MANAGEMENT DISCUSSION AND ANALYSIS

Overview

For the six months ended 30 June 2006, the Group recorded a consolidated turnover of HK$2,192.1 million. Core Earnings before Interest, Tax, Depreciation and Amortization ("EBITDA") for the period was HK$316.4 million, comparing with HK$402.0 million for the last period, which showed a drop of 21.3%. The net profit attributable to shareholders amounted to HK$84.2 million. Basic and Diluted Earnings per share was HK 1.52 cents and HK 1.46 cents respectively.

1. **Expanded production of Steel manufacturing segment**
   Following the completion of acquisition in Qinhuangdao Shouqin Metal Materials Co., Ltd. ("Shouqin"), the Group has expanded its scale and produced 401,800 mt of steel plates and 656,000 mt. of steel slabs in the interim period, which was a huge leap forward comparing with 367,100 mt of steel plates in the corresponding period last year. The integrated steel manufacturing operations recorded sales volume (before elimination) 375,700 mt of steel plates and 590,000 mt of steel slabs, comparing with only 348,000 mt of steel plates in the same period last year.

2. **Completed placement of 929 million new shares**
   Carlo Tassara International S.A. has become one of the major shareholders of the Group in this interim period, which subscribed for 929 million ordinary shares of the Company at HK$0.53 per share, representing approximately 15.8% of the enlarged share capital immediately after Completion. The said subscription has provided net proceeds of approximately HK$492.0 million to the Group for working capital purposes. The new subscriber is expected to bring invaluable knowledge and connections to the Group.

3. **Secured US$150 million in consortium loan financing**
   The Company has secured US$150 million consortium loan financing in February 2006. This presents a significant step for the Company to apply the financing should suitable investment opportunities arise. Part of the proceeds has already been applied to increase the capital base of Shouqin in March 2006 to progress on its expansion plan.

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

Financial Review

Six months ended 30 June 2006 compared to six months ended 30 June 2005

Turnover and Cost of Sales

For the interim period, the Group recorded a consolidated turnover of HK$2,192.1 million as compared to HK$2,539.6 million for the same period last year, representing a decrease of HK$347.5 million, or 13.7%. The drop is principally due to across-the-board lower market prices of steel products in the steel manufacturing segment.

Cost of sales for the current period was HK$1,868.9 million as compared to HK$2,195.3 million for the same period last year, representing a drop of HK$326.4 million, or 14.9%. The resulting gross profit margin was 14.7% in the current period, compared to 13.6% in the same period last year. The rise in overall margin was a result of a change in revenue mix, whereby steel trading segment at an average gross margin of approximately 2% became a lesser component of overall turnover, although the steel manufacturing segment did command a lower overall margin comparing the two periods, which will be explained below.

Other revenue

Other revenue increased from HK$15.1 million for the interim period last year to HK$43.1 million this year, or 185.4%. The increase is mainly represented by tax refund on re-investment in China and increase in interest income.

Interest expenses

For the interim period this year, interest expenses became HK$105.2 million, increased from HK$7.9 million last period, or 12.3 times. The increase is attributable to interest rate hikes and increased combined borrowing with consolidation of Shouqin's bank loans coupled with additional finance cost of the Company's newly-incepted consortium loans at HK$25.4 million.

Review of Operations

Manufacture and Sale of Steel Products

The Group operates in this business segment through its wholly-owned subsidiary, Qinhuangdao Shougang Plate Mill Co., Ltd. ("Qinhuangdao Plate Mill") and its 96% owned subsidiary, Shouqin.

