

首長寶佳

Interim Report 2 0 0 4



Shougang Concord Century
Holdings Limited

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CORPORATE INFORMATION

Board of Directors*Executive directors*Cao Zhong (*Chairman*)Li Shaofeng (*Managing Director*)

Tong Yihui

Leung Shun Sang, Tony

Tang Cornor Kwok Kau

Independent non-executive directors

Lai Kam Man

Yip Kin Man, Raymond

Chen, Kelvin Siu Min

Audit CommitteeLai Kam Man (*Chairman*)

Yip Kin Man, Raymond

Chen, Kelvin Siu Min

Company Secretary

Chan Lai Yee

Qualified Accountant

Wu Siu Man

Principal Bankers

Bank of America (Asia) Ltd.

Bank of China

Belgian Bank

Dah Sing Bank, Limited

DBS Bank (Hong Kong) Limited

Hang Seng Bank Limited

Industrial and Commercial Bank of China

Shanghai Commercial Bank Ltd.

Sumitomo Mitsui Banking Corporation

The Bank of East Asia, Limited

The Hongkong and Shanghai Banking Corporation

Wing Hang Bank, Limited

Auditors

Deloitte Touche Tohmatsu

*Certified Public Accountants***Share Registrars**

Tengis Limited

Ground Floor, Bank of East Asia Harbour View Centre

56 Gloucester Road

Wanchai

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>**Stock Code**

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FINANCIAL HIGHLIGHTS

For the six months ended 30 June

	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>	Changes %
Operations			
Turnover	192,003	137,354	+39.8
Profit from operations	45,592	39,289	+16.0
Net profit attributable to shareholders	44,412	28,233	+57.3
Earnings per share, basic (cents)	4.35	3.68	+18.2
	30/6/2004	31/12/2003	
Financial Position			
Total assets	898,901	726,221	+23.8
Shareholders' funds	614,714	593,870	+3.5



INDEPENDENT REVIEW REPORT**Deloitte.**
德勤德勤·關黃陳方會計師行
香港中環干諾道中111號
永安中心26樓Deloitte Touche Tohmatsu
26/F Wing On Centre
111 Connaught Road Central
Hong Kong**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 been instructed by the Company to review the interim financial report set out on pages 5 to 19.

Respective responsibilities of directors and auditors

The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with the Statement of Standard Accounting Practice No. 25 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants and the relevant provisions thereof. The interim financial report is the responsibility of, and has been approved by, the directors.

It is our responsibility to form an independent conclusion, based on our review, on the interim financial report, 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.

Review work performed

We conducted our review in accordance with the Statement of Auditing Standards 700 "Engagements to Review Interim Financial Reports" issued by the Hong Kong Institute of Certified Public Accountants. A review consists principally of making enquiries of the Group management and applying analytical procedures to the interim financial report and, based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly we do not express an audit opinion on the interim financial report.

Review conclusion

On the basis of our review which does not constitute an audit, we are not aware of any material modifications that should be made to the interim financial report for the six months ended 30 June 2004.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

20 September 2004



CONDENSED CONSOLIDATED INCOME STATEMENT**For the six months ended 30 June 2004**

		Six months ended 30 June	
		2004	2003
		(Unaudited)	(Unaudited)
		HK\$'000	HK\$'000
	<i>Notes</i>		
Turnover	3	192,003	137,354
Cost of sales		(131,061)	(88,110)
Gross profit		60,942	49,244
Other operating income		368	191
Distribution costs		(716)	(592)
Administrative expenses		(13,525)	(13,386)
Other operating expenses (Allowance for) recovery of bad and doubtful debts, net		(1,056)	(48)
		(421)	3,880
Profit from operations	4	45,592	39,289
Finance costs	5	(1,544)	(807)
Share of results of jointly controlled entities		2,673	2,991
Share of result of an associate		1,681	2,871
Profit before taxation		48,402	44,344
Income tax expense	6	(3,990)	(4,867)
Profit before minority interests		44,412	39,477
Minority interests		-	(11,244)
Net profit for the period		44,412	28,233
Dividends	7	20,351	-
Earnings per share	8		
Basic		HK4.35 cents	HK3.68 cents
Diluted		HK3.90 cents	HK3.65 cents



CONDENSED CONSOLIDATED BALANCE SHEET

At 30 June 2004

	<i>Notes</i>	30 June 2004 (Unaudited) HK\$'000	31 December 2003 (Audited) HK\$'000
NON-CURRENT ASSETS			
Property, plant and equipment	9	456,134	322,093
Investment properties		8,386	8,386
Land use rights		16,595	16,981
Goodwill		42,783	43,894
Interests in jointly controlled entities		51,156	48,911
Interests in associates		43,127	44,813
Club memberships		675	675
Deposits paid for the acquisitions of property, plant and equipment		3,917	25,541
		622,773	511,294
CURRENT ASSETS			
Inventories		65,059	43,898
Trade receivables	10	82,092	53,598
Bills receivable		81,511	82,445
Prepayments, deposits and other receivables		7,285	2,994
Pledged bank deposits		4,000	4,000
Bank balances and cash		36,181	27,992
		276,128	214,927
CURRENT LIABILITIES			
Trade payables	11	6,118	7,949
Bills payable		–	1,152
Other payables and accruals		12,834	9,441
Tax payable		149	309
Bank borrowings – due within one year	12	130,001	61,530
Obligations under finance leases – due within one year		475	922
		149,577	81,303
NET CURRENT ASSETS		126,551	133,624
TOTAL ASSETS LESS CURRENT LIABILITIES		749,324	644,918



