



BUSINESS REVIEW

For the year ended 31 December 2004, the Group achieved a net profit attributable to shareholders of HK\$279.2 million. When compared with the net profit attributable to shareholders of HK\$67.8 million for 2003, it revealed a substantial year-on-year profit growth rate of 311.8%.

The Group's strong performance in 2004 was mainly driven by the excellent results of the steel manufacturing and shipping business segments. In addition to the organic growth in the Group's core businesses, the Group had undertaken numerous initiatives and important strategies to strengthen the steel manufacturing business in 2004. At operation level, extra resources were deployed to enhance productivity. At strategic level, the Group acquired further equity stakes in this business segment which enlarged the earning base.

Manufacture and sale of steel products

The Group operates in this business segment through a wholly-owned subsidiary, Qinhuangdao Shougang Plate Mill Co., Ltd. ("Qinhuangdao Plate Mill") and an associate, Qinhuangdao Shouqin Metal Materials Co., Ltd. ("Shouqin").

At the beginning of 2004, the Group held 51% interest in Qinhuangdao Plate Mill. To further



consolidate the Group's equity stake and control in Qinhuangdao Plate Mill and to benefit from its strong financial performance, the Group acquired further interests of 47% and 2% in Qinhuangdao Plate Mill in October and December 2004, respectively. Since then, Qinhuangdao Plate Mill has become a wholly-owned subsidiary of the Group.

Qinhuangdao Plate Mill held 24% interest in Shouqin at the beginning of 2004. To secure a stable supply of the scarce resources of steel slabs, the Group directly acquired a further 27% interest in Shouqin in August 2004. In conjunction with the Group's increase in equity stake in Qinhuangdao Plate Mill, the Group has held an effective interest of 51% in Shouqin by the end of 2004.

Qinhuangdao Plate Mill consecutively achieved another brilliant success for 2004. Turnover recorded a new height of HK\$2,377.9 million for the year. It increased by HK\$699.8 million from HK\$1,678.1 million in 2003. This significant growth in turnover was benefited from the price rise of steel

Management Discussion and Analysis

products in the burgeoning market, in which Qinhuangdao Plate Mill captured the buoyant market opportunities by effectively utilizing its production capacity of steel plates. Approximately 622,000 metric tonnes of steel plates were produced in 2004, representing an increase of 78,000 metric tonnes as compared with approximately 544,000 metric tonnes produced in 2003. During the year, Qinhuangdao Plate Mill increased the sales of its major steel products by 70,000 metric tonnes to 575,000 metric tonnes. By virtue of increased production and economies of scale in the procurement of raw materials, Qinhuangdao Plate Mill successfully lessened the adverse effects of a general rise in the price of raw materials. These caused its net profit (excluding the share of result of its associate, Shouqin) to increase to HK\$178.3 million in 2004 from HK\$158.4 million in 2003. After deducting minority interests, the profit attributable to the Group (excluding the result for Shouqin, which will be described below) was HK\$117.6 million for the year ended 31 December 2004, showing an impressive increase in profit of HK\$36.7 million over that in 2003.

Shouqin commenced its operations in mid 2004. Shouqin reported a net profit of HK\$54.9 million for 2004, which had already included the write-off of pre-operating expenses to the full extent of HK\$31.6 million. After taking in the account the pre-acquisition accounting treatments in accordance with prevailing accounting practice in Hong Kong (for instance, the Group only shared Shouqin's pre-operating expenses to the extent of Qinhuangdao Plate Mill's 24% interest therein, as the Group's further acquisition of interest in Shouqin only took place in August 2004), the Group's share of the profit of Shouqin for 2004 was HK\$38.9 million.

As the earning figures have shown, Qinhuangdao Plate Mill and Shouqin are high-quality assets of the Group. It is evident that the earning base of the Group will be significantly enhanced in future due to its increase in equity stakes in these companies. We are confident that the performance of the Group in the segment of manufacture and sale of steel products will be promising for the coming year.

