

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2004

1. BASIS OF PREPARATION

The condensed financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and with Statement of Standard Accounting Practice No. 25 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants.

2. SIGNIFICANT ACCOUNTING POLICIES

The condensed financial statements have been prepared under the historical cost convention as modified for the revaluation of investment properties and certain property, plant and equipment. The accounting policies adopted are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2003.

3. SEGMENT INFORMATION

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.

Six months ended 30 June 2004

	Steel manufacturing HK\$'000	Shipping operations HK\$'000	Electricity generation HK\$'000	Kitchen and laundry equipment, steel trading HK\$'000	Others HK\$'000	Consolidated HK\$'000
Turnover from external customers	1,038,156	140,427	188,917	22,286	612	1,390,398
Segment results	84,607	61,481	33,029	241	(8,835)	170,523
Unallocated other operating income						1,420
Profit from operations						171,943
Interest expenses						(6,621)
Share of results of associates	5,951	-	-	-	-	5,951
Loss on deemed disposal of a partial interest in an associate	(477)	-	-	-	-	(477)
Profit before taxation						170,796



NOTES TO THE CONDENSED FINANCIAL STATEMENTS (continued)

FOR THE SIX MONTHS ENDED 30 JUNE 2004

3. SEGMENT INFORMATION (continued)

Six months ended 30 June 2003

	Steel manufacturing HK\$'000	Shipping operations HK\$'000	Electricity generation HK\$'000	Kitchen and laundry equipment, steel trading HK\$'000	Others HK\$'000	Consolidated HK\$'000
Turnover from external customers	<u>777,524</u>	<u>117,360</u>	<u>190,483</u>	<u>32,780</u>	<u>756</u>	<u>1,118,903</u>
Segment results	<u>49,290</u>	<u>(15,281)</u>	<u>45,903</u>	<u>(1,855)</u>	<u>(7,494)</u>	70,563
Unallocated other operating income						<u>1,018</u>
Profit from operations						71,581
Interest expenses						(15,040)
Share of results of an associate	12,102	-	-	-	-	12,102
Loss on deemed disposal of a partial interest in an associate	(15,442)	-	-	-	-	<u>(15,442)</u>
Profit before taxation						<u>53,201</u>



NOTES TO THE CONDENSED FINANCIAL STATEMENTS (continued)

FOR THE SIX MONTHS ENDED 30 JUNE 2004

4. PROFIT FROM OPERATIONS

Profit from operations has been arrived at after charging (crediting):

	Six months ended 30 June	
	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Depreciation of property, plant and equipment	32,405	35,110
Amortisation of intangible assets (included in administrative expenses)	513	523
Amortisation of goodwill (included in administrative expenses)	1,817	1,817
Loss on disposal of property, plant and equipment	4,560	–
Impairment loss recognised in respect of investment securities	11,503	–
(Reversal of) allowance for bad and doubtful debts, net	(2,277)	2,129
Interest income	(1,420)	(1,018)
	<u> </u>	<u> </u>

5. TAXATION

	Six months ended 30 June	
	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Current tax:		
People's Republic of China (the "PRC")	14,786	21,657
Other jurisdictions	9	–
	<u>14,795</u>	<u>21,657</u>
Deferred taxation	(1,157)	4,492
	<u>13,638</u>	<u>26,149</u>
Share of tax on results of associates	1,095	1,782
	<u>14,733</u>	<u>27,931</u>

No provision for Hong Kong Profits Tax has been made for the period as the group companies which are subject to Hong Kong Profits Tax either incurred tax losses for the period or have tax losses brought forward to set off assessable profit for the period.

Taxation arising on the PRC and in other jurisdictions is calculated in accordance with the relevant rules and regulations.



