
THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this circular, you should consult your licensed securities dealer or other institution in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in Shougang Concord Century Holdings Limited, you should at once hand this circular and the accompanying forms of proxy to the purchaser or the transferee or to the bank, licensed securities dealer or registered institution in securities or other agent through whom the sale or transfer was effected for transmission to the purchaser or the transferee.

The circular is for information only and does not constitute an invitation or offer to acquire, purchase or subscribe for securities.

The Stock Exchange of Hong Kong Limited takes no responsibility for the contents of this document, makes no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this circular.



Shougang Concord Century Holdings Limited

首長寶佳集團有限公司

(Incorporated in Hong Kong with limited liability)

(Stock Code: 103)

(1) CONNECTED TRANSACTION: SUBSCRIPTION OF NEW SHARES BY A SUBSTANTIAL SHAREHOLDER

(2) APPLICATION FOR THE WHITEWASH WAIVER

AND

(3) PROPOSED INCREASE IN AUTHORISED SHARE CAPITAL

Independent financial adviser to the Independent Board Committee



A letter from the board of directors of Shougang Concord Century Holdings Limited is set out on pages 5 to 14 of this circular. A letter from the independent board committee of Shougang Concord Century Holdings Limited containing its advice to the independent shareholders of Shougang Concord Century Holdings Limited in connection with the subscription of new shares in Shougang Concord Century Holdings Limited by a substantial shareholder and the application for the whitewash waiver is set out on page 15 of this circular. A letter from VC Capital Limited, the independent financial adviser to the independent board committee of Shougang Concord Century Holdings Limited, containing its advice to the independent board committee and the independent shareholders of Shougang Concord Century Holdings Limited in connection with the subscription of new shares in Shougang Concord Century Holdings Limited by a substantial shareholder and the application for the whitewash waiver is set out on pages 16 to 28 of this circular.

A notice convening the extraordinary general meeting of Shougang Concord Century Holdings Limited to be held on 10 January 2008 are set out on pages 100 to 101 of this circular. Whether or not you are able to attend the extraordinary general meeting, you are strongly urged to complete and sign the enclosed form of proxy, in accordance with the instructions printed thereon, and to lodge them with the share registrars of Shougang Concord Century Holdings Limited, Tricor Tengis Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Hong Kong, as soon as possible but in any event not later than 48 hours before the time appointed for the holding of the extraordinary general meeting or any adjourned meeting (as the case may be). Completion and return of the form of proxy will not preclude you from attending and voting in person at the extraordinary general meeting of Shougang Concord Century Holdings Limited or any adjourned meeting should you so wish.

21 December 2007

CONTENTS

	<i>Page</i>
Definitions	1
Letter from the Board	5
Letter from the Independent Board Committee	15
Letter from VC Capital Limited	16
Appendix I – Financial information	29
Appendix II – General information	87
Notice of the Extraordinary General Meeting	100

DEFINITIONS

In this document, the following expressions have the following meanings unless the context requires otherwise:

“Announcement”	the announcement dated 30 November 2007 issued by the Company containing, <i>inter alia</i> , details of the First Subscription, the Second Subscription, the proposed increase in authorised share capital and the Whitewash Waiver
“associate(s)”	has the meaning ascribed thereto under the Listing Rules
“Board”	the board of Directors
“Business Day”	any day (excluding a Saturday) on which banks in Hong Kong are opened for business throughout their normal business hours
“Company”	Shougang Concord Century Holdings Limited, a company incorporated in Hong Kong with limited liability, the shares of which are listed on the Stock Exchange
“Concert Parties”	Shougang International and parties acting in concert with it (including Shougang Holding)
“connected person(s)”	has the meaning ascribed thereto under the Listing Rules
“Director(s)”	the director(s) of the Company
“Executive”	the Executive Director of the Corporate Finance Division of the Securities and Futures Commission or any delegate of the Executive Director
“EGM”	the extraordinary general meeting of the Company to be held at JW Marriott Ballroom, Level 3, JW Marriott Hotel Hong Kong, Pacific Place, 88 Queensway, Hong Kong on Thursday, 10 January 2008 at 10:30 a.m., the notice of which is set out on pages 100 to 101 of this circular, or any adjournment thereof
“First Subscription”	the subscription of 400,000,000 new Shares by Shougang International pursuant to the First Subscription Agreement
“First Subscription Agreement”	the subscription agreement dated 29 November 2007 between Shougang International and the Company under which 400,000,000 new Shares shall be issued and allotted to Shougang International at the price of HK\$1.03 per Share
“First Subscription Shares”	400,000,000 new Shares to be subscribed by Shougang International pursuant to the First Subscription Agreement

DEFINITIONS

“General Mandate”	general mandate granted to the Directors pursuant to the resolution passed by the Shareholders at its annual general meeting held on 6 June 2007 which authorised the Directors to issue up to 255,213,311 new Shares prior to the Company’s next annual general meeting
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Board Committee”	the independent board committee of the Company comprising Messrs. Yip Kin Man, Raymond, Law, Yui Lun and Chan Chung Chun, all independent non-executive Directors, which has been established in connection with the First Subscription and the Whitewash Waiver
“Independent Shareholder(s)”	Shareholders (other than Shougang International, its concert parties and its associates, including Shougang Holding) who are not required to abstain from voting on the resolution to be proposed at the EGM to approve the First Subscription Agreement and the Whitewash Waiver under the Listing Rules and the Takeovers Code
“JESC”	Jiaxing Eastern Steel Cord Co., Ltd., an indirect wholly-owned subsidiary of the Company
“Latest Practicable Date”	18 December 2007, being the latest practicable date prior to the issue of this circular for ascertaining certain information contained herein
“LKSFL”	Li Ka Shing Foundation Limited
“Listing Committee”	the Listing Committee of the Stock Exchange
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Placing”	the placing of 100,000,000 new Shares at HK\$1.03 per Placing Share pursuant to the Placing Agreement dated 29 November 2007
“Placing Agent”	CITIC Securities Corporation Finance (HK) Limited
“Placing Agreement”	the placing agreement dated 29 November 2007 between the Company and the Placing Agent in respect of the Placing

DEFINITIONS

“Placing Shares”	100,000,000 new Shares were placed pursuant to the Placing
“PRC”	the People’s Republic of China (excluding Hong Kong for the purpose of this circular)
“Second Subscription”	the subscription of 100,000,000 new Shares by LKSFL pursuant to the Second Subscription Agreement
“Second Subscription Agreement”	the subscription agreement dated 29 November 2007 between the Company and LKSFL under which 100,000,000 new Shares shall be issued and allotted to LKSFL at the price of HK\$1.03 per Share
“Second Subscription Shares”	100,000,000 new Shares to be subscribed by LKSFL pursuant to the Second Subscription Agreement
“SFC”	the Securities and Futures Commission
“SFO”	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) as amended from time to time
“Share(s)”	ordinary share(s) of HK\$0.10 each in the share capital of the Company
“Shareholder(s)”	registered holders of Shares
“Shougang Holding”	Shougang Holding (Hong Kong) Limited, a company incorporated in Hong Kong with limited liability
“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 Stock Exchange
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subscriptions”	the First Subscription and the Second Subscription
“Subscription Price”	HK\$1.03 per Share
“Subscription Shares”	the First Subscription Shares and the Second Subscription Shares
“substantial shareholder(s)”	has the meaning ascribed thereto under the Listing Rules
“Takeovers Code”	The Code on Takeovers and Mergers

DEFINITIONS

“Whitewash Waiver”	a waiver from the Executive (as defined in the Takeovers Code) pursuant to Note 1 on the Dispensations from Rule 26 of the Takeovers Code in respect of the obligations of the Concert Parties to make a mandatory general offer for all the Shares not already owned or agreed to be acquired by the Concert Parties which would otherwise arise as a result of completion of the First Subscription Agreement
“%”	per cent.

LETTER FROM THE BOARD



Shougang Concord Century Holdings Limited 首長寶佳集團有限公司

(Incorporated in Hong Kong with limited liability)
(Stock Code: 103)

Directors:

Cao Zhong (*Chairman*)
Li Shaofeng (*Managing Director*)
Tong Yihui (*Deputy Managing Director*)
Leung Shun Sang, Tony
Tang Cornor Kwok Kau (*Deputy Managing Director*)
Geert Johan Roelens
Yip Kin Man, Raymond*
Law, Yui Lun*
Chan Chung Chun*

Registered office:

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

* *Independent non-executive Director*

To the Shareholders

21 December 2007

Dear Sir or Madam,

**(1) CONNECTED TRANSACTION: SUBSCRIPTION OF
NEW SHARES BY A SUBSTANTIAL SHAREHOLDER**

(2) APPLICATION FOR THE WHITEWASH WAIVER

AND

(3) PROPOSED INCREASE IN AUTHORISED SHARE CAPITAL

INTRODUCTION

It was announced on 30 November 2007 that, among others, the Company entered into the First Subscription Agreement on 29 November 2007. Pursuant to the First Subscription Agreement, the Company has conditionally agreed to issue and Shougang International has conditionally agreed to subscribe for the First Subscription Shares at the price of HK\$1.03 per Share. It was also announced on 30 November 2007 that the Second Subscription Agreement was entered into on 29 November 2007, pursuant to which the Company has conditionally agreed to issue and LKSFL has conditionally agreed to subscribe for the Second Subscription Shares at the price of HK\$1.03 per Share. The Second Subscription Shares will be issued under the General Mandate.

LETTER FROM THE BOARD

Shougang International is a substantial Shareholder. Accordingly, the First Subscription constitutes a connected transaction for the Company under the Listing Rules. Completion of the First Subscription Agreement is subject to, amongst other things, the approval by the Independent Shareholders at the EGM.

APPLICATION FOR WHITEWASH WAIVER

As at the Latest Practicable Date, Shougang International holds approximately 20.71% of the issued share capital of the Company. Assuming no further Shares will be issued by the Company prior to the completion of the First Subscription, upon completion of the First Subscription Agreement, Shougang International's interest in the Company will increase from 20.71% to 38.48% and the interests held by the Concert Parties will increase from 32.93% to 47.97% of the issued share capital of the Company as enlarged by the First Subscription Shares. Immediately after completion of the First Subscription and the Second Subscription, assuming no further Shares will be issued by the Company prior to completion of the First Subscription and the Second Subscription, Shougang International's interest in the Company will increase from 20.71% to 36.44% and the interests held by the Concert Parties will increase from 32.93% to 45.42% of the issued share capital of the Company as enlarged by the First Subscription Shares and the Second Subscription Shares. The Concert Parties will, in the absence of the Whitewash Waiver, be obliged to make a mandatory general offer for all the Shares not already owned or agreed to be acquired by them pursuant to Rule 26 of the Takeovers Code as a result of the completion of the First Subscription. Shougang International has applied to the SFC for the Whitewash Waiver pursuant to Note 1 of the Notes on Dispensation from Rule 26 of the Takeovers Code on the basis that, among other things, the acquisition of Shares by Shougang International pursuant to the First Subscription Agreement is a cash subscription and the Whitewash Waiver shall be subject to the approval by the Independent Shareholders at the EGM on a vote taken by way of a poll whereby Shougang International, its associates and concert parties, including Shougang Holding, will abstain from voting.

There is no dealings in the securities of the Company by the Concert Parties during the six months prior to the date of the Announcement and up to and including the Latest Practicable Date.

PROPOSED INCREASE IN AUTHORISED SHARE CAPITAL

The Directors also propose to increase the Company's authorised share capital from HK\$200,000,000 to HK\$500,000,000 to be dividend into 5,000,000,000 Shares, by the creation of an additional 3,000,000,000 unissued Shares. The increase in the authorised share capital of the Company is conditional upon the passing of an ordinary resolution by the Shareholders at the EGM and no Shareholder is required to abstain from voting for such resolution.

The purpose of this circular is to provide further information on (i) the First Subscription and the application for the Whitewash Waiver, the recommendation of the Independent Board Committee to the Independent Shareholders in respect of the First Subscription and the Whitewash Waiver, the advice of VC Capital Limited in respect of the First Subscription and the Whitewash Waiver, additional information as required under the Takeovers Code and the Listing Rules; (ii) the proposed increase in authorised share capital of the Company and (iii) the notice of the EGM to approve the First Subscription and the granting of the Whitewash Waiver by the Executive and the proposed increase in authorised share capital of the Company.

LETTER FROM THE BOARD

The Independent Board Committee comprising Messrs. Yip Kin Man, Raymond, Law, Yui Lun and Chan Chung Chun, all independent non-executive Directors, has been established in connection with the First Subscription and the Whitewash Waiver. Mr. Leung Shun Sang, Tony, a non-executive Director of the Company, is also a non-executive director of Shougang International and is therefore not considered to be independent and has been excluded from the Independent Board Committee of the Company for the purpose of the First Subscription and the Whitewash Waiver.

VC Capital Limited has been appointed as the independent financial adviser to advise the Independent Board Committee in this respect and the appointment of which has been approved by the Independent Board Committee.

A notice of the EGM is set out on pages 100 to 101 of this circular. The letter from the Independent Board Committee containing its recommendation to the Independent Shareholders in connection with the First Subscription and the Whitewash Waiver is set out on page 15 of this circular. The letter from VC Capital Limited containing its advice to the Independent Board Committee in connection with the First Subscription and the Whitewash Waiver is set out on pages 16 to 28 of this circular.

THE FIRST SUBSCRIPTION AGREEMENT

The principal terms and conditions of the First Subscription Agreement were arrived at after arm's length negotiation between the parties involved and are summarised below:

- | | |
|---------|---|
| Parties | (1) The Company as the issuer. |
| | (2) Shougang International as the subscriber. |

Shougang International is a substantial shareholder of the Company, holding approximately 20.71% of the issued share capital of the Company as at the Latest Practicable Date.

- | | |
|-------------------------------|--|
| Number of Shares to be issued | 400,000,000 Shares, representing (i) approximately 28.89% of the existing issued share capital of the Company; (ii) approximately 22.42% of the issued share capital of the Company as enlarged by the First Subscription; and (iii) approximately 21.23% of the issued share capital of the Company as enlarged by the First Subscription and the Second Subscription, assuming the outstanding share options of the Company are not exercised. |
|-------------------------------|--|

Application will be made to the Stock Exchange for the granting of the listing of, and permission to deal in, the First Subscription Shares.

LETTER FROM THE BOARD

Subscription Price	<p>HK\$1.03 per Subscription Share. The aggregate Subscription Price of HK\$412,000,000 shall be payable in cash upon completion of the First Subscription Agreement.</p> <p>The Subscription Price was agreed after arm's length negotiations with reference primarily to the average closing price of the Shares for the last five trading days before the First Subscription Agreement and represents (i) a discount of approximately 6.36% to the closing price of HK\$1.10 per Share as quoted on the Stock Exchange on 28 November 2007, being the last trading day of the Shares immediately prior to the issue of the Announcement; (ii) a discount of approximately 6.02% to the average closing price of approximately HK\$1.096 per Share as quoted on the Stock Exchange for the last five trading days immediately before the date of the First Subscription Agreement; and (iii) a discount of approximately 2.83% to the closing price of HK\$1.06 per Share as quoted on the Stock Exchange on the Latest Practicable Date.</p>
Ranking	<p>The First Subscription Shares, when fully paid, will rank pari passu in all respects with the Shares in issue at the time of issue and allotment of the First Subscription Shares.</p>
Conditions precedent	<p>Completion of the First Subscription Agreement is conditional upon:</p> <ol style="list-style-type: none">1. the approval by the Independent Shareholders of the First Subscription Agreement, the Whitewash Waiver and the transactions contemplated thereunder having been obtained at the EGM;2. the grant of the Whitewash Waiver by the Executive;3. the Listing Committee of the Stock Exchange granting its approval to the listing of, and permission to deal in, the First Subscription Shares; and4. the approval by the independent shareholders of Shougang International of the First Subscription Agreement and the transactions contemplated thereunder having been obtained at the extraordinary general meeting of Shougang International.

LETTER FROM THE BOARD

The above conditions cannot be waived by the parties to the First Subscription Agreement. If the above conditions are not fulfilled on or before 31 March 2008 (or such other date as may be agreed between the parties in writing), then the First Subscription Agreement and all rights and obligations of the parties thereunder will cease and terminate.

Expected completion date The third business day immediately after the date upon which the Company advises Shougang International that the conditions precedent set out above shall have been satisfied (or such other date as may be agreed in writing between the Company and Shougang International) in writing.

