



SHOUGANG CONCORD CENTURY HOLDINGS LIMITED

Stock Code : 103

United Spirit Comprises Strength

INTERIM REPORT
2006



Enquire Contact

Tel No.: (852) 2527 2218

Fax No.: (852) 2861 3527

email: scchl@shougangcentury.com.hk
business_link@shougangcentury.com.hk
ir@shougangcentury.com.hk

CONTENTS

	<i>Pages</i>
Corporate Information	2
Financial Highlights	4
Independent Review Report	5
Condensed Consolidated Income Statement	6
Condensed Consolidated Balance Sheet	7
Condensed Consolidated Statement of Changes in Equity	9
Condensed Consolidated Cash Flow Statement	10
Notes to the Condensed Financial Statements	11
Management Discussion and Analysis	23
Purchase, Redemption or Sale of Listed Securities	32
Directors' Interests and Short Positions in Shares, Debentures or Underlying Shares	32
Interests and Short Positions or Underlying Shares of the Shareholders of the Company under the SFO	35
Share Option Scheme	37
Corporate Governance	38
Appreciation	40



**CORPORATE INFORMATION**

Board of Directors	Cao Zhong (<i>Chairman</i>) Li Shaofeng (<i>Managing Director</i>) Tong Yihui (<i>Deputy Managing Director</i>) Leung Shun Sang, Tony Tang Cornor Kwok Kau (<i>Deputy Managing Director</i>) Yip Kin Man, Raymond (<i>Independent Non-executive Director</i>) Law, Yui Lun (<i>Independent Non-executive Director</i>) Chu, Kwok Tsu Gilbert (<i>Independent Non-executive Director</i>)
Audit Committee	Yip Kin Man, Raymond (<i>Chairman</i>) Law, Yui Lun Chu, Kwok Tsu Gilbert
Remuneration Committee	Leung Shun Sang, Tony (<i>Chairman</i>) Cao Zhong (<i>Vice Chairman</i>) Yip Kin Man, Raymond Law, Yui Lun Chu, Kwok Tsu Gilbert
Nomination Committee	Cao Zhong (<i>Chairman</i>) Leung Shun Sang, Tony (<i>Vice Chairman</i>) Yip Kin Man, Raymond Law, Yui Lun Chu, Kwok Tsu Gilbert
Authorised Representatives	Tang Cornor Kwok Kau Chan Lai Yee
Company Secretary	Chan Lai Yee
Qualified Accountant	Wu Siu Man <i>CPA, FCCA</i>

CORPORATE INFORMATION (continued)

Principal Bankers	Bank of China Bank of Communications Co., Ltd. Dah Sing Bank, Limited DBS Bank (Hong Kong) Limited Hang Seng Bank Limited Industrial and Commercial Bank of China Industrial and Commercial Bank of China (Asia) Limited Shanghai Commercial Bank Ltd. The Bank of East Asia, Limited The Hongkong and Shanghai Banking Corporation Limited Wing Hang Bank, Limited
Auditors	Deloitte Touche Tohmatsu <i>Certified Public Accountants</i>
Share Registrars	Tengis Limited 26/F., Tesbury Centre 28 Queen's Road East Hong Kong
Registered Office	5th Floor, Bank of East Asia Harbour View Centre 51-57 Gloucester Road Wanchai Hong Kong
Website	http://www.shougangcentury.com.hk http://www.irasia.com/listco/hk/sccentury/index.htm
Stock Code	103



**FINANCIAL HIGHLIGHTS**

	For the six months ended 30 June		Changes %
	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>	
Operations			
Revenue	322,593	269,531	+19.7
Gross profit	69,299	52,879	+31.1
Profit for the period	44,707	36,116	+23.8
Earnings per share, basic (cents)	4.36	3.52	+23.8
	30/6/2006	31/12/2005	
Financial Position			
Total assets	1,100,805	967,215	+13.8
Shareholders' funds	745,106	693,753	+7.4

INDEPENDENT REVIEW REPORT**Deloitte.**
德勤

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

Introduction

We have been instructed by the Company to review the interim financial report set out on pages 6 to 22.