NOTES TO THE CONDENSED FINANCIAL STATEMENTS (continued)

FOR THE SIX MONTHS ENDED 30 JUNE 2004

6. EARNINGS (LOSS) PER SHARE

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

	Six months ended 30 June	
	2004	2003
	HK\$'000	HK\$'000
Profit (loss) for the purposes of basic earnings (loss) per share	104,225	(5,684)
Effect of dilutive potential ordinary shares:		
Adjustment to the share of result of an associate based on dilution of its earnings per share	(1,259)	-
Interest on convertible note	16	-
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Earnings (loss) for the purposes of diluted earnings (loss) per share	102,982	(5,684)
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Weighted average number of ordinary shares for the purposes of basic earnings (loss) per share	3,403,923,221	2,295,546,454
Effect of dilutive potential ordinary shares:		
Options	152,912,937	-
Convertible note	3,139,717	-
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Weighted average number of ordinary shares for the purposes of diluted earnings (loss) per share	3,559,975,875	2,295,546,454
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The computation of diluted loss per share for the six months ended 30 June 2003 did not assume the exercise of share options or conversion of convertible note as the exercise or conversion would result in a decrease in loss per share.



NOTES TO THE CONDENSED FINANCIAL STATEMENTS (continued)

FOR THE SIX MONTHS ENDED 30 JUNE 2004

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

The directors are of the opinion that the market value of the Group's investment properties as at 30 June 2004 is not materially different from the carrying value of the investment properties. Accordingly, no valuation movement has been recognised in respect of the Group's investment properties in the period.

During the period, the Group incurred approximately HK\$3,771,000 on acquisition of property, plant and equipment in order to upgrade its operating capabilities.

8. DEPOSIT MADE ON INVESTMENT IN AN ASSOCIATE

At 30 June 2004, the amount represents a deposit paid to acquire from Shougang Corporation, the Company's ultimate holding company, a 27% interest in the registered capital of Qinhuangdao Shouqin Metal Materials Co., Ltd. ("Shouqin"), a sino-foreign joint venture established in the PRC. The amount represents a 27% of the registered capital of Shouqin. The relevant registration procedures were completed subsequent to 30 June 2004.

9. ACCOUNTS AND BILLS RECEIVABLE

An aged analysis of accounts and bills receivable is as follows:

	30 June 2004 HK\$'000	31 December 2003 HK\$'000
Within 90 days	69,703	45,458
91-180 days	16,256	4,163
181-365 days	5,734	3,183
1-2 years	496	2,526
Over 2 years	6,193	8,188
	98,382	63,518

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.

At 30 June 2004, retentions held by customers for contract work amounted to HK\$997,000 (31 December 2003: HK\$2,072,000).



NOTES TO THE CONDENSED FINANCIAL STATEMENTS (continued)

FOR THE SIX MONTHS ENDED 30 JUNE 2004

10. AMOUNTS DUE FROM (TO) RELATED COMPANIES

The balances represent amounts due from (to) the holding company, subsidiaries and fellow subsidiaries of Shougang Holding (Hong Kong) Limited ("Shougang HK"), the Company's holding company. The balances are unsecured, interest-free and have no fixed terms of repayment except for the trade balances set out below.

The trade receivables from related companies and an aged analysis of such balances are as follows:

	30 June 2004 HK\$'000	31 December 2003 HK\$'000
Within 90 days	159,926	60,954
91-180 days	13,971	15,914
181-365 days	562	6,679
1-2 years	601	50,757
Over 2 years	4,751	5,155
	179,811	139,459

The Group allows a range of a credit period normally not more than 60 days for sales to its related companies.

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

	30 June 2004 HK\$'000	31 December 2003 HK\$'000
Within 90 days	13,692	21,767
91-180 days	5,048	2,826
181-365 days	3,796	609
1-2 years	886	542
Over 2 years	8,223	8,212
	31,645	33,956



NOTES TO THE CONDENSED FINANCIAL STATEMENTS (continued)

FOR THE SIX MONTHS ENDED 30 JUNE 2004

11. ACCOUNTS AND BILLS PAYABLE

An aged analysis of accounts and bills payable is as follows:

	30 June 2004 HK\$'000	31 December 2003 HK\$'000
Within 90 days	35,621	35,849
91-180 days	2,949	22
181-365 days	3,244	2,963
1-2 years	340	626
Over 2 years	2,381	2,380
	44,535	41,840

12. BANK BORROWINGS

During the period, the Group obtained new bank loans of approximately HK\$222,157,000. The loans bear interest at market rates and were used to finance the general operations of the Group and repayment of a short term loan granted by Shougang Corporation. In addition, the Group also repaid bank loans of approximately HK\$221,089,000 during the period.