EFFECT OF SHAREHOLDING OF THE COMPANY UPON COMPLETION

The following table shows the shareholding structures of the Company as at the Latest Practicable Date and (a) upon completion of the First Subscription; (b) upon completion of the First Subscription and the Second Subscription; and (c) upon completion of the First Subscription, the Second Subscription and assuming all the share options of the Company outstanding as at the Latest Practicable Date have been exercised:

	No. of Shares held as at the Latest Practicable Date	Approximately % of the issued share capital	No. of Shares held immediately after completion of the First Subscription before completion of the Second Subscription and assuming the outstanding share options of the Company are not exercised	Approximately % of the issued share capital	No. of Shares held immediately after completion of the First Subscription and the Second Subscription and assuming the outstanding share options of the Company are not exercised	Approximately % of the issued share capital	No. of Shares held immediately after completion of the First Subscription and the Second Subscription and the outstanding share options of the Company are fully exercised	Approximately % of the issued share capital
Shougang International (Note 1)	286,655,179	20.71	686,655,179	38.48	686,655,179	36.44	686,655,179	32.66
Shougang Holding (Note 2)	169,228,000	12.22	169,228,000	9.49	169,228,000	8.98	169,228,000	8.05
Sub-total of Shougang International and its concert parties:	455,883,179	32.93	855,883,179	47.97	855,883,179	45.42	855,883,179	40.71

LETTER FROM THE BOARD

	No. of Shares held as at the Latest Practicable Date	Approximately % of the issued share capital	No. of Shares held immediately after completion of the First Subscription before completion of the Second Subscription and assuming the outstanding share options of the Company are not exercised	Approximately % of the issued share capital	No. of Shares held immediately after the First Subscription and the Second Subscription and assuming the outstanding share options of the Company are not exercised	Approximately % of the issued share capital	No. of Shares held immediately after completion of the First Subscription and the Second Subscription and the outstanding share options of the Company are fully exercised	Approximately % of the issued share capital
Directors								
Cao Zhong	-	-	-	-	-	-	65,002,000	3.09
Li Shaofeng	-	-	-	-	-	-	38,266,000	1.82
Tong Yihui	-	-	-	-	-	-	45,920,000	2.18
Leung Shun Sang, Tony	-	-	-	-	-	-	12,244,000	0.58
Tang Cornor Kwok Kau (Note 3)	2,496,000	0.18	2,496,000	0.14	2,496,000	0.13	3,496,000	0.17
Yip Kin Man, Raymond	-	-	-	-	-	-	1,016,000	0.05
Law, Yui Lun	-	-	-	-	-	-	1,016,000	0.05
Sub-total:	2,496,000	0.18	2,496,000	0.14	2,496,000	0.13	166,960,000	7.94
NV Bekaert SA ("Bekaert")	250,000,000	18.06	250,000,000	14.01	250,000,000	13.27	250,000,000	11.90
LKSFL (Note 4)	-	-	-	-	100,000,000	5.30	100,000,000	4.76
Other public shareholders	675,967,377	48.83	675,967,377	37.88	675,967,377	35.88	729,447,377	34.69
Total	<u>1,384,346,556</u>	<u>100.00</u>	<u>1,784,346,556</u>	<u>100.00</u>	<u>1,884,346,556</u>	<u>100.00</u>	<u>2,102,290,556</u>	<u>100.00</u>

- Note:*
- (1) Such shareholding includes the Shares held by Shougang International through its wholly-owned subsidiaries.
 - (2) Such shareholding includes the Shares held by Shougang Holding and its associates but excludes the Shares held by Shougang International through its wholly-owned subsidiaries. Such shareholding includes 155,358,000 Shares held by the wholly-owned subsidiaries of Shougang Holding and 13,870,000 Shares held by a wholly-owned subsidiary of Shougang Concord Grand (Group) Limited which in turn is held as to approximately 42.6% by Shougang Holding.
 - (3) Those Shares are beneficially owned by Tang Cornor Kwok Kau and in which of 200,000 Shares are also jointly owned by his wife. Since Mr. Tang is the Deputy Managing Director of the Company, to avoid any potential conflict of interest, Mr. Tang will abstain from voting on the resolution in relation to the First Subscription and the Whitewash Waiver to be proposed at the EGM.
 - (4) LKSFL is/will be a public shareholder of the Company upon completion of the Subscriptions.

LETTER FROM THE BOARD

FUND-RAISING EXERCISE BY THE COMPANY DURING THE PAST 12 MONTHS

The Company has issued and allotted 250,000,000 new Shares to NV Bekaert SA (“**Bekaert**”) at the subscription price at HK\$0.65 per Share pursuant to the subscription agreement dated 22 September 2006 as supplemented by a supplemental agreement dated 27 September 2006 (the “**Bekaert Subscription**”). The subscription agreement was completed on 15 December 2006. The gross proceeds obtained from the Bekaert Subscription were in the amount of HK\$162,500,000. The net proceeds of approximately HK\$161,000,000, after deducting the payment of all costs and expenses relating to such subscription, were used entirely for direct and indirect expansion of the existing steel cord business of JESC with the aim of increasing its annual production capacity to the range of between 60,000 tons and 80,000 tons. The Company currently indirectly holds 100% of the equity interest in JESC. There is no change of the intended use of the proceeds outlined above.

On 29 November 2007, the Company entered into the Placing Agreement with the Placing Agent pursuant to which 60,000,000 Shares have been placed to Keywise Greater China Opportunities Master Fund and 40,000,000 Shares have been placed to the funds under management by Value Partners Limited at the price of HK\$1.03 per Placing Share. The Placing Shares have been issued under the General Mandate and completed on 11 December 2007.

REASONS FOR THE FIRST SUBSCRIPTION AND THE USE OF PROCEEDS

The Company intends to apply the net proceeds of the First Subscription of approximately HK\$410,000,000 for expediting the progress of the expansion of production capacity of steel cord business of the Group, reducing finance cost and for general working capital of the Group and that approximately HK\$125,000,000 is intended to be applied for repayment of an existing bank loan, approximately HK\$180,000,000 is intended to be applied towards the expansion of an additional 30,000 tonnes to the Group’s annual production capacity of steel cord and the balance of approximately HK\$310,500,000 as general working capital. The Directors believe that the First Subscription is in the interests of the Company and its Shareholders as a whole, represent a good opportunity for the Company to raise capital and broaden its Shareholders and capital base. Besides, they also strengthen the financial position of the Company.

IMPLICATION UNDER THE LISTING RULES AND TAKEOVERS CODE

As at the Latest Practicable Date, Shougang International was interested in approximately 20.71% of the existing issued share capital of the Company. Accordingly, Shougang International is a connected person of the Company and the First Subscription will constitute a connected transaction for the Company under the Listing Rules. Completion of the First Subscription Agreement is subject to, among other things, approval of the Independent Shareholders and the approval of the Whitewash Waiver at the EGM and grant of Whitewash Waiver by the Executive.

LETTER FROM THE BOARD

The First Subscription will trigger a mandatory general offer required to be made by Shougang International and/or the Concert Parties under Rule 26 of the Takeovers Code, for all the Shares other than those already owned by Shougang International and/or the Concert Parties. Shougang International has made an application to the Executive to apply for the Whitewash Waiver. The Executive has indicated that it will grant the Whitewash Waiver subject to the approval by the Independent Shareholders on votes taken by way of a poll. Shougang International, its associates and concert parties, including Shougang Holding, will abstain from voting at the EGM in this respect. Should the Whitewash Waiver be granted, the Concert Parties will not be required to make a general offer upon the completion of the First Subscription.

FUTURE INTENTIONS

Shougang International intends to maintain the existing businesses of the Group upon successful completion of the First Subscription Agreement. Shougang International does not intend to introduce any major changes to the existing operation and management structure of the Group, or to discontinue the employment of any employees of the Group, or to redeploy any material fixed assets of the Group, as a result of the completion of the First Subscription Agreement. Accordingly, there will be no material change to the existing businesses and employment of the existing employees of the Group as a result of the completion of the First Subscription Agreement.

PROPOSED INCREASE IN AUTHORISED SHARE CAPITAL

As at the Latest Practicable Date, the authorised share capital of the Company was HK\$200,000,000 divided into 2,000,000,000 Shares, of which 1,384,346,556 Shares have been issued and fully paid or credited as fully paid. In order to provide the Group with flexibility in its future expansion and growth by means of issuing new Shares and fund-raising activities as the Directors may consider appropriate from time to time, the Directors propose to increase the authorised share capital of the Company to HK\$500,000,000 divided into 5,000,000,000 Shares by the creation of an additional 3,000,000,000 unissued Shares.

An ordinary resolution in respect of the proposed increase in the authorised share capital of the Company will be put to the Shareholders for their approval in the EGM by show of hands, subject to the articles of association of the Company. No Shareholder is required to abstain from voting for such resolution.

Save as disclosed in this circular, the Directors have no present intention to issue any part of the unissued Shares as a result of the increase in the authorised share capital of the Company.

LETTER FROM THE BOARD

INFORMATION OF THE GROUP

The Company and its subsidiaries are principally engaged in the manufacturing of steel cords and trading and processing of copper and brass products. The consolidated financial information of the Company for the two financial years ended 31 December 2005 and 2006 and for the six months ended 30 June 2007 are summarised as follows:

	Six months ended 30 June 2007 (Unaudited) <i>HK\$'000</i>	Year ended 31 December 2006 (Audited) <i>HK\$'000</i>	Year ended 31 December 2005 (Audited) <i>HK\$'000</i>
Revenue	343,967	678,923	592,889
Profit before taxation	27,970	83,283	68,218
Profit after taxation	24,004	76,031	62,228
Net assets at period/year end	1,002,685	957,354	693,753

INFORMATION OF SHOUGANG INTERNATIONAL

Shougang International is a company incorporated in Hong Kong and whose shares are listed on the main board of the Stock Exchange. The principal business of Shougang International is manufacturing, sale and trading of steel products, shipping operations and electricity generation. Shougang International is held as to approximately 40.70% by Shougang Holding which in turn, through its associates, holds an aggregate of 32.93% (including the 20.71% held by Shougang International) of the issued share capital of the Company at the Latest Practicable Date. Shougang International has no intention to transfer, charge or pledge any of the First Subscription Shares to any other persons.

EGM

A notice convening the EGM is set out on pages 100 to 101 of this circular. At the EGM, ordinary resolutions will be proposed to the Shareholders to consider and if thought fit, approve the increase in the authorised share capital of the Company and to the Independent Shareholders to consider and, if thought fit, approve the First Subscription and the Whitewash Waiver, where votes of the Independent Shareholders will be taken on a poll.

The result of voting taken on a poll at the EGM will be announced by the Company in accordance with the Listing Rules.

Whether or not you intend to attend the meeting, you are requested to complete the accompanying form of proxy in accordance with the instructions printed thereon and return it to the Company's share registrars, Tricor Tengis Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Hong Kong as soon as practicable and in any event, not less than 48 hours before the time appointed for the holding of the EGM. Delivery of a form of proxy will not preclude you from attending and voting in person at the EGM or any adjourned meeting (as the case may be) should you so desire.

LETTER FROM THE BOARD

PROCEDURES FOR DEMANDING A POLL

Pursuant to articles 58 and 59 of the articles of association of the Company, a resolution put to the vote of a general meeting of the Shareholders shall be decided on a show of hands unless before, or on the declaration of the result of, the show of hands a poll is duly demanded. Subject to the provisions of the Companies Ordinance, a poll may be demanded:

- (a) by the chairman; or
- (b) by not less than five members having the right to vote at the meeting; or
- (c) by a member or members representing not less than one-tenth of the total voting rights of all the members having the right to vote at the meeting; or
- (d) a member or members holding shares conferring a right to vote on the resolution on which an aggregate sum has been paid up equal to not less than one-tenth of the total sum paid on all the shares conferring the right.

Unless a poll is duly demanded, a declaration by the chairman that a resolution has been carried or carried unanimously, or by a particular majority, or lost, or not carried by a particular majority, and an entry to that effect in the minutes of the meeting, shall be conclusive evidence of the fact without proof of the number or proportion of the votes recorded in favour of or against the resolution.

Notwithstanding the above, the resolutions (save for the proposal of increase in authorised share capital) to be proposed at the EGM will be voted by way of a poll.

RECOMMENDATION

The Independent Board Committee, having considered the terms of the First Subscription and the transactions contemplated thereunder, and the Whitewash Waiver and having taken into account the opinion of VC Capital Limited on the First Subscription and the transactions contemplated thereunder, and the Whitewash Waiver, in particular the factors and reasons considered by VC Capital Limited in arriving at its advice thereon as set out in the letter of advice from VC Capital Limited on pages 16 to 28 of this circular, considers that the terms of the First Subscription and the transactions contemplated thereunder, and the Whitewash Waiver taken as a whole are fair and reasonable so far as the Independent Shareholders are concerned. Accordingly, the Independent Board Committee recommends the Independent Shareholders to vote in favour of the resolutions to approve and give effect to the First Subscription and the transactions contemplated thereunder, and the Whitewash Waiver at the EGM. The letter from the Independent Board Committee is set out on page 15 of this circular.

Your attention is also drawn to the additional information set out in the appendix to this circular.

Yours faithfully,
For and on behalf of the Board
Shougang Concord Century Holdings Limited
Cao Zhong
Chairman

LETTER FROM THE INDEPENDENT BOARD COMMITTEE



Shougang Concord Century Holdings Limited

首長寶佳集團有限公司

(Incorporated in Hong Kong with limited liability)

(Stock Code: 103)

21 December 2007

To the Independent Shareholders

Dear Sir or Madam,

(1) CONNECTED TRANSACTION: SUBSCRIPTION OF NEW SHARES BY A SUBSTANTIAL SHAREHOLDER

(2) APPLICATION FOR WHITEWASH WAIVER

We refer to the circular dated 21 December 2007 of the Company (the “Circular”) of which this letter forms part. Terms defined in the Circular shall have the same meanings herein unless the context otherwise requires.

We have been appointed to form the Independent Board Committee to consider and to advise the Independent Shareholders as to whether, in our opinion, the terms of the First Subscription Agreement in relation to the First Subscription and the Whitewash Waiver are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

VC Capital Limited, the independent financial adviser, has been appointed to advise the Independent Board Committee with respect to the First Subscription and the Whitewash Waiver.

We wish to draw your attention to the “Letter from the Board” set out on pages 5 to 14 of the Circular which contains, inter alia, information of the First Subscription and the Whitewash Waiver as well as the “Letter from VC Capital Limited” set out on pages 16 to 28 of the Circular which contains its advice in respect of the First Subscription and the Whitewash Waiver.

Having taken into account the opinion of VC Capital Limited and, in particular, the factors, reasons and recommendations as set out in its letter on pages 16 to 28 of the Circular, we consider that the terms of the First Subscription and the Whitewash Waiver are fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Shareholders and the Company as a whole. Accordingly, we recommend the Independent Shareholders to vote in favour of the resolutions to approve the First Subscription and the Whitewash Waiver.

Yours faithfully,

For and on behalf of the Independent Board Committee

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

Independent non-executive Director

LETTER FROM VC CAPITAL LIMITED

The following is the full text of the letter of advice to the Independent Board Committee and the Independent Shareholders from VC Capital Limited prepared for incorporation in this circular.



21 December 2007

*To the Independent Board Committee
and the Independent Shareholders*

Dear Sirs,

CONNECTED TRANSACTION: SUBSCRIPTION OF NEW SHARES BY A SUBSTANTIAL SHAREHOLDER AND APPLICATION FOR THE WHITEWASH WAIVER

INTRODUCTION

We refer to our engagement as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the First Subscription and the Whitewash Waiver, details of which are set out in the letter from the Board as contained in the circular of the Company dated 21 December 2007 (the “**Circular**”), of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as those defined in the Circular unless the context otherwise requires.

It was announced by the Company on 30 November 2007 that the Company had entered into the First Subscription Agreement with Shougang International on 29 November 2007, pursuant to which the Company had conditionally agreed to issue, and Shougang International had conditionally agreed to subscribe for, a total of 400,000,000 new Shares at the price of HK\$1.03 per Share. As Shougang International is a substantial Shareholder and therefore a connected person of the Company for the purpose of the Listing Rules, the First Subscription constitutes a connected transaction for the Company under the Listing Rules. Completion of the First Subscription Agreement is subject to, among other things, approval of the First Subscription Agreement, the Whitewash Waiver and the transactions contemplated thereunder by the Independent Shareholders by way of poll at the EGM and the grant of the Whitewash Waiver by the Executive.

