



# SHOUGANG CONCORD CENTURY HOLDINGS LIMITED

Stock Code : 103

Gather Momentum



Interim Report 2008

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## CORPORATE INFORMATION

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### Board of Directors

#### Executive Directors

Cao Zhong (*Chairman*)  
Li Shaofeng (*Managing Director*)  
Tong Yihui (*Deputy Managing Director*)  
Tang Cornor Kwok Kau  
(*Deputy Managing Director*)  
Geert Johan Roelens

#### Non-executive Director

Leung Shun Sang, Tony

#### Independent Non-executive Directors

Yip Kin Man, Raymond  
Law, Yui Lun  
Chan Chung Chun

### Audit Committee

Yip Kin Man, Raymond (*Chairman*)  
Law, Yui Lun  
Chan Chung Chun

### Remuneration Committee

Leung Shun Sang, Tony (*Chairman*)  
Cao Zhong (*Vice Chairman*)  
Yip Kin Man, Raymond  
Law, Yui Lun  
Chan Chung Chun

### Nomination Committee

Cao Zhong (*Chairman*)  
Leung Shun Sang, Tony (*Vice Chairman*)  
Yip Kin Man, Raymond  
Law, Yui Lun  
Chan Chung Chun

### Authorised Representatives

Tang Cornor Kwok Kau  
Chan Lai Yee

### Company Secretary

Chan Lai Yee

### Qualified Accountant

Wu Siu Man



**CORPORATE INFORMATION (continued)**

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**Principal Bankers**

Bank of China  
Bank of Communications Co., Ltd.  
Dah Sing Bank, Limited  
DBS Bank (Hong Kong) Limited  
Hang Seng Bank Limited  
Industrial and Commercial Bank of China  
Industrial and Commercial Bank of  
China (Asia) Limited  
The Bank of East Asia, Limited  
Wing Hang Bank, Limited

**Auditors**

Deloitte Touche Tohmatsu  
*Certified Public Accountants*

**Share Registrars**

Tricor Tengis Limited  
26/F, Tesbury Centre  
28 Queen's Road East  
Hong Kong

**Registered Office**

5th Floor, Bank of East Asia Harbour View Centre,  
51-57 Gloucester Road  
Wanchai  
Hong Kong

**Website**

<http://www.shougangcentury.com.hk>

**HKEx Stock Code**

103

**Listing Date**

9 April 1992

## INFORMATION FOR INVESTORS

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### Share Information

Board lot size:	2,000 Shares
Shares outstanding as at 30 June 2008:	1,884,846,556 Shares
Closing stock price as at 30 June 2008:	HK\$0.60
Market capitalization as at 30 June 2008:	HK\$1,130,907,934
Earnings per Share (basic) for the six months ended 30 June 2008:	HK cents 1.67
Interim Dividend:	HK cent 1

### Key Date

Closure of Register of Members : 23 to 24 September 2008 (both days inclusive)  
Payment of Interim Dividend : on or about 10 October 2008

### Investor Relations Contact

Address: 5th Floor, Bank of East Asia Harbour View Centre  
51-57 Gloucester Road, Wanchai, Hong Kong  
Telephone: (852) 2527 2218  
Fax: (852) 2861 3527  
Email: [business\\_link@shougangcentury.com.hk](mailto:business_link@shougangcentury.com.hk)  
[ir@shougangcentury.com.hk](mailto:ir@shougangcentury.com.hk)  
[scchl@shougangcentury.com.hk](mailto:scchl@shougangcentury.com.hk)  
Website: [www.shougangcentury.com.hk](http://www.shougangcentury.com.hk)

### Shareholder Enquiries

Any matters relating to your shareholding, e.g. transfer of Shares, change of name or address, lost of share certificates or dividend warrants, should be sent in writing to:

Tricor Tengis Limited  
Address: 26/F., Tesbury Centre, 28 Queen's Road East  
Hong Kong  
Telephone: (852) 2980 1888  
Fax: (852) 2810 8185  
Website: [www.tricor.com.hk](http://www.tricor.com.hk)



## FINANCIAL HIGHLIGHTS

	For the six months ended 30 June		% change
	2008 (Unaudited) HK\$'000	2007 (Unaudited) HK\$'000	
<b>Operations</b>			
Revenue	<b>426,809</b>	343,967	<b>+24.1</b>
Earnings before interest, tax, depreciation and amortization ("EBITDA")	<b>72,252</b>	55,667	<b>+29.8</b>
EBITDA (excluding non-cash/ non-recurring expenses*)	<b>115,352</b>	56,958	<b>+102.5</b>
Profit for the period	<b>30,658</b>	24,004	<b>+27.7</b>
Profit for the period (excluding non-cash/ non-recurring expenses*)	<b>73,758</b>	25,295	<b>+191.6</b>
Earnings per share (basic) (cents)	<b>1.67</b>	1.88	<b>-11.2</b>
Earnings per share (basic) (cents) (excluding non-cash/ non-recurring expenses*)	<b>4.01</b>	1.98	<b>+102.5</b>
	<b>30 June 2008 (Unaudited) HK\$'000</b>	31 December 2007 (Audited) HK\$'000	<b>% change</b>
<b>Financial position</b>			
Total assets	<b>2,205,398</b>	1,879,938	<b>+17.3</b>
Shareholders' equity	<b>1,959,411</b>	1,499,089	<b>+30.7</b>
Net asset value per share	<b>HK\$1.04</b>	HK\$1.08	<b>-3.7</b>

\* Non-cash/non-recurring expenses for the six months ended 30 June 2008 included fair value cost of share options granted of HK\$26,765,000 and net foreign exchange losses of HK\$16,335,000 (2007: fair value cost of share options granted of HK\$1,291,000).



## REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION

**Deloitte.****德勤**

**TO: THE BOARD OF DIRECTORS OF  
SHOUGANG CONCORD CENTURY HOLDINGS LIMITED**  
首長寶佳集團有限公司  
*(incorporated in Hong Kong with limited liability)*

**Introduction**

We have reviewed the interim financial information set out on pages 7 to 27, which comprises the condensed consolidated balance sheet of Shougang Concord Century Holdings Limited (the "Company") as of 30 June 2008 and the related condensed consolidated income statement, statement of changes in equity and cash flow statement for the six months 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 of the Company 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



**CONDENSED CONSOLIDATED INCOME STATEMENT**

For the six months ended 30 June 2008

		<b>Six months ended 30 June</b>	
		<b>2008 (Unaudited) HK\$'000</b>	2007 (Unaudited) HK\$'000
	<i>Notes</i>		
Revenue	3	<b>426,809</b>	343,967
Cost of sales		<b>(368,466)</b>	(296,739)
Gross profit		<b>58,343</b>	47,228
Investment income	4	<b>6,125</b>	2,074
Other income, gains and losses	5	<b>39,453</b>	1,133
Distribution and selling expenses		<b>(6,433)</b>	(3,563)
Administrative expenses		<b>(50,358)</b>	(21,857)
Finance costs	6	<b>(1,940)</b>	(6,666)
Share of profit of a jointly controlled entity		<b>1,021</b>	5,196
Share of profit of an associate		<b>–</b>	4,425
Profit before taxation		<b>46,211</b>	27,970
Income tax expenses	7	<b>(15,553)</b>	(3,966)
Profit for the period	8	<b>30,658</b>	24,004
Dividend paid	9	<b>18,849</b>	12,761
Earnings per share	10		
Basic (HK cents)		<b>1.67</b>	1.88
Diluted (HK cents)		<b>1.63</b>	1.82



**CONDENSED CONSOLIDATED BALANCE SHEET**

At 30 June 2008

	<i>Notes</i>	<b>30 June 2008 (Unaudited) HK\$'000</b>	31 December 2007 (Audited) HK\$'000
<b>Non-current assets</b>			
Investment properties	11	<b>16,340</b>	16,340
Property, plant and equipment	11	<b>633,703</b>	507,637
Prepaid lease payments		<b>20,707</b>	8,616
Goodwill		<b>41,672</b>	41,672
Interests in a jointly controlled entity		<b>29,119</b>	39,467
Club memberships		<b>720</b>	675
Available-for-sale investments	12	<b>147,940</b>	357,657
		<b>890,201</b>	972,064
<b>Current assets</b>			
Inventories		<b>119,955</b>	110,701
Trade receivables	13	<b>219,475</b>	175,414
Bills receivable	13	<b>242,130</b>	203,661
Prepayments, deposits and other receivables		<b>32,065</b>	7,196
Prepaid lease payments		<b>1,337</b>	539
Amounts due from related companies	14	<b>2,186</b>	5,875
Tax recoverable		<b>2,651</b>	3,068
Derivative financial instruments		<b>–</b>	4
Pledged bank deposits		<b>3,000</b>	3,000
Bank balances and cash		<b>678,438</b>	393,624
Dividend receivable		<b>13,960</b>	4,792
		<b>1,315,197</b>	907,874



**CONDENSED CONSOLIDATED BALANCE SHEET (continued)**

At 30 June 2008

	<i>Notes</i>	<b>30 June 2008 (Unaudited) HK\$'000</b>	31 December 2007 (Audited) HK\$'000
<b>Current liabilities</b>			
Trade payables	15	<b>62,950</b>	39,728
Other payables and accruals		<b>22,581</b>	25,102
Tax payable		<b>15,225</b>	7,816
Derivative financial instruments		<b>200</b>	–
Bank borrowings – due within one year	16	<b>66,277</b>	186,542
		<b>167,233</b>	259,188
<b>Net current assets</b>			
		<b>1,147,964</b>	648,686
<b>Total assets less current liabilities</b>			
		<b>2,038,165</b>	1,620,750
<b>Non-current liabilities</b>			
Bank borrowings – due after one year	16	<b>73,729</b>	86,604
Other payable		<b>1,650</b>	1,830
Deferred tax liabilities		<b>2,535</b>	32,387
		<b>77,914</b>	120,821
		<b>1,960,251</b>	1,499,929
<b>Capital and reserves</b>			
Share capital	17	<b>188,485</b>	138,435
Share premium and reserves		<b>1,770,926</b>	1,360,654
Equity attributable to equity holders of the Company		<b>1,959,411</b>	1,499,089
Share option reserve of a subsidiary		<b>840</b>	840
		<b>1,960,251</b>	1,499,929

