



首長國際企業有限公司

SHOUGANG CONCORD INTERNATIONAL ENTERPRISES COMPANY LIMITED

(Incorporated in Hong Kong with limited liability)
(Stock Code: 697)

INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2004

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 2004. 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 2004

	Notes	Six months ended 30 June 2004 HK\$'000 (unaudited)	2003 HK\$'000 (unaudited)
Turnover	(3)	1,390,398	1,118,903
Cost of sales		(1,133,810)	(972,708)
Gross profit		256,588	146,195
Other operating income		8,309	3,480
Distribution costs		(4,038)	(3,600)
Administrative expenses		(71,096)	(68,899)
Other operating expenses		(17,820)	(5,595)
Profit from operations	(4)	171,943	71,581
Interest expenses		(6,621)	(15,040)
Share of results of associates		5,951	12,102
Loss on deemed disposal of a partial interest in an associate		(477)	(15,442)
Profit before taxation	(3)	170,796	53,201
Taxation	(5)	(14,733)	(27,931)
Profit before minority interests		156,063	25,270
Minority interests		(51,838)	(30,954)
Profit (loss) attributable to shareholders		104,225	(5,684)
Earnings (loss) per share	(6)		
– Basic		3.1 cents	(0.2) cent
– Diluted		2.9 cents	(0.2) cent

Notes:

(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 No. 25 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants.

(2) SIGNIFICANT ACCOUNTING POLICIES

The condensed financial statements have been prepared under the historical cost convention as modified for the revaluation of investment properties and certain property, plant and equipment. 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 2003.

(3) SEGMENT INFORMATION

For management purposes, the Group is currently organised into the following divisions. These divisions are the basis on which the Group reports its primary segment information.

Six months ended 30 June 2004

	Steel manufacturing HK\$'000	Shipping operations HK\$'000	Electricity generation HK\$'000	Kitchen and laundry equipment, steel trading HK\$'000	Others HK\$'000	Consolidated HK\$'000
Turnover from external customers	1,038,156	140,427	188,917	22,286	612	1,390,398
Segment results	84,607	61,481	33,029	241	(8,835)	170,523
Unallocated other operating income						1,420
Profit from operations						171,943
Interest expenses						(6,621)
Share of results of associates	5,951	–	–	–	–	5,951
Loss on deemed disposal of a partial interest in an associate	(477)	–	–	–	–	(477)
Profit before taxation						170,796

	Steel manufacturing HK\$'000	Shipping operations HK\$'000	Electricity generation HK\$'000	Kitchen and laundry equipment, steel trading HK\$'000	Others HK\$'000	Consolidated HK\$'000
Turnover from external customers	<u>777,524</u>	<u>117,360</u>	<u>190,483</u>	<u>32,780</u>	<u>756</u>	<u>1,118,903</u>
Segment results	<u>49,290</u>	<u>(15,281)</u>	<u>45,903</u>	<u>(1,855)</u>	<u>(7,494)</u>	<u>70,563</u>
Unallocated other operating income						<u>1,018</u>
Profit from operations						<u>71,581</u>
Interest expenses						<u>(15,040)</u>
Share of results of an associate	12,102	–	–	–	–	<u>12,102</u>
Loss on deemed disposal of a partial interest in an associate	(15,442)	–	–	–	–	<u>(15,442)</u>
Profit before taxation						<u>53,201</u>

(4) PROFIT FROM OPERATIONS

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

	Six months ended 30 June 2004 HK\$'000	2003 HK\$'000
Depreciation of property, plant and equipment	<u>32,405</u>	<u>35,110</u>
Amortisation of intangible assets (included in administrative expenses)	<u>513</u>	<u>523</u>
Amortisation of goodwill (included in administrative expenses)	<u>1,817</u>	<u>1,817</u>
Loss on disposal of property, plant and equipment	<u>4,560</u>	<u>–</u>
Impairment loss recognised in respect of investment securities	<u>11,503</u>	<u>–</u>
(Reversal of) allowance for bad and doubtful debts, net	<u>(2,277)</u>	<u>2,129</u>
Interest income	<u>(1,420)</u>	<u>(1,018)</u>