Directors' responsibilities

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 Hong Kong Accounting Standard 34 "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 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 2006.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
21 September 2006



**CONDENSED CONSOLIDATED INCOME STATEMENT**

For the six months ended 30 June 2006

		Six months ended 30 June	
	<i>Notes</i>	2006 (Unaudited) HK\$'000	2005 (Unaudited) HK\$'000
Revenue	4	322,593	269,531
Cost of sales		(253,294)	(216,652)
Gross profit		69,299	52,879
Other income		2,962	259
Fair value changes on derivative instrument		942	–
Distribution costs		(2,556)	(1,746)
Administrative expenses		(17,673)	(14,920)
Other expenses		–	(356)
(Allowance for) recovery of bad and doubtful debts		(1,956)	1,089
Share of profit of a jointly controlled entity		4,507	5,989
Share of profit of an associate		3,082	2,156
Finance costs	5	(9,021)	(6,034)
Profit before taxation		49,586	39,316
Income tax expenses	6	(4,879)	(3,200)
Profit for the period	7	44,707	36,116
Dividends paid	8	–	15,391
Earnings per share	9		
Basic		HK4.36 cents	HK3.52 cents
Diluted		HK4.14 cents	HK3.31 cents

CONDENSED CONSOLIDATED BALANCE SHEET

At 30 June 2006

	<i>Notes</i>	30 June 2006 (Unaudited) HK\$'000	31 December 2005 (Audited) HK\$'000
Non-current assets			
Property, plant and equipment	10	444,662	458,085
Investment properties	10	9,410	10,340
Goodwill		41,672	41,672
Interest in a jointly controlled entity		54,069	49,025
Interest in an associate		48,124	48,234
Prepaid lease payments		7,524	7,658
Club memberships		675	675
		606,136	615,689
Current assets			
Inventories		82,442	84,160
Trade receivables	11	165,836	140,172
Bills receivable		165,765	71,448
Prepayments, deposits and other receivables		13,332	10,808
Prepaid lease payments		430	426
Amount due from a related company	12	3,884	1,497
Derivative financial instruments		896	–
Pledged bank deposits		3,000	3,000
Bank balances and cash		59,084	37,378
		494,669	348,889
Asset classified as held for sale		–	2,637
		494,669	351,526



**CONDENSED CONSOLIDATED BALANCE SHEET (continued)**

At 30 June 2006

		30 June 2006 (Unaudited) HK\$'000	31 December 2005 (Audited) HK\$'000
	<i>Notes</i>		
Current liabilities			
Trade payables	13	7,812	9,284
Bills payable		2,660	–
Other payables and accruals		12,433	17,924
Tax payable		2,749	668
Amount due to a related company	12	43,714	–
Bank borrowings – due within one year	14	240,544	200,415
		309,912	228,291
Net current assets		184,757	123,235
Total assets less current liabilities		790,893	738,924
Non-current liabilities			
Bank borrowings – due after one year	14	13,385	42,598
Other payable		1,667	1,638
Loan from a related company	12	30,000	–
Deferred tax liabilities		735	935
		45,787	45,171
		745,106	693,753
Capital and reserves			
Share capital	15	102,607	102,607
Share premium and reserves		642,499	591,146
		745,106	693,753

