



**首長國際企業有限公司**  
**SHOUGANG CONCORD INTERNATIONAL**  
**ENTERPRISES COMPANY LIMITED**

(Incorporated in Hong Kong with limited liability)  
 (Stock Code: 697)

**FINAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2006**

The board of directors (the “Board”) of Shougang Concord International Enterprises Company Limited (the “Company”) is pleased to announce the audited consolidated results of the Company and its subsidiaries (the “Group”) for the year ended 31 December 2006 with comparative figures for the year ended 31 December 2005. These final results have been reviewed by the Audit Committee of the Company.

**CONSOLIDATED INCOME STATEMENT**  
**FOR THE YEAR ENDED 31 DECEMBER**

	<i>Notes</i>	<b>2006</b> <b>HK\$'000</b>	2005 HK\$'000 (restated)
Revenue	3	<b>6,467,487</b>	4,569,979
Cost of sales		<b>(5,604,413)</b>	(4,143,063)
Gross profit		<b>863,074</b>	426,916
Other income	4	<b>102,153</b>	61,634
Distribution costs		<b>(117,545)</b>	(22,499)
Administrative expenses		<b>(324,638)</b>	(207,473)
Finance costs	5	<b>(260,812)</b>	(39,947)
Share of results of associates		<b>20,974</b>	130,241
Gain on disposal of an associate		–	4,355
Discount on acquisition of additional equity interest in a subsidiary		<b>3,780</b>	–
Loss on deemed disposal of partial interest in an associate		<b>(4,582)</b>	–
Profit before taxation	6	<b>282,404</b>	353,227
Income tax expense	7	<b>(26,640)</b>	(20,995)
Profit for the year		<b>255,764</b>	332,232
Attributable to:			
Equity holders of the parent		<b>221,618</b>	303,946
Minority interests		<b>34,146</b>	28,286
		<b>255,764</b>	332,232

	<i>Notes</i>	<b>2006</b> <b>HK\$'000</b>	2005 <i>HK\$'000</i> (restated)
Dividends recognised as distribution during the year			
Final dividend of HK0.6 cent (2005: Nil) per ordinary share	8	<b>35,185</b>	–
Earnings per share			
– Basic	9	<b>3.9 HKcents</b>	6.4 HKcents
– Diluted	9	<b>3.7 HKcents</b>	6.2 HKcents

**CONSOLIDATED BALANCE SHEET**  
**AT 31 DECEMBER**

	<i>Notes</i>	<b>2006</b> <b>HK\$'000</b>	2005 <i>HK\$'000</i> (restated)
<b>NON-CURRENT ASSETS</b>			
Investment properties		<b>35,660</b>	22,605
Property, plant and equipment		<b>6,911,247</b>	4,761,720
Prepaid lease rentals		<b>275,535</b>	278,086
Intangible assets		<b>472</b>	1,003
Goodwill		<b>292,170</b>	292,170
Interests in associates		<b>215,022</b>	193,835
Deposits for acquisition of property, plant and equipment		<b>174,620</b>	40,189
		<b>7,904,726</b>	5,589,608
<b>CURRENT ASSETS</b>			
Amounts due from customers for contract work		<b>186</b>	312
Inventories		<b>847,013</b>	541,778
Trade and bill receivables	10	<b>375,192</b>	324,621
Prepayments, deposits and other receivables		<b>81,137</b>	33,102
Prepaid lease rentals		<b>8,976</b>	8,706
Tax recoverable		<b>4,936</b>	9,535
Amounts due from related companies		<b>177,979</b>	162,016
Amount due from a minority shareholder of a subsidiary		<b>2,990</b>	2,884
Amount due from ultimate holding company of controlling shareholder		<b>1,703</b>	12,596
Restricted deposits		<b>116,277</b>	204,526
Pledged deposit		<b>10,123</b>	–
Bank balances and cash		<b>1,728,222</b>	558,317
		<b>3,354,734</b>	1,858,393

