



SHOUGANG CONCORD INTERNATIONAL  
ENTERPRISES COMPANY LIMITED

Stock Code : 697

Gather Momentum



Interim Report 2008

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**CORPORATE INFORMATION**

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**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)**

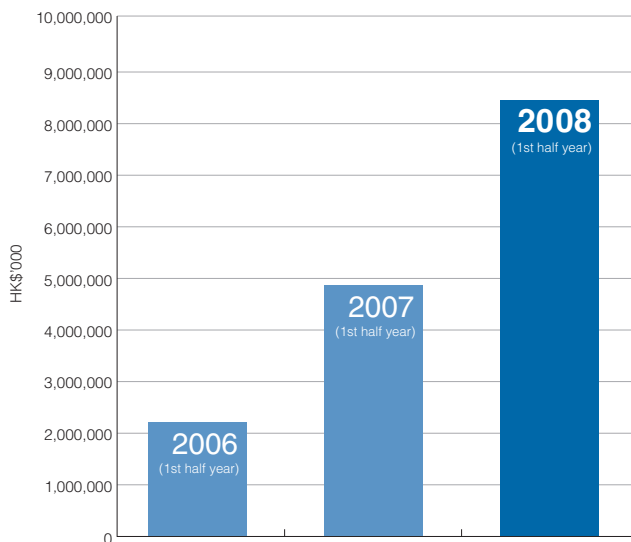
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<b>Company Secretary</b>	Cheng Man Ching
<b>Qualified Accountant</b>	Wong Hon Ming
<b>Auditor</b>	Deloitte Touche Tohmatsu
<b>Share Registrars</b>	Tricor Tengis Limited 26th Floor, Tesbury Centre 28 Queen's Road East Wanchai Hong Kong
<b>Registered 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>

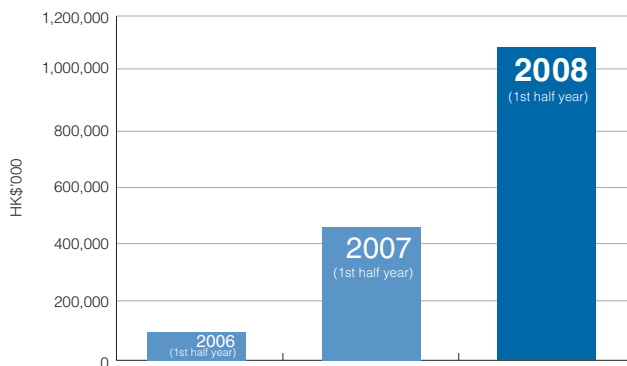


## FINANCIAL HIGHLIGHTS

### Revenue



### Profit attributable to equity holders of the Company



## 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 2008. 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 2008

		Six months ended 30 June	
		2008	2007
		HK\$'000	HK\$'000
		(unaudited)	(unaudited)
		NOTES	
<b>Continuing operations</b>			
Revenue	3	<b>8,243,002</b>	4,603,962
Cost of sales		<b>(6,256,208)</b>	(3,850,815)
Gross profit		<b>1,986,794</b>	753,147
Other income		<b>90,088</b>	74,364
Discount on acquisition of partial interest in an associate		<b>12,840</b>	–
Change in fair value of derivative financial instruments		<b>(87,775)</b>	(4,382)
Distribution costs		<b>(148,579)</b>	(57,550)
Administrative expenses		<b>(265,572)</b>	(153,146)
Finance costs		<b>(200,724)</b>	(172,844)
Share of profit of an associate		<b>10,216</b>	5,403
Gain on disposal of partial interest in a subsidiary	4	–	103,710
Gain on deemed disposal of partial interest in an associate		–	27
Profit before tax		<b>1,397,288</b>	548,729
Income tax expense	5	<b>(27,962)</b>	(19,327)
Profit for the period from continuing operations		<b>1,369,326</b>	529,402
<b>Discontinued operations</b>			
Profit for the period from discontinued operations	6	<b>11,237</b>	25,288
Profit for the period	7	<b>1,380,563</b>	554,690

**CONDENSED CONSOLIDATED INCOME STATEMENT (continued)**

FOR THE SIX MONTHS ENDED 30 JUNE 2008

		<b>Six months ended 30 June</b>	
	<i>NOTES</i>	<b>2008</b> <b>HK\$'000</b> <b>(unaudited)</b>	2007 HK\$'000 (unaudited)
Attributable to:			
Equity holders of the Company		<b>1,092,279</b>	464,673
Minority interests		<b>288,284</b>	90,017
		<b>1,380,563</b>	554,690
Dividend paid	8	<b>582,668</b>	123,162
Earnings per share	9		
From continuing and discontinued operations:			
– Basic		<b>15.15 HK cents</b>	7.89 HK cents
– Diluted		<b>14.99 HK cents</b>	7.58 HK cents
From continuing operations:			
– Basic		<b>14.99 HK cents</b>	7.46 HK cents
– Diluted		<b>14.84 HK cents</b>	7.17 HK cents



**CONDENSED CONSOLIDATED BALANCE SHEET**

AT 30 JUNE 2008

	NOTES	30 June 2008 HK\$'000 (unaudited)	31 December 2007 HK\$'000 (audited)
<b>NON-CURRENT ASSETS</b>			
Investment properties	10	34,952	32,217
Property, plant and equipment	10	8,614,820	7,818,140
Prepaid lease payments		303,800	354,243
Intangible assets		37	77
Goodwill		218,015	283,122
Interests in associates		706,971	310,368
Available-for-sale investments		314,712	467,573
Deposits for acquisition of property, plant and equipment		148,692	319,774
		<b>10,341,999</b>	<b>9,585,514</b>
<b>CURRENT ASSETS</b>			
Inventories		2,417,559	1,299,129
Trade and bill receivables	11	327,554	845,043
Prepayments, deposits and other receivables		504,392	359,709
Prepaid lease payments		5,069	9,431
Tax recoverable		1,315	8,778
Amounts due from related companies	12	1,356,455	679,893
Amount due from a minority shareholder of a subsidiary		3,204	3,204
Amount due from ultimate holding company of controlling shareholder	13	156,803	269,570
Other financial assets		96,061	177,654
Restricted bank deposits		432,060	68,779
Bank balances and cash		5,695,634	3,256,837
		<b>10,996,106</b>	<b>6,978,027</b>





**CONDENSED CONSOLIDATED BALANCE SHEET (continued)**

AT 30 JUNE 2008

	NOTES	30 June 2008 HK\$'000 (unaudited)	31 December 2007 HK\$'000 (audited)
<b>CURRENT LIABILITIES</b>			
Trade and bill payables	14	1,701,628	954,829
Other payables and accrued liabilities		1,831,664	1,597,538
Tax liabilities		36,752	16,233
Amounts due to related companies	12	972,283	546,797
Amount due to ultimate holding company of controlling shareholder	13	77,642	209,281
Bank borrowings	15	2,634,574	3,194,900
Other financial liabilities		20,131	13,949
Loans from ultimate holding company of controlling shareholder	16	931,490	1,070,663
		<b>8,206,164</b>	<b>7,604,190</b>
<b>NET CURRENT ASSETS (LIABILITIES)</b>		<b>2,789,942</b>	<b>(626,163)</b>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<b>13,131,941</b>	<b>8,959,351</b>
<b>NON-CURRENT LIABILITIES</b>			
Bank borrowings	15	4,326,135	965,044
Deferred tax liabilities		51,038	50,374
		<b>4,377,173</b>	<b>1,015,418</b>
		<b>8,754,768</b>	<b>7,943,933</b>
<b>CAPITAL AND RESERVES</b>			
Share capital	17	1,456,668	1,400,639
Share premium and reserves		6,031,313	5,414,092
Equity attributable to equity holders of the Company		7,487,981	6,814,731
Minority interests		1,266,787	1,129,202
		<b>8,754,768</b>	<b>7,943,933</b>



## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 30 JUNE 2008

	Attributable to equity holders of the Company														
	Share capital HK\$'000	Share premium HK\$'000	Capital redemption reserve HK\$'000	Revaluation reserve HK\$'000 (Note c)	Exchange reserve HK\$'000	Share option reserve HK\$'000	Special capital reserve HK\$'000 (Note a)	Capital reserve HK\$'000	Enterprise expansion fund and statutory reserve fund HK\$'000 (Note b)	Security investment reserve HK\$'000	Non-distributable reserve HK\$'000	Accumulated profits HK\$'000	Total HK\$'000	Minority interests HK\$'000	Total HK\$'000
At 1 January 2007 (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
Movements in reserves of an associate	-	-	-	-	6,114	-	-	-	1,254	-	-	(1,254)	6,114	-	6,114
Exchange differences arising on translation	-	-	-	-	69,446	-	-	-	-	-	-	-	69,446	17,493	86,939
Effect of changes 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 (expenses) 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)
Disposal of partial interest in a subsidiary	-	-	-	(17,447)	(13,660)	-	-	-	(11,325)	-	-	28,772	(13,660)	312,714	299,054
Profit for the period	-	-	-	-	-	-	-	-	-	-	-	464,673	464,673	90,017	554,690
Total recognised income and expense for the period	-	-	-	(20,329)	61,819	-	-	(2)	(10,136)	67,246	-	492,256	590,854	420,224	1,011,078
Transfer to enterprises expansion and statutory reserve fund	-	-	-	-	-	-	-	-	476	-	-	(476)	-	-	-
Transfer to accumulated profits (Note a)	-	-	-	-	-	-	(292,655)	-	-	-	-	292,655	-	-	-
Share issued at premium	40,000	160,000	-	-	-	-	-	-	-	-	-	-	200,000	-	200,000
Effects of share options	900	1,778	-	-	-	-	-	-	-	-	-	-	-	-	2,678
Share issue expenses	-	(2,618)	-	-	-	-	-	-	-	-	-	-	(2,618)	-	(2,618)
Dividends paid to minority interests	-	-	-	-	-	-	-	-	-	-	-	-	-	(2,906)	(2,906)
Dividends recognised as distribution	-	-	-	-	-	-	-	-	-	-	-	(123,162)	(123,162)	-	(123,162)
Disposal of subsidiaries	-	-	-	-	-	-	-	-	-	-	-	-	-	(25)	(25)
Contribution from a minority shareholder	-	-	-	-	-	-	-	-	-	-	-	-	-	693	693
Sub-total	40,900	159,160	-	-	-	-	(292,655)	-	476	-	-	169,017	76,898	(2,238)	74,660
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 2008