CONDENSED CONSOLIDATED BALANCE SHEET (continued)

At 30 June 2004

	<i>Notes</i>	30 June 2004 (Unaudited) HK\$'000	31 December 2003 (Audited) HK\$'000
NON-CURRENT LIABILITIES			
Other payable		1,537	1,519
Obligations under finance leases			
– due after one year		89	206
Deferred tax liabilities		1,163	1,323
Bank borrowings – due after one year	12	131,821	48,000
		134,610	51,048
		614,714	593,870
CAPITAL AND RESERVES			
Share capital	13	101,756	101,958
Reserves		512,958	491,912
		614,714	593,870



CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2004

	Share capital	Share premium	Capital reserve	Capital redemption reserve	Property revaluation reserve	Land use rights revaluation reserve	Translation reserve	PRC reserve funds	(Accumulated losses) retained profits	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2003	76,537	357,181	60,593	463	2,271	3,336	7,352	27,445	(91,689)	443,489
Deferred tax liabilities arising on revaluation of properties	-	-	-	-	20	15	-	-	-	35
Profit for the period	-	-	-	-	-	-	-	-	28,233	28,233
Issue of shares	19,048	40,952	-	-	-	-	-	-	-	60,000
Share issue expenses	-	(2,945)	-	-	-	-	-	-	-	(2,945)
Reduction of share premium	-	(149,099)	-	-	-	-	-	-	149,099	-
At 30 June 2003	95,585	246,089	60,593	463	2,291	3,351	7,352	27,445	85,643	528,812
(Deficit) surplus on revaluation	-	-	-	-	(2,818)	4,095	-	-	-	1,277
Recognition (reversal) of deferred tax liability on revaluation	-	-	-	-	472	(543)	-	-	-	(71)
Effect of change in tax rate	-	-	-	-	55	88	-	-	-	143
Net (loss) gain not recognised in the income statement	-	-	-	-	(2,291)	3,640	-	-	-	1,349
Profit for the period	-	-	-	-	-	-	-	-	37,859	37,859
Dividend paid	-	-	-	-	-	-	-	-	(15,238)	(15,238)
Issue of shares	6,000	34,800	-	-	-	-	-	-	-	40,800
Share issue expenses	-	(1,317)	-	-	-	-	-	-	-	(1,317)
Exercise of share options	373	1,232	-	-	-	-	-	-	-	1,605
Transfer	-	-	-	-	-	-	-	1,045	(1,045)	-
Reclassification	-	-	20,995	-	-	-	(20,995)	-	-	-
At 31 December 2003	101,958	280,804	81,588	463	-	6,991	(13,643)	28,490	107,219	593,870
Profit for the period	-	-	-	-	-	-	-	-	44,412	44,412
Repurchase of shares	-	-	-	-	-	-	-	-	(4,256)	(4,256)
Capital redemption reserve arising on repurchase of shares	(550)	-	-	550	-	-	-	-	-	-
Dividend paid	-	-	-	-	-	-	-	-	(20,351)	(20,351)
Exercise of share options	348	691	-	-	-	-	-	-	-	1,039
At 30 June 2004	101,756	281,495	81,588	1,013	-	6,991	(13,643)	28,490	127,024	614,714



CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 June 2004

	Six months ended 30 June	
	2004	2003
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Net cash from operating activities	1,955	36,754
Net cash used in investing activities	(121,926)	(18,420)
Net cash from financing activities	128,160	56,057
	<hr/>	<hr/>
Net increase in cash and cash equivalents	8,189	74,391
Cash and cash equivalents at beginning of the period	27,992	26,412
	<hr/>	<hr/>
Cash and cash equivalents at end of the period	36,181	100,803
	<hr/> <hr/>	<hr/> <hr/>
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Bank balances and cash	36,181	100,803
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NOTES TO THE CONDENSED FINANCIAL STATEMENTS

For the six months ended 30 June 2004

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 the 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, leasehold land and buildings and land use rights. 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.



NOTES TO THE CONDENSED FINANCIAL STATEMENTS (continued)

For the six months ended 30 June 2004

3. Segment information**Business segments**

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

Six months ended 30 June 2004

	Steel cord (Unaudited) HK\$'000	Copper and brass products (Unaudited) HK\$'000	Corporate and others (Unaudited) HK\$'000	Consolidated (Unaudited) HK\$'000
Segment turnover	112,377	79,242	384	192,003
Segment results	44,947	8,332	(6,638)	46,641
Unallocated corporate income and expenses, net				(1,049)
Profit from operations				45,592
Finance costs				(1,544)
Share of results of jointly controlled entities	-	-	2,673	2,673
Share of result of an associate	-	-	1,681	1,681
Profit before taxation				48,402
Income tax expense				(3,990)
Profit before minority interests				44,412
Minority interests				-
Net profit for the period				44,412



NOTES TO THE CONDENSED FINANCIAL STATEMENTS (continued)

For the six months ended 30 June 2004

3. Segment information (continued)

Six months ended 30 June 2003

	Steel cord (Unaudited) HK\$'000	Copper and brass products (Unaudited) HK\$'000	Corporate and others (Unaudited) HK\$'000 (Restated)	Consolidated (Unaudited) HK\$'000
Segment turnover	106,496	30,621	237	137,354
Segment results	44,685	(145)	(5,320)	39,220
Unallocated corporate income and expenses, net				69
Profit from operations				39,289
Finance costs				(807)
Share of results of jointly controlled entities	-	-	2,991	2,991
Share of result of an associate	-	-	2,871	2,871
Profit before taxation				44,344
Income tax expense				(4,867)
Profit before minority interests				39,477
Minority interests				(11,244)
Net profit for the period				28,233