	<i>Notes</i>	<b>2006</b> <b>HK\$'000</b>	<b>2005</b> <b>HK\$'000</b> (restated)
<b>CURRENT LIABILITIES</b>			
Amounts due to customers for contract work		<b>562</b>	866
Trade and bill payables	<i>11</i>	<b>523,834</b>	521,010
Other payables and accrued liabilities		<b>884,821</b>	340,900
Tax payable		<b>2,825</b>	2,230
Amounts due to related companies		<b>633,165</b>	234,105
Amount due to ultimate holding company of controlling shareholder		<b>56,676</b>	410,873
Obligation under a finance lease – due within one year		<b>267</b>	534
Bank borrowings – due within one year		<b>3,021,425</b>	1,994,372
Other financial liabilities		<b>91</b>	2,103
Loan from a related company		<b>–</b>	242,189
Loans from ultimate holding company of controlling shareholder		<b>785,750</b>	–
		<b>5,909,416</b>	3,749,182
<b>NET CURRENT LIABILITIES</b>		<b>(2,554,682)</b>	(1,890,789)
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<b>5,350,044</b>	3,698,819
<b>NON-CURRENT LIABILITIES</b>			
Obligation under a finance lease – due after one year		<b>–</b>	267
Banking borrowings – due after one year		<b>1,555,781</b>	429,642
Other payables		<b>149,268</b>	–
Deferred tax liabilities		<b>44,153</b>	38,777
Loans from ultimate holding company of controlling shareholder		<b>338,814</b>	796,328
		<b>2,088,016</b>	1,265,014
		<b>3,262,028</b>	2,433,805
<b>CAPITAL AND RESERVES</b>			
Share capital		<b>1,172,811</b>	986,811
Reserves		<b>1,770,783</b>	1,189,087
Equity attributable to equity holders of the parent		<b>2,943,594</b>	2,175,898
Minority interests		<b>318,434</b>	257,907
		<b>3,262,028</b>	2,433,805

*Notes:*

#### **1. BASIS OF PREPARATION**

The Group had net current liabilities of approximately HK\$2,554,682,000 as at 31 December 2006. Notwithstanding, the Directors are of opinion that the preparation of these financial statements under going concern basis is appropriate because the Group is able to obtain financial support from the ultimate holding company of controlling shareholder.

The ultimate holding company of controlling shareholder has committed to provide financial support to enable the Group to meet in full its financial obligations as and when they arise and to continue its operations in the foreseeable future.

## 2. APPLICATION OF NEW HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”)

In the current year, the Group has applied, for the first time, a number of new Hong Kong Accounting Standards (“HKASs”), HKFRSs, amendments and interpretations (hereinafter collectively referred to as “new HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”) which are either effective for accounting periods beginning on or after 1 December 2005 or 1 January 2006. The adoption of the new HKFRSs has resulted in changes to the Group’s accounting policies in the following areas that have an effect on how the results and financial position for the current and prior accounting years are prepared and presented:

### Financial guarantee contracts

In the current year, the Group and the Company has applied HKAS 39 and HKFRS 4 (Amendments) *Financial guarantee contracts* which is effective for annual periods beginning on or after 1 January 2006.

A financial guarantee contract is defined by HKAS 39 *Financial Instruments: Recognition and Measurement* as “a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument”.

Prior to 1 January 2006, financial guarantee contracts granted by the Company to its subsidiaries’ lenders were not recognised but disclosed as related party transactions and contingent liabilities.

Upon the application of these amendments, financial guarantee contracts granted by the Company to its subsidiaries and not designated as at fair value through profit or loss are recognised initially at its fair value. Subsequent to initial recognition, the Company measures the financial guarantee contracts at the higher of: (i) the amount determined in accordance with HKAS 37 *Provisions, Contingent Liabilities and Contingent Assets*; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with HKAS 18 *Revenue*.

In relation to this change in accounting policy, the Company has applied the transitional provisions in HKAS 39. The adoption of HKAS39 and HKFRS4 (Amendments) has no material effect on how the results and financial position for the prior accounting periods before 1 January 2005 are prepared and presented. However, this change in accounting policy has resulted in an increase in the Company’s profit for the year by HK\$4,780,000 (2005: HK\$1,602,000) and the increase in other financial liabilities as at 31 December 2005 by HK\$3,258,000.

The adoption of this amendment has no effect on how the results and financial position of the Group in the current or prior accounting periods are prepared and presented.

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

HKAS 1 (Amendment)	Capital disclosures <sup>1</sup>
HKFRS 7	Financial instruments: Disclosures <sup>1</sup>
HKFRS 8	Operating Segments <sup>2</sup>
HK(IFRIC) – INT 7	Applying the restatement approach under HKAS 29 Financial Reporting in Hyperinflationary Economies <sup>3</sup>
HK(IFRIC) – INT 8	Scope of HKFRS 2 <sup>4</sup>
HK(IFRIC) – INT 9	Reassessment of embedded derivatives <sup>5</sup>
HK(IFRIC) – INT 10	Interim financial reporting and impairment <sup>6</sup>
HK(IFRIC) – INT 11	HKFRS 2 – Group and Treasury Share Transactions <sup>7</sup>
HK(IFRIC) – INT 12	Service Concession Arrangements <sup>8</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1 January 2007