	Attributable to equity holders of the Company												
	Share capital HK\$'000	Share premium HK\$'000	Capital redemption reserve HK\$'000	Revaluation reserve HK\$'000 (Note c)	Exchange reserve HK\$'000	Share option reserve HK\$'000	Special capital reserve HK\$'000 (Note a)	Capital reserve HK\$'000	Enterprise expansion fund and statutory reserve fund HK\$'000 (Note b)	Security investment reserve HK\$'000	Non-distributable reserve HK\$'000	Accumulated profits HK\$'000	Minority interests HK\$'000
At 1 January 2008 (audited)	1,400,639	2,193,164	1,019	30,818	356,578	59,726	-	-	402,909	315,836	51,979	2,002,063	6,814,731
Movements in reserves of an associate	-	-	-	(117)	27,672	-	-	-	(613)	(67,301)	-	3,686	(36,673)
Exchange differences arising on translation	-	-	-	-	237,690	-	-	-	-	-	-	-	237,690
Change in fair value of available-for-sale investments	-	-	-	-	-	-	-	-	-	(154,413)	-	-	(154,413)
Net (expenses) income recognised directly in equity	-	-	-	(117)	265,362	-	-	-	(613)	(221,714)	-	3,686	69,648
Released on disposal of subsidiaries	-	-	-	-	(44,357)	-	-	-	-	-	-	-	(44,357)
Profit for the period	-	-	-	-	-	-	-	-	-	-	-	1,092,279	288,284
Total recognised income and expense for the period	-	-	-	(117)	221,005	-	-	-	(613)	(221,714)	-	1,095,965	357,932
Transfer to enterprise expansion and statutory reserve fund	-	-	-	-	-	-	-	-	267	-	-	(267)	-
Effects of share options	56,029	49,361	-	-	-	-	-	-	-	-	-	105,390	105,390
Share issue expenses	-	(50)	-	-	-	-	-	-	-	-	-	-	(50)
Dividends recognised as distribution	-	-	-	-	-	-	-	-	-	-	-	(582,668)	-
Disposal of subsidiaries	-	-	-	-	-	-	-	-	(13,369)	-	-	13,369	(279,526)
Contribution from a minority shareholder	-	-	-	-	-	-	-	-	-	-	-	-	59,179
Recognition of equity-settled share based payment	-	-	-	-	-	56,052	-	-	-	-	-	-	56,052
Sub-total	56,029	49,311	-	-	-	56,052	-	-	(13,102)	-	-	(569,566)	(220,347)
At 30 June 2008 (unaudited)	1,456,668	2,242,475	1,019	30,701	577,583	115,778	-	-	389,194	94,122	51,979	2,528,462	7,487,981



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

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FOR THE SIX MONTHS ENDED 30 JUNE 2008

*Notes:*

- (a) Special Capital Reserve of the Group was created through cancellation of share premium and capital reserve accounts (the "Cancellation") pursuant to the order of the High Court of Hong Kong (the "High Court") made on 1 September 2005.

Pursuant to the order of the High Court, subject to the provisos of the court order, the Company shall be at liberty to transfer the Special Capital Reserve to the general reserves of the Company and the same shall become available for distribution.

During the year ended 31 December 2006, the Company fulfilled one of the provisos of the court order and decided to transfer the Special Capital Reserve to the accumulated profit during the year ended 31 December 2007.

- (b) Enterprise expansion fund and statutory reserve fund, which are non-distributable, are appropriated from the profit after tax of the Company's subsidiaries and associates under the applicable laws and regulations in the People's Republic of China (the "PRC") (other than Hong Kong).
- (c) Revaluation reserve mainly represented the fair value recognised on prepaid lease payments upon the acquisition of Qinhuangdao Shouqin Metal Materials Co., Ltd. ("Shouqin") in 2005.

**CONDENSED CONSOLIDATED CASH FLOW STATEMENT**

FOR THE SIX MONTHS ENDED 30 JUNE 2008

		<b>Six months ended 30 June</b>	
	<b>2008</b>	<b>2007</b>	
	<b>HK\$'000</b>	<b>HK\$'000</b>	
	<b>(unaudited)</b>	<b>(unaudited)</b>	
Net cash from operating activities	<b>2,663,945</b>	758,572	
Net cash used in investing activities			
Purchase of property, plant and equipment	<b>(845,360)</b>	(311,451)	
Subscription of shares of associates	<b>(415,689)</b>	–	
(Increase) decrease in restricted bank deposits	<b>(359,062)</b>	41,144	
Increase in amounts due from related companies	<b>(331,775)</b>	(4,678)	
Increase in amount due from ultimate holding company of controlling shareholder	<b>(155,767)</b>	(177,490)	
Net cash outflow from disposal of subsidiaries	<b>(14,443)</b>	(13,742)	6
Deposit paid for acquisition of property, plant and equipment	<b>(8,995)</b>	(485,920)	
Dividends received from an associate	<b>6,866</b>	–	
Purchase of available-for-sale investments	–	(211,047)	
Proceeds from disposal of partial interest in a subsidiary	–	411,812	
Other investing activities	<b>41,749</b>	45,118	
	<b>(2,082,476)</b>	(706,254)	
Net cash from financing activities			
New borrowings raised	<b>5,856,806</b>	2,132,171	
Proceeds from issue of shares on subscription	<b>105,390</b>	200,060	
Repayment of bank borrowings	<b>(3,300,860)</b>	(2,190,741)	
Payment of dividend	<b>(582,668)</b>	(123,162)	
Repayment of loan from ultimate holding company of controlling shareholder	<b>(204,847)</b>	–	
(Decrease) increase in amount due to related companies	<b>(101,583)</b>	18,108	
(Decrease) increase in amount due to ultimate holding company of controlling shareholder	<b>(48,127)</b>	399,264	
Other financing activities	<b>59,129</b>	(1,387)	
	<b>1,783,240</b>	434,313	
Net increase in cash and cash equivalents	<b>2,364,709</b>	486,631	
Cash and cash equivalents at 1 January	<b>3,256,837</b>	1,728,222	
Effect of foreign exchange rate changes	<b>74,088</b>	22,829	
Cash and cash equivalents at 30 June, represented by bank balances and cash	<b>5,695,634</b>	2,237,682	



## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2008

### 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").

### 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 2007.

In the current interim period, the Group has applied, for the first time, the following new interpretations ("new Interpretations") issued by the HKICPA, which are effective for the Group's financial year beginning on 1 January 2008.

HK(IFRIC) – Int 11	HKFRS 2 – Group and Treasury Share Transactions
HK(IFRIC) – Int 12	Service Concession Arrangements
HK(IFRIC) – Int 14	HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

The adoption of these new Interpretations 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 recognised.



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

FOR THE SIX MONTHS ENDED 30 JUNE 2008

### 2. PRINCIPAL ACCOUNTING POLICIES (continued)

The Group has not early adopted the following new and revised standards, amendments or interpretation that have been issued but are not yet effective.

HKAS 1 (Revised)	Presentation of Financial Statements <sup>1</sup>
HKAS 23 (Revised)	Borrowing Costs <sup>1</sup>
HKAS 27 (Revised)	Consolidated and Separate Financial Statements <sup>2</sup>
HKAS 32 & 1 (Amendments)	Puttable Financial Instruments and Obligations Arising on Liquidation <sup>1</sup>
HKFRS 2 (Amendment)	Vesting Conditions and Cancellations <sup>1</sup>
HKFRS 3 (Revised)	Business Combinations <sup>2</sup>
HKFRS 8	Operating Segments <sup>1</sup>
HK(IFRIC) – Int 13	Customer Loyalty Programmes <sup>3</sup>
HK(IFRIC) – Int 15	Agreements for the Construction of Real Estate <sup>1</sup>
HK(IFRIC) – Int 16	Hedges of a Net Investment in a Foreign Operation <sup>4</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 July 2009.

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

<sup>4</sup> Effective for annual periods beginning on or after 1 October 2008.