NOTES TO THE CONDENSED FINANCIAL STATEMENTS (continued)

For the six months ended 30 June 2004

4. Profit from operations

Profit from operations is arrived at after charging:

	Six months ended 30 June	
	2004 (Unaudited) HK\$'000	2003 (Unaudited) HK\$'000
Depreciation of property, plant and equipment	12,556	12,150
Amortisation of land use rights (included in cost of sales)	386	307
Amortisation of goodwill (included in other operating expenses)	1,111	–
	<hr/>	<hr/>
Total depreciation and amortisation	14,053	12,457
Loss on disposal of property, plant and equipment	–	4
	<hr/>	<hr/>

5. Finance costs

	Six months ended 30 June	
	2004 (Unaudited) HK\$'000	2003 (Unaudited) HK\$'000
Interest expenses on:		
Bank and other borrowings wholly repayable within five years	1,520	771
Obligations under finance leases wholly repayable within five years	24	36
	<hr/>	<hr/>
	1,544	807
	<hr/>	<hr/>



NOTES TO THE CONDENSED FINANCIAL STATEMENTS (continued)

For the six months ended 30 June 2004

6. Income tax expense

	Six months ended 30 June	
	2004	2003
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
The charge comprises:		
The People's Republic of China (the "PRC") Enterprise Income Tax	3,402	3,682
Deferred taxation	(160)	249
	<hr/>	<hr/>
Taxation attributable to the Company and its subsidiaries	3,242	3,931
Share of taxation attributable to a jointly controlled entity	428	623
Share of taxation attributable to an associate	320	313
	<hr/>	<hr/>
	3,990	4,867
	<hr/> <hr/>	<hr/> <hr/>

No tax is payable on the profit for the period arising in Hong Kong since the assessable profit is wholly absorbed by tax losses brought forward.

No provision for Hong Kong Profits Tax was made in the condensed financial statements as the Group did not have any assessable profits for the six months ended 30 June 2003.

PRC Enterprise Income Tax is calculated at the applicable tax rates on the estimated assessable income for the period based on existing legislation, interpretation and practices in respect thereof. In accordance with the relevant tax rules and regulations in the PRC, certain of the Group's subsidiaries, jointly controlled entities and associate in the PRC are eligible for certain tax exemptions and concessions.



NOTES TO THE CONDENSED FINANCIAL STATEMENTS (continued)

For the six months ended 30 June 2004

7. Dividends

	Six months ended 30 June	
	2004 (Unaudited) HK\$'000	2003 (Unaudited) HK\$'000
Ordinary shares:		
Final dividend paid – HK2.0 cents per share (2003: Nil)	20,351	–

The directors have declared that an interim dividend of HK2.0 cents per share in cash with a scrip option (2003: HK1.5 cents per share in cash) should be paid to the shareholders of the Company whose names appear in the Register of Members on 15 October 2004.

8. Earnings per share

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

	Six months ended 30 June	
	2004 (Unaudited) HK\$'000	2003 (Unaudited) HK\$'000
Earnings		
Earnings for the purposes of basic and diluted earnings per share (net profit for the period)	44,412	28,233



NOTES TO THE CONDENSED FINANCIAL STATEMENTS (continued)

For the six months ended 30 June 2004

8. Earnings per share (continued)

	Six months ended 30 June	
	2004	2003
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	1,020,182,000	766,424,000
Effect of dilutive potential ordinary shares:		
Share options	117,170,000	6,936,000
Weighted average number of ordinary shares for the purpose of diluted earnings per share	1,137,352,000	773,360,000

9. Movements in property, plant and equipment

During the period, the Group acquired property, plant and equipment amounted to approximately HK\$146,635,000 (including an amount transferred from deposits paid for the acquisitions of property, plant and equipment totalling HK\$25,541,000) in order to expand its production capacity.

10. Trade receivables

The Group allows an average credit period of 30 to 120 days to its trade customers.

The following is an aged analysis of trade receivables:

	30 June 2004 (Unaudited) HK\$'000	31 December 2003 (Audited) HK\$'000
0 – 90 days	79,248	52,470
91 – 180 days	2,844	1,071
Over 180 days	–	57
	82,092	53,598



NOTES TO THE CONDENSED FINANCIAL STATEMENTS (continued)

For the six months ended 30 June 2004

11. Trade payables

The following is an aged analysis of trade payables:

	30 June 2004 (Unaudited) HK\$'000	31 December 2003 (Audited) HK\$'000
0 – 90 days	4,596	6,937
91 – 180 days	537	37
Over 180 days	985	975
	6,118	7,949

12. Bank borrowings

During the period, the Group obtained new bank loans of approximately HK\$147,659,000. The loans bear interest at floating interest rates and are repayable over a period of three years. The funds were used to finance the acquisition of property, plant and equipment for the expansion and upgrading of the Group's manufacturing facilities and for general working capital.

13. Share capital

Ordinary shares of HK\$0.10 each

	Number of shares	Share capital HK\$'000
Authorised:		
At 1 January 2004 and 30 June 2004	2,000,000,000	200,000
Issued and fully paid:		
At 1 January 2004	1,019,580,000	101,958
Exercise of share options (<i>Note i</i>)	3,478,000	348
Shares repurchased and cancelled (<i>Note ii</i>)	(5,500,000)	(550)
At 30 June 2004	1,017,558,000	101,756



NOTES TO THE CONDENSED FINANCIAL STATEMENTS (continued)

For the six months ended 30 June 2004

13. Share capital (continued)*Notes:*

- (i) During the period, 3,478,000 ordinary shares of HK\$0.10 each in the Company were issued upon the exercise of 3,478,000 share options at subscription prices ranging from HK\$0.295 to HK\$0.325 per share. All the shares issued during the period rank pari passu with the then existing shares in all aspects.
- (ii) During the period, the Company repurchased an aggregate of 5,500,000 ordinary shares of the Company on The Stock Exchange of Hong Kong Limited. The total consideration for the repurchases amounted to approximately HK\$4,256,000. The above shares were cancelled and destroyed upon repurchase and accordingly the issued share capital of the Company was reduced by the nominal value of these shares.

