Group as lessee*

Operating lease payments are recognised as an expense on a straight-line basis over the lease term.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis.

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Leasing (continued)

***Leasehold land and buildings***

When a lease includes both land and building elements, the Group assesses the classification of each element as a finance or an operating lease separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Group unless it is clear that both elements are operating leases, in which case the entire lease is classified as an operating lease. Specifically, the minimum lease payments (including any lump-sum upfront payments) are allocated between the land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element of the lease at the inception of the lease.

For leasehold land classified as operating lease, whilst the building element is classified as finance lease, interest in leasehold land is presented as "prepaid lease payments" in the consolidated statement of financial position and is amortised over the lease term on a straight-line basis. When the lease payments cannot be allocated reliably between the land and building elements, the entire lease is generally classified as a finance lease and accounted for as property, plant and equipment.

### 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 the respective 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 the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for exchange differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in other comprehensive income, in which cases, the exchange differences are also recognised directly in other comprehensive income.

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Foreign currencies (continued)

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the group entities are translated from functional currency to the presentation currency of the Company (i.e. Hong Kong dollars) at the rate of exchange prevailing at the end of the reporting period, 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 in other comprehensive income and accumulated in equity (the translation reserve).

### Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets until such time as 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 state-managed retirement benefit schemes and the Mandatory Provident Fund Scheme are charged as an expense when employees have rendered services entitling them to the contributions.

### Financial instruments

Financial assets and financial liabilities are recognised in the consolidated statement of financial position 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 are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Financial instruments (continued)

#### *Financial assets*

The Group's financial assets are classified into one of the two categories, including 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 (including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Interest income is recognised on an effective interest basis for debt instruments.

*Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including advances to subsidiaries, trade receivables, bills receivable, other receivables, amounts due from related companies, restricted bank deposits and bank balances) are carried at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment loss on financial assets below).

*Available-for-sale financial assets*

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

Available-for-sale financial assets are measured at fair value at the end of the reporting period. Changes in fair value are recognised in other comprehensive income and accumulated in investment revaluation reserve, until the financial asset is disposed of or is determined to be impaired, at which time, the cumulative gain or loss previously accumulated in the investment revaluation reserve is reclassified to profit or loss (see accounting policy on impairment loss on financial assets below).

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

**Financial instruments (continued)**

***Effective interest method (continued)***

*Available-for-sale financial assets (continued)*

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 the end of the reporting period (see accounting policy on impairment loss on financial assets below).

***Impairment of financial assets***

Financial assets are assessed for indicators of impairment at the end of the reporting period. Financial assets are impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial assets, the estimated future cash flows of the financial assets have been affected.

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
- breach of contract, such as default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation; or
- the disappearance of an active market for that financial asset because of financial difficulties.

For certain categories of financial asset, such as trade receivables, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 90 days, observable changes in national or local economic conditions that correlate with default on receivables.

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Financial instruments (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 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 loss 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 other comprehensive income and accumulated in investment revaluation reserve.

***Financial liabilities and equity instruments***

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

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities.

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

**Financial instruments (continued)**

***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.

*Financial liabilities*

Financial liabilities (including trade payables, other payables and bank borrowings) are subsequently measured at amortised cost, using the effective interest method.

*Equity instruments*

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

*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 designated 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 contract 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*.

*Derivative financial instruments*

Derivatives of the Group do not qualify for hedge accounting thus they are deemed as financial assets held for trading or financial liabilities held for trading. 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 the end of the reporting period. 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.

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Financial instruments (continued)

***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 in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss. If the Group retains substantially all the risks and rewards of ownership of a transferable asset, the Group continues to recognise the financial asset and recognise a collateralised borrowing for proceeds received.

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

### Equity settled share-based payment transactions

***Share options granted to employees and other eligible participants 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, or recognised as an expense in full at the grant date when the share option granted vest immediately, as applicable, with a corresponding increase in equity (share option reserve).

At the end of the reporting period, the Group revises its estimates of the number of options that are expected to ultimately vest. The impact of the revision of the estimates during the vesting period, if any, is recognised in profit or loss, with a corresponding adjustment to share option 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 after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share option reserve will be transferred to retained profits.

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Equity settled share-based payment transactions (continued)

***Share options granted to employees and other eligible participants on or before 7 November 2002 or granted after 7 November 2002 and vested before 1 January 2005***

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 profit or loss 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.

### Impairment losses on tangible assets

At the end of the reporting period, the Group reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately, unless the relevant asset is carried at a revalued amount under another standard, in which case the impairment loss is treated as a revaluation decrease under that standard.

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

## 4. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 3, the directors of the Company are required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

### Estimated impairment of trade receivable

When 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. As at 31 December 2010, the carrying amount of trade receivables was approximately HK$495,156,000 (2009: HK$322,700,000) (net of allowance for bad and doubtful debts of approximately HK$2,288,000 (2009: HK$4,551,000)).

### Depreciation

At 31 December 2010, the Group's carrying value of property, plant and equipment was approximately HK$1,745,586,000 (2009: HK$1,320,715,000). Depreciation is recognised by the Group so as to write off the cost of items of property, plant and equipment less their residual values over the estimated useful lives of five to twenty-five years, using the straight-line method commencing from the date the property, plant and equipment are placed into productive use. The estimated useful lives and the 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 that property, plant and equipment.

## 5. REVENUE

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

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

| | **2010** | 2009 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Sales of goods | | |
| Manufacturing of steel cords | **1,255,043** | 914,031 |
| Processing and trading of copper and brass products | **404,365** | 171,061 |
| Trading of other metal products | **3,478** | 13,292 |
| | **1,662,886** | 1,098,384 |
| Rental income | **598** | 888 |
| | **1,663,484** | 1,099,272 |

## 6. SEGMENT INFORMATION

Information reported to the Company's managing director, being the chief operating decision maker ("CODM"), for the purposes of resource allocation and assessment of segment performance focuses on types of goods delivered.

Specifically, the Group's operating and reportable segments under HKFRS 8 are as follows:

i) The steel cord segment comprising the manufacturing of steel cords; and

ii) The copper and brass products segment comprising the processing and trading of copper and brass products.

## 6. SEGMENT INFORMATION (continued)

### (a) Segment revenues and results

The following is an analysis of the Group's revenue and results by operating segment:

**For the year ended 31 December 2010**

| | Steel cord HK$'000 | Copper and brass products HK$'000 | Segment total HK$'000 |
|---|---|---|---|
| Segment revenue | | | |
| External sales | 1,255,043 | 404,365 | 1,659,408 |
| Inter-segment sales *(Note)* | – | 17,041 | 17,041 |
| Total | 1,255,043 | 421,406 | 1,676,449 |
| Segment result | 276,069 | 8,786 | 284,855 |

*Note:* Inter-segment sales are made based on prevailing market price.

**Reconciliation of revenue**

| | HK$'000 |
|---|---|
| Total revenue for operating segments | 1,676,449 |
| Rental income and revenue for trading of other metal products | 4,076 |
| Elimination of inter-segment sales | (17,041) |
| Group's revenue | 1,663,484 |

## 6. SEGMENT INFORMATION (continued)

### (a) Segment revenues and results (continued)

**For the year ended 31 December 2010 (continued)**

**Reconciliation of profit before tax**

| | HK$'000 |
|---|---|
| Total profit for operating segments | **284,855** |
| Profit arising from trading of other metal products and property investment | **4,969** |
| Unallocated amounts | |
| Unallocated income | **16,595** |
| Unallocated expenses | **(45,022)** |
| Unallocated finance costs | **(32,559)** |
| Gain on disposal of listed available-for-sale investments | **30,084** |
| Profit before tax | **258,922** |

For the year ended 31 December 2009

| | Steel cord HK$'000 | Copper and brass products HK$'000 | Segment total HK$'000 |
|---|---|---|---|
| Segment revenue | | | |
| External sales | 914,031 | 171,061 | 1,085,092 |
| Inter-segment sales *(Note)* | – | 10,155 | 10,155 |
| Total | 914,031 | 181,216 | 1,095,247 |
| Segment result | 206,289 | 4,200 | 210,489 |

*Note:* Inter-segment sales are made based on prevailing market price.

## 6. SEGMENT INFORMATION (continued)

### (a) Segment revenues and results (continued)

For the year ended 31 December 2009 (continued)

**Reconciliation of revenue**

| | HK$'000 |
|---|---|
| Total revenue for operating segments | 1,095,247 |
| Rental income and revenue for trading of other metal products | 14,180 |
| Elimination of inter-segment sales | (10,155) |
| Group's revenue | 1,099,272 |

**Reconciliation of profit before tax**

| | HK$'000 |
|---|---|
| Total profit for operating segments | 210,489 |
| Profit arising from trading of other metal products and property investment | 3,983 |
| Unallocated amounts | |
| Unallocated income | 3,869 |
| Unallocated expenses | (53,698) |
| Unallocated finance costs | (6,624) |
| Gain on disposal of listed available-for-sale investments | 30,999 |
| Gain on disposal of a jointly controlled entity | 20,465 |
| Share of result of a jointly controlled entity | (1,461) |
| Profit before tax | 208,022 |

The accounting policies of the operating segments are the same as the Group's accounting policies described in note 3. Segment profit represents the profit earned by each segment without allocation of central administration costs and the emoluments of directors of the Company, share of result of a jointly controlled entity, gain on disposal of listed available-for-sale investments, gain on disposal of a jointly controlled entity, interest income on bank deposits, dividend income from listed available-for-sale investments, realised gain on change in fair value of leveraged foreign exchange contract, commission income and finance costs. This is the measure reported to the CODM for the purposes of resource allocation and performance assessment.

# 6. SEGMENT INFORMATION (continued)

## (b) Segment assets and liabilities

The following is an analysis of the Group's assets and liabilities by operating segment:

**Segment assets**

| | **2010** | 2009 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Steel cord | **3,317,592** | 2,427,546 |
| Copper and brass products | **129,525** | 92,045 |
| Total segment assets | **3,447,117** | 2,519,591 |
| Bank balances and cash | **276,448** | 342,895 |
| Unallocated assets | **43,709** | 175,626 |
| Consolidated assets | **3,767,274** | 3,038,112 |

**Segment liabilities**

| | **2010** | 2009 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Steel cord | **208,935** | 112,184 |
| Copper and brass products | **3,217** | 4,666 |
| Total segment liabilities | **212,152** | 116,850 |
| Bank borrowings | **1,215,255** | 796,664 |
| Unallocated liabilities | **87,059** | 57,932 |
| Consolidated liabilities | **1,514,466** | 971,446 |

For the purpose of monitoring segment performances and allocating resources between segments:

- all assets are allocated to operating segments other than certain property, plant and equipment, investment properties, interests in a jointly controlled entity, club membership, certain inventories, certain trade receivables, certain prepayments, deposits and other receivables, tax recoverable, restricted bank deposits, bank balances and cash and available-for-sale investments.

## 6. SEGMENT INFORMATION (continued)

### (b) Segment assets and liabilities (continued)

- all liabilities are allocated to operating segments other than tax payables, bank borrowings and deferred tax liabilities.

### (c) Other segment information

**For the year ended 31 December 2010**

| | Steel cord HK$'000 | Copper and brass products HK$'000 | Segment total HK$'000 |
|---|---|---|---|
| **Amounts included in the measure of segment assets or segment profit or loss:** | | | |
| Property, plant and equipment | 1,723,134 | 10,203 | 1,733,337 |
| Capital expenditure | 492,504 | 516 | 493,020 |
| Depreciation | 116,749 | 873 | 117,622 |
| Reversal of allowance for bad and doubtful debts | (1,861) | (9) | (1,870) |
| Reversal of revaluation deficit of leasehold land and buildings | – | 655 | 655 |
| Loss on disposal of property, plant and equipment | 346 | – | 346 |
| **Amount regularly provided to CODM but not included in the measure of segment profit or loss or segment assets:** | | | |
| Income tax expenses | 57,034 | 678 | 57,712 |

## 6. SEGMENT INFORMATION (continued)

### (c) Other segment information (continued)

For the year ended 31 December 2009

| | Steel cord HK$'000 | Copper and brass products HK$'000 | Segment total HK$'000 |
|---|---|---|---|
| **Amounts included in the measure of segment assets or segment profit or loss:** | | | |
| Property, plant and equipment | 1,300,101 | 9,842 | 1,309,943 |
| Capital expenditure | 533,821 | 420 | 534,241 |
| Depreciation | 62,985 | 789 | 63,774 |
| Allowance for bad and doubtful debts | 3,941 | 119 | 4,060 |
| Reversal of revaluation deficit of leasehold land and buildings | – | 442 | 442 |
| Loss on disposal of property, plant and equipment | 97 | 14 | 111 |
| **Amount regularly provided to CODM but not included in the measure of segment profit or loss or segment assets:** | | | |
| Income tax expenses | 33,337 | 156 | 33,493 |

### (d) Geographical information

The Group's operations, non-current assets and substantially all of the customers are located in the PRC (including Hong Kong) which is the country of domicile of the relevant group entities. Accordingly, no further analysis of revenue from external customers and non-current assets by geographical location is presented.