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2006

	Share capital	Share premium	Capital reserve	Capital redemption reserve	Property revaluation reserve	Translation reserve	PRC reserve funds	Retained profits	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2005	102,607	287,024	32,659	1,013	304	5,128	26,174	179,333	634,242
Profit for the period	-	-	-	-	-	-	-	36,116	36,116
Dividend paid	-	-	-	-	-	-	-	(15,391)	(15,391)
At 30 June 2005	102,607	287,024	32,659	1,013	304	5,128	26,174	200,058	654,967
Surplus on revaluation	-	-	-	-	628	-	-	-	628
Recognition of deferred tax liability on revaluation of properties	-	-	-	-	(75)	-	-	-	(75)
Translation adjustment:									
- subsidiaries outside Hong Kong	-	-	-	-	-	10,220	-	-	10,220
- jointly controlled entity	-	-	-	-	-	1,021	-	-	1,021
- associate	-	-	-	-	-	880	-	-	880
Net income recognised directly in equity	-	-	-	-	553	12,121	-	-	12,674
Profit for the period	-	-	-	-	-	-	-	26,112	26,112
Total recognised income and expense for the period	-	-	-	-	553	12,121	-	26,112	38,786
Transfer	-	-	-	-	-	-	1,524	(1,524)	-
At 31 December 2005	102,607	287,024	32,659	1,013	857	17,249	27,698	224,646	693,753
At 1 January 2006	102,607	287,024	32,659	1,013	857	17,249	27,698	224,646	693,753
Release of deferred tax liabilities upon disposal of a property	-	-	-	-	64	-	-	-	64
Translation adjustment:									
- subsidiaries outside Hong Kong	-	-	-	-	-	5,455	-	-	5,455
- jointly controlled entity	-	-	-	-	-	537	-	-	537
- associate	-	-	-	-	-	590	-	-	590
Net income recognised directly in equity	-	-	-	-	64	6,582	-	-	6,646
Profit for the period	-	-	-	-	-	-	-	44,707	44,707
Total recognised income and expense for the period	-	-	-	-	64	6,582	-	44,707	51,353
Release of property revaluation reserve upon disposal of a property	-	-	-	-	(367)	-	-	367	-
At 30 June 2006	102,607	287,024	32,659	1,013	554	23,831	27,698	269,720	745,106



**CONDENSED CONSOLIDATED CASH FLOW STATEMENT**

For the six months ended 30 June 2006

	Six months ended 30 June	
	2006	2005
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Net cash (used in) from operating activities	(67,392)	20,000
Net cash from (used in) investing activities	5,777	(2,971)
Net cash from (used in) financing activities	83,180	(10,023)
	<hr/>	<hr/>
Net increase in cash and cash equivalents	21,565	7,006
Cash and cash equivalents at beginning of the period	37,378	33,255
Effect of foreign exchange rate changes	141	–
	<hr/>	<hr/>
Cash and cash equivalents at end of the period, represented by bank balances and cash	59,084	40,261
	<hr/> <hr/>	<hr/> <hr/>

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

For the six months ended 30 June 2006

1. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and with Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

2. SIGNIFICANT ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis except for certain properties and financial instruments, which are measured at revalued amounts or fair values, respectively.

The accounting policies used in the condensed consolidated financial statements are consistent with those followed in the preparation of the annual financial statements of the Company and its subsidiaries (the "Group") for the year ended 31 December 2005 except as described below.

In the current period, the Group has applied, for the first time, a number of new standards, amendments and interpretations ("new HKFRSs") issued by the HKICPA which are either effective for accounting periods beginning on or after 1 December 2005 or 1 January 2006. The adoption of the new HKFRSs has resulted in changes to the Group's accounting policies in the following areas that have an effect on how the results for the current or prior accounting periods have been prepared and presented:

Financial guarantee contracts

In the current period, the Group has applied HKAS 39 and HKFRS 4 (Amendments) "Financial Guarantee Contracts" which is effective for annual periods beginning on or after 1 January 2006.

A financial guarantee contract is defined by HKAS 39 "Financial Instruments: Recognition and Measurement" ("HKAS 39") as "a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument".

The Group acts as the issuer of the financial guarantee contracts

Prior to 1 January 2006, financial guarantee contracts were not accounted for in accordance with HKAS 39 and those contracts were disclosed as contingent liabilities. A provision for a financial guarantee was only recognised when it was probable that an outflow of resources would be required to settle the financial guarantee obligation and the amount can be estimated reliably.





NOTES TO THE CONDENSED FINANCIAL STATEMENTS (continued)

For the six months ended 30 June 2006

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial guarantee contracts (continued)

Upon the application of these amendments, a financial guarantee contract issued by the Group and not designated as at fair value through profit or loss is recognised initially at its fair value less transaction costs that are directly attributable to the issue of the financial guarantee contract. Subsequent to initial recognition, the Group measures the financial guarantee contract at the higher of: (i) the amount determined in accordance with HKAS 37 "Provisions, Contingent Liabilities and Contingent Assets"; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with HKAS 18 "Revenue".

In relation to a financial guarantee granted to a bank over the repayment of a loan by a jointly controlled entity, the Group has applied the transitional provisions in HKAS 39. This change in accounting policy has had no material effect on the Group's results for the current and prior accounting periods.