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2008

	Share capital	Share premium	Capital reserve	Capital redemption reserve	Property revaluation reserve	Investment revaluation reserve	Translation reserve	Share option reserve	PRC reserve funds	Retained profits	Total	Equity component of share option reserve of a subsidiary	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2007 (audited)	127,607	423,435	32,659	1,013	3,710	-	40,188	-	45,236	283,506	957,354	-	957,354
Translation adjustments:													
- subsidiaries	-	-	-	-	-	-	23,928	-	-	-	23,928	-	23,928
- jointly controlled entity	-	-	-	-	-	-	1,752	-	-	-	1,752	-	1,752
- associate	-	-	-	-	-	-	1,572	-	-	-	1,572	-	1,572
Net income recognised directly in equity	-	-	-	-	-	-	27,252	-	-	-	27,252	-	27,252
Profit for the period	-	-	-	-	-	-	-	-	-	24,004	24,004	-	24,004
Total recognised income for the period	-	-	-	-	-	-	27,252	-	-	24,004	51,256	-	51,256
Shares issued at premium	750	4,800	-	-	-	-	-	-	-	-	5,550	-	5,550
Share issue expenses	-	(5)	-	-	-	-	-	-	-	-	(5)	-	(5)
Recognition of equity settled share-based payments	-	-	-	-	-	-	-	451	-	-	451	840	1,291
Dividend paid	-	-	-	-	-	-	-	-	-	(12,761)	(12,761)	-	(12,761)
Transfer	-	-	-	-	-	-	-	-	5,587	(5,587)	-	-	-
At 30 June 2007 (unaudited)	128,357	428,230	32,659	1,013	3,710	-	67,440	451	50,823	289,162	1,001,845	840	1,002,685



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

For the six months ended 30 June 2008

	Share capital	Share premium	Capital reserve	Capital redemption reserve	Property revaluation reserve	Investment revaluation reserve	Translation reserve	Share option reserve	PRC reserve funds	Retained profits	Total	Equity component of share option reserve of a subsidiary	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2008 (audited)	138,435	520,149	23,990	1,013	8,394	291,481	93,433	451	44,071	377,672	1,499,089	840	1,499,929
Decrease in fair value of available-for-sale investments	-	-	-	-	-	(146,898)	-	-	-	-	(146,898)	-	(146,898)
Reversal of deferred tax liability of available-for-sale investments (Note)	-	-	-	-	-	25,487	-	-	-	25,487	-	-	25,487
Translation adjustments - the Company and its subsidiaries	-	-	-	-	-	-	76,962	-	-	-	76,962	-	76,962
- jointly controlled entity	-	-	-	-	-	-	2,591	-	-	-	2,591	-	2,591
Net (expenses) income recognised directly in equity	-	-	-	-	-	(121,411)	79,553	-	-	-	(41,858)	-	(41,858)
Reserve released upon partial disposal of available-for-sale investments	-	-	-	-	-	(51,053)	-	-	-	-	(51,053)	-	(51,053)
Profit for the period	-	-	-	-	-	-	-	-	-	30,658	30,658	-	30,658
Total recognised (expenses) income for the period	-	-	-	-	-	(172,464)	79,553	-	-	30,658	(62,253)	-	(62,253)
Shares issued at premium	50,050	465,320	-	-	-	-	-	-	-	-	515,370	-	515,370
Share issue expenses	-	(711)	-	-	-	-	-	-	-	-	(711)	-	(711)
Recognition of equity settled share-based payments	-	-	-	-	-	-	-	26,765	-	-	26,765	-	26,765
Dividend paid	-	-	-	-	-	-	-	-	-	(18,849)	(18,849)	-	(18,849)
Transfer	-	-	-	-	-	(1,074)	-	-	-	1,074	-	-	-
At 30 June 2008 (unaudited)	188,485	984,758	23,990	1,013	8,394	117,943	172,986	27,216	44,071	390,555	1,959,411	840	1,960,251

**Note:** Pursuant to the Second Protocol to Arrangement between the Mainland China and Hong Kong Special Administrative Region for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with respect to Taxes on Income (the "Second Protocol"), a gain derived by a Hong Kong company from the alienation of shares in a Mainland company would be exempted from PRC withholding tax provided that the Mainland company is not a company principally holding of immovable property and the shareholding in the Mainland company held by such Hong Kong company remains less than 25% during the 12 month period prior to the alienation.

The Second Protocol has become effective since 11 June 2008 after its ratification and approval procedures were completed.

On the basis of the aforementioned, the deferred tax liabilities previously recognized in the investment revaluation reserve in relation to the revaluation of shares in Xinyu Iron & Steel Co., Ltd (Xinyu Iron") could be reversed in the current period as the directors of the Company considered that Xinyu Iron was not a property holding company and the Company and its subsidiaries did not hold more than 25% of Xinyu Iron's shares during the past twelve months.



**CONDENSED CONSOLIDATED CASH FLOW STATEMENT**

For the six months ended 30 June 2008

	<b>Six months ended 30 June</b>	
	<b>2008 (Unaudited) HK\$'000</b>	2007 (Unaudited) HK\$'000
Net cash (used in) from operating activities	<b>(24,291)</b>	37,733
Net cash used in investing activities		
Purchase of property, plant and equipment	<b>(115,648)</b>	(19,655)
Addition of prepaid lease payments	<b>(12,110)</b>	(9,727)
Proceeds from disposal of property, plant and equipment	–	10
Proceeds from disposal of available-for-sale investments	<b>59,360</b>	–
Dividend received from a jointly controlled entity	<b>4,792</b>	–
Dividend received from available-for-sale investments	<b>1,841</b>	–
	<b>(61,765)</b>	(29,372)
Net cash from (used in) financing activities		
Proceeds from issue of shares	<b>515,370</b>	5,550
New bank loans raised	<b>95,892</b>	151,182
Repayment of bank loans	<b>(229,665)</b>	(306,888)
Dividends paid	<b>(18,849)</b>	(12,761)
Repayment of loan from a related company	–	(34,837)
Other financing cash flows	<b>(711)</b>	(5)
	<b>362,037</b>	(197,759)
Net increase (decrease) in cash and cash equivalents	<b>275,981</b>	(189,398)
Cash and cash equivalents at 1 January	<b>393,624</b>	297,566
Effect of foreign exchange rate changes	<b>8,833</b>	6,593
Cash and cash equivalents at 30 June, represented by bank balances and cash	<b>678,438</b>	114,761



## 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 and with Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

### 2. SIGNIFICANT 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 revalued amounts or fair values, as appropriate.

The accounting policies used in the condensed consolidated financial statements are consistent with those followed in the preparation of the annual financial statements of the Company and its subsidiaries (the "Group") for the year ended 31 December 2007, except for the accounting policy adopted for certain share options granted during the current period with a vesting period. The accounting policy adopted in relation to the share-based payment transactions are as follows:

#### Share-based payment transactions

##### **Share options granted to employees and other eligible participants after 7 November 2002 and vested on or after 1 January 2005**

The fair value of services received determined by reference to the fair value of share options granted at the grant date is expensed on a straight-line basis over the vesting period, with a corresponding increase in share option reserve.

At each balance sheet date, the Group revises its estimates of the number of options that are expected to ultimately vest. The impact of the revision of the original estimates, if any, is recognised in profit or loss, with a corresponding adjustment to share option reserve.

In the current period, the Group has applied, for the first time, a number of new interpretations issued by the HKICPA, which are effective for the Group's financial year beginning on 1 January 2008. The adoption of these new interpretations has 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. SIGNIFICANT ACCOUNTING POLICIES (continued)

The Group has not early applied the following new and revised standards, amendments or interpretations 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 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 interpretations 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

#### Business segments

The Group's primary format for reporting segment information is business segments.

#### For the six months ended 30 June 2008

	Steel cord (Unaudited) HK\$'000	Copper and brass products (Unaudited) HK\$'000	Others (Unaudited) HK\$'000	Elimination (Unaudited) HK\$'000	Consolidated (Unaudited) HK\$'000
Segment revenue					
External sales	292,717	119,170	14,922	–	426,809
Inter-segment sales*	–	97	–	(97)	–
Total	<u>292,717</u>	<u>119,267</u>	<u>14,922</u>	<u>(97)</u>	<u>426,809</u>
Segment results	<u>38,519</u>	<u>5,230</u>	<u>1,751</u>		45,500
Unallocated income					6,147
Unallocated expenses					(57,715)
Gain on disposal of available-for-sale investments					53,198
Finance costs					(1,940)
Share of profit of a jointly controlled entity					1,021
Profit before taxation					46,211
Income tax expenses					(15,553)
Profit for the period					<u>30,658</u>

\* Inter-segment sales are made based on prevailing market price.





