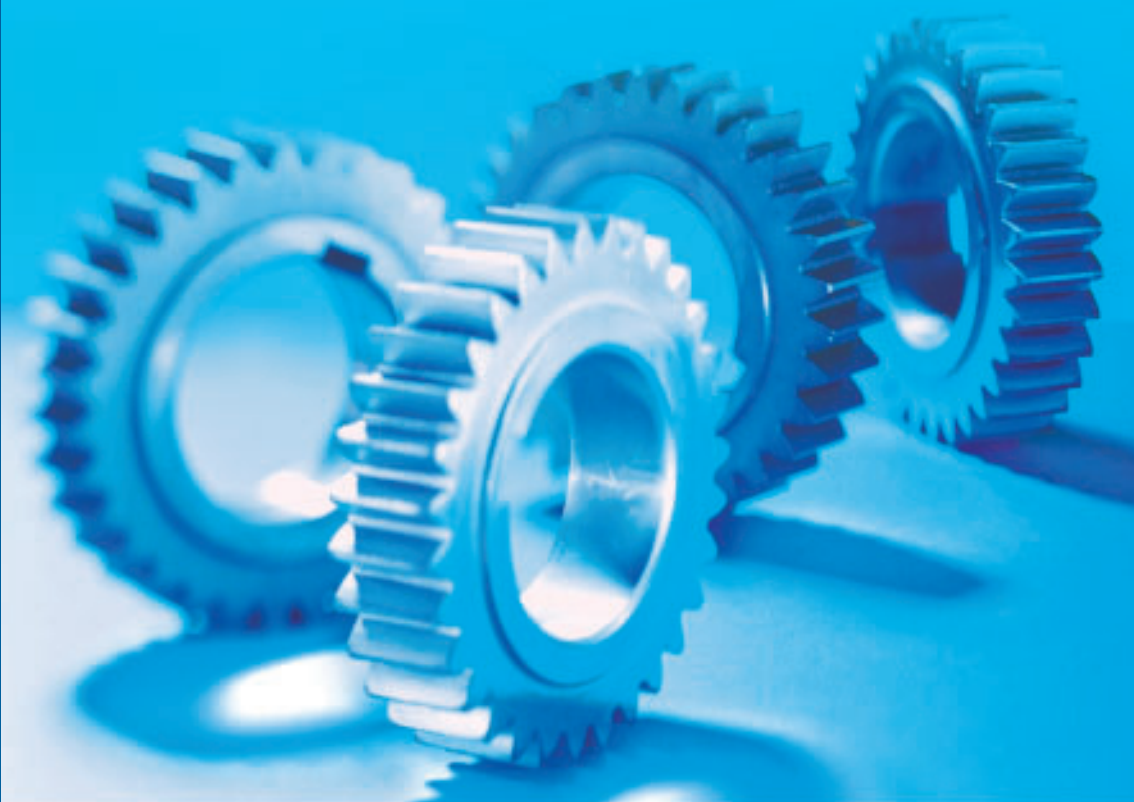




# SHOUGANG CONCORD INTERNATIONAL ENTERPRISES COMPANY LIMITED

Stock Code : 697

Steel ourselves and be ready



Interim Report 2007



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## CORPORATE INFORMATION

### Board of Directors

Wang Qinghai (*Chairman*)  
Cao Zhong (*Managing Director*)  
Chen Zhouping (*Deputy Managing Director*)  
Zhang Wenhui (*Deputy Managing Director*)  
Luo Zhenyu (*Deputy Managing Director*)  
Ip Tak Chuen, Edmond (*Non-executive Director*)  
Leung Shun Sang, Tony (*Non-executive Director*)  
Kan Lai Kuen, Alice  
(*Independent Non-executive Director*)  
Wong Kun Kim  
(*Independent Non-executive Director*)  
Leung Kai Cheung  
(*Independent Non-executive Director*)

### Executive Committee

Cao Zhong (*Chairman*)  
Chen Zhouping  
Zhang Wenhui  
Luo Zhenyu

### Audit Committee

Wong Kun Kim (*Chairman*)  
Kan Lai Kuen, Alice  
Leung Kai Cheung

### Nomination Committee

Cao Zhong (*Chairman*)  
Leung Shun Sang, Tony (*Vice Chairman*)  
Kan Lai Kuen, Alice  
Wong Kun Kim  
Leung Kai Cheung

### Remuneration Committee

Leung Shun Sang, Tony (*Chairman*)  
Cao Zhong (*Vice Chairman*)  
Kan Lai Kuen, Alice  
Wong Kun Kim  
Leung Kai Cheung

**CORPORATE INFORMATION (continued)**

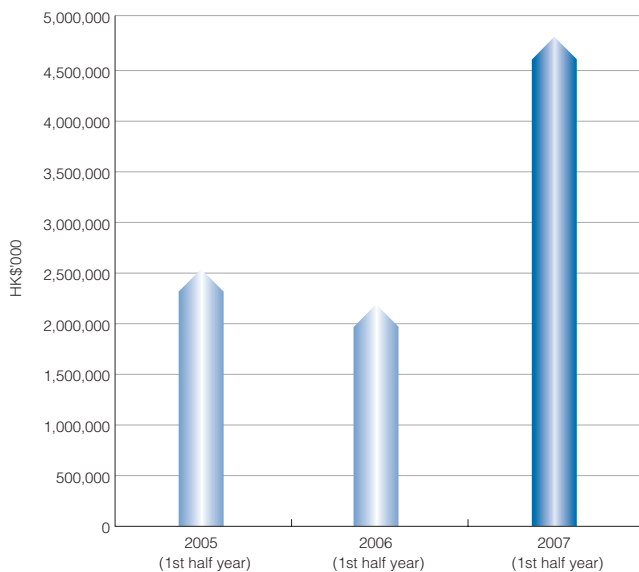
<b>Company Secretary</b>	Cheng Man Ching
<b>Qualified Accountant</b>	Wong Hon Ming
<b>Auditor</b>	Deloitte Touche Tohmatsu
<b>Share Registrars</b>	Tricor Tengis Limited 26th Floor, Tesbury Centre 28 Queen's Road East Wanchai Hong Kong
<b>Registered Office</b>	7th Floor Bank of East Asia Harbour View Centre 56 Gloucester Road Wanchai Hong Kong
<b>Stock Code</b>	697
<b>Website</b>	<a href="http://www.shougang-intl.com.hk">www.shougang-intl.com.hk</a>



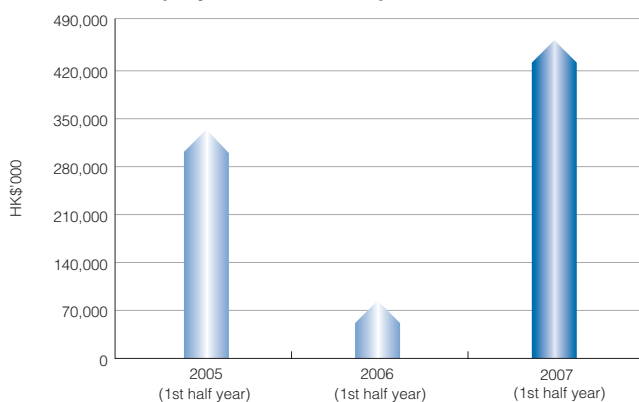


## FINANCIAL HIGHLIGHTS

### Revenue



### Profit attributable to equity holders of the parent



## INTERIM RESULTS

The Board of Directors of Shougang Concord International Enterprises Company Limited (the “Company”) is pleased to report the unaudited condensed consolidated interim results of the Company and its subsidiaries (the “Group”) for the six months ended 30 June 2007. These interim results have been reviewed by the Company’s Audit Committee and its Auditor.

## CONDENSED CONSOLIDATED INCOME STATEMENT

FOR THE SIX MONTHS ENDED 30 JUNE 2007

		Six months ended 30 June	
		2007	2006
		HK\$'000	HK\$'000
		(unaudited)	(unaudited)
		NOTES	
<b>Continuing operations</b>			
Revenue	3	<b>4,832,753</b>	2,150,137
Cost of sales		<b>(4,026,387)</b>	(1,829,811)
Gross profit		<b>806,366</b>	320,326
Other income		<b>74,401</b>	39,990
Change in fair value of derivative financial instruments		<b>(4,382)</b>	2,103
Distribution costs		<b>(57,550)</b>	(19,621)
Administrative expenses		<b>(168,282)</b>	(142,008)
Finance costs		<b>(177,805)</b>	(105,155)
Share of profit of an associate		<b>5,403</b>	12,491
Gain on disposal of partial interest in a subsidiary	4	<b>91,987</b>	—
Gain on deemed disposal of partial interest in an associate		<b>27</b>	—
Profit before taxation		<b>570,165</b>	108,126
Income tax expense	5	<b>(11,719)</b>	(11,315)



**CONDENSED CONSOLIDATED INCOME STATEMENT (continued)**

FOR THE SIX MONTHS ENDED 30 JUNE 2007

		<b>Six months ended 30 June</b>	
		<b>2007</b>	2006
	<i>NOTES</i>	<b>HK\$'000</b>	HK\$'000
		<b>(unaudited)</b>	(unaudited)
Profit for the period from continuing operations		<b>558,446</b>	96,811
<b>Discontinued operation</b>			
(Loss) profit for the period from discontinued operation	6	<b>(3,756)</b>	2,393
Profit for the period	7	<b>554,690</b>	99,204
Attributable to:			
Equity holders of the parent		<b>464,673</b>	84,246
Minority interests		<b>90,017</b>	14,958
		<b>554,690</b>	99,204
Dividend paid	8	<b>123,162</b>	35,185
Earnings per share	9		
From continuing and discontinued operations:			
– Basic		<b>7.89 HK cents</b>	1.52 HK cents
– Diluted		<b>7.58 HK cents</b>	1.46 HK cents
From continuing operations:			
– Basic		<b>7.95 HK cents</b>	1.48 HK cents
– Diluted		<b>7.64 HK cents</b>	1.42 HK cents