3. SUMMARY OF THE EFFECTS OF THE CHANGES IN ACCOUNTING POLICIES

The Group has not early applied the following new HKFRSs that have been issued but are not yet effective. The directors of the Company anticipate that the application of these HKFRSs will have no material impact on the results and the financial position of the Group.

HKAS 1 (Amendment)	Capital Disclosures ¹
HKFRS 7	Financial Instruments: Disclosures ¹
HK(IFRIC) – INT 7	Applying the Restatement Approach under HKAS 29 "Financial Reporting in Hyperinflationary Economies" ²
HK(IFRIC) – INT 8	Scope of HKFRS 2 ³
HK(IFRIC) – INT 9	Reassessment of Embedded Derivatives ⁴

¹ Effective for annual periods beginning on or after 1 January 2007

² Effective for annual periods beginning on or after 1 March 2006

³ Effective for annual periods beginning on or after 1 May 2006

⁴ Effective for annual periods beginning on or after 1 June 2006

NOTES TO THE CONDENSED FINANCIAL STATEMENTS (continued)

For the six months ended 30 June 2006

4. SEGMENT INFORMATION**Business segments**

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

For the six months ended 30 June 2006

	Steel cord (Unaudited) HK\$'000	Copper and brass products (Unaudited) HK\$'000	Others (Unaudited) HK\$'000	Consolidated (Unaudited) HK\$'000
Segment revenue	<u>198,259</u>	<u>123,628</u>	<u>706</u>	<u>322,593</u>
Segment results	<u>35,417</u>	<u>25,894</u>	<u>62</u>	<u>61,373</u>
Unallocated corporate income				1,658
Unallocated corporate expenses				(12,013)
Share of profit of a jointly controlled entity	-	-	4,507	4,507
Share of profit of an associate	-	-	3,082	3,082
Finance costs				<u>(9,021)</u>
Profit before taxation				<u>49,586</u>
Income tax expenses				<u>(4,879)</u>
Profit for the period				<u><u>44,707</u></u>



**NOTES TO THE CONDENSED FINANCIAL STATEMENTS (continued)**

For the six months ended 30 June 2006

4. SEGMENT INFORMATION (continued)

For the six months ended 30 June 2005 (restated)

	Steel cord (Unaudited) HK\$'000	Copper and brass products (Unaudited) HK\$'000	Others (Unaudited) HK\$'000	Consolidated (Unaudited) HK\$'000
Segment revenue	194,353	74,452	726	269,531
Segment results	42,818	3,315	(130)	46,003
Unallocated corporate income				111
Unallocated corporate expenses				(8,909)
Share of profit of a jointly controlled entity	-	-	5,989	5,989
Share of profit of an associate	-	-	2,156	2,156
Finance costs				(6,034)
Profit before taxation				39,316
Income tax expenses				(3,200)
Profit for the period				36,116

NOTES TO THE CONDENSED FINANCIAL STATEMENTS (continued)

For the six months ended 30 June 2006

5. FINANCE COSTS

	Six months ended 30 June	
	2006 (Unaudited) HK\$'000	2005 (Unaudited) HK\$'000
Interest expenses on bank and other borrowings wholly repayable within five years	8,478	5,880
Other finance costs	543	154
	9,021	6,034

6. INCOME TAX EXPENSES

	Six months ended 30 June	
	2006 (Unaudited) HK\$'000	2005 (Unaudited) HK\$'000
The charge comprises:		
Current tax:		
Hong Kong	500	–
Other regions in the People's Republic of China (the "PRC")	4,486	2,897
	4,986	2,897
Under provision in prior years:		
Hong Kong	2	–
Other regions in the PRC	29	–
	31	–
Deferred taxation	(138)	303
Taxation attributable to the Company and its subsidiaries	4,879	3,200



**NOTES TO THE CONDENSED FINANCIAL STATEMENTS (continued)**

For the six months ended 30 June 2006

6. INCOME TAX EXPENSES (continued)

Hong Kong Profits Tax is calculated at 17.5% of the estimated assessable profit for the six months ended 30 June 2006.

No tax is payable on the profit for the six months ended 30 June 2005 arising in Hong Kong since the assessable profit is wholly absorbed by tax losses brought forward.

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 in the PRC are eligible for certain tax exemptions and concessions.