The adoption of HKFRS 3 (Revised) may affect the accounting for any business combination for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009. HKAS 27 (Revised) will affect the accounting treatment for changes in a parent's ownership interest in a subsidiary that do not result in a loss of control, which will be accounted for as equity transactions. The directors of the Company anticipate that the application of the other new or revised standards, amendments or interpretation will have no material impact on the results and the financial position of the Group.



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

FOR THE SIX MONTHS ENDED 30 JUNE 2008

### 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 2008 (unaudited)*

	Continuing operations					Discontinued operation	
	Steel manufacturing	Shipping operations	Steel trading	Others	Elimination	Total	Electricity generation
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Revenue							
External customers	6,956,078	238,958	1,046,862	1,104	-	8,243,002	209,644
Inter-segment sales	572,586	-	-	-	(572,586)	-	-
Total	<u>7,528,664</u>	<u>238,958</u>	<u>1,046,862</u>	<u>1,104</u>	<u>(572,586)</u>	<u>8,243,002</u>	<u>209,644</u>

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

Result								
Segment results	<u>1,515,699</u>	<u>154,050</u>	<u>8,724</u>	<u>1,848</u>	<u>-</u>	<u>1,680,321</u>	<u>18,882</u>	<u>1,699,203</u>
Unallocated income						72,397	12	72,409
Unallocated corporate expenses						(177,762)	-	(177,762)
Finance costs						(200,724)	(5,475)	(206,199)
Discount on acquisition of partial interest in an associate	12,840	-	-	-	-	12,840	-	12,840
Share of profit of an associate	10,216	-	-	-	-	10,216	-	10,216
Profit before tax						1,397,288	13,419	1,410,707
Income tax expense						(27,962)	(6,411)	(34,373)
Gain on disposal of subsidiaries						-	4,229	4,229
Profit for the period	<u>1,369,326</u>	<u>11,237</u>	<u>1,380,563</u>					





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

FOR THE SIX MONTHS ENDED 30 JUNE 2008

### 3. SEGMENT INFORMATION (continued)

Six months ended 30 June 2007 (unaudited)

	Continuing operations					Discontinued operations				
	Steel manufacturing HK\$'000	Shipping operations HK\$'000	Steel trading HK\$'000	Others HK\$'000	Elimination HK\$'000	Total HK\$'000	Kitchen and laundry equipment HK\$'000	Electricity generation HK\$'000	Sub-total HK\$'000	Consolidated HK\$'000
Revenue										
External customers	3,682,345	139,966	780,665	966	-	4,603,962	49,839	228,791	278,630	4,882,592
Inter-segment sales	536,900	-	-	-	(536,900)	-	-	-	-	-
Total	4,219,245	139,966	780,665	966	(536,900)	4,603,962	49,839	228,791	278,630	4,882,592

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

Result										
Segment results	506,572	72,521	3,796	1,746	-	584,635	5,274	38,083	43,357	627,992
Unallocated income						51,886	54	37	91	51,977
Unallocated corporate expenses						(24,088)	-	-	-	(24,088)
Finance costs						(172,844)	(16)	(4,961)	(4,977)	(177,821)
Share of profit of an associate	5,403	-	-	-	-	5,403	-	-	-	5,403
Gain on disposal of partial interest in a subsidiary	103,710	-	-	-	-	103,710	-	-	-	103,710
Gain on deemed disposal of partial interest in an associate	27	-	-	-	-	27	-	-	-	27
Profit before tax						548,729	5,312	33,159	38,471	587,200
Income tax expense						(19,327)	(478)	(4,115)	(4,593)	(23,920)
Loss on disposal of subsidiaries						-	(8,590)	-	(8,590)	(8,590)
Profit (loss) for the period						529,402	(3,756)	29,044	25,288	554,890



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

FOR THE SIX MONTHS ENDED 30 JUNE 2008

### 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 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\$104 million.

The Company had 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 the 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 directors are of the opinion that the above put option represents general performance warranty provisions which are within the control of the Group and did not have any financial impact on the Group during the period.



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

FOR THE SIX MONTHS ENDED 30 JUNE 2008

### 5. INCOME TAX EXPENSE

	<b>Six months ended 30 June</b>	
	<b>2008 HK\$'000 (unaudited)</b>	<b>2007 HK\$'000 (unaudited)</b>
<b>Continuing operations:</b>		
Current tax:		
PRC Enterprise Income Tax	<b>30,992</b>	22,692
(Over) underprovision in prior periods:		
PRC Enterprise Income Tax	<b>(2,076)</b>	348
	<b>28,916</b>	23,040
Deferred tax:		
Current period	<b>(954)</b>	(8,540)
Attributable to change in tax rate	<b>—</b>	4,827
	<b>(954)</b>	(3,713)
Income tax expense relating to continuing operations	<b>27,962</b>	19,327
<b>Discontinued operations:</b>		
Current tax:		
PRC Enterprise Income Tax	<b>6,374</b>	4,411
Overprovision in prior periods:		
PRC Enterprise Income Tax	<b>37</b>	182
Income tax expense relating to discontinued operations	<b>6,411</b>	4,593
Income tax expense relating to continuing operations and discontinued operations	<b>34,373</b>	23,920

No provision for Hong Kong Profits Tax has been made for each of the six months ended 30 June 2008 and 2007 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.



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

FOR THE SIX MONTHS ENDED 30 JUNE 2008

### 5. INCOME TAX EXPENSE (continued)

Pursuant to Income Tax Law of the “PRC” for Enterprises with Foreign Investment and Foreign Enterprises, Qinhuangdao Shougang Plate Mill Co., Ltd. (“Qinhuangdao Plate Mill”), a principal subsidiary of the Company operating in Economic and Technology Development Zone of the PRC, is entitled to a preferential income tax rate of 24%. Pursuant to an approval granted by the local tax bureau in December 2006, Qinhuangdao Plate Mill is entitled to a reduction of income tax rate to 17% for the years from 2008 to 2010.

Qinhuangdao Shouqin Metal Materials Co., Ltd. (“Shouqin”) is eligible for certain tax holidays and concessions in respect of PRC income tax and are exempted from PRC income taxes for the two years commencing from its first profit making year of operation and thereafter, this PRC subsidiary will be entitled to a 50% relief from PRC income tax for the following three years. The PRC income tax charges are arrived at after taking into account these tax incentives.

On 16 March 2007, the PRC promulgated the Law of the PRC on Enterprise Income Tax (the “New Law”) by Order No. 63 issued by the Tenth National People’s Congress. On 6 December 2007, the State Council of the PRC issued Implementation Regulations of the New Law. The New Law and Implementation Regulations changed the tax rate for the current period. The New Law provides a five-year transition period from 1 January 2008 for those subsidiaries which were established before the promulgation date of the New Law and which are entitled to a preferential lower tax rate under the effective tax laws or regulations and hence the 25% tax rate will only be applicable to certain subsidiaries after the expiry of tax holidays and concessions.

Under the old Foreign Enterprises Income Tax Law (“FEIT Law”), withholding tax (“WHT”) on dividends from Foreign Investment Enterprises (“FIEs”) to their foreign investors is exempted. The newly promulgated Corporate Income Tax Law (“CIT Law”) of the PRC was effective on 1 January 2008. Under the new CIT Law, a special WHT exemption is granted for dividends declared of pre-2008 undistributed profits. While pre-2008 retained earnings of an FIE will be exempted from WHT when they are distributed to foreign investors from 1 January 2008 onwards, dividends declared in respect of profits earned from 1 January 2008 and after will be subject to WHT at 5%.



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

FOR THE SIX MONTHS ENDED 30 JUNE 2008

### 6. DISCONTINUED OPERATIONS

On 30 April 2008, the Group entered into a sale agreement to dispose of the entire interest in Ultra Result Limited ("URL") and its subsidiary, which carried out all of the Group's electricity generation operations, to a subsidiary of the controlling shareholder. The disposal was completed on 12 June 2008 (the "Completion Date"), on which date control of URL and its subsidiary was passed to the acquirer.

