



Shougang Concord Century Holdings Limited

A n n u a l R e p o r t 2 0 0 4

首長寶佳





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Corporate Information

Board of Directors

Directors

Cao Zhong (*Chairman*)
Li Shaofeng (*Managing Director*)
Tong Yihui (*Deputy Managing Director*)
Leung Shun Sang, Tony
Tang Cornor Kwok Kau (*Deputy Managing Director*)
Yip Kin Man, Raymond
(*Independent Non-executive Director*)
Chen, Kelvin Siu Min
(*Independent Non-executive Director*)
Hui, Hung Stephen
(*Independent Non-executive Director*)
Law, Yui Lun
(*Independent Non-executive Director*)

Audit Committee

Yip Kin Man, Raymond (*Chairman*)
Chen, Kelvin Siu Min
Hui, Hung Stephen
Law, Yui Lun

Company Secretary

Chan Lai Yee

Qualified Accountant

Wu Siu Man

Principal Bankers

Bank of America (Asia) Ltd.
Bank of China
Belgian Bank
Dah Sing Bank, Limited
DBS Bank (Hong Kong) Limited
Hang Seng Bank Limited
Industrial and Commercial Bank of China
Shanghai Commercial Bank Ltd.
Sumitomo Mitsui Banking Corporation
The Bank of East Asia, Limited
The Hongkong and Shanghai Banking Corporation
Wing Hang Bank, Limited

Auditors

Deloitte Touche Tohmatsu
Certified Public Accountants

Share Registrars

Tengis Limited
Ground Floor, Bank of East Asia Harbour View Centre
56 Gloucester Road
Wanchai
Hong Kong

Registered Office

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

Website

<http://www.shougangcentury.com.hk>

Stock Code

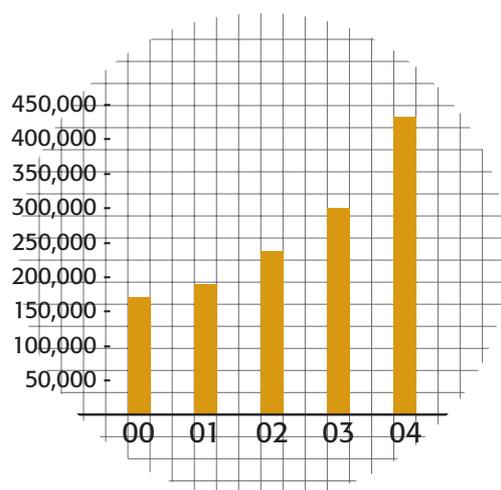
103

For the year ended 31 December

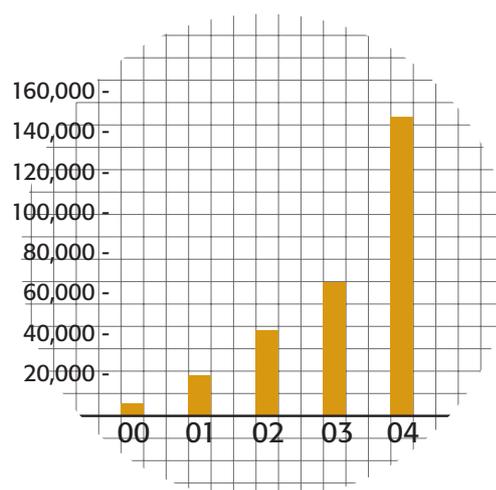
	2004 HK\$'000	2003 HK\$'000	Change %
Operations			
Turnover	427,864	297,271	+43.9
Net profit	148,114	66,092	+124.1
Net profit (excluding non-recurring gain)	84,851	66,092	+28.4
Earnings per share, basic (cents)	14.53	7.50	+93.7
Earnings per share basic (cents) (excluding non-recurring gain)	8.32	7.50	+10.9
Financial Position			
Total assets	949,121	726,221	+30.7
Shareholders' funds	642,157	593,870	+8.1
Return on average equity (%)	24.0	12.7	+89.0
Return on average equity (excluding non-recurring gain) (%)	13.7	12.7	+7.9
Net book value per share (HK\$)	0.63	0.58	+8.6

Turnover

(HK\$'000)

**Net Profit attributable to shareholders**

(HK\$'000)



Information for Shareholders

Share Information

Board lot size:	2,000 shares
Shares outstanding as at 31 December 2004:	1,026,066,556 shares
Market capitalization as at 31 December 2004:	HK\$769,549,917

Earnings per share (basic) for 2004

Interim: HK4.35 cents

Final: HK14.53 cents

Final (excluding non-recurring gain): HK8.32 cents

Dividend per share for 2004

Interim: HK2.0 cents with scrip option

Final: HK1.5 cents

Key Dates

18 April 2005

Announcement of 2004 Final Results

8 June 2005 - 13 June 2005 (both days inclusive)

Closure of Register of Members

4 July 2005

Payable of Final Dividend

Enquire Contact

Tel No.: (852) 2527 2218

Fax No.: (852) 2861 3527

Email: scchl@shougangcentury.com.hk

business_link@shougangcentury.com.hk

Mr. Cao Zhong, aged 45, graduated from Zhejiang University, The People's Republic of China (the "PRC") and Graduate School, The Chinese Academy of Social Sciences with a Bachelor Degree in Engineering and a Master Degree in Economics. He was appointed the Chairman of each of the Company and Shougang Concord Technology Holdings Limited ("Shougang Technology"), the Deputy Chairman and General Manager of Shougang Holding (Hong Kong) Limited ("Shougang HK"), the substantial shareholder of the Company, the Managing Director of Shougang Concord International Enterprises Company Limited ("Shougang International"), another substantial shareholder of the Company, and the Vice Chairman of Shougang Concord Grand (Group) Limited ("Shougang Grand") in November 2001. He was appointed a Non-executive Director and the Joint Chairman of Global Digital Creations Holdings Limited in February 2005. He also acts as the Assistant General Manager of Shougang Corporation and the Chairman of China Shougang International Trade and Engineering Corporation. Mr. Cao has extensive experience in corporate management and operation.

Mr. Li Shaofeng, aged 38. Mr. Li holds a Bachelor Degree in Automatic Science from Beijing Technology University. He joined Shougang Corporation, the holding company of Shougang HK in 1989. Mr. Li joined the Group in March 2000 and was appointed as Deputy Managing Director of the Company. He was appointed as the Managing Director of the Company in September 2003. Prior to joining the Group, Mr. Li had held the position of Deputy General Manager in Beijing Shougang Hotel Development Company. He has extensive experience in management of steel industry, sino-foreign joint ventures and property development.

Mr. Tong Yihui, aged 56, is a Senior Engineer. Mr. Tong graduated from Yan Shan University in the PRC. Mr. Tong joined the Group in 1998 and serves as the Deputy Managing Director of the Company. Prior to joining the Group, Mr. Tong had held the positions in Shougang Posheng Strip Steel Company Limited, Shenzhen Guan Shen Enterprise Company Limited, Jiaying Eastern Steel Cord Co., Ltd. and Shougang Machinery Design & Research Institute.

Mr. Leung Shun Sang, Tony, aged 62. Mr. Leung was appointed a Director of the Company in 1995. He is also a Director of Shougang International, Shougang Technology and Shougang Grand. Mr. Leung holds a Master Degree in Business Administration from New York State University. He is the Chief Executive Officer of Canadian Eastern Finance Limited, a member of the board of the CEF Group which is an associate of Cheung Kong (Holdings) Limited and also a Director of MLC (Hong Kong) Limited.

Mr. Tang Cornor Kwok Kau, aged 44. Mr. Tang joined the Group in 1998 and was appointed as the Deputy Managing Director of the Company in March 2000. He holds a Bachelor Degree and a Master Degree in Business Administration from York University in Canada. Prior to joining the Group, Mr. Tang had held senior positions with various international investment banks. He also has over 15 years of experience in corporate and investment banking.

Biographical Details of Directors

Mr. Yip Kin Man, Raymond, aged 58. Mr. Yip was appointed an Independent Non-executive Director of the Company in 1993. He also serves as a member of the Audit Committee of the Company. Mr. Yip is a practising solicitor, notary public and Attesting Officer appointed by the Ministry of Justice of the PRC.

Mr. Chen, Kelvin Siu Min, aged 54, is a Certified Public Accountant of the State of California, United States of America. He holds a Master Degree in Business Administration and a Bachelor Degree in Accounting from the University of Southern California. He was appointed an Independent Non-executive Director and a member of the Audit Committee of the Company on 30 August 2004. Mr. Chen was with various international offices of JPMorgan Chase Bank (formerly known as Chemical Bank) before becoming a Consulting Partner in the Toronto Office and the Chief Representative in the Shanghai Office of Ernst & Young. Prior to joining our Board, he was with the Wybridge Group, operator of Pizza Hut Indonesia and KFC Hong Kong for 7 years, as General Manager and Director of Corporate Development. Besides, he was also the General Manager of the Esquel Group's manufacturing facilities in Ho Chi Minh City, Vietnam, and in Gaoming, Guangdong, PRC. Mr. Chen has over 29 years' international experience in the fields of finance, accounting, corporate and investment banking, as well as corporate and general management. He is currently serving as part of senior management for overseas business of Café De Coral Holdings Limited.

Mr. Hui, Hung Stephen, aged 47. Mr. Hui holds a Bachelor of Arts Degree in Economics and Geography from Middlesex University in the United Kingdom and a Master Degree in Business Administration from Barrington University in the United States. He was appointed an Independent Non-executive Director and a member of the Audit Committee of the Company on 30 September 2004. Besides, he also serves as Independent Non-executive Director of Techwayson Holdings Limited and Shougang Grand and Managing Director of Federal Glory Industrial Limited and Federal Glory Investment Consultancy Company. Prior to joining the Company, Mr. Hui had been the manager of the China Division of the Far East Regional Office of the Bank of Credit and Commerce International in Hong Kong. He has extensive experience in banking, investment and financing investment in Mainland China.

Mr. Law, Yui Lun, aged 43. Mr. Law is a Certified Public Accountant (Practising) of the Hong Kong Institute of Certified Public Accountants (formerly known as Hong Kong Society of Accountants). He is also an associate member of each of the Hong Kong Institute of Certified Public Accountants and the Taxation Institute of Hong Kong and a fellow member of the Association of Chartered Certified Accountants of the United Kingdom respectively. Mr. Law holds a Master Degree in Business Administration from Oklahoma City University (USA). He was appointed as the Independent Non-executive Director and a member of the Audit Committee of the Company on 18 April 2005. At present, Mr. Law is the sole proprietor of a Certified Public Accountants firm in Hong Kong. In addition, he is the Managing Director of two Certified Public Accountants companies. Prior to setting up his own practice, Mr. Law had worked for the Audit Department of KPMG and the China Division of the Hong Kong office of Ernst & Young for a total of 8 years. He had also been a partner in a medium-sized local accounting firm in Hong Kong for over 3 years. In all, Mr. Law has over 20 years' professional experience in the fields of auditing, accounting, corporate taxation, company liquidation and insolvency, financial advisory and management.



**Shougang Concord
International
Enterprises
Company Limited**

<http://www.shougang-intl.com.hk>

27.9%



**Shougang
Concord Century
Holdings Limited**

<http://www.shougangcentury.com.hk>

Metal Products
Processing
(manufacturing of
pre-stressed concrete
strands and wires)

Metal Products
Processing
(manufacturing of
steel cord for
radial tyres)

Processing and
Trading of
Copper and
Brass Products

16.8%

25%

100%

100%

100%



Xinhua Metal
Products Co., Ltd.
(Jiangxi, PRC)

<http://www.xinhuametal.com>



Shanghai
Shenjia Metal
Products Co., Ltd.
(Shanghai, PRC)

<http://www.shenjiametal.com>



Jiaxing Eastern Steel
Cord Co., Ltd.
(Zhejiang, PRC)

<http://www.etirecord.com>



Meta
International
Limited
(HK)

<http://www.shougangcentury.com.hk>



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

<http://www.shougangcentury.com.hk>

Chairman's Statement

Dear Shareholders,

Business Performance

I am pleased to announce that the turnover of the Group rose by 43.9% to HK\$427,864,000 for the year ended 31 December 2004. This increase was due to the rise of demand in our steel cord and copper and brass products after the completion of expansion of annual production capacity from 13,000 tonnes to 30,000 tonnes for our steel cord segment and increased sales by an enlarged customer base contributed by our Dongguan copper plant.

It was encouraging that the Group recorded a net profit attributable to shareholders of HK\$148,114,000, the greatest amount since its inception, an increase of 124.1% when compared with the corresponding net profit of HK\$66,092,000 for the year ended 31 December 2003. However, when we excluded the net gain (from realization of negative goodwill and exchange loss on translation reserve) of HK\$63,263,000 arising from disposal of subsidiaries and jointly controlled entities (the non-core businesses) from which we had ceased the operation in previous years, the net profit attributable to shareholders was HK\$84,851,000, representing a rise of 28.4% over that of the previous year. Whilst such growth rate was still satisfactory, it was not as remarkable as the last two years, due to the following factors: (1) the slow-down of the development of automobile industry and the fall in price, hence, depressed the selling price of auto component products; and (2) the unfathomable rise in steel and metal prices which discernibly increased our cost of production.

Looking Ahead

Despite facing the intensive operating environment, we remain fully confident in our steel cord business in the longer term in view of:

1. rapid growth in economy of China and the continuous increasing demand for heavy trucks as a result of the rise in land transportation;
2. the living standard of the people in China and their personal disposable income boost the demand for motor vehicles for civilian use (the total output of motor vehicles in China reached 5,074,000 units in 2004, a 14.2% increase on 2003), in particular in sedan demand (2,314,000 units in 2004, a 11.7% increase on 2003) (Source: National Bureau of Statistics of China);
3. the planned development of higher quality roads and expressway network by the PRC Government which benefits further development of automobile industry;

Looking Ahead (continued)

4. the radicalisation ratio (penetration rate) in China is still relatively low (2004: approximately 50%), an ample room for development; and
5. demand and supply of raw materials is reaching equilibrium, which will stabilize the price of raw materials and therefore reduce the cost of production of our Group.

Owing to the above positive factors, we have begun our preparation to increase our steel cord annual production capacity to 45,000 tonnes. As for the copper and brass products segment, the continued improvement in economic condition and the construction of a new plant catering for domestic PRC customers will bring positive impact to the Group in the forthcoming years.