7. PROFIT FOR THE PERIOD

	Six months ended 30 June	
	2006 (Unaudited) HK\$'000	2005 (Unaudited) HK\$'000
Profit for the period is arrived at after charging:		
Depreciation of property, plant and equipment	19,887	19,180
Amortisation of prepaid lease payments (included in "Cost of sales")	214	196
Net foreign exchange losses	–	356
Share of tax of a jointly controlled entity (included in "Share of profit of a jointly controlled entity")	834	1,107
Share of tax of an associate (included in "Share of profit of an associate")	1,598	1,118
and after crediting:		
Net foreign exchange gains	2,029	–
Interest income from bank deposits	463	101
Gain on disposal of property, plant and equipment	254	–

NOTES TO THE CONDENSED FINANCIAL STATEMENTS (continued)

For the six months ended 30 June 2006

8. DIVIDENDS

No dividend was paid during the six months ended 30 June 2006. For the six months ended 30 June 2005, a dividend of HK1.5 cents per share in cash was paid to shareholders as the final dividend for the year ended 31 December 2004.

The directors do not recommend the payment of interim dividend for the six months ended 30 June 2006.

9. EARNINGS PER SHARE

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

	Six months ended 30 June	
	2006	2005
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Earnings		
Profit for the period for the purpose of basic and diluted earnings per share	44,707	36,116
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	1,026,066,556	1,026,066,556
Effect of dilutive potential ordinary shares: Share options	54,287,289	65,600,977
Weighted average number of ordinary shares for the purpose of diluted earnings per share	1,080,353,845	1,091,667,533



**NOTES TO THE CONDENSED FINANCIAL STATEMENTS (continued)**

For the six months ended 30 June 2006

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

During the period, the Group acquired property, plant and equipment amounting to approximately HK\$981,000.

During the period, the Group has reclassified an investment property with a carrying amount of HK\$930,000 to property, plant and equipment.

At 30 June 2006, the directors considered the carrying amount of the Group's investment properties carried at fair value and leasehold land and buildings carried at revalued amounts respectively, and estimated that the carrying amounts do not differ significantly from that which would be determined using fair value and revalued amounts at 30 June 2006. Consequently, no change in fair value or revaluation surplus or deficit has been recognised in the current period.

11. TRADE RECEIVABLES

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

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

	30 June 2006 (Unaudited) HK\$'000	31 December 2005 (Audited) HK\$'000
0 – 90 days	141,102	118,322
91 – 180 days	21,821	21,850
Over 180 days	2,913	–
	165,836	140,172

NOTES TO THE CONDENSED FINANCIAL STATEMENTS (continued)

For the six months ended 30 June 2006

12. AMOUNT DUE FROM (TO) A RELATED COMPANY/LOAN FROM A RELATED COMPANY

	<i>Notes</i>	30 June 2006 (Unaudited) HK\$'000	31 December 2005 (Audited) HK\$'000
Amount due from a related company – due within one year:			
A subsidiary of Shougang Concord Technology Holdings Limited ("Shougang TECH")	(a)	<u>3,884</u>	<u>1,497</u>
Amount due to a related company – due within one year:			
A subsidiary of Shougang Holding (Hong Kong) Limited ("Shougang HK")	(a)	<u>43,714</u>	<u>–</u>
Loan from a related company – due after one year:			
A subsidiary of Shougang HK	(b)	<u>30,000</u>	<u>–</u>

Notes:

- (a) The amounts are unsecured, non-interest bearing and are repayable on demand.
- (b) The amount is unsecured, interest bearing at 5.825% per annum and is repayable on 30 March 2008.



**NOTES TO THE CONDENSED FINANCIAL STATEMENTS (continued)**

For the six months ended 30 June 2006

13. TRADE PAYABLES

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

	30 June 2006 (Unaudited) HK\$'000	31 December 2005 (Audited) HK\$'000
0 – 90 days	7,559	9,172
91 – 180 days	108	87
Over 180 days	145	25
	7,812	9,284

14. BANK BORROWINGS

During the period, the Group obtained new bank borrowings of approximately HK\$263,981,000 and repaid bank borrowings of approximately HK\$254,516,000. The loans bear interest ranging from 2.64% to 7.45% per annum and are repayable over a period of one to two years.