The profit (loss) for the period from the discontinued operations are analysed as follows:

	<b>1 January 2008 to 12 June 2008 HK\$'000</b>	1 January 2007 to 30 June 2007 HK\$'000
Profit of electricity generation operation for the period	<b>7,008</b>	29,044
Gain on disposal of electricity generation operation	<b>4,229</b>	—
Profit of kitchen and laundry equipment operation for the period	—	4,834
Loss on disposal of kitchen and laundry equipment operation	—	(8,590)
	<b><u>11,237</u></b>	<b><u>25,288</u></b>



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

FOR THE SIX MONTHS ENDED 30 JUNE 2008

### 6. DISCONTINUED OPERATIONS (continued)

The results of the electricity generation operation were as follows:

	<b>1 January 2008 to 12 June 2008 HK\$'000</b>	1 January 2007 to 30 June 2007 HK\$'000
Revenue	<b>209,644</b>	228,791
Cost of sales	<b>(162,471)</b>	(175,572)
Other income	<b>21</b>	37
Administrative expenses	<b>(28,300)</b>	(15,136)
Finance costs	<b>(5,475)</b>	(4,961)
	<hr/>	<hr/>
Profit before tax	<b>13,419</b>	33,159
Income tax expense	<b>(6,411)</b>	(4,115)
	<hr/>	<hr/>
Profit for the period	<b>7,008</b>	29,044



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

FOR THE SIX MONTHS ENDED 30 JUNE 2008

### 6. DISCONTINUED OPERATIONS (continued)

The net assets of URL and its subsidiary at the date of disposal were as follows:

	<b>12 June 2008</b> <b>HK\$'000</b>
Net assets disposed of:	
Property, plant and equipment	<b>260,592</b>
Prepaid lease payments	<b>68,782</b>
Inventories	<b>17,356</b>
Prepayment, deposits and other receivables	<b>1,267</b>
Amounts due from related companies	<b>451,112</b>
Bank balances and cash	<b>14,443</b>
Trade and bill payables	<b>(3,931)</b>
Other payable and accrued liabilities	<b>(28,074)</b>
Tax liabilities	<b>(921)</b>
Amounts due to related companies	<b>(209,579)</b>
	<b>571,047</b>
Minority interests	<b>(279,526)</b>
Attributable goodwill	<b>65,107</b>
Reserve realised	<b>(44,357)</b>
Gain on disposal	<b>4,229</b>
	<b>316,500</b>
Total consideration	<b>316,500</b>
Satisfied by:	
Consideration receivable	<b>316,500</b>
Net cash outflow arising on disposal:	
Disposal of bank balances and cash	<b>(14,443)</b>

HK\$158,250,000 of the consideration receivable was settled in cash by the acquirer on 28 August 2008. The remaining consideration receivable is expected to be settled in cash by the acquirer within 3 months from the Completion Date.



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

FOR THE SIX MONTHS ENDED 30 JUNE 2008

### 6. DISCONTINUED OPERATIONS (continued)

Cash flows from URL and its subsidiary:

Net cash flows from operating activities  
Net cash flows from investing activities  
Net cash flows from financing activities

Net cash flows

1 January 2008  
to  
12 June 2008  
HK\$'000

177,579  
1,488  
(174,236)

4,831

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 operation. The disposal was completed on 27 June 2007, on which date control of Radnor Limited and its subsidiaries was passed to the acquirer.

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

1 January 2007  
to  
27 June 2007  
HK\$'000

Revenue	49,839
Cost of sales	(42,832)
Other income	123
Distribution costs	(913)
Administrative expenses	(889)
Finance costs	(16)
Profit before tax	5,312
Income tax expense	(478)
Profit for the period	4,834





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

FOR THE SIX MONTHS ENDED 30 JUNE 2008

### 6. DISCONTINUED OPERATIONS (continued)

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

	27 June 2007 HK\$'000
Net assets disposed of:	
Property, plant and equipment	1,547
Prepaid lease payments	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)
	<hr/>
	12,235
Minority interests	(25)
Loss on disposal	(8,590)
	<hr/>
Total consideration	3,620
	<hr/>
Satisfied by:	
Consideration receivable	3,620
	<hr/>
Net cash outflow arising on disposal:	
Disposal of bank balances and cash	(13,742)
	<hr/>



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

FOR THE SIX MONTHS ENDED 30 JUNE 2008

### 6. DISCONTINUED OPERATIONS (continued)

The consideration receivable was settled in cash by the acquirer on 31 July 2007 and 1 August 2007.

1 January 2007  
to  
27 June 2007  
HK\$'000

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	(168)
	<hr/>
Net cash flows	(1,699)
	<hr/>



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

FOR THE SIX MONTHS ENDED 30 JUNE 2008

### 7. PROFIT FOR THE PERIOD

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

	Six months ended 30 June							
	Continuing operations		Discontinued operations				Consolidated	
			Kitchen and					
			Electricity	laundry	Electricity			
			generation	equipment	generation	Sub-total		
	2008	2007	2008	2007	2007	2007	2008	2007
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Amortisation of intangible assets	43	289	–	–	–	–	43	289
Depreciation of property, plant and equipment	249,595	206,873	7,052	274	10,615	10,889	256,647	217,762
Total depreciation and amortisation	249,638	207,162	7,052	274	10,615	10,889	256,690	218,051
Revenue	(8,243,002)	(4,603,962)	(209,644)	(49,839)	(228,791)	(278,630)	(8,452,646)	(4,882,592)
Cost of sales	6,256,208	3,850,815	162,471	42,832	175,572	218,404	6,418,679	4,069,219
Finance costs	200,724	172,844	5,475	16	4,961	4,977	206,199	177,821
Profit before tax	(1,397,288)	(548,729)	(13,419)	(5,312)	(33,159)	(38,471)	(1,410,707)	(587,200)
(Write-back) allowance for bad and doubtful debts, net	(2,223)	(3,043)	–	24	–	24	(2,223)	(3,019)
Cost of arrangement of bank borrowings (included in finance costs)	1,401	2,514	–	–	–	–	1,401	2,514
Allowance for inventories	–	–	–	2,685	–	2,685	–	2,685
Interest income	(40,424)	(38,194)	(12)	(54)	–	(54)	(40,436)	(38,248)
(Gain) loss on disposal of property, plant and equipment	(604)	44	10,348	7	–	7	9,744	51
Release of prepaid lease payments	2,501	2,359	1,945	43	2,141	2,184	4,446	4,543
Share of tax of an associate (included in share of profit of an associate)	5,534	891	–	–	–	–	5,534	891



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

FOR THE SIX MONTHS ENDED 30 JUNE 2008

### 8. DIVIDEND

On 17 June 2008, final dividend of HK4 cents (2007: HK2.1 cents) per share and special dividend of HK4 cents per share were paid to shareholders for 2007.

The Board of Directors has declared an interim dividend of HK2 cents per share (2007: nil) payable to the shareholders of the Company whose names appear on the register of members on 19 September 2008.

### 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:

	Six months ended 30 June	
	2008 HK\$'000 (unaudited)	2007 HK\$'000 (unaudited)
<b>Earnings</b>		
Earnings for the purpose of basic earnings per share (Profit for the period attributable to equity holders of the Company)	1,092,279	464,673
Effect of dilutive potential ordinary shares: Adjustment to the share of profit of an associate based on dilution of its earnings per share	(275)	(172)
Earnings for the purpose of diluted earnings per share	1,092,004	464,501

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

FOR THE SIX MONTHS ENDED 30 JUNE 2008

### 9. EARNINGS PER SHARE (continued)

#### From continuing and discontinued operations (continued)

	Six months ended 30 June	
	2008	2007
<b>Number of shares</b>		
Weighted average number of ordinary shares for the purpose of basic earnings per share	<b>7,209,904,422</b>	5,891,566,053
Effect of dilutive potential ordinary shares on share options	<b>74,901,389</b>	237,587,571
Weighted average number of ordinary shares for the purpose of diluted earnings per share	<b>7,284,805,811</b>	6,129,153,624



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

FOR THE SIX MONTHS ENDED 30 JUNE 2008

### 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 Company entity is based on the following data:

	<b>Six months ended 30 June</b>	
	<b>2008</b>	2007
	<b>HK\$'000</b>	HK\$'000
	<b>(unaudited)</b>	(unaudited)
Earnings figures are calculated as follow:		
Profit for the period attributable to equity holders of the Company	<b>1,092,279</b>	464,673
Less: profit for the period from discontinued operations	<b>(11,237)</b>	(25,288)
Earnings for the purpose of basic earnings per share from continuing operations	<b>1,081,042</b>	439,385
Effect of dilutive potential ordinary shares: Adjustment to the share of profit of an associate based on dilution of its earnings per share	<b>(275)</b>	(172)
Earnings for the purpose of diluted earnings per share from continuing operations	<b>1,080,767</b>	439,213

The denominators used are the same as those 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 2008

### 9. EARNINGS PER SHARE (continued)

#### From discontinued operations

Basic earnings per share from discontinued operations is HK0.16 cent per share (30.6.2007: basic earnings per share from discontinued operations is HK0.43 cent per share) and diluted earnings per share from the discontinued operations is HK0.15 cent per share (30.6.2007: diluted earnings per share from discontinued operations is HK0.41 cent per share), based on the profit for the period from the discontinued operations of HK\$11,237,000 (30.6.2007: profit for the period from the discontinued operations of HK\$25,288,000) and the denominators detailed above for both basic and diluted earnings per share.

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

The directors are of the opinion that the market value of the Group's investment properties as at 30 June 2008 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\$857,541,000 (HK\$516,510,000 for the six months ended 30 June 2007) 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 periods 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 2008 HK\$'000 (unaudited)</b>	31 December 2007 HK\$'000 (audited)
Within 60 days	<b>327,497</b>	720,504
61 – 90 days	<b>56</b>	3,336
91 – 180 days	<b>1</b>	121,160
181 – 365 days	<b>–</b>	43
	<b>327,554</b>	845,043



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

FOR THE SIX MONTHS ENDED 30 JUNE 2008

### 12. AMOUNTS DUE FROM (TO) RELATED COMPANIES

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 2008 HK\$'000 (unaudited)</b>	31 December 2007 HK\$'000 (audited)
Within 60 days	<b>981,327</b>	513,274
61 – 90 days	<b>5,728</b>	38,219
91 – 180 days	<b>19,999</b>	91,777
181 – 365 days	<b>27</b>	18,858
1 – 2 years	<b>–</b>	166
	<b><u>1,007,081</u></b>	<b><u>662,294</u></b>

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

	<b>30 June 2008 HK\$'000 (unaudited)</b>	31 December 2007 HK\$'000 (audited)
Within 90 days	<b>861,647</b>	346,330
91 – 180 days	<b>4,912</b>	3,945
181 – 365 days	<b>9,404</b>	418
1 – 2 years	<b>2,491</b>	6,568
Over 2 years	<b>11,861</b>	5,985
	<b><u>890,315</u></b>	<b><u>363,246</u></b>





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

FOR THE SIX MONTHS ENDED 30 JUNE 2008

### 13. AMOUNT DUE FROM (TO) ULTIMATE HOLDING COMPANY OF CONTROLLING SHAREHOLDER

The trade receivables/payables from (to) ultimate holding company of controlling shareholder are unsecured, interest-free and repayable within 60 days. The non-trade receivables/payables from (to) ultimate holding company of controlling shareholder are unsecured, interest-free and are repayable on demand.