13. CONVERTIBLE NOTE

On 7 June 2002, a subsidiary of the Company issued convertible note with a principal amount of HK\$200,000,000 to a wholly-owned subsidiary of Shougang HK (the "Subscriber"). The convertible note would mature on 7 June 2004 under its original terms. On 2 January 2004, the Subscriber exercised in full its conversion right of the convertible note, at the conversion price of HK\$0.35 per share, resulting in an issue of 571,428,571 ordinary shares of the Company with a par value of HK\$0.20 each.



NOTES TO THE CONDENSED FINANCIAL STATEMENTS (continued)

FOR THE SIX MONTHS ENDED 30 JUNE 2004

14. SHARE CAPITAL

Ordinary shares of HK\$0.2 each

Issued and fully paid:

	Number of shares <i>'000</i>	Share capital <i>HK\$'000</i>
At 1 January 2004	2,645,546	529,109
Exercise of share options	10,800	2,160
Issue of shares on subscription	300,000	60,000
Exercise of conversion of convertible note	571,429	114,286
	<u>3,527,775</u>	<u>705,555</u>
At 30 June 2004	<u>3,527,775</u>	<u>705,555</u>

15. CONTINGENT LIABILITIES

At 30 June 2004, the Group provided guarantees of approximately HK\$46,564,000 (31 December 2003: HK\$39,223,000) in respect of banking facilities granted to third parties.



NOTES TO THE CONDENSED FINANCIAL STATEMENTS (continued)

FOR THE SIX MONTHS ENDED 30 JUNE 2004

16. RELATED PARTY TRANSACTIONS

During the periods, the Group had the following significant transactions with (i) Shougang HK; (ii) Shougang HK's holding company, subsidiaries, fellow subsidiaries and associates; and (iii) associates of Shougang HK's holding company, (collectively "Shougang Group").

(I) Transactions

		Six months ended 30 June	
		2004	2003
		HK\$'000	HK\$'000
	<i>Notes</i>		
Shougang Group			
Sales of goods by the Group	<i>(a)</i>	93,443	63,403
Provision of electricity, steam and hot water by the Group	<i>(b)</i>	188,917	190,483
Purchases of goods by the Group	<i>(c)</i>	232,236	338,160
Lease rentals charged to the Group	<i>(d)</i>	976	1,107
Management fees charged to the Group	<i>(e)</i>	480	480
Purchases of spare parts by the Group	<i>(f)</i>	8,998	8,103
Corporate guarantees for bank loans granted to the Group	<i>(g)</i>	183,806	193,196
Loans advanced to the Group		-	35,670
Management fees charged by the Group	<i>(h)</i>	240	240
Rental income charged by the Group	<i>(i)</i>	372	396
Convertible note interest expense charged to the Group	<i>(j)</i>	16	2,976
Interest charged to the Group	<i>(k)</i>	93	7,428
Service fees charged to the Group	<i>(l)</i>	9,887	10,866
Service fees charged by the Group	<i>(m)</i>	21	5
Freight income charged by the Group		-	70,056
Commission charged to the Group		-	426
Acquisition of property, plant and equipment by the Group		-	5,655
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Associates			
Management fees charged by the Group		-	120
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NOTES TO THE CONDENSED FINANCIAL STATEMENTS (continued)