## 6. SEGMENT INFORMATION (continued)

### (e) Information about major customers

Revenues from customers of the corresponding years contributing over 10% of the total sales of the Group are as follows:

| | **2010** | 2009 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Customer A[1] | **249,223** | 180,203 |
| Customer B[1] | **Not applicable[2]** | 114,588 |

[1] Revenue from steel cord segment.
[2] The revenue did not contribute over 10% of the total sales of the Group.

## 7. INVESTMENT AND OTHER INCOME

| | **THE GROUP** | |
|---|---|---|
| | **2010** | 2009 |
| | **HK$'000** | HK$'000 |
| **Investment income** | | |
| Interest income on bank deposits | **2,253** | 1,653 |
| Dividend income from listed available-for-sale investments | **263** | 591 |
| | **2,516** | 2,244 |
| **Other income** | | |
| Government grants *(note 44)* | **81,472** | 96,101 |
| Sales of scrap and other materials | **6,342** | – |
| Subcontracting income | **433** | – |
| Commission income | **–** | 1,496 |
| | **88,247** | 97,597 |
| | **90,763** | 99,841 |

## 8. OTHER GAINS AND LOSSES

| | THE GROUP | |
|---|---|---|
| | **2010** | 2009 |
| | **HK$'000** | HK$'000 |
| Gain on disposal of listed available-for-sale investments *(note 22)* | **30,084** | 30,999 |
| Foreign exchange gains (losses), net | **19,904** | (4,574) |
| Increase in fair value of investment properties *(note 15)* | **5,097** | 3,997 |
| Reversal of allowance for (allowance for) bad and doubtful debts | **1,870** | (4,060) |
| Reversal of revaluation deficit of leasehold land and buildings | **655** | 442 |
| Loss on disposal of property, plant and equipment | **(346)** | (152) |
| Gain on disposal of a jointly controlled entity | **–** | 20,465 |
| Realised gain on change in fair value of leveraged foreign exchange contract | **–** | 1,397 |
| Others | **920** | 716 |
| | **58,184** | 49,230 |

## 9. FINANCE COSTS

| | THE GROUP | |
|---|---|---|
| | **2010** | 2009 |
| | **HK$'000** | HK$'000 |
| Interest expenses on bank borrowings wholly repayable within five years | **34,261** | 7,193 |
| Amortisation of borrowing costs | **1,860** | 702 |
| Total borrowing costs | **36,121** | 7,895 |
| Less: amounts capitalised | **(3,562)** | (1,271) |
| | **32,559** | 6,624 |

Borrowing costs capitalised during the year arose on general borrowing pool and were calculated by applying a capitalisation rate of 3.11% (2009: 3.20%) per annum to expenditure on qualifying assets.

## 10. INCOME TAX EXPENSES

| | THE GROUP | |
|---|---|---|
| | **2010** | 2009 |
| | **HK$'000** | HK$'000 |
| Current tax: | | |
| Hong Kong | **95** | – |
| PRC Enterprise Income Tax | **45,321** | 34,551 |
| | **45,416** | 34,551 |
| Overprovision in prior years: | | |
| Hong Kong | **–** | (26) |
| PRC Enterprise Income Tax | **(78)** | (5,665) |
| | **(78)** | (5,691) |
| Deferred taxation *(note 32)*: | | |
| Current year | **13,143** | 7,848 |
| | **58,481** | 36,708 |

## 10. INCOME TAX EXPENSES (continued)

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for current year. For the year ended 31 December 2009, no provision for Hong Kong Profits Tax has been made in the consolidated financial statements as the Group has no assessable profit arising in Hong Kong.

On 16 March 2007, the PRC promulgated the Law of the PRC on Enterprise Income Tax (the "New Law") by Order No. 63 of the President of the PRC. On 6 December 2007, the State Council of the PRC issued Implementation Regulation of the New Law (the "Implementation Regulation"). Under the New Law and Implementation Regulation, the Company's major subsidiaries in the PRC are subject to a respective tax rate of 18%, 20%, 22%, 24% and 25% for the years ending 31 December 2008, 2009, 2010, 2011 and 2012 onwards, respectively. The tax rate for these subsidiaries was 22% for the year ended 31 December 2010 (2009: 20%).

In addition, according to the New Law, starting from 1 January 2008, withholding income tax would be imposed on dividends relating to profits earned in year 2008 onwards to foreign investors for the companies established in the PRC. Deferred tax has been provided in the consolidated income statement in respect of the temporary differences attributable to such incomes based on the applicable tax rates of 5% and 10% as the subsidiaries receiving the dividends are located in a region where Avoidance of Double Taxation Arrangement with the PRC exists.

## 10. INCOME TAX EXPENSES (continued)

The income tax expenses for the year can be reconciled to the profit per the consolidated income statement as follows:

| | THE GROUP 2010 HK$'000 | 2009 HK$'000 |
|---|---|---|
| Profit before tax | **258,922** | 208,022 |
| Tax at PRC Enterprise Income tax rate of 22% (2009: 20%) *(Note i)* | **56,963** | 41,604 |
| Tax effect of expenses not deductible in determining taxable profit | **9,100** | 4,476 |
| Tax effect of income not taxable in determining taxable profit | **(13,175)** | (5,814) |
| Tax effect of tax losses not recognised | **5,718** | 8,664 |
| Tax effect on utilisation of tax losses previously not recognised | **(898)** | (83) |
| Tax effect on temporary differences not recognised | **–** | 27 |
| Tax effect on utilisation of deductible temporary difference previously not recognised | **(107)** | (3,316) |
| Tax effect on share of result of a jointly controlled entity | **–** | 292 |
| Deferred tax on distributable earnings of PRC subsidiaries | **10,393** | 8,030 |
| Effect of tax exemptions and concessions granted to subsidiaries *(Note ii)* | **(10,554)** | (11,177) |
| Effect of different tax rates in other jurisdiction | **2,439** | 751 |
| Effect of different tax rates for interest income *(Note iii)* | **(758)** | (673) |
| Adjustments to deferred taxes due to varying tax rates | **(127)** | 9 |
| Overprovision in respect of prior years *(Note iv)* | **(78)** | (5,691) |
| Others | **(435)** | (391) |
| Income tax expenses for the year | **58,481** | 36,708 |

## 10. INCOME TAX EXPENSES (continued)

*Notes:*

*i.* The PRC Enterprise Income Tax rate of 22% (2009: 20%) is used as the PRC is where the operation of the Group is substantially based.

*ii.* Two subsidiaries of the Company operating in the PRC are eligible for certain tax holidays and concessions in respect of PRC enterprise income tax and are exempted from PRC enterprise income taxes for the two years commencing from their first year of operation and thereafter, these subsidiaries will be entitled to a 50% relief from PRC enterprise income tax for the following three years. During the year ended 31 December 2010, the two subsidiaries are now in the first year of entitling 50% relief from PRC Enterprise Income Tax. The PRC enterprise income tax charges are arrived at after taking into account these tax incentives.

*iii.* The withholding tax rates on interest income earned from entities in the PRC were 7% and 10%.

*iv.* For the year ended 31 December 2009, this item included an amount of approximately HK$4,784,000 (2010: Nil) tax credit on qualified plant and machineries acquired.

In addition to the amount charged or credited to the consolidated income statement, deferred tax relating to the revaluation of the Group's leasehold land and buildings has been charged/credited directly to equity.

## 11. PROFIT FOR THE YEAR

| | THE GROUP | |
|---|---|---|
| | **2010** | 2009 |
| | **HK$'000** | HK$'000 |
| Profit for the year has been arrived at after charging (crediting): | | |
| Staff costs, including directors' remuneration *(note 12)*: | | |
| – Salaries, wages and other benefits | **130,319** | 93,023 |
| – Retirement benefit scheme contributions | **12,828** | 6,589 |
| – Share-based payments | **2,883** | 4,725 |
| Total staff costs | **146,030** | 104,337 |
| Cost of inventories recognised as an expense (including allowance for inventories of HK$6,869,000 (2009: reversal of allowance for inventories of HK$6,734,000)) | **1,375,934** | 918,777 |
| Depreciation of property, plant and equipment | **118,739** | 64,899 |
| Auditor's remuneration | **1,200** | 1,560 |
| Amortisation of prepaid lease payments (included in "Cost of sales") | **5,156** | 3,434 |
| Research and development expenditure (included in "Other expenses") | **15,954** | – |
| Gross rental income from investment properties | **(598)** | (888) |
| Less: direct operating expenses for investment properties that generate rental income during the year | **119** | 123 |
| Net rental income | **(479)** | (765) |
| Share of tax of a jointly controlled entity (included in "Share of result of a jointly controlled entity") | **–** | 204 |

## 12. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

### (a) Directors' emoluments

The emoluments paid or payable to each of the eleven (2009: nine) directors were as follows:

**For the year ended 31 December 2010**

| | Li Shaofeng HK$'000 | Tong Yihui HK$'000 | Leung Shun Sang, Tony HK$'000 | Tang Cornor Kwok Kau HK$'000 | Yang Kaiyu HK$'000 | Zhang Zhong HK$'000 | Yip Kin Man, Raymond HK$'000 | Law, Yui Lun HK$'000 | Chan Chung Chun HK$'000 | Cao Zhong HK$'000 | Geert Johan Roelens HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Fees | – | – | 190 | – | – | 7 | 240 | 240 | 240 | – | 150 | 1,067 |
| Other emoluments | | | | | | | | | | | | |
| Salaries and other benefits | 3,211 | 2,010 | – | 1,980 | 1,363 | – | – | – | – | – | – | 8,564 |
| Retirement benefit scheme contributions | 371 | 182 | – | 182 | 157 | – | – | – | – | – | – | 892 |
| Discretionary bonus *(Note i)* | 4,250 | 1,650 | – | 1,650 | 1,432 | – | – | – | – | – | – | 8,982 |
| Share-based payments *(Note ii)* | – | – | – | – | 960 | 780 | – | – | – | – | – | 1,740 |
| Total emoluments | 7,832 | 3,842 | 190 | 3,812 | 3,912 | 787 | 240 | 240 | 240 | – | 150 | 21,245 |

For the year ended 31 December 2009

| | Cao Zhong HK$'000 | Li Shaofeng HK$'000 | Tong Yihui HK$'000 | Leung Shun Sang, Tony HK$'000 | Tang Cornor Kwok Kau HK$'000 | Geert Johan Roelens HK$'000 | Yip Kin Man, Raymond HK$'000 | Law, Yui Lun HK$'000 | Chan Chung Chun HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|---|---|---|---|---|
| Fees | – | – | – | 190 | – | 150 | 240 | 240 | 240 | 1,060 |
| Other emoluments | | | | | | | | | | |
| Salaries and other benefits | – | 3,208 | 1,897 | – | 1,802 | – | – | – | – | 6,907 |
| Retirement benefit scheme contributions | 1 | 318 | 165 | – | 165 | – | – | – | – | 649 |
| Discretionary bonus *(Note i)* | 5,000 | 3,527 | 1,500 | – | 1,557 | – | – | – | – | 11,584 |
| Total emoluments | 5,001 | 7,053 | 3,562 | 190 | 3,524 | 150 | 240 | 240 | 240 | 20,200 |

## 12. DIRECTORS' AND EMPLOYEES' EMOLUMENTS (continued)

### (a) Directors' emoluments (continued)

*Notes:*

*i.* The discretionary bonus is determined with reference to the Group's performance and profitability, remuneration benchmark in the industry and prevailing market condition for the years ended 31 December 2010 and 31 December 2009.

*ii.* The share-based payments are the fair values of share options vested and granted during the year ended 31 December 2010.

No director waived any emoluments in the years ended 31 December 2010 and 2009.

### (b) Employees' emoluments

Of the five individuals with the highest emoluments in the Group, four (2009: four) were directors of the Company whose emoluments are included in the disclosures above. One of the four directors is newly appointed as a director on 10 May 2010. The emoluments of the remaining one (2009: one) individual and the newly appointed director before his appointment on 10 May 2010 were as follows:

| | **2010** | 2009 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Salaries and other benefits (including share-based payments) | **2,091** | 3,213 |
| Retirement benefit scheme contributions | **16** | 12 |
| Discretionary bonus | **1,383** | 1,739 |
| | **3,490** | 4,964 |

The emoluments, including the emolument of the newly appointed director before his appointment on 10 May 2010, were within the following bands:

| | **Number of employee** | |
|---|---|---|
| | **2010** | 2009 |
| HK$3,000,001 to HK$3,500,000 | **1** | – |
| HK$4,500,001 to HK$5,000,000 | **–** | 1 |

## 13. DIVIDENDS

| | THE GROUP 2010 HK$'000 | 2009 HK$'000 |
|---|---|---|
| Dividends recognised as distribution during the year: | | |
| 2009 final dividend of HK1.5 cents per share | **28,827** | – |
| 2010 interim dividend of HK1 cent per share | **19,218** | – |
| | **48,045** | – |

The final dividend of HK1.5 cents (2009: HK1.5 cents) per share for the year ended 31 December 2010 has been proposed by the directors of the Company and is subject to approval by the shareholders of the Company at the forthcoming general meeting.