As at 31 December 2007, trade receivables from ultimate holding company of controlling shareholder of approximately HK\$268,534,000 (30.6.2008: nil) aged within 60 days.

The trade payables to ultimate holding company of the controlling shareholder and an aged analysis of such balances are as follows:

	<b>30 June 2008 HK\$'000 (unaudited)</b>	31 December 2007 HK\$'000 (audited)
Within 90 days	–	51,952
91 – 180 days	–	23,454
181 – 365 days	<b>697</b>	25,417
1 – 2 years	<b>16,735</b>	121
	<b>17,432</b>	100,944



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

FOR THE SIX MONTHS ENDED 30 JUNE 2008

### 14. TRADE AND BILL PAYABLES

The following is an aged analysis of trade payables at the balance sheet date:

	<b>30 June 2008 HK\$'000 (unaudited)</b>	31 December 2007 HK\$'000 (audited)
Within 90 days	<b>1,329,011</b>	806,873
91 – 180 days	<b>339,475</b>	136,819
181 – 365 days	<b>29,535</b>	6,652
1 – 2 years	<b>3,169</b>	2,236
Over 2 years	<b>438</b>	2,249
	<b><u>1,701,628</u></b>	<u>954,829</u>

### 15. BANK BORROWINGS

During the period, the Group obtained new bank loans of approximately HK\$5,867,500,000 (HK\$2,132,171,000 for the six months ended 30 June 2007). The loans carry interest at 3.19% to 7.47% per annum (5.24% to 6.68% per annum for the six months ended 30 June 2007). The proceeds 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\$3,300,860,000 (HK\$2,190,741,000 for the six months ended 30 June 2007) during the period.

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

The amounts are unsecured, interest bearing at 5.76% to 7.47% per annum (5.76% to 6.57% per annum for the six months ended 30 June 2007) and are repayable according to the repayment schedules.



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

FOR THE SIX MONTHS ENDED 30 JUNE 2008

### 17. SHARE CAPITAL

	Number of shares	Share capital <i>HK\$'000</i>
Ordinary shares of HK\$0.20 each		
Authorised:		
At 1 January 2007, 31 December 2007 and 30 June 2008	10,000,000,000	2,000,000
Issued and fully paid:		
At 1 January 2007	5,864,057,214	1,172,811
Exercise of share options	139,140,000	27,828
Issue of shares on subscription	1,000,000,000	200,000
At 31 December 2007	7,003,197,214	1,400,639
Exercise of share options	280,144,000	56,029
At 30 June 2008	7,283,341,214	1,456,668

### 18. COMMITMENTS

	<b>30 June 2008 HK\$'000 (unaudited)</b>	31 December 2007 HK\$'000 (audited)
CAPITAL COMMITMENT		
Capital expenditure contracted for but not provided in the condensed consolidated financial statements in respect of acquisition of property, plant and equipment	<b>570,592</b>	—
OTHER COMMITMENT		
Capital injection in respect of investees	<b>124,843</b>	101,222



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

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FOR THE SIX MONTHS ENDED 30 JUNE 2008

### 19. PLEDGE OF ASSETS

As at 30 June 2008, the following items were used to secure banking facilities granted to the Group:

- (a) Restricted bank deposits amounting to approximately HK\$432,060,000 (31 December 2007: HK\$68,779,000).
- (b) Pledge of the Group's 100% equity interest in Qinhuangdao Plate Mill, net assets of which amounting to approximately HK\$1,899,293,000. The Group had no such pledge of assets as at 31 December 2007.
- (c) Pledge of assets of Equity Dragon Assets Limited and Pointer Investments Limited, wholly owned subsidiaries of the Group, net assets of which amounting to approximately HK\$456,325,000 and HK\$583,599,000 respectively. The Group had no such pledge of assets as at 31 December 2007.
- (d) As at 31 December 2007, pledge of the Group's plant and machinery with net book value of approximately HK\$302,180,000. The Group had no such pledge of assets as at 30 June 2008.



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

FOR THE SIX MONTHS ENDED 30 JUNE 2008

### 20. 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	
	Notes	2008 HK\$'000 (unaudited)	2007 HK\$'000 (unaudited)
<b>Shougang Group</b>			
Sales of goods by the Group	(a)	1,298,273	1,303,619
Provision of electricity, steam and hot water by the Group	(b)	210,621	228,791
Purchases of goods by the Group	(c)	2,196,225	1,701,078
Lease rentals charged to the Group	(d)	2,252	1,375
Management fees charged to the Group	(e)	480	480
Purchases of spare parts by the Group	(f)	72,793	45,786
Management fees charged by the Group	(g)	960	960
Rental income charged by the Group	(h)	76	76
Interest charged to the Group	(i)	25,464	35,401
Service fees charged to the Group	(j)	76,101	44,252
Service fees charged by the Group	(k)	58,584	3,950
Purchase of property, plant and equipment by the Group	(l)	304,582	233,739

Notes:

- (a) Qinhuangdao Plate Mill and Shouqin sold steel products and scrap materials to Shougang Group.
- (b) Beijing Shougang Firstlevel Power Co., Ltd. ("Beijing Power Plant") sold electricity, steam and hot water to Shougang Group.
- (c) The Group purchased materials and steel products from Shougang Group.



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

FOR THE SIX MONTHS ENDED 30 JUNE 2008

### 20. RELATED PARTY DISCLOSURES (continued)

#### (I) Transactions (continued)

*Notes: (continued)*

- (d) The Group entered into various rental agreements with Shougang Group for renting office and residential apartments as staff quarters.
- (e) Management fees were paid to Shougang Holding (Hong Kong) Limited ("Shougang HK"), the controlling shareholder, for the provision of management services.
- (f) The Group purchased spare parts from Shougang Group.
- (g) 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 7.47% (30.6.2007: 5.76% to 6.57%) 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.
- (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.

On 8 January 2008, Shouqin, a subsidiary of Shougang Corporation and an independent third party signed an agreement to set up a company in PRC. Its principal activities are sales and manufacture of steel materials. As at 30 June 2008, the Group contributed approximately HK\$3,073,000 to set up this company. With significant control on this company, the investment was accounted for as interest in associates.

On 12 June 2008, the Group disposed of URL, a wholly owned subsidiary of the Group to a subsidiary of Shougang HK, the controlling shareholder of the Group at a consideration of HK\$316,500,000, gain on disposal of approximately HK\$4,229,000 was resulted.



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

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FOR THE SIX MONTHS ENDED 30 JUNE 2008

### 20. RELATED PARTY DISCLOSURES (continued)

#### (II) Balances

Details of balances with the Group's related companies are set out in the condensed consolidated balance sheet and notes 12, 13 and 16.

Shougang Corporation has provided corporate guarantees for certain bank loans granted to the Group for nil consideration. At 30 June 2008, the Group has bank loans guaranteed by Shougang Corporation amounting to approximately HK\$5,212,245,000 (31.12.2007: HK\$3,919,151,000).

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

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

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

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



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

FOR THE SIX MONTHS ENDED 30 JUNE 2008

### 20. RELATED PARTY DISCLOSURES (continued)

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

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

	Six months ended 30 June	
	2008 HK\$'000 (unaudited)	2007 HK\$'000 (unaudited)
Short-term benefits	5,869	5,111
Post employment benefits	240	224
Share-based payments	52,298	—
	<u>58,407</u>	<u>5,335</u>

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

### 21. EVENT AFTER THE BALANCE SHEET DATE

On 2 July 2008, Qinhuangdao Shouqin Longhui Mining Co., Ltd., a non-wholly owned subsidiary of the Group, entered into an agreement with an independent third party to purchase the mining right of an iron mine located in Qinlong Country, Qinhuangdao City, Hebei Province, PRC at a consideration of RMB45,000,000. Transfer of title of the said mining right is not completed as at date of the report.



## 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 39 which comprises the condensed consolidated balance sheet of Shougang Concord International Enterprises Company Limited as of 30 June 2008 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

1 September 2008



## MANAGEMENT DISCUSSION AND ANALYSIS

### OVERVIEW

For the first six months in 2008, the net profit attributable to shareholders of the Group amounted to HK\$1,092 million<sup>1</sup>, a 1.3 times growth on the comparative period. Excluding non cash charges such as fair value adjustments of options in Australasian Resources Limited ("ARH") at HK\$83 million and employee share option expenses at HK\$56 million, core operating profit stood at HK\$1,227 million, a 2.2 times increase over that of 2007; amongst which steel manufacturing segment reporting net profit of over HK\$1,021 million. The Group recorded a consolidated turnover of HK\$8,453 million<sup>1</sup> in the first half of 2008, which showed an increase of 73% when comparing with that of last year. Basic earnings per share was HK15.2 cents, a 92% increase over that of the last period.