Dividend

To share the Group's results with your long-term continual support, we are committed to maintain our dividend payout policy. Hence, the board of the directors (the "Board") has recommended a final dividend of HK1.5 cents per share. Total dividend, including the HK2.0 cents interim dividend per share with scrip option, amounts to HK3.5 cents per share, representing a dividend payout ratio of approximately 24%. This recommendation balances the management's view of its projected cash flow for 2005, its current cash position, the financial need for further expansion on our annual production capacity of steel cord to 45,000 tonnes as mentioned beforehand and the wish of the Company's shareholders.

Acknowledgements

On behalf of the Board, we wish to thank all our customers, suppliers and shareholders for their continuous support. We would also like to thank our team of dedicated staff for their invaluable service and contribution throughout the year.

By Order of the Board

Cao Zhong
Chairman

Hong Kong
18 April 2005

Management Discussion and Analysis

BUSINESS REVIEW

Jiaying Eastern Steel Cord Co., Ltd. (“Jiaying Eastern”), our principal subsidiary engaged in the manufacturing of steel cord for radial tyres, had successfully completed its expansion plan in the second half year, which increased its production capacity from 13,000 tonnes to 30,000 tonnes per annum. Furthermore, demand for our products, including steel cord and copper and brass products increased amid growing economy both in the People’s Republic of China (the “PRC”) and overseas. As such, the Group had achieved a growth of 43.9% in turnover to HK\$427,864,000 for the year ended 31 December 2004. However, increased competition in the steel cord industry and rising raw material prices had negatively affected the gross profit margin of this business. Nonetheless, the Group still delivered a double digit growth in net profit attributable to shareholders for the current year, ascribing to the fourth consecutive growth in profit since year 2000.

Manufacturing of steel cord for radial tyres (“Steel cord”)

The implementation of austerity measures by the PRC Government during 2004 had caused the slowdown in the development of the automobile industry, notwithstanding, the production of motor vehicles in the current year still managed to grow by 14.2% to 5,074,000 units. Total number of motor vehicles for civilian use as at 31 December 2004 reached to 27,420,000 units, up by 15% as compared to 31 December 2003. Moreover, 4,476 kilometers of freeway were added to the freeway network in the PRC in 2004 (Source: National Bureau of Statistics of China), these spurred the continuous growth in demand for radial tyres and hence, steel cord.



Jiaying Eastern’s production of steel cord gradually increased during the second half year since its expansion plan to 30,000 tonnes per annum was completed in June 2004. Turnover increased to HK\$266,262,000, up by 21.9% over the previous year. However, faced with pricing pressure from increased competition and rising material and energy costs, especially during the second half year, gross profit remained the same level as previous year at HK\$95,041,000. Gross profit margin dropped from 43.5% in the previous year to 35.7% in the current year.

Operating profit decreased by 10.3% to HK\$82,650,000 in the current year. However, operating profit for the previous year included recovery of bad and doubtful debts of HK\$5,754,000, when adjusted for these recovery of bad and doubtful debts, operating profit for the current year would drop by 4.4% over the previous year.



BUSINESS REVIEW (continued)

Processing and trading of copper and brass products (“Copper & brass products”)

This business segment started to bring fruitful results to the Group for the year under review, justifying the management’s decision to establish the production plant in Dongguan in 2002 which



was aimed to enlarge the production capacity and to reduce costs. The growing worldwide economy and weaker United States Dollar had stimulated the demand for copper materials, and hence, mounting copper price in 2004. This segment was able to generate significant growth in profit contribution to the Group.

Turnover of this segment advanced by 105.5% to HK\$159,674,000 for the current year, sales volume increased by 44.5% while another 61% growth was contributed by the rise in copper price. LME 3-month copper price climbed from US\$2,327, equivalent to approximately HK\$18,151 per tonne at the beginning of 2004 to US\$3,025, equivalent to approximately HK\$23,595 per tonne at end of 2004, represented a rise of 30% over the previous year. As we increased our inventory level at a relatively low price during late 2003, this segment fully enjoyed the benefit of rising copper price especially during the first half year of 2004. Hence, this segment achieved a 202.9% increase in gross profit to HK\$16,580,000 for the current year, while gross profit margin increased from 7% in the previous year to 10.4% in the current year. In addition to the increase in sales volume and rising copper price, the higher gross profit margin was also contributed by reduced operating costs from greater economies of scale.

Operating profit of this segment reached to HK\$10,196,000 for the current year, represented a remarkable increase of 184% as compared to HK\$3,590,000 for the previous year.

FINANCIAL REVIEW

The Group recorded net profit attributable to shareholders of HK\$148,114,000 for the current year, an increase of 124.1% over previous year’s net profit attributable to shareholders of HK\$66,092,000. During the current year, the Group disposed several subsidiaries and jointly controlled entities to certain independent third parties and recorded net gain of HK\$76,651,000 and net loss of HK\$9,410,000 on the disposal respectively (further details set out under “Disposals of subsidiaries and jointly controlled entities” section herebelow), which included the realization of HK\$82,041,000 of negative goodwill and HK\$18,778,000 of exchange loss in translation reserve. When these negative goodwill and exchange loss, with net gain of HK\$63,263,000 were excluded, net profit attributable to shareholders for the current year would be HK\$84,851,000, increased by 28.4% over the previous year.

Management Discussion and Analysis

FINANCIAL REVIEW (continued)

Turnover

The Group recorded a growth in turnover of 43.9% to HK\$427,864,000 in the current year. The breakdown of turnover by business segments is as follows:

	2004 HK\$'000	% of total turnover	2003 HK\$'000	% of total turnover	% change
Steel cord	266,262	62.2	218,463	73.5	+21.9
Copper & brass products	159,674	37.3	77,715	26.1	+105.5
Others	1,928	0.5	1,093	0.4	+76.4
Total	427,864	100.0	297,271	100.0	+43.9

Gross profit

The Group's gross profit was up by 11.2% to HK\$112,239,000. However, gross profit margin dropped from 33.9% in the previous year to 26.2% in the current year. The breakdown of gross profit by business segment is as follows:

	2004 HK\$'000	Gross profit %	2003 HK\$'000	Gross profit %	% change
Steel cord	95,041	35.7	95,033	43.5	-
Copper & brass products	16,580	10.4	5,474	7.0	+202.9
Others	618	32.1	397	36.3	+55.7
Total	112,239	26.2	100,904	33.9	+11.2



FINANCIAL REVIEW (continued)

Gross profit (continued)

Apart from the drop in gross profit margin of steel cord segment, as affected by depressed selling price and rising material costs mentioned in "Manufacturing of steel cord for radial tyres" section above, the increased share of turnover of copper and brass products segment, whose gross profit margin was relatively lower, also caused the drop in overall gross profit margin of the Group, as illustrated in the table below:

	2004			2003		
	% of Group turnover	Gross profit %	Weighted gross profit %	% of Group turnover	Gross profit %	Weighted gross profit %
Steel cord	62.2	35.7	22.2	73.5	43.5	32.0
Copper & brass products	37.3	10.4	3.9	26.1	7.0	1.8
Others	0.5	32.1	0.1	0.4	36.3	0.1
Total	100.0		26.2	100.0		33.9

Administrative expenses

The current year's administrative expenses amounted to HK\$29,660,000, an increase of 13.6% over the previous year. The rise in administrative expenses was largely because of the expansion of the Group's business that increased overall costs. However, administrative expenses as a percentage of turnover further dropped from 8.8% in the previous year to 6.9% in the current year.

Other operating expenses

Other operating expenses increased by 127.9% to HK\$2,379,000 as compared to previous year as amortisation of goodwill amounted to HK\$2,222,000 was accounted for in the current year while it was HK\$556,000 in the previous year. Goodwill arising on the acquisition of approximately 28.24% interests in Jiaying Eastern in 2003 was amortised for full year as compared to just three months in the previous year.

Management Discussion and Analysis

FINANCIAL REVIEW (continued)

Disposals of subsidiaries and jointly controlled entities

During the current year, the Company disposed of several non-core subsidiaries and jointly controlled entities to certain independent third parties with a view to further streamline the structure of the Group and to concentrate resources on the development of the Group's core businesses. Total consideration for the disposals amounted to HK\$12,770,000, which were arrived at fair and reasonable terms.

Gain on disposal of subsidiaries

The Company sold the entire shareholdings in Meta Company Limited ("Meta"), an investment holding company, Bogay Investment Limited ("Bogay") which ceased business in 2000, and the 25% interest in Shanxi Shengjia Real Estate Developing Co., Ltd. ("Shanxi Shengjia") which was held through Bogay, on 10 November and 23 December 2004 respectively. The total consideration of these disposals was approximately HK\$4,580,000 and as a result a loss of HK\$4,194,000 was incurred. However, after realization of negative goodwill of HK\$82,041,000, arising on acquisitions of Meta and Bogay and the exchange loss on translation of Shanxi Shengjia's net assets of HK\$1,196,000 in the past, the disposals recorded a net gain of HK\$76,651,000.

Loss on disposal of interest in a jointly controlled entity

Further to the above, the Company also disposed of the 25% interest in Shanghai Shenjia Ferroalloy Co., Ltd. ("Shanghai Shenjia Ferroalloy"), whose net book value had been fully written off in previous years as we had ceased to participate in the trading of ore and ferroalloy in 1999. The interest was disposed of at a consideration of approximately HK\$8,190,000, and recorded a net loss of HK\$9,410,000 after expenses and realization of exchange loss of HK\$17,582,000 arising on the translation of Shanghai Shenjia Ferroalloy's net assets in previous years.

Profit from operations

Profit from operations dropped by 3.1% to HK\$80,703,000 for the current year. When allowance for/recovery of bad and doubtful debts were excluded, profit from operations would increase by 11.1% over the previous year. The breakdown of profit from operations is as follows:

	2004 HK\$'000	2003 HK\$'000	% change
Steel cord	82,650	92,186	-10.3
Copper and brass products	10,196	3,590	+184.0
Corporate and others	(10,079)	(12,286)	-18.0
Unallocated corporate income and expenses, net	(2,064)	(212)	+873.6
Profit from operations	<u>80,703</u>	<u>83,278</u>	-3.1



FINANCIAL REVIEW (continued)

Finance costs

The Group's finance costs were HK\$4,463,000 for the current year, up by 40.4% over the previous year. Increased finance costs were primarily because of increased bank borrowings during the year to finance Jiaxing Eastern's expansion plan. Total bank borrowings of the Group rose from HK\$110,658,000 at 31 December 2003 to HK\$279,653,000 at 31 December 2004.

Share of results of jointly controlled entities and an associate

The operating environment of the pre-stressed concrete strands and wires industry in the PRC slightly improved during the current year. Demand for these products remained strong as infrastructure developments in the PRC continued; furthermore, their selling prices were able to increase in line with rocketing raw material prices.

Shanghai Shenjia Metal Products Co., Ltd. ("Shanghai Shenjia") recorded an increase in turnover of 26% to HK\$465,648,000 for the current year. Its operating profit before tax for the current year increased by 14.3% to HK\$31,809,000 while the Group's share of its operating profit before tax increased by the same margin to HK\$7,952,000.

For Xinhua Metal Products Co., Ltd. ("Xinhua Metal"), its turnover increased by 40.1% to HK\$709,844,000. Because of additional provision for bad and doubtful debts and provision for diminution in value of investments of HK\$3,770,000 made during the year, its operating profit before tax dropped by 13.1% to HK\$27,236,000 for the current year. In corollary, the Group's share of its operating profit before tax dropped by the same margin to HK\$4,562,000.

Dividend

We declared and paid an interim dividend of HK2.0 cents per share with scrip option for the six months ended 30 June 2004.

LIQUIDITY AND FINANCIAL RESOURCES

The Group mainly financed its operations by cash generated from its business activities and ongoing banking facilities provided by its principal bankers. During the current year, the Group had generated net cash inflow of HK\$13,852,000 from its operating activities, far below that of HK\$47,864,000 for previous year as additional cash was needed to finance increased inventories and trade receivables to support growing businesses, in particular since Jiaxing Eastern had completed its expansion plan during the second half year of 2004.

Management Discussion and Analysis

LIQUIDITY AND FINANCIAL RESOURCES (continued)

Capital expenditure for the current year amounted to HK\$154,080,000, mainly incurred on the expansion plan of Jiaxing Eastern. Additional bank borrowings of HK\$127,206,000 were raised to partially finance the expansion plan and together with HK\$41,789,000 increase in trust receipt loans, total bank borrowings (including obligations under finance leases), which are interest bearing at floating rates, reached to HK\$279,653,000 at 31 December 2004. Out of the total bank borrowings of HK\$279,653,000, HK\$176,590,000 (including HK\$79,148,000 of trust receipt loans) are repayable within one year, HK\$94,321,000 are repayable in the second year and HK\$8,742,000 are repayable in the third year.

As a result of the increased bank borrowings, gearing ratio (total bank borrowings less cash and bank balances/shareholders' equity) of the Group at 31 December 2004 was 37.7%, as compared to 13.2% at 31 December 2003. While the Group's current ratio dropped from 2.6 times at 31 December 2003 to 1.5 times at 31 December 2004. The higher gearing ratio and the lowered current ratio were in anticipation of our business expansion; however, we will remain cautious in our cashflow and liquidity management.

FOREIGN CURRENCY EXPOSURES

The Group's source of revenue is principally denominated in Renminbi ("RMB") and Hong Kong dollars ("HKD"), while we mainly borrow in HKD, RMB and United States dollars ("USD"). The currency mix of our bank borrowings at 31 December 2004 was approximately 31.5% denominated in HKD and 68.5% in USD, as compared to 57.6% in HKD and 42.4% in USD at 31 December 2003. Although the Group did not have USD income, insofar as the exchange rate peg between HKD and USD is maintained, we believe the Group will not be exposed to any significant risk from exchange rate fluctuations amongst HKD, USD and RMB.

Apart from the above, the Group had signed several contracts totaling Euro13,922,000 for the acquisitions of plant and machineries in respect of the expansion plan of Jiaxing Eastern in 2003. In view of the significant fluctuations in the exchange rate of Euro, which had once climbed to its record peak level of Euro1 against approximately USD1.3625 in December 2004, and in order to limit the exposure of adverse fluctuations of Euro exchange rate to the cost of the expansion plan, the Group had executed several forward contracts to hedge against the Euro payments to be made in 2004. All hedging positions were closed in the current year with net gain of HK\$4,572,000 recorded to reduce the cost of expansion plan of Jiaxing Eastern.