**CONDENSED CONSOLIDATED BALANCE SHEET**

AT 30 JUNE 2007

	NOTES	30 June 2007 HK\$'000 (unaudited)	31 December 2006 HK\$'000 (audited)
<b>NON-CURRENT ASSETS</b>			
Investment properties	10	21,044	35,660
Property, plant and equipment	10	7,420,274	6,911,247
Prepaid lease rentals		276,245	275,535
Intangible assets		195	472
Goodwill		283,122	292,170
Interest in an associate		223,611	215,022
Available-for-sale investments		278,293	–
Deposits for acquisition of property, plant and equipment		491,267	174,620
		<b>8,994,051</b>	<b>7,904,726</b>
<b>CURRENT ASSETS</b>			
Amounts due from customers for contract work		–	186
Inventories		981,789	847,013
Trade and bill receivables	11	364,157	375,192
Prepayments, deposits and other receivables		159,311	81,137
Prepaid lease rentals		9,086	8,976
Tax recoverable		–	4,936
Amounts due from related companies	12	278,007	177,979
Amount due from a minority shareholder of a subsidiary		3,032	2,990
Amount due from ultimate holding company of controlling shareholder	12	189,425	1,703
Other financial assets		4,241	–
Restricted bank deposits		78,754	116,277
Pledged bank deposits		21,378	10,123
Bank balances and cash		2,237,682	1,728,222
		<b>4,326,862</b>	<b>3,354,734</b>





**CONDENSED CONSOLIDATED BALANCE SHEET (continued)**

AT 30 JUNE 2007

	NOTES	30 June 2007 HK\$'000 (unaudited)	31 December 2006 HK\$'000 (audited)
<b>CURRENT LIABILITIES</b>			
Amounts due to customers for contract work		–	562
Trade and bill payables	13	701,622	523,834
Other payables and accrued liabilities		1,613,001	884,821
Tax payable		4,948	2,825
Amounts due to related companies	12	322,798	633,165
Amount due to ultimate holding company of controlling shareholder	12	485,761	56,676
Obligation under a finance lease – due within one year		–	267
Bank borrowings – due within one year	14	3,374,841	3,021,425
Other financial liabilities		8,714	91
Loans from ultimate holding company of controlling shareholder	15	810,214	785,750
		<b>7,321,899</b>	<b>5,909,416</b>
<b>NET CURRENT LIABILITIES</b>		<b>(2,995,037)</b>	<b>(2,554,682)</b>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<b>5,999,014</b>	<b>5,350,044</b>
<b>NON-CURRENT LIABILITIES</b>			
Bank borrowings – due after one year	14	1,257,784	1,555,781
Other payables		–	149,268
Deferred tax liabilities		44,101	44,153
Loans from ultimate holding company of controlling shareholder	15	349,363	338,814
		<b>1,651,248</b>	<b>2,088,016</b>
		<b>4,347,766</b>	<b>3,262,028</b>
<b>CAPITAL AND RESERVES</b>			
Share capital	16	1,213,711	1,172,811
Reserves		2,397,635	1,770,783
Equity attributable to equity holders of the parent		3,611,346	2,943,594
Minority interests		736,420	318,434
		<b>4,347,766</b>	<b>3,262,028</b>

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 30 JUNE 2007

	Share capital HK\$'000	Share premium HK\$'000	Capital redemption reserve HK\$'000	Revaluation reserve HK\$'000	Exchange reserve HK\$'000	Special capital reserve HK\$'000 (Note)	Capital reserve HK\$'000	Enterprise expansion fund and statutory reserve fund HK\$'000	Security investment reserve HK\$'000	Accumulated profits HK\$'000	Total HK\$'000	Minority interests HK\$'000	Total HK\$'000
At 1 January 2006 (audited)	986,811	112,169	1,019	47,584	57,002	292,655	537	162,226	-	515,895	2,175,898	257,907	2,433,805
Movements in reserves of an associate	-	-	-	(84)	1,839	-	-	-	-	103	1,858	-	1,858
Exchange differences arising on translation of the financial statements of operations outside Hong Kong	-	-	-	-	16,887	-	-	-	-	-	16,887	2,562	19,449
Net (loss) income recognised directly in equity	-	-	-	(84)	18,726	-	-	-	-	103	18,745	2,562	21,307
Profit for the period	-	-	-	-	-	-	-	-	-	84,246	84,246	14,958	99,204
Total recognised income and expense for the period	-	-	-	(84)	18,726	-	-	-	-	84,349	102,991	17,520	120,511
Shares issued at premium	186,000	306,665	-	-	-	-	-	-	-	-	492,665	-	492,665
Share issue expenses	-	(90)	-	-	-	-	-	-	-	-	(90)	-	(90)
Contribution from a minority shareholder	-	-	-	-	-	-	-	-	-	-	-	30,975	30,975
Dividends paid to minority interests	-	-	-	-	-	-	-	-	-	-	-	(692)	(692)
Final 2005 dividend paid	-	-	-	-	-	-	-	-	-	(35,185)	(35,185)	-	(35,185)
Acquisition of additional equity interest in a subsidiary	-	-	-	-	-	-	-	-	-	-	-	(1,308)	(1,308)
Sub-total	186,000	306,575	-	-	-	-	-	-	-	(35,185)	457,390	28,975	486,365
At 30 June 2006 (unaudited)	1,172,811	418,744	1,019	47,500	75,728	292,655	537	162,226	-	565,059	2,736,279	304,402	3,040,681
Movements in reserves of an associate	-	-	-	708	4,445	-	-	-	-	-	5,153	-	5,153
Exchange differences arising on translation of the financial statements of operations outside Hong Kong	-	-	-	-	63,789	-	-	-	-	-	63,789	7,919	71,708
Surplus on revaluation of properties	-	-	-	3,217	-	-	-	-	-	-	3,217	-	3,217
Net income recognised directly in equity	-	-	-	3,925	68,234	-	-	-	-	-	72,159	7,919	80,078
Released on deemed disposal of partial interest in an associate	-	-	-	(30)	(2,080)	-	(106)	(2,271)	-	2,271	(2,216)	-	(2,216)
Profit for the period	-	-	-	-	-	-	-	-	-	137,372	137,372	19,188	156,560
Total recognised income and expense for the period	-	-	-	3,895	66,154	-	(106)	(2,271)	-	139,643	207,315	27,107	234,422
Acquisition of additional equity interest in a subsidiary	-	-	-	-	-	-	-	-	-	-	-	(2,472)	(2,472)
Transfer in reserves of an associate	-	-	-	-	-	-	-	4,739	-	(4,739)	-	-	-
Transfer to enterprise expansion and statutory reserve fund	-	-	-	-	-	-	-	26,681	-	(26,681)	-	-	-
Dividends paid to minority interests	-	-	-	-	-	-	-	-	-	-	-	(10,603)	(10,603)
Sub-total	-	-	-	-	-	-	-	31,420	-	(31,420)	-	(13,075)	(13,075)
At 31 December 2006 (audited)	1,172,811	418,744	1,019	51,395	141,882	292,655	431	191,375	-	673,282	2,943,594	318,434	3,262,028





**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (continued)**

FOR THE SIX MONTHS ENDED 30 JUNE 2007

	Share capital	Share premium	Capital redemption reserve	Revaluation reserve	Exchange reserve	Special capital reserve	Enterprise expansion fund and statutory reserve fund	Security investment reserve	Accumulated profits	Total	Minority interests	Total	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000 (Note)	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
Movements in reserves of an associate	-	-	-	-	6,114	-	-	1,254	(1,254)	6,114	-	6,114	
Exchange differences arising on translation of the financial statements of operations outside Hong Kong	-	-	-	-	69,446	-	-	-	-	69,446	17,493	86,939	
Effect of change in tax rate	-	-	-	(2,877)	-	-	-	-	-	(2,877)	-	(2,877)	
Change in fair value of available-for-sale investments	-	-	-	-	-	-	-	67,246	-	67,246	-	67,246	
Net income recognised directly in equity	-	-	-	(2,877)	75,560	-	-	1,254	67,246	(1,254)	139,929	17,493	157,422
Released on deemed disposal of partial interest in an associate	-	-	-	(5)	(81)	-	(2)	(65)	65	(88)	-	(88)	
Profit for the period	-	-	-	-	-	-	-	-	464,673	464,673	90,017	554,690	
Total recognised income and expense for the period	-	-	-	(2,882)	75,479	-	(2)	1,189	67,246	463,484	604,514	107,510	712,024
Transfer of special capital reserve	-	-	-	-	-	(292,655)	-	-	292,655	-	-	-	
Transfer to enterprise expansion and statutory reserve fund	-	-	-	-	-	-	476	-	(476)	-	-	-	
Shares issued at premium	40,900	161,778	-	-	-	-	-	-	-	202,678	-	202,678	
Share issue expenses	-	(2,618)	-	-	-	-	-	-	-	(2,618)	-	(2,618)	
Contribution from a minority shareholder	-	-	-	-	-	-	-	-	-	-	693	693	
Dividends paid to minority interests	-	-	-	-	-	-	-	-	-	-	(2,906)	(2,906)	
Dividends paid to shareholders	-	-	-	-	-	-	-	-	(123,162)	(123,162)	-	(123,162)	
Disposal of subsidiaries	-	-	-	-	-	-	-	-	-	-	(25)	(25)	
Disposal of partial interest in a subsidiary	-	-	-	(17,447)	(13,660)	-	-	(11,325)	-	28,772	(13,660)	312,714	299,054
Sub-total	40,900	159,160	-	(17,447)	(13,660)	(292,655)	-	(10,849)	-	197,789	63,238	310,476	373,714
At 30 June 2007 (unaudited)	1,213,711	577,904	1,019	31,066	203,701	-	429	181,715	67,246	1,334,555	3,611,346	736,420	4,347,766

**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (continued)**

FOR THE SIX MONTHS ENDED 30 JUNE 2007

*Note:* The High Court of Hong Kong made an order confirming the cancellation of the entire amounts of approximately HK\$1,412,855,000 and HK\$1,800,000,000 standing to the credit of the Company's share premium and capital reserve account as at 31 March 2005 respectively (the "Cancellation") on 1 September 2005 pursuant to section 60 of the Companies Ordinance (the "Confirming Order"). The Confirming Order was duly registered by the Registrar of Companies in Hong Kong on 1 September 2005 and, accordingly, the Cancellation became effective on the same day. As a result, the share premium account of the Company has been reduced by approximately HK\$1,412,855,000 and the capital reserve account of the Company has been reduced by HK\$1,800,000,000. An amount of approximately HK\$2,920,200,000 arising from such reduction has been applied towards the elimination of the accumulated losses and the remaining balance of approximately HK\$292,655,000 has been credited to the Company's special capital reserve account.