(5) TAXATION

	Six months ended 30 June 2004 HK\$'000	2003 HK\$'000
Current tax:		
People's Republic of China (the "PRC")	<u>14,786</u>	<u>21,657</u>
Other jurisdictions	<u>9</u>	<u>–</u>
	<u>14,795</u>	<u>21,657</u>
Deferred taxation	<u>(1,157)</u>	<u>4,492</u>
	<u>13,638</u>	<u>26,149</u>
Share of tax on results of associates	<u>1,095</u>	<u>1,782</u>
	<u>14,733</u>	<u>27,931</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.

Taxation arising on the PRC and in other jurisdictions is calculated in accordance with the relevant rules and regulations.

(6) EARNINGS (LOSS) PER SHARE

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

	Six months ended 30 June 2004 HK\$'000	2003 HK\$'000
Profit (loss) for the purposes of basic earnings (loss) per share	<u>104,225</u>	<u>(5,684)</u>
Effect of dilutive potential ordinary shares:		
Adjustment to the share of result of an associate based on dilution of its earnings per share	<u>(1,259)</u>	<u>–</u>
Interest on convertible note	<u>16</u>	<u>–</u>
Earnings (loss) for the purposes of diluted earnings (loss) per share	<u>102,982</u>	<u>(5,684)</u>
Weighted average number of ordinary shares for the purposes of basic earnings (loss) per share	<u>3,403,923,221</u>	<u>2,295,546,454</u>
Effect of dilutive potential ordinary shares:		
Options	<u>152,912,937</u>	<u>–</u>
Convertible note	<u>3,139,717</u>	<u>–</u>
Weighted average number of ordinary shares for the purposes of diluted earnings (loss) per share	<u>3,559,975,875</u>	<u>2,295,546,454</u>

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

INTERIM DIVIDEND

The Board did not declare an interim dividend for the six months ended 30 June 2004 (2003: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS**Business Review**

The Group achieved a turnaround in performance for the six months ended 30 June 2004. Net profit attributable to shareholders amounted to HK\$104.2 million for this interim period, against a loss attributable to shareholders of HK\$5.7 million for the corresponding period last year.

During the period under review, the core businesses of the Group recorded substantial improvements. The financial position of the Group has been strengthened in addition to the enhancement in earnings. Basic earnings per share was HK3.1 cents for this interim period, against a basic loss per share of HK0.2 cent for last interim period.

Manufacture and sale of steel products

Qinhuangdao Shougang Plate Mill Co., Ltd. (“Qinhuangdao Plate Mill”) recorded a turnover of HK\$1,038.2 million for the six months ended 30 June 2004, an increase of HK\$260.7 million when compared with the corresponding period last year. The increase in turnover was due to good market conditions which transformed into a favourable price variance, while sales volume was maintained at a high level similar to that of last interim period. Qinhuangdao Plate Mill sold 242,500 metric tonnes of its steel plates main product in this interim period at good prices. This resulted in an increase in gross profit of HK\$50.8 million, from HK\$87.2 million in 2003 to HK\$138.0 million in 2004.

Capitalizing on the economies of scale, Qinhuangdao Plate Mill was able to minimise its expenses so as to boost its bottom line earnings. It achieved a net profit of HK\$79.7 million which, after deducting its 24% share of the pre-operating expenses incurred by its associate, Qinhuangdao Shouqin Metal Materials Co., Ltd. (“Shouqin”) amounting to HK\$7.3 million, resulted in a net profit attributable to shareholders of HK\$72.4 million for the six months ended 30 June 2004. After accounting for minority interests in Qinhuangdao Plate Mill and the Group’s proportionate share of the pre-operating expenses in Shouqin of HK\$3.7 million, net profit contributed by Qinhuangdao Plate Mill to the Group increased to HK\$37.5 million in 2004 from HK\$17.7 million in 2003.