BUSINESS DEVELOPMENT PLAN AND CAPITAL COMMITMENTS

Manufacturing of steel cord for radial tyres

In the year 2004, China recorded an economic growth of 9.5% over 2003; it is expected that China will continue to maintain a high single digit growth in Gross Domestic Products in the coming years ahead. Such persistent and robust economic growth driving rise in personal disposable income and increasing number of middle class, which will push up the demand for motor vehicles. On the other hand, more and more highways and expressways in the PRC are needed to cope with the demand associated with increasing business activities, fast growth in the number of motor vehicles and better living standard. China is planning to build a 85,000 kilometer expressway network in the coming 30 years. Given the above factors, it is foreseeable that demand for radial tyres as well as steel cord will continue to grow in the longer term, despite the negative impact brought by the implementation of austerity measures by the PRC Government. In view of the growing demand, the Group plans for a further expansion by introducing a new production line so as to increase the production capacity of Jiaxing Eastern from existing 30,000 tonnes to 45,000 tonnes per annum by 2007. Total costs of the expansion will be approximately HK\$200,000,000 (excluding working capital requirement), to be financed by internal resources of the Group and bank loans.

Processing and trading of copper and brass products

According to the information from International Copper Association Limited of China, PRC has replaced the United States of America as the largest copper consumption market in the world, and we believe PRC's copper consumption will see continuous growth in the future. Hence, the Group is planning to establish an additional production plant in the PRC for domestic sales of copper and brass products, schedule to commence operations in the fourth quarter of 2005. Total investment will be approximately HK\$4,000,000 which will be financed by internal resources of the Group.

EMPLOYEES, REMUNERATION POLICIES AND TRAINING SCHEME

At 31 December 2004, the Group had a total of 638 employees located in Hong Kong and the PRC. Remuneration packages, which include an element of discretionary bonuses, are generally reviewed annually. In addition to salary payments, other employee benefits include medical subsidies, hospitalization scheme and a defined contribution provident fund, Mandatory Provident Fund Scheme and other retirement scheme or other similar defined contribution provident fund stipulated by the State Regulations of the PRC which provided retirement benefits to employees in Hong Kong and the PRC respectively. The Group's contributions to these schemes are charged against profits as they are incurred. The amount charged to the consolidated income statement for the current year amounted to HK\$1,133,000. The Group had also provided training programme or course for the mainland staff at all levels from different departments so as to further enhance their technical skills in production operation.

Management Discussion and Analysis

EMPLOYEES, REMUNERATION POLICIES AND TRAINING SCHEME (continued)

In addition, the Group had adopted a share option scheme on 7 June 2002 (the "Scheme"). Under the Scheme, the board of directors of the Company (the "Board") shall, subject to and in accordance with the provisions of the Scheme and the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), grant share options to any eligible participant to subscribe for shares in the capital of the Company for the purpose of providing incentives or rewards to him/her for contribution to the Group. The Scheme will remain in force for a period of ten years from the date of its adoption. During the current year, no share options were granted, while 4,924,000 share options had been exercised by the directors and employees of the Company.

PLEDGE OF ASSETS AND CONTINGENT LIABILITIES

As at 31 December 2004, the following assets had been pledged to the Group's bankers for banking facilities granted to the Group:

1. Leasehold land and buildings and investment properties with an aggregate net book value of HK\$41,996,000;
2. Land use rights with net book value of HK\$16,981,000;
3. Plant and machinery with net book value of HK\$146,404,000;
4. 100% equity interests in Everwinner Investments Limited, Online Investments Limited and Jiaxing Eastern; and
5. Bank deposits amounting to HK\$4,000,000.

Further, the Group had also executed corporate guarantees for bank loans granted to a jointly controlled entity to finance its working capital. These corporate guarantees are provided in proportion to the Group's interest in the jointly controlled entity and are renewable on an annual basis. The amount of guarantees granted as at 31 December 2004 amounted to approximately HK\$10,721,000.



BUSINESS OUTLOOK

We expect the PRC's economy will sustain to achieve an encouraging growth in 2005, while the external economic growth will remain steady, despite hiking US interest rates and volatile oil prices. We are confident on the long-term prospect of the PRC economy, and we will continue to invest in our core businesses as mentioned in "**BUSINESS DEVELOPMENT PLAN AND CAPITAL COMMITMENTS**" section above.

However, we see the operating environment is still challenging in 2005. At present, there is no clear sign that raw material prices will fall back from their high levels since 2004 which had put pressure on our gross profit margin. Notwithstanding, the production capacity of steel cord had increased to 30,000 tonnes per annum since the second half of 2004 and we will enlarge the production capacity of copper and brass products business as well. We expect the Group will achieve larger economies of scale through these expansions of production capacities. On the other hand, we will keep on improving our operating efficiency and cost control, and diversify our customer base both domestically and abroad to mitigate the negative impact on our profit margin. We remain confident that we can deliver satisfactory return to our shareholders in 2005.

Report of the Directors

The directors herein present their report and the audited financial statements of the Company and the Group for the year ended 31 December 2004.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Further details of the principal activities of the principal subsidiaries are set out in note 38 to the financial statements. There were no significant changes in the nature of the Group's principal activities during the year.

RESULTS

The Group's profit for the year ended 31 December 2004 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 35 to 91.

SUMMARY OF FINANCIAL INFORMATION

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

	2004 HK\$'000	2003 HK\$'000	2002 HK\$'000	2001 HK\$'000	2000 HK\$'000
NET PROFIT ATTRIBUTABLE TO SHAREHOLDERS	<u>148,114</u>	<u>66,092</u>	<u>42,481</u>	<u>19,900</u>	<u>4,739</u>
TOTAL ASSETS	949,121	726,221	599,209	574,873	574,845
TOTAL LIABILITIES	(306,964)	(132,351)	(69,218)	(87,090)	(113,690)
MINORITY INTERESTS	—	—	(86,502)	(95,011)	(90,371)
	<u>642,157</u>	<u>593,870</u>	<u>443,489</u>	<u>392,772</u>	<u>370,784</u>



INVESTMENT PROPERTIES AND PROPERTY, PLANT AND EQUIPMENT

Particulars of the Group's investment properties as at 31 December 2004 are summarised on page 92 of this annual report.

Details of movements in the investment properties, property, plant and equipment of the Company and the Group during the year are set out in notes 12 and 13, respectively to the financial statements.

SHARE CAPITAL AND SHARE OPTIONS

Details of movements in the share capital of the Company are set out in note 28 to the financial statements. The Company introduced a share option scheme in 2002. Details of share options are set out under the headings "SHARE OPTION SCHEME", "DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES" hereunder and in note 36 to the financial statements.

RESERVES

Details of movements in the reserves of the Group and the Company during the year are set out in the consolidated statement of changes in equity on pages 39 and 40 of this annual report and in note 29 to the financial statements.

DISTRIBUTABLE RESERVES

As at 31 December 2004, the Company's reserves available for distribution, calculated in accordance with the provisions of Section 79B of the Companies Ordinance, amounted to HK\$16,837,000, of which approximately HK\$15,391,000 has been proposed as a final dividend for the year.

FINAL DIVIDEND

The directors recommended to shareholders the payment of a final dividend of HK1.5 cents per share for the year ended 31 December 2004 and the balance of the profit will be retained. Subject to the approval of the shareholders at the forthcoming annual general meeting, the final dividend will be payable on or about 4 July 2005 to the shareholders whose names appear at the Register of Members of the Company as at the close of business on 13 June 2005.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members will be closed from 8 June 2005 to 13 June 2005, both days inclusive, during which period no share transfer will be registered. In order to qualify for the proposed final dividend, all transfer accompanied by the relevant share certificates must be lodged with the Company's share registrars, Tengis Limited at Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong not later than 4:00 p.m. on 7 June 2005.

Report of the Directors

DIRECTORS

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

Directors:

Cao Zhong (<i>Chairman</i>)	
Li Shaofeng (<i>Managing Director</i>)	
Tong Yihui (<i>Deputy Managing Director</i>)	
Leung Shun Sang, Tony	
Tang Cornor Kwok Kau (<i>Deputy Managing Director</i>)	
Xu Xianghua	(resigned on 13 April 2004)
Cheng Xiaoyu	(resigned on 6 January 2004)
Lai Kam Man (<i>Independent Non-executive Director</i>)	(resigned on 30 September 2004)
Yip Kin Man, Raymond (<i>Independent Non-executive Director</i>)	
Chen, Kelvin Siu Min (<i>Independent Non-executive Director</i>)	(appointed on 30 August 2004)
Hui, Hung Stephen (<i>Independent Non-executive Director</i>)	(appointed on 30 September 2004)
Law, Yui Lun (<i>Independent Non-executive Director</i>)	(appointed on 18 April 2005)

The directors of the Company, including the independent non-executive directors, are subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with articles 91, 92, 93 and 97 of the Company's articles of association. Messrs. Leung Shun Sang, Tony, Tang Cornor Kwok Kau, Chen, Kelvin Siu Min ("Mr. Chen"), Hui, Hung Stephen and, Law, Yui Lun, will retire and, being eligible, offer themselves, with the exception of Mr. Chen, for re-election at the forthcoming annual general meeting.

DIRECTORS' SERVICE CONTRACTS

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

DIRECTORS' RIGHTS TO ACQUIRE SHARES AND DEBENTURES

Apart from as disclosed under the heading "DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES" and in note 36 to the financial statements, at no time during the year was the Company or any of its subsidiaries a party to any arrangement to enable the Company's directors or their respective spouse or children under 18 years of age to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.



SHARE OPTION SCHEME

Particulars of the Company's share option scheme and details of movements in the Company's share options during the year are set out under the heading "DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES" hereunder and in note 36 to the financial statements.

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

As at 31 December 2004, save for the interest of the Directors in the shares and share options of the Company set out as below, none of the Directors had any interests and short positions in the shares, debentures or underlying shares of the Company or any of their associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) which had to be notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he was taken or deemed to have under such provisions of the SFO) or which were required pursuant to section 352 of the SFO, to be entered in the register referred therein or which were required to be disclosed herein pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers.

Long Positions in shares

(a) Ordinary shares of HK\$0.1 each of the Company

Name of Director	Total number of shares held	% with respect to total number of issued share capital as at 31 December 2004	Capacity
Tang Cornor Kwok Kau ("Mr. Tang")	2,496,000	0.24%	Beneficial owner (Note)

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

Report of the Directors

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES (continued)**(b) Share options**

As at 31 December 2004, there were a total of 163,196,000 outstanding share options of the Company granted to directors of the Company, details of which are summarized in the following table:

Name of director	Options to subscribe for shares of the Company				Outstanding options at the end of the year	Date of grant (Note b)	Exercise period	Exercise price per share HK\$	Capacity in which interests are held	% of the issued share capital as at 31 December 2004
	Outstanding options at the beginning of the year	Number of options granted during the year	Number of options exercised during the year	Date of exercise						
Cao Zhong	7,652,000	-	-	-	7,652,000	23/8/2002	23/8/2002 to 22/8/2012	0.295		
	57,350,000 (Note a)	-	-	-	57,350,000	2/10/2003	2/10/2003 to 1/10/2013	0.780		
	65,002,000	-	-	-	65,002,000				Beneficial owner	6.34
Li Shaofeng	7,652,000	-	-	-	7,652,000	23/8/2002	23/8/2002 to 22/8/2012	0.295		
	30,614,000 (Note a)	-	-	-	30,614,000	25/6/2003	25/6/2003 to 24/6/2013	0.365		
	38,266,000	-	-	-	38,266,000				Beneficial owner	3.73
Tong Yihui	7,652,000	-	-	-	7,652,000	23/8/2002	23/8/2002 to 22/8/2012	0.295		
	38,268,000 (Note a)	-	-	-	38,268,000	25/6/2003	25/6/2003 to 24/6/2013	0.365		
	45,920,000	-	-	-	45,920,000				Beneficial owner	4.48

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

(b) Share options (continued)

Options to subscribe for shares of the Company										
Name of director	Outstanding options at the beginning of the year	Number of options granted during the year	Number of options exercised during the year	Date of exercise	Outstanding options at the end of the year	Date of grant (Note b)	Exercise period	Exercise price per share HK\$	Capacity in which interests are held	% of the issued share capital as at 31 December 2004
Leung Shun Sang, Tony	4,592,000	-	-	-	4,592,000	23/8/2002	23/8/2002 to 22/8/2012	0.295		
	3,060,000	-	-	-	3,060,000	12/3/2003	12/3/2003 to 11/3/2013	0.325		
	4,592,000	-	-	-	4,592,000	25/8/2003	25/8/2003 to 24/8/2013	0.740		
	12,244,000	-	-	-	12,244,000				Beneficial owner	1.19
Mr. Tang	2,296,000	-	1,296,000	9/2/2004	-	23/8/2002	23/8/2002 to 22/8/2012	0.295		
			500,000	20/4/2004						
			500,000	31/5/2004						
	1,000,000	-	-	-	1,000,000	25/8/2003	25/8/2003 to 24/8/2013	0.740		
	3,296,000	-	2,296,000		1,000,000				Beneficial owner	0.10
Yip Kin Man, Raymond	382,000	-	-	-	382,000	23/8/2002	23/8/2002 to 22/8/2012	0.295		
	382,000	-	-	-	382,000	25/8/2003	25/8/2003 to 24/8/2013	0.740		
	764,000	-	-	-	764,000				Beneficial owner	0.07
Chen, Kelvin Siu Min	-	-	-	-	-					
Hui, Hung Stephen	-	-	-	-	-					
	<u>165,492,000</u>	<u>-</u>	<u>2,296,000</u>		<u>163,196,000</u>					

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

(b) Share options (continued)

Note:

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

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

DIRECTORS' INTERESTS IN CONTRACTS

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

DIRECTORS' INTERESTS IN COMPETING BUSINESSES

During the year, no director is considered to have an interest in a business which competes or is likely to compete, either directly or indirectly, with the businesses of the Group pursuant to The Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules").