The Confirming Order also provide for the circumstances under which the Company's special capital reserve account may be reduced. Amongst which, the special capital reserve may be reduced by the amount of any increase of the Company's paid up share capital or share premium account resulting from the payments up of shares by the receipt of the new consideration or capitalisation of distributable profits and the Company shall be at liberty to transfer the amount of such reduction to the general reserves of the Company and the amount shall become available for distribution. As the aggregate increase in the paid up share capital and share premium account after the Confirming Order made has exceeded HK\$292,655,000, the Company transferred the special capital reserve account of HK\$292,655,000 to accumulated profit during the period.



**CONDENSED CONSOLIDATED CASH FLOW STATEMENT**

FOR THE SIX MONTHS ENDED 30 JUNE 2007

	<b>Six months ended 30 June</b>	
	<b>2007</b>	2006
	<b>HK\$'000</b>	HK\$'000
	<b>(unaudited)</b>	(unaudited)
Net cash from operating activities	<b>758,572</b>	822,661
Net cash from (used in) investing activities		
Deposit paid for acquisition of property, plant and equipment	<b>(485,920)</b>	–
Purchase of property, plant and equipment	<b>(311,451)</b>	(1,297,482)
Purchase of available-for-sale investments	<b>(211,047)</b>	–
Increase in amount due from ultimate holding company of controlling shareholder	<b>(177,490)</b>	(436,893)
Net cash outflow from disposal of subsidiaries	<b>(13,742)</b>	–
Proceeds from disposal of partial interest in a subsidiary	<b>411,812</b>	–
Other investing activities	<b>81,584</b>	166,015
	<b>(706,254)</b>	(1,568,360)
Net cash from (used in) financing activities:		
New borrowings raised	<b>2,132,171</b>	3,225,706
Repayment of bank borrowings	<b>(2,190,741)</b>	(1,047,809)
Increase in amount due to ultimate holding company of controlling shareholder	<b>399,264</b>	1,802
Net proceeds from issue of shares on subscription	<b>200,060</b>	492,575
Payment of dividend	<b>(123,162)</b>	(35,185)
Other financing activities	<b>16,721</b>	86,142
	<b>434,313</b>	2,723,231
Net increase in cash and cash equivalents	<b>486,631</b>	1,977,532
Cash and cash equivalents at 1 January	<b>1,728,222</b>	558,317
Effect of foreign exchange rate changes	<b>22,829</b>	–
Cash and cash equivalents at 30 June, represented by bank balances and cash	<b>2,237,682</b>	2,535,849

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

FOR THE SIX MONTHS ENDED 30 JUNE 2007

**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 with 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\$2,995,037,000 as at 30 June 2007. Notwithstanding, the directors are of the opinion that the preparation of these financial statements under a going concern basis is appropriate because the Group is able to obtain financial support from the ultimate holding company of the controlling shareholder.

**2. PRINCIPAL ACCOUNTING POLICIES**

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

The accounting policies used in the condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2006 except as described below.

**Available-for-sale financial assets**

Available-for-sale financial assets are non-derivatives that are either designated or not classified as financial assets at fair value through profit or loss, loans and receivables and held-to-maturity investments. At each balance sheet date subsequent to initial recognition, available-for-sale financial assets are measured at fair value. Changes in fair value are recognised in equity, until the financial asset is disposed of or is determined to be impaired, at which time, the cumulative gain or loss previously recognised in equity is removed from equity and recognised in profit or loss. Any impairment losses on available-for-sale financial assets are recognised in profit or loss. Impairment losses on available-for-sale equity investments will not reverse in subsequent periods.



**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**(continued)**

FOR THE SIX MONTHS ENDED 30 JUNE 2007

**2. PRINCIPAL ACCOUNTING POLICIES (continued)****Available-for-sale financial assets (continued)**

For available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments, they are measured at cost less any identified impairment losses at each balance sheet date subsequent to initial recognition. An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired. The amount of the impairment loss is measured as the difference between the carrying amount of the asset and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses will not reverse in subsequent periods.

In the current interim period, the Group has applied, for the first time, a new standard, an amendment and interpretations ("new HKFRSs") issued by the HKICPA, which are effective for the Group's financial year beginning 1 January 2007. The adoption of these new HKFRSs had no material effect on the results or financial position of the Group for the current or prior accounting periods. Accordingly, no prior period adjustment has been required.

The Group has not early applied the following new standards or interpretations that have been issued but are not yet effective.

HKAS 23 (Revised)	Borrowing Costs <sup>1</sup>
HKFRS 8	Operating Segments <sup>1</sup>
HK(IFRIC) – Int 11	HKFRS 2: Group and Treasury Share Transactions <sup>2</sup>
HK(IFRIC) – Int 12	Service Concession Arrangements <sup>3</sup>

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

<sup>2</sup> Effective for annual periods beginning on or after 1 March 2007.

<sup>3</sup> Effective for annual periods beginning on or after 1 January 2008.

The directors of the Company anticipate that the application of these standards or interpretations will have no material impact on the results and financial position of the Group.

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

FOR THE SIX MONTHS ENDED 30 JUNE 2007

### 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 2007 (unaudited)*

	Continuing operations						Discontinued operation	Consolidated
	Steel manufacturing HK\$'000	Shipping operations HK\$'000	Electricity generation HK\$'000	Steel trading HK\$'000	Others HK\$'000	Elimination HK\$'000	Total HK\$'000	
Revenue								
External customers	3,682,345	139,986	228,791	780,665	966	-	4,832,753	4,882,592
Inter-segment sales	536,900	-	-	-	-	(536,900)	-	-
Total	4,219,245	139,986	228,791	780,665	966	(536,900)	4,832,753	4,882,592
Inter-segment sales are charged at the terms agreed by both parties.								
Result								
Segment results	506,572	72,521	38,083	3,796	1,746	-	622,718	627,992
Unallocated income							51,923	51,977
Unallocated corporate expenses							(24,088)	(24,088)
Finance costs							(177,805)	(177,821)
Share of profit of an associate	5,403	-	-	-	-	-	5,403	5,403
Gain on disposal of partial interest in a subsidiary	91,987	-	-	-	-	-	91,987	91,987
Gain on deemed disposal of partial interest in an associate	27	-	-	-	-	-	27	27
Profit before taxation							570,165	575,477
Income tax expense							(11,719)	(12,197)
Loss on disposal of subsidiaries							-	(8,590)
Profit (loss) for the period							558,446	554,690







## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

FOR THE SIX MONTHS ENDED 30 JUNE 2007

### 3. SEGMENT INFORMATION (continued)

Six months ended 30 June 2006 (unaudited)

	Continuing operations						Discontinued operation		
	Steel manufacturing HK\$'000	Shipping operations HK\$'000	Electricity generation HK\$'000	Steel trading HK\$'000	Others HK\$'000	Elimination HK\$'000	Total HK\$'000	Kitchen and laundry equipment HK\$'000	Consolidated HK\$'000
Revenue									
External customers	1,378,738	118,582	202,262	449,499	1,056	-	2,150,137	41,959	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>1,056</u>	<u>(292,918)</u>	<u>2,150,137</u>	<u>41,959</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>1,836</u>	<u>-</u>	203,099	2,366	205,465
Unallocated income							21,413	43	21,456
Unallocated corporate expenses							(23,722)	-	(23,722)
Finance costs							(105,155)	(16)	(105,171)
Share of profit of an associate	12,491	-	-	-	-	-	12,491	-	12,491
Profit before taxation							108,126	2,393	110,519
Income tax expense							(11,315)	-	(11,315)
Profit for the period							<u>96,811</u>	<u>2,393</u>	<u>99,204</u>

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

FOR THE SIX MONTHS ENDED 30 JUNE 2007

### 4. GAIN ON DISPOSAL OF PARTIAL INTEREST IN A SUBSIDIARY

On 8 November 2006, the Company and Central Pro Investments Limited ("Central Pro"), a wholly owned subsidiary of the Company, entered into an equity interest transfer agreement ("Agreement") with an independent third party, Hyundai Heavy Industries Co., Ltd. ("HHI") pursuant to which Central Pro transferred 20% of the registered capital of Qinhuangdao Shouqin Metal Materials Co., Ltd. ("Shouqin") to HHI at a consideration of RMB410 million (equivalent to approximately HK\$412 million) ("Purchase Price") ("Disposal"). The transaction was completed on 7 February 2007 and the interests of the Group in Shouqin were reduced from 96% to 76%. The gain on Disposal amounting to approximately HK\$92 million.