## 14. EARNINGS PER SHARE

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

| | THE GROUP 2010 HK$'000 | 2009 HK$'000 |
|---|---|---|
| **Earnings** | | |
| Earnings for the purposes of calculation of basic and diluted earnings per share | **200,441** | 171,314 |

## 14. EARNINGS PER SHARE (continued)

| | THE GROUP | |
|---|---|---|
| | **2010** | 2009 |
| **Number of shares** | | |
| Weighted average number of ordinary shares for the purpose of calculation of basic earnings per share | **1,921,896,995** | 1,896,267,908 |
| Effect of dilutive potential ordinary shares: | | |
| Share options | **71,392,636** | 41,212,937 |
| Weighted average number of ordinary shares for the purpose of calculation of diluted earnings per share | **1,993,289,631** | 1,937,480,845 |

The computation of diluted earnings per share does not assume the exercise of (i) certain of the Company's outstanding share options as the exercise price of these options is higher than the average market price of the shares for the outstanding periods during 2010 and 2009 and (ii) the share option granted by the Company's subsidiary as it is anti-dilutive.

## 15. INVESTMENT PROPERTIES

| | THE GROUP |
|---|---|
| | HK$'000 |
| **AT FAIR VALUE** | |
| At 1 January 2009 | 18,396 |
| Exchange realignment | 8 |
| Increase in fair value | 3,997 |
| At 31 December 2009 and 1 January 2010 | 22,401 |
| Exchange realignment | 246 |
| Increase in fair value | 5,097 |
| At 31 December 2010 | 27,744 |

## 15. INVESTMENT PROPERTIES (continued)

The fair values of the Group's investment properties at 31 December 2010 have been arrived at on the basis of valuations carried out on that day by Messrs. Vigers Appraisal & Consulting Limited ("Vigers"), an independent professional valuer not connected with the Group. Vigers are members of the Institute of Valuers. The valuation was arrived at by reference to net rental income making allowance for reversionary income potential of the property.

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

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

| | **THE GROUP** | |
|---|---|---|
| | **2010** | 2009 |
| | **HK$'000** | HK$'000 |
| Long-term lease in Hong Kong | **18,460** | 15,700 |
| Medium-term lease in other regions in the PRC | **9,284** | 6,701 |
| | **27,744** | 22,401 |

## 16. PROPERTY, PLANT AND EQUIPMENT

| | Leasehold land and buildings HK$'000 | Leasehold improvements HK$'000 | Plant and machinery HK$'000 | Furniture, fixtures and equipment HK$'000 | Motor vehicles HK$'000 | Construction in progress HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|---|---|
| **THE GROUP** | | | | | | | |
| COST OR VALUATION | | | | | | | |
| At 1 January 2009 | 121,930 | 2,371 | 824,465 | 7,874 | 13,360 | 230,909 | 1,200,909 |
| Exchange realignment | 175 | 1 | 1,315 | 16 | 12 | 377 | 1,896 |
| Additions | 21,354 | 58 | 44,395 | 6,009 | 7,323 | 457,137 | 536,276 |
| Reclassification | 51,074 | – | 474,367 | 1,180 | – | (526,621) | – |
| Disposals | (175) | (27) | (299) | (234) | (1,398) | – | (2,133) |
| Surplus on revaluation | 806 | – | – | – | – | – | 806 |
| At 31 December 2009 and 1 January 2010 | 195,164 | 2,403 | 1,344,243 | 14,845 | 19,297 | 161,802 | 1,737,754 |
| Exchange realignment | 6,304 | 38 | 46,536 | 447 | 496 | 8,623 | 62,444 |
| Additions | – | 124 | 216,538 | 4,496 | 6,721 | 266,106 | 493,985 |
| Reclassification | 178,352 | 756 | 123,834 | 2,336 | – | (305,278) | – |
| Disposals | – | – | (453) | (272) | (619) | – | (1,344) |
| Surplus on revaluation | (592) | – | – | – | – | – | (592) |
| At 31 December 2010 | 379,228 | 3,321 | 1,730,698 | 21,852 | 25,895 | 131,253 | 2,292,247 |
| Comprising: | | | | | | | |
| At cost | – | 3,321 | 1,730,698 | 21,852 | 25,895 | 131,253 | 1,913,019 |
| At valuation | 379,228 | – | – | – | – | – | 379,228 |
| | 379,228 | 3,321 | 1,730,698 | 21,852 | 25,895 | 131,253 | 2,292,247 |
| DEPRECIATION | | | | | | | |
| At 1 January 2009 | – | 2,050 | 343,054 | 5,006 | 7,792 | – | 357,902 |
| Exchange realignment | 6 | 1 | 591 | 6 | 8 | – | 612 |
| Provided for the year | 7,708 | 209 | 54,673 | 1,120 | 1,189 | – | 64,899 |
| Eliminated on disposals | (78) | (7) | (295) | (200) | (1,206) | – | (1,786) |
| Write back on revaluation | (4,588) | – | – | – | – | – | (4,588) |
| At 31 December 2009 and 1 January 2010 | 3,048 | 2,253 | 398,023 | 5,932 | 7,783 | – | 417,039 |
| Exchange realignment | 409 | 37 | 16,122 | 197 | 227 | – | 16,992 |
| Provided for the year | 13,074 | 126 | 100,149 | 2,319 | 3,071 | – | 118,739 |
| Eliminated on disposals | – | – | (176) | (225) | (558) | – | (959) |
| Write back on revaluation | (5,150) | – | – | – | – | – | (5,150) |
| At 31 December 2010 | 11,381 | 2,416 | 514,118 | 8,223 | 10,523 | – | 546,661 |
| CARRYING VALUES | | | | | | | |
| At 31 December 2010 | 367,847 | 905 | 1,216,580 | 13,629 | 15,372 | 131,253 | 1,745,586 |
| At 31 December 2009 | 192,116 | 150 | 946,220 | 8,913 | 11,514 | 161,802 | 1,320,715 |

## 16. PROPERTY, PLANT AND EQUIPMENT (continued)

The above items of property, plant and equipment are depreciated on a straight-line basis at the following rates per annum:

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

| | THE GROUP | |
|---|---|---|
| | **2010** | 2009 |
| | **HK$'000** | HK$'000 |
| The carrying value of leasehold land and buildings comprises: | | |
| Land in Hong Kong: | | |
| Long-term lease | **2,540** | 2,200 |
| Medium-term lease | **7,350** | 6,900 |
| Land in other regions in the PRC: | | |
| Long-term lease | **5,523** | 4,543 |
| Medium-term lease | **352,434** | 178,473 |
| | **367,847** | 192,116 |

The leasehold land and buildings of the Group were valued by Vigers on an open market value basis as at 31 December 2010.

If the leasehold land and buildings had not been revalued, they would have been included in these consolidated financial statements at historical cost less accumulated depreciation of approximately HK$331,139,000 (2009: HK$185,705,000).

Applications for property ownership certificates of the manufacturing plants located in the PRC with aggregate carrying values of approximately HK$295,085,000 (2009: HK$124,632,000) are still in the progress at 31 December 2010. In spite of the above, the directors of the Company are of the opinion that the Group has acquired the beneficial title of those properties and legal titles will be obtained in due time.

## 17. PREPAID LEASE PAYMENTS

| | THE GROUP | |
|---|---|---|
| | **2010** | 2009 |
| | **HK$'000** | HK$'000 |
| Analysed for reporting purposes as: | | |
| Current asset | **7,587** | 4,489 |
| Non-current asset | **184,464** | 106,459 |
| | **192,051** | 110,948 |
| The Group's prepaid lease payments comprise: | | |
| Medium-term leasehold land located in the PRC | **192,051** | 110,948 |

At 31 December 2010, included in prepaid lease payments was land use rights with carrying amount of HK$81,894,000 (2009: Nil) which the Group was in the process of obtaining the land use right certificates.

## 18. INVESTMENT IN SUBSIDIARIES/ADVANCES TO SUBSIDIARIES

| | THE COMPANY | |
|---|---|---|
| | **2010** | 2009 |
| | **HK$'000** | HK$'000 |
| Unlisted shares, at cost | **51,452** | 51,452 |
| Capital contributions | **384,582** | 374,044 |
| | **436,034** | 425,496 |
| Advances to subsidiaries | **1,357,624** | 1,107,479 |

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

## 18. INVESTMENT IN SUBSIDIARIES/ADVANCES TO SUBSIDIARIES (continued)

Except for (i) balance with a subsidiary of HK$15,732,000 (2009: HK$15,372,000) which bears interest at the London Interbank Offered Rate ("LIBOR") plus 3% (2009: LIBOR plus 3%) per annum, (ii) balance with a subsidiary of HK$42,866,000 (2009: HK$38,866,000) which bears interest at Hong Kong Dollar Prime Rate (2009: Hong Kong Dollar Prime Rate) per annum, and (iii) balance with a subsidiary of HK$10,000,000 (2009: HK$90,000,000) which bears interest at 2.25% per annum, and the remaining balances are interest free. In the opinion of the directors, the Company will not demand repayment within one year from the end of the reporting period and advances to subsidiaries are therefore considered as non-current. Such interest-free loans are measured at amortised cost determined using the effective interest method. As at 31 December 2010, the effective interest rates used were within a range of 2.25% to 5.00% per annum (2009: 1.15% to 5.00% per annum), being the prevailing market borrowing rates for a similar instrument.

Details of the Company's principal subsidiaries at 31 December 2010 are set out in note 43.

## 19. GOODWILL

The carrying value of goodwill at the end of the reporting period was approximately HK$41,672,000 for both years.

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

## 20. IMPAIRMENT TESTING ON GOODWILL

For the purposes of impairment testing, goodwill has been allocated to one cash generating unit ("CGU"), comprising a subsidiary in the steel cord segment, Jiaxing Eastern Steel Cord Co., Ltd. ("JESC").

During the year ended 31 December 2010, management of the Group determined that there was no impairment of the CGU containing goodwill.

The basis of the recoverable amount of the above CGU and its major underlying assumptions are summarised below:

## 20. IMPAIRMENT TESTING ON GOODWILL (continued)

The recoverable amount of the CGU has been determined based on a value in use calculation. That calculation use cash flow projections based on financial budgets approved by management covering a 5-year period, and a discount rate of 6.06% (2009: 5.31%). The cash flow of CGU beyond the 5-year period is extrapolated for ten years (2009: eleven years) using a 0% growth rate. Other key assumptions for the value in use calculations relate to the estimation of cash inflows/outflows which include budgeted sales, gross margin and other direct costs, such estimation is based on the unit's past performance and management's expectations for the market development. Management believes that any reasonably possible change in any of these assumptions would not cause the aggregate carrying amount of the above CGU to exceed the aggregate recoverable amount of the above CGU.

## 21. CLUB MEMBERSHIPS

| | THE GROUP | | THE COMPANY | |
|---|---|---|---|---|
| | **2010** | 2009 | **2010** | 2009 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| Club memberships, at cost | **2,126** | 2,124 | **936** | 934 |
| Exchange realignment | **12** | 1 | **12** | 1 |
| Less: Impairment losses | **(1,406)** | (1,406) | **(576)** | (576) |
| | **732** | 719 | **372** | 359 |

## 22. AVAILABLE-FOR-SALE INVESTMENTS

| | THE GROUP | |
|---|---|---|
| | **2010** | 2009 |
| | **HK$'000** | HK$'000 |
| Available-for-sale investments comprise: | | |
| Equity securities listed in the PRC, at fair value *(Note i)* | **–** | 50,538 |
| Unlisted equity investment, at cost *(Note ii)* | **1,123** | 1,123 |
| Less: Impairment losses | **(1,123)** | (1,123) |
| | **–** | – |
| | **–** | 50,538 |

## 22. AVAILABLE-FOR-SALE INVESTMENTS (continued)

*Notes:*

*i.* At 31 December 2009, the amount represented the Group's investment in 4,966,141 non-restricted A-shares of Xinyu Iron & Steel Co., Ltd.（新余鋼鐵股份有限公司）("Xinyu Iron"), being 0.36% equity interest of Xinyu Iron. The non-restricted A-shares of Xinyu Iron were stated at fair values by reference to bid price quoted on the Shanghai Stock Exchange.

During the year, the Group disposed of the 4,966,141 (2009: 3,712,500) A-shares of Xinyu Iron on the Shanghai Stock Exchange. The net aggregate sales proceeds from the disposal were approximately HK$37,370,000 (2009: HK$36,443,000) (net of brokerage commission, expenses and stamp duty), resulting in a gain of approximately HK$30,084,000 (2009: HK$30,999,000).