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

As at 31 December 2004, so far as was known to the Directors, the following had an interest or long position or short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or which were required pursuant to section 336 of the SFO, to be entered in the register referred therein:

Long position in shares

Name of shareholder	Total number of shares/ underlying shares held	% with respect to total number of issued share capital as at 31 December 2004	Capacity
Richson Limited ("Richson")	148,537,939	14.48	Beneficial owner
Fair Union Holdings Limited ("Fair Union")	286,655,179	27.94	Beneficial owner and deemed interest ⁽¹⁾
Shougang Concord International Enterprises Company Limited ("Shougang International")	286,655,179	27.94	Deemed interest ⁽²⁾
Able Legend Investments Limited ("Able Legend")	126,984,000	12.38	Beneficial owner ⁽³⁾
Shougang Holding (Hong Kong) Limited ("Shougang HK")	431,961,179	42.10	Deemed interest ⁽⁴⁾
Morgan Stanley	80,325,000	7.83	Interests of controlled corporations ⁽⁵⁾
Cao Zhong	65,002,000	6.34	Beneficial owner ⁽⁶⁾

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

Long position in shares (continued)

Notes:

- (1) Fair Union is beneficially interested in 135,721,936 shares and 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) Shougang International is deemed to be interested in the 135,721,936 shares held by Fair Union, the 148,537,939 shares held by Richson and the 2,395,304 shares held by Casula as Richson and Casula are wholly owned by Fair Union, a wholly owned subsidiary of Shougang International.
- (3) Able Legend is beneficially interested in 126,984,000 shares.
- (4) Shougang HK is deemed to be interested in the 126,984,000 shares and the 15,016,000 shares held by Able Legend and Prime Success Investment Limited (“Prime Success”) respectively as Able Legend and Prime Success are its wholly owned subsidiaries and is deemed to be interested in the 3,306,000 shares held by Lyre Terrace Management Limited, a subsidiary of Shougang Concord Grand (Group) Limited (“Shougang Grand”) and Shougang HK is the controlling shareholder of Shougang Grand. It is also deemed to be interested in the 135,721,936 shares held by Fair Union, the 148,537,939 shares held by Richson and the 2,395,304 shares held by Casula as it is the holding company of Shougang International.

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

Long position in shares (continued)

Notes: (continued)

- (5) Morgan Stanley is interested in 80,325,000 shares.

The following is a breakdown of the interests in shares of Morgan Stanley:

Controlled Corporation	Controlling Shareholder	% control	Total interest in shares		Approximate % of the issued share capital
			Direct interest	Deemed interest	
Morgan Stanley Capital Management, L.L.C.	Morgan Stanley	100	-	80,325,000	7.83
Morgan Stanley Domestic Capital, Inc.	Morgan Stanley Capital Management, L.L.C.	100	-	80,325,000	7.83
Morgan Stanley International Incorporated	Morgan Stanley	90	-	80,325,000	7.83
Morgan Stanley International Holdings Inc.	Morgan Stanley	80	-	80,325,000	7.83
Morgan Stanley Asia Pacific (Holdings) Limited	Morgan Stanley International Holdings Inc.	90	-	80,325,000	7.83
Morgan Stanley Asia Regional (Holdings) III LLC	Morgan Stanley Asia Pacific (Holdings) Limited	100	-	80,325,000	7.83
Morgan Stanley Dean Witter (Singapore) Holdings Pte Ltd.	Morgan Stanley Asia Regional (Holdings) III LLC	100	-	80,325,000	7.83
Morgan Stanley Investment Management Company	Morgan Stanley Dean Witter (Singapore) Holdings Pte Ltd.	100	80,325,000	-	7.83

- (6) Mr. Cao Zhong is deemed to be interested in 65,002,000 shares as he holds 65,002,000 underlying shares of the Company as attached share options granted to him by the Company. The details of his share options are set out under the heading "DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES" hereabove.

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN CONTRACTS

Details of the contracts of significance between the Group and Shougang HK and Shougang International respectively are set out in note 37 to the financial statements.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES

During the year, the Company repurchased a total of 5,500,000 shares in the Company on the Stock Exchange pursuant to the general mandate granted by the shareholders at the annual general meeting held on 25 June 2003, details of which were as follows:

Month/Year	Number of ordinary share of HK\$0.10 each repurchased	Price per share		Total consideration (Before expenses) HK\$
		Lowest	Highest	
		HK\$	HK\$	
05/2004	5,500,000	0.73	0.80	4,231,300

All shares repurchased were cancelled and destroyed and accordingly the Company's issued share capital was reduced by the nominal value of those shares. The repurchases were effected for the benefit of the shareholders as a whole by enhancing the Company's earnings per share and the value of its shares.

Save as disclosed above, neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year.



RELATED PARTY TRANSACTIONS

The Group entered into certain transactions with parties regarded as “Related Parties” under applicable accounting standard. These mainly relate to contracts entered into by the Group in the ordinary course of business, which contracts were negotiated on normal commercial terms and on an arm’s length basis. Further details are set out in note 37 to the financial statements.

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

CONNECTED TRANSACTION

The Group has the following continuing connected transactions disclosed by way of inclusion in the annual report in accordance with Chapter 14A, rules 14A.45 to 14A.47 of the Listing Rules:

Continuing Connected Transactions exempt from the Independent Shareholders’ Approval Requirements

Hing Cheong Metals (China & Hong Kong) Limited (“Hing Cheong”) and Meta International Limited (“Meta International”), both are engaged in processing and trading of copper and brass products, the wholly owned subsidiaries of the Company entered into between Santai Manufacturing Limited (“Santai”), a wholly owned subsidiary of Shougang Concord Technology Holdings Limited which is defined as connected person pursuant to the Listing Rules whereby Santai purchased, and Hing Cheong and Meta International sold, copper sheets and brass sheets (the “Transactions”). The Transactions were entered into under the ordinary course of business basis. The Transactions constitute connected transaction for the Company and will extend over a period of time and will take place on continuing basis. The aggregate amount of the Transactions during the year was approximately HK\$4,576,000 which was fell within the proposed annual cap as disclosed in the published announcement of the Company dated 4 May 2004.

Report of the Directors

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers accounted for approximately 49% (2003: 67%) of the total sales for the year and sales to the largest customer included therein amounted to approximately 15% (2003: 21%).

Purchases from the Group's five largest suppliers accounted for approximately 40% (2003: 35%) of the total purchases for the year and purchases from the largest supplier included therein amounted to approximately 17% (2003: 15%).

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

AUDIT COMMITTEE

During the year under review, the Audit Committee of the Company is composed of three independent non-executive directors. One of the independent non-executive directors is experienced professional in the accounting, finance, corporate management and development, and corporate and investment banking. Meetings are held to review with the external auditors the accounting principles and practices adopted by the Group, the accuracy and fairness of the financial statements; and the scope of external audit work. The Committee members also review the effectiveness of internal control procedures of the Company. The Audit Committee held two meetings during 2004. The Committee will have occasional meetings informally meet with the management to discuss matters in relation to financial reporting quality and reliability of the internal control systems.

CODE OF BEST PRACTICE AND THE MODEL CODE

In the opinion of the Board, the Company has complied with the Code of Best Practice as set out in Appendix 14 of the Listing Rules in force prior to 1 January 2005 throughout the year, except in relation to guideline 7, where the non-executive directors of the Company are not appointed for specific terms but are subject to retirement by rotation and re-election at the annual general meetings of the Company in accordance with the Company's articles of association.

The Company has adopted the Model Code for Securities Transaction by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Listing Rules as the Code of Conduct regarding directors' securities transactions.

During the year under review, none of the directors is aware of any information that would reasonably indicate that the Company or any of its directors is not or was not in compliance with the Model Code.



AUDITORS

Messrs. Ernst & Young, who acted as auditors of the Company for the past two years, retired at the annual general meeting held on 25 June 2003 and Messrs. Deloitte Touche Tohmatsu were appointed as auditors of the Company in their place. A resolution for reappointment of Messrs. Deloitte Touche Tohmatsu as auditors of the Company will be proposed at the forthcoming annual general meeting.

By Order of the Board

Cao Zhong

Chairman

Hong Kong

18 April 2005

Report of the Auditors

Deloitte.

德勤

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

We have audited the financial statements on pages 35 to 91 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

Respective responsibilities of directors and auditors

The Companies Ordinance requires the directors to prepare financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those financial statements and to report our opinion solely to you, as a body, in accordance with section 141 of the Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Basis of opinion

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Institute of Certified Public Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of the Company and the Group, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and the Group as at 31 December 2004 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the Companies Ordinance.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
18 April 2005



Consolidated Income Statement

For the year ended 31 December 2004

	NOTES	2004 HK\$'000	2003 HK\$'000
Turnover	4	427,864	297,271
Cost of sales		(315,625)	(196,367)
Gross profit		112,239	100,904
Other operating income		5,758	3,126
Distribution costs		(2,011)	(1,307)
Administrative expenses		(29,660)	(26,115)
Other operating expenses		(2,379)	(1,044)
(Allowance for) recovery of bad and doubtful debts		(3,244)	7,714
Profit from operations	6	80,703	83,278
Finance costs	8	(4,463)	(3,178)
Gain on disposal of subsidiaries		76,651	–
Loss on disposal of interest in a jointly controlled entity		(9,410)	–
Share of results of jointly controlled entities		7,833	6,847
Share of result of an associate		4,562	5,251
Profit before taxation		155,876	92,198
Income tax expenses	9	(7,762)	(8,468)
Profit before minority interests		148,114	83,730
Minority interests		–	(17,638)
Net profit attributable to shareholders		148,114	66,092
Dividends	10	40,702	15,238
Earnings per share	11		
Basic		HK14.53 cents	HK7.50 cents
Diluted		HK13.19 cents	HK7.00 cents

Consolidated Balance Sheet

At 31 December 2004

	NOTES	2004 HK\$'000	2003 HK\$'000
Non-current assets			
Investment properties	12	8,966	8,386
Property, plant and equipment	13	480,213	322,093
Land use rights	14	16,981	16,981
Interests in jointly controlled entities	16	44,883	48,911
Interests in associates	17	45,620	44,813
Goodwill	18	41,672	43,894
Club memberships	19	675	675
Investment securities	20	–	–
Deposits paid for acquisition of property, plant and equipment		–	25,541
		639,010	511,294
Current assets			
Inventories	21	83,207	43,898
Trade receivables	22	97,723	52,136
Bills receivable		73,499	82,445
Prepayments, deposits and other receivables		16,309	2,994
Amount due from a related company		2,118	1,462
Pledged bank deposits	23	4,000	4,000
Bank balances and cash		33,255	27,992
		310,111	214,927
Current liabilities			
Trade payables	24	8,828	7,949
Bills payable		475	1,152
Other payables and accruals		14,180	9,441
Tax payable		865	309
Bank borrowings – due within one year	25	176,384	61,530
Obligations under finance leases – due within one year	26	206	922
		200,938	81,303
Net current assets		109,173	133,624
Total assets less current liabilities		748,183	644,918



Consolidated Balance Sheet

At 31 December 2004

	NOTES	2004 HK\$'000	2003 HK\$'000
Non-current liabilities			
Bank borrowings – due after one year	25	103,063	48,000
Obligations under finance leases – due after one year	26	–	206
Other payable		1,537	1,519
Deferred tax liabilities	27	1,426	1,323
		106,026	51,048
		642,157	593,870
Capital and reserves			
Share capital	28	102,607	101,958
Reserves		539,550	491,912
		642,157	593,870

The financial statements on pages 35 to 91 were approved and authorised for issue by the Board of Directors on 18 April 2005 and are signed on its behalf by:

Cao Zhong
Director

Li Shaofeng
Director

Balance Sheet

At 31 December 2004

	Notes	2004 HK\$'000	2003 HK\$'000
Non-current assets			
Property, plant and equipment	13	–	–
Interests in subsidiaries	15	483,758	472,271
Interests in jointly controlled entities	16	–	–
Club memberships	19	315	315
		484,073	472,586
Current assets			
Other receivables		8,422	5
Amount due from a subsidiary	15	31,000	23,000
Pledged bank deposits	23	4,000	4,000
Bank balances and cash		6,224	1,207
		49,646	28,212
Current liabilities			
Other payables and accruals		216	404
Bank borrowings – due within one year	25	40,000	20,177
		40,216	20,581
Net current assets			
		9,430	7,631
Total assets less current liabilities			
		493,503	480,217
Non-current liabilities			
Amounts due to subsidiaries	15	22,032	3,622
Bank borrowings – due after one year	25	40,000	48,000
		62,032	51,622
		431,471	428,595
Capital and reserves			
Share capital	28	102,607	101,958
Reserves	29	328,864	326,637
		431,471	428,595

Cao Zhong
Director

Li Shaofeng
Director



Consolidated Statement of Changes in Equity

For the year ended 31 December 2004

	Share capital	Share premium	Capital reserve	Goodwill reserve	Capital redemption reserve	Property revaluation reserve	Land use rights revaluation reserve	Translation reserve	PRC reserve funds	(Accumulated losses) retained profits	Total
	HK\$'000	HK\$'000	HK\$'000 (Note a)	HK\$'000 (Note a)	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000 (Note b)	HK\$'000	HK\$'000
At 1 January 2003	76,537	357,181	60,593	-	463	2,271	3,336	7,352	27,445	(91,689)	443,489
(Deficit) surplus on revaluation	-	-	-	-	-	(2,818)	4,095	-	-	-	1,277
Reversal (recognition) of deferred tax liability on revaluation of properties	-	-	-	-	-	492	(528)	-	-	-	(36)
Effect of change in tax rate	-	-	-	-	-	55	88	-	-	-	143
Net (loss) gain not recognised in the income statement	-	-	-	-	-	(2,271)	3,655	-	-	-	1,384
Profit for the year	-	-	-	-	-	-	-	-	-	66,092	66,092
Interim dividend paid	-	-	-	-	-	-	-	-	-	(15,238)	(15,238)
Reduction of share premium (Note c)	-	(149,099)	-	-	-	-	-	-	-	149,099	-
Issue of shares	25,048	75,752	-	-	-	-	-	-	-	-	100,800
Share issue expenses	-	(4,262)	-	-	-	-	-	-	-	-	(4,262)
Exercise of share options	373	1,232	-	-	-	-	-	-	-	-	1,605
Transfer and reclassification	-	-	20,995	-	-	-	-	(20,995)	1,045	(1,045)	-
At 31 December 2003 and 1 January 2004	101,958	280,804	81,588	-	463	-	6,991	(13,643)	28,490	107,219	593,870
Surplus on revaluation	-	-	-	-	-	368	791	-	-	-	1,159
Recognition of deferred tax liability on revaluation of properties	-	-	-	-	-	(64)	(119)	-	-	-	(183)
Net gain not recognised in the income statement	-	-	-	-	-	304	672	-	-	-	976
Release on disposal of subsidiaries	-	-	-	(82,041)	-	-	-	1,196	-	-	(80,845)
Release on disposal of interest in a jointly controlled entity	-	-	-	-	-	-	-	17,582	(8,212)	8,212	17,582
Profit for the year	-	-	-	-	-	-	-	-	-	148,114	148,114
Dividend paid	-	-	-	-	-	-	-	-	-	(40,702)	(40,702)
Issue of shares arising from issue of scrip dividend	706	5,057	-	-	-	-	-	-	-	-	5,763
Repurchase of shares	(550)	-	-	-	550	-	-	-	-	(4,257)	(4,257)
Exercise of share options	493	1,163	-	-	-	-	-	-	-	-	1,656
Transfer and reclassification	-	-	(48,929)	48,929	-	-	-	-	5,896	(5,896)	-
At 31 December 2004	102,607	287,024	32,659	(33,112)	1,013	304	7,663	5,135	26,174	212,690	642,157