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

For the six months ended 30 June 2008

### 3. SEGMENT INFORMATION (continued)

#### Business segments (continued)

For the six months ended 30 June 2007

	Steel cord (Unaudited) HK\$'000	Copper and brass products (Unaudited) HK\$'000	Others (Unaudited) HK\$'000	Consolidated (Unaudited) HK\$'000
Segment revenue				
External sales	200,311	143,163	493	343,967
Segment results	25,266	8,804	272	34,342
Unallocated income				2,804
Unallocated expenses				(12,131)
Finance costs				(6,666)
Share of profit of a jointly controlled entity				5,196
Share of profit of an associate				4,425
Profit before taxation				27,970
Income tax expenses				(3,966)
Profit for the period				24,004

### 4. INVESTMENT INCOME

	Six months ended 30 June	
	2008 (Unaudited) HK\$'000	2007 (Unaudited) HK\$'000
Interest income on bank deposits	4,284	2,074
Dividend income from available-for-sale investments	1,841	–
	<u>6,125</u>	<u>2,074</u>



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

For the six months ended 30 June 2008

### 5. OTHER INCOME, GAINS AND LOSSES

	Six months ended 30 June	
	2008 (Unaudited) HK\$'000	2007 (Unaudited) HK\$'000
Gain on disposal of available-for-sale investments	53,198	–
Foreign exchange (losses) gains, net	(16,335)	903
Recovery of bad and doubtful debts	2,398	139
Change in fair value of derivative financial instruments	(204)	442
Loss on disposal of property, plant and equipment	–	(514)
Others	396	163
	<u>39,453</u>	<u>1,133</u>

### 6. FINANCE COSTS

	Six months ended 30 June	
	2008 (Unaudited) HK\$'000	2007 (Unaudited) HK\$'000
Interest on bank borrowings wholly repayable within five years	3,635	6,988
Other finance costs	731	592
	<u>4,366</u>	<u>7,580</u>
Total borrowing costs	4,366	7,580
Less: amounts capitalised	(2,426)	(914)
	<u>1,940</u>	<u>6,666</u>

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

For the six months ended 30 June 2008

### 7. INCOME TAX EXPENSES

	<b>Six months ended 30 June</b>	
	<b>2008 (Unaudited) HK\$'000</b>	2007 (Unaudited) HK\$'000
The charge comprises:		
Current tax:		
Hong Kong	<b>709</b>	1,106
People's Republic of China ("PRC") Enterprise Income Tax	<b>13,660</b>	3,773
	<b>14,369</b>	4,879
Under provision in prior periods:		
PRC Enterprise Income Tax	–	5
Deferred taxation	<b>1,184</b>	(918)
Income tax expenses	<b>15,553</b>	3,966

Hong Kong Profits Tax is recognised based on management's best estimate of the weighted average annual income tax rate expected for the full financial year. On 26 June 2008, the Hong Kong Legislative Council passed the Revenue Bill 2008 which included the reduction in corporate profits tax rate by 1% to 16.5% effective from the year of assessment 2008-2009. The effect of such decrease has been reflected in measuring the current and deferred tax for the six months ended 30 June 2008. The estimated average annual tax rate used is 16.5% (2007: 17.5%) for the six months ended 30 June 2008.

The PRC Enterprise Income Tax is recognised based on management's best estimate of the weighted average annual income tax rate expected for the full financial year. The estimated average annual tax rate used is 18% (2007: 15%) for the six months ended 30 June 2008.

Prior to 1 January 2008, a subsidiary in Zhejiang had qualified for a tax concession in the form of reduced tax rate of 15%. Pursuant to the new PRC Enterprise Income Tax Law (the "New Law") which became effective on 1 January 2008, the subsidiary is subject to a respective tax rate of 18%, 20%, 22%, 24% and 25% for the years ending 31 December 2008, 2009, 2010, 2011 and 2012 onwards.



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

For the six months ended 30 June 2008

### 7. INCOME TAX EXPENSES (continued)

In addition, according to the New Law, starting from 1 January 2008, withholding income tax will be imposed on dividends relating to profits earned in year 2008 onwards to foreign investors for the companies established in the PRC. Deferred tax has been provided in the consolidated income statement in respect of the temporary differences attributable to such incomes based on the applicable tax rate of 5% as the subsidiary receiving the dividends is located in a region where Avoidance of Double Taxation Arrangement with the PRC exists.

### 8. PROFIT FOR THE PERIOD

	<b>Six months ended 30 June</b>	
	<b>2008 (Unaudited) HK\$'000</b>	2007 (Unaudited) HK\$'000
Profit for the period is arrived at after charging:		
Depreciation of property, plant and equipment	<b>23,511</b>	20,761
Amortisation of prepaid lease payments (included in "Cost of sales")	<b>590</b>	270
Share-based payment expenses	<b>26,765</b>	1,291
Share of tax of a jointly controlled entity (included in "Share of profit of a jointly controlled entity")	<b>278</b>	950
Share of tax of an associate (included in "Share of profit of an associate")	<b>—</b>	2
	<b>—</b>	<b>2</b>

### 9. DIVIDENDS

On 20 June 2008, a dividend of HK1 cent per share (2007: HK1 cent per share) was paid to the shareholders of the Company as the final dividend for 2007.

The directors have resolved to declare an interim dividend of HK1 cent (2007: nil) per share for the six months ended 30 June 2008.

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

For the six months ended 30 June 2008

### 10. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share is based on the following data:

	<b>Six months ended 30 June</b>	
	<b>2008 (Unaudited) HK\$'000</b>	2007 (Unaudited) HK\$'000
<b>Earnings</b>		
Profit for the period for the purpose of calculation of basic and diluted earnings per share	<u><b>30,658</b></u>	<u>24,004</u>
<b>Number of shares</b>		
Weighted average number of ordinary shares for the purpose of calculation of basic earnings per share	<b>1,838,082,820</b>	1,276,793,075
Effect of dilutive potential ordinary shares: Share options	<u><b>37,826,575</b></u>	<u>40,238,603</u>
Weighted average number of ordinary shares for the purpose of calculation of diluted earnings per share	<u><b>1,875,909,395</b></u>	<u>1,317,031,678</u>



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

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For the six months ended 30 June 2008

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

During the period, the Group spent approximately HK\$114,670,000 on the establishment of its new steel cord manufacturing plant in the PRC in order to expand its production capacity. In addition, the Group also acquired approximately HK\$978,000 of other property, plant and equipment during the period.

At 30 June 2008, the directors considered the carrying amounts of the Group's leasehold land and buildings and investment properties, which are carried at revalued amounts and fair value respectively, and estimated that the carrying amounts of these assets did not differ significantly from that which would be determined based on professional valuations at 30 June 2008. Consequently, no gain or loss on changes in fair value has been recognised in the current period.

### 12. AVAILABLE-FOR-SALE INVESTMENTS

In 2007, Xinhua Metal Products Co., Ltd. ("Xinhua Metal"), an associate of the Group with its shares listed on the Shanghai Stock Exchange, announced a plan (the "Plan") to acquire the assets and business of its major shareholder, Xinyu Iron & Steel Co., Ltd. (新余鋼鐵有限責任公司). All necessary approvals were obtained on 22 October 2007 and the Plan became unconditional. Further to the completion of the Plan, Xinhua Metal changed its name to Xinyu Iron & Steel Co., Ltd. (新余鋼鐵股份有限公司) ("Xinyu Iron"). Since then, the representative of the Group could no longer participate in major financial and operating policy decisions of Xinyu Iron, and accordingly, the Group considered that its significant influence in Xinyu Iron was lost. The Group had since then reclassified the investment in Xinyu Iron as available-for-sale investments.

During the period, the Group disposed of 3,468,316 "A" shares of Xinyu Iron on the Shanghai Stock Exchange. The net sales proceeds from the disposal in aggregate were approximately HK\$59,360,000, resulting in a gain of approximately HK\$53,198,000.

As at 30 June 2008, available-for-sale investments represent the Group's investment in 20,449,645 "A" shares of Xinyu Iron, of which 18,339,660 shares are restricted for selling on the Shanghai Stock Exchange, 9,661,018 shares and 8,678,642 shares will become non-restricted on 24 October 2008 and 24 October 2009 respectively.



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

For the six months ended 30 June 2008

### 13. TRADE RECEIVABLES/BILLS RECEIVABLE

The Group normally allows an average credit period of 30 to 90 days to its trade customers.

An aged analysis of trade and bills receivables net of allowance for bad and doubtful debts as at the balance sheet date based on sales invoice date and bills receipt date respectively, is as follows:

	<b>30 June 2008 (Unaudited) HK\$'000</b>	31 December 2007 (Audited) HK\$'000
0 – 90 days	<b>333,004</b>	271,466
91 – 180 days	<b>128,175</b>	107,609
Over 180 days	<b>426</b>	–
	<b><u>461,605</u></b>	<b><u>379,075</u></b>

### 14. AMOUNTS DUE FROM RELATED COMPANIES

	<b>30 June 2008 (Unaudited) HK\$'000</b>	31 December 2007 (Audited) HK\$'000
Amounts due from subsidiaries of Shougang Concord Technology Holdings Limited ("Shougang TECH") (Note)	<b><u>2,186</u></b>	<b><u>5,875</u></b>



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

For the six months ended 30 June 2008

### 14. AMOUNTS DUE FROM RELATED COMPANIES (continued)

*Note:* The amounts are trading in nature, unsecured and non-interest bearing. The Group normally allows credit periods of 60 to 90 days to the subsidiaries of Shougang TECH (collectively the "Shougang TECH Group"). The aged analysis of the amounts due from Shougang TECH Group at the balance sheet date based on sales invoice date, is as follows:

	<b>30 June 2008 (Unaudited) HK\$'000</b>	31 December 2007 (Audited) HK\$'000
0 – 90 days	1,011	1,111
91 – 180 days	344	1,070
Over 180 days	831	3,694
	<u>2,186</u>	<u>5,875</u>

### 15. TRADE PAYABLES

An aged analysis of trade payables at the balance sheet date based on purchase invoice date, is as follows:

	<b>30 June 2008 (Unaudited) HK\$'000</b>	31 December 2007 (Audited) HK\$'000
0 – 90 days	62,178	37,529
91 – 180 days	142	2,060
Over 180 days	630	139
	<u>62,950</u>	<u>39,728</u>

### 16. BANK BORROWINGS

During the period, the Group obtained new bank borrowings of approximately HK\$95,892,000 and repaid bank borrowings of approximately HK\$229,665,000. These loans bear interest ranging from 2.90% to 6.75% per annum and are repayable over a period of three years.