As at the Latest Practicable Date, the interest of Shougang International in the Company was 286,655,179 Shares, representing approximately 20.71% of the issued share capital of the Company, and the interests of the Concert Parties in the Company was 455,883,179 Shares, representing approximately 32.93% of the issued share capital of the Company. Assuming no further Shares will be issued by the Company prior to the completion of the First Subscription, upon completion of the First Subscription Agreement, Shougang International’s interest in the Company will increase to 686,655,179 Shares, representing approximately 38.48% of the issued share capital of the Company as enlarged by the issue

LETTER FROM VC CAPITAL LIMITED

of the First Subscription Shares, and the interests held by the Concert Parties will increase to 855,883,179 Shares, representing approximately 47.97% of the issued share capital of the Company as enlarged by the issue of the First Subscription Shares. The Concert Parties would, in the absence of the Whitewash Waiver, be obliged to make a mandatory general offer for all the Shares not already owned or agreed to be acquired by them pursuant to Rule 26 of the Takeovers Code as a result of the completion of the First Subscription. Shougang International has applied to the SFC for the Whitewash Waiver pursuant to Note 1 of the Notes on Dispensation from Rule 26 of the Takeovers Code on the basis that, among other things, the acquisition of the First Subscription Shares by Shougang International pursuant to the First Subscription Agreement is a cash subscription and the Whitewash Waiver shall be subject to the approval by the Independent Shareholders at the EGM on a vote taken by way of a poll whereby Shougang International, its associates and concert parties, including Shougang Holding, will abstain from voting.

The Independent Board Committee, comprising all the independent non-executive Directors who are considered independent in respect of the First Subscription and the Whitewash Waiver, namely Mr. Yip Kin Man, Raymond, Mr. Law, Yui Lun and Mr. Chan Chung Chun, has been formed to advise the Independent Shareholders on the First Subscription and the Whitewash Waiver.

In our capacity as the independent financial adviser to the Independent Board Committee and the Independent Shareholders, our role is to give an independent opinion as to whether the terms of the First Subscription Agreement and the Whitewash Waiver are fair and reasonable so far as the Independent Shareholders are concerned, and whether the entering into of the First Subscription Agreement and the Whitewash Waiver are in the interests of the Company and the Shareholders as a whole.

VC Capital Limited (“**VC Capital**”) is not associated with the Company and its substantial Shareholders or any party acting, or presumed to be acting, in concert with any of them and, accordingly, is considered eligible to give independent advice on the terms of the First Subscription Agreement and the Whitewash Waiver. Apart from normal professional fees payable to us in connection with this engagement, no arrangement exists whereby VC Capital will receive any fees or benefits from the Company or its substantial Shareholders or any party acting, or presumed to be acting, in concert with any of them.

In formulating our opinion, we have relied on the information and facts supplied and the opinions expressed by the executive Directors and the senior management of the Group. We have also assumed that the information and representations contained or referred to in the Circular were true and accurate at the time they were prepared or made and will continue to be so up to the date of the EGM. We have no reason to doubt the truth, accuracy and completeness of the information and representations made to us by the executive Directors and senior management of the Group. We have also been advised by the executive Directors that no material facts have been omitted from the Circular and the information provided to us.

We consider that we have reviewed sufficient information to reach an informed view, to justify reliance on the accuracy of the information contained in the Circular and to provide a reasonable basis for our opinion. We have not, however, conducted any independent investigation into the business and affairs or the future prospects of the Group, nor have we carried out any independent verification of the information supplied.

LETTER FROM VC CAPITAL LIMITED

PRINCIPAL FACTORS AND REASONS CONSIDERED

In considering whether the terms of the First Subscription Agreement and the Whitewash Waiver are fair and reasonable so far as the Independent Shareholders are concerned and whether the entering into of the First Subscription Agreement and the Whitewash Waiver are in the interests of the Company and the Shareholders as a whole, we have taken into account the following principal factors and reasons:

A. Reasons for and benefits of the First Subscription

1. *Reasons for the First Subscription and use of proceeds*

As stated in the letter from the Board in the Circular, the net proceeds of the First Subscription, together with the Placing and the Second Subscription, are estimated to be about HK\$615,500,000 (the “**Net Proceeds**”). The net proceeds from the First Subscription alone amount to approximately HK\$410,000,000.

The Company is a company listed on the Main Board of the Stock Exchange. The principal businesses of the Group comprise manufacturing of steel cords and processing and trading of copper and brass products.

It is stated that the Company intends to use the Net Proceeds for expediting the progress of the expansion of production capacity of the Group’s steel cord business, for reducing finance cost and as general working capital of the Group. We further understand that approximately HK\$125,000,000 is intended to be applied for repayment of an existing bank loan, approximately HK\$180,000,000 is intended to be applied towards the expansion of an additional 30,000 tonnes to the Group’s annual production capacity of steel cord and the balance of approximately HK\$310,500,000 as general working capital.

The Net Proceeds in the sum of approximately HK\$180,000,000 would be used in the expansion of an additional 30,000 tonnes to the Group’s annual steel cord production capacity, which is in line with the business and strategy of the Group. As stated in the interim report of the Company for the six months ended 30 June 2007 (the “**Interim Report**”), the Group has been operating in the very competitive steel cord market. Such expansion would enable the Group to strengthen its production capacity and hence be able to tap on market opportunities and improve its overall competitiveness in the industry.

Moreover, it is intended that approximately HK\$125,000,000 will be applied towards repayment of an existing bank loan. Following such repayment, the Group’s gearing ratio (being total liabilities divided by total assets) is expected to decrease from approximately 20.0% as at 30 June 2007 to approximately 10.1%. Such repayment is also expected to incur a savings in interest expense of approximately HK\$6.5 million per annum, which represents approximately 36.5% of the Group’s interest costs for the year ended 31 December 2006 of approximately HK\$17.8 million. We, therefore, concur with the Directors’ view that the First Subscription is in the interests of the Company and its Shareholders as a whole.

LETTER FROM VC CAPITAL LIMITED

B. Basis of the Subscription Price

As stated in the letter from the Board in the Circular, the Subscription Price of HK\$1.03 per Subscription Share was arrived at after arm's length negotiations with reference primarily to the average closing price of the Shares for the last five trading days before the First Subscription Agreement, and represents:

- (i) a discount of approximately 6.36% to the closing price of HK\$1.10 per Share as quoted on the Stock Exchange on 28 November 2007 (the "**Last Trading Day**"), being the last trading day of the Shares immediately prior to the entering into of the First Subscription Agreement;
- (ii) a discount of approximately 6.02% to the average closing price of approximately HK\$1.096 per Share as quoted on the Stock Exchange for the last five trading days immediately before the date of the First Subscription Agreement; and
- (iii) a discount of approximately 2.83% to the closing price of HK\$1.06 per Share as quoted on the Stock Exchange on the Latest Practicable Date.

1. Comparison of the Subscription Price with the Placing Price

As stated in the letter from the Board in the Circular, the Subscription Price of HK\$1.03 per Subscription Share is the same as the Placing Price at which 60,000,000 new Shares and 40,000,000 new Shares have been placed to Keywise Greater China Opportunities Master Fund and funds under management by Value Partners Limited, all of which being independent third parties, on the same date, which was arrived at after arm's length negotiations.

2. Comparable Subscriptions

As the Subscription Price is equal to the Placing Price at which new Shares were placed to independent third parties, we consider that it is appropriate to compare the Subscription Price under the First Subscription Agreement with the subscription prices of recent transactions involving the subscription by or placing to independent third parties of shares issued by companies listed on the Main Board of the Stock Exchange. As such, we have identified, to the best of our knowledge, the following 22 recent transactions involving such subscriptions or placements (the "**Comparable Independent Subscriptions**") for comparison purposes as shown in Table 1 below. These Comparable Independent Subscriptions are placings to or subscriptions of shares in about the past 6 months by independent third parties of shares issued by Main Board listed companies which are either engaged in the metals industry similar to that of the Company, or of a market capitalization (between HK\$1.0 billion to HK\$2.0 billion) similar to that of the Company (being about HK\$1.5 billion). We consider that taking the Comparable Independent Subscriptions from the past 6-month period is appropriate as such period reflects the overall market sentiment in the second half of 2007, during which the First Subscription Agreement was entered into. The Comparable Independent Subscriptions are an exhaustive list of placings to and subscriptions of shares by independent third parties identified by us, to our best effort, in our research through published information based on the above criteria.

LETTER FROM VC CAPITAL LIMITED

Table 1: The Comparable Independent Subscriptions

Company	Stock Code	Core Business(es)	Market Capitalisation as at 14 December 2007 (HK\$million)	Announcement Date	Premium/ (Discount) to the Closing Price %	Premium/ (Discount) to 5-day Average Closing Price %
Burwill Holdings Limited	24	Steel trading, distribution, manufacturing and processing	1,145.5	4-Jun-2007	(11.24)	(1.70)
ITC Corporation Limited	372	Investment holding, provision of finance, property and treasury investment	1,513.1	18-Jun-2007	(8.60)	(11.30)
Linfair Holdings Limited	462	Engineering systems contracting and support	1,323.0	20-Jun-2007	(32.20)	(17.36)
China Rise International Holdings Limited (formerly Anex International Holdings Limited)	723	Design and manufacture of electrical appliances (to be changed to magnesite mining)	1,017.8	25-Jun-2007	(12.28)	(18.30)
Hembley International Holdings Limited	3989	Manufacture, sale, retailing, distribution of apparel and accessories	1,243.6	3-Jul-2007	(4.67)	1.18
GR Vietnam Holdings Limited (formerly 139 Holdings Limited)	139	Trading of electronic products and securities investment (to expand to retail business in Vietnam)	1,071.4	11-Jul-2007	(12.50)	(12.57)

LETTER FROM VC CAPITAL LIMITED

Company	Stock Code	Core Business(es)	Market Capitalisation as at 14 December 2007 (HK\$million)	Announcement Date	Premium/ (Discount) to the Closing Price %	Premium/ (Discount) to 5-day Average Closing Price %
China Flavors and Fragrances Company Limited	3318	Manufacture, sale, research, development of flavours and fragrances	1,453.2	12-Jul-2007	(9.57)	(5.80)
Mascotte Holdings Limited	136	Manufacture and sale of accessories for photographical, electrical and multi-media products	1,486.8	17-Jul-2007	(10.00)	(14.12)
Sunny Global Holdings Limited	1094	Trading of hardware and software and provision of IT services	1,348.9	18-Jul-2007	(17.54)	(2.49)
Hop Fung Group Holdings Limited	2320	Manufacture and sale of corrugated paper products	1,302.9	19-Jul-2007	(7.31)	(1.39)
Goldbond Group Holdings Limited	172	Provision of financial services and property investment	1,523.4	20-Jul-2007	(5.60)	(5.90)
Oriental Watch Holdings Limited	398	Watch trading	1,120.6	20-Jul-2007	(18.45)	(5.66)
Chuang's China Investments Limited	298	Property investment and development in the PRC	1,530.6	24-Jul-2007	(7.60)	0.55

LETTER FROM VC CAPITAL LIMITED

Company	Stock Code	Core Business(es)	Market Capitalisation as at 14 December 2007 (HK\$million)	Announcement Date	Premium/ (Discount) to the Closing Price %	Premium/ (Discount) to 5-day Average Closing Price %
Hanny Holdings Limited	275	Trading of securities, property investment and trading, holding of vessel for sand mining	1,117.2	27-Aug-2007	(7.89)	(1.69)
Vantage International (Holdings) Limited	15	Property development and investment, building construction	1,113.3	30-Aug-2007	(14.81)	(14.81)
Shandong Molong Petroleum Machinery Company Limited	568	Design, manufacture and sale of petroleum extraction machinery	1,748.6	5-Sep-2007	(5.56)	(2.30)
Greenfield Chemical Holdings Limited	582	Manufacture of paints and trading in petrochemical products	1,080.0	24-Sep-2007	(14.09)	(14.30)
China Pipe Group Ltd. (formerly World Trade Bun Kee Limited)	380	Trading and distribution of water pipes and fittings	1,077.8	4-Oct-2007	(11.76)	(13.04)
First Tractor Company Limited	38	Manufacture and sale of agricultural and construction machineries	1,849.2	10-Oct-2007	(3.90)	(4.45)
Northern International Holdings Limited	736	Property investment	1,111.1	10-Oct-2007	(18.90)	(6.50)

LETTER FROM VC CAPITAL LIMITED

Company	Stock Code	Core Business(es)	Market Capitalisation as at 14 December 2007 (HK\$million)	Announcement Date	Premium/ (Discount) to the Closing Price %	Premium/ (Discount) to 5-day Average Closing Price %
Grand Field Group Holdings Limited	115	Property development and sale in the PRC	1,081.5	18-Oct-2007	(15.10)	(14.10)
Emperor Capital Group Limited	717	Provision of financial services	1,075.1	19-Nov-2007	(19.17)	(19.44)
Median					(11.50)	(6.20)
Simple Average					(12.22)	(8.43)
Minimum					(32.20)	(19.44)
Maximum					(3.90)	1.18
The Company	103			30-Nov-2007	(6.36)	(6.02)

Source: The respective announcements and circulars in connection with the Comparable Independent Subscriptions from the website of Hong Kong Exchanges and Clearing Limited

As illustrated in Table 1 above, we note that the premium/discount of the respective subscription or placing prices to the respective closing prices quoted on the respective last trading days of the Comparable Independent Subscriptions range from a discount of approximately 32.20% to a discount of approximately 3.90%, with a median of an approximately 11.50% discount. The premium/discount of the respective subscription or placing prices to the respective 5-day average closing price up to and including the respective last trading days of the Comparable Independent Subscriptions range from a discount of approximately 19.44% to a premium of approximately 1.18%, with a median of an approximately 6.20% discount. We note that the discount of approximately 6.36% of the Subscription Price to the closing price per Share on the Last Trading Day and the discount of approximately 6.02% of the Subscription Price to the average closing price per Share of the last five trading days up to and including the Last Trading Day are within the range of the discounts of the Comparable Independent Subscriptions. We also note that these two discounts are less than the median of the respective discounts of the Comparable Independent Subscriptions.

As the Comparable Independent Subscriptions reflect the pricing which the market found acceptable of placing/subscription exercises of companies with similar market capitalization as that of the Company, we consider that the pricing of the Comparable Independent Subscriptions can be used to assess the fairness and reasonableness of the Subscription Price. As the discounts of the Subscription Price to the respective closing prices as stated above fall within the respective range of discounts of the Comparable Independent Subscriptions, and that such discounts are less than the median of the respective discounts of the Comparable Independent Subscriptions, we

LETTER FROM VC CAPITAL LIMITED

consider that the discounts of the Subscription Price to the latest closing price and the 5-day average closing price are not excessive and that the Subscription Price is fair and reasonable.

We consider that as different valuation approaches may be used for companies in different industries, given the diversity of the business(es) of the companies in Table 1 above, it would not be meaningful to compare the premium/discount of the Subscription Price to the net asset value (“NAV”) per Share with those of the Comparable Independent Subscriptions.

C. Financial impact of the First Subscription

1. Effect on NAV

As stated in the Interim Report, the NAV of the Group was approximately HK\$1,002,685,000. On the basis of 1,384,346,556 Shares in issue as at the Latest Practicable Date, the NAV per Share as at the Latest Practicable Date was approximately HK\$0.72 per Share. As the Subscription Shares will be issued at a premium of approximately 43.1% to the NAV per Share, the First Subscription is expected to have a positive effect on the NAV of the Group on a per Share basis and thus is beneficial to the Independent Shareholders.

2. Effect on working capital

As stated in the letter from the Board in the Circular, the Net Proceeds are estimated to be about HK\$615,500,000. The net proceeds from the First Subscription alone amount to approximately HK\$410,000,000. As such, immediately after the First Subscription, the cash level of the Group will be increased and hence it is expected to have a positive effect on the working capital of the Group.

3. Effect on gearing

As discussed above, the Company may use part of the Net Proceeds in the amount of approximately HK\$125,000,000 for repayment of an existing bank loan. Following such repayment, the Group’s gearing ratio (being total liabilities divided by total assets) is expected to decrease from approximately 20.0% as at 30 June 2007 to approximately 10.1%. Therefore, there will be a positive effect on gearing. Such repayment is also expected to incur a savings in interest expense of approximately HK\$6.5 million per annum, which represents approximately 36.5% of the Group’s interest costs for the year ended 31 December 2006 of approximately HK\$17.8 million.

In view of the positive effect of the First Subscription on the NAV, the working capital and the gearing of the Group, we consider that the First Subscription will have a positive financial effect to the Group.

LETTER FROM VC CAPITAL LIMITED

D. Alternative means of fund-raising

The Directors have considered alternative means of fund-raising, such as equity financing by way of a rights issue or an open offer, or debt financing by way of bank borrowings. Nevertheless, as:

- (i) a rights issue or an open offer would take a longer time to complete, which would expose the Company to greater market risks in view of the current volatile market and increase the uncertainty in fund-raising;
- (ii) debt financing such as bank borrowings would cause the Group to incur additional interest expenses and would result in adverse effect on the gearing position of the Group,

the Directors consider that given the circumstances, the First Subscription would be the most beneficial fund-raising method for the Company.