Consolidated Statement of Changes in Equity

For the year ended 31 December 2004

	Share capital	Share premium	Capital reserve	Goodwill reserve	Capital redemption reserve	Property revaluation reserve	Land use rights revaluation reserve	Translation reserve	PRC reserve funds	(Accumulated losses) retained profits	Total
	HK\$'000	HK\$'000	HK\$'000 (Note a)	HK\$'000 (Note a)	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000 (Note b)	HK\$'000	HK\$'000
Attributable to:											
The Company and subsidiaries	102,607	287,024	24,003	(33,112)	1,013	304	7,663	3,827	13,012	186,638	592,979
Jointly controlled entity	-	-	-	-	-	-	-	948	8,448	13,852	23,248
Associate	-	-	8,656	-	-	-	-	360	4,714	12,200	25,930
At 31 December 2004	<u>102,607</u>	<u>287,024</u>	<u>32,659</u>	<u>(33,112)</u>	<u>1,013</u>	<u>304</u>	<u>7,663</u>	<u>5,135</u>	<u>26,174</u>	<u>212,690</u>	<u>642,157</u>
The Company and subsidiaries	101,958	280,804	72,932	-	463	-	6,991	3,821	5,164	127,463	599,596
Jointly controlled entities	-	-	-	-	-	-	-	(17,824)	20,054	(33,079)	(30,849)
Associates	-	-	8,656	-	-	-	-	360	3,272	12,835	25,123
At 31 December 2003	<u>101,958</u>	<u>280,804</u>	<u>81,588</u>	<u>-</u>	<u>463</u>	<u>-</u>	<u>6,991</u>	<u>(13,643)</u>	<u>28,490</u>	<u>107,219</u>	<u>593,870</u>

Notes:

- Goodwill included in capital reserve totalling HK\$48,929,000 was reclassified to goodwill reserve. The amount included negative goodwill arising from acquisition of subsidiaries amounting to HK\$82,051,000, positive goodwill arising from acquisition of subsidiaries, jointly controlled entities and associates amounting to HK\$3,942,000, HK\$27,666,000 and HK\$1,514,000 respectively. The capital reserve at year end represented the benefit of acquiring a shareholder's loan upon the acquisition of a subsidiary in previous years and share of associate's reserve.
- Pursuant to the relevant laws and regulations for sino-foreign joint venture enterprises, a portion of the profits of the Group's subsidiaries, jointly controlled entities and associates established in the People's Republic of China (the "PRC") has been transferred to PRC reserve funds which are restricted as to their use.
- Pursuant to the order issued by the Court of First Instance of the Hong Kong Special Administrative Region of the PRC, the share premium account of the Company has been reduced by the amount of approximately HK\$149,099,000 and the same amount of credit arising from such reduction has been applied towards the elimination of the accumulated losses.



Consolidated Cash Flow Statement

For the year ended 31 December 2004

	2004 HK\$'000	2003 HK\$'000
OPERATING ACTIVITIES		
Profit before taxation	155,876	92,198
Adjustments for:		
Depreciation	25,434	24,814
Amortisation of land use rights	791	614
Amortisation of goodwill	2,222	556
Surplus on revaluation of investment properties	(580)	(386)
Surplus on revaluation of leasehold land and buildings, net	(1,995)	(1,839)
Loss on disposal of property, plant and equipment, net	–	33
Gain on disposal of subsidiaries	(76,651)	–
Loss on disposal of interest in a jointly controlled entity	9,410	–
Interest income	(159)	(377)
Allowance for (recovery of) bad and doubtful debts	3,244	(7,714)
Finance costs	4,463	3,178
Share of results of jointly controlled entities	(7,833)	(6,847)
Share of result of an associate	(4,562)	(5,251)
Operating cash flows before movements		
in working capital	109,660	98,979
Increase in inventories	(39,309)	(11,334)
Increase in trade and bills receivables	(39,885)	(32,550)
(Increase) decrease in prepayments, deposits and other receivables	(5,231)	690
Increase in amounts due from related companies	(656)	(991)
Increase in trade and bills payables	202	2,759
Increase (decrease) in other payables and accruals	965	(451)
Cash generated from operations	25,746	57,102
Interest received	159	377
Interest paid	(6,509)	(2,014)
Interest element on finance lease payments	(34)	(64)
Other finance costs paid	–	(1,100)
Hong Kong Profits Tax (paid) refunded, net	(16)	7
PRC taxes paid, net	(5,494)	(6,444)
NET CASH FROM OPERATING ACTIVITIES	13,852	47,864

Consolidated Cash Flow Statement

For the year ended 31 December 2004

	NOTE	2004 HK\$'000	2003 HK\$'000
INVESTING ACTIVITIES			
Purchase of property, plant and equipment		(154,080)	(29,035)
Dividend received from a jointly controlled entity		6,273	7,819
Proceeds from disposal of interest in a jointly controlled entity		4,177	–
Dividend received from an associate		3,047	3,809
Proceeds from disposal of subsidiaries	30	500	–
Proceeds from disposal of property, plant and equipment		39	2,526
Acquisition of additional interests in subsidiaries		–	(148,604)
Increase in pledged bank deposits		–	(1,000)
Deposits paid for the acquisition of property, plant and equipment		–	(25,541)
NET CASH USED IN INVESTING ACTIVITIES		(140,044)	(190,026)
FINANCING ACTIVITIES			
New bank loans raised		164,338	72,171
Increase in trust receipt loans		41,789	20,415
Proceeds on issue of ordinary shares		1,656	102,405
Repayment of bank loans		(36,210)	(5,655)
Dividend paid		(34,939)	(15,238)
Payment on repurchase of shares		(4,257)	–
Repayment of obligations under finance lease		(922)	(442)
Repayment of loans from minority shareholders of subsidiaries		–	(25,964)
Share issue expenses paid		–	(3,950)
NET CASH FROM FINANCING ACTIVITIES		131,455	143,742
NET INCREASE IN CASH AND CASH EQUIVALENTS		5,263	1,580
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		27,992	26,412
CASH AND CASH EQUIVALENTS AT END OF THE YEAR		33,255	27,992
ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS			
Bank balances and cash		33,255	27,992



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").

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

2. POTENTIAL IMPACT ARISING FROM THE RECENTLY ISSUED ACCOUNTING STANDARDS

In 2004, the Hong Kong Institute of Certified Public Accountants (the "HKICPA") issued a number of new or revised Hong Kong Accounting Standards ("HKASs") and Hong Kong Financial Reporting Standards ("HKFRSs") (herein collectively referred to as "new HKFRSs") which are effective for accounting periods beginning on or after 1 January 2005. The Group has not early adopted these new HKFRSs in the financial statements for the year ended 31 December 2004.

The Group has commenced considering the potential impact of these new HKFRSs but is not yet in a position to determine whether these HKFRSs would have a significant impact on how its results of operations and financial position are prepared and presented. These HKFRSs may result in changes in the future as to how the results and financial position are prepared and presented.

3. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention, as modified for the revaluation of properties and land use rights.

The financial statements have been prepared in accordance with accounting principles generally accepted in Hong Kong. The principal accounting policies adopted are as follows:

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31 December each year.

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.

Notes to Financial Statements

For the year ended 31 December 2004

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Goodwill

Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary, jointly controlled entity or associate as at the date of acquisition.

Goodwill arising on acquisition prior to 1 January 2001 continues to be held in reserves, and will be charged to the consolidated income statement at the time of disposal of the relevant subsidiary, jointly controlled entity or associate, or at such time as the goodwill is determined to be impaired.

Goodwill arising on acquisition after 1 January 2001 is capitalised and amortised on a straight-line basis over its useful economic life. Goodwill arising on the acquisition of a jointly controlled entity or an associate is included within the carrying amount of the jointly controlled entity or associate. Goodwill arising on the acquisition of subsidiaries is presented separately in the consolidated balance sheet.

Negative goodwill

Negative goodwill represents the excess of the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary, jointly controlled entity or associate at the date of acquisition over the cost of acquisition.

Negative goodwill arising on acquisition prior to 1 January 2001 continues to be held in reserves and will be credited to consolidated income statement at the time of disposal of the relevant subsidiary, jointly controlled entity or associate.

Negative goodwill arising on acquisition after 1 January 2001 is presented as deduction from assets. To the extent that such negative goodwill is attributable to losses or expenses anticipated at the date of acquisition, it is released to consolidated income statement in the period in which those losses or expense arise. The remaining negative goodwill is recognised in consolidated income statement on a straight-line basis over the remaining average useful life of the identifiable acquired depreciable assets. To the extent that such negative goodwill exceeds the aggregate fair value of the acquired identifiable non-monetary assets, it is recognised as income immediately.

Negative goodwill arising on the acquisition of a jointly controlled entity or an associate is deducted from the carrying value of that jointly controlled entity or associate. Negative goodwill arising on the acquisition of subsidiaries is presented separately in the consolidated balance sheet as a deduction from assets.



3. SIGNIFICANT ACCOUNTING POLICIES (continued)

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 Group's interests in jointly controlled entities are included in the consolidated balance sheet at the Group's share of the net assets of the jointly controlled entity in so far as it has not already been written off, less any identified impairment loss. The Group's share of the post-acquisition results of its jointly controlled entities is included in the consolidated income statement.

The Company's investments in jointly controlled entities are stated at cost, as reduced by any identified impairment loss. The results of jointly controlled entities are accounted for by the Company on the basis of dividends received and receivable.

Interests in associates

The consolidated income statement includes the Group's share of the post-acquisition results of its associates for the year. In the consolidated balance sheet, interests in associates are stated at the Group's share of the net assets of the associates, less any identified impairment loss.

Investment properties

Investment properties are completed properties which are held for their investment potential, any rental income being negotiated at arm's length.

Investment properties are stated at their open market value based on independent professional valuations at the balance sheet date. Any surplus or deficit arising on the revaluation of investment properties is credited or charged to the investment property revaluation reserve unless the balance of this reserve is insufficient to cover a deficit, in which case the excess of the deficit over the balance on the investment property revaluation reserve is charged to the income statement. Where a deficit has previously been charged to the income statement and a revaluation surplus subsequently arises, this surplus is credited to the income statement to the extent of the deficit previously charged.

Notes to Financial Statements

For the year ended 31 December 2004

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Investment properties (continued)

On disposal of an investment property, the balance on the investment property revaluation reserve attributable to the property disposed of is credited to the income statement.

No depreciation is provided on investment properties except where the unexpired term of the relevant lease, including the renewable period, is 20 years or less.

Property, plant and equipment

Property, plant and equipment are stated at cost or valuation less accumulated depreciation and identified impairment loss.

Leasehold land and buildings are stated in the balance sheet at their revalued amount, being the fair value at the date of revaluation less any subsequent accumulated depreciation and any subsequent impairment loss. 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 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 impairment loss, and is not depreciated. Cost comprises the direct costs of construction and borrowing costs. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.



3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment (continued)

Depreciation is provided to write off the cost or valuation of assets, over their estimated useful lives, using the straight-line method, at the following rates per annum:

Leasehold land and buildings	Over the estimated useful life of 25 to 70 years
Leasehold improvements	20% – 25%
Plant and machinery	4% – 30%
Furniture, fixtures and equipment	9% – 30%
Motor vehicles	11% – 30%

The gain or loss arising from disposal or retirement of an asset is determined as the difference between the sale proceeds and the carrying amount of the asset and is recognised in the income statement.

Land use rights

Land use rights are stated at valuation less accumulated amortisation and any identified impairment loss, and are amortised on a straight-line basis over the respective remaining joint venture periods once commercial production commences.

Changes in the value of land use rights are dealt with as movements in the land use rights revaluation reserve. If the total of this reserve is insufficient to cover a deficit, on an individual asset basis, the excess of the deficit is charged to the income statement. Any subsequent revaluation surplus is credited to the income statement to the extent of the deficit previously charged. On disposal of a revalued asset, the relevant portion of the land use rights revaluation reserve realised in respect of previous valuations is transferred to retained profits as a movement in reserves.

Impairment

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 HKAS, in which case the impairment loss is treated as a revaluation decrease under that HKAS.

Notes to Financial Statements

For the year ended 31 December 2004

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment (continued)

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 HKAS, in which case the reversal of the impairment loss is treated as a revaluation increase under that HKAS.

Club memberships

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

Investments in securities

Investment securities, which are securities held for an identified long-term strategic purpose, are measured at cost, as reduced by any impairment loss that is other than temporary.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the first-in, first-out method for steel cord and weighted average 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 net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years, and it further excludes income statement items that are never taxable or deductible.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amount of assets and liabilities in the 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 negative 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.



3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Taxation (continued)

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

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

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

Interest income is accrued on a time basis by reference to the principal outstanding and the applicable rate of interest.

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

Rental income is recognised on a straight-line basis over the relevant lease terms.

Leases

Leases are classified as finance leases when the terms of the lease transfer substantially all the risks and rewards of ownership of the assets concerned to the Group. Assets held under finance leases are capitalised at their fair values at the date of acquisition. The corresponding liability to the lessor, net of interest charges, is included in the balance sheet as a finance lease obligation. Finance costs, which represent the difference between the total leasing commitments and the fair value of the assets acquired, are charged to the income statement over the period of the relevant lease so as to produce a constant periodic rate of charge on the remaining balance of the obligations for each accounting period.

All other leases are classified as operating leases and the rental income and expense is recognised on a straight-line basis over the relevant lease term.

Notes to Financial Statements

For the year ended 31 December 2004

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currencies

Transactions in currencies other than Hong Kong dollars are initially recorded at the rates of exchange prevailing on the dates of the transactions or at the contracted settlement rate. Monetary assets and liabilities denominated in such currencies are re-translated at the rates prevailing on the balance sheet date. Profits and losses arising on exchange are included in net profit or loss for the year.

On consolidation, the assets and liabilities of the Group's operations outside Hong Kong are translated at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the year. Exchange differences arising, if any, are classified as equity and transferred to the Group's translation reserve. Such translation differences are recognised as income or as expenses in the year in which the operation is disposed of.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, are capitalised as part of the cost of those assets. Capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale.

All other borrowings costs are recognised as expenses in the period in which they are incurred.

Retirement benefit costs

Payments to defined contribution Mandatory Provident Fund Scheme and all other retirement scheme or similar defined contribution provident fund are charged as expenses as they fall due.



4. TURNOVER

Turnover 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 turnover is as follows:

	2004 HK\$'000	2003 HK\$'000
Sales of goods		
Manufacturing of steel cord	266,262	218,463
Processing and trading of copper and brass products	159,674	77,715
Others	1,511	791
	<u>427,447</u>	<u>296,969</u>
Rental income	417	302
	<u>427,864</u>	<u>297,271</u>

5. 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.