14. Capital commitments

	30 June 2004 (Unaudited) HK\$'000	31 December 2003 (Audited) HK\$'000
Capital expenditure in respect of the acquisition of property, plant and equipment contracted for but not provided in the financial statements	26,250	126,210
Capital expenditure in respect of the acquisition of property, plant and equipment authorised but not contracted for	16,400	54,250

15. Contingent liabilities

As at 30 June 2004, the Group has given guarantees amounting to approximately HK\$10,721,000 (31 December 2003: HK\$10,721,000) for bank loans granted to a jointly controlled entity.



NOTES TO THE CONDENSED FINANCIAL STATEMENTS (continued)

For the six months ended 30 June 2004

16. Related party transactions

During the period, the Group had the following transactions with Shougang Concord International Enterprises Company Limited (“Shougang International”) and its subsidiaries (collectively the “Shougang International Group”), Shougang Holding (Hong Kong) Limited (“Shougang HK”) and its subsidiaries (collectively the “Shougang HK Group”) and a jointly controlled entity. Both Shougang International and Shougang HK are the substantial shareholders of the Company and Shougang HK is the holding company of Shougang International.

		Six months ended 30 June	
	<i>Notes</i>	2004 (Unaudited) HK\$'000	2003 (Unaudited) HK\$'000
Consultancy fees paid to Shougang HK Group	<i>(i)</i>	480	240
Management fees paid to Shougang International Group	<i>(i)</i>	–	120
Rental expenses paid to Shougang HK Group	<i>(ii)</i>	456	484
Corporate guarantees given to a jointly controlled entity	<i>(iii)</i>	10,721	22,384

Notes:

- (i) The Group paid consultancy fees to Shougang HK Group and paid management fees to Shougang International Group in relation to business and strategic development services provided at rates determined between both parties. The management service contract with Shougang International Group was terminated during the period.
- (ii) The Group paid rental expenses to Shougang HK Group for the leasing of properties in Hong Kong as office premises and staff quarters. The rental was calculated by reference to market rentals.
- (iii) The Group has executed corporate guarantees for bank loans granted to a jointly controlled entity to finance its working capital. These guarantees were provided in proportion to the Group’s equity interest in the jointly controlled entity and are normally renewable on an annual basis.



MANAGEMENT DISCUSSION & ANALYSIS

REVIEW OF OPERATIONS

Group results

Our core businesses had satisfactory performance during the six months ended 30 June 2004. During the period under review, the Group accomplished an increase in net profit attributable to shareholders of 57.3% over the same period last year to HK\$44,412,000.

Turnover of the Group amounted to HK\$192,003,000 for the period, representing a growth of 39.8% over the same period last year. Turnover of steel cord segment increased by 5.5% while copper and brass products segment achieved an increase of 158.8% over the same period last year.

Gross profit increased by 23.8% to HK\$60,942,000 for the period while gross profit margin dropped from 35.9% in the same period last year to 31.7% in the current period. As the gross profit margin of copper and brass products segment was relatively lower than the steel cord segment, hence the increased share of turnover by this segment caused the drop in overall gross profit margin of the Group. Details are illustrated below:

	2004			2003		
	% of turnover	Gross profit %	Weighted gross profit %	% of turnover	Gross profit %	Weighted gross profit %
Steel cord	58.5	43.6	25.5	77.5	44.4	34.4
Copper & brass products	41.3	14.6	6.1	22.3	5.8	1.3
Others	0.2	32.3	0.1	0.2	97.1	0.2
Total	100.0		31.7	100.0		35.9

Administrative expenses slightly rose by 1% to HK\$13,525,000 in the period under review. The increase was much smaller than the 39.8% growth in turnover, reflecting our continuous control on operating costs. As such, administrative expenses as a percentage of turnover dropped from 9.7% in the same period last year to 7% in the period under review.



MANAGEMENT DISCUSSION & ANALYSIS (continued)

Group results (continued)

The Group's finance costs amounted to HK\$1,544,000 for the period under review, an increase of 91.3% over the same period last year, as the Group had raised additional bank borrowings since the fourth quarter of 2003 to finance the acquisition of approximately 28.24% equity interest in Online Investments Limited ("Online"), the investment holding company of Jiaxing Eastern Steel Cord Co., Ltd. ("Jiaxing Eastern") and the expansion plan of Jiaxing Eastern. The Group's total bank borrowings (including obligations under finance leases) at 30 June 2004 amounted to HK\$262,386,000, as compared to HK\$21,291,000 at 30 June 2003.

Manufacturing of steel cord for radial tyres ("Steel cord")

The annual production capacity of Jiaxing Eastern remained at the 13,000 tonne level before the completion of the expansion plan to enlarge its annual production capacity to 30,000 tonnes in June 2004. During the period under review, Jiaxing Eastern was running at full production capacity and this segment had achieved turnover of HK\$112,377,000 for the period, an increase of 5.5% over the same period last year.