The Company has granted a put option to HHI to require the Company to purchase or procure a third party to purchase from HHI the entire equity interest in Shouqin held by HHI by giving one month's notice at the Purchase Price plus interest calculated at 7% per annum, compounded annually, with adjustments for dividends received, at any time within 42 months from the date on which Shouqin received the approval from the People's Republic of China ("PRC") approval authority in connection with the transaction (i.e. 17 January 2007), if any of the following conditions occurs:

- (1) Central Pro or the Company is in material breach of any of its representations, warranties, undertakings and/or obligations under the Agreement or any other documents executed in connection therewith;
- (2) Shouqin fails to implement the business plan approved by board of Shouqin from time to time in any material aspect otherwise than as a result of a force majeure event;
- (3) Any termination or suspension of the purchase agreements and product take-off contracts between Shouqin and Shougang Corporation and/or its direct or indirect subsidiaries or affiliates without prior approval of HHI which is of material adverse effect to Shouqin;
- (4) Shouqin ceases or suspends its business for more than six months, in the aggregate, during any continuous twelve-month period otherwise than as a result of a force majeure event; or
- (5) Shouqin is in violation of any applicable laws and regulations in material respects such that Shouqin may not continue to conduct ordinary business activities in the reasonable judgment of HHI.

The above put option represents general performance warranty provisions which is within the control of the Group and did not have any financial impact to the Group during the period.





## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

FOR THE SIX MONTHS ENDED 30 JUNE 2007

### 5. INCOME TAX EXPENSE

	Six months ended 30 June 2007 HK\$'000 (unaudited)	2006 HK\$'000 (unaudited)
<b>Continuing operations:</b>		
Current tax:		
PRC Enterprise Income Tax	14,898	11,487
Underprovision in prior periods:		
Hong Kong	—	946
PRC Enterprise Income Tax	534	—
	<u>15,432</u>	<u>12,433</u>
Deferred tax		
Current period	(8,540)	(1,118)
Attributable to change in tax rate	4,827	—
	<u>(3,713)</u>	<u>(1,118)</u>
Income tax expense relating to continuing operations	<u>11,719</u>	<u>11,315</u>
<b>Discontinued operation:</b>		
Current tax:		
PRC Enterprise Income Tax	482	—
Overprovision in prior periods:		
PRC Enterprise Income Tax	(4)	—
Income tax expense relating to discontinued operation	<u>478</u>	<u>—</u>
Income tax expense relating to continuing operations and discontinued operation	<u>12,197</u>	<u>11,315</u>

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

FOR THE SIX MONTHS ENDED 30 JUNE 2007

### 5. INCOME TAX EXPENSE (continued)

No provision for Hong Kong Profits Tax has been made for each of the six months ended 30 June 2007 and 2006 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.

On 16 March 2007, the PRC promulgated the Law on Enterprise Income Tax by Order No. 63 issued by the Tenth National People's congress, which will change the tax rate to 25% for the subsidiaries established in the PRC after the expiry of the tax holidays and concessions. The deferred tax balance has been adjusted, as appropriate, to reflect the tax rates that are expected to apply to the respective periods when the asset is realised or the liability is settled.

### 6. DISCONTINUED OPERATION

On 27 June 2007, the Group entered into a sale agreement to dispose of Radnor Limited and its subsidiaries, which carried out all of the Group's kitchen and laundry equipment operations. The disposal was completed on 27 June 2007, on which date control of Radnor Limited and its subsidiaries passed to the acquirer.

The profit (loss) for the period from the discontinued operation is analysed as follows:

	<b>1 January 2007 to 27 June 2007 HK\$'000</b>	1 January 2006 to 30 June 2006 HK\$'000
Profit of kitchen and laundry equipment operation for the period	<b>4,834</b>	2,393
Loss on disposal of kitchen and laundry equipment operation	<b>(8,590)</b>	—
	<b><u>(3,756)</u></b>	<u>2,393</u>





## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

FOR THE SIX MONTHS ENDED 30 JUNE 2007

### 6. DISCONTINUED OPERATION (continued)

The results of the kitchen and laundry equipment operation were as follows:

	<b>1 January 2007 to 27 June 2007 HK\$'000</b>	1 January 2006 to 30 June 2006 HK\$'000
Revenue	<b>49,839</b>	41,959
Cost of sales	<b>(42,832)</b>	(39,107)
Other income	<b>123</b>	1,039
Distribution costs	<b>(913)</b>	(990)
Administrative expenses	<b>(889)</b>	(492)
Finance costs	<b>(16)</b>	(16)
	<hr/>	<hr/>
Profit before tax	<b>5,312</b>	2,393
Income tax expense	<b>(478)</b>	–
	<hr/>	<hr/>
Profit for the period	<b>4,834</b>	2,393
	<hr/>	<hr/>

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

FOR THE SIX MONTHS ENDED 30 JUNE 2007

### 6. DISCONTINUED OPERATION (continued)

The net assets of Radnor Limited and its subsidiaries at the date of disposal were as follows:

	<b>27 June 2007</b> <i>HK\$'000</i>
Net assets disposed of:	
Property, plant and equipment	1,547
Prepaid lease rentals	247
Inventories	6,315
Trade and other receivables	32,207
Bank balances and cash	13,742
Trade and other payables	(41,102)
Bank overdrafts	(99)
Deferred tax liabilities	(622)
	<u>12,235</u>
Minority interests	(25)
Loss on disposal	<u>(8,590)</u>
Total consideration	<u><u>3,620</u></u>
Satisfied by:	
Consideration payable	<u><u>3,620</u></u>
Net cash outflow arising on disposal:	
Disposal of bank balances and cash	<u><u>(13,742)</u></u>

The consideration payable will be settled in cash by the acquirer on 31 July 2007 and 1 August 2007.

Cash flows from Radnor Limited and its subsidiaries:

Net cash flows from operating activities	(1,585)
Net cash flows from investing activities	54
Net cash flows from financing activities	<u>(168)</u>
Net cash flows	<u><u>(1,699)</u></u>





## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

FOR THE SIX MONTHS ENDED 30 JUNE 2007

### 7. PROFIT FOR THE PERIOD

Profit for the period has been arrived at after charging (crediting):

	Six months ended 30 June					
	Continuing operations		Discontinued operation		Consolidated	
	2007	2006	2007	2006	2007	2006
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Amortisation of intangible assets	289	275	-	-	289	275
Amortisation of prepaid lease rentals	4,500	4,725	43	53	4,543	4,778
Depreciation of property, plant and equipment	217,488	95,356	274	276	217,762	95,632
Total depreciation and amortisation	222,277	100,356	317	329	222,594	100,685
Revenue	(4,832,753)	(2,150,137)	(49,839)	(41,959)	(4,882,592)	(2,192,096)
Cost of sales	4,026,387	1,829,811	42,832	39,107	4,069,219	1,868,918
Finance costs	177,805	105,155	16	16	177,821	105,171
Profit before tax	(570,165)	(108,126)	(5,312)	(2,393)	(575,477)	(110,519)
(Write-back) allowance for bad and doubtful debts, net	(3,043)	842	24	(761)	(3,019)	81
Cost of arrangement of bank borrowings (included in finance costs)	2,514	2,111	-	-	2,514	2,111
(Write-back) allowance for inventories	-	(11,226)	2,685	-	2,685	(11,226)
Interest income	(38,194)	(16,806)	(54)	(43)	(38,248)	(16,849)
Loss (gain) on disposal of property, plant and equipment	44	1,299	7	(13)	51	1,286
Share of tax of an associate (included in share of profit an associate)	891	1,363	-	-	891	1,363

During the period ended 30 June 2006, 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 June 2007: nil) had been recognised in cost of sales in that period.

### 8. DIVIDEND

On 15 June 2007, a dividend of HK2.1 cents (2006: HK0.6 cent) per share was paid to shareholders as the final dividend for 2006. The Directors do not recommend payment of an interim dividend for the period ended 30 June 2007.

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

FOR THE SIX MONTHS ENDED 30 JUNE 2007

### 9. EARNINGS PER SHARE

#### From continuing and discontinued operations

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:

	<b>Six months ended 30 June</b>	
	<b>2007</b>	2006
	<b>HK\$'000</b>	HK\$'000
	<b>(unaudited)</b>	(unaudited)
<b>Earnings</b>		
Earnings for the purpose of basic earnings per share	<b>464,673</b>	84,246
Effect of dilutive potential ordinary shares:		
Adjustment to the share of profit of an associate based on dilution of its earnings per share	<b>(172)</b>	(631)
Earnings for the purpose of diluted earnings per share	<b>464,501</b>	83,615

	<b>Six months ended 30 June</b>	
	<b>2007</b>	2006
<b>Number of shares</b>		
Weighted average number of ordinary shares for the purpose of basic earnings per share	<b>5,891,566,053</b>	5,560,482,629
Effect of dilutive potential ordinary shares on share options	<b>237,587,571</b>	176,635,533
Weighted average number of ordinary shares for the purpose of diluted earnings per share	<b>6,129,153,624</b>	5,737,118,162







## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

FOR THE SIX MONTHS ENDED 30 JUNE 2007

### 9. EARNINGS PER SHARE (continued)

#### From continuing operations

The calculation of basic and diluted earnings per share from continuing operations attributable to the ordinary equity holders of the parent entity is based on the following data:

	Six months ended 30 June 2007 HK\$'000 (unaudited)	2006 HK\$'000 (unaudited)
Earnings figures are calculated as follow:		
Profit for the period attributable to equity holders of the parent	464,673	84,246
Add: Loss (profit) for the period from discontinued operation	3,756	(2,393)
Earnings for the purpose of basic earnings per share from continuing operations	468,429	81,853
Effect of dilutive potential ordinary shares: Adjustment to the share of profit of an associate based on dilution of its earnings per share	(172)	(631)
Earnings for the purpose of diluted earnings per share from continuing operations	468,257	81,222

The denominators used are the same as those detailed above for both basic and diluted earnings per share.