<sup>2</sup> Effective for annual periods beginning on or after 1 January 2009

<sup>3</sup> Effective for annual periods beginning on or after 1 March 2006

<sup>4</sup> Effective for annual periods beginning on or after 1 May 2006

<sup>5</sup> Effective for annual periods beginning on or after 1 June 2006

<sup>6</sup> Effective for annual periods beginning on or after 1 November 2006

<sup>7</sup> Effective for annual periods beginning on or after 1 March 2007

<sup>8</sup> Effective for annual periods beginning on or after 1 January 2008

### 3. REVENUE AND BUSINESS AND GEOGRAPHICAL SEGMENTS

Revenue represents the net amounts received and receivable for goods sold by the Group to outside customers, less returns and allowances, revenue arising from sales of steel products, electricity, steam and hot water, leasing income and charter hire income during the year.

#### (a) Business segments

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

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

Segment information about these businesses is presented below:

#### INCOME STATEMENT

*For the year ended 31 December 2006*

	Steel manufacturing HK\$'000	Shipping operations HK\$'000	Electricity generation HK\$'000	Steel trading HK\$'000	Kitchen and laundry equipment HK\$'000	Others HK\$'000	Elimination HK\$'000	Consolidated HK\$'000
Revenue								
External customers	4,509,069	229,137	424,641	1,216,009	86,159	2,472	-	6,467,487
Inter-segment sales	-	-	-	-	-	1,560	(1,560)	-
Total	<u>4,509,069</u>	<u>229,137</u>	<u>424,641</u>	<u>1,216,009</u>	<u>86,159</u>	<u>4,032</u>	<u>(1,560)</u>	<u>6,467,487</u>
Segment results	<u>335,589</u>	<u>77,530</u>	<u>74,973</u>	<u>6,334</u>	<u>4,896</u>	<u>14,496</u>	<u>-</u>	<u>513,818</u>
Unallocated other operating income								58,533
Unallocated corporate expenses								(49,307)
Finance costs								(260,812)
Share of result of associate	20,974	-	-	-	-	-	-	20,974
Discount on acquisition of additional equity interest in a subsidiary	-	-	-	-	3,780	-	-	3,780
Loss on deemed disposal of partial interest in an associate	(4,582)	-	-	-	-	-	-	(4,582)
Profit before taxation								282,404
Income tax expense								(26,640)
Profit for the year								<u>255,764</u>

Inter-segment sales are charged at the terms agreed by both parties.

# INCOME STATEMENT

For the year ended 31 December 2005 (Restated)

	Steel manufacturing HK\$'000	Shipping operations HK\$'000	Electricity generation HK\$'000	Steel trading HK\$'000	Kitchen and laundry equipment HK\$'000	Others HK\$'000	Elimination HK\$'000	Consolidated HK\$'000
Revenue								
External customers	2,762,955	230,859	411,023	1,086,341	77,105	1,696	-	4,569,979
Inter-segment sales	-	-	-	-	-	1,540	(1,540)	-
Total	<u>2,762,955</u>	<u>230,859</u>	<u>411,023</u>	<u>1,086,341</u>	<u>77,105</u>	<u>3,236</u>	<u>(1,540)</u>	<u>4,569,979</u>
Segment results	<u>122,598</u>	<u>70,925</u>	<u>72,082</u>	<u>12,377</u>	<u>613</u>	<u>2,048</u>	<u>-</u>	<u>280,643</u>
Unallocated other operating income								10,593
Unallocated corporate expenses								(32,658)
Finance costs								(39,947)
Share of results of associates	130,241	-	-	-	-	-	-	130,241
Gain on disposal of an associate	-	-	-	4,355	-	-	-	4,355
Profit before taxation								353,227
Income tax expense								(20,995)
Profit for the year								<u>332,232</u>

Inter-segment sales are charged at the terms agreed by both parties.

