



首 長 國 際 企 業 有 限 公 司

**SHOUGANG CONCORD INTERNATIONAL ENTERPRISES COMPANY LIMITED**

*(Incorporated in Hong Kong with limited liability)*

**INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2003**

**INTERIM RESULTS**

The board of directors (the “Board”) of Shougang Concord International Enterprises Company Limited (the “Company”) is pleased to announce the unaudited consolidated interim results of the Company and its subsidiaries (the “Group”) for the six months ended 30 June 2003. These interim results have been reviewed by the Company’s Audit Committee and its Auditors.

**CONDENSED CONSOLIDATED INCOME STATEMENT**

*For the six months ended 30 June 2003*

		<b>Six months ended 30 June</b>	
		<b>2003</b>	<b>2002</b>
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
		<b>(unaudited)</b>	<b>(unaudited)</b>
			<b>(as restated)</b>
Turnover	(4)	<b>1,118,903</b>	905,660
Cost of sales		<b>(972,708)</b>	(906,857)
Gross profit (loss)		<b>146,195</b>	(1,197)
Other operating income		<b>3,480</b>	13,766
Distribution costs		<b>(3,600)</b>	(4,570)
Administrative expenses		<b>(68,899)</b>	(81,363)
Other expenses		<b>(5,595)</b>	(5,857)
Profit (loss) from operations	(4), (5)	<b>71,581</b>	(79,221)
Interest expenses		<b>(15,040)</b>	(22,112)
Share of results of associates		<b>12,102</b>	17,049
Share of results of jointly controlled entities		<b>–</b>	(2,445)
Loss on deemed disposal of an associate	(6)	<b>(15,442)</b>	–
Loss on disposal of a subsidiary		<b>–</b>	(206,202)
Profit (loss) before taxation		<b>53,201</b>	(292,931)
Taxation	(7)	<b>27,931</b>	(1,178)
Profit (loss) before minority interests		<b>25,270</b>	(291,753)
Minority interests		<b>30,954</b>	(16,632)
Loss attributable to shareholders		<b>(5,684)</b>	(275,121)
Loss per share			
– Basic and diluted	(8)	<b>(0.2) cents</b>	(12.0) cents

**(1) BASIS OF PREPARATION**

The condensed 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 Statement of Standard Accounting Practice (“SSAP”) 25 “Interim Financial Reporting” issued by the Hong Kong Society of Accountants.

**(2) BASIS OF PRESENTATION**

Notwithstanding the net current liabilities position recorded by the Group as at the balance sheet date, the directors have prepared these financial statements on a going concern basis because Shougang Holding (Hong Kong) Limited (“Shougang HK”), the Company’s controlling shareholder, has agreed to provide adequate funds for the Group to meet its financial obligations in full as they fall due for the foreseeable future.

At the balance sheet date, included in the Group’s liabilities are short-term loans together with accrued interest in an aggregate amount of HK\$102,497,000 and convertible note of HK\$200,000,000 owed by the Group to certain subsidiaries of Shougang HK. These subsidiaries of Shougang HK have undertaken not to demand repayment of such amounts within one year from the balance sheet date unless the Group has adequate funds to do so within such time.

**(3) SIGNIFICANT ACCOUNTING POLICIES AND PRIOR PERIOD ADJUSTMENT**

The condensed financial statements have been prepared under the historical cost convention as modified for the revaluation of investment properties, certain property, plant and equipment and investment in securities. The accounting policies adopted are consistent with those followed in the preparation of the Group’s annual financial statements for the year ended 31 December 2002, except as described below.

**Income Taxes**

In the current period, the Group has adopted SSAP 12 (Revised) “Income Taxes”. The principal effect of the implementation of SSAP 12 (Revised) is in relation to deferred tax. In previous years, partial provision was made for deferred tax using the income statement liability method, i.e. a liability was recognised in respect of timing differences arising, except where those timing differences were not expected to reverse in the foreseeable future. SSAP 12 (Revised) requires the adoption of a balance sheet liability method, whereby deferred tax is recognised in respect of all temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, with limited exceptions. In the absence of any specific transitional requirements in SSAP 12 (Revised), the new accounting policy has been applied retrospectively.