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

For the six months ended 30 June 2008

### 17. SHARE CAPITAL

Ordinary shares of HK\$0.10 each

	Number of shares '000	Share capital HK\$'000
Authorised:		
At 1 January 2008	2,000,000	200,000
Increased on 10 January 2008	3,000,000	300,000
	<u>5,000,000</u>	<u>500,000</u>
At 30 June 2008	<u>5,000,000</u>	<u>500,000</u>
Issued and fully paid:		
At 1 January 2008	1,384,347	138,435
Exercise of share options (500,000 ordinary shares of HK\$0.10 each)	500	50
Issue of shares on subscription ( <i>Note</i> )	500,000	50,000
	<u>1,884,847</u>	<u>188,485</u>
At 30 June 2008	<u>1,884,847</u>	<u>188,485</u>

*Note:* In order to expedite the progress of the expansion plan of the Group's steel cord business, reduce finance cost and generate general working capital of the Group, the Company entered into subscription agreements on 29 November 2007, pursuant to which the Company would issue and allot 400,000,000 and 100,000,000 ordinary shares of HK\$0.10 each in the Company at a cash price of HK\$1.03 per share to Shougang Concord International Enterprises Company Limited, a substantial shareholder of the Company, and Li Ka Shing Foundation Limited, an independent third party, respectively. The new shares were issued on 18 January 2008 and ranked pari passu with existing shares in all aspects.

### 18. SHARE-BASED PAYMENT

The Company has adopted a share option scheme for directors, employees and other eligible participants of the Group. Details of the share options outstanding during the six months ended 30 June 2008 are as follows:

	Number of share options
Outstanding at 1 January 2008	217,944,000
Granted during the period	100,300,000
Exercised during the period	(500,000)
	<u>317,744,000</u>
Outstanding at 30 June 2008	<u>317,744,000</u>



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

For the six months ended 30 June 2008

### 18. SHARE-BASED PAYMENT (continued)

The closing price of the Company's shares on 28 January 2008, being the date on which 100,300,000 share options (the "Company's Share Options") were granted, was HK\$0.80.

In respect of the above granted options, 99,900,000 share options vested immediately ("Option A") and 400,000 share options were vested with three years vesting period from the date of grant ("Option B"). The fair value of each option of Option A and Option B determined at the date of grant using the Binomial Option Pricing Model (the "Binomial Model") was approximately HK\$0.2677 and HK\$0.384 respectively.

The following assumptions were used to calculate the fair value of the Company's Share Options:

	28 January 2008	
	Option A	Option B
Closing price of the Company's shares at grant date	<b>HK\$0.80</b>	<b>HK\$0.80</b>
Exercise price	<b>HK\$0.864</b>	<b>HK\$0.864</b>
Contractual life	<b>10 years</b>	<b>10 years</b>
Expected volatility	<b>66.37%</b>	<b>66.37%</b>
Dividend yield	<b>1.25%</b>	<b>1.25%</b>
Risk-free interest rate	<b>2.505%</b>	<b>2.505%</b>

Expected volatility of the Company was determined by using the historical volatility of the Company's share price. The Binomial Model has been used to estimate the fair value of the options. The variables and assumptions used in computing the fair value are based on the Company's directors' best estimate. The value of an option varies with different variables of certain subjective assumptions.



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

For the six months ended 30 June 2008

### 19. CAPITAL COMMITMENTS

	<b>30 June 2008 (Unaudited) HK\$'000</b>	31 December 2007 (Audited) HK\$'000
Commitments in respect of the acquisition of property, plant and equipment		
– contracted for but not provided in the financial statements	<b>335,884</b>	95,754
– authorised but not contracted for	<b>55,209</b>	238,102
	<b>391,093</b>	333,856

### 20. RELATED PARTY TRANSACTIONS

During the period, the Group had the following material transactions with (i) Shougang Holding (Hong Kong) Limited (“Shougang HK”) and its subsidiaries (collectively the “Shougang HK Group”), (ii) Linksky Limited, a subsidiary of Shougang Concord Grand (Group) Limited, which is an associate of Shougang HK, (iii) Shougang TECH Group and (iv) a jointly controlled entity. Shougang HK is a substantial shareholder of the Company and Shougang TECH.

	<b>Six months ended 30 June</b>	
	<b>2008 (Unaudited) HK\$'000</b>	2007 (Unaudited) HK\$'000
Consultancy fees paid to Shougang HK Group	<b>480</b>	480
Sales to Shougang TECH Group	<b>1,833</b>	6,104
Rental expenses paid to Shougang HK Group	<b>804</b>	804
Rental expenses paid to Linksky Limited	<b>71</b>	71
Corporate guarantees for bank loans granted to a jointly controlled entity	<b>–</b>	7,697



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

For the six months ended 30 June 2008

### 20. RELATED PARTY TRANSACTIONS (continued)

#### Compensation of key management personnel

The key management of the Group comprises all directors of the Company, details of their emoluments are as follows:

	<b>Six months ended 30 June</b>	
	<b>2008 (Unaudited) HK\$'000</b>	2007 (Unaudited) HK\$'000
Short-term benefit	<b>5,566</b>	3,246
Share-based payment	<b>18,793</b>	451
	<b><u>24,359</u></b>	<u>3,697</u>

The emoluments of the directors of the Company were decided by the remuneration committee of the Company having regard to individual's performance, the Group's performance and profitability, remuneration benchmark in the industry and prevailing market conditions.

## MANAGEMENT DISCUSSION & ANALYSIS

### BUSINESS REVIEW

The worldwide economy experienced a challenging period in the first half year of 2008, characterized by tightening credit supply and rising commodity and energy prices. The economic growth of the PRC also turned slower, but it was still able to maintain a double-digit growth in gross domestic product in the first half year. The demand for materials, including steel cords, remained strong and hence, the Group achieved a satisfactory growth in its steel cord manufacturing business through organic growth during the period under review.

In respect of the Group's Copper and brass products business, its sales and profitability were affected negatively by high copper price and flagging economy in developed countries in the first half year.

#### Steel cord

Jiaxing Eastern achieved an increase in sales volume of 26.5% over the same period last year to 19,448 tonnes (2007: 15,380 tonnes) for the period. The analysis of sales volume during the period is as follows:

	2008		2007		% change
	Sales volume (tonne)	% of total sales volume	Sales volume (tonne)	% of total sales volume	
Steel cord for:					
– truck tyres	14,082	72.4	11,206	72.9	+25.7
– passenger car tyres	5,115	26.3	3,745	24.3	+36.6
Others and steel wires	251	1.3	429	2.8	-41.5
<b>Total</b>	<b>19,448</b>	<b>100.0</b>	<b>15,380</b>	<b>100.0</b>	<b>+26.5</b>

Revenue of this segment amounted to HK\$292,717,000 (2007: HK\$200,311,000) for the period, an increase of 46.1% over the same period last year.



## MANAGEMENT DISCUSSION & ANALYSIS (continued)

### BUSINESS REVIEW (continued)

#### Steel cord (continued)

Gross profit (before deducting share-based payment expenses of HK\$3,480,000 in relation to the granting of share options during the period (“share-based payment expenses”)) was HK\$51,350,000 (2007: HK\$34,349,000) for the period, representing an increase of 49.5% over the same period last year. Attributable to the increase in prices of both raw materials and energy, the production costs of Jiaxing Eastern was higher than the same period last year. However, Jiaxing Eastern was able to mitigate the impact of rising costs through enhancing efficiency in production and improving inventory management, its gross profit margin (before deducting share-based payment expenses) slightly improved from 17.1% in the same period last year to 17.5% for the period.

Other operating costs, including distribution and selling expenses and administrative expenses also increased. Distribution and selling expenses increased as more transportation costs were incurred as a result of a higher volume of sales during the period; for administrative expenses, it increased as additional expenditures were incurred for the expansion of production capacity of Jiaxing Eastern in the first half of 2008.

Attributable to the increased sales and improved gross profit margin, this segment achieved a growth of 41.9% in EBITDA (before deducting share-based payment expenses) over the same period last year to HK\$65,447,000 (2007: HK\$46,128,000). Its operating profit (before deducting share-based payment expenses) increased by 66.2% over the same period last year to HK\$41,999,000 (2007: HK\$25,266,000).

#### Copper and brass products

Our copper and brass products segment recorded a decline in sales volume of 21.3% over the same period last year to 1,893 tonnes (2007: 2,405 tonnes). During the first half year, downstream customers of this segment were affected by factors including flagging economy in the developed countries; tightening credit supply; appreciation of the exchange rate of RMB and surging operating costs, that placed a heavy burden on their operation and financial position. In view of this, the management had adopted a more conservative and prudent sales strategy to mitigate any risk from non-recoverability of receivables and minimise any loss incurred in this respect. As such, sales volume dropped and revenue of this segment also decreased by 16.7% over the same period last year to HK\$119,267,000 (2007: HK\$143,163,000).

## MANAGEMENT DISCUSSION & ANALYSIS (continued)

### BUSINESS REVIEW (continued)

#### Copper and brass products (continued)

The average 3-month copper price as quoted on the London Metals Exchange (“LME”) was US\$7,648 per tonne for the period, an increase of 10.5% as compared to US\$6,920 per tonne for the same period last year, however, average selling price increased by 5.8% only over the same period last year to HK\$63,002 per tonne (2007: HK\$59,535 per tonne). In addition to seasonal factors and volatility of copper price movements, the level of the increase in average selling price against the 3-month LME copper price was much lower because this segment could not fully shift the burden to its customers under sustained high copper price and difficult economic environment. As a result, gross profit margin of this segment dropped from 8.7% in the same period last year to 7.3%, gross profit was HK\$8,662,000 (2007: HK\$12,442,000) for the period, decreased by 30.4% as compared to the same period last year.