## (b) Geographical segments

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

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

	Revenue	
	2006 HK\$'000	2005 HK\$'000
PRC, excluding Hong Kong	5,106,751	3,287,404
Hong Kong	279,125	397,874
Others	1,081,611	884,701
	<u>6,467,487</u>	<u>4,569,979</u>

## 4. OTHER INCOME

	2006 HK\$'000	2005 HK\$'000 (restated)
Change in fair value of investment properties	4,358	5,456
Compensation income	153	3,706
Change in fair value of derivative financial instruments	2,012	(2,103)
Interest income on bank deposit	52,163	7,240
Recovery of bad and doubtful debt, net	-	12,658
Refund of value added tax	4,276	3,820
Scrap sales income	15,971	11,568
Sundry income	8,083	9,411
Tax refund on reinvestment of dividends to subsidiaries	15,137	9,878
	<u>102,153</u>	<u>61,634</u>

## 5. FINANCE COSTS

	2006 HK\$'000	2005 HK\$'000
Interest on		
– bank and other borrowings wholly repayable within five years	299,597	46,099
– finance leases	32	32
Cost of arrangement of bank borrowings	4,524	–
	<hr/>	<hr/>
Total borrowing costs	304,153	46,131
Less: amounts capitalised	(43,341)	(6,184)
	<hr/>	<hr/>
	<b>260,812</b>	<b>39,947</b>
	<hr/>	<hr/>

Borrowing costs capitalised during the year arose on the general borrowing pool and are calculated by applying a capitalisation rate ranges from 5.58% to 6.12% (2005: 4.65% to 5.76%) to expenditure on qualifying assets.

## 6. PROFIT BEFORE TAXATION

	2006 HK\$'000	2005 HK\$'000 (restated)
Profit before taxation has been arrived at after charging:		
Staff costs, including Directors' emoluments		
– basic salaries and allowances	180,816	111,940
– retirement benefits scheme contributions	23,461	11,886
	<hr/>	<hr/>
	204,277	123,826
Amortisation of intangible assets (included in administrative expenses)	556	665
Depreciation of property, plant and equipment	249,038	73,741
	<hr/>	<hr/>
Total depreciation and amortisation	249,594	74,406
Allowance for inventories, net	1,001	10,899
Allowance for bad and doubtful debt, net	1,231	–
Auditors' remuneration	2,315	2,347
Charter hire costs	143,129	157,659
Cost of inventories recognised as expenses	5,386,188	3,919,428
Exchange loss	318	413
Loss on disposal of land use rights (included in prepaid lease rentals)	–	1,594
Loss on disposal of property, plant and equipment	1,182	10,700
Minimum lease payments under operating leases in respect of land and buildings	3,443	1,883
Amortisation of prepaid lease rentals	9,236	4,729
Share of tax of associates (included in share of results of associates)	2,116	1,710
and after crediting:		
Rental income from investment properties under operating leases, less outgoings of HK\$120,000 (2005: HK\$110,000)	1,408	1,377
Reversal of provision for compensation	–	344
Recovery of bad and doubtful debt, net	–	12,658
Write-back of other payables and accrued liabilities	50	34
	<hr/>	<hr/>



## 7. INCOME TAX EXPENSE

	2006 HK\$'000	2005 HK\$'000
Current tax:		
PRC	21,217	22,287
Other jurisdictions	23	17
Under(over)provision in prior years	991	(166)
	<u>22,231</u>	<u>22,138</u>
Deferred tax:		
Current year	(1,487)	(1,143)
Attributable to a change in tax rate	5,896	–
	<u>26,640</u>	<u>20,995</u>

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

Pursuant to Income Tax Law of the PRC for Enterprises with Foreign Investment and Foreign Enterprises, Qinhuangdao Shougang Plate Mill Co., Ltd. (“Qinhuangdao Plate Mill”), a principal subsidiary of the Company operating in Economic and Technology Development Zone of the PRC, is entitled to a preferential income tax rate of 24% (2005: 15%). In addition, Qinhuangdao Plate Mill is subject to a local income tax rate of 3%. Pursuant to an approval granted by the local tax bureau in December 2006, Qinhuangdao Plate Mill is entitled to a reduction of income tax rate to 14% and 20% for the years from 2006 to 2007 and from 2008 to 2010 respectively.

Qinhuangdao Shouqin Metal Materials Co., Ltd. (“Shouqin”) and certain other subsidiaries of the Company operating in the PRC are eligible for certain tax holidays and concessions in respect of PRC income tax and are exempted from PRC income taxes for the year. The PRC income tax charges are arrived at after taking into account these tax incentives.

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

## 8. DIVIDENDS

	2006 HK\$'000	2005 HK\$'000
Dividends recognised as distribution during the year:		
Final – HK0.6 cent per share (2005: Nil)	<u>35,185</u>	<u>–</u>

The final dividend of HK2.1 cents (2005: HK0.6 cent) per share has been proposed by the directors and is subject to approval by shareholders at the Annual General Meeting.

The proposed dividend for 2006 is payable to all shareholders on the Register of Members on 6 June 2007.