#### **1. Continuous expansion of production capacity and profitability in steel manufacturing segment**

Thanks to efficiency gain and higher capacity utilization, production level continues to go up in this segment, especially in our major subsidiary, Qinhuangdao Shouqin Metal Materials Co., Ltd. ("Shouqin"). Productions in this interim period included 1.2 million mt. of steel plates and 1.3 million mt. of steel slabs, showing an increase of 35% and 11% respectively over that of 2007. Boosted by both production level and selling prices, the reported profit has exceeded much of that in the last interim period.

#### **2. Continuous growth in high value-adding products**

In the first half of this year, the Group's steel manufacturing segment remains focused on the increased production of high value-adding heavy plates, especially those catering for shipping, petrochemical industry and construction of heavy machinery. For example, ultra-thickness plates and X70 type pipeline steel plates are some of the newly developed products. Our competitiveness in these markets has been distinctly strengthened. With continuous optimization in product mix, a sustainable improvement in our profitability is well expected.

## MANAGEMENT DISCUSSION AND ANALYSIS (continued)

### OVERVIEW (continued)

#### 3. *Upstream resource acquisition in progress*

The Group has progressively executed its upstream strategy by establishing a joint venture in China which plans to acquire iron ore mining interests near our manufacturing facilities. Such resources are expected to satisfy a significant portion of our own raw material needs.

*Note 1:* These amounts include turnover and profit attributable to shareholders contributed by electricity generation segment, 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.

### FINANCIAL REVIEW

#### *Six months ended 30 June 2008 compared to six months ended 30 June 2007*

##### **Turnover and Cost of Sales**

For the interim period, the Group recorded a consolidated turnover of HK\$8,453 million, representing an increase of 73% over that of last year. The increase is mainly attributed to higher selling prices and increased sales volume in the steel manufacturing segment.

Cost of sales for the current period was HK\$6,419 million. The resulting gross profit margin was 24% in the current period, comparing to 17% last year, since the gross margin of both steel manufacturing segment and shipping segment have risen.



**MANAGEMENT DISCUSSION AND ANALYSIS (continued)****FINANCIAL REVIEW (continued)****EBITDA and Core Operating Profit**

In this current interim period, earnings before interest, tax, depreciation and amortization ("EBITDA") of the Group reached HK\$1,590 million, which doubled from HK\$884 million of the last period.

Profit after tax included certain significant non-cash and non-recurring charges and are shown below:

<i>In HK\$ million</i>	<b>30 June 2008 (unaudited)</b>	30 June 2007 (unaudited)
Profit attributable to shareholders	<b>1,092</b>	465
Add: Non cash charges		
Fair value loss on ARH options	<b>83</b>	–
Employee share option expenses	<b>56</b>	–
Less: (Gain)/loss on asset realizations		
Electricity generation operation	<b>(4)</b>	–
20% interest in Shouqin	–	(92)
Kitchen and laundry equipment operation	–	9
Core Operating Profit	<b>1,227</b>	382

Taking out significant non-operational related items, core operating profit of the Group rose by 2.2 times on the comparative period.

**Finance cost**

For the interim period this year, finance cost amounted to HK\$206 million, increased by 16% when comparing to that of last year. The increase is attributable to interest rate hikes and higher borrowings.



## MANAGEMENT DISCUSSION AND ANALYSIS (continued)

### REVIEW OF OPERATIONS

#### Manufacture and Sale of Steel Products

The Group operates in this business segment through Shouqin and Qinhuangdao Shougang Plate Mill Co., Ltd. ("Qinhuangdao Plate Mill"), whereby Shouqin was accounted for as 76%-held subsidiary. In this interim period, amidst adverse factors such as increase in cost of raw materials and iron ore, the Group has taken effective steps and is able to report good results. Steel manufacturers have been the beneficiaries to the progressive growth in China economy during the first half of 2008. Increase in selling prices has also so far outpaced the rising raw material cost. This core segment realized net profit of HK\$1,021 million during the current period, while that of last period was HK\$296 million, showing an increase of 2.4 times. In the meantime, the two subsidiaries have continued pursuing capacity expansion, improving product mix and strengthening their new product developments. Summary of production and sales quantities of the two manufacturing plants in the current and last interim period under this segment is as follows:

In '000 mt.		Slabs		Heavy Plates	
<i>Six months ended 30 June</i>		<b>2008</b>	2007	<b>2008</b>	2007
(i)	Production				
	Shouqin	<b>1,344</b>	1,214	<b>755</b>	468
	Qinhuangdao Plate Mill	—	—	<b>428</b>	406
	Total	<b>1,344</b>	1,214	<b>1,183</b>	874
	Change		+11%		+35%
(ii)	Sales				
	Shouqin	<b>519</b>	696	<b>742</b>	469
	Qinhuangdao Plate Mill	—	—	<b>370</b>	370
	Total	<b>519</b>	696	<b>1,112</b>	839
	Change		-25%		+33%

#### 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), the remaining 20% and 4% were held by Hyundai Heavy Industries Co., Ltd. and Shougang Corporation respectively.



## MANAGEMENT DISCUSSION AND ANALYSIS (continued)

### REVIEW OF OPERATIONS (continued)

#### *Shouqin (continued)*

As a premium heavy plate producer in China, Shouqin has been benefited most on the booming steel industry through supply-demand imbalance, in particular in demand from infrastructure and ship-building businesses. With its 4300mm width plate rolling system reaching design capacity only in April 2007, profitability soared, while almost all steel slabs produced can now be used internally for plate making to reduce external sales. Through optimization and strengthening of technological process management, the production capacity of the heavy plate production line consistently improved, monthly production in the current interim period was 22% higher than that of the last year's average. For the current interim period, Shouqin reported a turnover of HK\$7,298 million before elimination, recording a 86% rise on the comparative period. Reasons for such increase are three-fold:

- (i) Sales volume has risen, especially in heavy plates which has risen by 58% when comparing to last period;
- (ii) Average realized selling price of heavy plates is 64% higher; and,
- (iii) Optimization of product mix and the drive to produce more value-adding heavy plates.

For the six months ended 30 June 2008, Shouqin recorded a gross profit amount of HK\$1,537 million, and contributed HK\$884 million in net profit to the Group, doubled and tripled that of the last period respectively.

#### *Qinhuangdao Plate Mill*

Qinhuangdao Plate Mill recorded a turnover of HK\$2,671 million before elimination for the six months ended 30 June 2008, an increase of 60% comparing with that of last year. Increase in sales and profitability is the result of higher average realized prices (up 48%) aligning with market demand, thereby outpacing part of the effect of increased raw material cost, the resulting gross profit also rose sharply to HK\$294 million, almost doubling that of the last period. On the basis of expanding business and rising sales price, the Group's share of profit of Qinhuangdao Plate Mill (excluding that of Shouqin's) increased to HK\$137 million, rising by 83% over the same period last year.

## MANAGEMENT DISCUSSION AND ANALYSIS (continued)

### REVIEW OF OPERATIONS (continued)

#### Shipping operations

Shougang Concord Shipping Holdings Limited and its subsidiaries ("Shougang Shipping Group") reported a net profit of HK\$159 million for the current period, an increase of HK\$85 million, or 115%, from that of last year. This operating segment mainly conducts chartering services of two capsized vessels. Increased iron ore movements was a major contributor to the strength of the freight market in the first half of 2008, while imports of coal from various Asian countries also grew, bringing the Baltic Dry Index to reach an average of 8,557 points for the first half of 2008, 61% above that of the last year.

Profit went up with higher charter rates this period, resulting in gross profit margin rising from 54% to 65%.

#### Other businesses

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\$31 million in the current period, rising to that from HK\$24 million in the last period, or 29%. Following the increase in shareholding in Shougang Century from 22.5% to 36.4%, the Group's share of its net profit increased to HK\$10 million in the current interim period, rising by 0.9 times from that of last period.

Amidst intense market competition during the interim period, Shougang Century Group's sales of steel cord for radial tyres and the gross profit margin still climbed, whilst there was significant net profit on sale of A shares it held. With its expanding businesses and capacity, we believe its financial results will continue to improve in the future.

#### Trading of steel products

Shougang Concord Steel Holdings Limited and its subsidiaries reported a turnover of HK\$1,047 million in the six months ended 30 June 2008, an increase of 26% over that of the last year through increased export, while its net profit was HK\$11 million.



## MANAGEMENT DISCUSSION AND ANALYSIS (continued)

### REVIEW OF OPERATIONS (continued)

#### Electricity generation – Discontinued

This segment is classified under discontinued operation with the disposal of Beijing Shougang Firstlevel Power Co., Ltd. ("Beijing Power Plant") completed in June, 2008. Attributable turnover of Beijing Power Plant was HK\$210 million for the current period with the Group's share of profit at HK\$4 million. We recorded gain on disposal of about HK\$4 million in the transaction.