This segment's gross profit increased by 3.8% to HK\$49,034,000. Rising steel and energy prices did not have material impact on this segment during the current period as we had implemented measures to switch the purchases of core material, wire rods, to other relatively low cost suppliers in South Korea and the People's Republic of China (the "PRC"). Hence, gross profit margin dropped by a mere 0.8% to 43.6% in the period under review.

Operating profit of this segment only increased by 0.6% to HK\$44,947,000. The increase was less than the 3.8% growth in gross profit as the operating profit for the same period last year included a specific bad debts recovery of HK\$2,823,000. Operating profit for the period under review would have increased by 7.4% when these non-recurring bad debts recovery were excluded.



MANAGEMENT DISCUSSION & ANALYSIS (continued)

Processing and trading of copper and brass products (“Copper & brass products”)

Our Dongguan plant started to bring fruitful results to the Group's copper & brass products segment during the first half year of 2004, while the plant in Hong Kong also recorded increased sales, largely because of the continued improvement in global economy which brought rising demand for copper materials. Besides, huge rise in international copper price since late 2003 had also provided significant profit contribution to this segment during the period under review.

Turnover sharply increased by 158.8% to HK\$79,242,000 for the period under review. Sales volume increased by 81% while another 77.8% was attributable to the rise in copper price. LME 3-month copper price climbed from US\$2,327, equivalent to approximately HK\$18,151 per tonne at the beginning of 2004 to the highest level (since 1994) of US\$3,029, equivalent to approximately HK\$23,626 per tonne on 2 April 2004, then fell back to US\$2,617, equivalent to approximately HK\$20,413 per tonne at 30 June 2004, still 12.5% higher than the level at the start of 2004. As we increased our inventory level at a relatively low price during late 2003, we fully enjoyed the benefit of rising copper price during the period under review. Boosted by the increase in sales volume and copper price, gross profit sharply increased by 555.3% to HK\$11,560,000 for the period under review. Gross profit margin was 14.6%, an increase of 8.8 percentage points as compared to 5.8% for the same period last year.

Attributable to the huge rise in gross profit, operating profit of this segment reached to HK\$8,332,000 for the current period, representing a significant turnaround as compared to an operating loss of HK\$145,000 for the same period last year.

Jointly controlled entity's and associate's business

Shanghai Shenjia Metal Products Co., Ltd. (“Shanghai Shenjia”) recorded a turnover of HK\$224,278,000 during the period under review, representing an increase of 45.3% over the same period last year. However, due to depressed gross profit margin, its profit before tax dropped by 10.3% to HK\$10,909,000. As such, the Group's share of the profit before tax of Shanghai Shenjia also dropped by the same margin to HK\$2,727,000.

Turnover of Xinhua Metal Products Co., Ltd. (“Xinhua Metal”) increased by 32.7% to HK\$314,908,000, however, because of lowered gross profit margin and increased provisions for bad and doubtful debts during the period, its profit before tax dropped by 41.4% to HK\$10,038,000. The Group's share of the profit before tax of Xinhua Metal also dropped by the same margin to HK\$1,681,000.



MANAGEMENT DISCUSSION & ANALYSIS (continued)

LIQUIDITY AND FINANCIAL RESOURCES

During the first half year of 2004, the Group had incurred capital expenditure of HK\$125,000,000, mainly for the expansion plan of Jiaxing Eastern. Additional bank borrowings were raised during the period and as a result total bank borrowings (including obligations under finance leases), which bear interest at floating interest rate, reached to HK\$262,386,000 at 30 June 2004. Thus the Group's gearing ratio (total bank borrowings less cash/shareholders' equity) increased from 13.2% at 31 December 2003 to 36.1% at 30 June 2004, still a manageable level. On the other hand, the Group's current ratio (current assets/current liabilities) dropped from 2.64 times at 31 December 2003 to 1.85 times at 30 June 2004. The increased gearing ratio and lowered current ratio were in anticipation of our business expansion plans, however, we will remain cautious in our cashflow and liquidity management.

FOREIGN CURRENCY EXPOSURES

The Group's source of income is principally denominated in Renminbi ("RMB") and Hong Kong dollars ("HKD"), while bank borrowings are mainly in HKD, RMB and United States dollars ("USD"). The currency mix of our bank borrowings at 30 June 2004 was approximately 39.6% denominated in HKD and 60.4% in USD, as opposed to 57.6% in HKD and 42.4% in USD at 31 December 2003. As there were no changes in the benchmark interest rate for these three currencies over the first half year, we continued to deploy the tactics to take advantage of the relatively cheaper interest rates of HKD and USD borrowings. Although the Group did not have USD income, insofar as the exchange rate peg between HKD and USD is maintained, we believe the Group will not be exposed to any significant risk from exchange rate fluctuations amongst HKD, USD and RMB.

Apart from the above, the Group had signed several contracts totaling Euro13,922,000 for the acquisitions of plant and machineries in respect of the expansion plan of Jiaxing Eastern in 2003. In view of the significant fluctuations in the exchange rate of Euro, which had once climbed to its record peak level of Euro1 to approximately USD1.2924 in February 2004, and in order to limit the exposure of adverse fluctuations of Euro exchange rate to the cost of the expansion plan, the Group had executed several forward contracts to substantially hedge against the Euro payments due in 2004. The average exchange rate for the Euro13,922,000 of foreign exchange exposure, after taking into account payments already made and the outstanding forward contracts, is approximately USD1.1651, approximately 4.4% lower than the exchange rate of USD1.2187 as at the preceding business day of the date of the interim report.