Shipping operations

Driven by improved market sentiment and strong rebound of freight rates, Shougang Concord Shipping Holdings Limited and its subsidiaries (“Shougang Shipping Group”) achieved an encouraging turnaround for the six months ended 30 June 2004 and reported a net operating profit of HK\$59.4 million, representing a remarkable improvement of HK\$76.9 million from a net operating loss of HK\$17.5 million for the corresponding period last year. The main contribution came from its time charter business with substantial recovery in profit margin – from an operating loss of HK\$10.2 million in 2003 to an operating profit of HK\$61.9 million in 2004. Concentrating its available resources in the time charter business, Shougang Shipping Group did not conduct any voyage business for the period under review. Its floating crane business recorded a moderate profit of HK\$1.1 million for the six month ended 30 June 2004, which did not change materially from that of last year. In addition to the increase in revenue, the turnaround for this interim period was supported by the decline of interest by HK\$0.6 million and recovery of bad debts by HK\$1.9 million. The overall improvement in performance of HK\$76.9 million was mainly a combined result of the aforesaid increased contribution from the time charter business, reduction of interest and recovery of bad debts during the reporting period.

Electricity generation

Beijing Shougang Firstlevel Power Company Limited (“Beijing Power Plant”) reported a turnover of HK\$188.9 million for this interim period, representing a marginal decline of HK\$1.6 million from HK\$190.5 million for last interim period. Beijing Power Plant sold approximately 554 million kwh of electricity and generated a sales revenue of HK\$161.3 million for the six months ended 30 June 2004, in contrast with 548 million kwh of electricity with a sales revenue of HK\$159.8 million for the same period last year. However, sales revenue of steam decreased from HK\$16.5 million to HK\$15.4 million and sales revenue of hot water also dropped from HK\$14.2 million to HK\$12.2 million during this interim period. Through effective cost control, Beijing Power Plant managed to maintain its profitability at a satisfactory level in spite of the decline in turnover. For the six months ended 30 June 2004, the Group’s share of net profit of Beijing Power Plant amounted to HK\$14.0 million, which showed a moderate growth of HK\$1.1 million as compared to HK\$12.9 million shared by the Group for last interim period.

Manufacture of steel cord for radical tyres; processing and trading of copper and brass products

Shougang Concord Century Holdings Limited and its subsidiaries (“Shougang Century Group”) continued to deliver impressive result for the six months ended 30 June 2004. Its consolidated turnover climbed to HK\$192.0 million for this interim period, representing a high growth rate of 39.8% from HK\$137.4 million for the same period last year. During this interim period, turnover for its core business of manufacture of steel cord for radical tyres grew by 5.5% to HK\$112.4 million; its another core business, processing and trading of copper and brass products, marked a strong growth in turnover of 158.8% to HK\$79.2 million due to increasing demands of copper products in the market.

In spite of a marginal decline in gross profit margin from 35.9% in 2003 to 31.7% in 2004, the increase in sales during this interim period has caused gross profit to increase by HK\$11.7 million to HK\$60.9 million. Shougang Century Group was successful to maintain its expenditure to grow only moderately despite its strong growth in sales. In addition, the elimination of minority interests for this interim period has also helped to increase the bottom line profit. The said minority interests were related to the 28.2% interest in Jiaxing Eastern Steel Cord Co., Ltd. which is responsible for the steel cord business, that had been acquired by Shougang Century Group in October 2003. Shougang Century Group’s net profit attributable to shareholders rose to HK\$44.4 million for the six months ended 30 June 2004 from HK\$28.2 million for the last interim period. Due to dilution of interest in Shougang Century Group (which mainly took place in 2003 and details were described in the Company’s 2003 Interim Report and Annual Report), the Group’s share of its net profit has moderately increased by HK\$1.9 million to HK\$12.2 million in this interim period.