In addition to the decreased gross profit, further costs were incurred on the development of domestic sales in the PRC, following the commencement of operations of the new production plant for domestic sales in the first half year. As such, the EBITDA of this segment declined by 40.4% over the same period last year to HK\$5,667,000 (2007: HK\$9,506,000), while its operating profit dropped by 40.6% over the same period last year to HK\$5,230,000 (2007: HK\$8,804,000).

#### Investment gain

During the period, the Group disposed of certain “A” shares in Xinyu Iron on the Shanghai Stock Exchange and recorded a gain of HK\$53,198,000. After deducting the related income tax of HK\$5,968,000, the net gain after tax on the disposal of shares in Xinyu Iron for the period amounted to HK\$47,230,000 (2007: Nil).



## MANAGEMENT DISCUSSION & ANALYSIS (continued)

### FINANCIAL REVIEW

The Group achieved a net profit from business operations and other investments of HK\$73,758,000 for the period, an increase of 191.6% as compared to HK\$25,295,000 for the same period last year. However, the Group had the following non-cash/non-recurring expenses during the period, therefore net profit of the Group amounted to HK\$30,658,000 for the period, an increase of 27.7% over the same period last year:

1. 100,300,000 share options to subscribe for the Shares were granted to Directors and employees of the Group during the period. The fair value of these share options amounted to HK\$26,765,000 (2007: HK\$1,291,000) was expensed in the consolidated income statement; and
2. The Company issued totalling 600,000,000 new Shares to one of its substantial Shareholders and other independent third parties at a price of HK\$1.03 each in December 2007 and January 2008 respectively, and raised net proceeds of approximately HK\$610,000,000. The majority of these funds were still placed in bank deposits in Hong Kong at the end of June 2008. The functional currency of the Company and the majority of its subsidiaries is in RMB as the business activities of the Group are primarily carried out in the PRC. Due to the appreciation of the exchange rate of RMB against HKD of approximately 6% during the period, exchange loss was incurred on the translation of these deposits into RMB at the period end, which caused the Group to record net foreign exchange losses of HK\$16,335,000 for the period (2007: net foreign exchange gains of HK\$903,000).





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

Revenue of the Group amounted to HK\$426,809,000 for the period, an increase of 24.1% as compared to the same period last year. The breakdown of revenue (excluding inter-segment sales) by business segments is as follows:

	<b>For the six months ended 30 June</b>				
	<b>2008</b>		<b>2007</b>		<b>% change</b>
	<b>HK\$'000</b>	<b>% of total revenue</b>	<b>HK\$'000</b>	<b>% of total revenue</b>	
Steel cord	<b>292,717</b>	<b>68.6</b>	200,311	58.2	<b>+46.1</b>
Copper and brass products	<b>119,170</b>	<b>27.9</b>	143,163	41.6	<b>-16.8</b>
Others ( <i>Note</i> )	<b>14,922</b>	<b>3.5</b>	493	0.2	<b>+2926.8</b>
<b>Total</b>	<b>426,809</b>	<b>100.0</b>	<b>343,967</b>	<b>100.0</b>	<b>+24.1</b>

*Note:* Including HK\$14,627,000 from trading of metal products for the current period.



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

Gross profit of the Group increased by 23.5% as compared to the same period last year to HK\$58,343,000. When excluding share-based payment expenses, the amount would be HK\$61,823,000 for the period, an increase of 30.9% as compared to the same period last year. Gross profit margin slightly improved from 13.7% in the same period last year to 14.5% (before deducting share-based payment expenses), primarily because Steel cord segment achieved a better gross profit margin during the period, and its contribution to the Group's revenue increased from 58.2% in the same period last year to 68.6%. The breakdown of gross profit by business segments is as follows:

	2008		2007		% change
	Gross profit margin		Gross profit margin		
	HK\$'000	(%)	HK\$'000	(%)	
Steel cord	51,350	17.5	34,349	17.1	+49.5
Copper and brass products	8,662	7.3	12,442	8.7	-30.4
Others	1,811	12.1	437	88.6	+314.4
	<b>61,823</b>	<b>14.5</b>	<b>47,228</b>	<b>13.7</b>	<b>+30.9</b>
Steel cord – share-based payment expenses	(3,480)	N/A	–	N/A	N/A
Total	<b>58,343</b>	<b>13.7</b>	<b>47,228</b>	<b>13.7</b>	<b>+23.5</b>

**Investment income**

The Group received a dividend of HK\$1,841,000 (2007: Nil) from investment in Xinyu Iron during the period, while its interest income from bank deposits increased significantly by 106.6% over the same period last year to HK\$4,284,000 (2007: HK\$2,074,000) as more deposits were placed in banks from proceeds on the issue of 600,000,000 new Shares as mentioned above.

**MANAGEMENT DISCUSSION & ANALYSIS (continued)****FINANCIAL REVIEW (continued)****Other income, gains and losses**

The net amount of other income, gains and losses of the Group was HK\$39,453,000 for the period, as compared to HK\$1,133,000 for the same period last year. The breakdown is as follows:

	<b>For the six months ended 30 June</b>		
	<b>2008 HK\$'000</b>	2007 HK\$'000	%
			<b>change</b>
Gain on disposal of available-for-sale investments, as mentioned in "Investment gain" section above	<b>53,198</b>	–	<b>N/A</b>
Foreign exchange (losses) gains, net, as mentioned in "FINANCIAL REVIEW" section above	<b>(16,335)</b>	903	<b>N/A</b>
Recovery of bad and doubtful debts	<b>2,398</b>	139	<b>+1625.2</b>
Others	<b>192</b>	91	<b>+111.0</b>
Total	<b><u>39,453</u></b>	<u>1,133</u>	<b>+3382.2</b>

**Distribution and selling expenses**

These expenses increased by 80.6% over the same period last year to HK\$6,433,000 (2007: HK\$3,563,000) given the substantial growth in sales volume of Jiaxing Eastern and the rise in transportation costs. Furthermore, more commission expenses were incurred to pay the Group's substantial shareholder, Bekaert, and other independent agent for developing Jiaxing Eastern's export sales activities since the second half year of 2007.

**Administrative expenses**

Administrative expenses of the Group amounted to HK\$50,358,000 for the period, an increase of 130.4% as compared to HK\$21,857,000 for the same period last year. When the share-based payment expenses in relation to the grant of share options of HK\$23,285,000 (2007: HK\$1,291,000) was excluded, administrative expenses would be HK\$27,073,000 for the period, an increase of 31.6% as compared to HK\$20,566,000 for the same period last year, as additional costs were incurred on the ongoing business development plans of the Group, including, in particular for, the ongoing second phase expansion plan of Jiaxing Eastern; the development of domestic sales activities of the Group's Copper and brass products segment, which had commenced operation during the first half year; and the construction of a new steel cord production plant in Tengzhou City, Shandong in the PRC.



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

Profit from the Group's business segments (before deducting share-based payment expenses) amounted to HK\$48,980,000 for the period, representing an increase of 42.6% as compared to HK\$34,342,000 for the same period last year. The breakdown of the results by business segments is as follows:

	<b>For the six months ended 30 June</b>		
	<b>2008</b>	2007	%
	<b>HK\$'000</b>	HK\$'000	<b>change</b>
Steel cord	<b>41,999</b>	25,266	<b>+66.2</b>
Copper and brass products	<b>5,230</b>	8,804	<b>-40.6</b>
Others	<b>1,751</b>	272	<b>+543.8</b>
	<b>48,980</b>	34,342	<b>+42.6</b>
Steel cord – share-based payment expenses	<b>(3,480)</b>	–	<b>N/A</b>
Total	<b>45,500</b>	34,342	<b>+32.5</b>

**Finance costs**

The Group's finance costs dropped by 70.9% as compared to the same period last year to HK\$1,940,000 (2007: HK\$6,666,000). The Group repaid a portion of its bank borrowings from net proceeds received on the issue of totalling 600,000,000 new shares in December 2007 and January 2008 respectively, therefore the Group's interest expenses reduced significantly during the period.



**MANAGEMENT DISCUSSION & ANALYSIS (continued)****FINANCIAL REVIEW (continued)****Share of profit of a jointly controlled entity and an associate**

The revenue of Shanghai Shenjia amounted to HK\$310,704,000 for the period, an increase of 28% as compared to HK\$242,694,000 for the same period last year. However, its gross profit margin dropped significantly from 22.3% in the same period last year to 16.7%, as Shanghai Shenjia suffered from the increase in prices of raw materials and other operating costs during the period. Attributable to the decline in gross profit margin, its gross profit dropped by 4.2% as compared to the same period last year to HK\$51,820,000. Besides, other operating costs, including distribution and selling expenses; administrative expenses and finance costs, also increased significantly during the period. These caused the net profit of Shanghai Shenjia significantly decreased by 80.4% to HK\$4,084,000 (2007: HK\$20,785,000). As such, the Group's share of the profit of Shanghai Shenjia also dropped proportionately to HK\$1,021,000 (2007: HK\$5,196,000).

As mentioned in the Group's 2007 Annual Report, Xinyu Iron (previously Xinhua Metal Products Co., Ltd.) ceased to be an associate of the Group and reclassified as an available-for-sale investment with effect from 22 October 2007. Therefore, there was no share of profit of an associate for the period (2007: share of profit of HK\$4,425,000), whereas the Group received a dividend of HK\$1,841,000 from Xinyu Iron during the period.

**Income tax expenses**

Income tax expenses of the Group amounted to HK\$15,553,000 for the period, significantly increased by 292.2% as compared to HK\$3,966,000 for the same period last year. The increase was mainly because (i) Jiaxing Eastern incurred a high income tax expenses for the period as its profit increased, the implementation of the new enterprise income tax law and its detailed regulations in the PRC with effect from 2008 changed the income tax rate of Jiaxing Eastern from 15% to 18%; and (ii) the gain on disposal of shares in Xinyu Iron during the period was subject to PRC Enterprise Income Tax at a rate of 10%, and income tax expenses of HK\$5,968,000 was incurred for this disposal as a result.