### LIQUIDITY, FINANCIAL RESOURCES AND FINANCING ACTIVITIES

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 2008 as compared to 31 December 2007 is summarized below:

<i>HK\$ million</i>	<b>30 June 2008 unaudited</b>	31 December 2007 audited
Total Debt		
– from banks	<b>6,961</b>	4,160
– from parent company	<b>931</b>	1,071
Sub-total	<b>7,892</b>	5,231
Cash and bank deposits	<b>6,128</b>	3,326
Net debt	<b>1,764</b>	1,905
Total capital (Equity and debt)	<b>15,380</b>	12,046
Financial leverage		
– Net debt to total capital	<b>11.5%</b>	15.8%
– Net debt to total assets	<b>8.3%</b>	11.5%

It can be observed that financial leverage has improved between 30 June 2008 and that of 31 December 2007, corresponding to the fact that group debt financing is used in a controlled manner.





**MANAGEMENT DISCUSSION AND ANALYSIS (continued)****LIQUIDITY, FINANCIAL RESOURCES AND FINANCING ACTIVITIES (continued)****2. Currency and Interest Rate Risk**

The Company manages its financial risks in accordance with guidelines laid down by its Board of Directors. The treasury policy aims to manage the Group's currency, interest rate and counterparty risks. Derivatives are only used primarily for managing such risks but not for speculative purposes. We also target to ensure that adequate financial resources are available for business growth.

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 2008, approximately 85% 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.

**3. Financing activities**

In February 2008, the Company entered into a club deal with a number of banks for a 4-year facilities at HK\$2,500 million (US\$320 million). According to the loan agreement, two drawdowns were made in March and June 2008 respectively of HK\$780 million (US\$100 million) each, total drawn amount was HK\$1,560 million, the majority of which is still parked in our interest-bearing bank deposits.

**CAPITAL STRUCTURE**

During the first four months in 2008, certain employees of the Group exercised the granted options, pursuant to which 280.1 million new shares were issued.

Consequently, the issued share capital of the Company was increased by HK\$56 million to HK\$1,457 million (represented by 7,283 million ordinary shares).



## MANAGEMENT DISCUSSION AND ANALYSIS (continued)

### EMPLOYEES AND REMUNERATION POLICIES

The Group has a total of approximately 4,400 employees as at 30 June 2008.

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.

### PROSPECTS

The boom cycle of Steel Industry continued well into 2008 with growing appetite from infrastructure and shipbuilding businesses. We have thus enjoyed yet another record interim period; this is a result of our focusing on our core strength in heavy plate manufacturing.

We continue to look for opportunities to expand our value chain integration, in terms of iron ore investment in China to enhance our raw material self sufficiency as well as capacity expansion.

Despite weakening global economy, the thriving core downstream demand from machinery, infrastructure and shipping industries should not disappear in the foreseeable future. On the contrary, with Shouqin equipping the leading production equipment and working towards different high value-adding steel products, the Group is full of confidence in maintaining an uptrend in profitability.



### **INTERIM DIVIDEND**

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The Board has declared an interim dividend of HK2 cents per share for the six months ended 30 June 2008 (2007: Nil) payable to shareholders whose names appear on the register of members of the Company on Friday, 19 September 2008. The interim dividend is expected to be paid on or about Tuesday, 30 September 2008.

### **CLOSURE OF REGISTER OF MEMBERS**

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The register of members of the Company will be closed from Thursday, 18 September 2008 to Friday, 19 September 2008, both days inclusive, during which period no transfer of shares of the Company will be registered. In order to qualify for the interim dividend, all transfer forms accompanied by the relevant share certificates must be lodged with the Company's share registrars, Tricor Tengis Limited at 26/F., Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong, for registration not later than 4:30pm on Wednesday, 17 September 2008.

### **PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES**

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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 2008 had the following interests in the shares and 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 2008 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 the shares and underlying shares of the Company

Name of Director	Capacity in which interests are held	Number of shares/ underlying shares held in the Company		Total interests as to % to the issued share capital of the Company as at 30.06.2008	
		Interests in shares	Interests under equity derivatives*	Total interests	
Cao Zhong	Beneficial owner	25,000,000	65,000,000	90,000,000	1.24%
Chen Zhouping	Beneficial owner	8,000,000	45,000,000	53,000,000	0.73%
Zhang Wenhui	Beneficial owner	6,000,000	35,000,000	41,000,000	0.56%
Luo Zhenyu	Beneficial owner	–	25,000,000	25,000,000	0.34%
Ip Tak Chuen, Edmond	Beneficial owner	–	12,590,000	12,590,000	0.17%
Leung Shun Sang, Tony	Beneficial owner	12,590,000	–	12,590,000	0.17%
Kan Lai Kuen, Alice	Beneficial owner	–	1,500,000	1,500,000	0.02%
Wong Kun Kim	Beneficial owner	–	1,500,000	1,500,000	0.02%
Leung Kai Cheung	Beneficial owner	–	1,500,000	1,500,000	0.02%

\* The relevant interests 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.

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

## **(b) Long positions in underlying shares of Shougang Concord Century Holdings Limited ("Shougang Century"), an associated corporation of the Company**

Name of Director	Options to subscribe for shares of Shougang Century <sup>a</sup>				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 30.06.2008
	At the beginning of the period	Granted during the period	Exercised during the period	At the end of the period					
Cao Zhong	7,652,000	-	-	7,652,000	23.08.2002	23.08.2002 - 22.08.2012	HK\$0.295	Beneficial owner	
	57,350,000	-	-	57,350,000	02.10.2003	02.10.2003 - 01.10.2013	HK\$0.780	Beneficial owner	
	-	17,000,000	-	17,000,000	28.01.2008	28.01.2008 - 27.01.2018	HK\$0.864	Beneficial owner	
	65,002,000	17,000,000	-	82,002,000					4.35%
Chen Zhouping	7,652,000	-	-	7,652,000	23.08.2002	23.08.2002 - 22.08.2012	HK\$0.295	Beneficial owner	0.41%
Luo Zhenyu	7,652,000	-	-	7,652,000	12.03.2003	12.03.2003 - 11.03.2013	HK\$0.325	Beneficial owner	0.41%
Leung Shun Sang, Tony	4,592,000	-	-	4,592,000	23.08.2002	23.08.2002 - 22.08.2012	HK\$0.295	Beneficial owner	
	3,060,000	-	-	3,060,000	12.03.2003	12.03.2003 - 11.03.2013	HK\$0.325	Beneficial owner	
	4,592,000	-	-	4,592,000	25.08.2003	25.08.2003 - 24.08.2013	HK\$0.740	Beneficial owner	
	-	12,000,000	-	12,000,000	28.01.2008	28.01.2008 - 27.01.2018	HK\$0.864	Beneficial owner	
	12,244,000	12,000,000	-	24,244,000					1.29%
	92,550,000	29,000,000	-	121,550,000					



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

### **(b) Long positions in underlying shares of Shougang Century, an associated corporation of the Company (continued)**

- \* *The relevant interests 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.*

Save as disclosed above, as at 30 June 2008, 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 2008.

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

As at 30 June 2008, according to the register kept by the Company under Section 336 of the SFO (the "Register"), the following companies and persons had interests or short positions of 5% or more in the shares of the Company ("Notifiable Interest") which fell to be disclosed to the Company under Divisions 2 and 3 of Part XV of the SFO:

### Long positions in the shares of the Company

Name of shareholder	Capacity in which interests are held	Number of shares held in the Company	Interests as to % to the issued share capital of the Company as at 30.06.2008	Note(s)
Shougang Holding (Hong Kong) Limited ("Shougang Holding")	Beneficial owner, interests of controlled corporations	2,845,706,686	39.07%	1
Grand Invest International Limited ("Grand Invest")	Beneficial owner	868,340,765	11.92%	1
China Gate Investments Limited ("China Gate")	Beneficial owner	1,529,904,761	21.01%	1
Argepa S.A. ("Argepa")	Beneficial owner, interests of controlled corporations	699,000,000	9.60%	2
Zygmunt Zaleski Stichting ("ZZS")	Interests of controlled corporations	569,000,000	7.81%	2
Carlo Tassara S.p.A. ("CT S.p.A.")	Interests of controlled corporations	569,000,000	7.81%	2
Carlo Tassara International S.A. ("CTI S.A.")	Beneficial owner	569,000,000	7.81%	2
Cheung Kong (Holdings) Limited ("Cheung Kong")	Interests of controlled corporations	455,401,955	6.25%	3, 4
Max Same Investment Limited ("Max Same")	Beneficial owner	423,054,586	5.81%	3



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

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

Name of shareholder	Capacity in which interests are held	Number of shares held in the Company	Interests as to % to the issued share capital of the Company as at 30.06.2008	Note(s)
Li Ka-shing	Interests of controlled corporations, founder of discretionary trusts	455,401,955	6.25%	4
Li Ka-Shing Unity Trustee Company Limited ("TUT1")	Trustee	455,401,955	6.25%	4
Li Ka-Shing Unity Trustee Corporation Limited ("TDT1")	Trustee, beneficiary of a trust	455,401,955	6.25%	4
Li Ka-Shing Unity Trustcorp Limited ("TDT2")	Trustee, beneficiary of a trust	455,401,955	6.25%	4

#### Notes:

1. Shougang Holding indicated in its disclosure form dated 24 December 2007, being the latest disclosure form filed up to 30 June 2008, that as at 21 December 2007, its interests included 1,529,904,761 and 868,340,765 shares of the Company held by China Gate and Grand Invest respectively, both being wholly-owned subsidiary of Shougang Holding. China Gate was recorded as having a Notifiable Interest in the Register and the records relating thereto was updated in accordance with the said disclosure form filed by Shougang Holding.
2. Argepa indicated in its disclosure form dated 9 October 2007, being the latest disclosure form filed up to 30 June 2008, that as at 8 October 2008, its interests included 569,000,000 shares of the Company held by CTI S.A., a wholly-owned subsidiary of CT S.p.A. which in turn was controlled by Argepa as to 48.8%.