15. SHARE CAPITAL

Ordinary shares of HK\$0.10 each

	Number of shares '000	Share capital HK\$'000
Authorised:		
At 1 January 2006 and 30 June 2006	<u>2,000,000</u>	<u>200,000</u>
Issued and fully paid:		
At 1 January 2006 and 30 June 2006	<u>1,026,067</u>	<u>102,607</u>

NOTES TO THE CONDENSED FINANCIAL STATEMENTS (continued)

For the six months ended 30 June 2006

16. CAPITAL COMMITMENTS

	30 June 2006 (Unaudited) HK\$'000	31 December 2005 (Audited) HK\$'000
Commitments in respect of the acquisition of property, plant and equipment contracted for but not provided in the financial statements	2,999	194

17. FINANCIAL GUARANTEE CONTRACT

As at 30 June 2006, the Group has given guarantees amounting to approximately HK\$11,050,000 (31 December 2005: HK\$10,935,000) for bank loans granted to a jointly controlled entity.

18. RELATED PARTY TRANSACTIONS**Trading transaction**

During the period, the Group had the following transactions with Shougang HK and its subsidiaries (collectively the "Shougang HK Group"), Shougang TECH and its subsidiaries (collectively the "Shougang TECH Group") and a jointly controlled entity. Shougang HK is the substantial shareholder of the Company and Shougang TECH.

	Six months ended 30 June 2006 (Unaudited) HK\$'000	2005 (Unaudited) HK\$'000
Consultancy fees paid to Shougang HK Group	480	480
Sales to Shougang TECH Group	4,341	2,447
Interest paid/payable to Shougang HK Group	440	–
Rental expenses paid to Shougang HK Group	761	540
Corporate guarantees for bank loans granted to a jointly controlled entity	11,050	10,721



**NOTES TO THE CONDENSED FINANCIAL STATEMENTS (continued)**

For the six months ended 30 June 2006

18. RELATED PARTY TRANSACTIONS (continued)**Compensation of key management personnel**

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

	Six months ended 30 June	
	2006	2005
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Short-term benefits	3,234	2,859

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

19. POST BALANCE SHEET EVENT

On 28 March 2006, the Group together with shareholders of other non-freely transferable shares (the "Non-freely Transferable Shareholders") of Xinhua Metal Products Co., Ltd. ("Xinhua Metal"), an associate of the Group, made a proposal for the conversion of the non-freely transferable shares of Xinhua Metal into shares freely transferable on the Shanghai Stock Exchange (the "Xinhua Metal Share Reform Plan"). No approval had been obtained for the Xinhua Metal Share Reform Plan at the shareholders meeting of Xinhua Metal on 11 April 2006.

All the Non-freely Transferable Shareholders revised the Xinhua Metal Share Reform Plan which was approved by the relevant shareholders of Xinhua Metal on 12 September 2006. The Group's interest in Xinhua Metal will be diluted from approximately 16.76% to 14.49%. Based on the carrying value of interest in Xinhua Metal as at 30 June 2006, the dilution will result in a deemed loss of approximately HK\$6,500,000.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

In the first half year of 2006, the Group achieved a satisfactory growth in revenue and profit over the same period last year. Despite stiff market competition which had affected the profitability of our steel cord segment, our copper and brass products segment performed strongly during the period, supported by solid economic growth in Hong Kong and Mainland China, and skyrocketing copper price.

Manufacturing of steel cord for radial tyres (“Steel cord”)

Our steel cord segment recorded a moderate growth in revenue of 2% over the same period last year to HK\$198,259,000 (2005: HK\$194,353,000) and accounted for 61.5% (2005: 72.1%) of the Group's revenue for the period. Faced with pricing pressure on increasing competition in the steel cord industry, the profitability of this segment abated as compared to the same period last year. However, its operating performance was better than the preceding six months, as we had implemented cost control measures to reduce production costs and improved operating efficiency, principally through the increased usage of domestic raw materials, whose prices were relatively lower than their import counterparts.

As affected by the declined selling price, gross profit margin dropped from 24.1% in the same period last year to 20.3% for the period under review. Consequently, operating profit of this segment dropped by 17.3% to HK\$35,417,000 (2005: HK\$42,818,000 (restated)) for the period.