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;
- (ii) the copper and brass products segment comprises the processing and trading of copper and brass products; and
- (iii) the corporate segment comprises the Group's management services business, which provides corporate management service, together with corporate income and expense item. The segment of others mainly comprises property investment and the manufacturing of pre-stressed concrete strands and wires.

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.

Notes to Financial Statements

For the year ended 31 December 2004

5. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)**(a) Business segments**

Segment information about these businesses is presented below:

For the year ended 31 December 2004

	Steel cord HK\$'000	Copper and brass products HK\$'000	Corporate and others HK\$'000	Consolidated HK\$'000
Segment revenue				
External sales	266,262	159,674	1,928	427,864
Other operating income	751	1,157	3,850	5,758
Total	<u>267,013</u>	<u>160,831</u>	<u>5,778</u>	<u>433,622</u>
Result				
Segment result	<u>82,650</u>	<u>10,196</u>	<u>(10,079)</u>	82,767
Unallocated corporate income and expenses, net				<u>(2,064)</u>
Profit from operations				80,703
Finance costs				(4,463)
Gain on disposal of subsidiaries	–	–	76,651	76,651
Loss on disposal of interest in a jointly controlled entity	–	–	(9,410)	(9,410)
Share of results of jointly controlled entities	–	–	7,833	7,833
Share of result of an associate	–	–	4,562	4,562
Profit before taxation				155,876
Income tax expenses				<u>(7,762)</u>
Profit before minority interests				148,114
Minority interests				–
Net profit attributable to shareholders				<u>148,114</u>



5. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

(a) Business segments (continued)

For the year ended 31 December 2004

	Steel cord HK\$'000	Copper and brass products HK\$'000	Corporate and others HK\$'000	Consolidated HK\$'000
OTHER INFORMATION				
Capital expenditure	183,988	311	1,167	185,466
Depreciation and amortisation	26,918	1,107	422	28,447
Allowance for bad and doubtful debts	<u>3,159</u>	<u>373</u>	<u>2</u>	<u>3,534</u>
BALANCE SHEET				
Assets				
Segment assets	704,135	72,986	39,150	816,271
Interest in a jointly controlled entity	–	–	44,883	44,883
Interest in an associate	–	–	45,620	45,620
Goodwill	41,672	–	–	41,672
Club memberships	–	–	675	<u>675</u>
Consolidated total assets				<u>949,121</u>
Liabilities				
Segment liabilities	14,400	6,819	3,801	25,020
Unallocated corporate liabilities				<u>281,944</u>
Consolidated total liabilities				<u>306,964</u>

Notes to Financial Statements

For the year ended 31 December 2004

5. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)**(a) Business segments** (continued)

For the year ended 31 December 2003

	Steel cord HK\$'000	Copper and brass products HK\$'000	Corporate and others HK\$'000	Consolidated HK\$'000
Segment revenue				
External sales	218,463	77,715	1,093	297,271
Other operating income	(287)	1,851	1,562	3,126
Total	<u>218,176</u>	<u>79,566</u>	<u>2,655</u>	<u>300,397</u>
Result				
Segment result	<u>92,186</u>	<u>3,590</u>	<u>(12,286)</u>	83,490
Unallocated corporate income and expenses, net				<u>(212)</u>
Profit from operations				83,278
Finance costs				(3,178)
Share of results of jointly controlled entities	–	–	6,847	6,847
Share of result of an associate	–	–	5,251	<u>5,251</u>
Profit before taxation				92,198
Income tax expenses				<u>(8,468)</u>
Profit before minority interests				83,730
Minority interests				<u>(17,638)</u>
Net profit attributable to shareholders				<u>66,092</u>



5. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

(a) Business segments (continued)

For the year ended 31 December 2003

	Steel cord HK\$'000	Copper and brass products HK\$'000	Corporate and others HK\$'000	Consolidated HK\$'000
OTHER INFORMATION				
Capital expenditure	69,995	851	2,639	73,485
Depreciation and amortisation	24,708	909	367	25,984
Allowance for bad and doubtful debts	26	120	–	146
Other non-cash expenses (income)	<u>287</u>	<u>(1,851)</u>	<u>(661)</u>	<u>(2,225)</u>
BALANCE SHEET				
Assets				
Segment assets	510,207	49,854	27,867	587,928
Interests in jointly controlled entities	–	–	48,911	48,911
Interests in associates	–	–	44,813	44,813
Goodwill	43,894	–	–	43,894
Club memberships	–	–	675	<u>675</u>
Consolidated total assets				<u>726,221</u>
Liabilities				
Segment liabilities	8,238	6,530	4,768	19,536
Unallocated corporate liabilities				<u>112,815</u>
Consolidated total liabilities				<u>132,351</u>

Notes to Financial Statements

For the year ended 31 December 2004

5. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

(b) Geographical segments

	Hong Kong		Other regions in the PRC		Others		Consolidated	
	2004	2003	2004	2003	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment revenue:								
Sales to external customers	60,370	43,525	365,633	253,444	1,444	-	427,447	296,969
Gross rental income	417	302	-	-	-	-	417	302
	60,787	43,827	365,633	253,444	1,444	-	427,864	297,271
Other segment information:								
Segment assets	127,538	95,712	731,080	536,785	-	-	858,618	632,497
Interest in jointly controlled entities	-	-	44,883	48,911	-	-	44,883	48,911
Interest in associates	-	-	45,620	44,813	-	-	45,620	44,813
Capital expenditure	764	47,106	184,702	26,379	-	-	185,466	73,485



6. PROFIT FROM OPERATIONS

	THE GROUP	
	2004 HK\$'000	2003 HK\$'000
Profit from operations has been arrived at after charging:		
Cost of inventories sold	307,858	190,813
Staff costs, including directors' remuneration (note 7):		
– Salaries, wages and other benefits	30,305	22,772
– Retirement benefit scheme contributions	1,133	875
Total staff costs	31,438	23,647
Depreciation		
– Owned assets	25,332	24,396
– Leased assets	102	418
Auditors' remuneration	440	400
Amortisation of land use rights (included in "Cost of sales")	791	614
Amortisation of goodwill (included in "Other operating expenses")	2,222	556
Foreign exchange losses, net	158	455
Loss on disposal of property, plant and equipment, net	–	33
and after crediting:		
Surplus on revaluation of investment properties	580	386
Surplus on revaluation of leasehold land and buildings, net	1,995	1,839
Gross rental income	417	302
Less: outgoings	(13)	(55)
Net rental income	404	247
Interest income	159	377

Notes to Financial Statements

For the year ended 31 December 2004

7. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

(a) Directors' emoluments

	2004 HK\$'000	2003 HK\$'000
Fees:		
Executive directors	–	–
Non-executive directors	<u>60</u>	<u>40</u>
	<u>60</u>	<u>40</u>
Other emoluments of executive directors:		
Salaries and other benefits	4,609	4,722
Retirement benefit scheme contributions	20	12
Discretionary bonus	<u>750</u>	<u>–</u>
	<u>5,379</u>	<u>4,734</u>
Total directors' emoluments	<u>5,439</u>	<u>4,774</u>

The amounts disclosed above include directors' fees of HK\$60,000 (2003: HK\$40,000) payable to the independent non-executive directors.

The emoluments of the directors were within the following bands:

	Number of directors	
	2004	2003
Nil to HK\$1,000,000	8	6
HK\$1,000,001 to HK\$1,500,000	–	1
HK\$1,500,001 to HK\$2,000,000	<u>3</u>	<u>2</u>
	<u>11</u>	<u>9</u>



7. DIRECTORS' AND EMPLOYEES' EMOLUMENTS (continued)

(b) Employees' emoluments

During the year, the five highest paid individuals included three directors (2003: three directors), details of whose emoluments are set out above. The emoluments of the remaining two (2003: two) highest paid individuals were as follows:

	2004 HK\$'000	2003 HK\$'000
Salaries and other benefits	1,320	1,320
Retirement benefit scheme contributions	24	24
	1,344	1,344

Their emoluments were within the following bands:

	Number of employees	
	2004	2003
Nil to HK\$1,000,000	2	2

8. FINANCE COSTS

	THE GROUP	
	2004 HK\$'000	2003 HK\$'000
Interest on bank and other borrowings wholly repayable within five years	6,509	2,014
Interest on finance leases	34	64
Other finance costs	–	1,100
Total borrowing costs	6,543	3,178
Less: Amounts capitalised in construction in progress	(2,080)	–
	4,463	3,178

Notes to Financial Statements

For the year ended 31 December 2004

9. INCOME TAX EXPENSES

	THE GROUP	
	2004 HK\$'000	2003 HK\$'000
Current tax:		
Hong Kong	–	–
Other regions in the PRC	6,361	6,397
	6,361	6,397
Under (over) provision in prior years:		
Hong Kong	16	–
Other regions in the PRC	(311)	–
	6,066	6,397
Deferred taxation (<i>note 27</i>):		
Current year	(80)	71
Attributable to change in tax rate	–	78
	(80)	149
Taxation attributable to the Company and its subsidiaries	5,986	6,546
Share of taxation attributable to a jointly controlled entity	1,068	1,214
Share of taxation attributable to an associate	708	708
	7,762	8,468

No tax is payable on profit for the year arising in Hong Kong since the assessable profit is wholly absorbed by tax losses brought forward. Tax losses carried forward amounted to approximately HK\$57,425,000 (2003: HK\$51,695,000).

Taxation in the PRC is calculated at the rates prevailing in the PRC. Certain subsidiaries, jointly controlled entities and associate of the Group operating in the PRC are eligible for certain tax exemptions and concessions. Accordingly, PRC income tax has been provided taking into account of these tax exemptions and concessions.



9. INCOME TAX EXPENSES (continued)

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

	2004		2003	
	HK\$'000	%	HK\$'000	%
Profit before taxation	155,876		92,198	
Tax at domestic income tax rate of 15% (2003: 15%)	23,381	15.00	13,830	15.00
Tax effect of expenses not deductible in determining taxable profit	2,184	1.40	948	1.03
Tax effect of income not taxable in determining taxable profit	(11,957)	(7.67)	(1,155)	(1.25)
Tax effect of tax losses not recognised	2,231	1.43	2,030	2.20
Tax effect of recognition of tax losses previously not recognised	-	-	(255)	(0.28)
Tax effect of recognition of deferred tax assets previously not recognised	(362)	(0.23)	(413)	(0.45)
Tax effect on utilisation of tax losses previously not recognised	(1,112)	(0.71)	(112)	(0.12)
Tax effect on share of results of jointly controlled entities	(107)	(0.07)	187	0.20
Tax effect on share of result of an associate	24	0.01	(80)	(0.09)
Effect of tax exemptions granted to subsidiaries	(6,348)	(4.07)	(6,366)	(6.90)
Effect of different tax rates in other jurisdictions	(49)	(0.03)	(224)	(0.24)
Effect of change in tax rates	-	-	78	0.08
Others	(123)	(0.08)	-	-
Tax expense and effective tax rate for the year	7,762	4.98	8,468	9.18

Note: The domestic tax rate in the jurisdiction where the operation of the Group is substantially based is used.

In addition to the amount charged to the income statement, deferred tax relating to the revaluation of the Group's properties and land use rights has been charged directly to equity (see note 27).

Notes to Financial Statements

For the year ended 31 December 2004

10. DIVIDENDS

	2004 HK\$'000	2003 HK\$'000
Ordinary shares:		
Interim dividend paid – HK2.0 cents per share with scrip option (2003: HK1.5 cents per share)	20,351	15,238
Final dividend paid – HK2.0 cents per share in respect of previous financial year	20,351	–
	40,702	15,238

The final dividend of HK1.5 cents (2003: HK2.0 cents) per share has been proposed by the directors and is subject to approval by the shareholders in general meeting.

11. EARNINGS PER SHARE

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

	THE GROUP	
	2004 HK\$'000	2003 HK\$'000
Profit for the year for the purpose of calculation of basic and diluted earnings per share	148,114	66,092
Weighted average number of ordinary shares for the purposes of basic earnings per share	1,019,614,692	881,110,017
Effect of dilutive potential ordinary shares:		
Share options	103,108,012	63,319,274
Weighted average number of ordinary shares for the purposes of diluted earnings per share	1,122,722,704	944,429,291



12. INVESTMENT PROPERTIES

	THE GROUP
	HK\$'000
At 1 January 2004	8,386
Surplus on revaluation	<u>580</u>
At 31 December 2004	<u>8,966</u>

Investment properties were valued at their open market value at 31 December 2004 by Vigers International Property Consultant ("Vigers International"), an independent professional valuer. This valuation gave rise to a revaluation increase of HK\$580,000 which has been credited to the consolidated income statement as a deficit has previously been charged to the consolidated income statement.

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

	THE GROUP	
	2004	`2003
	HK\$'000	HK\$'000
Long-term lease in Hong Kong	4,720	4,140
Medium-term lease in other regions in the PRC	4,246	<u>4,246</u>
	<u>8,966</u>	<u>8,386</u>

Investment properties situated in Hong Kong are rented out under operating leases, while investment properties situated in other regions in the PRC are vacant.