*ii.* The unlisted investment represents investments in unlisted equity securities issued by a private entity incorporated in the PRC. It is measured at cost less impairment losses at the end of each reporting period 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. The unlisted investment was fully impaired in prior years.

## 23. INVENTORIES

| | **THE GROUP** | |
|---|---|---|
| | **2010** | 2009 |
| | **HK$'000** | HK$'000 |
| Raw materials | **109,789** | 108,162 |
| Work in progress | **49,958** | 46,878 |
| Finished goods | **194,815** | 56,762 |
| | **354,562** | 211,802 |

During the year ended 31 December 2009, there was an increase in the net realisable value of raw materials due to increase in price of raw material in the market. As a result, a reversal of allowance for materials of approximately HK$6,734,000 had been recognised and included in cost of sales.

## 24. TRADE RECEIVABLES/BILLS RECEIVABLE

| | THE GROUP | |
|---|---|---|
| | **2010** | 2009 |
| | **HK$'000** | HK$'000 |
| Trade receivables | **497,444** | 327,251 |
| Less: allowance for bad and doubtful debts | **(2,288)** | (4,551) |
| | **495,156** | 322,700 |
| Bills receivable | **388,048** | 386,039 |
| | **883,204** | 708,739 |

Included in bills receivable as at 31 December 2010 was an amount of approximately HK$176,000 (2009: HK$37,707,000) that had been discounted to banks.

The Group normally allows credit periods of 30 to 90 days to its trade customers.

An aged analysis of trade receivables net of allowance for bad and doubtful debts at the end of the reporting period based on sales invoice date is as follows:

| | THE GROUP | |
|---|---|---|
| | **2010** | 2009 |
| | **HK$'000** | HK$'000 |
| 0 – 90 days | **379,145** | 302,070 |
| 91 – 180 days | **100,169** | 20,529 |
| Over 180 days | **15,842** | 101 |
| | **495,156** | 322,700 |

## 24. TRADE RECEIVABLES/BILLS RECEIVABLE (continued)

An aged analysis of bills receivable at the end of the reporting period based on sales invoice date is as follows:

| | THE GROUP | |
|---|---|---|
| | **2010** | 2009 |
| | **HK$'000** | HK$'000 |
| 0 – 90 days | **24,994** | 12,016 |
| 91 – 180 days | **160,220** | 293,187 |
| Over 180 days | **202,834** | 80,836 |
| | **388,048** | 386,039 |

At the end of the reporting period, all bills receivable are with maturity date within six months.

Before accepting any new customer, the Group uses a credit scoring system to assess the potential customer's credit quality and defines credit limits by customer. Limits and scoring attributed to customers are reviewed regularly. For trade receivables that are neither past due nor impaired as at the end of the reporting period, approximately 90% of which have the best credit scoring attributable under the credit scoring system used by the Group.

Included in the Group's trade receivables balances are debtors with an aggregate carrying amount of approximately HK$144,769,000 (2009: HK$61,169,000) which are past due at the end of the reporting period for which the Group has not provided for impairment loss as they have been substantially settled subsequent to the end of the reporting period or there were no historical default of payments by the respective customers. The Group does not hold any collateral over these balances.

## 24. TRADE RECEIVABLES/BILLS RECEIVABLE (continued)

The aged analysis of trade receivables which are past due but not impaired based on the due date is as follows:

| | THE GROUP | |
|---|---|---|
| | **2010** | 2009 |
| | **HK$'000** | HK$'000 |
| 0 – 90 days | **126,492** | 61,067 |
| 91 – 180 days | **18,142** | 1 |
| Over 180 days | **135** | 101 |
| Total | **144,769** | 61,169 |

Movement in the allowance for bad and doubtful debts:

| | THE GROUP | |
|---|---|---|
| | **2010** | 2009 |
| | **HK$'000** | HK$'000 |
| Balance at beginning of the year | **4,551** | 1,214 |
| Exchange realignment | **96** | 2 |
| Amount recovered during the year | **(1,870)** | – |
| Amount written off as uncollectible | **(489)** | (725) |
| Impairment losses recognised on receivables | **–** | 4,060 |
| Balance at end of the year | **2,288** | 4,551 |

## 25. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

Other receivables are unsecured, interest free and repayable on demand except for an amount due from a security firm. At 31 December 2010, included in prepayments, deposits and other receivables were value added tax receivables of approximately HK$115,019,000 (2009: HK$51,097,000). At 31 December 2009, included in prepayments, deposits and other receivables was an amount due from a security firm of approximately HK$37,076,000 (2010: Nil) which represented the proceeds from sales of listed available-for-sale investments during that year. The amount due from a security firm carried fixed interest rate at 0.36% per annum and had been recovered in February 2010.

## 26. AMOUNTS DUE FROM RELATED COMPANIES

At 31 December 2009, the amounts due from subsidiaries of Shougang Concord Technology Holdings Limited ("Shougang TECH", collectively referred to as the "Shougang TECH Group"), were trading in nature, unsecured and non-interest bearing.

The Group normally allows credit periods of 60 to 90 days to the Shougang TECH Group.

An aged analysis of amounts due from the Shougang TECH Group as at the end of the reporting period based on sales invoice date is as follows:

| | THE GROUP | |
|---|---|---|
| | **2010** | 2009 |
| | **HK$'000** | HK$'000 |
| 91 – 180 days | – | 13 |
| Over 180 days | – | 264 |
| | – | 277 |

At 31 December 2009, included in the amounts due from the Shougang TECH Group, an aggregate carrying amount of approximately HK$277,000 (2010: Nil) which were past due at the end of the reporting period for which the Group had not provided for impairment loss as there had not been a significant change in the credit quality and the amounts were still considered recoverable. The Group did not hold any collateral over these balances.

The aged analysis of amounts due from the Shougang TECH Group which are past due but not impaired based on due date is as follows:

| | THE GROUP | |
|---|---|---|
| | **2010** | 2009 |
| | **HK$'000** | HK$'000 |
| 0 – 90 days | – | 261 |
| 91 – 180 days | – | 16 |
| Total | – | 277 |

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

## 27. AMOUNTS DUE FROM SUBSIDIARIES

The amounts due from subsidiaries are unsecured and repayable within one year. The amount included HK$80,000,000 (2009: HK$50,000,000) which bears interest at 2.25% per annum. As at 31 December 2009, the amount included HK$60,000,000 (2010: Nil) which bore interest at 3-month Hong Kong Interbank Offered Rate ("HIBOR") plus 1% per annum.

## 28. PLEDGE OF ASSETS

At the end of the reporting period, the following assets are pledged to secure certain bank borrowings as set out in note 31:

(i) the Group's leasehold land and buildings with an aggregate net book value of HK$7,350,000 (2009: HK$6,900,000);

(ii) the Group's certain prepaid lease payments with an aggregate net book value of HK$90,834,000 (2009: HK$90,939,000);

(iii) the bank deposits of the Group amounting to HK$49,448,000 (2010: Nil) for short term bank borrowings as at 31 December 2009;

(iv) the bank deposit of the Company amounting to HK$1,000,000 (2010: Nil) for short term bank borrowings as at 31 December 2009; and

(v) the equity interests in certain subsidiaries of the Company.

## 29. RESTRICTED BANK DEPOSITS/BANK BALANCES AND CASH

**The Group**

Bank balances carry interest at market rates which range from 0.01% to 1.35% per annum (2009: 0.01% to 1.60% per annum). At 31 December 2009, the restricted bank deposits, which were pledged to banks to secure short term banking facilities granted to the Group, were therefore classified as current, carried fixed interest rates ranging from 0.03% to 2.25% per annum (2010: Nil). At the end of the reporting period, the restricted bank deposits, the bank balances and cash that are denominated in currencies other than the functional currencies of respective group entities are set out below:

| | Denominated in | | | |
|---|---|---|---|---|
| | **HKD** | **USD** | **EUR** | **Others** |
| | HK$'000 | HK$'000 Equivalent | HK$'000 Equivalent | HK$'000 Equivalent |
| As at 31 December 2010 | 69,112 | 5,145 | 61 | 31 |
| As at 31 December 2009 | 96,473 | 178,463 | 71 | 1,677 |

**The Company**

Bank balances carry interest at market rates which ranging from 0.01% to 1.00% per annum (2009: 0.01% to 1.60% per annum). At 31 December 2009, the restricted bank deposits carried fixed interest rates ranging from 0.03% to 1.52% per annum (2010: Nil). At the end of the reporting period, the restricted bank deposits, bank balances and cash that are denominated in currencies other than the functional currency of the Company are set out below:

| | Denominated in | |
|---|---|---|
| | **HKD** | **USD** |
| | HK$'000 | HK$'000 Equivalent |
| As at 31 December 2010 | 61,611 | 14 |
| As at 31 December 2009 | 81,552 | 42,508 |

## 30. TRADE PAYABLES/OTHER PAYABLES AND ACCRUALS

An aged analysis of trade payables at the end of the reporting period based on purchase invoice date is as follows:

| | THE GROUP | |
|---|---|---|
| | **2010** | 2009 |
| | **HK$'000** | HK$'000 |
| 0 – 90 days | **40,777** | 45,239 |
| 91 – 180 days | **305** | 754 |
| 181 – 365 days | **55** | 20 |
| Over 1 year | **1,377** | 435 |
| | **42,514** | 46,448 |

The average credit period on purchases of goods is 30 days.

Included in other payables and accruals are payables for purchase of property, plant and equipment of approximately HK$117,509,000 (2009: HK$45,294,000).

## 31. BANK BORROWINGS

| | THE GROUP | | THE COMPANY | |
|---|---|---|---|---|
| | **2010** | 2009 | **2010** | 2009 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| Trust receipt loans | **39,326** | 29,740 | **–** | – |
| Other bank loans | **1,175,753** | 729,217 | **715,963** | 248,923 |
| Discounted bills with recourse | **176** | 37,707 | **–** | – |
| | **1,215,255** | 796,664 | **715,963** | 248,923 |
| Secured | **463,209** | 436,103 | **197,332** | 100,893 |
| Unsecured | **752,046** | 360,561 | **518,631** | 148,030 |
| | **1,215,255** | 796,664 | **715,963** | 248,923 |

## 31. BANK BORROWINGS (continued)

The above amounts are repayable as follows:

| | THE GROUP | | THE COMPANY | |
|---|---|---|---|---|
| | **2010** | 2009 | **2010** | 2009 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| | | (Restated) | | (Restated) |
| Within one year | **484,754** | 350,108 | **221,868** | 23,836 |
| In the second year | **148,743** | 64,384 | **60,731** | 30,311 |
| In the third to fifth year inclusive | **254,683** | 253,016 | **106,289** | 65,620 |
| | **888,180** | 667,508 | **388,888** | 119,767 |
| Carrying amount of bank loans that are not repayable within one year from the end of the reporting period but contain a repayment on demand clause (shown under current liabilities) | **327,075** | 129,156 | **327,075** | 129,156 |
| Less: Amount due within one year shown under current liabilities | **(811,829)** | (479,264) | **(548,943)** | (152,992) |
| Amount shown under non-current liabilities | **403,426** | 317,400 | **167,020** | 95,931 |

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

| | THE GROUP | | THE COMPANY | |
|---|---|---|---|---|
| | **2010** | 2009 | **2010** | 2009 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| Fixed-rate borrowings | | | | |
| Within one year | **149,053** | 268,138 | **–** | – |

## 31. BANK BORROWINGS (continued)

The Group's and the Company's variable-rate borrowings and the agreed scheduled repayment dates including bank loans with repayment on demand clause are as follows:

| | THE GROUP | | THE COMPANY | |
|---|---|---|---|---|
| | **2010** | 2009 | **2010** | 2009 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| Variable-rate borrowings | | | | |
| Within one year | **335,701** | 81,970 | **221,868** | 23,836 |
| In the second year | **301,143** | 193,540 | **213,131** | 159,467 |
| In the third to fifth year inclusive | **429,358** | 253,016 | **280,964** | 65,620 |
| | **1,066,202** | 528,526 | **715,963** | 248,923 |

The Group has variable-rate borrowings which carry interest at a premium over LIBOR, HIBOR and the prevailing lending rate quoted by the People's Bank of China. The Company has variable-rate borrowings which carry interest at a premium over LIBOR and HIBOR.