LETTER FROM VC CAPITAL LIMITED

E. Dilution effect of the First Subscription on the shareholdings of the Independent Shareholders

Table 2 below shows the shareholding structure of the Company as at the Latest Practicable Date and immediately upon completion of the First Subscription, assuming that the outstanding share options of the Company are not exercised:

Table 2: Shareholding structure of the Company

	No. of Shares held as at the Latest Practicable Date	Approximate % of the issued share capital	No. of Shares held immediately after completion of the First Subscription but before completion of the Second Subscription and assuming the outstanding share options of the Company are not exercised	Approximate % of the issued share capital
Shougang International (<i>Note 1</i>)	286,655,179	20.71	686,655,179	38.48
Shougang Holding (<i>Note 2</i>)	169,228,000	12.22	169,228,000	9.49
Sub-total of Shougang International and its concert parties:	<u>455,883,179</u>	<u>32.93</u>	<u>855,883,179</u>	<u>47.97</u>
Tang Cornor Kwok Kau, a Director (<i>Note 3</i>)	2,496,000	0.18	2,496,000	0.14
NV Bekaert SA (<i>Note 4</i>)	250,000,000	18.06	250,000,000	14.01
Other public Shareholders (<i>Note 5</i>)	<u>675,967,377</u>	<u>48.83</u>	<u>675,967,377</u>	<u>37.88</u>
Total	<u><u>1,384,346,556</u></u>	<u><u>100.00</u></u>	<u><u>1,784,346,556</u></u>	<u><u>100.00</u></u>

Notes:

- (1) Such shareholding includes the Shares held by Shougang International through its wholly-owned subsidiaries.
- (2) Such shareholding includes the Shares held by Shougang Holding and its associates but excludes the Shares held by Shougang International through its wholly-owned subsidiaries. Such shareholding includes 155,358,000 Shares held by the wholly-owned subsidiaries of Shougang Holding and 13,870,000 Shares held by a wholly-owned subsidiary of Shougang Concord Grand (Group) Limited which in turn is held as to approximately 42.6% by Shougang Holding.

LETTER FROM VC CAPITAL LIMITED

- (3) Those Shares are beneficially owned by Tang Cornor Kwok Kau and of which 200,000 Shares are also jointly owned by his wife. Mr. Tang will abstain from voting on the resolutions in relation to the First Subscription Agreement and the Whitewash Waiver to be proposed at the EGM.
- (4) NV Bekaert SA has been a business partner of the Group which became a substantial Shareholder by way of subscription of 250 million Shares pursuant to two agreements dated 22 and 27 September 2006 respectively, details of which are contained in the circular of the Company dated 18 October 2006.
- (5) The other public Shareholders include Keywise Greater China Opportunities Master Fund and funds under management by Value Partners Limited, who have been placed 100,000,000 new Shares on the same date as the First Subscription Agreement.

As illustrated above, the shareholding of the Independent Shareholders upon completion of the First Subscription will be diluted from approximately 48.83% to approximately 37.88%. Nevertheless, having considered that: (i) the Net Proceeds will be used to expand the production capacity of the Group's steel cord business, to repay an existing bank loan which will reduce the Group's interest expense and improve its liability position, and as general working capital in line with the strategy of the Group, which is beneficial to the business of the Group as a whole; (ii) Shougang International will be subscribing for new Shares at the Subscription Price which is at a premium of about 43.1% to the NAV per Share, which will improve the NAV per Share immediately upon completion of the First Subscription thereby benefiting the Independent Shareholders; and (iii) the First Subscription is a more efficient way to raise funds for the Group than the other alternatives as discussed above, we consider that the dilution effect on the shareholdings of the Independent Shareholders are acceptable so far as the Independent Shareholders are concerned.

F. Whitewash Waiver

Assuming no further Shares will be issued by the Company prior to the completion of the First Subscription, upon completion of the First Subscription Agreement, Shougang International's interest in the Company will increase from 20.71% to 38.48% and the interests held by the Concert Parties will increase from 32.93% to 47.97% of the issued share capital of the Company as enlarged by the issue of the First Subscription Shares. The Concert Parties would, in the absence of the Whitewash Waiver, be obliged to make a mandatory general offer for all the Shares not already owned or agreed to be acquired by them pursuant to Rule 26 of the Takeovers Code as a result of the completion of the First Subscription. Shougang International has applied to the Executive for the Whitewash Waiver pursuant to Note 1 of the Notes on Dispensation from Rule 26 of the Takeovers Code on the basis that, among other things, the acquisition of the First Subscription Shares by Shougang International pursuant to the First Subscription Agreement is a cash subscription and the Whitewash Waiver shall be subject to the approval by the Independent Shareholders at the EGM on a vote taken by way of a poll whereby Shougang International, its associates and concert parties, including Shougang Holding, will abstain from voting.

The Independent Shareholders should note that should the First Subscription proceed, the First Subscription will not result in any change in the control of the Company. It is also stated in the letter from the Board that Shougang International intends to maintain the existing businesses of the Group upon successful completion of the First Subscription Agreement, and does not intend to introduce any major changes to the existing operation and management structure of the Group, or to discontinue the employment of any employees of the Group, or to redeploy any material fixed assets of the Group, as a result of the completion of the First Subscription Agreement. Hence, the increase in shareholding interest of the Concert Parties in the Company as a result of the First Subscription will not cause any material change to the control or operations of the Group.

LETTER FROM VC CAPITAL LIMITED

Shareholders should be aware of the fact that the First Subscription is conditional upon, amongst others, the granting of the Whitewash Waiver by the Executive and the passing of the relevant resolution by the Independent Shareholders at the EGM approving the Whitewash Waiver. As such, the approval of the Whitewash Waiver by the Independent Shareholders is a pre-requisite for the First Subscription to proceed and for the Company and its Shareholders to enjoy the benefits of the First Subscription, as stipulated above. Accordingly, we consider that it would be in the interest of the Independent Shareholders to vote in favour of the Whitewash Waiver.

RECOMMENDATION

Having considered the above-mentioned principal factors and reasons, we consider that the terms of the First Subscription Agreement are on normal commercial terms, that the terms of the First Subscription Agreement and the Whitewash Waiver are fair and reasonable so far as the Independent Shareholders are concerned, and that the entering into of the First Subscription Agreement and the Whitewash Waiver are in the interests of the Company and its Shareholders as a whole. Accordingly, we recommend the Independent Board Committee to advise the Independent Shareholders to vote in favour of the ordinary resolutions to be proposed to approve the First Subscription Agreement and the Whitewash Waiver at the EGM.

Yours faithfully,
For and on behalf of
VC Capital Limited

Philip Chau	Keith Lou
<i>Managing Director</i>	<i>Director</i>

1. SHARE CAPITAL

The authorised and issued share capital of the Company as at the Latest Practicable Date and (a) upon completion of the First Subscription (assuming the Second Subscription is yet to be completed); and (b) upon completion of the First Subscription and the Second Subscription were and will be as follows:

Authorised as at the Latest Practicable Date:	<i>HK\$'000</i>
2,000,000,000 Shares	<u>200,000</u>
Issued and to be issued and fully paid:	
1,384,346,556 Shares in issue as at the Latest Practicable Date	<u>138,435</u>
400,000,000 new Shares to be allotted and issued upon completion of the First Subscription	<u>40,000</u>
1,784,346,556 Shares in issue upon completion of the First Subscription	<u>178,435</u>
100,000,000 new Shares to be allotted and issued upon the completion of the Second Subscription	<u>10,000</u>
1,884,346,556 Shares in issue upon completion of the First Subscription and the Second Subscription	<u>188,435</u>
108,280,000 Share that have been issued since 31 December 2006, the date of the last financial year end of the Company	10,828

All of the Shares currently in issue rank pari passu in all respects with each other, including, in particular, as to dividends, voting rights and capital. No part of the share capital of the Company is listed or dealt in any other stock exchange other than the Stock Exchange and no application has been made or is currently proposed or sought for the shares to be listed or dealt in any other stock exchange. 100,000,000 Placing Shares have been issued since the date of the Announcement and up to the Latest Practicable Date. All of the new Shares to be allotted and issued upon completion of the First Subscription and the Second Subscription will rank pari passu in all respects with the Shares in issue as at the date when the Subscriptions Shares are issued.

There were a total of 217,944,000 share options of the Company outstanding as at the Latest Practicable Date which were granted to directors, employees of the Company and other eligible participants under the share option scheme of the Company dated 7 June 2002. These share options can be exercised into 217,944,000 Shares in aggregate. A total of 130,816,000 of these 217,944,000 share options were held by parties acting in concert with Shougang Holding or Shougang International, further details of which are set out in the section headed "Disclosure of Interest" in Appendix II to this circular.

Save as set out herein, there were no other options, warrants or convertible securities of the Company outstanding as at the Latest Practicable Date.

2. AUDITED FINANCIAL INFORMATION

(a) Summary of audited financial results for the three years ended 31 December 2006

The following is a summary of the audited consolidated income statement of the Group for the three years ended 31 December 2006, as extracted from the respective annual reports of the Company:

	Year ended 31 December		
	2006 HK\$'000	2005 HK\$'000	2004 HK\$'000
Revenue	678,923	592,889	427,864
Cost of sales	(553,269)	(497,034)	(315,215)
Gross profit	125,654	95,855	112,649
Other operating income	9,185	8,328	5,758
Distribution and selling costs	(6,133)	(3,748)	(2,011)
Administrative expenses	(38,374)	(33,556)	(29,660)
Other operating expenses	–	–	(2,379)
Fair value changes on derivative financial instruments	340	(46)	–
Exceptional items:			
(Allowance for) recovery of bad and doubtful debts	(1,824)	1,939	(3,244)
Dilution loss on share reform of an associate	(6,858)	–	–
Gain on disposal of subsidiaries	–	–	76,651
Loss on disposal of interests in a jointly controlled entity	–	–	(9,410)
Finance costs	(18,904)	(14,468)	(4,463)
Share of results of jointly controlled entities	10,245	9,133	6,765
Share of result of an associate	9,952	4,781	3,854
Profit before taxation	83,283	68,218	154,510
Income tax expenses	(7,252)	(5,990)	(5,986)
Profit for the year attributable to shareholders of the Company	76,031	62,228	148,524
Dividends paid	–	15,391	40,702
Basic earnings per share	HK7.33 cents	HK6.06 cents	HK14.57 cents
Dividend per share	–	HK1.50 cents	HK4.00 cents

There were no extraordinary items and minority interests recorded for the three years ended 31 December 2006. Further, there were no qualifications contained in the auditors' report of the Company in respect of the last three financial years ended 31 December 2006.

(b) Latest audited financial statements

The following is an extract of the audited financial statements of the Group for the latest financial year ended 31 December 2006 audited by Deloitte Touche Tohmatsu:

Consolidated Income Statement

For the Year Ended 31 December 2006

	<i>Notes</i>	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>
Revenue	5	678,923	592,889
Cost of sales		<u>(553,269)</u>	<u>(497,034)</u>
Gross profit		125,654	95,855
Other operating income		9,185	8,328
Distribution and selling costs		(6,133)	(3,748)
Administrative expenses		(38,374)	(33,556)
Fair value changes on derivative financial instruments		340	(46)
(Allowance for) recovery of bad and doubtful debts		(1,824)	1,939
Dilution loss on share reform of an associate	7	(6,858)	–
Finance costs	8	(18,904)	(14,468)
Share of result of a jointly controlled entity		10,245	9,133
Share of result of an associate		<u>9,952</u>	<u>4,781</u>
Profit before taxation	9	83,283	68,218
Income tax expenses	10	<u>(7,252)</u>	<u>(5,990)</u>
Profit for the year		<u><u>76,031</u></u>	<u><u>62,228</u></u>
Dividends	12	<u><u>–</u></u>	<u><u>15,391</u></u>
Earnings per share	13		
Basic		<u><u>HK7.33 cents</u></u>	<u><u>HK6.06 cents</u></u>
Diluted		<u><u>HK6.93 cents</u></u>	<u><u>HK5.84 cents</u></u>

Consolidated Balance Sheet*At 31 December 2006*

	<i>Notes</i>	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>
Non-current assets			
Investment properties	14	12,220	10,340
Property, plant and equipment	15	447,294	458,085
Prepaid lease payments	16	7,489	7,658
Interests in a jointly controlled entity	18	54,452	49,025
Interests in an associate	19	49,148	48,234
Goodwill	20	41,672	41,672
Club memberships	22	675	675
Available-for-sale investment	23	–	–
		<u>612,950</u>	<u>615,689</u>
Current assets			
Inventories	24	87,831	84,160
Trade receivables	25	177,996	140,172
Bills receivable	25	186,272	71,448
Prepayments, deposits and other receivables		14,438	10,808
Prepaid lease payments	16	441	426
Amount due from a related company	26	4,295	1,497
Derivative financial instruments	34	294	–
Pledged bank deposits	28	3,000	3,000
Bank balances and cash	28	297,566	37,378
		<u>772,133</u>	<u>348,889</u>
Asset classified as held for sale	29	–	2,637
		<u>772,133</u>	<u>351,526</u>
Current liabilities			
Trade payables	30	9,920	9,284
Other payables and accruals		16,791	17,878
Derivative financial instruments	34	–	46
Tax payable		86	668
Amount due to a related company	26	34,837	–
Bank borrowings – due within one year	32	238,499	200,415
		<u>300,133</u>	<u>228,291</u>
Net current assets		<u>472,000</u>	<u>123,235</u>
Total assets less current liabilities		<u>1,084,950</u>	<u>738,924</u>

		2006	2005
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Non-current liabilities			
Bank borrowings – due after one year	32	124,476	42,598
Other payable		1,528	1,638
Deferred tax liabilities	33	1,592	935
		<u>127,596</u>	<u>45,171</u>
		<u>957,354</u>	<u>693,753</u>
Capital and reserves			
Share capital	35	127,607	102,607
Reserves		829,747	591,146
		<u>957,354</u>	<u>693,753</u>

Balance Sheet

At 31 December 2006

	<i>Notes</i>	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>
Non-current assets			
Property, plant and equipment		–	–
Investments in subsidiaries	17	365,649	191,267
Advances to subsidiaries	17	415,593	330,918
Club memberships	22	315	315
		<u>781,557</u>	<u>522,500</u>
Current assets			
Other receivables		1,250	211
Amounts due from subsidiaries	31	22,000	10,000
Derivative financial instruments	34	294	–
Pledged bank deposits	28	3,000	3,000
Bank balances and cash	28	38,990	1,151
		<u>65,534</u>	<u>14,362</u>
Current liabilities			
Other payables and accruals		1,390	229
Derivative financial instruments	34	–	46
Amounts due to a subsidiary	31	31,728	24,780
Bank borrowings – due within one year	32	49,429	31,750
		<u>82,547</u>	<u>56,805</u>
Net current liabilities		<u>(17,013)</u>	<u>(42,443)</u>
Total assets less current liabilities		764,544	480,057
Non-current liability			
Bank borrowings – due after one year	32	124,476	33,905
		<u>640,068</u>	<u>446,152</u>
Capital and reserves			
Share capital	35	127,607	102,607
Reserves	36	512,461	343,545
		<u>640,068</u>	<u>446,152</u>

Consolidated Statement of Changes in Equity*For the Year Ended 31 December 2006*

	Share capital HK\$'000	Share premium HK\$'000	Capital reserve HK\$'000 (Note 1)	Capital redemption reserve HK\$'000	Property revaluation reserve HK\$'000	Translation reserve HK\$'000	PRC reserve funds HK\$'000 (Note 2)	Retained profits HK\$'000	Total HK\$'000
At 1 January 2005	102,607	287,024	32,659	1,013	304	5,128	26,174	179,333	634,242
Surplus on revaluation	-	-	-	-	628	-	-	-	628
Recognition of deferred tax liability on revaluation of properties	-	-	-	-	(75)	-	-	-	(75)
Translation adjustments:									
- subsidiaries	-	-	-	-	-	10,220	-	-	10,220
- jointly controlled entity	-	-	-	-	-	1,021	-	-	1,021
- associate	-	-	-	-	-	880	-	-	880
Net gain recognised directly in equity	-	-	-	-	553	12,121	-	-	12,674
Profit for the year	-	-	-	-	-	-	-	62,228	62,228
Total recognised income for the year	-	-	-	-	553	12,121	-	62,228	74,902
Dividend paid	-	-	-	-	-	-	-	(15,391)	(15,391)
Transfer	-	-	-	-	-	-	1,524	(1,524)	-
At 31 December 2005	102,607	287,024	32,659	1,013	857	17,249	27,698	224,646	693,753
At 1 January 2006	102,607	287,024	32,659	1,013	857	17,249	27,698	224,646	693,753
Surplus on revaluation	-	-	-	-	3,628	-	-	-	3,628
Recognition of deferred tax liability on revaluation of properties	-	-	-	-	(472)	-	-	-	(472)
Translation adjustments:									
- subsidiaries	-	-	-	-	-	19,499	-	-	19,499
- jointly controlled entity	-	-	-	-	-	1,838	-	-	1,838
- associate	-	-	-	-	-	1,602	-	-	1,602
Net gain recognised directly in equity	-	-	-	-	3,156	22,939	-	-	26,095
Profit for the year	-	-	-	-	-	-	-	76,031	76,031
Release of deferred tax liability upon disposal of a property	-	-	-	-	64	-	-	-	64
Release of property revaluation reserve upon disposal of a property	-	-	-	-	(367)	-	-	367	-
Reversal in relation to share reform of an associate	-	-	-	-	-	-	(521)	521	-
Total recognised income for the year	-	-	-	-	2,853	22,939	(521)	76,919	102,190
Issue of shares	25,000	137,500	-	-	-	-	-	-	162,500
Share issue expenses	-	(1,089)	-	-	-	-	-	-	(1,089)
Transfer	-	-	-	-	-	-	18,059	(18,059)	-
At 31 December 2006	127,607	423,435	32,659	1,013	3,710	40,188	45,236	283,506	957,354

Note 1: The capital reserve comprises the following:

- Approximately HK\$23,990,000 relates to an assignment of shareholder's loan at a nominal consideration of HK\$1 during the corporate re-organisation of the Group for the purpose of the listing in 1992.
- Approximately HK\$6,749,000 relates to the share of surplus on revaluation by an associate in 1995 for the purpose of listing on Shanghai Stock Exchange in 1996.
- The remaining balance of approximately HK\$1,920,000 relates to bonus shares issued by an associate in 2001.