Qinhuangdao Plate Mill

Qinhuangdao Plate Mill recorded a turnover of HK$1,332.2 million for the six months ended 30 June 2006, a decrease of HK$308.4 million, or 18.8% when compared with the same period last year. Although the sales volume has increased from 348,000 mt to 375,700 mt this interim period, the average selling price per mt has decreased from HK$4,187 to HK$3,226, dropping by approximately 23%. While the decrease in selling price is partially offset by a 20% decrease in cost of steel slabs, one of the major raw materials, the cost of electricity and other manufacturing overheads have increased, the resulting gross profit margin has deteriorated to 7.2%, against 14.4% last period. The gross profit reported decreased from HK$235.9 million in 2005 to HK$95.3 million in the current period.

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

Review of Operations (continued)

Manufacture and Sale of Steel Products (continued)

Shouqin

During the period under review, the Group has held an effective interest of 96% in Shouqin (72% held by the Group directly and 24% through Qinhuangdao Plate Mill). In the last interim period, the Group held an effective interest of 51% in Shouqin, and its results were included only as part of the "Share of results of associates".

Shouqin is a relatively new entity and is still in a preliminary investment stage with strong profit potentials. Phase II of Shouqin has commenced production since June 2006 with steel slabs as an intermediate product. Shouqin reported a turnover of HK$1,473.8 million with gross profit of HK$121.0 million for the interim period, before elimination. It has sold approximately 590,000 mt (before elimination) of steel slabs at an average price of approximately HK$2,500 per mt. Gross profit margin was hard hit by sharp increase in import price of iron ore from mid-2005, while not compensated by a corresponding increase in market selling price.

Net profit of the segment for the current period was HK$48.7 million, comparing to HK$174.7 million (not including Shouqin) recorded in the same period last year. The decrease can be explained by the lower gross profit margins described above, and increased financial cost resulting from necessary leverage on execution of Shouqin's business plan, partially offset by stringent cost containment measures that reduce selling expenses and administrative expense outlay.

Shipping operations

Shougang Concord Shipping Holdings Limited and its subsidiaries ("Shougang Shipping Group") reported a net operating profit of HK$38.1 million for the current period, a decrease of HK$8.6 million from the corresponding period last year. The pressure resulting from excess supply of container shipping capacity over demand has driven freight rates lower, coupled with increase in contracted rental charges, causing the gross profit to reduce in this period. Its time charter business and floating crane reported an operating profit of HK$38.9 million and HK$1.2 million for the interim period, comparing to HK$45.0 million and HK$1.0 million for the same period last year. Shougang Shipping Group has managed to maintain its expenses to a minimum level to partially reduce the adverse impact of decreased market rates.

Electricity generation

Beijing Shougang Firstlevel Power Company Limited ("Beijing Power Plant") reported a turnover of HK$202.3 million for the current period, representing a healthy increase of HK$1.7 million from HK$200.6 million for the same period last year. After accounting for minority interests, the Group's share of profit of Beijing Power Plant for the six months ended 30 June 2006 was HK$14.3 million, which showed a moderate increase of HK$1.8 million as compared to HK$12.5 million for the last period.

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

Review of Operations (continued)

Electricity generation (continued)

For the current period, Beijing Power Plant sold approximately 545 million kwh of electricity and generated sales revenue of HK$169.4 million, in contrast with selling 577 million kwh of electricity and sales revenue of HK$170.5 million for the same period last year. Higher gross profit for the period is a result of increase in market tariff and cost containment measures, driving the profit margin of electricity generation from 38.5% to 39.3%.

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") achieved solid performance during the interim period. It reported a turnover of HK$322.6 million, a growth of HK$53.1 million from that of last period, while net profit increased from HK$36.1 million to HK$44.7 million for the current period. Therefore, the Group's share of its net profit rose from HK$9.9 million to HK$12.5 million in the current interim period, recording an increase of 26%.

Shougang Century Group has enjoyed a marked increase in sales and hence profitability of its processing and trading of copper and brass product segment in the interim period. Turnover of this segment increased by 66% to HK$123.6 million, and the corresponding gross profit grew by 394% to HK$28.6 million. The growth can be explained by the sharp increase in copper price. The 3-month LME Copper Futures surged by 69% during the first half of the year 2006 with tight worldwide demand and supply, the gross profit margin for the segment has increased from 7.8% to 23% in this period.