Notes to Financial Statements

For the year ended 31 December 2004

13. PROPERTY, PLANT AND EQUIPMENT

	Leasehold land and buildings	Leasehold improvements	Plant and machinery	Furniture, fixtures and equipment	Motor vehicles	Construction in progress	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
THE GROUP							
COST OR VALUATION							
At 1 January 2004	49,718	1,135	366,283	6,658	7,321	27,386	458,501
Additions	-	1,005	1,715	885	-	181,861	185,466
Reclassifications	16,353	-	192,357	102	-	(208,812)	-
Disposals	-	-	-	(3,052)	(381)	-	(3,433)
Surplus on revaluation, net	140	-	-	-	-	-	140
Disposal of subsidiaries	(4,340)	-	-	-	-	-	(4,340)
	<u>61,871</u>	<u>2,140</u>	<u>560,355</u>	<u>4,593</u>	<u>6,940</u>	<u>435</u>	<u>636,334</u>
At 31 December 2004							
Comprising:							
At cost	15,080	2,140	560,355	4,593	6,940	435	589,543
At valuation	<u>46,791</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>46,791</u>
	<u>61,871</u>	<u>2,140</u>	<u>560,355</u>	<u>4,593</u>	<u>6,940</u>	<u>435</u>	<u>636,334</u>
ACCUMULATED DEPRECIATION							
At 1 January 2004	-	988	125,217	5,319	4,884	-	136,408
Provided for the year	2,327	95	22,167	422	423	-	25,434
Eliminated on disposals	-	-	-	(3,051)	(343)	-	(3,394)
Write-back on revaluation	(2,223)	-	-	-	-	-	(2,223)
Write-back on disposal of subsidiaries	<u>(104)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(104)</u>
At 31 December 2004	<u>-</u>	<u>1,083</u>	<u>147,384</u>	<u>2,690</u>	<u>4,964</u>	<u>-</u>	<u>156,121</u>
NET BOOK VALUE							
At 31 December 2004	<u>61,871</u>	<u>1,057</u>	<u>412,971</u>	<u>1,903</u>	<u>1,976</u>	<u>435</u>	<u>480,213</u>
At 31 December 2003	<u>49,718</u>	<u>147</u>	<u>241,066</u>	<u>1,339</u>	<u>2,437</u>	<u>27,386</u>	<u>322,093</u>



13. PROPERTY, PLANT AND EQUIPMENT (continued)

	Furniture, fixtures and equipment HK\$'000	
THE COMPANY		
COST		
At 1 January 2004 and at 31 December 2004		276
ACCUMULATED DEPRECIATION		
At 1 January 2004 and at 31 December 2004		276
NET BOOK VALUE		
At 31 December 2003 and at 31 December 2004		—
THE GROUP		
	2004	2003
	HK\$'000	HK\$'000
The carrying amount of leasehold land and buildings comprises:		
Medium-term leases in Hong Kong	8,400	7,000
Long-term leases in other regions in the PRC	1,415	1,415
Medium-term leases in other regions in the PRC	52,056	41,303
	61,871	49,718

At 31 December 2004, certain buildings and structures of approximately HK\$15,080,000, included in the leasehold land and buildings of the Group in other regions in the PRC, are stated at cost. No revaluation has been performed since the respective building ownership certificate had not yet been obtained. The directors have considered the carrying amounts of these leasehold land and buildings and have estimated that the carrying amounts do not differ significantly from that which would be determined using fair values at the balance sheet date. Consequently, no revaluation surplus or deficit has been recognised in the current year.

Other leasehold land and buildings of the Group were valued at 31 December 2004 by Vigers International on an open market value basis. Vigers International is not connected with the Group.

Notes to Financial Statements

For the year ended 31 December 2004

13. PROPERTY, PLANT AND EQUIPMENT (continued)

If leasehold land and buildings had not been revalued, they would have been included in these financial statements at historical cost less accumulated depreciation of HK\$65,071,000 (2003: HK\$57,956,000).

The net book value of property, plant and machinery includes plant and machinery of HK\$382,000 (2003: HK\$1,601,000) held under finance leases. As at 31 December 2003, motor vehicle of HK\$303,000 was held under finance leases.

14. LAND USE RIGHTS

	THE GROUP
	HK\$'000
VALUATION	
At 1 January 2004 and at 31 December 2004	16,981
ACCUMULATED AMORTISATION	
At 1 January 2004	–
Provided during the year	791
Write-back on revaluation	(791)
At 31 December 2004	–
NET BOOK VALUE	
At 31 December 2004	16,981
At 31 December 2003	16,981

The Group's land use rights have a tenure of 30 years and are related to land used by the Group's subsidiary in the PRC.

The Group's land use rights were revalued at 31 December 2004 by Vigers International on an open market value basis. A revaluation surplus of HK\$791,000 resulting from the above valuation has been credited to the land use rights revaluation reserve. Had these land use rights been carried at cost less accumulated amortisation, the carrying amount of the land use rights would have been included in the financial statements at approximately HK\$7,623,000 (2003: HK\$8,005,000).



14. LAND USE RIGHTS (continued)

As at 31 December 2004, the Group's land use rights with a net book value of approximately HK\$16,981,000 were pledged to secure certain bank borrowings granted to the Group. The land use rights had not been pledged as at 31 December 2003.

15. INTERESTS IN SUBSIDIARIES

	THE COMPANY	
	2004	2003
	HK\$'000	HK\$'000
Unlisted shares, at cost	6,778	2,769
Amounts due from subsidiaries	711,796	696,316
	718,574	699,085
Less: Allowances for amounts due from subsidiaries	(203,816)	(203,814)
	514,758	495,271
Less: Current portion of amount due from a subsidiary	(31,000)	(23,000)
	483,758	472,271
Non-current portion of amounts due to subsidiaries	22,032	3,622

The amounts due from subsidiaries are unsecured, interest free and have no fixed repayment terms. Except for the balance with a subsidiary of HK\$15,372,000 (2003: HK\$14,490,000) which bears interest at the London Interbank Offered Rate ("LIBOR") plus 3% (2003: LIBOR plus 3%) per annum, the remaining balances are interest free. In the opinion of the directors, except for the amount due from a subsidiary of HK\$31,000,000 (2003: HK\$23,000,000), the amounts will not be repayable within twelve months from the balance sheet date and the balances are therefore classified as non-current.

Details of the Company's principal subsidiaries at 31 December 2004 are set out in note 38.

Notes to Financial Statements

For the year ended 31 December 2004

16. INTERESTS IN JOINTLY CONTROLLED ENTITIES

	THE GROUP		THE COMPANY	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Unlisted investments, at cost	–	–	–	56,550
Share of net assets	44,883	48,911	–	–
	44,883	48,911	–	56,550
Less: Impairment losses	–	–	–	(56,550)
	44,883	48,911	–	–

Particulars of the Group's jointly controlled entity are set out in note 39.

17. INTERESTS IN ASSOCIATES

	THE GROUP	
	2004 HK\$'000	2003 HK\$'000
Share of net assets	45,620	44,813

Particulars of the Group's associate are set out in note 40.



18. GOODWILL

	THE GROUP
	HK\$'000
<hr/>	
COST	
At 1 January 2004 and at 31 December 2004	44,450
ACCUMULATED AMORTISATION	
At 1 January 2004	556
Charge for the year	2,222
	<hr/>
At 31 December 2004	2,778
NET BOOK VALUE	
At 31 December 2004	41,672
	<hr/> <hr/>
At 31 December 2003	43,894
	<hr/> <hr/>

The amortisation period adopted for goodwill is 20 years.

19. CLUB MEMBERSHIPS

	THE GROUP		THE COMPANY	
	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<hr/>				
Club memberships, at cost	2,010	2,010	820	820
Less: Impairment losses	(1,335)	(1,335)	(505)	(505)
	<hr/>	<hr/>	<hr/>	<hr/>
	675	675	315	315
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>



Notes to Financial Statements

For the year ended 31 December 2004

20. INVESTMENT SECURITIES

	THE GROUP	
	2004 HK\$'000	2003 HK\$'000
Unlisted equity investment, at cost	1,123	1,123
Less: Impairment losses	(1,123)	(1,123)
	<u>—</u>	<u>—</u>

21. INVENTORIES

	THE GROUP	
	2004 HK\$'000	2003 HK\$'000
Raw materials	40,765	21,523
Work in progress	9,784	3,056
Finished goods	32,658	19,319
	<u>83,207</u>	<u>43,898</u>

The inventories were stated at cost.

22. TRADE RECEIVABLES

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

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

	THE GROUP	
	2004 HK\$'000	2003 HK\$'000
0 – 90 days	91,147	51,378
91 – 180 days	1,885	701
Over 180 days	4,691	57
	<u>97,723</u>	<u>52,136</u>



23. PLEDGE OF ASSETS

At the balance sheet date, the following assets were pledged to secure certain bank borrowings as set out in note 25:

- (i) the Group's investment properties amounting to HK\$5,416,000 (2003: HK\$8,386,000) and certain of the leasehold land and buildings with an aggregate net book value of HK\$36,580,000 (2003: HK\$8,415,000);
- (ii) the Group's certain plant and machinery with an aggregate net book value of HK\$146,404,000 (2003: Nil);
- (iii) the Group's land use rights with net book value of HK\$16,981,000 (2003: Nil);
- (iv) the Group's bank deposits amounting to HK\$4,000,000 (2003: HK\$4,000,000); and
- (v) the Group's shares in certain subsidiaries.

24. TRADE PAYABLES

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

	THE GROUP	
	2004 HK\$'000	2003 HK\$'000
0 – 90 days	8,805	6,937
91 – 180 days	–	37
Over 180 days	23	975
	8,828	7,949



Notes to Financial Statements

For the year ended 31 December 2004

25. BANK BORROWINGS

	THE GROUP		THE COMPANY	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Trust receipt loans	79,148	37,359	–	8,177
Bank loans	200,299	72,171	80,000	60,000
	<u>279,447</u>	<u>109,530</u>	<u>80,000</u>	<u>68,177</u>
Secured	194,512	109,086	80,000	68,177
Unsecured	84,935	444	–	–
	<u>279,447</u>	<u>109,530</u>	<u>80,000</u>	<u>68,177</u>

The above amounts bear interest at floating interest rates and are repayable as follows:

	THE GROUP		THE COMPANY	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Within one year	176,384	61,530	40,000	20,177
In the second year	94,321	24,000	40,000	24,000
In the third to fifth years inclusive	8,742	24,000	–	24,000
	<u>279,447</u>	<u>109,530</u>	<u>80,000</u>	<u>68,177</u>
Less: Amount due for settlement within one year (shown under current liabilities)	<u>(176,384)</u>	<u>(61,530)</u>	<u>(40,000)</u>	<u>(20,177)</u>
Amount due for settlement after one year	<u>103,063</u>	<u>48,000</u>	<u>40,000</u>	<u>48,000</u>



26. OBLIGATIONS UNDER FINANCE LEASES

	Minimum lease payments		Present value of minimum lease payments	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Amounts payable under finance leases:				
Within one year	211	956	206	922
In the second to fifth years inclusive	—	211	—	206
	211	1,167	206	1,128
Less: Future finance charges	(5)	(39)	—	—
Present value of lease obligations	206	1,128	206	1,128
Less: Amount due for settlement within one year (shown under current liabilities)			(206)	(922)
Amount due for settlement after one year			—	206

The Group leased certain of its plant and machinery under finance leases. The average lease term is two years. For the year ended 31 December 2004, the average effective borrowing rate was Hong Kong Dollar prime rate plus 0.25% (2003: Hong Kong Dollar prime rate plus 0.25%). Interest rates are fixed at the contract date. All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments.

The Group's obligations under finance leases are secured by the lessor's charge over the leased assets.

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For the year ended 31 December 2004

27. DEFERRED TAX LIABILITIES

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	Allowance	Allowance	Revaluation	Revaluation	Tax loss	Others	Total
	tax depreciation	for bad and doubtful debts	for inventories	of properties	of land use rights			
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2003	115	(357)	(43)	690	890	-	-	1,295
Effect of change in tax rate								
Charge to income statement	23	49	6	-	-	-	-	78
Credit to equity	-	-	-	(76)	(123)	-	-	(199)
Charge (credit) to income statement for the year	174	159	(7)	-	-	(255)	-	71
(Credit) charge to equity for the year	-	-	-	(478)	556	-	-	78
At 31 December 2003 and 1 January 2004	312	(149)	(44)	136	1,323	(255)	-	1,323
Charge (credit) to income statement for the year	216	(579)	-	261	-	131	(109)	(80)
Charge to equity for the year	-	-	-	64	119	-	-	183
At 31 December 2004	<u>528</u>	<u>(728)</u>	<u>(44)</u>	<u>461</u>	<u>1,442</u>	<u>(124)</u>	<u>(109)</u>	<u>1,426</u>

As at the balance sheet date, the Group has unprovided deferred tax assets in respect of unrecognised tax losses amounting to HK\$56,716,000 (2003: HK\$49,542,000) which may be carried forward indefinitely.

The above deferred tax assets have not been recognised due to the unpredictability of future profit streams.

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



28. SHARE CAPITAL

	2004		2003	
	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	2,000,000	200,000	1,000,000	100,000
Increased on 25 June 2003	–	–	1,000,000	100,000
At 31 December	2,000,000	200,000	2,000,000	200,000
Issued and fully paid:				
At 1 January	1,019,580	101,958	765,372	76,537
Issued on share placing (Note i)	–	–	123,492	12,349
Issued on subscription of new shares (Note ii)	–	–	126,984	12,699
Issued on declaration of interim scrip dividend (Note iii)	7,063	706	–	–
Exercise of share options	4,924	493	3,732	373
Repurchase of shares (Note iv)	(5,500)	(550)	–	–
At 31 December	1,026,067	102,607	1,019,580	101,958

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28. SHARE CAPITAL (continued)

Notes:

- (i) In order to finance the expansion of its subsidiary, Jiaxing Eastern Steel Cord Co., Ltd. and to generate working capital of the Group, the Company entered into a subscription agreement and placing agreement on 6 May 2003 pursuant to which the Company issued and allotted 126,984,000 and 63,492,000 ordinary shares of HK\$0.10 each in the Company at a price of HK\$0.315 per share to a nominee of Shougang Holding (Hong Kong) Limited ("Shougang HK") and to independent places respectively.
- (ii) In order to finance the acquisition of remaining equity interest of Online Investments Limited, an intermediate holding company of Jiaxing Eastern, and to generate working capital for the Group, the Company entered into placing agreement on 21 August 2003 with placing agents pursuant to which the Company issued and allotted 60,000,000 ordinary shares of HK\$0.10 each in the Company at a price of HK\$0.68 per share to independent places.
- (iii) On 6 December 2004, the Company issued and allotted a total of approximately 7,063,000 ordinary shares of HK\$0.10 each in the Company at a price of HK\$0.816 per share to the shareholders who elected to receive shares in the Company in lieu of cash for the 2004 interim dividend pursuant to the scrip dividend scheme announced by the Company on 15 October 2004.
- (iv) During the year, the Company repurchased a total of 5,500,000 ordinary shares in the Company on the Stock Exchange pursuant to the general mandate granted by the shareholders at the annual general meeting held on 25 June 2003, details of which were as follows:

Month /Year	Number of ordinary share of HK\$0.10 each	Price per share		Aggregate consideration paid (before expenses) HK\$'000
		Lowest	Highest	
		HK\$	HK\$	
05/2004	5,500,000	0.73	0.80	4,231

The new shares rank pari passu with the existing shares in all respects.