Note 2: In accordance with the articles of association of the subsidiaries, jointly controlled entity and associate registered or incorporated in the People's Republic of China (the "PRC") and the relevant PRC laws and regulations, these subsidiaries, jointly controlled entity and associate 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 reserve fund is subject to the approval of the 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 Cash Flow Statement*For the Year Ended 31 December 2006*

	2006	2005
	<i>HK\$'000</i>	<i>HK\$'000</i>
OPERATING ACTIVITIES		
Profit before taxation	83,283	68,218
Adjustments for:		
Depreciation	40,092	38,794
Amortisation of prepaid lease payments	432	421
Increase in fair value of investment properties	(2,810)	(2,695)
Surplus on revaluation of leasehold land and buildings, net	(140)	(337)
Loss on disposal of property, plant and equipment	167	299
Gain on disposal of property held for sale	(339)	–
Interest income	(2,018)	(275)
Allowance for inventories	267	–
Allowance for (recovery of) bad and doubtful debts	1,824	(1,939)
Finance costs	18,904	14,468
Share of result of a jointly controlled entity	(10,245)	(9,133)
Share of result of an associate	(9,952)	(4,781)
Dilution loss on share reform of an associate	6,858	–
Foreign exchange gains	–	(3,058)
	<hr/>	<hr/>
Operating cash flows before movements in working capital	126,323	99,982
(Increase) decrease in inventories	(1,962)	145
Increase in trade and bills receivables	(148,230)	(36,177)
(Increase) decrease in prepayments, deposits and other receivables	(3,923)	2,345
(Increase) decrease in derivative financial instruments	(340)	46
(Increase) decrease in amount due from a related company	(2,798)	621
Increase (decrease) in trade payables	523	(101)
(Decrease) increase in other payables and accruals	(1,479)	3,589
	<hr/>	<hr/>
Cash (used in) generated from operations	(31,886)	70,450
Interest received	2,018	275
Interest paid	(17,849)	(13,682)
Interest paid on finance lease payments	–	(6)
PRC taxes paid	(7,847)	(5,397)
PRC tax refunded	200	–
	<hr/>	<hr/>
NET CASH (USED IN) FROM OPERATING ACTIVITIES	(55,364)	51,640

	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>
INVESTING ACTIVITIES		
Dividends received from a jointly controlled entity	6,656	6,012
Dividend received from an associate	3,782	3,047
Proceeds from disposal of property, plant and equipment	62	81
Proceed from disposal of property held for sale	2,976	–
Purchase of property, plant and equipment	(9,707)	(8,455)
Decrease in pledged bank deposits	–	1,000
	<hr/>	<hr/>
NET CASH FROM INVESTING ACTIVITIES	3,769	1,685
	<hr/>	<hr/>
FINANCING ACTIVITIES		
New bank loans raised	314,162	131,913
Trust receipt loans raised	295,806	290,684
Bank advances for discounted bills	189,284	–
Proceeds on issue of ordinary shares	162,500	–
Advance from a related company	34,837	–
Repayment of trust receipt loans	(320,016)	(290,240)
Repayment of bank loans	(218,234)	(166,398)
Repayment of bank advances for discounted bills	(145,939)	–
Share issue expenses paid	(1,089)	–
Dividend paid	–	(15,391)
Repayment of obligations under finance lease	–	(206)
	<hr/>	<hr/>
NET CASH FROM (USED IN) FINANCING ACTIVITIES	311,311	(49,638)
	<hr/>	<hr/>
NET INCREASE IN CASH AND CASH EQUIVALENTS	259,716	3,687
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		
	37,378	33,255
Effect of foreign exchange rate changes	472	436
	<hr/>	<hr/>
CASH AND CASH EQUIVALENTS AT END OF THE YEAR, Bank balances and cash	<u>297,566</u>	<u>37,378</u>

Notes to the Financial Statements

For the Year Ended 31 December 2006

1. GENERAL

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

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

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

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

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

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

HKAS 1 (Amendment)	Capital Disclosures ¹
HKFRS 7	Financial Instruments: Disclosures ¹
HKFRS 8	Operating Segments ²
HK(IFRIC) – INT 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies ³
HK(IFRIC) – INT 8	Scope of HKFRS 2 ⁴
HK(IFRIC) – INT 9	Reassessment of Embedded Derivatives ⁵
HK(IFRIC) – INT 10	Interim Financial Reporting and Impairment ⁶
HK(IFRIC) – INT 11	HKFRS 2 – Group and Treasury Share Transactions ⁷
HK(IFRIC) – INT 12	Service Concession Arrangements ⁸

¹ Effective for annual periods beginning on or after 1 January 2007

² Effective for annual periods beginning on or after 1 January 2009

³ Effective for annual periods beginning on or after 1 March 2006

⁴ Effective for annual periods beginning on or after 1 May 2006

⁵ Effective for annual periods beginning on or after 1 June 2006

⁶ Effective for annual periods beginning on or after 1 November 2006

⁷ Effective for annual periods beginning on or after 1 March 2007

⁸ Effective for annual periods beginning on or after 1 January 2008

3. SIGNIFICANT ACCOUNTING POLICIES

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

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

Basis of consolidation

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

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

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

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

Business combinations

The acquisition of subsidiaries is accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under HKFRS 3 *Business Combinations* are recognised at their fair values at the acquisition date.

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

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

Goodwill

Goodwill arising on acquisition prior to 1 January 2005

Goodwill arising on an acquisition of a subsidiary for which the agreement date is before 1 January 2005 represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of the relevant subsidiary at the date of acquisition.

For previously capitalised goodwill, the Group has discontinued amortisation from 1 January 2005 onwards, and such goodwill is tested for impairment annually, and whenever there is an indication that the cash-generating unit to which the goodwill relates may be impaired.

Goodwill arising on acquisition on or after 1 January 2005

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

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

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

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

Investments in subsidiaries

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

Interests in jointly controlled entities

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

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

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

Interests in associates

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

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

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

Investment properties

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

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

Property, plant and equipment

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

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

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

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

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

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

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

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

Club memberships

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

Inventories

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

Taxation

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

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

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

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

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

Revenue recognition

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

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

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

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

Non-current assets held for sale

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

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

Leasing

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

The Group as lessor

Rental income from operating leases is recognised in the consolidated income statement on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised as an expense on a straight-line basis over the lease term.

The Group as lessee

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

Leasehold land and building

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

Foreign currencies

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

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

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

Borrowing costs

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

Retirement benefits costs

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

Financial instruments

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

Financial assets

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

Available-for-sale financial assets

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

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

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initial recognition, loans and receivables, including advances to subsidiaries, trade and bills receivables and other receivables, amount due from a related company, pledged bank deposits and bank balances are carried at amortised cost using the effective interest method, less any identified impairment losses. An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. Impairment losses are reversed in subsequent periods when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to a restriction that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Financial liabilities and equity

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

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

Financial liabilities

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

Equity instruments

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

Derivative financial instruments

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

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

Derecognition

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

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

Equity-settled share-based payment transactions*Share options granted to employees*

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

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

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

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

Impairment losses (other than goodwill)

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

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

4. FINANCIAL INSTRUMENTS

a. Financial risk management objectives and policies

The Group's major financial instruments include bank borrowings, trade receivables, bills receivable, other receivables, trade payables, other payables and bank balances. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Market risk

Fair value interest rate risk

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

Cash flow interest rate risk

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

Credit risk

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

- the carrying amount of the respective recognised financial assets as stated in the consolidated balance sheet; and
- the amount of contingent liabilities disclosed in note 39.

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

- the carrying amount of the respective recognised financial assets as stated in the Company's balance sheet; and
- the amount of contingent liabilities disclosed in note 39.

In order to minimise the credit risk, the management of the Group and the Company have delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group and the Company review the recoverable amount of each individual debt at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

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

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

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

Liquidity risk

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

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

b. Fair value

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

- the fair value of other financial assets and financial liabilities (excluding derivative instruments) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis or using prices from observable current market transactions; and
- the fair values of derivative instruments are quoted by financial institution which was determined with reference to estimated cash flows with appropriate yield curve for equivalent instruments at balance sheet date.

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

5. REVENUE

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

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

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

6. BUSINESS AND GEOGRAPHICAL SEGMENTS

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

(a) Business segments

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

- (i) the steel cord segment comprises the manufacturing of steel cords; and
- (ii) the copper and brass products segment comprises the processing and trading of copper and brass products.

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

Segment information about these businesses is presented below:

For the year ended 31 December 2006

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

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

At 31 December 2006

BALANCE SHEET

Assets				
Segment assets	1,013,438	123,738	30,689	1,167,865
Interests in a jointly controlled entity				54,452
Interests in an associate				49,148
Goodwill	41,672	–	–	41,672
Unallocated corporate assets				<u>71,946</u>
Consolidated total assets				<u>1,385,083</u>
Liabilities				
Segment liabilities	14,960	7,003	778	22,741
Unallocated corporate liabilities				<u>404,988</u>
Consolidated total liabilities				<u>427,729</u>

For the year ended 31 December 2005 (restated)

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

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

At 31 December 2005 (restated)

BALANCE SHEET

Assets				
Segment assets	688,292	80,174	16,550	785,016
Interests in a jointly controlled entity				49,025
Interests in an associate				48,234
Goodwill	41,672	–	–	41,672
Unallocated corporate assets				<u>43,268</u>
Consolidated total assets				<u>967,215</u>
Liabilities				
Segment liabilities	10,945	7,949	2,206	21,100
Unallocated corporate liabilities				<u>252,362</u>
Consolidated total liabilities				<u>273,462</u>

(b) Geographical segments

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

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

7. DILUTION LOSS ON SHARE REFORM OF AN ASSOCIATE

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

8. FINANCE COSTS

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

9. PROFIT BEFORE TAXATION

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

10. INCOME TAX EXPENSES

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

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

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

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

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

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

Note:

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

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

11. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

(a) Directors' emoluments

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

For the year ended 31 December 2006

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

For the year ended 31 December 2005

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

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

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

(b) Employees' emoluments

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

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

Their emoluments were within the following bands:

	Number of employees 2006	2005
HK\$Nil to HK\$1,000,000	4	5
HK\$1,000,001 to HK\$1,500,000	1	-
	<u>5</u>	<u>5</u>

12. DIVIDENDS

	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>
No dividend was paid for the year ended 31 December 2006 while a final dividend of HK1.5 cents per share was paid for the year ended 31 December 2005	<u>—</u>	<u>15,391</u>

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

13. EARNINGS PER SHARE

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

	THE GROUP	
	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>
Earnings		
Profit for the year for the purpose of calculation of basic and diluted earnings per share	<u>76,031</u>	<u>62,228</u>

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

14. INVESTMENT PROPERTIES

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

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

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

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

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

All investment properties are rented out under operating leases.

15. PROPERTY, PLANT AND EQUIPMENT

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

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

THE GROUP
2006 **2005**
HK\$'000 *HK\$'000*

The carrying amount of leasehold land and buildings comprises:

Land in Hong Kong:		
Long-term leases	1,180	-
Medium-term leases	5,700	5,699
Land in other regions in the PRC:		
Long-term lease	2,450	1,960
Medium-term lease	54,930	53,520
	<u>64,260</u>	<u>61,179</u>

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

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

16. PREPAID LEASE PAYMENTS

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

17. INVESTMENT IN SUBSIDIARIES/ADVANCES TO SUBSIDIARIES

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

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

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

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

18. INTERESTS IN A JOINTLY CONTROLLED ENTITY

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

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

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

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

19. INTERESTS IN AN ASSOCIATE

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

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

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

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

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

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

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

20. GOODWILL

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

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

21. IMPAIRMENT TESTING ON GOODWILL

As explained in note 6, the Group uses business segments as its primary segment for reporting segment information. For the purposes of impairment testing, goodwill set out in note 20 have been allocated to a subsidiary in steel cord segment, Jiaxing Eastern Steel Cord Co., Ltd..

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

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

22. CLUB MEMBERSHIPS

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

23. AVAILABLE-FOR-SALE INVESTMENT

	THE GROUP	
	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>
Unlisted equity investment, at cost	1,123	1,123
Less: Impairment losses	(1,123)	(1,123)
	<u> </u>	<u> </u>
	<u> </u>	<u> </u>

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

24. INVENTORIES

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

25. TRADE RECEIVABLES/BILLS RECEIVABLE

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

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

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

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

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

26. AMOUNT DUE FROM (TO) A RELATED COMPANY

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

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

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

27. PLEDGE OF ASSETS

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

- (i) the Group’s investment properties amounting to HK\$3,570,000 (2005: HK\$2,580,000) and certain of the leasehold land and buildings with an aggregate net book value of HK\$43,934,000 (2005: HK\$42,486,000);
- (ii) the Group’s prepaid lease payments with a net book value of HK\$7,280,000 (2005: HK\$8,084,000);
- (iii) the Group’s bills receivable amounting to HK\$44,272,000 (2005: Nil);
- (iv) the bank deposits of the Group and the Company amounting to HK\$3,000,000 (2005: HK\$3,000,000); and
- (v) the Company’s shares in certain subsidiaries.

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

28. Pledged Bank Deposits/bank balances and cash**The Group**

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

The Company

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

29. ASSET CLASSIFIED AS HELD FOR SALE

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

30. TRADE PAYABLES

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

	THE GROUP	
	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>
0 – 90 days	8,861	9,172
91 – 180 days	555	87
Over 180 days	504	25
	<u>9,920</u>	<u>9,284</u>

31. AMOUNTS DUE FROM (TO) SUBSIDIARIES

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

32. BANK BORROWINGS

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

The above amounts are repayable as follows:

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

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

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

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

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

	<i>HK\$'000</i>
As at 31 December 2006	26,742
As at 31 December 2005	<u>150,649</u>

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

33. DEFERRED TAX

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

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

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

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

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

34. DERIVATIVE FINANCIAL INSTRUMENTS

	2006 HK\$'000	2005 HK\$'000
Interest rate swaps	<u>294</u>	<u>(46)</u>

Major terms of the interest rate swaps are as follows:

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

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

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

The above derivatives are not designated as hedging instruments.

35. SHARE CAPITAL

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

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

36. RESERVES

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

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

37. OPERATING LEASES

The Group as lessee

	THE GROUP	
	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>
Minimum lease payments under operating leases in respect of land and buildings during the year	<u>1,960</u>	<u>1,489</u>

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.