In addition, the operating segment of manufacturing of steel cord for radial tyres recorded satisfactory turnover of HK$198.4 million in the interim period, being 2% increase from that of last year. The gross profit margin was squeezed from 24% last period to 20.3% through increased market competition and raw material cost.

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

Shougang Concord Steel Holdings Limited and its subsidiaries ("Shougang Steel Group") reported a turnover of HK$491.5 million and net profit of HK$5.4 million in the interim period. The corresponding figures for the last period were HK$777.0 million and HK$11.6 million respectively.

Trading of steel products has contracted over the periods, while the turnover of the kitchen and laundry segment, however, grew from HK$27.9 million last period to HK$42.0 million in this period. The captioned changes caused the overall gross profit amount to decline from HK$14.9 million to HK$12.0 million. The management shall remain cautious in controlling cost and seek ways to improve profitability of this segment in the future.

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

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 30 June 2006, as compared to 31 December 2005, is summarized below:

HK$ million	**30 June 2006 (unaudited)**	31 December 2005 (audited)
Total Debt		
– from banks	**4,621**	2,424
– from ultimate holding company of controlling shareholder	**1,096**	796
– from fellow subsidiary	**–**	242
Sub-total	**5,717**	3,462
Bank balances and cash	**2,666**	763
Net debt	**3,051**	2,699
Total capital (Equity and debt)	**8,504**	5,688
Financial leverage		
– Net debt to total capital	**35.9%**	47.5%
– Net debt to total assets	**26.6%**	36.2%

It can be observed that financial leverage has improved between 30 June 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 six months ended 30 June 2006, approximately 72% 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.

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

Capital Structure

During the current period, the issued share capital of the Company has increased due to (i) subscription of 929 million newly-issued shares by Carlo Tassara International S.A. ("subscriber") and (ii) the exercise of options granted to a director.

In March 2006, the Company has placed 929 million ordinary shares to the subscriber at an issue price of HK$0.53 per share, representing approximately 15.8% of the Company's enlarged share capital immediately after completion of the subscription, raising net proceeds of approximately HK$492.0 million. The subscriber has become the second largest shareholder of the Company after the subscription.

In May 2006, a director of the Group exercised the granted options, pursuant to which 1 million new shares were issued at an exercise price of HK$0.295, for net proceeds of approximately HK$0.3 million.

Consequent to the aforesaid events, the issued share capital of the Company was increased by HK$186 million (represented by 930 million ordinary shares) to HK$1,172.8 million (represented by 5,864.1 million ordinary shares).

Employees and Remuneration Policies

The Group has a total of approximately 3,300 employees as at 30 June 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.

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

Prospects

China's prevailing Steel Industry Policy sets out guidelines to accelerate structural changes by promoting larger, more efficient steel enterprises while eliminating non-productive ones. This will certainly benefit superior companies like ours that command economies of scale, know how and constant product improvement.

Looking ahead, with two major steel manufacturing plants under one umbrella, the Group's major task is to continue the integration we have orchestrated in order to achieve efficiencies and improved product quality. While Phase II of Shouqin is expected to be fully operational later this year, the ability to produce medium and thick plates with maximum widths in excess of 4m is going to bring the Group to a new level of technological competence. High value-adding steel products are more competitive in price, and this shall create a niche market with a much readily demand which commands higher profit margin, and thus increased profitability to the Group.

Although the profitability of the Group has been dented by lower market prices and increased finance cost in the short run, we are optimistic on the medium to long term prospects of the businesses we are in. Steel manufacturing segment is clearly the growth engine of the Group and without doubt, this segment shall soon bore fruit with more attractive returns to our shareholders.

INTERIM DIVIDEND

The Board did not declare an interim dividend for the six months ended 30 June 2006 (2005: Nil).

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 period under review.