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

| | THE GROUP | | THE COMPANY | |
|---|---|---|---|---|
| | **2010** | 2009 | **2010** | 2009 |
| Effective interest rate per annum: | | | | |
| Fixed-rate borrowings | **1.58% to 6.37%** | 1.00% to 7.20% | **–** | – |
| Variable-rate borrowings | **1.28% to 5.96%** | 1.16% to 5.76% | **1.75% to 2.22%** | 1.22% to 4.39% |

## 31. BANK BORROWINGS (continued)

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

| | THE GROUP | | THE COMPANY | |
|---|---|---|---|---|
| | **2010** | 2009 | **2010** | 2009 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| HKD | **674,857** | 308,305 | **518,631** | 148,031 |
| USD | **201,768** | 109,729 | **197,332** | 100,892 |
| EUR | **–** | 33,343 | **–** | – |
| GBP | **–** | 8,881 | **–** | – |

## 32. DEFERRED TAX

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

| THE GROUP | Accelerated tax depreciation HK$'000 | Allowance for bad and doubtful debts HK$'000 | Allowance for inventories HK$'000 | Revaluation of properties HK$'000 | Tax loss HK$'000 | Withholding tax on distributable profit of subsidiaries in the PRC HK$'000 | Others HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|---|---|---|
| At 1 January 2009 | (2,806) | 63 | (1,725) | 3,801 | (983) | 2,966 | – | 1,316 |
| Exchange realignment | (4) | – | (3) | 4 | – | – | – | (3) |
| (Credit) charge to profit or loss for the year | (306) | (839) | 1,144 | 288 | (470) | 8,031 | – | 7,848 |
| Charge to equity for the year | – | – | – | 1,016 | – | – | – | 1,016 |
| At 31 December 2009 and 1 January 2010 | (3,116) | (776) | (584) | 5,109 | (1,453) | 10,997 | – | 10,177 |
| Exchange realignment | 246 | (27) | (31) | – | – | – | – | 188 |
| (Credit) charge to profit or loss for the year | (661) | 253 | (204) | (131) | (81) | 10,393 | 3,574 | 13,143 |
| Charge to equity for the year | – | – | – | 718 | – | – | – | 718 |
| At 31 December 2010 | (3,531) | (550) | (819) | 5,696 | (1,534) | 21,390 | 3,574 | 24,226 |

## 32. DEFERRED TAX (continued)

At the end of the reporting period, the Group has estimated unused tax losses of approximately HK$238,070,000 (2009: HK$135,539,000) available for offset against future profits. The losses may be carried forward indefinitely.

At the end of the reporting period, the Group has deductible temporary differences of approximately HK$28,609,000 (2009: HK$29,202,000). A deferred tax asset has been recognised in respect of approximately HK$22,273,000 (2009: HK$22,380,000) of such deductible temporary differences. No deferred tax asset has been recognised in respect of the remaining deductible temporary differences of approximately HK$6,336,000 (2009: HK$6,822,000) as it is not probable that taxable profit will be available against which the deductible temporary difference can be utilised.

The Company had no significant deferred taxation for the year or at the end of the reporting period.

## 33. SHARE CAPITAL

| | **2010** | | 2009 | |
|---|---|---|---|---|
| | **Number of shares '000** | **Nominal value HK$'000** | Number of shares '000 | Nominal value HK$'000 |
| Ordinary shares of HK$0.10 each | | | | |
| Authorised: | | | | |
| At 1 January and 31 December | **5,000,000** | **500,000** | 5,000,000 | 500,000 |
| Issued and fully paid: | | | | |
| At 1 January | **1,921,801** | **192,180** | 1,867,737 | 186,774 |
| Exercise of share options *(Note)* | **500** | **50** | 54,064 | 5,406 |
| At 31 December | **1,922,301** | **192,230** | 1,921,801 | 192,180 |

## 33. SHARE CAPITAL (continued)

*Note:* During the year ended 31 December 2010, employees other than directors of the Company exercised 500,000 (2009: Nil) share options. During the year ended 31 December 2009, directors of the Company exercised 31,108,000 (2010: Nil) share options and other eligible participants exercised 22,956,000 (2010: Nil) share options. Therefore, 500,000 and 54,064,000 new shares were issued during the years ended 31 December 2010 and 2009 respectively.

## 34. RESERVES

| THE COMPANY | Share premium<br>HK$'000 | Capital reserve<br>HK$'000 | Capital redemption reserve<br>HK$'000 | Translation reserve<br>HK$'000 | Share option reserve<br>HK$'000 | Retained profits<br>HK$'000 | Total<br>HK$'000 |
|---|---|---|---|---|---|---|---|
| At 1 January 2009 | 984,775 | 23,990 | 2,724 | 75,994 | 27,242 | 122,661 | 1,237,386 |
| Issue of shares | 11,316 | – | – | – | – | – | 11,316 |
| Share issue expenses | (11) | – | – | – | – | – | (11) |
| Recognition of equity settled share-based payments | – | – | – | – | 4,725 | – | 4,725 |
| Translation adjustment | – | – | – | 1,602 | – | – | 1,602 |
| Profit for the year | – | – | – | – | – | 68,000 | 68,000 |
| At 31 December 2009 and 1 January 2010 | 996,080 | 23,990 | 2,724 | 77,596 | 31,967 | 190,661 | 1,323,018 |
| Issue of shares | 320 | – | – | – | – | – | 320 |
| Recognition of equity settled share-based payments | – | – | – | – | 2,883 | – | 2,883 |
| Cancellation of share options | – | – | – | – | (187) | 187 | – |
| Translation adjustment | – | – | – | 36,246 | – | – | 36,246 |
| Profit for the year | – | – | – | – | – | 121,743 | 121,743 |
| Dividend paid | – | – | – | – | – | (48,045) | (48,045) |
| At 31 December 2010 | 996,400 | 23,990 | 2,724 | 113,842 | 34,663 | 264,546 | 1,436,165 |

The capital reserve of the Company represents the benefit of acquiring a shareholder's loan from a previous shareholder upon the acquisition of a subsidiary in previous years.

## 35. 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 shareholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from prior year.

The capital structure of the Group consists of debt, which includes the borrowings disclosed in note 31, and equity attributable to equity holders of the Company, comprising issued share capital, reserves and retained profits.

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 associated with the 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 debts.

## 36. FINANCIAL INSTRUMENTS

### a. Categories of financial instruments

| | THE GROUP | | THE COMPANY | |
|---|---|---|---|---|
| | **2010** | 2009 | **2010** | 2009 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| **Statement of financial position** | | | | |
| **Financial assets** | | | | |
| Loans and receivables (including cash and cash equivalents) | **1,168,505** | 1,142,280 | **1,916,114** | 1,341,562 |
| Available-for-sale investments | **–** | 50,538 | **–** | – |
| | **1,168,505** | 1,192,818 | **1,916,114** | 1,341,562 |
| **Financial liabilities** | | | | |
| Amortised cost | **1,383,869** | 893,337 | **724,431** | 252,123 |
| **Income statement** | | | | |
| **Listed available-for-sale investments** | | | | |
| Gain on disposal of listed available-for-sale investments | **30,084** | 30,999 | **–** | – |
| Dividend income from listed available-for-sale investments | **263** | 591 | **–** | – |
| | **30,347** | 31,590 | **–** | – |
| **Financial liabilities designated at FVTPL** | | | | |
| Realised gain on change in fair value of leveraged foreign exchange contract | **–** | (1,397) | **–** | – |

## 36. FINANCIAL INSTRUMENTS (continued)

### b. Financial risk management objectives and policies

The Group's and the Company's major financial instruments include trade receivables, bills receivable, other receivables, amounts due from related companies, restricted bank deposits, available-for-sale investments, bank balances and cash, trade payables, other payables and bank borrowings. Details of the financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (currency risk and interest rate risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

***Market risk***

*(i) Currency risk*

Certain bank balances, trade receivables, other receivables, advance to subsidiaries, amounts due from related companies, trade payables, other payables and bank borrowings of the Group and the Company are denominated in currencies other than the functional currencies of the relevant group entities. The Group and the Company currently do not have a foreign currency hedging policy. However, the management monitors foreign exchange exposure by closely monitoring the movement of foreign currency rates and will consider hedging significant foreign currency exposure should need arise.

## 36. FINANCIAL INSTRUMENTS (continued)

### b. 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 end of the reporting period are as follows:

| | THE GROUP | | THE COMPANY | |
|---|---|---|---|---|
| | **2010** | 2009 | **2010** | 2009 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| | **Equivalent** | Equivalent | **Equivalent** | Equivalent |
| **Monetary assets denominated in** | | | | |
| HKD | **108,301** | 130,232 | **1,204,040** | 1,299,054 |
| USD | **33,671** | 192,703 | **464,337** | 42,508 |
| EUR | **61** | 71 | **–** | – |
| Others | **7,845** | 6,262 | **–** | – |
| **Monetary liabilities denominated in** | | | | |
| HKD | **676,540** | 309,375 | **526,491** | 150,723 |
| USD | **202,498** | 117,695 | **197,940** | 101,400 |
| EUR | **504** | 33,899 | **–** | – |
| Others | **622** | 8,893 | **–** | – |

## 36. FINANCIAL INSTRUMENTS (continued)

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

***Market risk (continued)***

*(i) Currency risk (continued)*

*Sensitivity analysis for non-derivative financial instruments*

The Group and the Company are mainly exposed to the fluctuations in HKD, USD and EUR against RMB.

The following table details the Group's and the Company's sensitivity to a 5% increase and decrease in RMB against HKD, USD and EUR. 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 end of the reporting period for a 5% change in foreign currency rates. A positive number below indicates an increase in pre-tax profit for the year where RMB appreciates 5% against the relevant currency. For a 5% depreciation of RMB against the relevant currency, there would be an equal and opposite impact on the pre-tax profit and the balances below would be negative.

| | **THE GROUP** | | **THE COMPANY** | |
|---|---|---|---|---|
| | **2010** | 2009 | **2010** | 2009 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| **HKD** | | | | |
| Increase (decrease) in profit *(Note)* | **28,412** | 8,957 | **(33,877)** | (57,417) |
| **USD** | | | | |
| Increase (decrease) in profit *(Note)* | **8,441** | (3,750) | **(13,320)** | 2,945 |
| **EUR** | | | | |
| Increase in profit *(Note)* | **22** | 1,691 | **–** | – |

*Note:* This is mainly attributable to the exposure on outstanding HKD, USD and EUR denominated bank balances, receivables, bank borrowings, and payables at the end of the reporting period.

## 36. FINANCIAL INSTRUMENTS (continued)

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

***Market risk (continued)***

*(ii) Interest rate risk*

The Group and the Company are exposed to fair value interest rate risk in relation to fixed-rate deposits (see note 29) and fixed-rate borrowings (see note 31 for details of these borrowings). The Group and the Company currently do not have any fair value interest rate hedging policy. However, the management will consider hedging significant interest rate exposure should the need arise.

The Group is also exposed to cash flow interest rate risk in relation to variable-rate bank balances (see note 29) and variable-rate bank borrowings (see note 31 for details of these borrowings). The Company is exposed to cash flow interest rate risk in relation to variable-rate advances to subsidiaries (see notes 18 and 27 for details of these advances) and variable-rate bank borrowings (see note 31 for details of these borrowings). It is the Group's and the Company's policy to reduce its exposure to cash flow interest rate risk for borrowings by hedging should the need arise.

The Group's and the Company's exposure to interest rates on financial liabilities are detailed in liquidity risk management section of this note. The Group's cash flow interest rate risk is mainly concentrated on the fluctuation of benchmark rate, HIBOR and LIBOR arising from the Group's borrowings. The Company's cash flow interest rate risk is mainly concentrated on the fluctuation of market rates arising from the Company's advances to subsidiaries and borrowings at variable rates.

*Sensitivity analysis*

The sensitivity analyses below have been determined based on the exposure to interest rates for the variable-rate bank balances, variable-rate advances to subsidiaries and variable-rate bank borrowings at the end of the reporting period. The analysis is prepared assuming the amount outstanding at the end of the reporting period was outstanding for the whole year. A 10 basis point increase or decrease for variable-rate bank balances and 50 basis point increase or decrease for variable-rate advances to subsidiaries and variable-rate bank borrowings are used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

## 36. FINANCIAL INSTRUMENTS (continued)

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

***Market risk (continued)***

*(ii) Interest rate risk (continued)*

*Sensitivity analysis (continued)*

At the end of the reporting period if interest rates had been 10 basis points (2009: 10 basis points) higher/lower for variable-rate bank balances, 50 basis points (2009: 50 basis points) higher/lower for variable-rate bank borrowings, and all other variables were held constant, the Group's profit for the year would decrease/increase by HK$5,215,000 and HK$2,539,000 for the years ended 31 December 2010 and 2009, respectively.

At the end of the reporting period if interest rates had been 10 basis points (2009: 10 basis points) higher/lower for variable-rate bank balances, 50 basis points (2009: 50 basis points) higher/lower for variable-rate advances to subsidiaries and variable-rate bank borrowings, and all other variables were held constant, the Company's profit for the year would decrease/increase by HK$2,825,000 and increase/decrease by HK$150,000 for the years ended 31 December 2010 and 2009, respectively.

***Credit risk***

The Group's and the Company's maximum exposure to credit risk which will cause a financial loss to the Group and the Company due to failure to discharge obligations by the counterparties is arising from:

- the carrying amount of the respective recognised financial assets as stated in the statements of financial position; and

- the amount of contingent liabilities disclosed in note 39.