## MANAGEMENT DISCUSSION & ANALYSIS (continued)

### SHARE CAPITAL, LIQUIDITY AND FINANCIAL RESOURCES

The Company manages its capital structure with the objectives of ensuring that the businesses of the Group can continue to maintain a sustainable growth and providing a long-term reasonable return to its Shareholders. It is imperative to maintain the debt and equity ratio of the Group at a secure and manageable level.

On 29 November 2007, the Company entered into subscription agreements with Shougang International and Li Ka Shing Foundation respectively, pursuant to which, Shougang International and Li Ka Shing Foundation would subscribe for 400,000,000 and 100,000,000 new Shares at a price of HK\$1.03 each (the "Subscription"). The Subscription was completed on 18 January 2008 and raised net proceeds of approximately HK\$515,000,000 for the Group, which was used for expediting the progress of expansion of production capacity of the Steel cord business including but not limited to the establishment of a new steel cord production plant in Tengzhou City, Shandong, and reducing finance costs.

Furthermore, a Director exercised 500,000 share options and therefore 500,000 new Shares were issued during the period. Following such issuance of new Shares, the total issued share capital of the Company increased from 1,384,346,556 Shares at 31 December 2007 to 1,884,846,556 Shares at 30 June 2008. The net assets of the Group increased from HK\$1,499,929,000 at 31 December 2007 to HK\$1,960,251,000 at 30 June 2008. Net asset value was HK\$1.04 per Share at 30 June 2008, as compared to HK\$1.08 per Share at 31 December 2007.

As at 30 June 2008, the Group's bank balances and cash (including pledged bank deposits) amounted to HK\$681,438,000, representing an increase of 71.8% as compared to HK\$396,624,000 at the end of 2007. The Group's total bank borrowings amounted to HK\$140,006,000, decreased by HK\$133,140,000 as compared to HK\$273,146,000 as at 31 December 2007. Such strong net cash position was mainly generated from the proceeds on the Subscription which was not yet fully utilized as at 30 June 2008.



**MANAGEMENT DISCUSSION & ANALYSIS (continued)****SHARE CAPITAL, LIQUIDITY AND FINANCIAL RESOURCES (continued)**

As at 30 June 2008, all the bank loans of the Group were variable-rate borrowings and their nature and maturity profile were as follows:

	<i>HK\$'000</i>
Due within one year or on demand	
– Trust receipt loans	40,527
– Current portion of medium term loan	25,750
	<hr/>
Subtotal	66,277
Portion of medium term loan that is due in the second year	43,750
Portion of medium term loan that is due in the third year	29,979
	<hr/>
Total	<u>140,006</u>

Because of the strengthening of capital base from issue of new Shares, the Group maintained net cash position at 31 December 2007 and 30 June 2008 respectively. The current ratio of the Group was 7.9 times at 30 June 2008, as compared to 3.5 times at 31 December 2007.



**MANAGEMENT DISCUSSION & ANALYSIS (continued)****FOREIGN CURRENCY AND INTEREST RATE EXPOSURES**

The Group's sources of revenue are principally denominated in RMB and HKD, while purchases and payments are in RMB, HKD and USD. The currency mix of bank borrowings of the Group at 30 June 2008 was as follows:

	<b>30 June 2008 (%)</b>	31 December 2007 (%)
HKD	<b>95.0</b>	97.2
USD	<b>5.0</b>	2.8
Total	<b>100.0</b>	100.0

The major source of the Group's revenue is in RMB. However, the majority of the Group's bank borrowings at 30 June 2008 were denominated in HKD as its borrowing rate was relatively lower than its RMB counterpart. We believe this financing arrangement could reduce our interest costs and minimize our exposure to currency risks.

Regarding interest rate risks, out of the HK\$140,006,000 variable-rate bank borrowings at 30 June 2008, HK\$40,000,000 had been hedged by a structured interest rate swap contract, covering 28.6% of variable-rate bank borrowings at 30 June 2008.

We would keep monitoring the currency composition of our bank borrowings under the guidance of the Internal Control Manual and take appropriate action to minimize our exchange and interest rate risks when needed.

In respect of the currency risk exposure arisen on the substantial HKD cash balance on our balance sheet, the Group had considered various measures to allay the impact vis-à-vis the strength of the RMB. Given the prevailing relevant regulations in the PRC, hedging against the RMB is of limited means. The Group will endeavor to convert its HKD holding into RMB by ways of continued investment in the PRC similar to that of the steel cord plant in Tengzhou City, Shandong in order to curb the potential loss due to the unremitting strengthen of the RMB.



## MANAGEMENT DISCUSSION & ANALYSIS (continued)

### BUSINESS DEVELOPMENT PLAN AND CAPITAL COMMITMENTS

#### Steel cord

The expansion of Jiaxing Eastern's production capacity from 30,000 tonnes to 60,000 tonnes per annum was substantially completed in June and had already operated step-by-step in July 2008. In order to ensure operational proficiency can be stably achieved, further capital expenditure on development of Jiaxing Eastern will be increased to approximately HK\$600,000,000. Capital expenditure of RMB181,444,000 (equivalent to HK\$206,382,000) had been incurred up to 30 June 2008, and the whole capital expenditure will be financed by the Group's internal resources and bank borrowings.

In addition to the above, the Group announced on 18 June 2008 that it had entered a letter of intent with the Municipal Government of Tengzhou City, Shandong, for the construction of a steel cord production plant with annual production capacity of 100,000 tonnes. This development project will be implemented by phases, and the whole project is scheduled to complete in 2012. Capital expenditure (excluding working capital requirements) of this development project is estimated to be approximately HK\$1,300,000,000, which will be financed by the Group's internal resources and bank borrowings.

#### EMPLOYEES, REMUNERATION POLICIES AND TRAINING SCHEME OF THE GROUP

At 30 June 2008, the Group had a total of 1,131 employees located in Hong Kong and the PRC. The emolument policy regarding the employees of the Group is based on their merit, qualifications and competence as well as the prevailing market condition of the industry. Remuneration packages, which include an element of discretionary bonuses, are generally reviewed annually. In addition to salary payments, other employee benefits include medical subsidies, hospitalization scheme and a defined contribution provident fund, Mandatory Provident Fund Scheme and other retirement scheme or other similar defined contribution provident fund stipulated by the State Regulations of the PRC which provided retirement benefits to employees in Hong Kong and the PRC respectively. The Group's contribution to these schemes are charged against profits as they are incurred. The amount charged to the consolidated income statement for the period amounted to approximately HK\$2,210,000. The Group had also provided training programmes or courses for the mainland staff at all levels from different departments so as to further enhance their technical skills in production operation.



## MANAGEMENT DISCUSSION & ANALYSIS (continued)

### EMPLOYEES, REMUNERATION POLICIES AND TRAINING SCHEME OF THE GROUP (continued)

The emoluments of the Directors are decided by the remuneration committee of the Company, having regard to individual performance, the Group's performance and profitability, remuneration benchmark in the industry and prevailing market condition.

In addition, the Company had adopted a share option scheme (the "Scheme"). Under the Scheme, the Board shall, subject to and in accordance with the provisions of the Scheme and the Listing Rules, grant share options to any eligible participant to subscribe for Shares in the capital of the Company for the purpose of providing incentives or rewards to him/her for contribution to the Group. The Scheme will remain in force for a period of ten years from the date of its adoption. During the period under review, a total of 100,300,000 share options were granted to all Directors and employees of the Group to subscribe for Shares and also 500,000 share options were exercised by a Director.

### PLEDGE OF ASSETS

As at 30 June 2008, the following assets had been pledged to the Group's bankers for banking facilities granted to the Group:

1. Leasehold land and buildings and investment properties with an aggregate net book value of HK\$15,987,000; and
2. Bank deposits amounting to HK\$3,000,000.

### BUSINESS OUTLOOK

The recent significant drop in oil and commodity prices from their peak levels appeared to ease the inflation concern over the worldwide economy to a minor extent; however, it would still be clouded by the impact of the financial crisis as originated from the subprime incidence in the United States in the second half year of 2008. In the PRC, the Central Government has recently made an adjustment to its austerity measures with the view to enable its domestic economy to maintain a strong growth in a healthy manner while control inflation to a manageable level. Under these circumstances, we are still optimistic on the domestic economic growth while pensive on the inflationary environment of the PRC in the second half year.



## MANAGEMENT DISCUSSION & ANALYSIS (continued)

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### BUSINESS OUTLOOK (continued)

We are glad that the second phase expansion plan of Jiaxing Eastern was completed in July 2008 and the production of steel cords will gradually increase. We ensure that the new production plant will operate effectively and efficiently and generate a comfortable return to the Group.

To grasp the opportunities ahead, on one hand, we are undergoing the approval process for the establishment of the new steel cord manufacturing plant in Tengzhou City, Shandong, and construction of the new plant is expected to start in the fourth quarter of 2008. On the other hand, we will develop and explore our strength and potential capabilities in other metallic products processing businesses.

Notwithstanding our Copper and brass products business will continue to face a very challenging environment in the second half year, we shall endeavor to develop the domestic sales in the PRC and maintain very cautious measures on our contract processing business with an objective to capture the salient domestic demand.

All in all, the operating environment in the second half year is still full of challenges; however, we will go on expanding our core businesses and also identify new businesses simultaneously, while manage our businesses in a cautious manner for the objective of creating Shareholder value and return.

### INTERIM DIVIDEND

The Board has declared an interim dividend of HK1 cent per share for the six months ended 30 June 2008 to the Shareholders whose names appear on the register of members of the Company at the close of business on 22 September 2008. The interim dividend will be paid on or about 10 October 2008.

