

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2006

1. BASIS OF PREPARATION

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

The Group had net current liabilities of approximately HK\$1,773,036,000 as at 30 June 2006. Notwithstanding, the Directors are of opinion that the preparation of these financial statements under going concern basis is appropriate due to the following considerations:

- (1) a subsidiary of the Company is currently in negotiation with a financial institution to obtain long term loan facility for approximately HK\$1,460 million to improve its liquidity position;
- (2) a subsidiary of the Company has concluded a new loan facility with a financial institution for approximately HK\$377 million with a tenor of 18 months which is due 2008;
- (3) most of the bank financing of the Group is in the form of short-term bank loans in the PRC. As a result, the Group had net current liabilities of approximately HK\$1,773,036,000 as at 30 June 2006. The Directors are confident that the Group will be able to renew its short term bank loan facilities upon maturity or to identify new sources of financing to replace the current ones.

2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis except for certain properties which are measured at fair value, as appropriate.

The accounting policies used in the condensed financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2005.

In the current interim period, the Group has applied, for the first time, a number of new standards, amendments and interpretations ("new HKFRSs") issued by the HKICPA which are effective for accounting periods beginning on or after 1 December 2005 or 1 January 2006. The adoption of these new HKFRSs had no material effect on how the result for the current or prior accounting periods have been prepared and presented. Accordingly, no prior period adjustment has been required.





NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

FOR THE SIX MONTHS ENDED 30 JUNE 2006

2. PRINCIPAL ACCOUNTING POLICIES (continued)

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

HKAS 1 (Amendment)	Capital disclosures ¹
HKFRS 7	Financial instruments: Disclosures ¹
HK(IFRIC) – INT 7	Applying the restatement approach under HKAS 29 Financial Reporting in Hyperinflationary Economies ²
HK(IFRIC) – INT 8	Scope of HKFRS 2 ³
HK(IFRIC) – INT 9	Reassessment of embedded derivatives ⁴

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

² Effective for annual periods beginning on or after 1 March 2006.

³ Effective for annual periods beginning on or after 1 May 2006.

⁴ Effective for annual periods beginning on or after 1 June 2006.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

FOR THE SIX MONTHS ENDED 30 JUNE 2006

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 2006 (unaudited)

	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	1,378,738	118,582	202,262	449,499	41,959	1,056	-	2,192,096
Inter-segment sales	292,918	-	-	-	-	-	(292,918)	-
Total	<u>1,671,656</u>	<u>118,582</u>	<u>202,262</u>	<u>449,499</u>	<u>41,959</u>	<u>1,056</u>	<u>(292,918)</u>	<u>2,192,096</u>
Inter-segment sales are charged at the terms agreed by both parties.								
Result								
Segment results	<u>125,826</u>	<u>37,343</u>	<u>36,035</u>	<u>2,059</u>	<u>2,366</u>	<u>6,443</u>	<u>-</u>	210,072
Unallocated other operating income								16,849
Unallocated corporate expenses								(23,722)
Interest expenses								(105,171)
Share of result of an associate	12,491	-	-	-	-	-	-	<u>12,491</u>
Profit before taxation								110,519
Income tax expense								<u>(11,315)</u>
Profit for the period								<u>99,204</u>





NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

FOR THE SIX MONTHS ENDED 30 JUNE 2006

3. SEGMENT INFORMATION (continued)

Six months ended 30 June 2005 (unaudited)

	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	1,439,952	121,340	200,614	749,062	27,942	688	-	2,539,598
Inter-segment sales	200,625	-	-	-	-	-	(200,625)	-
Total	<u>1,640,577</u>	<u>121,340</u>	<u>200,614</u>	<u>749,062</u>	<u>27,942</u>	<u>688</u>	<u>(200,625)</u>	<u>2,539,598</u>

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

Result								
Segment results	<u>189,219</u>	<u>48,077</u>	<u>32,281</u>	<u>7,461</u>	<u>16</u>	<u>688</u>	<u>-</u>	277,742
Unallocated other operating income								3,055
Unallocated corporate expenses								(10,644)
Interest expenses								(7,900)
Share of results of associates	98,669	-	-	-	-	-	-	98,669
Gain on disposal of an associate								<u>4,355</u>
Profit before taxation								365,277
Income tax expense								<u>(16,777)</u>
Profit for the period								<u>348,500</u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