#### From discontinued operation

Basic loss per share from discontinued operation is HK0.06 cent per share (30.6.2006: basic earnings per share from discontinued operation is HK0.04 cent per share) and diluted loss per share from the discontinued operation is HK0.06 cent per share (30.6.2006: diluted earnings per share from discontinued operation is HK0.04 cent per share), based on the loss for the period from the discontinued operation of HK\$3,756,000 (30.6.2006: profit for the period from the discontinued operation of HK\$2,393,000) and the denominators detailed above for both basic and diluted earnings per share.

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

FOR THE SIX MONTHS ENDED 30 JUNE 2007

### 10. MOVEMENTS IN INVESTMENT PROPERTIES AND PROPERTY, PLANT AND EQUIPMENT

During the period, the Group disposed of certain investment properties with a carrying amount of HK\$15 million for proceeds of HK\$15 million, no gain or loss on disposal was resulted. The Directors are of the opinion that the market value of the Group's investment properties as at 30 June 2007 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\$516,510,000 (HK\$1,297,482,000 for the six months ended 30 June 2006) on acquisition of property, plant and equipment in order to upgrade its operating capacities.

### 11. TRADE AND BILL RECEIVABLES

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 balance date:

	<b>30 June 2007 HK\$'000 (unaudited)</b>	<b>31 December 2006 HK\$'000 (audited)</b>
Within 60 days	<b>363,651</b>	219,150
61 – 90 days	–	56,428
91 – 180 days	<b>2</b>	94,873
181 – 365 days	<b>504</b>	4,741
	<b>364,157</b>	375,192





## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

FOR THE SIX MONTHS ENDED 30 JUNE 2007

### 12. 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 periods 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:

	<b>30 June 2007 HK\$'000 (unaudited)</b>	<b>31 December 2006 HK\$'000 (audited)</b>
Within 60 days	<b>180,162</b>	136,209
61 – 90 days	<b>33,291</b>	19,717
91 – 180 days	<b>37,787</b>	–
181 – 365 days	<b>159</b>	168
Over 2 years	<b>3,056</b>	3,011
	<b><u>254,455</u></b>	<b><u>159,105</u></b>

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

	<b>30 June 2007 HK\$'000 (unaudited)</b>	<b>31 December 2006 HK\$'000 (audited)</b>
Within 90 days	<b>159,834</b>	481,076
91 – 180 days	<b>7,187</b>	5,202
181 – 365 days	<b>17,210</b>	11,977
1 – 2 years	<b>6,565</b>	21,488
Over 2 years	<b>8,907</b>	8,435
	<b><u>199,703</u></b>	<b><u>528,178</u></b>

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

FOR THE SIX MONTHS ENDED 30 JUNE 2007

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

Trade receivables from ultimate holding company of controlling shareholder amounted to approximately HK\$11,935,000 and are aged within 30 days (31.12.2006: HK\$1,703,000, all aged within 30 days).

Trade payables to ultimate holding company of controlling shareholder amounted to approximately HK\$29,934,000, which included HK\$29,818,000 and HK\$116,000 aged within 90 days and between 1 to 2 years respectively (31.12.2006: HK\$113,000, all aged between 181 – 365 days).

### 13. TRADE AND BILL PAYABLES

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

	<b>30 June 2007 HK\$'000 (unaudited)</b>	<b>31 December 2006 HK\$'000 (audited)</b>
Within 90 days	<b>533,626</b>	492,690
91 – 180 days	<b>146,776</b>	14,362
181 – 365 days	<b>11,656</b>	5,649
1 – 2 years	<b>7,565</b>	7,602
Over 2 years	<b>1,999</b>	3,531
	<b><u>701,622</u></b>	<b><u>523,834</u></b>

### 14. BANK BORROWINGS

During the period, the Group obtained new bank loans of approximately HK\$2,132,171,000 (HK\$3,225,706,000 for the six months ended 30 June 2006). The loans bear interest at 5.24% to 6.68% per annum (5.02% to 6.49% per annum for the six months ended 30 June 2006) 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\$2,190,741,000 (HK\$1,047,809,000 for the six months ended 30 June 2006) during the period.

### 15. LOANS FROM ULTIMATE HOLDING COMPANY OF CONTROLLING SHAREHOLDER

The amounts are unsecured, interest bearing at 5.76% to 6.57% per annum (5.58% to 5.76% per annum for the six months ended 30 June 2006) and are repayable according to the repayment schedules.





## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

FOR THE SIX MONTHS ENDED 30 JUNE 2007

### 16. 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>          </u>	<u>          </u>
At 30 June 2006, 31 December 2006 and 1 January 2007	5,864,057	1,172,811
Exercise of share options	4,500	900
Issue of shares on subscription	200,000	40,000
	<u>          </u>	<u>          </u>
At 30 June 2007	<u>6,068,557</u>	<u>1,213,711</u>

### 17. COMMITMENTS

	<b>30 June 2007 <i>HK\$'000</i> (unaudited)</b>	31 December 2006 <i>HK\$'000</i> (audited)
Capital expenditure contracted for but not provided in the financial statements in respect of acquisition of property, plant and equipment	<u><b>15,057</b></u>	<u>9,624</u>
Capital expenditure contracted for but not provided in respect of acquisition of available-for-sale investment	<u><b>97,000</b></u>	<u>—</u>

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**(continued)**

FOR THE SIX MONTHS ENDED 30 JUNE 2007

**18. PLEDGE OF ASSETS**

As at 30 June 2007, 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\$3,193,000 (31.12.2006: HK\$18,193,000) and HK\$3,429,000 (31.12.2006: HK\$3,480,000), respectively;
- (b) pledge of the Group's plant and machinery with net book value of HK\$301,999,000 (31.12.2006: HK\$304,932,000);
- (c) pledge of the Group's 51% equity interest in Beijing Shougang Firstlevel Power Co., Ltd. ("Beijing Power Plant") and 100% equity interest in Qinhuangdao Shougang Plate Mill Co., Ltd. ("Qinhuangdao Plate Mill"), net assets of which amounting to HK\$498,047,000 (31.12.2006: HK\$454,479,000) and HK\$1,258,525,000 (31.12.2006: HK\$1,080,065,000) respectively;
- (d) pledge of assets of its subsidiaries, Shougang Concord Power Plant Holdings Limited, Equity Dragon Assets Limited and Pointer Investments Limited, net assets of which amounting to HK\$61,833,000 (31.12.2006: HK\$61,838,000), HK\$197,515,000 (31.12.2006: HK\$196,693,000) and HK\$195,695,000 (31.12.2006: HK\$194,839,000) respectively;
- (e) pledged of deposit of an amount of HK\$21,378,000 (31.12.2006: HK\$10,123,000); and
- (f) restricted deposits of an amount of HK\$78,754,000 (31.12.2006: HK\$116,277,000).





## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

FOR THE SIX MONTHS ENDED 30 JUNE 2007

### 19. RELATED PARTY DISCLOSURES

The significant transactions with related parties during the period, and significant balances with them at the balance sheet date are as follows:

#### (I) Transactions

		Six months ended 30 June	
		2007	2006
		HK\$'000	HK\$'000
		(unaudited)	(unaudited)
<b>Shougang Group</b>			
Sales of goods by the Group	(a)	<b>1,303,619</b>	453,593
Provision of electricity, steam and hot water by the Group	(b)	<b>228,791</b>	202,262
Purchases of goods by the Group	(c)	<b>1,701,078</b>	1,027,249
Lease rentals charged to the Group	(d)	<b>1,375</b>	1,175
Management fees charged to the Group	(e)	<b>480</b>	480
Purchases of spare parts by the Group	(f)	<b>45,786</b>	236,936
Management fees charged by the Group	(g)	<b>960</b>	600
Rental income charged by the Group	(h)	<b>76</b>	532
Interest charged to the Group	(i)	<b>35,401</b>	31,586
Service fees charged to the Group	(j)	<b>44,252</b>	27,647
Service fees charged by the Group	(k)	<b>3,950</b>	3,415
Purchase of property, plant and equipment by the Group	(l)	<b>233,739</b>	24,067

Notes:

- (a) Qinhuangdao Plate Mill and Shouqin sold steel products and scrap materials to Shougang Group.
- (b) Beijing Power Plant sold electricity, steam and hot water to Shougang Group.
- (c) The Group purchased materials and steel products from Shougang Group.
- (d) The Group entered into various rental agreements with Shougang Group for renting office and residential apartments as staff quarters.

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

FOR THE SIX MONTHS ENDED 30 JUNE 2007

### 19. RELATED PARTY DISCLOSURES (continued)

#### (I) Transactions (continued)

Notes: (continued)

- (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) The Group provided business and strategic development services to Shougang Group.
- (h) The Group entered into rental agreements with a subsidiary of Shougang HK for renting office.
- (i) The interest expenses were charged by Shougang Group in respect of loans granted to the Group at interest rates from 5.76% to 6.57% (30.6.2006: 5.58% to 5.85%) per annum.
- (j) Shougang Group charged Qinhuangdao Plate Mill, Beijing Power Plant and Shouqin service fees in respect of processing and repair and maintenance services provided.

Shougang Group charged Shougang Concord Steel International Trading Co., Ltd., a wholly owned subsidiary of the Company, in respect of administration services provided.

- (k) The Group charged Shougang Group service fees in respect of processing and administration services provided.
- (l) The Group acquired property, plant and equipment from the Shougang Group.

#### (II) Balances

Details of balances with the Group's related companies are set out in the condensed consolidated balance sheet and notes 12 and 15.

Shougang Corporation has provided corporate guarantees for certain bank loans granted to the Group for nil consideration. At 30 June 2007, the Group has bank loans guaranteed by Shougang Corporation amounting to approximately HK\$3,365,187,000 (31.12.2006: HK\$3,320,379,000).