The change in such policy has resulted in an increase of approximately HK\$15,171,000 to the accumulated losses as at 31 December 2002 (1 January 2002: HK\$32,046,000), a decrease of HK\$379,000 of revaluation reserve as at 31 December 2002 (1 January 2002: HK\$265,000) and an increase in loss for the six months ended 30 June 2003 of approximately HK\$2,434,000 (six months ended 30 June 2002: a decrease of loss of HK\$8,027,000).

#### (4) 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 2003*

	Steel manufacturing HK\$'000	Steel trading HK\$'000	Electricity generation HK\$'000	Kitchen and laundry equipment HK\$'000	Shipping HK\$'000	Corporate and others HK\$'000	Eliminations HK\$'000	Consolidated HK\$'000
Turnover								
External sales	777,524	6,958	190,483	25,822	117,360	756	-	1,118,903
Inter-segment transactions	-	-	-	-	-	600	(600)	-
Total	<u>777,524</u>	<u>6,958</u>	<u>190,483</u>	<u>25,822</u>	<u>117,360</u>	<u>1,356</u>	<u>(600)</u>	<u>1,118,903</u>
Segment results	<u>49,290</u>	<u>(532)</u>	<u>45,903</u>	<u>(1,323)</u>	<u>(15,281)</u>	<u>(7,498)</u>	<u>4</u>	<u>70,563</u>
Unallocated other operating income								1,018
Profit from operations								<u>71,581</u>

##### *Six months ended 30 June 2002*

	Continuing operations					Discontinued operation		
	Steel manufacturing HK\$'000	Steel trading HK\$'000	Kitchen and laundry equipment HK\$'000	Shipping HK\$'000	Corporate and others HK\$'000	Property investment and management HK\$'000	Eliminations HK\$'000	Consolidated HK\$'000
Turnover								
External sales	708,540	18,393	29,478	140,595	936	7,718	-	905,660
Inter-segment transactions	-	-	-	-	978	-	(978)	-
Total	<u>708,540</u>	<u>18,393</u>	<u>29,478</u>	<u>140,595</u>	<u>1,914</u>	<u>7,718</u>	<u>(978)</u>	<u>905,660</u>
Segment results	<u>(36,245)</u>	<u>(651)</u>	<u>(3,049)</u>	<u>(30,916)</u>	<u>(10,970)</u>	<u>543</u>	<u>-</u>	<u>(81,288)</u>
Unallocated other operating income								2,090
Unallocated expenses								(23)
Loss from operations								<u>(79,221)</u>

Inter-segment transactions are conducted at terms determined between the parties.

#### (5) PROFIT (LOSS) FROM OPERATIONS

Profit (loss) from operations has been arrived at after charging (crediting):

	Six months ended 30 June	
	2003	2002
	HK\$'000	HK\$'000
Depreciation of property, plant and equipment	35,110	48,427
Amortisation of intangible assets (included in administrative expenses)	523	802
Amortisation of goodwill (included in administrative expenses)	1,817	-
Allowance for bad and doubtful debts, net	2,129	34
Interest income	<u>(1,018)</u>	<u>(1,312)</u>

#### (6) LOSS ON DEEMED DISPOSAL OF AN ASSOCIATE

Following the completion of a subscription agreement and a placing agreement entered into by Shougang Concord Century Holdings Limited ("Shougang Century"), a listed associate of the Group, the Group's interest in Shougang Century was diluted from 36.6% to 29.3% during the period. The loss on the deemed disposal amounted to approximately HK\$15,442,000.

## (7) TAXATION

	Six months ended 30 June	
	2003	2002
	HK\$'000	HK\$'000
Current tax:		
Hong Kong	–	141
Mainland China	21,657	241
Overprovision in prior periods	–	(35)
Deferred taxation	4,492	(1,123)
	<u>26,149</u>	<u>(776)</u>
Share of tax on results of associates	1,782	53
Share of tax on results of jointly controlled entities	–	(455)
	<u>27,931</u>	<u>(1,178)</u>

No provision for Hong Kong Profits Tax has been made for the period 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. Hong Kong Profits Tax for the six months ended 30 June 2002 was calculated at 16% of the estimated assessable profit for that period.

Taxation arising on Mainland China is calculated in accordance with the relevant rules and regulations.

## (8) LOSS PER SHARE

The calculation of the basic loss per share is based on the loss attributable to shareholders for the period of HK\$5,684,000 (six months ended 30 June 2002: HK\$275,121,000) and on the 2,295,546,454 (six months ended 30 June 2002: 2,295,546,454) shares in issue during the period.