Shipping operations

Shougang Concord Shipping Holdings Limited and its subsidiaries ("Shougang Shipping Group") was mainly engaged in the time charter business for the year ended 31 December 2004. During the year, the improved market sentiment had caused freight rates to stay at high levels. This resulted in a substantial growth in charter hire income for the time charter business, from HK\$140.5 million in 2003 to HK\$270.8 million in 2004. As operating costs were relatively stable, the time charter business achieved a net operating profit of HK\$112.4 million for the year, against a net operating loss of HK\$3.7 million for 2003. Concentrating its available resources in the time charter business, Shougang Shipping Group did not conduct any voyage charter business for the reporting year. Its floating crane business recorded a profit of HK\$2.7 million for the year ended 31 December 2004, which declined moderately from a profit of HK\$3.6 million for last year. On the whole, Shougang



Shipping Group achieved a significant turnaround in performance in 2004, reporting a profit attributable to shareholders of HK\$110.5 million. This represented a highly impressive improvement of HK\$124.8 million when compared with a loss attributable to shareholders of HK\$14.3 million in 2003. The management is confident that Shougang Shipping Group will continue to deliver successful result in the forthcoming year.

Electricity generation

Beijing Shougang Firstlevel Power Company Limited (“Beijing Power Plant”) reported a turnover of HK\$381.4 million for the year ended 31 December 2004, representing an increase of HK\$6.5 million from HK\$374.9 million achieved in 2003. The total quantity of electricity generated and sold by Beijing Power Plant was approximately 1,128 million Kwh with a sales revenue of HK\$328.4 million for 2004, a rise of 31 million Kwh or HK\$9.1 million as compared with the sales quantity of approximately 1,097 million Kwh and sales revenue of HK\$319.3 million in 2003. However, sales revenues for



steam and hot water for 2004 dropped slightly by HK\$1.5 million and HK\$1.1 million, to HK\$31.1 million and HK\$21.9 million respectively. Despite the higher output and enhanced revenue for electricity, surging prices for major fuel sources including coal, coal gas, water and other ancillary materials squeezed margins. Against this background, the Group’s share of Beijing Power Plant’s net profit has decreased slightly to HK\$26.6 million in 2004 from HK\$27.7 million in 2003.

In view of the increase in costs, the management will take proactive actions to minimize the adverse impact and to maintain the profit of the electricity generating business at a reasonable level.

Management Discussion and Analysis

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

For the year ended 31 December 2004, sales revenues and net profit of Shougang Concord Century Holdings Limited and its subsidiaries (“Shougang Century Group”) soared to a new height record in recent years. Its consolidated turnover climbed to HK\$427.9 million for this year, representing a high growth rate of 43.9% from HK\$297.3 million for last year. During the year, turnover for its core business of manufacture of steel cord for radial tyres grew by 21.9% to HK\$266.3 million; its another core business, processing and trading of copper and brass products, marked a strong growth in turnover of 105.5% to HK\$159.7 million due to increasing demands of copper products in the market.



In spite of a marginal decline in gross profit margin from 33.9% in 2003 to 26.2% in 2004, the increase in sales during the year has caused gross profit to increase by HK\$11.2 million to HK\$112.2 million. Shougang Century Group was successful to maintain its expenditure to grow only moderately despite its strong growth in sales. In addition, the elimination of minority interests

for this year has also helped to increase the bottom line profit. The said minority interests were related to the 28.2% interest in Jiaying Eastern Steel Cord Co., Ltd. which is responsible for the steel cord business, that had been acquired by Shougang Century Group in October 2003. During the year, Shougang Century Group disposed of two subsidiaries and one jointly controlled entity, resulting in a net gain on disposal of HK\$67.2 million. This disposal gain, together with the normal operating profit of HK\$80.9 million, pushed its total earnings to a high level. Accordingly, Shougang Century Group’s net profit attributable to shareholders rose to HK\$148.1 million for the year ended 31 December 2004 from HK\$66.1 million for last year. However, the captioned disposal gain of HK\$67.2 million was related to the release of pre-acquisition reserve in the amount of HK\$82.0 million. At a consolidation level, the Group had to share a loss of HK\$5.0 million in respect of the captioned disposal and other miscellaneous items. After accounting for the captioned share of loss and taking into the Group’s share of its operating profit of HK\$22.4 million, the attributable profit to the Group for the year was HK\$17.4 million, which recorded a moderate decline by HK\$3.5 million from last year. In view of the stable business growth of Shougang Century Group, the Group looks forward for its increased contribution in future.