In order to minimise the credit risk, the management of the Group and the Company 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 and the Company review the recoverable amount of each individual trade debt at the end of each reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the credit risks of the Group and the Company are significantly reduced.

## 36. FINANCIAL INSTRUMENTS (continued)

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

***Credit risk (continued)***

The Group has concentration risk on trade receivables as it is largely dependent on a small number of customers for a substantial portion of its business. The largest five customers accounted for a total of 34.7% and 47.7% of the Group's trade receivables as at 31 December 2010 and 2009, respectively. The failure of any of these customers to make the required payments could have a substantial negative impact on the Group's profit. The Group manages this risk by applying a limit on the credit to these customers.

The credit risk on bank balances and bills receivable is limited because the counterparties are reputable banks in the PRC and Hong Kong.

The Group's concentration of credit risk by geographical locations is mainly in the PRC, which accounted for 87% (2009: 90%) of the total trade receivables as at 31 December 2010.

The Company's concentration of credit risk is on advances to a few subsidiaries. The Company manages this risk by monitoring the cash flow position of the subsidiaries.

***Liquidity risk***

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

The Group relies on bank borrowings as a significant source of liquidity. As at 31 December 2010, the Group has available undrawn borrowing facilities of approximately HK$149,027,000 (2009: HK$195,657,000).

The following tables detail the Group's and the Company's remaining contractual maturity for its 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 and the Company can be required to pay. Specifically, bank loans with a repayment on demand clause are included in the earliest time band regardless of the probability of the banks choosing to exercise their rights. The maturity dates for other non-derivative financial liabilities are based on the agreed repayment dates. The tables include both interest and principal cash flows.

## 36. FINANCIAL INSTRUMENTS (continued)

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

***Liquidity risk (continued)***

*Liquidity and interest rate risk tables*

**THE GROUP**

| | Weighted average effective interest rate % (Note) | On demand HK$'000 | Less than 3 months HK$'000 | 4-6 months HK$'000 | 7-12 months HK$'000 | Over 1 year HK$'000 | Total undiscounted cash flows HK$'000 | Carrying amount at 31.12.2010 HK$'000 |
|---|---|---|---|---|---|---|---|---|
| **2010** | | | | | | | | |
| **Non-derivative financial liabilities** | | | | | | | | |
| Trade and other payables | – | – | 168,614 | – | – | – | 168,614 | 168,614 |
| Bank borrowings | | | | | | | | |
| – fixed rate | 4.59 | – | 61,275 | 4,538 | 87,894 | – | 153,707 | 149,053 |
| – variable rate | 2.85 | 518,631 | 54,609 | 27,325 | 64,776 | 426,421 | 1,091,762 | 1,066,202 |
| | | 518,631 | 284,498 | 31,863 | 152,670 | 426,421 | 1,414,083 | 1,383,869 |

| | Weighted average effective interest rate % (Note) | On demand HK$'000 | Less than 3 months HK$'000 | 4-6 months HK$'000 | 7-12 months HK$'000 | Over 1 year HK$'000 | Total undiscounted cash flows HK$'000 | Carrying amount at 31.12.2009 HK$'000 |
|---|---|---|---|---|---|---|---|---|
| 2009 | | | | | | | | |
| **Non-derivative financial liabilities** | | | | | | | | |
| Trade and other payables | – | – | 96,673 | – | – | – | 96,673 | 96,673 |
| Bank borrowings | | | | | | | | |
| – fixed rate | 2.34 | – | 37,927 | 46,654 | 188,629 | – | 273,210 | 268,138 |
| – variable rate | 3.64 | 148,031 | 19,207 | 10,902 | 34,569 | 340,507 | 553,216 | 528,526 |
| | | 148,031 | 153,807 | 57,556 | 223,198 | 340,507 | 923,099 | 893,337 |

*Note:* The weighted average effective interest rates are based on the rates of bank borrowings at the end of the reporting period.

## 36. FINANCIAL INSTRUMENTS (continued)

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

***Liquidity risk (continued)***

*Liquidity and interest rate risk tables (continued)*

**THE COMPANY**

| | Weighted average effective interest rate % (Note) | On demand HK$'000 | Less than 3 months HK$'000 | 4-6 months HK$'000 | 7-12 months HK$'000 | Over 1 year HK$'000 | Total undiscounted cash flows HK$'000 | Carrying amount at 31.12.2010 HK$'000 |
|---|---|---|---|---|---|---|---|---|
| **2010** | | | | | | | | |
| **Non-derivative financial liabilities** | | | | | | | | |
| Other payables | – | – | 1,977 | – | – | – | 1,977 | 1,977 |
| Financial guarantee contracts | – | 449,037 | – | – | – | – | 449,037 | 6,491 |
| Bank borrowings | | | | | | | | |
| – variable rate | 1.92 | 518,631 | 5,067 | 5,091 | 20,614 | 173,434 | 722,837 | 715,963 |
| | | 967,668 | 7,044 | 5,091 | 20,614 | 173,434 | 1,173,851 | 724,431 |

| | Weighted average effective interest rate % (Note) | On demand HK$'000 | Less than 3 months HK$'000 | 4-6 months HK$'000 | 7-12 months HK$'000 | Over 1 year HK$'000 | Total undiscounted cash flows HK$'000 | Carrying amount at 31.12.2009 HK$'000 |
|---|---|---|---|---|---|---|---|---|
| 2009 | | | | | | | | |
| **Non-derivative financial liabilities** | | | | | | | | |
| Other payables | – | – | 418 | – | – | – | 418 | 418 |
| Financial guarantee contracts | – | 376,700 | – | – | – | – | 376,700 | 2,782 |
| Bank borrowings | | | | | | | | |
| – variable rate | 1.94 | 148,031 | – | – | 5,058 | 99,661 | 252,750 | 248,923 |
| | | 524,731 | 418 | – | 5,058 | 99,661 | 629,868 | 252,123 |

*Note:* The weighted average effective interest rates are based on the rates of bank borrowings at the end of the reporting period.

## 36. FINANCIAL INSTRUMENTS (continued)

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

***Liquidity risk (continued)***

*Liquidity and interest rate risk tables (continued)*

The amounts included above for financial guarantee contracts are the maximum amounts the Company could be required to settle under the arrangement for the full guaranteed amount if that amount is claimed by the counterparty to the guarantee. Based on expectations at the end of the reporting period, the Company considers that it is more likely than not that no amount will be payable under the arrangement. However, this estimate is subject to change depending on the probability of the counterparty claiming under the guarantee which is a function of the likelihood that the financial receivables held by the counterparty which are guaranteed suffer credit losses.

Bank loans with a repayment on demand clause are included in the "on demand" time band in the above maturity analysis. As at 31 December 2010 and 31 December 2009, the aggregate undiscounted principal amounts of these bank loans amounted to HK$518,631,000 and HK$148,031,000 respectively. Taking into account the Group's and the Company's financial position, the directors do not believe that it is probable that the banks will exercise their discretionary rights to demand immediate repayment. For the purpose of managing liquidity risk, the directors reviews the expected cash flow information of the Group's bank borrowings carried variable interest rates based on the scheduled repayment dates set out in the bank loan agreement as set out in the table below:

| | Weighted average interest rate | Less than 3 months | 3 months to less than 1 year | 1 year to less than 2 years | 2 years to less than 3 years | Over 3 years | Total undiscounted cash flows | Carrying amount as at 31 December |
|---|---|---|---|---|---|---|---|---|
| | % | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| Bank borrowings | | | | | | | | |
| – variable rate | | | | | | | | |
| 2010 | 2.85 | 7,874 | 188,974 | 161,087 | 189,610 | – | 547,545 | 518,631 |
| 2009 | 3.64 | – | 19,562 | 138,558 | – | – | 158,120 | 148,031 |

At that time, the aggregate principal and interest cash outflows will amount to approximately HK$547,545,000 (2009: HK$158,120,000).

## 36. FINANCIAL INSTRUMENTS (continued)

### c. Fair values

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

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

- the fair values of leveraged foreign exchange contract is calculated using quoted forward exchange rates, yield curves derived from quoted interest rates matching maturities of the contracts and leveraged factors;

- the fair values of other financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis;

- the fair value of financial guarantee contracts is determined using estimated recovery rate developed upon Value at Risk model and estimated default rate upon market-based credit benchmark.

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

***Fair value measurement recognised in the statement of financial position***

At 31 December 2009, the measurement of available-for-sale financial assets amounted to HK$50,538,000 (2010: Nil) was categorised as level 1 fair value measurements based on the degree to which the fair value was observable. Level 1 fair value measurements were those derived from quoted prices (unadjusted) in active market for identical assets or liabilities.

## 37. OPERATING LEASES

### The Group as lessee

| | THE GROUP | |
|---|---|---|
| | **2010** | 2009 |
| | **HK$'000** | HK$'000 |
| Minimum lease payments under operating leases in respect of land and buildings during the year | **5,046** | 4,778 |

At the end of the reporting period, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

| | THE GROUP | |
|---|---|---|
| | **2010** | 2009 |
| | **HK$'000** | HK$'000 |
| Within one year | **4,275** | 4,434 |
| In the second to fifth year inclusive | **6,032** | 9,587 |
| | **10,307** | 14,021 |

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

### The Group as lessor

Property rental income earned during the year was HK$598,000 (2009: HK$888,000). The Group leases its investment properties under operating lease arrangements, with leases negotiated for an average term of two years.

## 37. OPERATING LEASES (continued)

### The Group as lessor (continued)

At the end of the reporting period, the Group had contracted with tenants for the following future minimum lease payments:

| | THE GROUP | |
|---|---|---|
| | **2010** | 2009 |
| | **HK$'000** | HK$'000 |
| Within one year | **411** | 491 |
| In the second to fifth year inclusive | **47** | 425 |
| | **458** | 916 |

The Company had no commitment under operating leases at the end of the reporting period.

## 38. CAPITAL COMMITMENTS

| | THE GROUP | |
|---|---|---|
| | **2010** | 2009 |
| | **HK$'000** | HK$'000 |
| Commitments in respect of the acquisition of property, plant and equipment | | |
| – contracted for but not provided in the consolidated financial statements | **214,562** | 470,198 |
| – authorised but not contracted for | **153,192** | 149,170 |
| | **367,754** | 619,368 |

The Company did not have any significant commitments at the end of the reporting period.

## 39. CONTINGENT LIABILITIES

| | THE GROUP | | THE COMPANY | |
|---|---|---|---|---|
| | **2010** | 2009 | **2010** | 2009 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| Guarantees given to banks in respect of banking facilities to subsidiaries | | | | |
| – amount guaranteed | **–** | – | **449,037** | 376,700 |
| – amount utilised | **–** | – | **343,490** | 282,443 |

## 40. RETIREMENT BENEFIT SCHEMES

The Group operates a Mandatory Provident Fund Scheme (the "MPF Scheme") for all qualifying employees who are eligible to participate in the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group, in funds under the control of trustees. The Group contributes 5% of the relevant payroll costs to the MPF Scheme with maximum amount HK$12,000 (save for the directors of the Company) per annum, which contribution is matched by employees.

The employees of the Group's subsidiaries which operate in the PRC are required to participate in a retirement scheme or other similar defined contribution provident fund operated by the respective local municipal government. These PRC subsidiaries are required to contribute 8% to 20% (2009: 20% to 23%) of its basic payroll costs to the scheme/fund. The contributions are charged to the income statement as they become payable in accordance with the rules of the scheme/fund.

## 41. SHARE-BASED PAYMENT TRANSACTIONS

### (a) The Company's share option scheme

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

## 41. SHARE-BASED PAYMENT TRANSACTIONS (continued)

### (a) The Company's share option scheme (continued)

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

The maximum number of unexercised share options currently permitted to be granted under the 2002 Scheme is 161,484,655 shares which represented 8.4% of the issued share capital of the Company as at the date of approval of this annual report. The maximum number of shares issuable under the share options to each eligible participant in the 2002 Scheme within any 12-month period is limited to 1% of the issued share capital of the Company in issue under the 2002 Scheme. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting.

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

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

## 41. SHARE-BASED PAYMENT TRANSACTIONS (continued)

### (a) The Company's share option scheme (continued)

Pursuant to the 2002 Scheme, share options held by any eligible participants will lapse automatically upon their resignations but the Board is empowered to extend the exercise period of the concerned share options at its discretion. Relevant exercise period of share options held by the eligible participants who resigned during the year was extended and approved by the Board. Such change does not constitute modification of the 2002 Scheme.