The computation of diluted loss per share does not assume the exercise of share options or conversion of convertible note for the six months ended 30 June 2003 and 30 June 2002 as the exercise or conversion would result in a decrease in loss per share.

The adjustment to comparative loss per share, arising from the change in accounting policies described in note 3 above, is as follows:

Reconciliation of loss per share for the six months ended 30 June 2002

	HK cents
Reported figure before adjustment	12.3
Adjustment arising from the adoption of SSAP 12 (Revised)	(0.3)
Restated figure	<u>12.0</u>

## INTERIM DIVIDEND

The Board did not declare an interim dividend for the six months ended 30 June 2003 (2002: Nil).

## MANAGEMENT DISCUSSION AND ANALYSIS

### Business Review

The performance of the Group for the six months ended 30 June 2003 revealed a substantial improvement when compared with that for the correspondence period last year. In this interim period, loss attributable to shareholders amounted to HK\$5.7 million, against a loss attributable to shareholders of HK\$275.1 million in last interim period (as restated) which comprised of net loss on continuing operations and discontinued operations of HK\$71.7 million (as restated) and HK\$203.4 million (as restated), respectively. Basic loss per share accordingly improved from HK12.0 cents in 2002 (as restated) to HK0.2 cents in 2003.

The decline in net loss on continuing operations from HK\$71.7 million (as restated) to HK\$5.7 million was mainly attributed to three reasons. Firstly, the Group's steel products manufacturing business had achieved a turnaround of performance during the period and contributed to the Group's profitability. Secondly, the Group's shipping business was able to curtail its loss significantly from the previous level. Thirdly, profit contribution by the power plant subsidiary that the Group acquired in December 2002 also helped to improve overall result.

### *Trading of steel products; manufacture and installation of kitchen and laundry equipment*

For the six months ended 30 June 2003, Shougang Concord Steel Holdings Limited and its subsidiaries ("Shougang Steel Group") reported a decrease in turnover of HK\$15.1 million, from HK\$47.9 million in 2002 to HK\$32.8 million in 2003. Due to market competition,

turnover of the kitchen and laundry equipment business dropped by HK\$3.7 million to HK\$25.8 million in the period. Turnover of all other business divisions recorded a combined fall of HK\$11.4 million to HK\$7.0 million in the period, mainly as a result of the severe contraction in the steel trading business.

During the period under review, the management undertook measures to mitigate loss by avoiding the acceptance of loss-making orders and tightening operation costs. Consequently, Shougang Steel Group was able to reduce its loss from HK\$3.4 million in 2002 to HK\$2.6 million in 2003. The management will continue to streamline operations in order to further improve the situation.

### ***Shipping***

Shougang Concord Shipping Holdings Limited and its subsidiaries (“Shougang Shipping Group”) recorded a total operating revenue of HK\$117.4 million for this interim period, representing a decline of HK\$23.2 million from HK\$140.6 million for last interim period. The decline in total operating revenue was mainly due to the significant shrinkage of HK\$36.6 million in operating revenue for the voyage charter business, from HK\$90.2 million in 2002 to HK\$53.6 million in 2003. Operating revenue for the floating crane business also fell by HK\$2.6 million to HK\$2.5 million. These decrease in operating revenues were however partly compensated by the growth of HK\$16.0 million in operating revenue for the time charter business, from HK\$45.3 million in 2002 to HK\$61.3 million in 2003.

Shougang Shipping Group incurred a loss attributable to shareholders of HK\$17.5 million for the six months ended 30 June 2003, a substantial improvement of HK\$15.3 million when compared with a loss of HK\$32.8 million as recorded for the corresponding period last year. The improvement mainly came from the time charter business, which operating loss decreased by HK\$24.3 million over the period as the market charter rates gradually picked up. However, there was an increase in loss of HK\$5.2 million for the voyage charter business due to contraction in volume for transportation of iron ore. The floating crane business showed a decrease in profit of HK\$2.1 million following its decrease in operating revenue, resulting from the disposal of one of the two floating cranes in last year end. Although the performance of Shougang Shipping Group for the six months ended 30 June 2003 was still unsatisfactory, there is a constant improvement in recent market conditions, it is therefore expected that Shougang Shipping Group will improve its result in the second half year.