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

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

The Group as lessor

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

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

	THE GROUP	
	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>
Within one year	513	537
In the second to fifth year inclusive	425	338
	<u>938</u>	<u>875</u>

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

38. CAPITAL COMMITMENTS

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

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

39. CONTINGENT LIABILITIES

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

40. RETIREMENT BENEFIT SCHEMES

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

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

41. SHARE-BASED PAYMENT TRANSACTIONS

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

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

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

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

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

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

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

Grantees	Number of share options for 2006			Date of grant (Note a)	Exercise period	Exercise price per share HK\$
	At 1.1.2006	Cancelled during the year	At 31.12.2006			
Directors of The Company	27,930,000	–	27,930,000	23.8.2002	23.8.2002 – 22.8.2012	0.295
	3,060,000	–	3,060,000	12.3.2003	12.3.2003 – 11.3.2013	0.325
	68,882,000	–	68,882,000	25.6.2003	25.6.2003 – 24.6.2013	0.365
	5,974,000	–	5,974,000	25.8.2003	25.8.2003 – 24.8.2013	0.740
	57,350,000	–	57,350,000	2.10.2003	2.10.2003 – 1.10.2013	0.780
	<u>163,196,000</u>	<u>–</u>	<u>163,196,000</u>			
Employees other than directors of the Company	27,500,000	(4,000,000) (Note b)	23,500,000	25.8.2003	25.8.2003 – 24.8.2013	0.740
All other eligible participants	7,652,000	–	7,652,000	23.8.2002	23.8.2002 – 12.4.2008	0.295
	9,948,000	–	9,948,000	23.8.2002	23.8.2002 – 22.8.2012	0.295
	20,660,000	–	20,660,000	12.3.2003	12.3.2003 – 11.3.2013	0.325
	<u>38,260,000</u>	<u>–</u>	<u>38,260,000</u>			
	<u>228,956,000</u>	<u>(4,000,000)</u>	<u>224,956,000</u>			
Grantees	Number of share options for 2005			Date of grant (Note a)	Exercise period	Exercise price per share HK\$
	At 1.1.2005	Cancelled during the year	At 31.12.2005			
Directors of The Company	27,930,000	–	27,930,000	23.8.2002	23.8.2002 – 22.8.2012	0.295
	3,060,000	–	3,060,000	12.3.2003	12.3.2003 – 11.3.2013	0.325
	68,882,000	–	68,882,000	25.6.2003	25.6.2003 – 24.6.2013	0.365
	5,974,000	–	5,974,000	25.8.2003	25.8.2003 – 24.8.2013	0.740
	57,350,000	–	57,350,000	2.10.2003	2.10.2003 – 1.10.2013	0.780
	<u>163,196,000</u>	<u>–</u>	<u>163,196,000</u>			
Employees other than directors of the Company	27,500,000	–	27,500,000	25.8.2003	25.8.2003 – 24.8.2013	0.740
All other eligible participants	7,652,000	–	7,652,000	23.8.2002	23.8.2002 – 12.4.2006	0.295
	9,948,000	–	9,948,000	23.8.2002	23.8.2002 – 22.8.2012	0.295
	20,660,000	–	20,660,000	12.3.2003	12.3.2003 – 11.3.2013	0.325
	<u>38,260,000</u>	<u>–</u>	<u>38,260,000</u>			
	<u>228,956,000</u>	<u>–</u>	<u>228,956,000</u>			

Notes:

- a. The vesting period of the share options is from the date of grant to the end of the exercise period. The share option is fully vested on grant date.
- b. The 4,000,000 options, were held by an employee of the Group who resigned on 25 December 2006, which were cancelled during the year.
- c. The 7,652,000 outstanding options were held by Ms. Xu Xianghua (“Ms. Xu”) who resigned as director of the Company on 13 April 2004 and the exercise period were changed from 23/8/2002 – 22/8/2012 to 23/8/2002 – 12/4/2006 by the approval of the board of directors on 8 April 2004. In view of the great contribution provided by Ms. Xu during her tenure of her service for the Company, the exercise period was further extended to 12/4/2008 by the approval of the board of directors on 12 April 2006.

42. RELATED PARTY TRANSACTIONS**Trading transactions/balances**

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

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

Compensation of key management personnel

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

43. PRINCIPAL SUBSIDIARIES

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

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

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
			2006	2005	
Fair Win Development Limited	Hong Kong/ PRC	500,000 ordinary shares of HK\$1 each	100%	100%	Property investment
Heroland Investment Limited	Hong Kong	2 ordinary shares of HK\$1 each	100%	100%	Property investment
Hing Cheong Metals (China & Hong Kong) Limited	Hong Kong	1,000,000 ordinary shares of HK\$1 each	100%*	100%*	Processing and trading of copper and brass products
Jiaxing Eastern Steel Cord Co., Ltd. [#] 嘉興東方鋼簾線有限公司	PRC	US\$70,000,000	100%	100%	Manufacturing of steel cord
Meta International Limited	Hong Kong/ PRC	2 ordinary shares of HK\$1 each	100%*	100%*	Processing and trading of copper and brass products
Online Investments Limited	British Virgin Islands/ Hong Kong	31,000,000 ordinary shares of US\$1 each	100%	100%	Investment holding

[#] A wholly foreign owned enterprise.

* Directly held by the Company.

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

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

44. PARTICULARS OF THE JOINTLY CONTROLLED ENTITY

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

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

45. PARTICULARS OF THE ASSOCIATE

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

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

Note:

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

3. UNAUDITED CONSOLIDATED INTERIM RESULTS OF THE GROUP FOR THE SIX MONTHS ENDED 30 JUNE 2007

Set out below is a summary of the unaudited condensed consolidated income statement, condensed consolidated balance sheet, condensed consolidated cash flows statement and notes to the financial statements of the Group as extracted from the interim report of the Company for the six months ended 30 June 2007 which was published on 21 September 2007.

Condensed Consolidated Income Statement

For the six months ended 30 June 2007

	Notes	Six months ended 30 June	
		2007 (Unaudited) HK\$'000	2006 (Unaudited) HK\$'000
Revenue	3	343,967	322,593
Cost of sales		(296,739)	(253,294)
Gross profit		47,228	69,299
Other income		3,140	2,962
Fair value changes on derivative financial instruments		442	942
Distribution and selling costs		(3,563)	(2,556)
Administrative expenses		(22,371)	(17,673)
Recovery of (allowance for) bad and doubtful debts		139	(1,956)
Share of profit of a jointly controlled entity		5,196	4,507
Share of profit of an associate		4,425	3,082
Finance costs	4	(6,666)	(9,021)
Profit before taxation		27,970	49,586
Income tax expenses	5	(3,966)	(4,879)
Profit for the period	6	<u>24,004</u>	<u>44,707</u>
Dividend paid	7	<u>12,761</u>	<u>–</u>
Earnings per share	8		
Basic (HK cents)		<u>1.88</u>	<u>4.36</u>
Diluted (HK cents)		<u>1.82</u>	<u>4.14</u>

Condensed Consolidated Balance Sheet*At 30 June 2007*

		30 June 2007 (Unaudited) HK\$'000	31 December 2006 (Audited) HK\$'000
	<i>Notes</i>		
Non-current assets			
Property, plant and equipment	9	458,783	447,294
Prepaid lease payments		16,622	7,489
Investment properties	9	12,220	12,220
Goodwill		41,672	41,672
Interests in a jointly controlled entity		51,978	54,452
Interests in an associate		51,157	49,148
Club memberships		675	675
		<u>633,107</u>	<u>612,950</u>
Current assets			
Inventories		96,504	87,831
Trade receivables	10	206,992	177,996
Bills receivable	10	166,281	186,272
Prepayments, deposits and other receivables		11,922	14,438
Prepaid lease payments		1,008	441
Amount due from a jointly controlled entity	11	9,422	–
Amount due from an associate	11	3,987	–
Amount due from a related company	11	6,029	4,295
Derivative financial instruments		736	294
Pledged bank deposits		3,000	3,000
Bank balances and cash		114,761	297,566
		<u>620,642</u>	<u>772,133</u>

		30 June 2007 (Unaudited) HK\$'000	31 December 2006 (Audited) HK\$'000
	<i>Notes</i>		
Current liabilities			
Trade payables	12	18,844	9,920
Other payables and accruals		16,278	16,791
Tax payable		3,626	86
Amount due to a related company	11	–	34,837
Bank borrowings – due within one year	13	148,061	238,499
		<u>186,809</u>	<u>300,133</u>
Net current assets		<u>433,833</u>	<u>472,000</u>
Total assets less current liabilities		<u>1,066,940</u>	<u>1,084,950</u>
Non-current liabilities			
Bank borrowings – due after one year	13	61,979	124,476
Other payable		1,572	1,528
Deferred tax liabilities		704	1,592
		<u>64,255</u>	<u>127,596</u>
		<u>1,002,685</u>	<u>957,354</u>
Capital and reserves			
Share capital	14	128,357	127,607
Share premium and reserves		873,488	829,747
Equity attributable to equity holders of the Company		<u>1,001,845</u>	<u>957,354</u>
Share option reserve of a subsidiary		840	–
Total equity		<u>1,002,685</u>	<u>957,354</u>

Condensed Consolidated Statement Of Changes In Equity

For the six months ended 30 June 2007

	Share capital	Share premium	Capital reserve	Capital redemption reserve	Property revaluation reserve	Translation reserve	PRC reserve funds	Share option reserve	Retained profits	Total a subsidiary	Equity component of share option reserve of subsidiary	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2006 (audited)	102,607	287,024	32,659	1,013	857	17,249	27,698	-	224,646	693,753	-	693,753
Translation adjustments:												
- subsidiaries	-	-	-	-	-	5,455	-	-	-	5,455	-	5,455
- jointly controlled entity	-	-	-	-	-	537	-	-	-	537	-	537
- associate	-	-	-	-	-	590	-	-	-	590	-	590
Net income recognised directly in equity	-	-	-	-	-	6,582	-	-	-	6,582	-	6,582
Profit for the period	-	-	-	-	-	-	-	-	44,707	44,707	-	44,707
Total recognised income for the period	-	-	-	-	-	6,582	-	-	44,707	51,289	-	51,289
Release of deferred tax liability upon disposal of a property	-	-	-	-	64	-	-	-	-	64	-	64
Release of property revaluation reserve upon disposal of a property	-	-	-	-	(367)	-	-	-	367	-	-	-
At 30 June 2006 (unaudited)	102,607	287,024	32,659	1,013	554	23,831	27,698	-	269,720	745,106	-	745,106
At 1 January 2007 (audited)	127,607	423,435	32,659	1,013	3,710	40,188	45,236	-	283,506	957,354	-	957,354
Translation adjustments:												
- subsidiaries	-	-	-	-	-	23,928	-	-	-	23,928	-	23,928
- jointly controlled entity	-	-	-	-	-	1,752	-	-	-	1,752	-	1,752
- associate	-	-	-	-	-	1,572	-	-	-	1,572	-	1,572
Net income recognised directly in equity	-	-	-	-	-	27,252	-	-	-	27,252	-	27,252
Profit for the period	-	-	-	-	-	-	-	-	24,004	24,004	-	24,004
Total recognised income for the period	-	-	-	-	-	27,252	-	-	24,004	51,256	-	51,256
Shares issued at premium	750	4,795	-	-	-	-	-	-	-	5,545	-	5,545
Recognition of equity-settled share-based payments	-	-	-	-	-	-	-	451	-	451	840	1,291
Dividend paid	-	-	-	-	-	-	-	-	(12,761)	(12,761)	-	(12,761)
Transfer	-	-	-	-	-	-	5,587	-	(5,587)	-	-	-
At 30 June 2007 (unaudited)	128,357	428,230	32,659	1,013	3,710	67,440	50,823	451	289,162	1,001,845	840	1,002,685

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 June 2007

	Six months ended 30 June	
	2007	2006
	(Unaudited)	(Unaudited)
	<i>HK\$'000</i>	<i>HK\$'000</i>
Net cash generated by (used in) operating activities	37,733	(67,392)
Net cash (used in) generated by investing activities		
Purchase of property, plant and equipment	(19,655)	(982)
Addition of prepaid lease payments	(9,727)	–
Proceeds from disposal of property, plant and equipment	10	2,977
Other investing cash flows	–	3,782
	<u>(29,372)</u>	<u>5,777</u>
Net cash (used in) generated by financing activities		
Proceeds from issue of shares	5,550	–
New bank borrowings raised	151,182	263,981
Repayment of bank borrowings	(306,888)	(254,515)
Dividend paid	(12,761)	–
(Repayment of) loan from a related company	(34,837)	73,714
Other financing cash flows	(5)	–
	<u>(197,759)</u>	<u>83,180</u>
Net (decrease) increase in cash and cash equivalents	(189,398)	21,565
Cash and cash equivalents at 1 January	297,566	37,378
Effect of foreign exchange rate changes	6,593	141
Cash and cash equivalents at 30 June, represented by bank balances and cash	<u><u>114,761</u></u>	<u><u>59,084</u></u>

Notes to the Condensed Financial Statements*For the six months ended 30 June 2007***1. BASIS OF PREPARATION**

The condensed consolidated financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and with Hong Kong Accounting Standard 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”).

2. SIGNIFICANT ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis except for certain properties and financial instruments, which are measured at revalued amounts or fair values, as appropriate.

The accounting policies used in the condensed consolidated financial statements are consistent with those followed in the preparation of the annual financial statements of the Company and its subsidiaries (the “Group”) for the year ended 31 December 2006.

In the current period, the Group has applied, for the first time, a number of new standards, amendments and interpretations (“new HKFRSs”) issued by the HKICPA, which are effective for the Group’s financial year beginning 1 January 2007. The adoption of these new HKFRSs has had no material effect on the results or financial position of the Group for the current or prior accounting periods. Accordingly, no prior period adjustment has been recognised.

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

HKAS 23 (Revised)	Borrowing Costs ¹
HKFRS 8	Operating Segments ¹
HK(IFRIC) – INT 11	HKFRS 2 – Group and Treasury Share Transactions ²
HK(IFRIC) – INT 12	Service Concession Arrangements ³

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

² Effective for annual periods beginning on or after 1 March 2007

³ Effective for annual periods beginning on or after 1 January 2008

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

3. SEGMENT INFORMATION

Business segments

The Group's primary format for reporting segment information is business segments.

For the six months ended 30 June 2007

	Steel cord (Unaudited) HK\$'000	Copper and brass products (Unaudited) HK\$'000	Others (Unaudited) HK\$'000	Consolidated (Unaudited) HK\$'000
Segment revenue	<u>200,311</u>	<u>143,163</u>	<u>493</u>	<u>343,967</u>
Segment results	<u>25,266</u>	<u>8,804</u>	<u>272</u>	34,342
Unallocated income				2,804
Unallocated expenses				(12,131)
Share of profit of a jointly controlled entity				5,196
Share of profit of an associate				4,425
Finance costs				<u>(6,666)</u>
Profit before taxation				27,970
Income tax expenses				<u>(3,966)</u>
Profit for the period				<u>24,004</u>

For the six months ended 30 June 2006

	Steel cord (Unaudited) HK\$'000	Copper and brass¹ products (Unaudited) HK\$'000	Others (Unaudited) HK\$'000	Consolidated (Unaudited) HK\$'000
Segment revenue	<u>198,259</u>	<u>123,628</u>	<u>706</u>	<u>322,593</u>
Segment results	<u>35,417</u>	<u>25,894</u>	<u>62</u>	61,373
Unallocated income				1,658
Unallocated expenses				(12,013)
Share of profit of a jointly controlled entity				4,507
Share of profit of an associate				3,082
Finance costs				<u>(9,021)</u>
Profit before taxation				49,586
Income tax expenses				<u>(4,879)</u>
Profit for the period				<u>44,707</u>

4. FINANCE COSTS

	Six months ended 30 June	
	2007 (Unaudited) HK\$'000	2006 (Unaudited) HK\$'000
Interest expense on bank and other borrowings wholly repayable within five years	6,988	8,478
Other finance costs	592	543
	<u>7,580</u>	<u>9,021</u>
Total borrowing costs	7,580	9,021
Less: amounts capitalised	(914)	–
	<u>6,666</u>	<u>9,021</u>

5. INCOME TAX EXPENSES

	Six months ended 30 June	
	2007 (Unaudited) HK\$'000	2006 (Unaudited) HK\$'000
The charge comprises:		
Current tax:		
Hong Kong	1,106	500
Other regions in the People's Republic of China (the "PRC")	3,773	4,486
	<u>4,879</u>	<u>4,986</u>
Under provision in prior periods:		
Hong Kong	–	2
Other regions in the PRC	5	29
	<u>5</u>	<u>31</u>
Deferred tax	(918)	(138)
Income tax expense	<u>3,966</u>	<u>4,879</u>

Hong Kong Profits Tax is calculated at 17.5% (2006: 17.5%) of the estimated assessable profits for the period.

PRC Enterprise Income Tax is calculated at the applicable tax rates on the estimated assessable income for the period based on existing legislation, interpretation and practices in respect thereof. In accordance with the relevant tax rules and regulations in the PRC, certain of the Group's subsidiaries in the PRC are eligible for certain tax exemptions and concessions.

On 16 March 2007, the PRC Government promulgated the Law of the PRC on Enterprise Income Tax (the "New Law") by Order No. 63 of the President of the PRC, which will change the tax rate from 15% to 25% for certain subsidiaries from 1 January 2008. Under the New Law, entities that are currently entitled preferential tax rates may continue to enjoy the tax benefits. As detailed measures concerning the tax incentives have not issued by the State Council, the management of the Group is not yet in a position to assess the impact, if any. The Group will continue to evaluate the impact when more detailed regulations are announced.