## 9. EARNINGS PER SHARE

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

	2006 HK\$'000	2005 HK\$'000 (restated)
Profit for the purposes of basic earnings per share	221,618	303,946
Effect of dilutive potential ordinary shares:		
Adjustment to the share of result of an associate based on dilution of its earnings per share	(1,147)	(631)
Earnings for the purposes of diluted earnings per share	<u>220,471</u>	<u>303,315</u>
Weighted average number of ordinary shares for the purposes of basic earnings per share	5,713,517,484	4,717,802,025
Effect of dilutive potential ordinary shares:		
Options	<u>166,773,490</u>	<u>169,766,575</u>
Weighted average number of ordinary shares for the purposes of diluted earnings per share	<u>5,880,290,974</u>	<u>4,887,568,600</u>

## 10. TRADE AND BILL RECEIVABLES

	2006 HK\$'000	2005 HK\$'000
Trade and bill receivables	596,246	598,003
Less: Allowance for bad and doubtful debts	(221,054)	(273,382)
	<u>375,192</u>	<u>324,621</u>

Trading terms with customers are largely on credit, except for new customers, where payment in advance is normally required. The Group allows a range of credit period to its customers normally not more than 30 days, except for certain well established customers, where the terms are extended to 60 days. The following is an aged analysis of trade and bill receivables at the reporting date:

	2006 HK\$'000	2005 HK\$'000
Within 60 days	219,150	204,585
61 – 90 days	56,428	3,613
91 – 180 days	94,873	42,715
181 – 365 days	4,741	70,661
1 – 2 years	–	3,047
	<u>375,192</u>	<u>324,621</u>

## 11. TRADE AND BILL PAYABLES

An aged analysis of trade and bill payables is as follows:

	2006 HK\$'000	2005 HK\$'000
Within 90 days	492,690	421,018
91 – 180 days	14,362	12,747
181 – 365 days	5,649	39,187
1 – 2 years	7,602	45,765
Over 2 years	3,531	2,293
	<u>523,834</u>	<u>521,010</u>

## FINAL DIVIDEND

The Board recommends a final dividend of HK\$0.021 per share for the year ended 31 December 2006 (2005: HK\$0.006 per share) payable to shareholders whose names appear on the register of members of the Company on Wednesday, 6 June 2007. Subject to shareholders' approval of the proposed final dividend at the Company's annual general meeting to be held on Wednesday, 6 June 2007, the final dividend is expected to be paid on Friday, 15 June 2007.

## CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Tuesday, 5 June 2007 to Wednesday, 6 June 2007, both days inclusive, during which period no transfer of shares will be effected. In order to qualify for the proposed final dividend, all share transfers accompanied by the relevant share certificates must be lodged with the Company's share registrars, Tengis Limited at 26/F, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong, for registration not later than 4:00 p.m. on Monday, 4 June 2007.

## MANAGEMENT DISCUSSION AND ANALYSIS

### Overview

In 2006, the Group took much effort in expanding production scale and adjusting product mix, thus achieving a historic high production and sales volumes in its Steel manufacturing segment. This segment also enjoyed a breakthrough increase in export volume, exemplifying its competitiveness in the international market.

For the year ended 31 December 2006, the Group recorded a consolidated turnover of HK\$6,467.5 million, representing a sharp increase of 41.5%, equivalent to HK\$1,897.5 million, when compared to that of last year. Despite higher finance expenses and raw material cost, net profit attributable to shareholders still amounted to HK\$221.6 million, representing a decrease of 27.1% when comparing to HK\$303.9 million last year (as restated). Basic and diluted earnings per share for the year 2006 were HK3.9 cents and HK3.7 cents respectively.

#### 1. *Strengthened production scale of Steel manufacturing segment*

Commencement of Phase II of Shouqin in the first half of the year has significantly expanded the Group's scale of production. During the year, the Group produced 829,000 mt of steel plates and 1.94 million mt of steel slabs, representing a rise of 13.4% and 74.8% respectively over that of last year. Such a production scale saw a historic record level for the Group.

#### 2. *Hyundai Heavy Industries as our Strategic partner*

Hyundai Heavy Industries Co., Ltd. ("Hyundai") is a world leader in ship-building and a heavy user of steel plates. By partnering with Hyundai through its subscription with a significant minority position with Shouqin, our subsidiary can strengthen its shareholder base and also secure a fair amount of sales of its thick plates. The said transaction has already been completed on 7 February 2007, after which the Group still holds 76% effective interest in Shouqin. We are confident that it would be beneficial for all parties involved.