ZZS indicated in its disclosure form dated 15 August 2007, being the latest disclosure form filed up to 30 June 2008, that as at 8 August 2007, its interests included 569,000,000 shares of the Company held by CTI S.A., a wholly-owned subsidiary of CT S.p.A. which in turn was controlled by ZZS as to 47.15%.

CT S.p.A. indicated in its disclosure form dated 15 August 2007, being the latest disclosure form filed up to 30 June 2008, that as at 8 August 2007, its interests included 569,000,000 shares of the Company held by CTI S.A., a wholly-owned subsidiary of CT S.p.A.





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

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

*Notes: (continued)*

3. Cheung Kong indicated in its disclosure form dated 11 August 2007, being the latest disclosure form filed up to 30 June 2008, that as at 8 August 2007, its interests included 423,054,586 shares of the Company held by Max Same, a wholly-owned subsidiary of Cheung Kong. Max Same was recorded as having a Notifiable Interest in the Register and the records relating thereto was updated in accordance with the said disclosure form filed 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 2008, 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 of 5% or more in the shares and 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 or lapsed in accordance with the terms of the Scheme during the six months ended 30 June 2008. Details of movement in the share options under the Scheme during the period are as follows:

Options to subscribe for shares of the Company							
Category or name of grantees	At the beginning of the period	Exercised during the period <sup>1</sup>	Cancelled during the period	At the end of the period	Date of grant	Exercise period	Exercise price per share
<b>Directors of the Company</b>							
Cao Zhong	22,950,000	22,950,000	–	–	23.08.2002	23.08.2002 – 22.08.2012	HK\$0.295
	91,820,000 <sup>2</sup>	91,820,000	–	–	18.11.2003	18.11.2003 – 17.11.2013	HK\$0.410
	65,000,000 <sup>3</sup>	–	–	65,000,000	20.12.2007	20.12.2007 – 19.12.2014	HK\$2.944
	179,770,000	114,770,000	–	65,000,000			
Chen Zhouping	9,180,000	9,180,000	–	–	12.03.2003	12.03.2003 – 11.03.2013	HK\$0.280
	57,388,000 <sup>2</sup>	57,388,000	–	–	18.11.2003	18.11.2003 – 17.11.2013	HK\$0.410
	45,000,000 <sup>3</sup>	–	–	45,000,000	20.12.2007	20.12.2007 – 19.12.2014	HK\$2.944
	111,568,000	66,568,000	–	45,000,000			

**SHARE OPTIONS (continued)**

Category or name 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>1</sup>	Cancelled during the period	At the end of the period			
Directors of the Company (continued)							
Zhang Wenhui	22,950,000	22,950,000	–	–	23.08.2002	23.08.2002 – 22.08.2012	HK\$0.295
	52,796,000 <sup>2</sup>	52,796,000	–	–	18.11.2003	18.11.2003 – 17.11.2013	HK\$0.410
	35,000,000 <sup>3</sup>	–	–	35,000,000	20.12.2007	20.12.2007 – 19.12.2014	HK\$2.944
	110,746,000	75,746,000	–	35,000,000			
Luo Zhenyu	25,000,000 <sup>3</sup>	–	–	25,000,000	20.12.2007	20.12.2007 – 19.12.2014	HK\$2.944
Ip Tak Chuen, Edmond	8,000,000	–	–	8,000,000	23.08.2002	23.08.2002 – 22.08.2012	HK\$0.295
	4,590,000	–	–	4,590,000	12.03.2003	12.03.2003 – 11.03.2013	HK\$0.280
	12,590,000	–	–	12,590,000			
Kan Lai Kuen, Alice	1,500,000	–	–	1,500,000	20.12.2007	20.12.2007 – 19.12.2014	HK\$2.944
Wong Kun Kim	1,500,000	–	–	1,500,000	20.12.2007	20.12.2007 – 19.12.2014	HK\$2.944
Leung Kai Cheung	1,500,000	–	–	1,500,000	20.12.2007	20.12.2007 – 19.12.2014	HK\$2.944
	444,174,000	257,084,000	–	187,090,000			



**SHARE OPTIONS (continued)**

Category or name 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>1</sup>	Cancelled during the period	At the end of the period			
<b>Employees of the Group</b>	110,000	110,000	–	–	12.03.2003	12.03.2003 – 11.03.2013	HK\$0.280
	38,000,000 <sup>3</sup>	–	500,000	37,500,000	20.12.2007	20.12.2007 – 19.12.2014	HK\$2.944
	<u>38,110,000</u>	<u>110,000</u>	<u>500,000</u>	<u>37,500,000</u>			
	506,284,000	280,144,000	500,000	225,640,000			
<b>Other participants</b>	50,000	–	–	50,000	23.08.2002	23.08.2002 – 22.08.2012	HK\$0.295
	22,950,000	22,950,000	–	–	12.03.2003	12.03.2003 – 11.03.2013	HK\$0.280
	1,000,000 <sup>3</sup>	–	–	1,000,000	20.12.2007	20.12.2007 – 19.12.2014	HK\$2.944
	<u>24,000,000</u>	<u>22,950,000</u>	<u>–</u>	<u>1,050,000</u>			
	506,284,000	280,144,000	500,000	225,640,000			

*Notes:*

1. The weighted average closing price of the shares of the Company immediately before the dates on which the share options were exercised was approximately HK\$2.34 per share.
2. 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 2008, 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.
3. Such share options are subject to the restrictions that up to 20%, 40%, 60%, 80% and 100% of the total options granted will be exercisable during the period of 12th, 24th, 36th, 48th and the expiry of the 48th months respectively from the date of acceptance of the grant of options by the relevant grantees.



## AUDIT COMMITTEE

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The Company has engaged the Auditor to assist the Audit Committee to review the 2008 interim results of the Group. A meeting of the Audit Committee was held with the Auditor and the management of the Company on 26 August 2008 for, amongst other things, reviewing the interim results of the Group for the six months ended 30 June 2008.

## COMPLIANCE WITH CODE ON CORPORATE GOVERNANCE PRACTICES

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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 2008, except for the following deviation:

- 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 chairman 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 2008 (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

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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 2008.



**DISCLOSURE UNDER RULE 13.18 OF THE LISTING RULES**

- (a) Under the loan agreement dated 22 November 2007 entered into between Bank of China (Hong Kong) Limited and Qinhuangdao Shouqin Metal Materials Co., Ltd. ("Shouqin"), a 76% indirectly owned subsidiary of the Company, in relation to a loan in an amount of RMB1,500,000,000, breach of any of the following undertakings by Shougang Corporation during the term of the loan agreement will constitute an event of default upon which the loan will, among others, become immediately due and payable: (i) Shougang Corporation will beneficially own at least 51% interests in Beijing Shougang Company Limited; (ii) Shougang Corporation will beneficially own at least 35% of the issued shares capital of the Company; and (iii) the net asset value of Shougang Corporation will not be less than RMB15,000,000,000. The loan shall be repaid by Shouqin by instalments with the last instalment due on the date falling 36 months after the date of first drawn of the loan (being 23 November 2007).
- (b) Under the facility agreement dated 28 February 2008 entered into between a syndicate of banks and the Company in relation to term and revolving credit facilities in a total principal amount of US\$320,000,000 made available by the banks to the Company, each of the following will constitute an event of default upon which the facilities 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 be a wholly-owned subsidiary of Shougang Corporation, the holding company of Shougang Holding; and (iii) Shougang Corporation ceases to have management control in Shougang Holding. The US\$200,000,000 term loan facility shall be repaid by the Company by instalments with the last instalment due on the date falling 48 months after the date of the facility agreement. The US\$120,000,000 revolving loan facility may be reborrowed by the Company subject to the final maturity day being the date which is falling 48 months after the date of the facility agreement.
- (c) Under the loan agreements entered or to be entered into between certain banks and Shouqin in relation to loans in an aggregate amount of RMB600,000,000, breach of any of the following undertakings by Shougang Corporation during the term of the loan agreements will constitute an event of default upon which the loans will, among others, become immediately due and payable: (i) Shougang Corporation will beneficially own at least 51% interests in Beijing Shougang Company Limited; (ii) Shougang Corporation will beneficially own at least 35% of the issued shares capital of the Company; and (iii) the net asset value of Shougang Corporation will not be less than RMB15,000,000,000. The loans shall be repaid by Shouqin by instalments with the last instalment due on 23 November 2010.



## APPRECIATION

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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, 1 September 2008