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

Our copper & brass products segment achieved a significant growth of 66.1% in revenue to HK\$123,628,000 (2005: HK\$74,452,000) and accounted for 38.3% of the Group's revenue for the period. Whilst sales volume increased moderately by 6.3% over the same period last year, the increase in revenue was primarily boosted by the significant rise in copper price during the period. In the first half year of 2006, 3-month copper price traded in the London Metals Exchange climbed from the level of US\$4,400 per tonne at the end of 2005 to approximately US\$7,431 per tonne at 30 June 2006, representing an increase of approximately 69% over the period.

Taking advantage of the rising copper price, especially during the second quarter of 2006, this segment accomplished substantial increase in gross profit during the period. Gross profit amounted to HK\$28,580,000, a significant increase of 394% as compared to the same period last year, while gross profit margin was 23.1%, as compared to 7.8% for the same period last year. In addition, our timely inventory management and sales strategy further enhanced the operating profit of this segment which sharply increased by 681.1% to HK\$25,894,000 (2005: HK\$3,315,000 (restated)) for the period under review.



**MANAGEMENT DISCUSSION AND ANALYSIS (continued)****FINANCIAL REVIEW**

Contributed by the increase in revenue and the improvement in gross profit margin, the Group's profit for the period reached to HK\$44,707,000, representing an increase of 23.8% over the same period last year.

Revenue

Revenue amounted to HK\$322,593,000 for the period, representing an increase of 19.7% over the same period last year. The breakdown of revenue by business segments is as follows:

	Six months ended 30 June				
	2006 HK\$'000	% of total revenue	2005 HK\$'000	% of total revenue	% change
Steel cord	198,259	61.5	194,353	72.1	+2.0
Copper & brass products	123,628	38.3	74,452	27.6	+66.1
Others	706	0.2	726	0.3	-2.8
Total	<u>322,593</u>	<u>100.0</u>	<u>269,531</u>	<u>100.0</u>	+19.7

Gross profit

Gross profit rose by 31.1% to HK\$69,299,000 for the period. Further to the growth of 19.7% in revenue, the higher gross profit also contributed by the improvement in gross profit margin from 19.6% in the same period last year to 21.5% for the period, the breakdown is as follows:

	Six months ended 30 June				
	2006 HK\$'000	Gross profit margin (%)	2005 HK\$'000	Gross profit margin (%)	% change
Steel cord	40,282	20.3	46,772	24.1	-13.9
Copper & brass products	28,580	23.1	5,786	7.8	+394.0
Others	437	61.9	321	44.2	+36.1
Total	<u>69,299</u>	<u>21.5</u>	<u>52,879</u>	19.6	+31.1

Other income

The Group's other income for the period amounted to HK\$2,962,000, an increase of 1043.6% over the same period last year. Other income for the period mainly comprised net exchange gain of HK\$2,029,000, as a result of the stronger Renminbi ("RMB") and Hong Kong dollar ("HKD") against United States dollar ("USD") in the period.

MANAGEMENT DISCUSSION AND ANALYSIS (continued)**FINANCIAL REVIEW (continued)****Administrative expenses**

The Group's administrative expenses for the period amounted to HK\$17,673,000, an increase of 18.5% over the same period last year, which was commensurate with the increase in revenue. Administrative expenses as a percentage of revenue remained similar to the same period last year at approximately 5.5%.

Segment results

Profit from the Group's business segments amounted to HK\$61,373,000 for the period, an increase of 33.4% over the same period last year. The breakdown is as follows:

	Six months ended		% change
	30 June		
	2006	2005	
	HK\$'000	<i>HK\$'000</i>	
		(restated)	
Steel cord	35,417	42,818	-17.3
Copper & brass products	25,894	3,315	+681.1
Others	62	(130)	N/A
	<hr/> 61,373 <hr/>	<hr/> 46,003 <hr/>	+33.4
Total			

Share of profits of a jointly controlled entity and an associate

The selling price of pre-stressed concrete strands declined in line with steel price since late 2005. Despite an increase in sales volume of 11.1% over the same period last year, revenue of Shanghai Shenjia Metal Products Co., Ltd. ("Shanghai Shenjia") dropped by 15.5% to HK\$195,195,000 for the period. As such, its profit for the period lowered by 24.7% to HK\$18,028,000. The Group's share of the profit for the period of Shanghai Shenjia also dropped proportionally to HK\$4,507,000.