MANAGEMENT DISCUSSION & ANALYSIS (continued)

BUSINESS DEVELOPMENT PLAN AND CAPITAL COMMITMENTS

Jiaxing Eastern's plan to enlarge its production capacity to 30,000 tonnes of steel cord per annum was completed in June 2004 and will be operational in stages in the second half of the year. Total capital expenditure is estimated to be approximately HK\$232,400,000, and an accumulated expenditure of HK\$181,000,000 was spent up to 30 June 2004.

EMPLOYEES, REMUNERATION POLICIES AND TRAINING SCHEME

At 30 June 2004, the Group had a total of 578 employees located in Hong Kong and the PRC. 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 contributions to these schemes are charged against profits as they are incurred. The amount charged to the consolidated income statement for the current period amounted to HK\$550,000. The Group had also provided training programme or course for the mainland staff at all levels from different departments so as to further enhance their technical skills in production operation.

In addition, the Group had adopted a share option scheme on 7 June 2002 (the "Scheme"). Under the Scheme, the board of directors of the Company (the "Board") shall, subject to and in accordance with the provisions of the Scheme and the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (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 current period, no share options were granted, while 3,478,000 share options have been exercised by the directors and employees of the Company.



MANAGEMENT DISCUSSION & ANALYSIS (continued)

PLEDGE OF ASSETS AND CONTINGENT LIABILITIES

As at 30 June 2004, 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\$40,024,000;
2. Land use rights amounting to HK\$16,595,000;
3. Plant and machinery with an aggregate net book value of HK\$87,029,000;
4. 100% equity interests in Everwinner Investments Limited, Online and Jiaying Eastern; and
5. Bank deposits amounting to HK\$4,000,000.

Further, the Group had also executed corporate guarantees for bank loans granted to a jointly controlled entity to finance its working capital. These corporate guarantees are provided in proportion to the Group's interest in the jointly controlled entity and are renewable on an annual basis. The amount of guarantees granted as at 30 June 2004 amounted to approximately HK\$10,721,000.

BUSINESS OUTLOOK

Although we have accomplished an encouraging results during the first half year of 2004, we anticipate that the operating environment will be more challenging in the second half year. We are uncertain as to the development of the Central Government's macro-economic measures, while we will be facing more pressure on increasing costs from rising wire rod, copper/brass and electricity prices. On the other hand, the demand for copper products might be weakened by sustainability of global economic growth in the second half year which is clouded by mounting oil price. At this moment, these economic uncertainties do not have substantial impact on our performance, but we will continue to explore more ways to control our operating costs and improve our operating efficiency to maintain our profit margin. Simultaneously, we will strike for maintaining our market share by further increasing our production capacity in the steel cord segment in order to remain as one of the market leaders in the PRC. With the gradual enlarging in steel cord production capacity, we will endeavor to attain satisfactory results for the second half year.



INTERIM DIVIDEND

The Board has resolved to declare an interim dividend of HK2.0 cents per share (2003: HK1.5 cents per share in cash) with an option to receive the dividend in the form of new shares to shareholders registered on 15 October 2004 for the six months ended 30 June 2004.

Full details of the interim scrip dividend will be set out in a circular to be sent to shareholders together with a form of election on or about 29 October 2004. The scrip dividend scheme is conditional upon the Listing Committee of The Stock Exchange of Hong Kong Limited ("the Stock Exchange") granting listing of and permission to deal in the new shares to be issued.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members will be closed from 11 October 2004 to 15 October 2004, both days inclusive, during which period no share transfer will be registered. In order to qualify for the proposed interim dividend, all transfer accompanied by the relevant share certificates must be lodged with the Company's share registrars, Tengis Limited at Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong not later than 4:00 p.m. on 8 October 2004.



PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES

During the six months ended 30 June 2004, the Company repurchased a total of 5,500,000 shares in the Company on the Stock Exchange pursuant to the general mandate granted by the shareholders at the annual general meeting held on 25 June 2003, details of which were as follows:

Month/Year	Number of shares repurchased	Price per share		Total consideration (Before expense) HK\$
		Lowest	Highest	
		HK\$	HK\$	
05/2004	5,500,000	0.73	0.80	4,231,300

All shares repurchased were cancelled and destroyed and accordingly the Company's issued share capital was reduced by the nominal value of those shares. The repurchases were effected for the benefit of the shareholders as a whole by enhancing the Company's earnings per share and the value of its shares.

Save as disclosed above, neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the six months ended 30 June 2004.



DIRECTORS' INTERESTS IN THE SHARE CAPITAL OF THE COMPANY AND ITS RESPECTIVE ASSOCIATED CORPORATIONS

As at 30 June 2004, save for the interest 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 their associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("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 Positions in shares

(a) Ordinary shares of HK\$0.1 each of the Company

Name of Director	Total number of shares held	% with respect to total number of issued share capital as at 30 June 2004	Capacity
Tang Cornor Kwok Kau ("Mr. Tang")	2,496,000	0.25%	Beneficial owner (Note)

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 IN THE SHARE CAPITAL OF THE COMPANY AND ITS RESPECTIVE ASSOCIATED CORPORATIONS (continued)

(b) Share options

As at 30 June 2004, there were a total of 163,960,000 outstanding share options of the Company granted to directors of the Company, details of which are summarized in the following table:

Name of director	Options to subscribe for shares of the Company					Date of grant (Note b)	Exercise period	Exercise price per share HK\$	Capacity in which interests are held	% of the issued share capital as at 30 June 2004
	Outstanding options at the beginning of the period	Number of options granted during the period	Number of options exercised during the period	Date of exercise	Outstanding options 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	Beneficial owner	6.39
	57,350,000 (Note a)	-	-	-	57,350,000	2/10/2003	2/10/2003 to 1/10/2013	0.780		
	<u>65,002,000</u>	<u>-</u>	<u>-</u>		<u>65,002,000</u>					
Li Shaofeng	7,652,000	-	-	-	7,652,000	23/8/2002	23/8/2002 to 22/8/2012	0.295	Beneficial owner	3.76
	30,614,000 (Note a)	-	-	-	30,614,000	25/6/2003	25/6/2003 to 24/6/2013	0.365		
	<u>38,266,000</u>	<u>-</u>	<u>-</u>		<u>38,266,000</u>					
Tong Yihui	7,652,000	-	-	-	7,652,000	23/8/2002	23/8/2002 to 22/8/2012	0.295	Beneficial owner	4.51
	38,268,000 (Note a)	-	-	-	38,268,000	25/6/2003	25/6/2003 to 24/6/2013	0.365		
	<u>45,920,000</u>	<u>-</u>	<u>-</u>		<u>45,920,000</u>					



DIRECTORS' INTERESTS IN THE SHARE CAPITAL OF THE COMPANY AND ITS RESPECTIVE ASSOCIATED CORPORATIONS (continued)

(b) Share options (continued)

Name of director	Options to subscribe for shares of the Company				Outstanding options at the end of the period	Date of grant (Note b)	Exercise period	Exercise price per share HK\$	Capacity in which interests are held	% of the issued share capital as at 30 June 2004
	Outstanding options at the beginning of the period	Number of options granted during the period	Number of options exercised during the period	Date of exercise						
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	25/8/2003	25/8/2003 to 24/8/2013	0.740		
	<u>12,244,000</u>	<u>-</u>	<u>-</u>		<u>12,244,000</u>				Beneficial owner	1.20
Mr. Tang	2,296,000	-	1,296,000	9/2/2004	-	23/8/2002	23/8/2002 to 22/8/2012	0.295		
			500,000	20/4/2004						
			500,000	31/5/2004						
	1,000,000	-	-	-	1,000,000	25/8/2003	25/8/2003 to 24/8/2013	0.740		
	<u>3,296,000</u>	<u>-</u>	<u>2,296,000</u>		<u>1,000,000</u>				Beneficial owner	0.10
Lai Kam Man	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		
	<u>764,000</u>	<u>-</u>	<u>-</u>		<u>764,000</u>				Beneficial owner	0.08
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		
	<u>764,000</u>	<u>-</u>	<u>-</u>		<u>764,000</u>				Beneficial owner	0.08
Chen, Kelvin Siu Min	-	-	-	-	-					
	<u>166,256,000</u>	<u>-</u>	<u>2,296,000</u>		<u>163,960,000</u>					

Notes:

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



DIRECTORS' INTERESTS IN THE SHARE CAPITAL OF THE COMPANY AND ITS RESPECTIVE ASSOCIATED CORPORATIONS (continued)

(b) Share options (continued)

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, ordinary shares of HK\$0.10 each in the share capital of the Company are issuable. The share options are personal to the respective directors.

SUBSTANTIAL SHAREHOLDERS' INTERESTS

As at 30 June 2004, so far as was known to the Directors, the following 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

Name of shareholder	Total number of shares/ underlying shares held	% with respect to total number of issued share capital as at 30 June 2004	Capacity
Richson Limited ("Richson")	144,984,400	14.25	Beneficial owner
Fair Union Holdings Limited ("Fair Union")	279,797,400	27.50	Beneficial owner and deemed interest ⁽¹⁾
Shougang Concord International Enterprises Company Limited ("Shougang International")	279,797,400	27.50	Deemed interest ⁽²⁾
Able Legend Investments Limited ("Able Legend")	126,984,000	12.48	Beneficial owner ⁽³⁾
Shougang Holding (Hong Kong) Limited ("Shougang HK")	416,501,400	40.93	Deemed interest ⁽⁴⁾
Morgan Stanley	105,531,000	10.37	Interests of controlled corporations ⁽⁵⁾
JPMorgan Chase & Co. (formerly known as "J. P. Morgan Chase & Co.")	73,925,000	7.26	Approved lending agent ⁽⁶⁾
Cao Zhong	65,002,000	6.39	Beneficial owner ⁽⁷⁾



SUBSTANTIAL SHAREHOLDERS' INTERESTS (continued)

Long position in shares (continued)

Notes:

- (1) Fair Union is beneficially interested in 132,475,000 shares and is deemed to be interested in the 144,984,400 shares held by Richson and the 2,338,000 shares held by Casula Investments Limited ("Casula") as Richson and Casula are its wholly owned subsidiaries.
- (2) Shougang International is deemed to be interested in the 132,475,000 shares held by Fair Union, the 144,984,400 shares held by Richson and the 2,338,000 shares held by Casula as Richson and Casula are wholly owned by Fair Union, a wholly owned subsidiary of Shougang International.
- (3) Able Legend is beneficially interested in 126,984,000 shares.
- (4) Shougang HK is deemed to be interested in the 126,984,000 shares and the 9,720,000 shares held by Able Legend and Prime Success Investment Limited ("Prime Success") respectively as Able Legend and Prime Success are its wholly owned subsidiaries and is also deemed to be interested in the 132,475,000 shares held by Fair Union, the 144,984,400 shares held by Richson and the 2,338,000 shares held by Casula as it is the holding company of Shougang International.



SUBSTANTIAL SHAREHOLDERS' INTERESTS (continued)**Long position in shares (continued)***Notes (continued):*

- (5) Morgan Stanley is interested in 105,531,000 shares.