**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**(continued)**

FOR THE SIX MONTHS ENDED 30 JUNE 2007

**19. RELATED PARTY DISCLOSURES (continued)****(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.

**(IV) Compensation of key management personnel**

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

	<b>Six months ended 30 June</b>	
	<b>2007</b>	2006
	<b>HK\$'000</b>	HK\$'000
	<b>(unaudited)</b>	(unaudited)
Short-term benefits	<b>5,335</b>	4,036

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

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**(continued)**

FOR THE SIX MONTHS ENDED 30 JUNE 2007

**20. EVENT AFTER THE BALANCE SHEET DATE**

- (a) On 25 July 2007, the Company, the controlling shareholder, Shougang HK and two of its subsidiaries, China Gate Investments Limited ("China Gate"), Grand Invest International Limited ("Grand Invest"), (Shougang HK, China Gate and Grand Invest collectively known as the "Vendors"), and two independent placing agents entered into a placing, underwriting and subscription agreement (the "Placing and Subscription Agreement"). Pursuant to the Placing and Subscription Agreement, the placing agents have agreed, on a fully underwritten basis, to procure purchasers to acquire, and the Vendors have agreed to sell 800,000,000 existing shares of HK\$0.2 each of the Company at the placing price of HK\$2.26 per share. The Vendors have also conditionally agreed to subscribe for 800,000,000 ordinary shares of HK\$0.2 each of the Company (the "Subscription Shares") at the subscription price of HK\$2.26 per share, raising proceeds of HK\$1,760,634,000. The Company intends to apply HK\$600,000,000 as additional capital for Shouqin for product quality improvement facilities, as to approximately HK\$150,000,000 as additional capital for Shouqin for deep processing facilities for plates and the balance as general working capital of the Group or other projects as may be identified by the Company. Details of the Placing and Subscription are set out in the Company's announcement dated 25 July 2007.
- (b) The Company repaid all of its outstanding USD and HKD bank borrowings of approximately HK\$1,164,684,000 in total together with the relevant accrued interest on 13 and 17 September 2007 respectively. The amounts of the said bank borrowings included in current liabilities and non-current liabilities as at 30 June 2007 were HK\$112,408,000 and HK\$1,052,276,000 respectively. The repayment was principally funded by the internally generated funds.





REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION

**Deloitte.**

**德勤**

**TO THE BOARD OF DIRECTORS OF  
SHOUGANG CONCORD INTERNATIONAL ENTERPRISES COMPANY LIMITED**  
首長國際企業有限公司

*(incorporated in Hong Kong with limited liability)*

**Introduction**

We have reviewed the interim financial information set out on pages 5 to 33 which comprises the condensed consolidated balance sheet of Shougang Concord International Enterprises Company Limited as of 30 June 2007 and the related condensed consolidated income statement, statement of changes in equity and cash flow statement for the six-month period then ended and certain explanatory notes. The Main Board Listing Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants. The directors are responsible for the preparation and presentation of this interim financial information in accordance with HKAS 34. Our responsibility is to express a conclusion on this interim financial information based on our review, and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

**Scope of Review**

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly we do not express an audit opinion.

**Conclusion**

Based on our review, nothing has come to our attention that causes us to believe that the interim financial information is not prepared, in all material respects, in accordance with HKAS 34.

**Deloitte Touche Tohmatsu**  
*Certified Public Accountants*  
Hong Kong  
21 September 2007

## MANAGEMENT DISCUSSION & ANALYSIS

### OVERVIEW

For the first six months in 2007, the net profit attributable to shareholders of the Company amounted to HK\$464.7 million<sup>1</sup>, a 4.5 times growth when comparing with that of last year, amongst which the Steel manufacturing segment had an excellent first six months, with net profit rising by more than 5.1 times. Basic earnings per share was HK7.9 cents, while last year's was HK1.5 cents. The Group recorded a consolidated turnover of HK\$4,882.6 million<sup>1</sup> in the first half of 2007, which showed an increase of 1.2 times comparing with that of last year.

#### 1. Further expansion of Steel manufacturing segment

Since Phase II of Qinhuangdao Shouqin Metal Materials Co., Ltd. ("Shouqin") started production last year progressively, the Group has further expanded its production scale. The Group's steel manufacturing segment's productions in this interim period included 875,000 mt. of steel plates and 1,214,000 mt. of steel slabs, comparing to 402,000 mt. of steel plates and 656,000 mt. of steel slabs in the same period last year, showing an increase of 117.7% and 85.1% respectively.

#### 2. Significant growth in high value-adding products

In the interim period, the Group's steel manufacturing segment focuses on the increased production of high value-adding products, while establishing Shouqin as a "specialized, specific, with deep processing abilities and strong" premium thick and wide plate manufacturer in China. Its competitiveness in both high value-adding ship plates and pipeline plates markets has been distinctly strengthened. With continuous optimization in product mix, we expect a further improvement in our operational qualities.

#### 3. Completion of sale of 20% equity interest of Shouqin to Hyundai Heavy Industries Co., Ltd.

As a world leader in ship-building, Hyundai Heavy Industries Co., Ltd. ("Hyundai Heavy") has a strong demand for steel plates. By partnering with Hyundai Heavy through its subscription with a significant minority position with Shouqin, our subsidiary can secure a fair amount of sales of its ship plates, while improving product quality through regular technology exchanges. The said transaction has already completed on 7 February 2007, after which the Group still holds 76% effective interest in Shouqin, while recording an one-off post-tax gain of about HK\$92.0 million.

*Note 1:* These amounts include turnover and profit attributable to shareholders contributed by Kitchen and laundry equipment division, which is presented as discontinued operation in accordance with HKFRS5. The respective amounts of the discontinued operation are separately disclosed in the analysis of turnover and profit.



**MANAGEMENT DISCUSSION & ANALYSIS (continued)****FINANCIAL REVIEW**

*Six months ended 30 June 2007 compared to six months ended 30 June 2006*

**Turnover and Cost of Sales**

For the interim period, the Group recorded a consolidated turnover of HK\$4,882.6 million, representing a sharp increase of 122.7% over that of last year. The increase is mainly contributed to increased sales and production volume as well as higher prices for premium steel products in the steel manufacturing segment.

Cost of sales for the current period was HK\$4,069.2 million, increased by 117.7% over that of last year. The resulting gross profit margin was 16.7% in the current period, comparing to 14.7% last year, since the gross margin of both steel manufacturing segment and shipping operations segment have risen sharply.

**Other income**

Other income increased from HK\$41.0 million for the interim period last year to HK\$74.5 million this year, or 81.7%. The increase is mainly represented by higher interest income.

**Finance costs**

For this interim period, finance costs amounted to HK\$177.8 million, increased by 69.1% when comparing to that of last year. The increase is attributable to interest rate hikes and additional finance cost of the Company's newly-incepted consortium loans during the first quarter of last year.

**Manufacture and Sale of Steel Products**

The Group operates in this business segment through Qinhuangdao Shougang Plate Mill Co., Ltd. ("Qinhuangdao Plate Mill") and Shouqin, whereby Shouqin was accounted for as 76%-held subsidiary since 7 February 2007 (Interim period 2006: 96%). This core segment realized net profit of HK\$296.5 million during the current period, while that of last year was HK\$48.7 million, showing an increase of 5.1 times.

*Qinhuangdao Plate Mill*

Qinhuangdao Plate Mill recorded a turnover of HK\$1,668.8 million before elimination for the six months ended 30 June 2007, an increase of 25.3% when compared with that of last year. Although the sales volume has slightly decreased from 375,700 mt. to 370,000 mt. during this interim period, the average selling price per mt has increased by 18% aligning with market demand, thereby offsetting the effect of lower sales volume, the resulting gross profit also rose sharply to HK\$147.2 million, an increase of 54.5%. On the basis of expanding export business and rising sales price, the Group's share of profit of Qinhuangdao Plate Mill (excluding that of Shouqin, which will be described below) increased to HK\$74.8 million, rising by 60.5% over the same period last year.

**MANAGEMENT DISCUSSION & ANALYSIS (continued)****FINANCIAL REVIEW (continued)****Manufacture and Sale of Steel Products (continued)***Shouqin*

From 7 February 2007, the Group has held an effective interest of 76% in Shouqin (52% held by the Group directly and 24% through Qinhuangdao Plate Mill). In the last interim period, the Group held an effective interest of 96% in Shouqin (72% held by the Group directly and 24% through Qinhuangdao Plate Mill).

As a premium thick and wide plate producer in China, Shouqin embraces excellent profit potential and has been benefited most on its high value-adding steel products during this market recovery. Phase II of Shouqin has commenced production since June 2006 with steel slabs as an intermediate product, while its 4300mm width plate rolling system commenced production since November 2006, already reaching designed capacity in April this year. For the current interim period, Shouqin reported a turnover of HK\$3,929.6 million before elimination, recording a 166.6% rise when comparing to HK\$1,473.8 million for the same period last year, due to major expansion in production of steel slabs and thick plates. The steel market has performed well during the first half of 2007 through growth in global economy, selling prices of high value-adding products escalated in the midst of optimization of product mix. Shouqin's resulting gross profit rose from HK\$122.4 million in 2006 to HK\$538.0 million, recording a growth of 3.4 times. Subsequent to commencement of Phase II, the production of steel slabs rose to 1,214,000 mt., showing a remarkable growth from only 656,000 mt. in the same period last year, in addition to producing 468,000 mt. of high value-adding steel plates. For the six months ended 30 June 2007, Shouqin contributed HK\$221.7 million in net profit to the Group.

**Shipping operations**

Shougang Concord Shipping Holdings Limited and its subsidiaries ("Shougang Shipping Group") reported a net operating profit of HK\$74.4 million for the period, an increase of HK\$36.3 million, or 95.3%, from that of last year. As a result of strong demand for container shipping capacity, freight rates exploded. One of the charter vessels of Shougang Shipping Group has its rental rates increased by 1.9 times through renewal of charter contract during this period, coupled with fixed contracted rental charges, causing the gross profit to rise in this period. Its time charter business and floating crane reported an operating profit of HK\$73.7 million and HK\$1.3 million for the interim period, comparing to HK\$38.9 million and HK\$1.2 million for the same period last year, registering a growth of 89.5% and 8.3% respectively.