6. PROFIT FOR THE PERIOD

	Six months ended 30 June	
	2007 (Unaudited) <i>HK\$'000</i>	2006 (Unaudited) <i>HK\$'000</i>
Profit for the period is arrived at after charging:		
Depreciation of property, plant and equipment	20,761	19,887
Amortisation of prepaid lease payments (included in "Cost of sales")	270	214
Share of tax of a jointly controlled entity (included in "Share of profit of a jointly controlled entity")	950	834
Share of tax of an associate (included in "Share of profit of an associate")	2	1,598
Loss on disposal of property, plant and equipment	514	–
and after crediting:		
Net foreign exchange gains	903	2,029
Interest income from bank deposits	2,074	463
Gain on disposal of property, plant and equipment	–	254
	<u> </u>	<u> </u>

7. DIVIDEND

On 29 June 2007, a dividend of HK1 cent (2006: Nil) per share was paid to shareholders of the Company as the final dividend for the year ended 31 December 2006.

The directors do not recommend the payment of interim dividend for the six months ended 30 June 2007 (2006: Nil).

8. EARNINGS PER SHARE

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

	Six months ended 30 June	
	2007 (Unaudited) <i>HK\$'000</i>	2006 (Unaudited) <i>HK\$'000</i>
Earnings		
Profit for the period for the purposes of calculation of basic and diluted earnings per share	<u>24,004</u>	<u>44,707</u>
	Six months ended 30 June	
Number of shares	2007	2006
Weighted average number of ordinary shares for the purpose of calculation of basic earnings per share	1,276,793,075	1,026,066,556
Effect of dilutive potential ordinary shares:		
Share options	<u>40,238,603</u>	<u>54,287,289</u>
Weighted average number of ordinary shares for the purpose of calculation of diluted earnings per share	<u>1,317,031,678</u>	<u>1,080,353,845</u>

9. MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTIES

During the period, the Group spent approximately HK\$18,508,000 on the construction of its new manufacturing plant in the PRC in order to expand its production capacities. In addition, the Group also acquired approximately HK\$1,147,000 of other property, plant and equipment during the period.

At 30 June 2007, the directors considered the carrying amounts of the Group's leasehold land and buildings and investment properties, which are carried at revalued amounts and fair value respectively, and estimated that the carrying amounts of these assets did not differ significantly from that which would be determined based on professional valuations at 30 June 2007. Consequently, no gain or loss on changes in fair value has been recognised in the current period.

10. TRADE RECEIVABLES/BILLS RECEIVABLE

The Group normally allows an average credit period of 30 to 120 days to its trade customers.

The following is an aged analysis of trade and bills receivables at the balance sheet date:

	30 June 2007 (Unaudited) HK\$'000	31 December 2006 (Audited) HK\$'000
0 – 90 days	279,939	249,344
91 – 180 days	90,188	106,378
Over 180 days	3,146	8,546
	<u>373,273</u>	<u>364,268</u>

11. AMOUNT DUE FROM (TO) RELATED COMPANIES

	<i>Notes</i>	30 June 2007 (Unaudited) HK\$'000	31 December 2006 (Audited) HK\$'000
Amount due from:			
A jointly controlled entity	(a)	9,422	–
An associate	(a)	3,987	–
Subsidiaries of Shougang Concord Technology Holdings Limited (“Shougang TECH”)	(b)	<u>6,029</u>	<u>4,295</u>
Amount due to:			
A subsidiary of Shougang Holding (Hong Kong) Limited (“Shougang HK”)	(c)	<u>–</u>	<u>34,837</u>

Notes:

- (a) The amounts represent dividends receivable from a jointly controlled entity and an associate, which have been settled subsequent to the balance sheet date. The amounts are unsecured, non-interest bearing and repayable within one year.

- (b) The amounts are of a trade nature, and are unsecured, non-interest bearing and repayable on demand. The aged analysis of the amounts due from the subsidiaries of Shougang TECH at the balance sheet date is as follows:

	30 June 2007 (Unaudited) HK\$'000	31 December 2006 (Audited) HK\$'000
0 – 90 days	1,731	1,551
91 – 180 days	3,812	2,744
Over 180 days	486	–
	<u>6,029</u>	<u>4,295</u>

- (c) The amount is unsecured, non-interest bearing and was fully repaid during the period.

12. TRADE PAYABLES

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

	30 June 2007 (Unaudited) HK\$'000	31 December 2006 (Audited) HK\$'000
0 – 90 days	17,540	8,861
91 – 180 days	622	555
Over 180 days	682	504
	<u>18,844</u>	<u>9,920</u>

13. BANK BORROWINGS

During the period, the Group obtained new bank borrowings of approximately HK\$151,182,000 and repaid bank borrowings of approximately HK\$306,888,000. The loans bear interest ranging from 5.69% to 6.97% per annum and are repayable over a period of one to two years.

14. SHARE CAPITAL

Ordinary shares of HK\$0.10 each

	Number of shares '000	Share capital HK\$'000
Authorised:		
At 1 January 2007 and 30 June 2007	<u>2,000,000</u>	<u>200,000</u>
Issued and fully paid:		
At 1 January 2007	1,276,067	127,607
Exercise of share options (7,500,000 ordinary shares of HK\$0.10 each)	<u>7,500</u>	<u>750</u>
At 30 June 2007	<u>1,283,567</u>	<u>128,357</u>

15. SHARE-BASED PAYMENT

The Company has adopted a share option scheme for directors, employees and other eligible participants of the Group. Details of the outstanding share options during the six months ended 30 June 2007 are as follows:

	Number of share options
Outstanding at 1 January 2007	224,956,000
Granted during the period	1,268,000
Exercised during the period	<u>(7,500,000)</u>
Outstanding at 30 June 2007	<u><u>218,724,000</u></u>

The closing price of the Company's shares on 26 January 2007, being the date on which 1,268,000 share options (the "Company's Share Options") were granted, was HK\$0.630.

The options vested immediately. The fair value of such options determined at the date of grant using the Binomial Option Pricing Model (the "Binomial Model") was approximately HK\$0.356 per share option.

The following assumptions were used to calculate the fair value of the Company's Share Options:

	26 January 2007
Closing price of the Company's shares at the grant date	HK\$0.630
Exercise price	HK\$0.656
Contractual life	10 years
Expected volatility	58.332%
Dividend yield	0.6421%
Risk-free interest rate	4.134%

In addition, on 30 April 2007, a subsidiary of the Company, Hing Cheong Metals (China & Hong Kong) Limited ("Hing Cheong") has entered into an agreement with an employee pursuant to which the employee was granted an option to subscribe for up to 10% equity interest in Hing Cheong's subsidiary, Rise Boom International Limited (the "Rise Boom Share Option") in order to recognize his valuable contribution to the Group. The option vested immediately. The fair value of the option determined at the date of grant using the Binomial Model was approximately HK\$840,000.

The following assumptions were used to calculate the fair value of the Rise Boom Share Option:

	30 April 2007
Fair value of 10% equity interest of Rise Boom International Limited ("Rise Boom") at the grant date	HK\$858,000
Exercise price	HK\$858,000
Option life	5 years
Expected volatility	60%
Dividend yield	0%
Risk-free interest rate	4.107%

Expected volatility of the Company and Rise Boom were 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 and the Rise Boom Share Option. The variables and assumptions used in computing their fair values are based on the Company's directors' best estimate. The value of an option varies with different variables of certain subjective assumptions.

16. CAPITAL COMMITMENTS

	30 June 2007 (Unaudited) HK\$'000	31 December 2006 (Audited) HK\$'000
Commitments in respect of the acquisition of property, plant and equipment		
– contracted for but not provided in the financial statements	5,102	25,174
– authorised but not contracted for	367,871	375,633
	<u>372,973</u>	<u>400,807</u>

17. RELATED PARTY TRANSACTIONS

During the period, the Group had the following material transactions with Shougang HK and its subsidiaries (collectively the “Shougang HK Group”), Shougang TECH and its subsidiaries (collectively the “Shougang TECH Group”) and a jointly controlled entity. Shougang HK is a substantial shareholder of the Company and Shougang TECH.

	Six months ended 30 June	
	2007 (Unaudited) HK\$'000	2006 (Unaudited) HK\$'000
Consultancy fees paid to Shougang HK Group	480	480
Sales to the Shougang TECH Group	6,104	4,341
Interest paid/payable to Shougang HK Group	–	440
Rental expenses paid to Shougang HK Group	804	761
Corporate guarantees for bank loans granted to a jointly controlled entity	7,697	11,050
	<u>7,697</u>	<u>11,050</u>

Compensation of key management personnel

The key management of the Group comprises all executive directors of the Company, details of their emoluments were as follows:

	Six months ended 30 June	
	2007 (Unaudited) HK\$'000	2006 (Unaudited) HK\$'000
Short-term benefit	<u>3,021</u>	<u>3,234</u>

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 conditions.

4. MATERIAL CHANGE

The Directors are not aware of any material change in the financial or trading position or outlook of the Group since 31 December 2006, the date to which the latest audited consolidated financial statements of the Group were made up.

5. INDEBTEDNESS

As at the close of business on 31 October 2007, being the latest practicable date for this statement of indebtedness prior to the printing of the circular, the Group had outstanding bank loan of HK\$149,312,000 which comprised HK\$87,250,000 due within one year and HK\$62,062,000 due in the following year and is secured by the shares in certain subsidiaries; and outstanding trust receipt loans of HK\$42,406,000 which are due within one year and secured by pledged bank deposits of HK\$3,000,000 and the Group's certain leasehold land and buildings and investment properties with an aggregate net book value of approximately HK\$10,949,000, other than that the Group did not have any outstanding bank overdrafts, loans or other similar indebtedness, liabilities under acceptance credits, debentures, mortgage, charges, finance lease commitments, guarantees or other material contingent liabilities.

1. RESPONSIBILITY STATEMENTS

The information (other than those in relation to Shougang Holding and Shougang International) in this circular has been supplied by the Directors. The issue of this circular has been approved by the Directors who jointly and severally accept full responsibility for the accuracy of the information (other than those in relation to Shougang Holding and Shougang International) contained in this circular and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions (other than those in relation to Shougang Holding and Shougang International) expressed in this circular have been arrived at after due and careful consideration and there are no other facts not contained in this circular, the omission of which would make any statement in this circular misleading.

The information in this document relating to Shougang Holding has been supplied by the directors of Shougang Holding. The issue of this circular has been approved by the directors of Shougang Holding who jointly and severally accept full responsibility for the accuracy of the information in relation to Shougang Holding contained in this circular and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions in relation to Shougang Holding expressed in this circular have been arrived at after due and careful consideration and there are no other facts not contained in this circular, the omission of which would make any statement in this circular misleading.

The information in this circular relating to Shougang International has been supplied by the directors of Shougang International. The issue of this circular has been approved by the directors of Shougang International who jointly and severally accept full responsibility for the accuracy of the information in relation to Shougang International contained in this circular and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions in relation to Shougang International expressed in this circular have been arrived at after due and careful consideration and there are no other facts not contained in this circular, the omission of which would make any statement in this circular misleading.

2. DISCLOSURE OF INTERESTS**(a) DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES, DEBENTURES OR UNDERLYING SHARES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS**

- (i) As at the Latest Practicable Date, save for the interests of the Director (being Mr. Tang Cornor Kwok Kau) in shares set out under the section "Effect of Shareholding of the Company upon Completion" in the Letter from the Board on pages 9 and 10 of this circular and the share options held by the Directors, details of which are set out under the sub-section headed "Share Options" hereunder, none of the Directors had any interests and short positions in the shares, debentures or underlying shares of the Company or any of their 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, pursuant to the Model Code for Securities by Directors of Listed Issuers and the Takeovers Code.

- (ii) As at the Latest Practicable Date and save as disclosed in paragraph 2(b) in this appendix below, none of the Concert Parties and the respective directors of Shougang International and Shougang Holding had any interests in the Shares, convertible securities, warrants, options and derivatives of the Company.
- (iii) As at the Latest Practicable Date and save as disclosed under the section headed “Effect of Shareholding of the Company upon Completion” in the Letter from the Board on pages 9 and 10 of this circular and section “Disclosure of Interest – (c) Share Options” in Appendix II herein, none of the Company or its subsidiaries or any of their pension funds or the Directors or an adviser to the Company as specified in class (2) of the definition of associate under the Takeovers Code (other than principal traders) had any interest in any shares, convertible securities, warrants, options and derivatives of the Company and Shougang International.
- (iv) None of the persons as referred to in paragraph 8 in this appendix below has any shareholding interest in any member of the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.
- (v) As at the Latest Practicable Date, none of the Shares was owned or controlled by a person who has an arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code with the Company or with any person who is an associate of the Company by virtue of classes (1), (2), (3) and (4) of the definition of associate under the Takeovers Code.
- (vi) As at the Latest Practicable Date, none of the Shares was owned or controlled by a person who has an arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code with any of the Concert Parties.
- (vii) As at the Latest Practicable Date, none of the Shares was owned by discretionary fund managers (other than exempt fund managers) connected with the Company.
- (viii) None of the persons as referred to in paragraph 8 in this appendix below has any shareholding interest in any member of the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

(b) PERSONS WHO HAVE AN INTEREST OR SHORT POSITION WHICH IS DISCLOSEABLE UNDER DIVISIONS 2 AND 3 OF PART XV OF THE SFO AND PERSONS WHO ARE SUBSTANTIAL SHAREHOLDERS

As at the Latest Practicable Date, so far as was known to the Directors, the following, not being a Director or a chief executive of the Company, had an interest or short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or be directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group:

Long positions in Shares or underlying Shares

Name of Shareholder	Number of Share/underlying Shares held before the Subscriptions	Number of Shares in which held under the Subscriptions	Total number of Shares/ underlying Shares held	Approximately % of the issued share capital	Capacity in which interests are held
Richson Limited (“Richson”)	148,537,939	–	148,537,939	10.73	Beneficial owner
Fair Union Holdings Limited (“Fair Union”)	286,655,179	–	286,655,179	20.71	Beneficial owner and interests of controlled corporations (Note 1)
Shougang International	286,655,179	400,000,000	686,655,179	49.60	Beneficial owner and interests of controlled corporations (Note 2)
Able Legend Investments Limited (“Able Legend”)	126,984,000	–	126,984,000	9.17	Beneficial owner
Shougang Holding	455,883,179	400,000,000	855,883,179	61.83	Interests of controlled corporations (Note 3)
Bekaert Holding B.V. (“Bekaert Holding”)	250,000,000	–	250,000,000	18.06	Beneficial owner (Note 4)
NV Bekaert SA (“Bekaert”)	250,000,000	–	250,000,000	18.06	Interests of controlled corporations (Note 5)
Li Ka Shing Foundation Limited	–	100,000,000	100,000,000	7.22	Beneficial owner (Note 6)

Notes:

- (1) Fair Union is beneficially interested in 135,721,936 shares and by virtue of the SFO, it is deemed to be interested in the 148,537,939 shares held by Richson and the 2,395,304 shares held by Casula Investments Limited (“Casula”) as Richson and Casula are its wholly owned subsidiaries.
- (2) By virtue of the SFO, Shougang International is deemed to be interested in the 135,721,936 shares held by Fair Union, the 148,537,939 shares held by Richson and the 2,395,304 shares held by Casula as Richson and Casula are wholly owned by Fair Union, a wholly owned subsidiary of Shougang International. Shougang International is also deemed to be interested in 400,000,000 shares by entering into the subscription agreement on 29 November 2007.
- (3) By virtue of the SFO, Shougang Holding is deemed to be interested in the 126,984,000 shares and the 28,374,000 shares held by Able Legend and Prime Success Investments Limited (“Prime Success”) respectively as Able Legend and Prime Success are its wholly owned subsidiaries and is deemed to be interested in the 13,870,000 shares held by Lyre Terrace Management Limited, a subsidiary of Shougang Concord Grand (Group) Limited (“Shougang Grand”) and Shougang Holding is the controlling shareholder of Shougang Grand. It is also deemed to be interested in the 400,000,000 shares held by Shougang International, 135,721,936 shares held by Fair Union, the 148,537,939 shares held by Richson and the 2,395,304 shares held by Casula as it is the controlling shareholder of Shougang International.
- (4) Bekaert Holding is beneficially interested in the 250,000,000 shares.
- (5) By virtue of the SFO, Bekaert is deemed to be interested in 250,000,000 shares held by Bekaert Holding, which is a wholly owned subsidiary of Bekaert.
- (6) Li Ka Shing Foundation Limited is deemed to be interested in the 100,000,000 shares by entering into the subscription agreement on 29 November 2007.

Please refer to the table below under the sub-section headed “Share options” for long positions in the underlying Shares or equity derivatives.