### ***Manufacture and sale of steel products***

The steel markets in the PRC rebounded substantially during the first half of 2003 after a long period of depression. Driven by strong demand, price levels of steel products rose high and market sentiment was buoyant. Seizing such a good business opportunity, Qinhuangdao Shougang Plate Mill Co., Ltd. (“Qinhuangdao Plate Mill”) expanded its production and sales activities to match with increasing demands while controlling its costs carefully. These efforts were proved fruitful as Qinhuangdao Plate Mill was successful to turn around its loss position during the period.

Qinhuangdao Plate Mill achieved a turnover of HK\$777.5 million for the six months ended 30 June 2003, representing a remarkable increase of HK\$350.4 million from the corresponding period last year. The increase in turnover was largely attributed to the volume growth in its main products of steel plates. During the period under review, Qinhuangdao Plate Mill sold approximately 244,000 metric tonnes of steel plates, an increase of approximately 59,000 metric tonnes from the same period last year. Qinhuangdao Plate Mill recorded a net profit attributable to shareholders of HK\$33.8 million for this interim period, against an attributable loss of HK\$15.4 million for last interim period (as restated). After accounting for minority interests, the Group’s share of its attributable profit for this period amounted to HK\$17.7 million, which showed a favourable variance of HK\$25.7 million when compared to the share of its attributable loss of HK\$8.0 million for last period (as restated).

### ***Electricity generation***

The Group acquired a 51% interest in Beijing Shougang Firstlevel Power Co., Ltd. (“Beijing Power Plant”) in late 2002, details of which were mentioned in our last annual report. For the six months ended 30 June 2003, Beijing Power Plant generated and sold approximately 548 million Kwh of electricity. It contributed HK\$190.5 million to the Group’s turnover and



HK\$12.9 million to the Group's share of profit after tax and minority interests. The performance of Beijing Power Plant during the period was satisfactory, having regarded to the general increase in costs of water, coal, coal gas and other ancillary materials. The management will control the costs more closely in order to further improve performance.

***Manufacture and sale of metallic products; processing and trading of copper and brass products***

Shougang Concord Century Holdings Limited ("Shougang Century") and its subsidiaries ("Shougang Century Group") delivered impressive result for this interim period with a 30.1% growth rate in total turnover, which mounted to HK\$137.4 million in 2003 from HK\$105.6 million in 2002. Turnover for its core business of manufacture and sale of steel cord grew by 33.8% to HK\$106.5 million, whilst turnover for the business of processing and trading of copper and brass products increased by 19.0% to HK\$30.6 million for the period. Shougang Century Group achieved a net profit attributable to shareholders of HK\$28.2 million for the six months ended 30 June 2003, representing an increase of HK\$1.0 million over the attributable profit of HK\$27.2 million in same period last year (as restated). The milder growth in profit when compared with the surge in turnover was attributable to the reduction in the write-back of provision for bad and doubtful debts of HK\$7.1 million during the period. The Group's share of attributable profit in Shougang Century Group increased to HK\$10.3 million in 2003 from HK\$9.9 million in 2002 (as restated).

During the period under review, Shougang Century Group has expanded the annual production capacity for steel cord to approximately 12,000 tonnes in view of the constantly rising trend in demand. In addition, it has planned to further expand the annual production capacity for steel cord progressively in the coming three years to 30,000 tonnes per annum. As part of the funding sources to finance the expansion programmes, Shougang Century Group raised funds of HK\$57.0 million by end of June 2003 through subscription of 126,984,000 new shares in Shougang Century by Shougang Holding (Hong Kong) Limited, the controlling shareholder of the Company, and placement of 63,492,000 new shares in Shougang Century to independent investors.

Consequent to the aforesaid subscription and placement events, the Group's interest in Shougang Century was diluted, from 36.6% to 29.3%. In accordance with generally accepted accounting principles, a deemed loss of disposal of interest in Shougang Century in the amount of HK\$15.4 million was recognized by the Group and charged to the consolidated income statement for this interim period.

**Liquidity and financial resources**

The Group financed its operations mainly by cash generated from its business activities and banking facilities provided by its bankers. As at 30 June 2003, the Group had banking facilities of HK\$23.5 million with banking institutions in Hong Kong, and banking facilities of RMB315.0 million and US\$1.0 million with banking institutions in the PRC. These banking facilities were utilised to the extent of HK\$15.2 million, RMB255.0 million and US\$1.0 million respectively as at 30 June 2003, all of which be repayable within one year. The banking facilities in Hong Kong were secured by certain properties of HK\$19.1 million, and those in the PRC were secured by certain plant and machinery with an aggregate net book value of RMB324.7 million, cash deposit of RMB8.5 million and corporate guarantees from Shougang Corporation of RMB205.0 million.