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

## 41. SHARE-BASED PAYMENT TRANSACTIONS (continued)

### (a) The Company's share option scheme (continued)

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

| | Number of share options for 2010 | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Grantees | At 1.1.2010 | Granted during the year | Reclassification of categories of grantees | Cancelled during the year *(Note g)* | Exercised during the year *(Note h)* | Date of exercise | At 31.12.2010 | Date of grant *(Note k)* | Exercise period | Exercise price per share HK$ |
| Directors of the Company | 382,000 | – | – | – | – | – | 382,000 | 23.8.2002 | 23.8.2002 – 22.8.2012 | 0.295 |
| | 68,882,000 | – | – | – | – | – | 68,882,000 | 25.6.2003 | 25.6.2003 – 24.6.2013 | 0.365 |
| | 4,974,000 | – | – | – | – | – | 4,974,000 | 25.8.2003 | 25.8.2003 – 24.8.2013 | 0.740 |
| | 57,350,000 | – | (57,350,000) *(Note b)* | – | – | – | – | 2.10.2003 | 2.10.2003 – 1.10.2013 | 0.780 |
| | 1,268,000 | – | – | – | – | – | 1,268,000 | 26.1.2007 | 26.1.2007 – 25.1.2017 | 0.656 |
| | – | – | 5,400,000 *(Note c)* | – | – | – | 5,400,000 | 13.7.2009 | 13.7.2009 – 12.7.2019 | 0.680 |
| | – | – | 5,400,000 *(Note c)* | – | – | – | 5,400,000 *(Note o)* | 13.7.2009 | 1.1.2010 – 12.7.2019 | 0.680 |
| | – | – | 7,200,000 *(note c)* | – | – | – | 7,200,000 *(Note o)* | 13.7.2009 | 1.1.2011 – 12.7.2019 | 0.680 |
| | 70,200,000 | – | (17,000,000) *(Note d)* | – | – | – | 51,200,000 | 28.1.2008 | 28.1.2008 – 27.1.2018 | 0.864 |
| | | | (2,000,000) *(Note e)* | | | | | 28.1.2008 | 28.1.2008 – 14.12.2012 | 0.864 |
| | – | 2,000,000 *(Note a)* | – | – | – | – | 2,000,000 | 14.12.2010 | 14.12.2010 – 13.12.2020 | 0.940 |
| | 203,056,000 | 2,000,000 | (58,350,000) | – | – | | 146,706,000 | | | |
| Employees other than directors of the Company | 13,720,000 | – | (1,500,000) *(Note f)* | – | (500,000) | 20.12.2010 | 11,720,000 | 25.8.2003 | 25.8.2003 – 24.8.2013 | 0.740 |
| | 26,700,000 | – | – | – | – | – | 26,700,000 | 28.1.2008 | 28.1.2008 – 27.1.2018 | 0.864 |
| | 400,000 | – | – | (200,000) | – | – | 200,000 *(Note q)* | 28.1.2008 | 28.1.2011 – 27.1.2018 | 0.864 |
| | 7,500,000 | – | (5,400,000) *(Note c)* | (150,000) | – | – | 1,950,000 | 13.7.2009 | 13.7.2009 – 12.7.2019 | 0.680 |
| | 7,500,000 | – | (5,400,000) *(Note c)* | (150,000) | – | – | 1,950,000 *(Note o)* | 13.7.2009 | 1.1.2010 – 12.7.2019 | 0.680 |
| | 10,000,000 | – | (7,200,000) *(Note c)* | (200,000) | – | – | 2,600,000 *(Note o)* | 13.7.2009 | 1.1.2011 – 12.7.2019 | 0.680 |
| | 65,820,000 | – | (19,500,000) | (700,000) | (500,000) | | 45,120,000 | | | |
| All other eligible participants | 2,296,000 | – | – | – | – | – | 2,296,000 | 23.8.2002 | 23.8.2002 – 22.8.2012 | 0.295 |
| | 5,356,000 | – | – | – | – | – | 5,356,000 | 12.3.2003 | 12.3.2003 – 11.3.2013 | 0.325 |
| | 3,000,000 | – | – | – | – | – | 3,000,000 | 28.1.2008 | 28.1.2008 – 31.12.2011 | 0.864 |
| | – | – | 1,500,000 *(Note f)* | – | – | – | 1,500,000 | 25.8.2003 | 25.8.2003 – 30.4.2011 | 0.740 |
| | – | – | 57,350,000 *(Note b)* | – | – | – | 57,350,000 | 2.10.2003 | 2.10.2003 – 1.10.2013 | 0.780 |
| | – | – | 17,000,000 *(Note d)* | – | – | – | 17,000,000 | 28.1.2008 | 28.1.2008 – 27.1.2018 | 0.864 |
| | – | – | 2,000,000 *(Note e)* | – | – | – | 2,000,000 | 28.1.2008 | 28.1.2008 – 14.12.2012 | 0.864 |
| | 10,652,000 | – | 77,850,000 | – | – | | 88,502,000 | | | |
| | 279,528,000 | 2,000,000 | – | (700,000) | (500,000) | | 280,328,000 | | | |
| Exercisable at year end | | | | | | | 270,328,000 | | | |
| Weighted average exercise price | 0.682 | 0.940 | Not applicable | 0.733 | 0.740 | | 0.684 | | | |

## 41. SHARE-BASED PAYMENT TRANSACTIONS (continued)

### (a) The Company's share option scheme (continued)

| Grantees | At 1.1.2009 | Granted during the year (Note i) | Reclassification of categories of grantees | Cancelled during the year | Exercised during the year (Note j) | Date of exercise | At 31.12.2009 | Date of grant (Note k) | Exercise period | Exercise price per share HK$ |
|---|---|---|---|---|---|---|---|---|---|---|
| | Number of share options for 2009 | | | | | | | | | |
| Directors of the Company | 27,930,000 | – | – | – | (15,304,000) | 7.5.2009 | 382,000 | 23.8.2002 | 23.8.2002 – 22.8.2012 | 0.295 |
| | | | | | (4,000,000) | 2.6.2009 | | | | |
| | | | | | (3,652,000) | 27.7.2009 | | | | |
| | | | | | (4,592,000) | 29.7.2009 | | | | |
| | 3,060,000 | – | – | – | (3,060,000) | 29.7.2009 | – | 12.3.2003 | 12.3.2003 – 11.3.2013 | 0.325 |
| | 68,882,000 | – | – | – | – | – | 68,882,000 | 25.6.2003 | 25.6.2003 – 24.6.2013 | 0.365 |
| | 5,474,000 | – | – | – | (500,000) | 6.8.2009 | 4,974,000 | 25.8.2003 | 25.8.2003 – 24.8.2013 | 0.740 |
| | 57,350,000 | – | – | – | – | – | 57,350,000 | 2.10.2003 | 2.10.2003 – 1.10.2013 | 0.780 |
| | 1,268,000 | – | – | – | – | – | 1,268,000 | 26.1.2007 | 26.1.2007 – 25.1.2017 | 0.656 |
| | 70,200,000 | – | – | – | – | – | 70,200,000 | 28.1.2008 | 28.1.2008 – 27.1.2018 | 0.864 |
| | 234,164,000 | – | – | – | (31,108,000) | | 203,056,000 | | | |
| Employees other than directors of the Company | 15,220,000 | – | – | (1,500,000) (Note l) | – | – | 13,720,000 | 25.8.2003 | 25.8.2003 – 24.8.2013 | 0.740 |
| | 29,700,000 | – | (3,000,000) (Note m) | – | – | – | 26,700,000 | 28.1.2008 | 28.1.2008 – 27.1.2018 | 0.864 |
| | 400,000 | – | – | – | – | – | 400,000 (Note q) | 28.1.2008 | 28.1.2011 – 27.1.2018 | 0.864 |
| | – | 7,500,000 | – | – | – | – | 7,500,000 | 13.7.2009 | 13.7.2009 – 12.7.2019 | 0.680 |
| | – | 7,500,000 | – | – | – | – | 7,500,000 (Note n) | 13.7.2009 | 1.1.2010 – 12.7.2019 | 0.680 |
| | – | 10,000,000 | – | – | – | – | 10,000,000 (Note n) | 13.7.2009 | 1.1.2011 – 12.7.2019 | 0.680 |
| | 45,320,000 | 25,000,000 | (3,000,000) | (1,500,000) | – | | 65,820,000 | | | |
| All other eligible participants | 7,652,000 | – | – | (7,652,000) (Note p) | – | – | – | 23.8.2002 | 23.8.2002 – 12.4.2009 | 0.295 |
| | 9,948,000 | – | – | – | (7,652,000) | 8.5.2009 | 2,296,000 | 23.8.2002 | 23.8.2002 – 22.8.2012 | 0.295 |
| | 20,660,000 | – | – | – | (7,652,000) | 12.5.2009 | 5,356,000 | 12.3.2003 | 12.3.2003 – 11.3.2013 | 0.325 |
| | | | | | (7,652,000) | 2.11.2009 | | | | |
| | – | – | 3,000,000 (Note m) | – | – | – | 3,000,000 | 28.1.2008 | 28.1.2008 – 31.12.2011 | 0.864 |
| | 38,260,000 | – | 3,000,000 | (7,652,000) | (22,956,000) | | 10,652,000 | | | |
| | 317,744,000 | 25,000,000 | – | (9,152,000) | (54,064,000) | | 279,528,000 | | | |
| Exercisable at year end | | | | | | | 261,628,000 | | | |
| Weighted average exercise price | 0.610 | 0.680 | Not applicable | 0.368 | 0.305 | | 0.682 | | | |

## 41. SHARE-BASED PAYMENT TRANSACTIONS (continued)

### (a) The Company's share option scheme (continued)

*Notes:*

*a.* The closing price of the shares of the Company on the trading day immediately before the date (i.e.14/12/2010) on which the share options of the Company were granted to a director of the Company was HK$0.92. The consideration in respect of the grant of these share options received by the Company was HK$1.

*b.* The 57,350,000 outstanding share options were held by Mr. Cao Zhong ("Mr. Cao") who resigned as director of the Company with effect from 10 May 2010 and the options shall lapse immediately upon his resignation. However, in view of the great contribution of Mr. Cao during his tenure of service for the Company, the date of cessation to exercise the options was changed to 1/10/2013 by the approval of the Board on 7 May 2010. Mr. Cao is reclassified under the category of "All other eligible participants".

*c.* Totalling of 18,000,000 outstanding share options held by Mr. Yang Kaiyu ("Mr. Yang") who is reclassified under the category of "Directors of the company" when Mr. Yang was appointed as Deputy Managing Director during the year.

*d.* 17,000,000 outstanding share options were held by Mr. Cao who resigned as director of the Company with effect from 10 May 2010, the options shall lapse immediately upon his resignation. However, in view of the great contribution of Mr. Cao during his tenure of service for the Company, the date of cessation to exercise the options was changed to 27/1/2018 by the approval of the Board on 7 May 2010. Mr. Cao is reclassified under the category of "All other eligible participants".

*e.* 2,000,000 outstanding share options were held by Mr. Geert Johan Roelens ("Mr. Roelens") who resigned as director of the Company with effect from 15 December 2010, the options shall lapse immediately upon his resignation. However, in view of the great contribution of Mr. Roelens during his tenure of directorship of the Company, the date of cessation to exercise the options was changed to 14/12/2012 by the approval of the Board on 14 December 2010. Mr. Roelens is reclassified under the category of "All other eligible participants".

*f.* The date of cessation to exercise the 1,500,000 outstanding share options held by a retired employee who is reclassified as "All other eligible participants" under the 2002 Scheme was changed to 30/4/2011 by the approval of the Board on 29 April 2010.

*g.* Totalling of 700,000 share options were cancelled during the year ended 31 December 2010 due to resignation of employees.

*h.* The closing price of the shares of the Company on the trading day immediately before the date (i.e. 20/12/2010) on which the share options of the Company were exercised was HK$0.89. The consideration in respect of the exercise of the share options received by the Company was HK$370,000.

## 41. SHARE-BASED PAYMENT TRANSACTIONS (continued)

### (a) The Company's share option scheme (continued)

*Notes: (continued)*

*i.* The closing price of the shares of the Company on the trading day immediately before the date (i.e. 13/7/2009) on which the share options of the Company were granted to certain employees of the Company and the Group respectively was HK$0.67.

*j.* The weighted average closing price of the shares on the trading days immediately before the dates (7/5/2009, 8/5/2009, 12/5/2009, 2/6/2009, 27/7/2009, 29/7/2009, 6/8/2009 and 2/11/2009) on which the share options of the Company were exercised was HK$0.60.

*k.* The vesting period of the share options is from the date of grant to the end of the exercise period except for the share options set out under Notes (n), (o) and (q) below.

*l.* The 1,500,000 share options were cancelled during the year ended 31 December 2009 due to the resignation of an employee.

*m.* The date of cessation to exercise the 3,000,000 outstanding share options held by an employee who is reclassified as "All other eligible participants" under the 2002 Scheme was changed to 31/12/2011 by the approval of the Board on 31 December 2009.

*n.* 7,500,000 share options have a vesting period from the date of grant to 31 December 2009 and 10,000,000 share options have a vesting period from the date of grant to 31 December 2010.