### CLOSURE OF REGISTER OF MEMBERS

The Register of Members will be closed from 23 September 2008 to 24 September 2008, both days inclusive, during which period no share transfer will be registered. In order to qualify for the interim dividend, all transfer accompanied by the relevant share certificates must be lodged with the Company's share registrars, Tricor Tengis Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Hong Kong not later than 4:00 p.m. on 22 September 2008.



## PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES

Neither the Company, nor any of its subsidiaries had purchased, redeemed or sold any of the Company's listed securities during the six months ended 30 June 2008.

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

As at 30 June 2008, save for the interests of the Directors in the Shares and share options of the Company set out as below, none of the Directors had any interests and short positions in the Shares, debentures or underlying shares of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which had to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he was taken or deemed to have under such provisions of the SFO) or which were required pursuant to Section 352 of the SFO, to be entered in the register referred therein or which were required to be disclosed herein pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers.

### Long position in Shares

#### (a) Ordinary Shares of HK\$0.10 each

Name of Director	Number of Shares held	Approximate % of the issued Share capital	Capacity in which interest are held
Tang Cornor Kwok Kau ("Mr. Tang")	3,900,000	0.20	Beneficial owner ( <i>Note</i> )

*Note:* Those Shares were beneficially owned by Mr. Tang and in which of 200,000 Shares were also jointly owned by his wife.



## DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES, DEBENTURES OR UNDERLYING SHARES (continued)

### Long position in Shares (continued)

#### (b) Share options

As at 30 June 2008, there were a total of 234,164,000 outstanding share options of the Company granted to Directors, details of which are summarized as below:

Name of Director	Options to subscribe for Shares				Date of exercise	Date of grant (Note b)	Exercise period	Exercise price per Share HK\$	Capacity in which interests are held	Approximate % of the issued share capital
	Number of outstanding share options held at the beginning of the period	Number of share options granted during the period	Number of share options exercised during the period	Number of outstanding share options held at the end of the period						
Cao Zhong	7,652,000	-	-	7,652,000	23/8/2002	23/8/2002 to 22/8/2012	0.295			
	57,350,000 (Note a)	-	-	57,350,000	21/10/2003	21/10/2003 to 1/10/2013	0.780			
	- 17,000,000	-	-	17,000,000	28/1/2008	28/1/2008 to 27/1/2018	0.864			
	<u>65,002,000</u>	<u>17,000,000</u>	<u>-</u>	<u>82,002,000</u>				Beneficial owner	4.35	
Li Shaofeng	7,652,000	-	-	7,652,000	23/8/2002	23/8/2002 to 22/8/2012	0.295			
	30,614,000 (Note a)	-	-	30,614,000	25/6/2003	25/6/2003 to 24/6/2013	0.365			
	- 13,800,000	-	-	13,800,000	28/1/2008	28/1/2008 to 27/1/2018	0.864			
	<u>38,266,000</u>	<u>13,800,000</u>	<u>-</u>	<u>52,066,000</u>				Beneficial owner	2.76	
Tong Yihui	7,652,000	-	-	7,652,000	23/8/2002	23/8/2002 to 22/8/2012	0.295			
	38,268,000 (Note a)	-	-	38,268,000	25/6/2003	25/6/2003 to 24/6/2013	0.365			
	- 10,000,000	-	-	10,000,000	28/1/2008	28/1/2008 to 27/1/2018	0.864			
	<u>45,920,000</u>	<u>10,000,000</u>	<u>-</u>	<u>55,920,000</u>				Beneficial owner	2.96	
Leung Shun Sang, Tony	4,592,000	-	-	4,592,000	23/8/2002	23/8/2002 to 22/8/2012	0.295			
	3,060,000	-	-	3,060,000	12/3/2003	12/3/2003 to 11/3/2013	0.325			
	4,592,000	-	-	4,592,000	25/6/2003	25/6/2003 to 24/6/2013	0.740			
	- 12,000,000	-	-	12,000,000	28/1/2008	28/1/2008 to 27/1/2018	0.864			
	<u>12,244,000</u>	<u>12,000,000</u>	<u>-</u>	<u>24,244,000</u>				Beneficial owner	1.28	

## DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES, DEBENTURES OR UNDERLYING SHARES (continued)

### Long position in Shares (continued)

#### (b) Share options (continued)

Name of Director	Options to subscribe for Shares				Number of outstanding share options held at the end of the period	Date of grant (Note b)	Exercise period	Exercise price per Share HK\$	Capacity in which interests are held	Approximate % of the issued share capital
	Number of outstanding share options held at the beginning of the period	Number of share options granted during the period	Number of share options exercised during the period	Date of exercise						
Mr. Tang	1,000,000	-	(500,000)	23/1/2008	500,000	25/8/2003	25/8/2003 to 24/8/2013	0.740		
	-	10,000,000	-	-	10,000,000	28/1/2008	28/1/2008 to 27/1/2018	0.864		
	<u>1,000,000</u>	<u>10,000,000</u>	<u>(500,000)</u>		<u>10,500,000</u>				Beneficial owner	0.55
Geert Johan Roelens	-	2,000,000	-	-	2,000,000	28/1/2008	28/1/2008 to 27/1/2018	0.864	Beneficial owner	0.10
Yip Kin Man, Raymond	382,000	-	-	-	382,000	23/8/2002	23/8/2002 to 22/8/2012	0.295		
	382,000	-	-	-	382,000	25/8/2003	25/8/2003 to 24/8/2013	0.740		
	252,000	-	-	-	252,000	26/1/2007	26/1/2007 to 25/1/2017	0.656		
	-	1,800,000	-	-	1,800,000	28/1/2008	28/1/2008 to 27/1/2018	0.864		
	<u>1,016,000</u>	<u>1,800,000</u>	<u>-</u>		<u>2,816,000</u>				Beneficial owner	0.14
Law, Yui Lun	1,016,000	-	-	-	1,016,000	26/1/2007	26/1/2007 to 25/1/2017	0.656		
	-	1,800,000	-	-	1,800,000	28/1/2008	28/1/2008 to 27/1/2018	0.864		
	<u>1,016,000</u>	<u>1,800,000</u>	<u>-</u>		<u>2,816,000</u>				Beneficial owner	0.14
Chan Chung Chun	-	1,800,000	-	-	1,800,000	28/1/2008	28/1/2008 to 27/1/2018	0.864	Beneficial owner	0.09
	<u>164,464,000</u>	<u>70,200,000</u>	<u>(500,000)</u>		<u>234,164,000</u>					

Other than the holdings and option holdings disclosed above, none of the Directors, chief executives and their associates had any interests or short positions in any Shares, debentures or underlying shares of the Company or any of its associated corporations at 30 June 2008.

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

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**Long position in Shares (continued)****(b) Share options (continued)**

*Notes:*

- (a) Share options granted were in excess of the individual limit and the approval from the Shareholders was obtained in general meetings held on 25 June 2003 and 2 October 2003.
- (b) The vesting period of the share options is from the date of grant to the end of the exercise period.

The above share options are unlisted cash 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, Shares are issuable. The share options are personal to the respective Directors.

## SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN SHARES OR UNDERLYING SHARES UNDER THE SFO

As at 30 June 2008, so far as was known to the Directors, the following parties had an interest or long position or short position in the Shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or which were required pursuant to Section 336 of the SFO, to be entered in the register referred therein:

### Long position in Shares or underlying shares

Name of Shareholder	Total number of Shares/ underlying shares held	Approximate % of the issued Share capital	Capacity in which interests are held
Richson	148,537,939	7.88	Beneficial owner
Fair Union	686,655,179	36.43	Beneficial owner and interests of controlled corporations <sup>(1)</sup>
Casula	402,395,304	21.35	Beneficial owner
Shougang International	686,655,179	36.43	Interests of controlled corporations <sup>(2)</sup>
Able Legend	126,984,000	6.74	Beneficial owner
Shougang HK	855,883,179	45.40	Interests of controlled corporations <sup>(3)</sup>
Bekaert Holding	250,000,000	13.26	Beneficial owner <sup>(4)</sup>
Bekaert	250,000,000	13.26	Interests of controlled corporations <sup>(5)</sup>
Li Ka Shing Foundation	100,000,000	5.30	Beneficial owner <sup>(6)</sup>



## SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN SHARES OR UNDERLYING SHARES UNDER THE SFO (continued)

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### Long position in Shares or underlying shares (continued)

Notes:

- (1) Fair Union is beneficially interested in 135,721,936 Shares and by virtue of the SFO, it is deemed to be interested in the 148,537,939 Shares held by Richson and the 402,395,304 Shares held by Casula as Richson and Casula are its wholly owned subsidiaries.
- (2) By virtue of the SFO, Shougang International is deemed to be interested in the 135,721,936 Shares held by Fair Union, the 148,537,939 Shares held by Richson and the 402,395,304 Shares held by Casula as Richson and Casula are wholly owned by Fair Union, a wholly owned subsidiary of Shougang International.
- (3) By virtue of the SFO, Shougang HK is deemed to be interested in the 126,984,000 Shares and the 28,374,000 Shares held by Able Legend and Prime Success Investments Limited ("Prime Success") respectively as Able Legend and Prime Success are its wholly owned subsidiaries and is deemed to be interested in the 13,870,000 Shares held by Lyre Terrace Management Limited, a subsidiary of Shougang Grand as Shougang HK is the controlling shareholder of Shougang Grand. It is also deemed to be interested in the 135,721,936 Shares held by Fair Union, the 148,537,939 Shares held by Richson and the 402,395,304 Shares held by Casula as it is the controlling shareholder of Shougang International.
- (4) Bekaert Holding is beneficially interested in the 250,000,000 Shares.
- (5) By virtue of the SFO, Bekaert is deemed to be interested in 250,000,000 Shares held by Bekaert Holding, which is a wholly owned subsidiary of Bekaert.
- (6) Li Ka Shing Foundation is beneficially interested in 100,000,000 Shares.