The following is a breakdown of the interests in shares of Morgan Stanley:

Controlled Corporation	Controlling Shareholder	% control	Total interest in shares		Approximate % of the issued share capital
			Direct interest	Deemed interest	
Morgan Stanley Capital Management, L.L.C.	Morgan Stanley	100	-	105,531,000	10.37
Morgan Stanley Domestic Capital, Inc.	Morgan Stanley Capital Management, L.L.C.	100	-	105,531,000	10.37
Morgan Stanley International Holdings Incorporated	Morgan Stanley	80	-	105,531,000	10.37
Morgan Stanley International Incorporated	Morgan Stanley	100	-	105,531,000	10.37
Morgan Stanley Asia Pacific (Holdings) Limited	Morgan Stanley International Incorporated	90	-	105,531,000	10.37
Morgan Stanley Asia Regional (Holdings) III LLC	Morgan Stanley Asia Pacific (Holdings) Limited	100	-	105,531,000	10.37
Morgan Stanley Dean Witter (Singapore) Holdings Pte Ltd	Morgan Stanley Asia Regional (Holdings) III LLC	100	-	105,531,000	10.37
Morgan Stanley Investment Management Company	Morgan Stanley Dean Witter (Singapore) Holdings Pte Ltd.	100	105,531,000	-	10.37

- (6) The capacity of JPMorgan Chase Bank in holding the 73,925,000 shares was as an approved lending agent. JPMorgan Chase & Co. was deemed to be interested in the 73,925,000 shares as it wholly owns JPMorgan Chase Bank.
- (7) Mr. Cao Zhong is deemed to be interested in 65,002,000 shares as he holds 65,002,000 underlying shares of the Company as attached share options granted to him by the Company. The details of his share options are set out under the heading "DIRECTORS' INTERESTS IN THE SHARE CAPITAL OF THE COMPANY AND ITS RESPECTIVE ASSOCIATED CORPORATIONS" hereabove.



SHARE OPTION SCHEME

During the period under review, no share option had been granted to subscribe for shares in the capital of the Company. Save as disclosed in the above subsection "Share options" under "DIRECTORS' INTERESTS IN THE SHARE CAPITAL OF THE COMPANY AND ITS RESPECTIVE ASSOCIATED CORPORATIONS", the share options granted to other eligible participants are set out as below:

Name or category of participant	Options to subscribe for shares of the Company			Date of exercise	Outstanding options at the end of the period	*Date of grant	Exercise period	Exercise price per share HK\$
	Outstanding options at the beginning of the period	Number of options granted during the period	Number of options exercised during the period					
Employees working under "continuous contracts" other than the directors								
In aggregate	766,000	-	766,000	5/2/2004	-	23/8/2002	23/8/2002 to 22/8/2012	0.295
	1,098,000	-	84,000 332,000	5/2/2004 31/5/2004	682,000	12/3/2003	12/3/2003 to 11/3/2013	0.325
	27,500,000	-	-	-	27,500,000	25/8/2003	25/8/2003 to 24/8/2013	0.740
	<u>29,364,000</u>	<u>-</u>	<u>1,182,000</u>		<u>28,182,000</u>			
All other eligible participants								
In aggregate	17,600,000	-	-	-	17,600,000	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>			

* The vesting period of the share options is from the date of grant to the end of the exercise period.



SHARE OPTION SCHEME (continued)

During the period, save as disclosed above there were no options being exercised, cancelled or lapsed.

The weighted average closing price of the shares immediately before the dates on which the share options were exercised by a director, Mr. Tang and the employees was HK\$1.056.

The directors do not consider that it is appropriate to disclose a theoretical value of the options granted, because a number of factors crucial for the valuation are subjective and uncertain. In addition, the market value of the share options on the shares of the Company is not readily available. Accordingly, any valuation of the share options based on various speculative assumptions may not be meaningful and could be misleading.

AUDIT COMMITTEE

The Audit Committee of the Company is composed of three independent non-executive directors. One of the independent non-executive director is experienced professional in the accounting, finance, corporate management and development, and corporate and investment banking. The Audit Committee reports directly to the Board and review matters within the scope of audit, such as financial statements and internal controls, to protect the interests of the Company's shareholders. The Audit Committee had met on 13 September 2004 with the Company's external auditors to discuss the Company's financial reporting matters (including interim financial statements for the six months ended 30 June 2004 before the Board's approval) and review the effectiveness of internal control of the Company. The Committee will have occasional meetings informally meet with the management to discuss matters in relation to financial reporting quality and reliability of the internal control systems.



CODE OF BEST PRACTICE AND THE MODEL CODE

In the opinion of the Board, the Company has complied with the Code of Best Practice as set out in Appendix 14 of the Listing Rules throughout the accounting period under review, except in relation to guideline 7, where the non-executive directors are not appointed for specific terms. Non-executive directors are subject to retirement by rotation and re-election at the annual general meetings of the Company, in accordance with the Company's articles of association. The Company has adopted the Model Code for Securities Transaction by Directors of Listed Issuers (the "Model Code") as the Code of Conduct regarding directors' securities transactions.

During the period ended 30 June 2004, none of the directors is aware of any information that would reasonably indicate that the Company or any of its directors is not or was not in compliance with the Model Code.

APPRECIATION

On behalf of the Board, I would like to thank our shareholders, customers, suppliers and our employees for their support, cooperation and encouragement during the period.

By Order of the Board
Cao Zhong
Chairman

Hong Kong, 20 September 2004

This interim report can also be accessed through the internet at the Company's website <http://www.shougangcentury.com.hk>.