#### 3. *Secured equity and loan financing totaling HK\$1.66 billion*

In the first quarter of the year, Carlo Tassara International S.A. has become one of the major shareholders of the Company, which subscribed for 929 million ordinary shares of the Company, the said subscription has provided net proceeds of approximately HK\$492.0 million to the Company for working capital purposes. In addition, the Company has secured a US\$150.0 million consortium loan financing. Part of the proceeds has already been applied to increase the capital base of Shouqin to progress on its business plan.

## **Financial Review**

*Year ended 31 December 2006 compared to year ended 31 December 2005*

### *Turnover and Cost of Sales*

For the year under review, the Group recorded a consolidated turnover of HK\$6,467.5 million as compared to HK\$4,570.0 million last year, representing an increase of HK\$1,897.5 million, or 41.5%. The increase is principally due to full consolidation of Shouqin's results in the year, whereby only 2 months' results of November to December 2005 were included last year. Sales volume of steel products also rose significantly during the year.

Cost of sales in the current year was HK\$5,604.4 million as compared to HK\$4,143.1 million last year, representing an increase of HK\$1,461.3 million, or 35.3%. The resulting gross profit margin was 13.3% in the current year, improved from 9.3% last year, principally due to a change in revenue mix that the contribution by steel trading segment with an overall gross profit margin of about 2% is lower, making the overall figure still higher.

### *Other income*

Other income increased from HK\$61.6 million last year to HK\$102.2 million this year, or 65.9%. The rise is mainly represented by tax refund on re-investment in China and increased bank interest income.

### *Finance costs*

In the current year, finance costs increased to HK\$260.8 million, comparing to HK\$39.9 million last year, or 5.5 times. The increase is attributable to combination of higher leverage of Shouqin due to expansion and the interest expenses of the Company's newly-incepted consortium loans.

## **Review of Operations**

### *Steel manufacturing*

The Group operates in this business segment through a wholly-owned subsidiary Qinhuangdao Plate Mill and 96%-owned Shouqin. This segment contributed to 70% of the Group's turnover (2005: 60%). China maintains its rapid economic expansion with GDP growth reaching 10.7% in 2006, such strong growth is expected to continue well into the foreseeable future. However, the development of the iron and steel industry did not fully match with the growth in demand, with apparent structural incompatibilities. Raw materials and energy prices have been increasing; global price of iron ore has increased by 19% in 2006, and will continue to increase by 9.5% in 2007. Consolidated price index for steel products rose from 93.3 in January, to 114.85 in June and retreated to 105.15 at the end of the year. The high fluctuation is a fair proof of a generally difficult business environment for the industry.

### *Qinhuangdao Plate Mill*

Turnover of Qinhuangdao Plate Mill was HK\$2,922.3 million (before elimination of intersegment sales) for the year, representing an increase of HK\$7.5 million from that of last year. Although the sales volume has increased from 689,000 mt to 761,000 mt this year, the average selling price per mt has decreased by approximately 6.4%. While the decrease in selling price cannot be offset by a corresponding decrease in cost of steel slabs, one of the major raw materials, and other manufacturing overheads, the gross profit margin has therefore deteriorated to 7.8%, against 9.3% last year. Net profit for the current year (excluding the share of 24% results in Shouqin) was HK\$90.2 million, comparing to HK\$152.1 million recorded in the last year. The decrease can be explained by the lower gross profit described above, and increased selling cost resulting from more export businesses.

## Shouqin

Shouqin houses a production line commanding some of the most advanced technologies in the world. Since its inception in mid 2004, the scale of production has been expanding significantly. Phase II of the plant started production in the first quarter of 2006, initially with output of steel slabs only. Its 4300mm width plate rolling system commenced production since October this year. Phase I embraces a designed production capability of 1.2 million tonnes, while Phase II can well reach 1.6 million tonnes. Shouqin achieved good performance and recorded a turnover of HK\$4,912.5 million for the current year, comparing to HK\$3,136.3 million last year, representing a rise of 56.6%. Approximately 1,850,000 mt of steel slabs were sold in 2006, representing an increase of 68.3% on a year-to-year basis, in addition to 9,700 mt of thick plates. Despite the apparent decline in steel product price in the first quarter which caused a negative impact on sales revenue and earnings, Shouqin's full year operation in 2006 was deemed satisfactory.

For the year ended 31 December 2006, net profit attributable to the Group from Shouqin amounted to HK\$44.2 million, versus a profit contribution of HK\$36.1 million last year, registering an increase of 22.4%. The higher profit contribution is owing to higher gross profit amount and by stringent cost containment measures, which were partially offset by increased finance cost from its leverage and negative change of tax rebate from export activities.