FOR THE SIX MONTHS ENDED 30 JUNE 2004

16. RELATED PARTY TRANSACTIONS (continued)**(I) Transactions (continued)***Notes:*

- (a) Qinhuangdao Shougang Plate Mill Co., Ltd. ("Qinhuangdao Plate Mill"), a non wholly-owned subsidiary of the Company, sold steel products and scrap materials to Shougang Group at a consideration determined between the parties with reference to the then prevailing market prices.
- (b) Beijing Shougang Firstlevel Power Co., Ltd. ("BSFPCL"), a non wholly-owned subsidiary of the Company, sold electricity, steam and hot water to Shougang Group at a consideration determined between the parties.
- (c) The Group purchased materials and steel products from Shougang Group at a consideration determined between the parties.
- (d) The Group entered into various rental agreements with Shougang Group for renting office and residential apartments as staff quarters. The rentals were determined between the parties.
- (e) Management fees were paid to Shougang HK for the provision of management services at rates determined between the parties.
- (f) The Group purchased spare parts from Shougang Group at a consideration determined between the parties.
- (g) Shougang Corporation has provided corporate guarantees for certain bank loans granted to the Group.
- (h) The Group provided business and strategic development services to Shougang Group at rates determined between the parties.
- (i) The Group entered into a rental agreement with a subsidiary of Shougang Concord Technology Holdings Limited, for renting an investment property. The rental was determined with reference to the then prevailing market rates.
- (j) The interest expenses were charged by Shougang Group in respect of the 3% convertible note with a principal amount of HK\$200,000,000 issued by the Group.



NOTES TO THE CONDENSED FINANCIAL STATEMENTS (continued)

FOR THE SIX MONTHS ENDED 30 JUNE 2004

16. RELATED PARTY TRANSACTIONS (continued)**(I) Transactions (continued)***Notes: (continued)*

- (k) The interest expenses were charged by Shougang Group in respect of outstanding loans granted to the Group at interest rate 7.05% per annum.
- (l) Shougang Group charged Qinhuangdao Plate Mill and BSFPCL service fees in respect of processing and repair and maintenance services at rates determined between the parties.
- (m) Qinhuangdao Plate Mill charged Shougang Group service fees in respect of processing services provided at rates determined between the parties.

(II) Balances

Details of balances with the Group's related companies are set out in the condensed consolidated balance sheet, notes 8, 10 and 13.

17. COMMITMENTS

	30 June 2004 HK\$'000	31 December 2003 HK\$'000
Capital expenditure contracted for but not provided in the financial statements in respect of acquisition of property, plant and equipment	<u>4,000</u>	<u>1,152</u>



NOTES TO THE CONDENSED FINANCIAL STATEMENTS (continued)

FOR THE SIX MONTHS ENDED 30 JUNE 2004

18. POST BALANCE SHEET EVENTS

On 18 August 2004, Firstlevel Holdings Limited ("Firstlevel Holdings"), a wholly-owned subsidiary of the Company, and Shougang HK have entered into an acquisition agreement ("Acquisition Agreement"), pursuant to which Firstlevel Holdings will acquire from Shougang HK the entire issued share capital of and the shareholder's loan to Equity Dragon Assets Limited ("Equity Dragon") for a total consideration of HK\$377,400,000, which will be satisfied as to HK\$301,920,000 by the issue of 958,476,190 shares of the Company ("Consideration Shares") at an issue price of HK\$0.315 per share to Shougang HK and as to the remaining of HK\$75,480,000 in cash. The sole asset of Equity Dragon is its 47% interest in the registered capital of Qinhuangdao Plate Mill. The Consideration Shares represent approximately 27.2% of the Company's existing issued share capital or approximately 20.7% of the Company's enlarged share capital immediately after completion. Based on the closing price of the shares of the Company of HK\$0.350 on 17 August 2004, the last trading day of the shares on the Stock Exchange prior to the date of the Acquisition Agreement, the market value of the Consideration Shares is HK\$335,466,666.50.

On the same date, the Company and Max Same Investment Limited ("Max Same"), a wholly-owned subsidiary of Cheung Kong (Holdings) Limited, have entered into a subscription agreement, pursuant to which Max Same will subscribe for 150,000,000 shares of the Company ("Subscription Shares") at HK\$0.315 per share, raising total net proceeds of HK\$47,250,000 which will be used to pay part of the consideration under the Acquisition Agreement. The Subscription Shares represents approximately 4.3% of the Company's existing issued share capital or approximately 3.2% of the Company's enlarged share capital immediately after completion.

At the date of this report, the above transactions have not been completed yet.