The Group's current assets as at the current period end amounted to HK\$690.2 million, an increase of HK\$57.9 million from last year end's level of HK\$632.3 million (as restated). In contrast, the Group's current liabilities decreased from HK\$696.1 million to HK\$690.2 million, representing a decrease of HK\$5.9 million during the period. Hence, the Group's net current liabilities position showed a substantial improvement, from HK\$63.7 million as at 31 December 2002 (as restated) to only HK\$23,000 as at 30 June 2003. The Group's current ratio, defined as current assets divided by current liabilities, accordingly increased to 1.0 times as at 30 June 2003 from 0.91 times as at last year end (as restated). The Group's gearing ratio which is defined as total debts divided by equity, remained at a stable ratio of 3.53 times as at 30 June 2003, as compared to the ratio 3.45 times as at 31 December 2002 (as restated). During the period, the Group had no significant exposure to foreign exchange fluctuations and therefore

no material hedging arrangements were made in this aspect.

### **Capital structure and contingent liabilities**

There was no material change in the capital structure of the Group during the period under review.

As at 30 June 2003, the Company has provided guarantees for the due and punctual performance and observance by a wholly-owned subsidiary of the Company and each and every of its obligations, undertakings and liabilities under two time charter hires, through which the Group leases certain of its vessels. The time charter hires commenced on 26 September 1997 with a lease period of 15 years, plus two months more or less in the Group's option. The daily rates of the time charter hires increase by US\$250 every half year until December 2007, and thereafter the daily rates will increase by US\$125 every half year.

### **Employees and remuneration policies**

The Group had a total of approximately 2,200 employees as at 30 June 2003.

The remuneration policies of the Group are to ensure the fairness and competitiveness of total remuneration in order to motivate and retain existing employees as well as to attract potential employees. Remuneration packages are structured in a way that takes into account local practices under various geographical locations in which the Group operates.

The remuneration packages of Hong Kong employees include salary payments, discretionary bonuses on a performance basis, medical subsidies and a hospitalisation scheme. All of the subsidiaries and associates of the Group located in Hong Kong provide pension schemes for their Hong Kong employees as part of their staff benefits. The remuneration packages of certain employees in the PRC include salary payments, discretionary bonuses on a performance basis, medical subsidies and a welfare fund as part of their staff benefits.

In addition, the Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. On 12 March 2003, the Company granted certain eligible participants under the share option scheme 80,320,000 share options to subscribe for shares in the capital of the Company. None of these granted share options have been exercised, cancelled or lapsed during the period under review.

### **Prospects**

The Group had launched a reorganization programme in 2002 in order to consolidate its structure and operations for a more promising future. A series of restructuring measures had been carried out under the programme, including the disposal of several non-core subsidiary companies and the acquisition of interest in an electricity generation business. This repositioning strategy gave a clear business direction to the Group for more efficient allocation of resources and development of new business opportunities. It was on such solid foundation that the Group entered 2003 with a new shape, leaner but healthier. Although the Group did not turn around its loss position for the six months ended 30 June 2003, there was a substantial improvement when compared with the performance for the same period last year.

Looking forward, we believe the global economy will remain in an unstable state in the short term. However, it is anticipated that the rapid growing trend of the PRC economy will continue. As the Group's major business activities are focused in the PRC, it will be well positioned to deliver better results in the future. With the immense support of Shougang Corporation, we are also confident that the Group has a competitive edge in exploring new business opportunities in the PRC, which will eventually translate into impressive returns.

### **PUBLICATION OF RESULTS ON THE WEBSITES**

All the information required by paragraphs 46(1) to 46(6) of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") will be published on the Stock Exchange's website ([www.hkex.com.hk](http://www.hkex.com.hk)) and the Company's website ([www.shougang-intl.com.hk](http://www.shougang-intl.com.hk)) in due course.

## **APPRECIATION**

On behalf of the Board, I would like to extend our sincere thanks to our customers, suppliers and shareholders for their continuous support to the Group. I would also extend my gratitude and appreciation to all management and staff for their hard work and dedication throughout the year.

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

Hong Kong, 26 September 2003

Please also refer to the published version of this announcement in The Standard.