Manufacture and installation of kitchen and laundry equipment; trading of steel products

Shougang Concord Steel Holdings Limited and its subsidiaries (“Shougang Steel Group”) reported a turnover of HK\$22.3 million for the six months ended 30 June 2004, representing a decrease of HK\$10.5 million as compared to HK\$32.8 million for last interim period. In view of keen market competition, the management undertook a comprehensive review of the business operations of Shougang Steel Group during this interim period. As a result, loss-making orders were rejected and efforts in cost control measures were increased. Against this background, turnover of the kitchen and laundry equipment business recorded a slide of HK\$4.1 million from HK\$25.8 million in 2003 to HK\$21.7 million in 2004, whereas the combined turnover of all other businesses recorded a severe contraction of HK\$6.4 million, from HK\$7.0 million in 2003 to HK\$0.6 million in 2004.

The captioned decrease in turnover caused gross profit to decline by HK\$1.1 million to HK\$4.2 million. It was however matched with a more than proportionate decrease in expenses as a result of the increased efforts of the management to tighten cost control measures. During the period under review, total expenses fell by HK\$3.2 million to HK\$3.9 million. Consequently, Shougang Steel Group achieved a marginal profit of HK\$0.3 million for the current period, against a loss of HK\$2.6 million for the corresponding period last year. The management will remain cautious in controlling costs while seeking new business opportunity for Shougang Steel Group in order to further improve its performance in future.

Further Investments in the Steel Manufacturing Segment

As described in our circular to the shareholders dated 10 May 2004, a wholly-owned subsidiary of the Company entered into an agreement on 19 April 2004 with Shougang Corporation to acquire a 27% interest in Shouqin for a consideration of RMB148,500,000. The said consideration has been paid during the period under review. Prior to the said acquisition, 24% interest in Shouqin had already been held by Qinhuangdao Plate Mill, a 51% owned subsidiary of the Group. Shouqin was established to engage in the design, manufacture and sale of steel products, the related processed products and by-products. It is expected that through the investment in Shouqin, the Group’s strategic position in the manufacture and sale of steel products in the PRC can be enhanced and Qinhuangdao Plate Mill will be able to secure a stable supply of the scarce resources of steel slabs.

Subsequent to the balance sheet date, a wholly-owned subsidiary of the Company entered into an agreement on 18 August 2004 with Shougang Holding (Hong Kong) Limited (“Shougang HK”), the holding company of the Company, to acquire a 47% interest in Qinhuangdao Plate Mill for a consideration of HK\$377,400,000. Further details of the acquisition are set out in the circular to the shareholders dated 10 September 2004. Qinhuangdao Plate Mill is principally engaged in the production and sales of steel plates. Qinhuangdao Plate Mill contributed approximately HK\$80.8 million and HK\$37.5 million to the consolidated net profit of the Group for the year ended 31 December 2003 and for the six months ended 30 June 2004, respectively. After completion of the acquisition, the Company will hold 98% interest in Qinhuangdao Plate Mill beneficially. The said acquisition represents an attractive opportunity for the Company to further consolidate its stake and control in Qinhuangdao Plate Mill and to benefit from its strong financial performance.

Liquidity and financial resources

The Group normally financed its operations by cash generated from its business activities and banking facilities provided by its bankers. For the six months ended 30 June 2004, the Company obtained extra source of funding in respect of the subscription of 300 million new ordinary shares of the Company by independent third party investors and the issue of 10.8 million new ordinary shares of the Company upon exercise of share options of the Company by employees. A total net proceeds of approximately HK\$189.9 million was raised, out of which approximately HK\$140.1 million was used for the acquisition of a 27% interest in Shouqin, further details of which were set out in the circular of the Company dated 10 May 2004, with the remaining balance retained as working capital of the Company.

As at 30 June 2004, the Group had banking facilities of HK\$19.5 million and RMB345.0 million with banking institutions in Hong Kong and in the PRC, respectively. These banking facilities were utilised to the extent of HK\$0.9 million and RMB255.0 million respectively as at 30 June 2004. The banking facilities in Hong Kong were secured by certain properties of HK\$12.7 million, and those in the PRC were secured by certain plant and machinery with an aggregate net book value of RMB307.5 million and corporate guarantees from Shougang Corporation of RMB195.0 million.