*o.* 5,400,000 share options have a vesting period from the date of grant to 31 December 2009 and 7,200,000 share options have a vesting period from the date of grant to 31 December 2010 under the category of "Directors of the Company". 1,950,000 share options have a vesting period from the date of grant to 31 December 2009 and 2,600,000 share options have a vesting period from the date of grant to 31 December 2010 under the category of "Employees other than the directors of the Company".

*p.* The 7,652,000 outstanding share options held by an eligible participant were cancelled during the year ended 31 December 2009.

*q.* Both 400,000 and 200,000 share options have a vesting period of three years from the date of grant.

During the year ended 31 December 2010, 2,000,000 share options granted on 14 December 2010 were vested immediately ("Option A"). During the year ended 31 December 2009, 25,000,000 share options were granted on 13 July 2009 in which 7,500,000 share options vested immediately ("Option B") and 7,500,000 share options were vested during the period from 13 July 2009 to 31 December 2009 ("Option C"), and 10,000,000 share options were vested during the period from 13 July 2009 to 31 December 2010 ("Option D"). The fair value of the share options granted in 2010 determined at the date of grant using the Binomial Option Pricing Model (the "Binomial Model") was approximately HK$780,000 (2009: HK$6,749,000).

## 41. SHARE-BASED PAYMENT TRANSACTIONS (continued)

### (a) The Company's share option scheme (continued)

The following assumptions were used to calculate the fair value of the above Options A, B, C and D using the Binomial Model:

| | 14 December 2010<br>Option A | 13 July 2009<br>Option B | 13 July 2009<br>Option C | 13 July 2009<br>Option D |
|---|---|---|---|---|
| Closing price of the Company's shares at the grant date | HK$0.94 | HK$0.68 | HK$0.68 | HK$0.68 |
| Exercise price | HK$0.94 | HK$0.68 | HK$0.68 | HK$0.68 |
| Option life | 10 years | 10 years | 10 years | 10 years |
| Expected volatility | 58.87% | 66.37% | 66.37% | 66.37% |
| Dividend yield | 2.66% | 1.47% | 1.47% | 1.47% |
| Risk-free interest rate | 3.313% | 2.372% | 2.372% | 2.372% |
| Sub-optimal factor | 1.91 | 1.52 | 1.52 | 1.52 |

Expected volatility of the Company was determined by using the historical volatility of the Company's share price and the share price of other companies in the similar industry, respectively.

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

### (b) Hing Cheong Metals (China & Hong Kong) Limited's share option scheme

On 30 April 2007, Hing Cheong Metals (China & Hong Kong) Limited ("Hing Cheong") has entered into an agreement with a director of Hing Cheong pursuant to which the director was granted an option to subscribe for up to 10% equity interest in one subsidiary of Hing Cheong, in order to recognise his valuable and potential contribution to the Company and its subsidiaries. The option vested immediately. The fair value of the option determined at the date of the grant using the Binomial Model was HK$840,000.

The option is exercisable in whole or in part (and in an integral multiple of 2% of the issued share capital of Hing Cheong's subsidiary) at any time within the exercise period from 30 April 2007 to 29 April 2012. The option will lapse after 29 April 2012. During the years ended 31 December 2009 and 2010, no options were exercised, lapsed or cancelled. In addition, no share options were granted during the years ended 31 December 2009 and 2010.

## 42. RELATED PARTY TRANSACTIONS/BALANCES

### Trading transactions/balances

In addition to balances detailed in note 26, during the year, the Group had the following material transactions with (i) Shougang HK and its subsidiaries (collectively the "Shougang HK Group"), (ii) Linksky Limited, a subsidiary of Shougang Concord Grand (Group) Limited which is an associate of Shougang HK and (iii) Shougang TECH Group.

| | THE GROUP | |
|---|---|---|
| | **2010** | 2009 |
| | **HK$'000** | HK$'000 |
| Consultancy fees paid to the Shougang HK Group | **960** | 960 |
| Rental expenses paid to Shougang HK Group | **1,830** | 1,608 |
| Rental expenses paid to Linksky Limited | **35** | 142 |
| Sales to Shougang TECH Group | **–** | 711 |

### Compensation of key management personnel

The key management of the Group comprises all directors of the Company, details of their emoluments and share-based payment transactions are disclosed in notes 12 and 41, respectively. The emoluments of the directors of the Company are decided by the remuneration committee of the Company having regard to individual's performance, the Group's performance and profitability, remuneration benchmark in the industry and prevailing market condition.

## 43. PRINCIPAL SUBSIDIARIES

Particulars of the principal subsidiaries at the end of reporting period are as follows:

| Name of subsidiary | Place of incorporation/ registration and operation | Nominal value of issued and paid-up capital/ registered capital | Attributable equity interest of the Group | | Principal activities |
|---|---|---|---|---|---|
| | | | **2010** | 2009 | |
| Bigland Investment Limited | Hong Kong/ PRC | 2 ordinary shares of HK$1 each | **100%** | 100% | Property investment |
| Eastern Century Metal Products Limited | Hong Kong | 1,000,000 ordinary shares of HK$1 each | **100%** | 100% | Trading of metals and investment holding |
| Everwinner Investments Limited | Hong Kong | 1,000,000 ordinary shares of HK$1 each | **100%** | 100% | Investment holding |

## 43. PRINCIPAL SUBSIDIARIES (continued)

| Name of subsidiary | Place of incorporation/ registration and operation | Nominal value of issued and paid-up capital/ registered capital | Attributable equity interest of the Group 2010 | 2009 | Principal activities |
|---|---|---|---|---|---|
| Fair Win Development Limited | Hong Kong/ PRC | 500,000 ordinary shares of HK$1 each | **100%** | 100% | Property investment |
| Heroland Investment Limited | Hong Kong | 2 ordinary shares of HK$1 each | **100%** | 100% | Property investment |
| Hing Cheong Metals (China & Hong Kong) Limited | Hong Kong | 1,000,000 ordinary shares of HK$1 each | **100%*** | 100%* | Processing and trading of copper and brass products |
| Jiaxing Eastern Steel Cord Co., Ltd.# 嘉興東方鋼簾線有限公司 | PRC | US$70,000,000 | **100%** | 100% | Manufacturing of steel cord |
| Online Investments Limited | British Virgin Islands/ Hong Kong | 31,000,000 ordinary shares of US$1 each | **100%** | 100% | Investment holding |
| Tengzhou Eastern Steel Cord Co., Ltd.# 滕州東方鋼簾線有限公司 | PRC | US$82,000,000 (2009: US$49,000,000) | **100%** | 100% | Manufacturing of steel cord |
| Vicwah Metal Products Company Limited | Hong Kong | 4,000 ordinary shares of HK$100 each | **100%** | 100% | Investment holding |
| Wei Hua International Trading (Shanghai) Co. Ltd.# 巍華國際貿易(上海)有限公司 | PRC | US$5,000,000 | **100%*** | 100%* | Trading of metals |
| 東莞興銅五金有限公司# | PRC | US$2,600,000 (2009: US$1,699,832) | **100%** | 100% | Processing and trading of copper and brass products |

# A wholly foreign owned enterprise.

* Directly held by the Company.

## 43. PRINCIPAL SUBSIDIARIES (continued)

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

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

## 44. GOVERNMENT GRANTS

The amount includes an amount of approximately HK$78,371,000 (2009: HK$88,484,000) unconditional grant from the local government of Tengzhou City, Shandong in the PRC. The management considered that the grant was a financial subsidy to the Group with no further related cost to be incurred.

In addition, an amount of approximately HK$2,295,000 (2009: HK$7,617,000) was granted and received from the local government of Jiaxing City, Zhejiang in the PRC as an incentive in relation to the compliance with the environmental regulations and technology advancement.

# SUMMARY OF INVESTMENT PROPERTIES

Particulars of the investment properties held by the Group as at 31 December 2010 are as follows:

| | Property | Use | Group interest | Category of lease |
|---|---|---|---|---|
| 1. | House 5 – 18 and carport<br>District 5, Legend Garden Villas<br>No. 89 Capital Airport Road<br>Chaoyang District, Beijing<br>PRC | Residential | 100% | Medium term lease |
| 2. | Workshop Nos. 15, 16, 17 and 18 on 12th Floor<br>Honour Industrial Centre<br>No. 6 Sun Yip Street<br>Chaiwan, Hong Kong | Industrial and commercial | 100% | Long term lease |
| 3. | Workshop No. 10 on 6th Floor<br>Honour Industrial Centre<br>No. 6 Sun Yip Street<br>Chaiwan, Hong Kong | Industrial and commercial | 100% | Long term lease |
| 4. | Apartment Unit 4-14-5, Level 2<br>Block 4-8, District 4<br>Legend Garden Villas<br>No. 89 Capital Airport Road<br>Chaoyang District, Beijing<br>PRC | Residential | 100% | Medium term lease |

# DEFINITIONS

In this report, unless the context otherwise requires, the following terms shall have the meaning set out below:

| | |
|---|---|
| "Able Legend" | Able Legend Investments Limited, a subsidiary of Shougang HK |
| "Articles" | the Articles of Association of the Company |
| "Bekaert" | NV Bekaert SA, a company incorporated under the laws of Belgium, a substantial shareholder (as defined under the SFO) of the Company |
| "Bekaert Holding" | Bekaert Holding B.V., a wholly owned subsidiary of Bekaert |
| "Board" | the board of Directors |
| "Casula" | Casula Investments Limited, a subsidiary of Shougang International |
| "Code" | the code on Corporate Governance Practices as set out in Appendix 14 to the Listing Rules |
| "Company"/"Shougang Century" | Shougang Concord Century Holdings Limited, a company incorporated in Hong Kong with limited liability and the Shares of which are listed on the main board of the Stock Exchange |
| "Copper and brass products" | processing and trading of copper and brass products |
| "Director(s)" | the director(s) of the Company |
| "EUR" | Euro, the lawful currency of the Eurozone |
| "Fair Union" | Fair Union Holdings Limited, a wholly owned subsidiary of Shougang International |
| "GBP" | pound sterling, the lawful currency of the United Kingdom |
| "Group" | the Company and its subsidiaries |
| "HKD/HK$" | Hong Kong dollars, the lawful currency of Hong Kong |

| | |
|---|---|
| "Hong Kong" | the Hong Kong Special Administrative Region of the PRC |
| "Internal Control Manual" | an internal management and control manual of the Company adopted in 1999 and revised from time to time thereafter |
| "JESC" | Jiaxing Eastern Steel Cord Co., Ltd., a company incorporated under the laws of the PRC and an indirect wholly owned subsidiary of the Company |
| "Li Ka Shing Foundation" | Li Ka Shing Foundation Limited, a "charitable body" within the meaning of the Inland Revenue Ordinance (Chapter 112 of the Laws of Hong Kong), a substantial shareholder (as defined under the SFO) of the Company |
| "Listing Rules" | the Rules Governing the Listing of Securities on the Stock Exchange |
| "Model Code" | Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules |
| "PRC" | the People's Republic of China, which for the purpose of this report shall exclude Hong Kong, Macau and Taiwan |
| "Richson" | Richson Limited, a subsidiary of Shougang International |
| "RMB" | Renminbi, the lawful currency of the PRC |
| "SCCHL Code" | Model Code for Securities Transactions by Directors of Shougang Concord Century Holdings Limited adopted in 2004 and revised from time to time thereafter |
| "SCCHL Corporate Governance Code" | Shougang Concord Century Holdings Limited Code on Corporate Governance |
| "SFO" | Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) |
| "Share(s)" | ordinary share(s) of HK$0.10 each in the share capital of the Company |

| | |
|---|---|
| "Shareholder(s)" | shareholder(s) of the Company |
| "Shougang Grand" | Shougang Concord Grand (Group) Limited (Stock Code: 730), a company incorporated in Bermuda with limited liability, the shares of which are listed on the main board of the Stock Exchange |
| "Shougang HK" | Shougang Holding (Hong Kong) Limited, a company incorporated in Hong Kong with limited liability, a substantial shareholder (as defined under the SFO) of the Company |
| "Shougang International" | Shougang Concord International Enterprises Company Limited (Stock Code: 697), a company incorporated in Hong Kong with limited liability, the shares of which are listed on the main board of the Stock Exchange, a substantial shareholder (as defined under the SFO) of the Company |
| "Shougang Technology" | Shougang Concord Technology Holdings Limited (Stock Code: 521), a company incorporated in Hong Kong with limited liability, the shares of which are listed on the main board of the Stock Exchange |
| "Steel cord" | manufacturing of steel cord for radial tyres |
| "Stock Exchange" | The Stock Exchange of Hong Kong Limited |
| "TESC" | Tengzhou Eastern Steel Cord Co., Ltd., a company incorporated under the laws of the PRC and an indirect wholly owned subsidiary of the Company |
| "USD/US$" | United States dollars, the lawful currency of the United States of America |
| "Xinyu Iron" | Xinyu Iron & Steel Co., Ltd. 新余鋼鐵股份有限公司, a joint stock limited company incorporated in the PRC, whose shares are listed on the Shanghai Stock Exchange |
| "%" | per cent.. |