FOR THE SIX MONTHS ENDED 30 JUNE 2006

4. PROFIT BEFORE TAXATION

Profit before taxation has been arrived at after charging (crediting):

	Six months ended 30 June	
	2006	2005
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Amortisation of intangible assets	275	390
Amortisation of prepaid lease rentals	4,778	2,111
Depreciation of property, plant and equipment	95,632	26,349
Total depreciation and amortisation	100,685	28,850
Allowance (write-back) for bad and doubtful debts, net	81	(9,930)
Cost of arrangement of bank borrowings (included in interest expenses)	2,111	–
(Write-back) allowance for inventories	(11,226)	1,883
Interest income	(16,849)	(3,055)
Loss on disposal of land use rights (included in prepaid lease rentals)	–	1,004
Loss on disposal of property, plant and equipment	1,286	5,527
Share of tax of associates (included in share of results of associates)	1,363	931

During the period, there was significant increase in net realisable value of finished goods because the market price of certain finished goods increased. As a result, a reversal of allowance for inventories of HK\$11,226,000 (30.6.2005: Nil) has been recognised in cost of sales in the current period.





NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

FOR THE SIX MONTHS ENDED 30 JUNE 2006

5. INCOME TAX EXPENSE

	Six months ended 30 June	
	2006	2005
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Current tax:		
PRC	11,487	16,401
Hong Kong – underprovision in prior year	946	–
	<u>12,433</u>	<u>16,401</u>
Deferred tax	(1,118)	376
	<u>11,315</u>	<u>16,777</u>

No provision for Hong Kong Profits Tax has been made for each of the six months ended 30 June 2006 and 2005 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.

Certain subsidiaries of the Company operating in the PRC are eligible for certain tax holidays and concessions in respect of PRC income tax.

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

6. DIVIDEND

On 23 June 2006, a dividend of HK0.6 cent per share was paid to shareholders as the final dividend for 2005 (2004: Nil). The Directors do not recommend payment of an interim dividend.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

FOR THE SIX MONTHS ENDED 30 JUNE 2006

7. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share attributable to the ordinary equity holders of the Company is based on the following data:

	Six months ended 30 June	
	2006	2005
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Earnings		
Earnings for the purposes of basic earnings per share	84,246	334,385
Effect of dilutive potential ordinary shares:		
Adjustment to the share of result of an associate based on dilution of its earnings per share	(631)	(602)
Earnings for the purposes of diluted earnings per share	<u>83,615</u>	<u>333,783</u>
Number of shares		
Weighted average number of ordinary shares for the purposes of basic earnings per share	5,560,482,629	4,643,961,987
Effect of dilutive potential ordinary shares on share options	<u>176,635,533</u>	<u>174,131,618</u>
Weighted average number of ordinary shares for the purposes of diluted earnings per share	<u>5,737,118,162</u>	<u>4,818,093,605</u>





NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

FOR THE SIX MONTHS ENDED 30 JUNE 2006

8. 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 2006 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\$1,297,482,000 (HK\$34,391,000 for the six months ended 30 June 2005) on acquisition of property, plant and equipment in order to upgrade its operating capacities.

9. TRADE AND BILLS RECEIVABLE

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 bills receivable at the balance date:

	30 June 2006 HK\$'000 (unaudited)	31 December 2005 HK\$'000 (audited)
Within 60 days	178,876	204,585
61 – 90 days	100,182	3,613
91 – 180 days	64,303	42,715
181 – 365 days	6,128	70,661
1 – 2 years	2,482	3,047
	351,971	324,621

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

FOR THE SIX MONTHS ENDED 30 JUNE 2006

10. AMOUNTS DUE FROM (TO) RELATED COMPANIES/ULTIMATE HOLDING COMPANY OF CONTROLLING SHAREHOLDER

The balances represent amounts due from (to) Shougang Corporation, ultimate holding company of the Company's controlling shareholder and its subsidiaries (collectively referred as "Shougang Group"). The Group allows a range of credit period normally not more than 60 days for sales to its related companies. The balances are unsecured, interest-free and are repayable on demand 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 2006 HK\$'000 (unaudited)	31 December 2005 HK\$'000 (audited)
Within 60 days	106,082	92,002
61 – 90 days	35,305	32,483
91 – 180 days	24,548	9,056
181 – 365 days	–	74
1 – 2 years	74	–
Over 2 years	3,024	3,024
	<u>169,033</u>	<u>136,639</u>