(c) Share Options

- (i) As at the Latest Practicable Date, there were a total of 217,944,000 share options of the Company outstanding, details of which are summarised in the following table:

Name or category of participant	Number of share options held at the Latest Practicable Date	Date of grant (Note 4)	Exercise period (Note 4)	Exercise price per share option (HK\$)
Directors				
Cao Zhong (Note 1)	7,652,000	23/8/2002	23/8/2002 to 22/8/2012	0.295
	57,350,000	2/10/2003	2/10/2003 to 1/10/2013	0.780
	<u>65,002,000</u>			
Li Shaofeng (Note 1)	7,652,000	23/8/2002	23/8/2002 to 22/8/2012	0.295
	30,614,000	25/6/2003	25/6/2003 to 24/6/2013	0.365
	<u>38,266,000</u>			
Tong Yihui	7,652,000	23/8/2002	23/8/2002 to 22/8/2012	0.295
	38,268,000	25/6/2003	25/6/2003 to 24/6/2013	0.365
	<u>45,920,000</u>			
Leung Shun Sang, Tony (Note 1)	4,592,000	23/8/2002	23/8/2002 to 22/8/2012	0.295
	3,060,000	12/3/2003	12/3/2003 to 11/3/2013	0.325
	4,592,000	25/8/2003	25/8/2003 to 24/8/2013	0.740
	<u>12,244,000</u>			
Tang Cornor Kwok Kau	<u>1,000,000</u>	25/8/2003	25/8/2003 to 24/8/2013	0.740
Yip Kin Man, Raymond	382,000	23/8/2002	23/8/2002 to 22/8/2012	0.295
	382,000	25/8/2003	25/8/2003 to 24/8/2013	0.740
	252,000	26/1/2007	26/1/2007 to 25/1/2017	0.656
	<u>1,016,000</u>			
Law, Yui Lun	<u>1,016,000</u>	26/1/2007	26/1/2007 to 25/1/2017	0.656
Total	<u><u>164,464,000</u></u>			

Name or category of participant	Number of share options held at the Latest Practicable Date	Date of grant (Note 4)	Exercise period (Note 4)	Exercise price per share option (HK\$)
Employees other than the Directors	15,220,000	25/8/2003	25/8/2003 to 24/8/2013	0.740
In aggregate	<u>15,220,000</u>			
All other eligible participants	7,652,000	23/8/2002	23/8/2002 to 12/4/2008	0.295
	9,948,000 (Note 2)	23/8/2002	23/8/2002 to 22/8/2012	0.295
	<u>20,660,000 (Note 3)</u>	12/3/2003	12/3/2003 to 11/3/2013	0.325
In aggregate	<u>38,260,000</u>			

Notes:

- (1) They are presumed to be parties acting in concert with Shougang Holding and/or Shougang International under the Takeovers Code.
- (2) In which 7,652,000 options are presumed to be held by parties acting in concert with Shougang Holding and/or Shougang International under the Takeovers Code.
- (3) In which 7,652,000 options are presumed to be held by parties acting in concert with Shougang Holding and/or Shougang International under the Takeovers Code.
- (4) The vesting period of the share option is from the date of grant to the end of the exercise period.

During the period beginning 31 May 2007, the date six months prior to the date of the Announcement, and ending on the Latest Practicable Date, save for 8,280,000 options which were exercised by the employees of the Group, there were no options being exercised, cancelled or lapsed.

- (ii) As at the Latest Practicable Date, there were a total of 127,360,000 share options of Shougang International held by the Directors, details of which are summarised in the following table:

Name of Director	Options to subscribe for shares of Shougang International at the Latest Practicable Date	Date of grant	Exercise period	Exercise price per share option (HK\$)	Capacity in which interests are held
Cao Zhong	22,950,000	23/8/2002	23/8/2002 to 22/8/2012	0.295	Beneficial owner
	91,820,000	18/11/2003	18/11/2003 to 17/11/2013	0.410	Beneficial owner
	<u>114,770,000</u>				
Leung Shun Sang, Tony	8,000,000	23/8/2002	23/8/2002 to 22/8/2012	0.295	Beneficial owner
	4,590,000	12/3/2003	12/3/2003 to 11/3/2013	0.280	Beneficial owner
	<u>12,590,000</u>				
	<u><u>127,360,000</u></u>				

(d) Dealings in shares and securities

- (i) None of the persons as referred to in paragraphs 2(a)(ii), (iii) and (iv) in this appendix above has dealt for value in the Shares during the period beginning 31 May 2007, the date six months prior to the date of the Announcement, and ending on the Latest Practicable Date.
- (ii) None of the persons as referred to in paragraph 2(a)(iii) in this appendix above has dealt for value in the Shares or shares in Shougang International during the period beginning 31 May 2007, the date six months prior to the date of the Announcement, and ending on the Latest Practicable Date.
- (iii) During the six-month period immediately preceding the Announcement and ending on the Latest Practicable Date, there were no dealings in the shares, share options and other securities of the Company by any of the Concert Parties.

- (iv) The Company has not dealt for value in the shares in Shougang International during the period beginning 31 May 2007, the date six months prior to the date of the Announcement, and ending on the Latest Practicable Date, nor did it hold any securities in Shougang International as at the Latest Practicable Date.
- (e) **Others**
- (i) Save for the First Subscription Agreement and the Second Subscription Agreement, there is no agreement or arrangement exists between any of the Directors and any other person which is conditional or dependent upon the outcome of the First Subscription and the Whitewash Waiver or otherwise connected with the First Subscription and the Whitewash Waiver.
- (ii) Save for the First Subscription Agreement and the Second Subscription Agreement, there is no agreement, arrangement or understanding (including any compensation arrangement) exists between the Concert Parties and any of the Directors, recent Directors, Shareholders and recent Shareholders having any connection with or dependence upon the First Subscription and the Whitewash Waiver.
- (iii) None of the Directors nor any of the persons as referred to in paragraph 8 in this appendix below has since 31 December 2006, being the date to which the latest published audited financial statements of the Group have been made up, any direct or indirect interests in any assets acquired or disposed of by or leased to or proposed to be acquired or disposed of by or leased to any member of the Group.
- (iv) None of the Directors was materially interested in any contract or arrangement including any material contract entered into by Shougang International subsisting as at the Latest Practicable Date which is significant in relation to the business of the Group.
- (v) There is no person who has irrevocably committed themselves to vote for or against the First Subscription or the Whitewash Waiver.
- (vi) No benefit will be given to any Director as compensation for loss of office or otherwise in connection with the First Subscription or the Whitewash Waiver.

3. COMPETING BUSINESS

As at the Latest Practicable Date, save as disclosed below, none of the Directors or their respective associates had any interest in a business which are considered to compete or likely to compete, either directly or indirectly, with the businesses of the Group:

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

4. MARKET PRICES

- (a) The Shares are traded on the Stock Exchange. The table below shows the closing prices of the Shares on the Stock Exchange on (i) the last trading day of each of the six calendar months immediately preceding 30 November 2007, the date of the Announcement; (ii) 28 November, being the last trading day prior to the suspension of trading in the Shares from 9:42 a.m. on 29 November 2007, pending the issue of the Announcement; and (iii) the Latest Practicable Date:

Date	Closing price <i>HK\$</i>
31 May 2007	0.95
29 June 2007	0.89
31 July 2007	1.19
31 August 2007	1.01
28 September 2007	0.85
31 October 2007	1.31
28 November 2007	1.10
The Latest Practicable Date	1.06

- (b) The highest and lowest closing prices of the Shares recorded on the Stock Exchange during the period between 31 May 2007 (being the date six months prior to the date of the Announcement) and the Latest Practicable Date were HK\$0.69 on 17 August 2007 and HK\$1.45 on 1 November 2007 respectively.

5. MATERIAL CONTRACTS

The following contracts (not being contracts entered into under the ordinary course of business of the Group) have been entered into by the Group within the two years immediately preceding the date of the Announcement and up to the Latest Practicable Date and are or may be material:

1. A subscription agreement dated 22 September 2006 entered into between NV Bekaert SV (“Bekaert”) and the Company pursuant to which Bekaert agreed to subscribe 250,000,000 ordinary shares of the Company and a supplemental agreement between the same parties dated 27 September 2006 (“Bekaert Subscription Agreement”).

2. Two Co-operation Agreements, both dated 22 September 2006 (Service Contract and Supply Contract) entered into between Bekaert and JESC pursuant to which Bekaert would provide certain planning and design services and supply certain materials for the manufacture of steel cord for a period of three years from the date of completion of the Bekaert Subscription Agreement.
3. A sale and purchase contract dated 20 April 2007 entered into by the Company and Bekaert pursuant to which both parties to extend the scope of material and product supply and to provide that both the Group and Bekaert Group their respective materials and/or finished products to each other for a period of three years.
4. A commercial agency contract dated 20 April 2007 to be entered into by JESC and Bekaert pursuant to which JESC would appoint Bekaert as its exclusive commercial agent for the sale of steel cord for reinforcement of radial tyres for a period of five years.
5. The First Subscription Agreement.
6. The Placing Agreement.
7. The Second Subscription Agreement.

6. SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors has any existing or proposed service contract with any member of the Group which is not determinable by the Group within 1 year without payment of compensation other than statutory compensation. There is no service contract with the Group or its associated companies in force for the Directors which has more than 12 months to run from the Latest Practicable Date. None of the service agreements of the Directors has been amended or entered into within six months from the date of the Announcement.

7. LITIGATION

As at the Latest Practicable Date, no member of the Group is engaged in any litigation or arbitration of material importance and there is no litigation or claims of material importance known to the Directors to be pending or threatened by or against any member of the Group.

8. QUALIFICATION OF EXPERTS

The following are the qualifications of the experts who have given opinions or advice which are contained in this document:

Name	Qualification
VC Capital Limited	a licensed corporation to carry out types 1 (dealing in securities) and 6 (advising on corporate finance) regulated activities for the purposes of the SFO

9. CONSENT

VC Capital Limited has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter and references to its name in the form and context in which they appear.

VC Capital Limited is not beneficially interested in the share capital of any member of the Group nor has any right, whether legally enforceable or not, to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

VC Capital Limited has no direct or indirect interests in any assets which have been, since 31 December 2006 (being the date to which the latest published audited financial statements of the Group were made up), acquired or disposed of by or leased to any member of the Group.

10. MISCELLANEOUS

- (a) The registered office of the Company is at 5th Floor, Bank of East Asia Harbour View Centre, 51-57 Gloucester Road, Wanchai, Hong Kong.
- (b) The secretary of the Company is Ms. Chan Lai Yee, a fellow of each of The Institute of Chartered Secretaries and Administrators and The Hong Kong Institute of Chartered Secretaries. She also holds a Bachelor of Law Degree from the University of London, a Master of Corporate Finance and a Master of Arts in Language and Law.
- (c) The qualified accountant of the Company is Mr. Wu Siu Man, a fellow member of the Association of Chartered Certified Accountants and a member of the Hong Kong Institute of Certified Public Accountants.
- (d) The share registrars of the Company is Tricor Tengis Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong.

- (e) The directors of Shougang Holding are Messrs. Wang Qinghai, Cao Zhong, Chen Zhouping and Li Shaofeng. The directors of Shougang International are Messrs. Wang Qinghai, Cao Zhong, Chen Zhouping, Zhang Wenhui, Luo Zhenyu, Ip Tak Chuen, Edmond, Leung Shun Sang, Tony, Wong Kun Kim, Leung Kai Cheung and Ms. Kan Lai Kuen, Alice.
- (f) The registered office of Shougang International is at 7th Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong.
- (g) The registered office of Shougang Holding is at 7th Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong.
- (h) As at the Latest Practicable Date, the Company has not been informed and was not aware of any person who has committed to vote for or against the First Subscription Agreement and/or the Whitewash Waiver.
- (i) The English text of this circular shall prevail over the Chinese text in the case of any inconsistency.

11. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the registered office of the Company at 5th Floor, Bank of East Asia Harbour View Centre, 51-57 Gloucester Road, Wanchai, Hong Kong during normal business hours from 9:30 a.m. to 5:30 p.m. on any weekday, except public holidays, and on the websites of the Company (www.shougangcentury.com.hk) and the SFC (www.sfc.hk) between the period from the date of this circular up to and including the date of the EGM.

- (a) The memorandum and articles of association of the Company.
- (b) The material contracts referred to in the section headed “Material Contracts” in this appendix.
- (c) The letter from the Independent Board Committee, the text of which is set out on page 15 of this document.
- (d) The letter from VC Capital Limited, the text of which is set out on pages 16 to 28 of this document.
- (e) The audited consolidated financial statements for the Group for each of the two years ended 31 December 2006.
- (f) The letter of consent as referred to in this appendix.

NOTICE OF EXTRAORDINARY GENERAL MEETING



Shougang Concord Century Holdings Limited 首長寶佳集團有限公司

(Incorporated in Hong Kong with limited liability)
(Stock Code: 103)

NOTICE IS HEREBY GIVEN that an extraordinary general meeting of Shougang Concord Century Holdings Limited (the “**Company**”) will be held at JW Marriott Ballroom, Level 3, JW Marriott Hotel Hong Kong, Pacific Place, 88 Queensway, Hong Kong on Thursday, 10 January 2008 at 10:30 a.m. for the purpose of considering and, if thought fit, passing with or without amendments, the following resolutions as the ordinary resolutions of the Company:

ORDINARY RESOLUTIONS

- (1) “**THAT** the execution of the subscription agreement (the “Subscription Agreement”) dated 29 November 2007 and entered into between the Company and Shougang Concord International Enterprises Company Limited as subscriber in relation to the subscription (the “First Subscription”) of 400,000,000 shares (“Subscription Shares”) of HK\$0.10 each in the share capital of the Company at a price of HK\$1.03 per Subscription Share, a copy of which has been produced to the meeting marked “A” and initialed by the chairman of the meeting for identification purpose and the First Subscription and the performance by the Company thereof and the transactions contemplated thereby be and are hereby confirmed, ratified and approved; and that any one or more of the Directors of the Company be and are hereby authorised to sign or execute such other documents or supplemental agreements or deeds on behalf of the Company and to do all such things and take all such actions as he or they may consider necessary or desirable for the purpose of giving effect to the Subscription Agreement and completing the transactions contemplated by the Subscription Agreement with such changes as any such director(s) may consider necessary, desirable or expedient.”

- (2) “**THAT** conditional upon the ordinary resolution no. 1 contained in the notice of the Extraordinary General Meeting of which this resolution forms part being approved, the waiver for Shougang Concord International Enterprises Company Limited and its parties acting in concert from the obligations which may arise under Rule 26 of the Hong Kong Code on Takeovers and Mergers promulgated by the Securities and Futures Commission to make a general offer for all the shares of the Company not already owned by them as a result of the completion of the First Subscription (as the term is defined in ordinary resolution no.1 contained in the notice of the Extraordinary General Meeting of which this resolution forms part) be and is hereby approved.”

NOTICE OF EXTRAORDINARY GENERAL MEETING

- (3) “**THAT** conditional upon the ordinary resolutions nos. 1 and 2 contained in the notice of the Extraordinary General Meeting of which this resolution forms part being approved and becoming unconditional and effective, the Directors of the Company be and they are hereby authorised to allot and issue 400,000,000 shares of HK\$0.10 each in the share capital of the Company to Shougang Concord International Enterprises Company Limited (or to such other person or persons as it may nominate) upon the completion of the First Subscription (as defined in ordinary resolution no. 1 contained in the notice of the Extraordinary General Meeting of which this resolution forms part) pursuant to the terms of the Subscription Agreement (as defined in ordinary resolution no. 1 contained in the notice of the Extraordinary General Meeting of which this resolution forms part).”
- (4) “**THAT** the authorised share capital of the Company be and is hereby increased from HK\$200,000,000 comprising 2,000,000,000 shares of HK\$0.10 each to HK\$500,000,000 comprising 5,000,000,000 shares of HK\$0.10 each by the creation of an additional 3,000,000,000 shares of HK\$0.10 each and that each new shares, upon issue, will rank *pari passu* in all respects with the existing shares of the Company.”

By Order of the Board
Shougang Concord Century Holdings Limited
Cao Zhong
Chairman

Hong Kong, 21 December 2007

Registered office:

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

Notes:

1. Any member of the Company entitled to attend and vote at the meeting is entitled to appoint one or more proxies to attend and vote instead of him. A proxy need not be a member of the Company.
2. A form of proxy for use at the meeting is enclosed. To be valid, the form of proxy, together with the notarially certified power of attorney or other authority (if any) under which it is signed must be lodged at the Company’s share registrars, Tricor Tengis Limited, at 26th Floor, Tesbury Centre, 28 Queen’s Road East, Hong Kong as soon as possible and in any event, not less than 48 hours before the time appointed for holding of the meeting or any adjournment thereof.
3. Where there are joint holders of any share, any one of such holders may vote at the meeting, either in person or by proxy, in respect of such shares as if he were solely entitled to vote, but if more than one of such joint holders be present at the meeting in person or by proxy, the person so present whose name stands first in the register of member of the Company in respect of such share shall alone be entitled to vote in respect of it.
4. Completion and return of the form of proxy will not preclude a member from attending the meeting and voting in person at the meeting or any adjourned meeting if he so desires. If a member attends the meeting after having deposited the form of proxy, his form of proxy will be deemed to have been revoked.
5. The votes to be taken at the meeting for resolutions 1 to 3 will be by way of a poll.