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

Following the efforts of the management to streamline its operations last year, Shougang Concord Steel Holdings Limited and its subsidiaries ("Shougang Steel Group") achieved a remarkable improvement in performance in 2004, both in terms of sales growth and profitability. It reported a turnover of HK\$253.2 million for the year ended 31 December 2004, representing an increase of HK\$190.3 million as compared to HK\$62.9 million for last year. Turnover of the steel trading business amounted to HK\$187.0 million, whereas the turnover of the kitchen and laundry equipment business also reached HK\$66.2 million during the year. In terms of profitability, Shougang Steel Group achieved a turnaround in 2004 and reported a net profit of HK\$1.3 million for the year, in contrast with a net loss of HK\$3.7 million for last year.

Although the amount of recovery in profit was relatively small in 2004, it represented an encouraging turning point. It is the intention of the management to build on further strength for the future operations of Shougang Steel Group so as to increase its profits.

LIQUIDITY AND FINANCIAL RESOURCES

The Group normally financed its operations by cash generated from its business activities and banking facilities provided by its bankers. For the year ended 31 December 2004, the Company obtained extra source of funding in respect of:

- (a) the subscription of 300 million new ordinary shares of the Company by independent third party investors;
- (b) the issue of 11.8 million new ordinary shares of the Company upon exercise of share options of the Company by employees; and
- (c) the subscription of 150 million new ordinary shares of the Company by a wholly-owned subsidiary of Cheung Kong (Holdings) Limited ("Cheung Kong").

A total net cash proceeds of approximately HK\$237.5 million was raised, out of which approximately HK\$140.1 million was used for the acquisition of a 27% interest in Shouqin and approximately HK\$75.5 million was used as part of the cash consideration for the acquisition of the entire issued share capital of, and the shareholder's loan to, Equity Dragon Assets Limited ("Equity Dragon") which held a 47% interest in Qinhuangdao Plate Mill, further details of (a) and (c) above are set out in the circulars of the Company dated 10 May 2004 and 10 September 2004 respectively. The remaining balance of approximately HK\$21.9 million was retained as working capital of the Company. The total consideration for acquisition of Equity Dragon was satisfied partly by the captioned cash payment, and partly by the issue of 958,476,190 new ordinary shares of the Company to Shougang Holding (Hong Kong) Limited ("Shougang HK").

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As at 31 December 2004, the Group had aggregate banking facilities of HK\$19.5 million and RMB365.0 million with banking institutions in Hong Kong and in the PRC, respectively. These banking facilities were utilized to the extent of HK\$10.2 million and RMB265.0 million respectively as at 31 December 2004. The banking facilities in Hong Kong were secured by certain properties of HK\$13.5 million, and those in the PRC were secured by certain plant and machinery with an aggregate net book value of RMB327.7 million and corporate guarantees from Shougang Corporation of RMB175.0 million.

The Group's current assets as at the current year end amounted to HK\$1,149.9 million, an increase of HK\$440.7 million from last year end's level of HK\$709.2 million. In contrast, the Group's current liabilities declined from HK\$740.0 million to HK\$696.6 million, representing a decrease of HK\$43.4 million for the year. Hence, the Group's working capital position showed a substantial improvement, from net current liabilities of HK\$30.8 million by end of 2003 to net current assets of HK\$453.4 million by end of 2004. The Group's current ratio, defined as current assets divided by current liabilities, accordingly increased to 1.65 times as at 31 December 2004 from 0.96 times as at last year end. The Group's gearing ratio which is defined as total debts divided by equity reduced to 0.51 times as at 31 December 2004 as compared to 1.99 times as at 31 December 2003. During the year, the Group had no significant exposure to foreign exchange fluctuations and therefore no material hedging arrangements were made in this aspect.

CAPITAL STRUCTURE

In order to provide the Company with greater flexibility to raise fund by allotting and issuing shares in the future, as and when necessary, the authorized share capital of the Company was increased in October 2004 from HK\$1,000.0 million to HK\$2,000.0 million by the addition of HK\$1,000.0 million divided into 5,000 million new ordinary shares which are rank pari passu with all existing shares. Following the completion, the authorized share capital of the Company as at 31 December 2004 was HK\$2,000.0 million, represented by 10,000 million ordinary shares of HK\$0.20 each.

During the year, the issued share capital of the Company was increased due to: (a) the conversion of convertible note into new ordinary shares of the Company by China Gate Investments Limited ("China Gate"), a wholly-owned subsidiary of Shougang HK, (b) placement of new ordinary shares to independent third party investors by the Company, (c) the exercise of options granted to employees, and (d) subscription of new ordinary shares by Shougang HK and Max Same Investment Limited ("Max Same"), a wholly-owned subsidiary of Cheung Kong. These events are further described below.