29. RESERVES

THE COMPANY	Share premium HK\$'000	Capital reserve HK\$'000	Capital redemption reserve HK\$'000	(Accumulated losses) retained profits HK\$'000	Total HK\$'000
At 1 January 2003	357,181	23,990	463	(151,690)	229,944
Reduction of share premium	(149,099)	-	-	149,099	-
Share issue expenses	(4,262)	-	-	-	(4,262)
Issue of shares	75,752	-	-	-	75,752
Exercise of share options	1,232	-	-	-	1,232
Net profit for the year	-	-	-	23,971	23,971
At 31 December 2003 and 1 January 2004	280,804	23,990	463	21,380	326,637
Issue of shares	5,057	-	-	-	5,057
Exercise of share options	1,163	-	-	-	1,163
Repurchase of shares	-	-	550	(4,257)	(3,707)
Net profit for the year	-	-	-	40,416	40,416
Dividend paid	-	-	-	(40,702)	(40,702)
At 31 December 2004	<u>287,024</u>	<u>23,990</u>	<u>1,013</u>	<u>16,837</u>	<u>328,864</u>

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

Pursuant to the order issued by the Court of First Instance of the Hong Kong Special Administrative Region of the PRC, the share premium account of the Company has been reduced by the amount of approximately HK\$149,099,000 and the same amount of credit arising from such reduction has been applied towards the elimination of the accumulated losses.

The Company's reserve available for distribution to shareholders as at 31 December 2004 comprised the retained profits of HK\$16,837,000 (2003: HK\$21,380,000).

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For the year ended 31 December 2004

30. DISPOSAL OF SUBSIDIARIES**Disposal of subsidiaries:**

	HK\$'000
NET ASSETS DISPOSED OF:	
Property, plant and equipment	4,236
Interest in a jointly controlled entity	4,538
	<u>8,774</u>
Attributable goodwill	(82,041)
Exchange losses realised	1,196
	<u>(82,071)</u>
Gain on disposal	76,651
	<u>76,651</u>
Total consideration	<u><u>4,580</u></u>
Satisfied by:	
Cash	500
Other receivable	4,080
	<u>4,580</u>
	<u><u>4,580</u></u>

An analysis of net inflow of cash and cash equivalents in respect of the disposal of subsidiaries is as follows:

	HK\$'000
Cash consideration	500
Bank balances and cash disposed of	—
	<u>—</u>
Net inflow of cash and cash equivalents in respect of the disposal of subsidiaries	<u><u>500</u></u>

The subsidiaries disposed of during the year ended 31 December 2004 did not have any significant contribution to turnover and contributed HK\$835,000 (2003: HK\$1,743,000) to the Group's profit from operations.



31. MAJOR NON-CASH TRANSACTION

During the year, HK\$5,763,000 of the interim dividend for the year ending 31 December 2004 was satisfied by scrip shares of ordinary share of HK\$0.10 each, issued and allotted at HK\$0.816 per share.

32. OPERATING LEASES

The Group as lessee

	THE GROUP	
	2004 HK\$'000	2003 HK\$'000
Minimum lease payments under operating leases in respect of land and buildings during the year	<u>1,340</u>	<u>1,372</u>

The Group leases certain of its offices, factory premises and staff quarters under operating lease arrangements. Leases are negotiated for an average term of three 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	
	2004 HK\$'000	2003 HK\$'000
Within one year	214	525
In the second to fifth years inclusive	<u>–</u>	<u>181</u>
	<u>214</u>	<u>706</u>

The Group as lessor

Property rental income earned during the year was HK\$417,000 (2003: HK\$302,000). The Group leases its investment properties under operating lease arrangements, with leases negotiated for an average term of two years.

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32. OPERATING LEASES (continued)

The Group as lessor (continued)

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

	THE GROUP	
	2004 HK\$'000	2003 HK\$'000
Within one year	402	346
In the second to fifth years inclusive	44	391
	446	737

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

33. CAPITAL COMMITMENTS

	THE GROUP	
	2004 HK\$'000	2003 HK\$'000
Commitments in respect of the acquisition of property, plant and equipment		
– contracted for but not provided in the financial statements	690	126,210
– authorised but not contracted for	8,560	54,250
	9,250	180,460

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



34. CONTINGENT LIABILITIES

	THE GROUP		THE COMPANY	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Guarantees given to banks in respect of banking facilities granted to subsidiaries	–	–	180,000	120,000
Guarantee for bank loans granted to a jointly controlled entity	10,721	10,721	–	–
	10,721	10,721	180,000	120,000

35. 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.

36. SHARE OPTION SCHEME

A share option scheme (the "2002 Scheme") was adopted by the shareholders of the Company at the annual general meeting held on 7 June 2002. Under the 2002 Scheme, the board of directors (the "Board") of the Company shall, subject to and in accordance with the provisions of the 2002 Scheme and The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, 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 entities 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 shares available for issue under the 2002 Scheme is 102,222,600 shares which represented 9.94% 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-months 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.



36. SHARE OPTION SCHEME (continued)

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.

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36. SHARE OPTION SCHEME (continued)

Apart from the details set out under the heading "DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES" in the Report of the Directors, 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 years ended 31 December 2004 and 2003:

Grantees	Number of share options for 2004					At 31.12.2004	Date of grant (Note b)	Exercise period	Exercise price per share HK\$
	At 1.1.2004	Granted during the year (Note a)	Reclassification of categories of grantees	Exercised during the year	Date of exercise				
Directors of the Company	40,556,000	-	(10,330,000) (Notes c & d)	(1,296,000)	9.2.2004	27,930,000	23.8.2002	23.8.2002 - 22.8.2012	0.295
				(500,000)	20.4.2004				
	8,416,000	-	(5,356,000) (Note e)	-	31.5.2004	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
	6,356,000	-	(382,000) (Note f)	-	-	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	
	181,560,000	-	(16,068,000)	(2,296,000)		163,196,000			
Employees other than directors of the Company	766,000	-	-	(766,000)	5.2.2004	-	23.8.2002	23.8.2002 - 22.8.2012	0.295
	1,098,000	-	-	(84,000)	5.2.2004	-	12.3.2003	12.3.2003 - 11.3.2013	0.325
				(332,000) (682,000)	31.5.2004 4.11.2004				
	27,500,000	-	-	-	-	27,500,000	25.8.2003	25.8.2003 - 24.8.2013	0.740
	29,364,000	-	-	(1,864,000)		27,500,000			
All other eligible participants	-	-	7,652,000 (Note c)	-	-	7,652,000	23.8.2002	23.8.2002 - 12.4.2006	0.295
	7,652,000	-	2,678,000 (Note d)	(382,000)	25.10.2004	9,948,000	23.8.2002	23.8.2002 - 22.8.2012	0.295
	15,304,000	-	5,356,000 (Note e)	-	-	20,660,000	12.3.2003	12.3.2003 - 11.3.2013	0.325
	-	-	382,000 (Note f)	(382,000)	25.10.2004	-	25.8.2003	25.8.2003 - 24.8.2013	0.740
		22,956,000	-	16,068,000	(764,000)		38,260,000		
	233,880,000	-	-	(4,924,000)		228,956,000			



36. SHARE OPTION SCHEME (continued)

Grantees	Number of share options for 2003				At 31.12.2003	Date of grant (Note b)	Exercise period	Exercise price per share HK\$
	At 1.1.2003	Granted during the year (Note a)	Exercised during the year	Date of exercise				
Directors of the Company	40,556,000	-	-	-	40,556,000	23.8.2002	23.8.2002 – 22.8.2012	0.295
	-	8,416,000	-	-	8,416,000	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
	-	6,356,000	-	-	6,356,000	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>40,556,000</u>	<u>141,004,000</u>	<u>-</u>		<u>181,560,000</u>			
Employees other than directors of the Company	1,532,000	-	(766,000)	9.12.2003	766,000	23.8.2002	23.8.2002 – 22.8.2012	0.295
	-	3,064,000	(1,532,000)	24.11.2003	1,098,000	12.3.2003	12.3.2003 – 11.3.2013	0.325
	-	28,500,000	(434,000) (300,000)	9.12.2003 24.11.2003	27,500,000	25.8.2003	25.8.2003 – 24.8.2013	0.740
			(700,000)	19.12.2003				
	<u>1,532,000</u>	<u>31,564,000</u>	<u>(3,732,000)</u>		<u>29,364,000</u>			
All other eligible participants	7,652,000	-	-		7,652,000	23.8.2002	23.8.2002 – 22.8.2012	0.295
	-	15,304,000	-		15,304,000	12.3.2003	12.3.2003 – 11.3.2013	0.325
	<u>7,652,000</u>	<u>15,304,000</u>	<u>-</u>		<u>22,956,000</u>			
	<u>49,740,000</u>	<u>187,872,000</u>	<u>(3,732,000)</u>		<u>233,880,000</u>			

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36. SHARE OPTION SCHEME (continued)

Notes:

- a. The closing prices of the shares immediately before the dates on which the share options were granted in 2003 were as follows:

Date of grant	Closing price immediately before the date of grant
	HK\$
12.3.2003	0.315
25.6.2003	0.410
25.8.2003	0.730
2.10.2003	0.750

- b. The vesting period of the share option is from the date of grant to the end of the exercise period.
- c. The 7,652,000 outstanding options were held by Ms. Xu Xianghua who resigned as director of the Company on 13 April 2004 and the exercise period was 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. Those options were re-classified from the category of “Directors of the Company” to the category of “All other eligible participants”.
- d. In which the 2,296,000 outstanding options were held by Ms. Cheng Xiaoyu (“Ms. Cheng”) who resigned as director of the Company on 6 January 2004 and the 382,000 options (the exercise period remained unchanged in accordance to the approval of the board of directors on 28 September 2004) were exercised by Mr. Lai Kam Man (“Mr. Lai”) who resigned as director on 30 September 2004. Those options were re-classified from the category of “Directors of the Company” to the category of “All other eligible participants”.
- e. In which the 5,356,000 outstanding options were held by Ms. Cheng. Those options were re-classified from the category of “Directors of the Company” to the category of “All other eligible participants”.
- f. The 382,000 options were exercised by Mr. Lai. Those options were re-classified from the category of “Directors of the Company” to the category of “All other eligible participants”.
- g. The weighted average closing price of the shares immediately before the dates on which the options were exercised by Mr. Tang Cornor Kwok Kau, Mr. Lai and the employees was HK\$0.9715.
- h. No share option was lapsed or cancelled during the year.



36. SHARE OPTION SCHEME (continued)

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

The directors do not consider that it is appropriate to disclose a theoretical value of the options granted, because a number of factors crucial for the valuation are subjective and uncertain. In addition, the market value of the share options on the shares of the Company is not readily available. Accordingly, any valuation of the share options based on various speculative assumptions may not be meaningful and could be misleading.

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37. RELATED PARTY TRANSACTIONS

In addition to the transactions and balances detailed elsewhere in these financial statements, during the year, the Group had the following material transactions with Shougang Concord International Enterprises Company Limited ("Shougang International") and its subsidiaries (collectively the "Shougang International Group"), Shougang HK and its subsidiaries (collectively the "Shougang HK Group"), Shougang Concord Technology Holdings Limited ("Shougang TECH") and its subsidiaries (collectively the "Shougang TECH Group") and jointly controlled entity of the Group. Shougang International is the substantial shareholder of the Company and Shougang HK is the substantial shareholder of Shougang International and Shougang TECH.

	Notes	2004 HK\$'000	2003 HK\$'000
Consultancy fees paid to the Shougang HK Group	(i)	960	480
Management fees paid to the Shougang International Group	(i)	–	240
Rental expenses paid to the Shougang HK Group	(ii)	936	968
Sales to the Shougang TECH Group	(iii)	4,576	3,153
Repayment from the Shougang HK Group	(iv)	–	(471)
Corporate guarantees given to a jointly controlled entity	(v)	10,721	10,721

Notes:

- (i) The Group paid consultancy fees to the Shougang HK Group and paid management fees to the Shougang International Group in relation to business and strategic development services provided at rates determined between both parties.
- (ii) The Group paid rental expenses to the Shougang HK Group for the leasing of properties in Hong Kong as office premises and staff quarters. The rental was calculated by reference to market rentals.
- (iii) Sales to the Shougang TECH Group were made according to the published prices and conditions offered to the major customers of the Group.
- (iv) The loan advanced to the Shougang HK Group is unsecured, interest-free and was fully repaid in 2003.
- (v) The Group has executed corporate guarantees for bank loans granted to a jointly controlled entity to finance its working capital. These guarantees were provided in proportion to the Group's equity interest in the jointly controlled entity and are normally renewable on an annual basis.



38. PRINCIPAL SUBSIDIARIES

Particulars of the principal subsidiaries at 31 December 2004 are as follows:

Name of subsidiary	Place of incorporation/ registration and operation	Issued and paid-up capital/ registered capital	Attributable equity interest of the Group		Principal activities
			2004	2003	
Meta International Limited	Hong Kong/ PRC	2 ordinary shares of HK\$1 each	100%*	100%*	Processing and trading of copper and brass products
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
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
Bigland Investment Limited	Hong Kong/ PRC	2 ordinary shares of HK\$1 each	100%	100%	Property investment
Eastern Century Metal Products Limited	Hong Kong	1,000,000 ordinary shares of HK\$1 each	100%	100%	Trading of metals and investment holding
Online Investments Limited	British Virgin Islands/ Hong Kong	31,000,000 ordinary shares of US\$1 each	100%	100%	Investment holding

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38. PRINCIPAL SUBSIDIARIES (continued)

Name of subsidiary	Place of incorporation/ registration and operation	Issued and paid-up capital/ registered capital	Attributable equity interest of the Group		Principal activities
			2004	2003	
Everwinner Investments Limited	Hong Kong	1,000,000 ordinary shares of HK\$1 each	100%	100%	Investment holding
Jiaxing Eastern Steel Cord Co., Ltd.#	PRC	US\$44,000,000	100%	100%	Manufacturing of steel cord

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 subsisting at the end of the year or at anytime during the year.



39. PARTICULARS OF THE JOINTLY CONTROLLED ENTITY

Particulars of the jointly controlled entity as at 31 December 2004 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.	Incorporated	PRC	US\$10,000,000	25	33	25	Manufacturing of pre-stressed concrete strands and wires

40. PARTICULARS OF THE ASSOCIATE

Particulars of the associate at 31 December 2004 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
				2004	2003	
Xinhua Metal Products Co., Ltd. (Note)	Incorporated	PRC	193,220,374 shares of RMB1 each	16.75%	16.75%	Manufacturing of pre-stressed concrete strands and wires

Note:

Xinhua Metal Products Co., Ltd. ("Xinhua") is listed on the Shanghai Stock Exchange in the PRC. The shares in Xinhua held by the Group are legal person shares and are not tradable on any stock exchange. Pursuant to the memorandum of association, the Group is entitled to its equity share in the profits and losses and the net assets upon its cessation. In the opinion of the directors, the Group is in a position to exercise significant influence over Xinhua. Accordingly, it has been accounted for as an associate.

Summary of Investment Properties

Particulars of the investment properties held by the Group as at 31 December 2004 are as follows:

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