The Group's current assets as at the current period end amounted to HK\$981.9 million, an increase of HK\$272.7 million from last year end's level of HK\$709.2 million. In contrast, the Group's current liabilities decreased from HK\$740.0 million to HK\$556.7 million, representing a decrease of HK\$183.3 million during the period. Hence, the Group's working capital position showed a substantial improvement, from net current liabilities of HK\$30.8 million as at 31 December 2003 to net current assets of HK\$425.2 million as at 30 June 2004. The Group's current ratio, defined as current assets divided by current liabilities, accordingly increased to 1.76 times as at 30 June 2004 from 0.96 times as at last year end. The Group's gearing ratio which is defined as total debts divided by equity, reduced to 0.84 times as at 30 June 2004 as compared to 1.99 times as at 31 December 2003. During the current period, the Group had no significant exposure to foreign exchange fluctuations and therefore no material hedging arrangements were made in this aspect.

Capital Structure

During the current period, the issued share capital of the Company was increased due to (i) the conversion of convertible note into new ordinary shares of the Company by China Gate Investments Limited ("China Gate"), a wholly-owned subsidiary of Shougang HK, (ii) placement of new ordinary shares to independent third party investors by the Company, and (iii) the exercise of options granted to employees.

In January 2004, China Gate converted the whole principal amount of the HK\$200.0 million convertible note into new ordinary shares of the Company at a conversion price of HK\$0.35 per share, resulting in the issue of 571,428,571 new shares of HK\$0.20 each in the Company. In March 2004, the Company placed 300 million new shares of HK\$0.20 each to independent third party investors at a price of HK\$0.66 per share and raised net proceeds of approximately HK\$186.1 million. In the same month, certain employees of the Group exercised the granted options, pursuant to which 5 million new shares and 5.8 million new shares were issued at exercise prices of HK\$0.295 and HK\$0.410 per share, respectively.

Consequent to the aforesaid events, the issued share capital of the Company was increased by HK\$176.5 million (represented by 882,228,571 ordinary shares) to HK\$705.6 million (represented by 3,527,775,025 ordinary shares).

Contingent Liabilities

As at 30 June 2004, the contingent liabilities of the Group consisted of guarantees for banking facilities granted to certain third party business corporations in the PRC amounting to RMB49.4 million. In addition, the Company has provided guarantees for the due and punctual performance and observance by a wholly-owned subsidiary of the Company of 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 2004.

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 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.

Prospects

The performance of the Group for the first half of 2004 has been encouraging. Alongside with the growth in earnings in the core business segments, the Group has successfully built up a stronger and healthier financial position. On this solid foundation, the Group expects to deliver satisfactory result for the whole financial year of 2004.

Robust economic growth is expected to continue in the PRC. As an early entrant into the PRC with immense support by Shougang Corporation, the Group is in a prime position to seize future opportunities to fuel growth. The Group's further investments in the steel manufacturing segment which took place recently will undoubtedly strengthen its core business and value chain, where impressive returns will be generated for many years to come. The Group looks into the future with a high level of confidence.

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") in force prior to 31 March 2004 will be published on the Stock Exchange's website (www.hkex.com.hk) and the Company's website (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, 20 September 2004

As at the date of this announcement, the Board comprises Mr. Wang Qinghai (Chairman), Mr. Cao Zhong (Managing Director), Mr. Chen Zhouping (Deputy Managing Director), Mr. Zhang Wenhui (Deputy Managing Director), Mr. Tsoi Wai Kwong, Mr. Ip Tak Chuen, Edmond, Mr. Leung Shun Sang, Tony, Mr. Lai Kam Man, David (Independent Non-executive Director) and Ms. Choy Hok Man, Constance (Independent Non-executive Director).

Please also refer to the published version of this announcement in South China Morning Post-Classified.