## *Shipping operations*

Shougang Concord Shipping Holdings Limited and its subsidiaries ("Shougang Shipping Group") was mainly engaged in the time charter business. This segment has reported a satisfactory result. In the current year, its turnover was HK\$229.1 million and realized HK\$83.6 million in operating profit. When comparing to last year, turnover has decreased slightly by 1% while its operating profit has increased by 17.7%. Carriage tariff is steadier in the shipping market this year. The higher operating profit was a result of rent-free period during July to August from ship maintenance. For the year ended 31 December 2006, Shougang Shipping Group reported a net profit attributable to shareholders of HK\$79.5 million, an increase of HK\$10.0 million from that of 2005. Shougang Shipping Group has managed to maintain its expenses to a minimum level to partially reduce the adverse impact of fluctuating market rates.

## *Electricity generation*

Our 51%-owned Beijing Shougang Firstlevel Power Company Limited ("Beijing Power Plant") reported total turnover of HK\$424.6 million for the current year, representing an increase of 3.3% from last year. After deducting minority interests, the Group's share of profit of Beijing Power Plant for the current year amounted to HK\$29.5 million, which showed a moderate increase of 2.4% as compared to HK\$28.8 million for the last year.

In the current year, Beijing Power Plant sold approximately 1,161 million kwh of electricity and generated sales revenue of HK\$364.4 million, recording a slight decrease of 1.0% and an increase of 2.8% respectively when comparing to that of last year. Higher profitability for the current year is a result of increase in market tariff and successful cost savings in the company.

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

Shougang Concord Century Holdings Limited and its subsidiaries ("Shougang Century Group") performed well above expectation and reported a turnover of HK\$678.9 million and net profit of HK\$76.0 million for the current year, representing a growth of HK\$86.0 million in turnover and HK\$13.8 million in net profit over that of last year. If the deemed loss arising from share reform plan of one of its associates were excluded, its net profit would be further boosted by HK\$6.9 million, recording a 33.2% increase in net profit on a year-to-year basis. With a slight drop in equity proportion from 27.9% to 22.5% due to share placement, the Group's share of its net profit still rose from HK\$17.4 million to HK\$21.0 million in the current year, representing an increase of 20.7%.

Shougang Century Group enjoyed a marked increase in sales and profit of its processing and trading of copper and brass product segment. Turnover of this segment increased by 72.3% to HK\$283.7 million and the corresponding gross profit grew by 261.7% to HK\$45.1 million. The growth can be explained by the sharp increase in copper price by 72.0%. The LME Copper Futures once recorded 82.0% gain during the year and still commanded 43.9% growth on a year-to-year basis. The other operating segments of Shougang Century Group also performed satisfactorily and contributed to the overall success in the current year.

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

Shougang Concord Steel Holdings Limited and its subsidiaries (“Shougang Steel Group”) reported turnover of HK\$1,302.2 million, representing a 11.9% growth in comparison with last year. In terms of turnover, trading of steel products has increased by 11.9% to HK\$1,216.0 million, while that of the installation of kitchen and laundry equipment has increased by 11.7% to HK\$86.2 million. However, with smaller spread in trade, Shougang Steel Group reported an overall lower net profit by 3.1% to HK\$18.8 million in the current year, comparing to HK\$19.4 million last year.

## **Liquidity and Financial Resources**

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

### **1. Leverage**

The financial leverage of the Group as at 31 December 2006, as compared to 31 December 2005, is summarized below:

	<b>31 December 2006 Audited HK\$ million</b>	<b>31 December 2005 Audited HK\$ million</b>	<b>Change</b>
Total Debt			
– from banks	<b>4,577</b>	2,424	+88.8%
– from parent company	<b>1,125</b>	796	+41.3%
– from a related company	<b>–</b>	242	-100%
Sub-total	<b>5,702</b>	3,462	+64.7%
Cash and bank deposits	<b>1,855</b>	762	+143.4%
Net debt	<b>3,847</b>	2,700	+42.5%
Total capital (Equity and debt)	<b>8,645</b>	5,638	+53.3%
Financial leverage			
– Net debt to total capital	<b>44.5%</b>	47.9%	-7.1%
– Net debt to total assets	<b>34.2%</b>	36.3%	-5.8%

It can be observed that financial leverage has improved between 31 December 2006 and that of 31 December 2005, although the total debt level has increased, corresponding to the fact that Group debt financing is used in a controlled manner.