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

	30 June 2006 HK\$'000 (unaudited)	31 December 2005 HK\$'000 (audited)
Within 90 days	474,276	71,036
91 – 180 days	13,410	36,205
181 – 365 days	28,738	10,570
1 – 2 years	11,826	2,978
Over 2 years	8,219	8,223
	<u>536,469</u>	<u>129,012</u>





NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

FOR THE SIX MONTHS ENDED 30 JUNE 2006

10. AMOUNTS DUE FROM (TO) RELATED COMPANIES/ULTIMATE HOLDING COMPANY OF CONTROLLING SHAREHOLDER (continued)

Trade receivables from ultimate holding company of controlling shareholder of approximately HK\$54,179,000 are aged within 30 days (31.12.2005: HK\$12,596,000 are aged between 61 to 90 days).

Trade payables to ultimate holding company of controlling shareholder of approximately HK\$142,567,000 (31.12.2005: HK\$303,142,000) which are aged within 90 days.

11. TRADE AND BILLS PAYABLE

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

	30 June 2006 HK\$'000 (unaudited)	31 December 2005 HK\$'000 (audited)
Within 90 days	567,110	421,018
91 – 180 days	16,519	12,747
181 – 365 days	47,799	39,187
1 – 2 years	5,361	45,765
Over 2 years	2,302	2,293
	639,091	521,010

12. BANK BORROWINGS

During the period, the Group obtained new bank loans of approximately HK\$3,225,706,000 (HK\$257,513,000 for the six months ended 30 June 2005). The loans bear interest at 5.02% to 6.49% per annum and were used to finance the acquisition of property, plant and equipment and the general operations of the Group. In addition, the Group also repaid bank loans of approximately HK\$1,047,809,000 (HK\$254,872,000 for the six months ended 30 June 2005) during the period.

13. LOANS FROM ULTIMATE HOLDING COMPANY OF CONTROLLING SHAREHOLDER

The amounts are unsecured, interest bearing at 5.58% to 5.76% per annum and are repayable according to the repayment schedules.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

FOR THE SIX MONTHS ENDED 30 JUNE 2006

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 2006	4,934,057	986,811
Exercise of share options	1,000	200
Issue of shares on subscription	929,000	185,800
	<u>5,864,057</u>	<u>1,172,811</u>
At 30 June 2006	<u>5,864,057</u>	<u>1,172,811</u>

15. RELATED PARTY DISCLOSURES

Other than disclosed in note 10, the significant transactions with related parties during the period, and significant balances with them at the balance sheet date are as follows:

(I) Transactions

	Notes	Six months ended 30 June	
		2006 <i>HK\$'000</i> (unaudited)	2005 <i>HK\$'000</i> (unaudited)
Shougang Group			
Sales of goods by the Group	(a)	453,593	105,350
Provision of electricity, steam and hot water by the Group	(b)	202,262	200,614
Purchases of goods by the Group	(c)	1,027,249	695,972
Lease rentals charged to the Group	(d)	1,175	893
Management fees charged to the Group	(e)	480	480
Purchases of spare parts by the Group	(f)	236,936	6,807
Corporate guarantees for bank loans granted to the Group	(g)	1,888,900	183,116
Management fees charged by the Group	(h)	600	280
Rental income charged by the Group	(i)	532	408
Interest charged to the Group	(j)	31,586	-
Service fees charged to the Group	(k)	27,647	14,724
Service fees charged by the Group	(l)	3,415	2,980
Purchase of property, plant and equipment by the Group	(m)	24,067	-
An associate			
Sales of goods by the Group	(n)	-	92,420
Purchases of goods by the Group	(c)	-	1,135,021
Services fees charged by the Group	(k)	-	429
		<u>-</u>	<u>429</u>





NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

FOR THE SIX MONTHS ENDED 30 JUNE 2006

15. RELATED PARTY DISCLOSURES (continued)

(I) Transactions (continued)

Notes:

- (a) Qinhuangdao Shougang Plate Mill Co., Ltd. ("Qinhuangdao Plate Mill"), a wholly-owned subsidiary of the Company, and Qinhuangdao Shouqin Metal Materials Co., Ltd. ("Shouqin"), a non-wholly owned subsidiary, sold steel products and scrap materials to Shougang Group.
- (b) Beijing Shougang Firstlevel Power Co., Ltd. ("Beijing Power Plant"), a non wholly-owned subsidiary of the Company, sold electricity, steam and hot water to Shougang Group.
- (c) The Group purchased materials and steel products from Shougang Group and Shouqin.
- (d) The Group entered into various rental agreements with Shougang Group for renting office and residential apartments as staff quarters.
- (e) Management fees were paid to Shougang Holding (Hong Kong) Limited ("Shougang HK"), the controlling shareholder, for the provision of management services.
- (f) The Group purchased spare parts from Shougang Group.
- (g) Shougang Corporation has provided corporate guarantees for certain bank loans granted to the Group for nil consideration. At 30 June 2006, the Group has bank loans guaranteed by Shougang Corporation amounting to approximately HK\$3,342,720,000 (31 December 2005: HK\$2,289,503,000).
- (h) The Group provided business and strategic development services to Shougang Group.
- (i) The Group entered into rental agreements with a subsidiary of Shougang Concord Technology Holdings Limited, which is an associate of Shougang HK, and a subsidiary of Shougang HK for renting investment properties.
- (j) The interest expenses were charged by Shougang Group in respect of loans granted to the Group at interest rates from 5.58% to 5.85% per annum.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

FOR THE SIX MONTHS ENDED 30 JUNE 2006

15. RELATED PARTY DISCLOSURES (continued)

(I) Transactions (continued)

Notes: (continued)

- (k) Shougang Group charged Qinhuangdao Plate Mill, Beijing Power Plant and Shouqin service fees in respect of processing and repair and maintenance services.
- (l) The Group charged Shougang Group service fees in respect of processing and administration services provided.
- (m) The Group acquired property, plant and equipment from the Shougang Group.
- (n) Qinhuangdao Plate Mill sold steel products and scrap materials to Shouqin. As Shouqin, now a non wholly-owned subsidiary of the Company, was an associate of the Group before the Group further acquired 45% of registered capital of Shouqin in 2005 ("the Acquisition"), transactions entered between the Group and Shouqin before the Acquisition were related party transactions and were disclosed above.

(II) Balances

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

(III) Transactions/balances with other state-controlled entities in the PRC

The Group operates in an economic environment currently predominated by entities directly or indirectly owned or controlled by the PRC government ("state-controlled entities"). In addition, the Group itself is a part of a larger group of companies under Shougang Corporation which is controlled by the PRC government.

The Group has entered into various transactions, including deposits, placements, borrowings and other general banking facilities, with certain banks and financial institutions which are state-controlled entities in its ordinary course of business. In view of the nature of those banking transactions, the directors are of the opinion that separate disclosure would not be meaningful.

Except as disclosed above, the directors are of the opinion that there are no other significant transactions with other state-controlled entities.





NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

FOR THE SIX MONTHS ENDED 30 JUNE 2006

15. RELATED PARTY DISCLOSURES (continued)

(IV) Compensation of key management personnel

The remuneration of Directors and other members of key management during the period was as follows:

	Six months ended 30 June	
	2006	2005
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Short-term benefits	<u>4,036</u>	<u>3,947</u>

The remuneration of Directors and key executives is determined by the remuneration committee having regard to the performance of individuals and market trends.

16. COMMITMENTS

	30 June	31 December
	2006	2005
	HK\$'000	HK\$'000
	(unaudited)	(audited)
Capital expenditure contracted for but not provided in the financial statements in respect of acquisition of property, plant and equipment	<u>217,331</u>	<u>644,505</u>
Capital expenditure authorised but not contracted for in respect of acquisition of property, plant and equipment	<u>459,187</u>	<u>1,815,703</u>

17. PLEDGE OF ASSETS

As at 30 June 2006, the following items were used to secure banking facilities granted to the Group:

- (a) pledge of the Group's investment properties and prepaid lease rentals with carrying amount of HK\$14,838,000 (31.12.2005: HK\$14,838,000) and HK\$3,538,000 (31.12.2005: HK\$3,596,000), respectively;
- (b) pledge of the Group's plant and machinery with net book value of HK\$308,917,000 (31.12.2005: HK\$316,534,000); and
- (c) pledge its 51% equity interest in Beijing Power Plant and 100% equity interest in Qinhuangdao Plate Mill, net assets of which amounting to HK\$432,881,000 and HK\$967,287,000 respectively. The Group had no such pledge of assets as at 31 December 2005.