In January 2004, China Gate converted the whole principal amount of the HK\$200.0 million convertible note into new ordinary shares of the Company at a conversion price of HK\$0.35 per share, resulting in the issue of 571,428,571 new ordinary shares of HK\$0.20 each in the Company. In March 2004, the Company placed 300 million new ordinary shares of HK\$0.20 each to independent third party investors at a price of HK\$0.66 per share. In March and October 2004, certain employees of the Group exercised the granted options, pursuant to which 6 million new ordinary shares and 5.8 million new ordinary shares were issued at exercise prices of HK\$0.295 and HK\$0.410 per share, respectively. In October 2004, the Company issued 958,476,190 new ordinary shares of HK\$0.20 each to Shougang HK at an agreed price of HK\$0.315 per share as part of the consideration for acquisition the entire issued share capital of, and the shareholder's loan to, Equity Dragon. In the same month, the Company issued 150 million new ordinary shares of HK\$0.20 each to Max Same at a price of HK\$0.315 per share.

Consequent to the aforesaid events, the issued share capital of the Company was increased by HK\$398.4 million (represented by 1,991,704,761 ordinary shares) to HK\$927.5 million (represented by 4,637,251,215 ordinary shares) as at 31 December 2004.

CONTINGENT LIABILITIES

As at 31 December 2004, the contingent liabilities of the Group consisted of guarantees for banking facilities granted to certain third party business corporations in the PRC of RMB19.8 million. In addition, the Company has provided guarantees for the due and punctual performance and observance by a wholly-owned subsidiary of the Company and each and every of its obligations, undertakings and liabilities under two time charter hires, through which the Group leases certain of its vessels. The time charter hires commenced on 26 September 1997 with a lease period of 15 years, plus two months more or less in the Group's option. The daily rates of the time charter hires increase by US\$250 every half year until December 2007, and thereafter the daily rates will increase by US\$125 every half year.

POTENTIAL IMPACT ARISING FROM THE RECENTLY ISSUED ACCOUNTING STANDARDS

In 2004, the Hong Kong Institute of Certified Public Accountants issued a number of new or revised Hong Kong Accounting Standards and Hong Kong Financial Reporting Standards ("HKFRS(s)") (herein collectively referred to as "new HKFRS(s)") 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.

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The Group has commenced considering the potential impact of these new HKFRSs but is not yet in a position to determine, in detail, whether these new HKFRSs would have a significant impact on how its results of operations and financial position are prepared and presented. Amongst these new HKFRSs, HKFRS 3 "Business Combinations" requires that goodwill should not be amortised but should be tested for impairment at least annually. Impairment loss is recognised as expense in the income statement. As at 31 December 2004, the net book value of goodwill included in the consolidated balance sheet of the Group amounted to HK\$269.1 million in total, which represented goodwill arising on acquisition of subsidiaries and associate of HK\$259.6 million and HK\$9.5 million, respectively. The Group will adopt HKFRS 3 for accounting periods beginning on 1 January 2005.

EMPLOYEES AND REMUNERATION POLICIES

The Group had a total of approximately 2,300 employees as at 31 December 2004.

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

The remuneration packages of Hong Kong employees include salary payments, discretionary bonuses on performance basis, medical subsidies and a hospitalisation scheme. All of the subsidiaries of the Group located in Hong Kong provide pension schemes for their Hong Kong employees as part of their staff benefits. The remuneration packages of certain employees in the PRC include salary payments, discretionary bonuses on performance basis, medical subsidies and a welfare fund as part of their staff benefits.

In addition, the Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Details of the share option scheme are set out in the Report of the Directors and the financial statements in the 2004 Annual Report.

PROSPECTS

The Group is optimistic towards the forthcoming year and foresees that the steel manufacturing business will continue to grow substantially. The Group is now in an excellent financial position supported by strong earning base and high-quality assets.

Apart from the well-established core businesses, the Group will actively extend its business development to other business segments which are related to the steel business, so that the value chain which integrates these business segments will be even stronger. We believe that such strategic direction will push our profitability to a higher level. We remain optimistic about the long term development and business prospects of the Group.

By order of the Board

Cao Zhong

Managing Director

Hong Kong, 18 April 2005