### **2. Currency and Interest Rate Risk**

The Group conducts its businesses mainly in Hong Kong and Mainland China, therefore it is subject to the foreign exchange fluctuations of HK Dollars, US Dollars and Renminbi. To minimize currency exposure, non Hong Kong Dollar assets are usually financed in the same currency as the asset or cash flow from it via borrowings. For the year ended 31 December 2006, approximately 76.4% of the Group’s turnover was denominated in Renminbi. A mixture of fixed and floating rate borrowings are used in order to stabilize interest costs despite rate movements.



## **Capital Structure**

At the beginning of the current year, the issued share capital of the Company was HK\$986.8 million, represented by 4,934,057,214 ordinary shares at par value of HK\$0.20 each. During the year, the Company entered into a share subscription agreement on 13 February 2006 with an independent investor, Carlo Tassara International S. A. (“the Subscriber”), pursuant to which the Subscriber subscribed for 929,000,000 new ordinary shares of the Company at HK\$0.53 per share in March 2006. Moreover, a former director of the Company exercised the granted options, pursuant to which 1,000,000 new ordinary shares were issued at the exercise price of HK\$0.295 per share. As a result of the aforesaid events, the issued share capital of the Company increased to HK\$1,172.8 million, represented by 5,864,057,214 ordinary shares as at 31 December 2006.

## **Employees, Remuneration Policies and Training Scheme**

The Group has a total of approximately 4,200 employees as at 31 December 2006.

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

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

## **PROSPECTS**

While Phase II of Shouqin has been operational since 2006, the Group has enhanced its world leading production lines. With a progressive development in high-end products, in addition to a more stable sales market and funding capability, the Group is considered extremely competitive in its forefront.

Fixed asset investment in China is expected to grow 20% in 2007, with steel production increased by 11%. The steady growth in China’s GDP has benefited the steel industry as a whole. As China’s new Steel Industry Policy progressively gets implemented, small and obsolete production capacities will soon be eliminated, profitability in the industry is on the rise. We now have a higher production capability than ever in the steel manufacturing segment in a business where scale is a key to success, both in terms of serving our customers better and maximizing our earnings premium in the market. Shougang Concord International is well positioned to benefit in the year 2007 for the continued market cyclical uprising.

## **PURCHASE, SALE OR REDEMPTION OF THE COMPANY’S LISTED SECURITIES**

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company’s listed securities (whether on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) or otherwise) during the year.

## **COMPLIANCE WITH CODE ON CORPORATE GOVERNANCE PRACTICES**

The Company has complied with the Code on Corporate Governance Practices (the “Code”) as set out in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange during the financial year ended 31 December 2006, except for the following deviations:–

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

None of the existing Non-executive Directors of the Company is appointed for a specific term. However, Non-executive Directors of the Company are subject to retirement by rotation and re-election at annual general meetings at least once every three years in accordance with the provisions of the articles of association of the Company. As such, the Company considers that sufficient measures have been taken to ensure that the Company's corporate governance practices are no less exacting than those in the Code.

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

The Chairman of the Board had not attended the annual general meeting of the Company held on 26 May 2006 (the "Meeting") as he had another business engagement. The Managing Director of the Company, who took the chair of the Meeting, together with other members of the Board and the Audit, Remuneration and Nomination Committees attended the Meeting. The Company considers that the members of the Board and the Audit, Remuneration and Nomination Committees who attended the Meeting were already of sufficient calibre and number for answering questions at the Meeting.

Details of the Company's compliance with the provisions of the Code during the year together with the above deviations will be set out in the Corporate Governance Report in the Company's 2006 annual report.

#### **APPRECIATION**

On behalf of the Board, I would like to extend our sincere thanks to our customers, suppliers and shareholders for their continuous support to the Group. I would also extend my gratitude and appreciation to all management and staff for their hard work and dedication throughout the year.

By order of the Board  
**Cao Zhong**  
*Managing Director*

Hong Kong, 19 April 2007

*As at the date of this announcement, the Board comprises Mr. Wang Qinghai (Chairman), Mr. Cao Zhong (Managing Director), Mr. Chen Zhouping (Deputy Managing Director), Mr. Zhang Wenhui (Deputy Managing Director), Mr. Luo Zhenyu (Deputy Managing Director), Mr. Ip Tak Chuen, Edmond (Non-executive Director), Mr. Leung Shun Sang, Tony (Non-executive Director), Ms. Kan Lai Kuen, Alice (Independent Non-executive Director), Mr. Wong Kun Kim (Independent Non-executive Director) and Mr. Leung Kai Cheung (Independent Non-executive Director).*

Please also refer to the published version of this announcement in South China Morning Post - Classified.