**MANAGEMENT DISCUSSION & ANALYSIS (continued)****FINANCIAL REVIEW (continued)****Other businesses:***Electricity generation*

Beijing Shougang Firstlevel Power Company Limited ("Beijing Power Plant") reported turnover of HK\$228.8 million for the current period, a moderate increase of HK\$26.5 million from that of last period. After accounting for 49% minority interests, the Group's share of profit of Beijing Power Plant for the current period was HK\$14.8 million, an increase of 3.5% over that of the last period. Beijing Power Plant sold about 8.1% more electricity during the six months period ended 30 June 2007 when comparing to that of last period, coupled with an increase in market tariff, its operating results are considered satisfactory.

*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") reported net profit of HK\$24.0 million in the period, dropping from that of HK\$44.7 million in the last period. With dilution of the Group's equity interest to 22.3% as at 30 June 2007, the Group's share of its net profit decreased to HK\$5.4 million in the current interim period, or 56.8%. Shougang Century Group's combined gross profit margin reduced due to intense market competition during the current period under review, but with its expanding businesses and capacity, we believe its financial results will improve in the future.

*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\$830.5 million in the six months ended 30 June 2007, an increase of 69.0% over that of the last year through increased export, while its net profit was HK\$2.4 million. During the interim period, the Group has completed the disposal of its kitchen and laundry segment, in order to focus more on the development and management of steel manufacturing segment.

**MANAGEMENT DISCUSSION & 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 2007, as compared to 31 December 2006, is summarized below:

<i>HK\$ million</i>	<b>30 June 2007 Unaudited</b>	<b>31 December 2006 Audited</b>
Total Debt		
– from banks	<b>4,633</b>	4,577
– from parent company	<b>1,160</b>	1,125
Sub-total	<b>5,793</b>	5,702
Cash and bank deposits	<b>2,338</b>	1,855
Net debt	<b>3,455</b>	3,847
Total capital (Equity and total debt)	<b>9,404</b>	8,645
Financial leverage		
– Net debt to total capital	<b>36.7%</b>	44.5%
– Net debt to total assets	<b>25.9%</b>	34.2%

It can be observed that financial leverage has improved between 30 June 2007 and that of 31 December 2006, although the total debt level has slightly increased, corresponding to the fact that Group debt financing is used in a controlled manner.







## **MANAGEMENT DISCUSSION & ANALYSIS (continued)**

### **LIQUIDITY AND FINANCIAL RESOURCES (continued)**

#### **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 2007, approximately 80% 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**

During the period, the issued share capital of the Company has increased due to (i) the exercise of options of granted to employees, and (ii) subscription of newly-issued shares by a third party investor.

In February and June 2007, certain employees of the Group exercised the granted options, pursuant to which 0.8 million new shares were issued at an exercise price of HK\$0.295, and 3.7 million new shares were issued at an exercise price of HK\$0.66 respectively.

In June 2007, the Company has placed 200 million ordinary shares to a third party investor at an issue price of HK\$1.0 per share, raising net proceeds of approximately HK\$197.0 million.

Consequent to the aforesaid events, the issued share capital of the Company was increased by HK\$40.9 million (represented by 204.5 million ordinary shares) to HK\$1,213.7 million (represented by 6,068.6 million ordinary shares).

### **EMPLOYEES, REMUNERATION POLICIES AND TRAINING SCHEME**

The Group has a total of approximately 5,000 employees as at 30 June 2007.

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.

**MANAGEMENT DISCUSSION & ANALYSIS (continued)****EMPLOYEES, REMUNERATION POLICIES AND TRAINING SCHEME (continued)**

The remuneration packages of employees in Hong Kong include salary, discretionary bonuses, medical subsidies and a hospitalization scheme. All of the subsidiaries of the Company 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**

The Steel Industry has developed very well in the first half of 2007, entering into a boom cycle. With continuous expansion of the global economy, in particular of the accelerated development of China's, market demand for steel products should remain strong for a fairly long period of time.

After years of hard work, our two major steel manufacturing plants have been reporting breakthrough operating results, especially that of Shouqin which has become one of the largest specialized thick and wide plate manufacturers in China. Shouqin is equipped with some of the most advanced technologies in the world and is constantly revolving towards the production of high value-adding steel products, strengthening profit margin and hence the Group's overall profitability. The Group is full of confidence towards the future of the steel manufacturing segment.

**INTERIM DIVIDEND**

The Board did not declare an interim dividend for the six months ended 30 June 2007 (2006: 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.





## DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

The Directors who held office at 30 June 2007 had the following interests in the underlying shares of the Company and its associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as at 30 June 2007 as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"):

### (a) Long positions in underlying shares of the Company attached to the share options granted by the Company

Name of Director	Options to subscribe for shares of the Company			Date of grant	Exercise period	Exercise price per share	Capacity in which interests are held	Interests as to % to the issued share capital of the Company as at 30.6.2007
	At the beginning of the period	Exercised during the period	At the end of the period					
Wang Qinghai	22,950,000	–	22,950,000	23.8.2002	23.8.2002 – 22.8.2012	HK\$0.295	Beneficial owner	0.38%
Cao Zhong	22,950,000	–	22,950,000	23.8.2002	23.8.2002 – 22.8.2012	HK\$0.295	Beneficial owner	
	91,820,000	–	91,820,000	18.11.2003	18.11.2003 – 17.11.2013	HK\$0.410	Beneficial owner	
	<u>114,770,000</u>	<u>–</u>	<u>114,770,000</u>					1.89%
Chen Zhouping	9,180,000	–	9,180,000	12.3.2003	12.3.2003 – 11.3.2013	HK\$0.280	Beneficial owner	
	57,388,000	–	57,388,000	18.11.2003	18.11.2003 – 17.11.2013	HK\$0.410	Beneficial owner	
	<u>66,568,000</u>	<u>–</u>	<u>66,568,000</u>					1.10%
Zhang Wenhui	22,950,000	–	22,950,000	23.8.2002	23.8.2002 – 22.8.2012	HK\$0.295	Beneficial owner	
	52,796,000	–	52,796,000	18.11.2003	18.11.2003 – 17.11.2013	HK\$0.410	Beneficial owner	
	<u>75,746,000</u>	<u>–</u>	<u>75,746,000</u>					1.25%
Ip Tak Chuen, Edmond	8,000,000	–	8,000,000	23.8.2002	23.8.2002 – 22.8.2012	HK\$0.295	Beneficial owner	
	4,590,000	–	4,590,000	12.3.2003	12.3.2003 – 11.3.2013	HK\$0.280	Beneficial owner	
	<u>12,590,000</u>	<u>–</u>	<u>12,590,000</u>					0.21%
Leung Shun Sang, Tony	8,000,000	–	8,000,000	23.8.2002	23.8.2002 – 22.8.2012	HK\$0.295	Beneficial owner	
	4,590,000	–	4,590,000	12.3.2003	12.3.2003 – 11.3.2013	HK\$0.280	Beneficial owner	
	<u>12,590,000</u>	<u>–</u>	<u>12,590,000</u>					0.21%
	<u>305,214,000</u>	<u>–</u>	<u>305,214,000</u>					

# **DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES (continued)**

## **(a) Long positions in underlying shares of the Company attached to the share options granted by the Company (continued)**

The above share options are unlisted physically settled options granted pursuant to the Company's share option scheme adopted on 7 June 2002 (the "Scheme"). Upon exercise of the share options in accordance with the Scheme, ordinary shares of HK\$0.20 each in the share capital of the Company are issuable. The share options are personal to the respective Directors. Further details of the share options are set out in the section headed "Share Options" below.

## **(b) Long positions in underlying shares of an associated corporation, Shougang Concord Century Holdings Limited ("Shougang Century"), attached to the share options granted by Shougang Century**

Name of Director	Options to subscribe for shares of Shougang Century			Date of grant	Exercise period	Exercise price per share	Capacity in which interests are held	Interests as to % to the issued share capital of Shougang Century as at 30.6.2007
	At the beginning of the period	Exercised during the period	At the end of the period					
Cao Zhong	7,652,000	-	7,652,000	23.8.2002	23.8.2002 – 22.8.2012	HK\$0.295	Beneficial owner	
	57,350,000	-	57,350,000	2.10.2003	2.10.2003 – 1.10.2013	HK\$0.780	Beneficial owner	
	<u>65,002,000</u>	<u>-</u>	<u>65,002,000</u>					5.06%
Chen Zhouping	7,652,000	-	7,652,000	23.8.2002	23.8.2002 – 22.8.2012	HK\$0.295	Beneficial owner	0.60%
Luo Zhenyu	7,652,000	-	7,652,000	12.3.2003	12.3.2003 – 11.3.2013	HK\$0.325	Beneficial owner	0.60%
Leung Shun Sang, Tony	4,592,000	-	4,592,000	23.8.2002	23.8.2002 – 22.8.2012	HK\$0.295	Beneficial owner	
	3,060,000	-	3,060,000	12.3.2003	12.3.2003 – 11.3.2013	HK\$0.325	Beneficial owner	
	4,592,000	-	4,592,000	25.8.2003	25.8.2003 – 24.8.2013	HK\$0.740	Beneficial owner	
	<u>12,244,000</u>	<u>-</u>	<u>12,244,000</u>					0.95%
	<u>92,550,000</u>	<u>-</u>	<u>92,550,000</u>					

The above share options are unlisted physically settled options granted pursuant to the share option scheme of Shougang Century adopted on 7 June 2002. Upon exercise of the share options in accordance with the share option scheme of Shougang Century, ordinary shares of HK\$0.10 each in the share capital of Shougang Century are issuable. The share options are personal to the respective Directors.





**DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES (continued)**

Save as disclosed above, as at 30 June 2007, none of the Company's Directors, chief executives or their respective associates had any other personal, family, corporate and other interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

Other than those disclosed in this section and the section headed "Share Options", no right to subscribe for equity or debt securities of the Company has been granted by the Company to, nor have any such rights been exercised by, any Directors or chief executives (including their spouses or children under 18 years of age) during the six months ended 30 June 2007.

## INTERESTS AND SHORT POSITIONS OF SHAREHOLDERS DISCLOSEABLE UNDER THE SFO

As at 30 June 2007, according to the register kept by the Company under Section 336 of the SFO, the following companies and persons had long positions of 5% or more in the shares or underlying shares of the Company which fell to be disclosed to the Company under Divisions 2 and 3 of Part XV of the SFO:

### Long positions in the shares and underlying shares of the Company

Name of shareholder	Capacity in which interests are held	Number of shares held in the Company (other than equity derivatives)	Interests under cash settled unlisted equity derivatives	Total interests as to % to the issued share capital of the Company as at 30.6.2007	Note(s)
Shougang Holding (Hong Kong) Limited ("Shougang Holding")	Beneficial owner, interests of controlled corporations	2,730,956,686	58,109,090	45.96%	1
Grand Invest International Limited ("Grand Invest")	Beneficial owner	868,340,765	–	14.31%	1
China Gate Investments Limited ("China Gate")	Beneficial owner	1,529,904,761	–	25.21%	1
Argepa S.A. ("Argepa")	Beneficial owner, interests of controlled corporations	929,000,000	–	15.31%	2
Zygmunt Zaleski Stichting ("ZZS")	Interests of controlled corporations	569,000,000	–	9.38%	2
Carlo Tassara S.p.A. ("CT S.p.A.")	Interests of controlled corporations	569,000,000	–	9.38%	2
Carlo Tassara International S.A. ("CTI S.A.")	Beneficial owner	569,000,000	–	9.38%	2





# INTERESTS AND SHORT POSITIONS OF SHAREHOLDERS DISCLOSEABLE UNDER THE SFO (continued)

## Long positions in the shares and underlying shares of the Company (continued)

Name of shareholder	Capacity in which interests are held	Number of shares held in the Company (other than equity derivatives)	Interests under cash settled unlisted equity derivatives	Total interests as to % to the issued share capital of the Company as at 30.6.2007	Note(s)
Cheung Kong (Holdings) Limited ("Cheung Kong")	Interests of controlled corporations	455,401,955	–	7.50%	3, 4
Max Same Investment Limited ("Max Same")	Beneficial owner	423,054,586	–	6.97%	3
Li Ka-shing	Interests of controlled corporations, founder of discretionary trusts	455,401,955	–	7.50%	4
Li Ka-Shing Unity Trustee Company Limited ("TUT1")	Trustee	455,401,955	–	7.50%	4
Li Ka-Shing Unity Trustee Corporation Limited ("TDT1")	Trustee, beneficiary of a trust	455,401,955	–	7.50%	4
Li Ka-Shing Unity Trustcorp Limited ("TDT2")	Trustee, beneficiary of a trust	455,401,955	–	7.50%	4

## INTERESTS AND SHORT POSITIONS OF SHAREHOLDERS DISCLOSEABLE UNDER THE SFO (continued)

### Long positions in the shares and underlying shares of the Company (continued)

Notes:

1. Both Grand Invest and China Gate were wholly-owned subsidiaries of Shougang Holding and their respective interests were included in the interests held by Shougang Holding.
2. CTI S.A. was a wholly-owned subsidiary of CT S.p.A. which in turn was controlled by Argepa and ZZS as to 48.8% and 47.15% respectively. By virtue of the SFO, each of CT S.p.A., Argepa and ZZS was deemed to be interested in the interest held by CTI S.A.
3. Max Same was a wholly-owned subsidiary of Cheung Kong and its interest was included in the interests held by Cheung Kong.
4. Li Ka-Shing Unity Holdings Limited ("Unity Holdco"), of which each of Mr. Li Ka-shing, Mr. Li Tzar Kuoi, Victor and Mr. Li Tzar Kai, Richard was interested in one-third of the entire issued share capital, owned the entire issued share capital of TUT1. TUT1 as trustee of The Li Ka-Shing Unity Trust ("UT1"), together with certain companies which TUT1 as trustee of UT1 was entitled to exercise or control the exercise of more than one-third of the voting power at their general meetings, held more than one-third of the issued share capital of Cheung Kong.

In addition, Unity Holdco also owned the entire issued share capital of TDT1 as trustee of The Li Ka-Shing Unity Discretionary Trust ("DT1") and TDT2 as trustee of another discretionary trust ("DT2"). Each of TDT1 and TDT2 held units in UT1.

By virtue of the SFO, each of Mr. Li Ka-shing, being the settlor and may being regarded as a founder of each of DT1 and DT2 for the purpose of the SFO, TUT1, TDT1 and TDT2 was deemed to be interested in the same block of shares in which Cheung Kong was interested under the SFO.

Save as disclosed above, as at 30 June 2007, the Company has not been notified of any other person (other than the Directors and chief executives of the Company) who had an interest or short position in the shares or underlying shares of the Company which fell to be disclosed to the Company under Divisions 2 and 3 of Part XV of the SFO.







## SHARE OPTIONS

On 7 June 2002, the Scheme which complies with the requirements of Chapter 17 of the Listing Rules was adopted by the shareholders of the Company. No share option was granted, cancelled or lapsed in accordance with the terms of the Scheme during the six months ended 30 June 2007. Details of movement in the share options under the Scheme during the period are as follows:

Category of grantees	Options to subscribe for shares of the Company			Date of grant	Exercise period	Exercise price per share
	At the beginning of the period	Exercised during the period <sup>3</sup>	At the end of the period			
Directors of the Company <sup>1 &amp; 2</sup>	84,850,000	–	84,850,000	23.8.2002	23.8.2002 – 22.8.2012	HK\$0.295
	18,360,000	–	18,360,000	12.3.2003	12.3.2003 – 11.3.2013	HK\$0.280
	202,004,000	–	202,004,000	18.11.2003	18.11.2003 – 17.11.2013	HK\$0.410
	<u>305,214,000</u>	<u>–</u>	<u>305,214,000</u>			
Employees of the Group	110,000	–	110,000	12.3.2003	12.3.2003 – 11.3.2013	HK\$0.280
	6,000,000	(2,700,000)	3,300,000	18.3.2004	18.3.2004 – 17.3.2014	HK\$0.660
	<u>6,110,000</u>	<u>(2,700,000)</u>	<u>3,410,000</u>			
Other participants	53,750,000	(800,000)	52,950,000	23.8.2002	23.8.2002 – 22.8.2012	HK\$0.295
	61,850,000	–	61,850,000	12.3.2003	12.3.2003 – 11.3.2013	HK\$0.280
	5,000,000	(1,000,000)	4,000,000	18.3.2004	18.3.2004 – 17.3.2014	HK\$0.660
	<u>120,600,000</u>	<u>(1,800,000)</u>	<u>118,800,000</u>			
	<u>431,924,000</u>	<u>(4,500,000)</u>	<u>427,424,000</u>			

### Notes:

- Details of the share options granted to each Director of the Company are set out in the section headed "Directors' and Chief Executives' Interests and Short Positions in Shares, Underlying Shares and Debentures" above.
- The number of share options granted to Mr. Cao Zhong, Mr. Chen Zhouping and Mr. Zhang Wenhui, all being Directors of the Company as at 30 June 2007, on 18 November 2003 each exceeded the individual limit of 1% of the shares of the Company then in issue and were approved by the shareholders of the Company on 18 November 2003.
- The weighted average closing price of the shares of the Company immediately before the dates on which the share options were exercised was HK\$1.26 per share.

## AUDIT COMMITTEE

The Company has engaged the Auditor to assist the Audit Committee to review the 2007 interim results of the Group. A meeting of the Audit Committee was held with the Auditor and the management of the Company on 12 September 2007 for, amongst other things, reviewing the interim results of the Group for the six months ended 30 June 2007.

## 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 Listing Rules during the six months ended 30 June 2007, 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 chairmen 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 6 June 2007 (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.





## COMPLIANCE WITH MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code as a code of conduct of the Company for Directors' securities transactions. Having made specific enquiry of all Directors, the Directors have complied with the required standard set out in the Model Code and the Company's code of conduct regarding Directors' securities transactions throughout the six months ended 30 June 2007.

## DISCLOSURE UNDER RULE 13.18 OF THE LISTING RULES

Under the dual currency facility agreement dated 1 February 2006 (the "Facility Agreement") entered into between a number of banks (the "Banks") and the Company in relation to the facility in the amounts of HK\$163,800,000 and US\$129,000,000 (equivalent to an aggregate of approximately US\$150,000,000) (the "Facility") made available by the Banks to the Company, each of the following will constitute an event of default upon which the Facility will, among others, become immediately due and payable: (i) Shougang Holding ceases to be the single largest beneficial shareholder of the Company; (ii) Shougang Holding ceases to have management control in the Company; (iii) Shougang Holding ceases to be a wholly-owned subsidiary of Shougang Corporation, the holding company of Shougang Holding; and (iv) Shougang Corporation ceases to have management control in Shougang Holding. The Facility is a term loan facility which shall be repaid by the Company by instalments with the last instalment due on the date falling 60 months after the date of the Facility Agreement, subject to early repayment on the date following 36 months after the date of the Facility Agreement upon the relevant Bank(s) giving not less than 6 months' prior notice. Subsequent to the balance sheet date, the Company repaid all loan together with the relevant accrued interest under the Facility Agreement. Details of the repayment are set out in note 20(b) to the Condensed Consolidated Financial Statements.

## 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 period.

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

Hong Kong, 21 September 2007