## SHARE OPTION SCHEME

Save as disclosed in the above sub-section “Share options” under “DIRECTORS’ INTERESTS AND SHORT POSITIONS IN SHARES, DEBENTURES OR UNDERLYING SHARES”, the details of the share options granted to other eligible participants during the period under review are set out as below:

Category of participant	Options to subscribe for Shares					Date of grant (Note a)	Exercise period	Exercise price per Share HK\$
	Number of outstanding share options held at the beginning of the period	Number of share options granted during the period	Number of share options exercised during the period	Date of exercise	Number of outstanding share options held at the end of the period			
Employees other than the Directors	15,220,000	-	-	-	15,220,000	25/8/2003	25/8/2003 to 24/8/2013	0.740
	-	29,700,000	-	-	29,700,000	28/1/2008	28/1/2008 to 27/1/2018	0.864
	-	400,000 (Note b)	-	-	400,000	28/1/2008	28/1/2011 to 27/1/2018	0.864
	<u>15,220,000</u>	<u>30,100,000</u>	<u>-</u>		<u>45,320,000</u>			
All other eligible participants	7,652,000	-	-	-	7,652,000 (Note c)	23/8/2002	23/8/2002 to 12/4/2009	0.295
	9,948,000	-	-	-	9,948,000	23/8/2002	23/8/2002 to 22/8/2012	0.295
	20,660,000	-	-	-	20,660,000	12/3/2003	12/3/2003 to 11/3/2013	0.325
	<u>38,260,000</u>	<u>-</u>	<u>-</u>		<u>38,260,000</u>			
Total	<u>53,480,000</u>	<u>30,100,000</u>	<u>-</u>		<u>83,580,000</u>			

### SHARE OPTION SCHEME (continued)

*Notes:*

- (a) The vesting period of the share option is from the date of grant to the end of the exercise period except for the share options set out under Note (b) below.
- (b) 400,000 share options have a vesting period of three years from the date of grant.
- (c) The 7,652,000 outstanding options were held by Ms. Xu Xianghua ("Ms. Xu") who resigned as a Director on 13 April 2004 and the exercise period were changed from 23/8/2002 – 22/8/2012 to 23/8/2002 – 12/4/2006 by the approval of the Board on 8 April 2004. In view of the great contribution provided by Ms. Xu during her tenure of her service for the Company, the exercise period was subsequently extended to 12/4/2008 and 12/4/2009 by the approval of the Board on 12 April 2006 and 20 March 2008 respectively.
- (d) The closing price of the Shares on the trading day immediately before the date (i.e. 28/1/2008) on which the share options were granted to all Directors and employees of the Group respectively was HK\$0.84.
- (e) The weighted average of closing price of the Shares on the trading days immediately before the date (i.e. 23/1/2008) on which the share options were exercised was HK\$0.84.

In summary, during the period under review, 100,300,000 share options were granted to all Directors and certain employees of the Company and the Group respectively, in which 99,900,000 share options vested immediately ("Option A") and 400,000 share options were vested with three years vesting period from the date of grant ("Option B"). The fair value of each option of Option A and Option B determined at the date of grant using the Binomial Optional Pricing Model was approximately HK\$0.2677 and HK\$0.384 respectively and are derived based on the following assumptions:

Closing price of the Shares at grant date  
 Exercise price  
 Contractual life  
 Expected volatility  
 Dividend yield  
 Risk-free interest rate

**28 January 2008  
 Option A and Option B**

**HK\$0.80**  
**HK\$0.864**  
**10 years**  
**66.37%**  
**1.25%**  
**2.505%**



**SHARE OPTION SCHEME (continued)**

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- Share Price  
The Share price as of the valuation date/grant date quoted from the Bloomberg;
- Exercise Price  
Historical sub-optimal factor was taken into consideration of the early exercise behavior of the holders of the Company's share options;
- Time to Maturity  
The full life of the Company's share options;
- Risk Free Rate  
Risk-free interest rate used in the valuation was the yields of Exchange Fund Bills & Notes as at the valuation date/grant date quoted by Hong Kong Monetary Authority;
- Volatility  
Estimated by the average annualized standard deviations of the continuously compounded rates of return on the Share price as of the valuation date/grant date quoted by Bloomberg;
- Forfeiture Rate  
Estimated with reference to the historical forfeiture rate of the options granted by the Company.

Further details of the Company's share options are set out in note 18 to the condensed consolidated financial statements.



### **CODE ON CORPORATE GOVERNANCE PRACTICES**

The Board is committed to practicing and achieving a high standard of corporate governance. The Board also recognizes that an effective internal control system is crucial to the long term development of the Company. Hence, the Board reviews from time to time the effectiveness of the system of internal control of the Group, such as financial, operational and compliance controls and risk management functions. The Company has adopted the Internal Control Manual, which will be amended and revised in order to enhance the effectiveness of the internal control system, and also to be in line with the relevant amendments to the law, rules and regulations.

In the opinion of the Board, the Company has complied with the principles and code provisions of the Code as set out in Appendix 14 to the Listing Rules throughout the six months ended 30 June 2008.

### **MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS**

The Company has approved and adopted the Model Code for Securities Transactions by Directors of Shougang Concord Century Holdings Limited (the "SCCHL Code") on terms no less exacting than the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 to the Listing Rules. The Board has revised and adopted the new SCCHL Code on 4 April 2005 and 7 April 2008 respectively.

All Directors have confirmed, following specific enquiry of the Company, that they have complied with the required standard set out in the SCCHL Code during the period under review.

### **AUDIT COMMITTEE**

The Company's audit committee comprises of three independent non-executive Directors, namely Mr. Yip Kin Man, Raymond, Mr. Law, Yui Lun and Mr. Chan Chung Chun. Mr. Yip acts as the chairman of the committee. The audit committee was established with specific written terms of reference with the task of monitoring the financial reporting procedures, reviewing internal control and risk management system of the Group and meeting with the external auditors. The Company has engaged the auditor to assist the audit committee to review the Group's unaudited condensed consolidated financial statements for the six months ended 30 June 2008. During the meetings of the audit committee for the period under review, the audit committee members, amongst other things, had reviewed the accounting principles and practices adopted by the Group and discussed the financial report matters related to the preparation of the unaudited condensed consolidated financial statements for the six months ended 30 June 2008.



## CODE ON CORPORATE GOVERNANCE PRACTICES (continued)

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### INTERNAL CONTROL

In order to align with the changes of the relevant amendments to law, rules and regulations, as well as enhance the effectiveness of the internal control system and maintain good corporate governance practices of the Group. An audit committee meeting had been held for such purpose during the period under review.

### APPRECIATION

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The Board would like to thank all of the staff of the Group for their hard work and dedication and Shareholders, bankers, customers and suppliers for their continuous support.

By Order of the Board

**Cao Zhong**

*Chairman*

Hong Kong, 1 September 2008

*This interim report can also be accessed through the internet at the Company's website <http://www.shougangcentury.com.hk> on our "Investor Relations" section.*

## DEFINITIONS

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In this report, unless the context otherwise requires, the following terms shall have the meaning set out below:

“Able Legend”	Able Legend Investments Limited, a subsidiary of Shougang HK
“Bekaert”	NV Bekaert SA, a company incorporated under the laws of Belgium, a substantial shareholder of the Company
“Bekaert Holding”	Bekaert Holding B.V., a wholly owned subsidiary of Bekaert
“Board”	the board of Directors
“Casula”	Casula Investments Limited, a subsidiary of Shougang International
“Code”	the code on Corporate Governance Practices as set out in Appendix 14 to the Listing Rules
“Company”	Shougang Concord Century Holdings Limited, a company incorporated in Hong Kong with limited liability, the Shares of which are listed on the Stock Exchange
“Copper and brass products”	Processing and trading of copper and brass products
“Director(s)”	the director(s) of the Company
“Fair Union”	Fair Union Holdings Limited, a subsidiary of Shougang International
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“HKSAR Government”	Government of the Hong Kong Special Administrative Region



**DEFINITIONS (continued)**

“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Internal Control Manual”	an internal management and control manual of the Company adopted in 1999 and revised from time to time thereafter
“Jiaxing Eastern”	Jiaxing Eastern Steel Cord Co., Ltd., a company incorporated under the laws of the PRC and an indirect wholly-owned subsidiary of the Company
“Li Ka Shing Foundation”	Li Ka Shing Foundation Limited, a “charitable body” within the meaning of the Inland Revenue Ordinance (Chapter 112 of the Laws of Hong Kong), a substantial shareholder of the Company
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“PRC”	the People’s Republic of China
“Richson”	Richson Limited, a subsidiary of Shougang International
“RMB”	Renminbi, the lawful currency of the PRC
“SFO”	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Share(s)”	ordinary share(s) of HK\$0.10 each in the share capital of the Company
“Shanghai Shenjia”	Shanghai Shenjia Metal Products Co., Ltd., a company incorporated under the laws of the PRC and an indirect jointly controlled entity of the Company





**DEFINITIONS (continued)**

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“Shareholder(s)”	Shareholder(s) of the Company
“Shougang Grand”	Shougang Concord Grand (Group) Limited (Stock Code: 730), a company incorporated in Bermuda with limited liability, the shares of which are listed on the Stock Exchange
“Shougang HK”	Shougang Holding (Hong Kong) Limited, a company incorporated in Hong Kong with limited liability, a substantial shareholder of the Company
“Shougang International”	Shougang Concord International Enterprises Company Limited (Stock Code: 697), a company incorporated in Hong Kong with limited liability, the shares of which are listed on the Stock Exchange, a substantial shareholder of the Company
“Steel cord”	Manufacturing of steel cord for radial tyres
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“USD”	United States dollars, the lawful currency of the United States of America
“Xinyu Iron”	Xinyu Iron & Steel Co., Ltd.
“%”	per cent.