Similar to Shanghai Shenjia, Xinhua Metal Products Co., Ltd. ("Xinhua Metal") was also affected by the drop in selling price of its pre-stressed concrete strands products during the period. However, through continued expansion in production capacity, its sales volume increased by 46.5% that helped generating a growth in revenue of 21.1% over the same period last year to HK\$443,873,000 for the period. As such, its profit for the period increased by 43% to HK\$18,400,000. The Group's share of the profit for the period of Xinhua Metal also increased proportionally to HK\$3,082,000.





MANAGEMENT DISCUSSION AND ANALYSIS (continued)

FINANCIAL REVIEW (continued)

Finance costs

Finance costs increased by 49.5% over the same period last year to HK\$9,021,000. The increase was primarily attributable to the continued interest rate hikes since the first half year of 2005 which had pushed HKD and USD interbank rates from circa 1% level to over 4% at the end of June 2006, which increased the overall interest cost of the Group.

Income tax expenses

The Group's income tax expenses amounted to HK\$4,879,000 for the period, representing an increase of 52.5% over the same period last year, primarily because Jiaxing Eastern Steel Cord Co., Limited ("Jiaxing Eastern"), the company engaged in the manufacturing of steel cord, had completed its 50% income tax concession period in 2005 and was subject to full income tax rate starting 2006.

INTERIM DIVIDEND

The directors do not recommend the payment of interim dividend for the six months ended 30 June 2006 (Six months ended 30 June 2005: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS (continued)**POST BALANCE SHEET EVENT – XINHUA METAL SHARE REFORM PLAN**

In March 2006, the non-freely transferable shareholders (the “Non-freely Transferable Shareholders”) of Xinhua Metal, with its shares listed on the Shanghai Stock Exchange, proposed a share reform plan (the “Xinhua Metal Share Reform Plan”) under the requirements of the relevant Government authorities of the People’s Republic of China (the “PRC”). The Non-freely Transferable Shareholders, including an indirect wholly owned subsidiary of the Company, had proposed to transfer 3 non-freely transferable shares of Xinhua Metal to each holder of freely transferable shares of Xinhua Metal for every 10 freely transferable shares held by such holders, for conversion of the non-freely transferable shares of Xinhua Metal into shares freely transferable on the Shanghai Stock Exchange. However, the Xinhua Metal Share Reform Plan had not obtained the approval from the relevant shareholders of Xinhua Metal on 11 April 2006. On 28 August 2006, all the Non-freely Transferable Shareholders have to be in line with the share segregation reforms of the other “A” share companies listed in the PRC by revising to propose to transfer an aggregate of 18,532,800 non-freely transferable shares of Xinhua Metal to the holders of the freely transferable shares of Xinhua Metal on the basis of 3.3 shares (the “Amended Share Reform Plan”) rather than 3 shares for every 10 freely transferable shares held by such holders. The Amended Share Reform Plan had been approved by the relevant shareholders of Xinhua Metal by casting on the internet during the three trading days from 8 to 12 September 2006 and at a physical general meeting held on 12 September 2006. The application for the trading on the Shanghai Stock Exchange of those freely transferable shares of Xinhua Metal converted from non-freely transferable shares will be applied subject to the relevant law and regulations of the PRC accordingly.

Since the Amended Share Reform Plan was approved, the Company’s interest in Xinhua Metal would be diluted from approximately 16.76% to 14.49%. Based on the carrying value of interest in Xinhua Metal as at 30 June 2006, the dilution will result in a deemed loss of approximately HK\$6,500,000. Details of the Amended Share Reform Plan were stated in the announcement dated 30 August 2006 and the circular dated 20 September 2006 to the Company’s shareholders.





MANAGEMENT DISCUSSION AND ANALYSIS (continued)

LIQUIDITY AND FINANCIAL RESOURCES

The Group has bank balances and cash (including pledged bank deposits) of HK\$62,084,000 at 30 June 2006, an increase of 53.8% as compared to HK\$40,378,000 at 31 December 2005. During the period, the Group utilized HK\$67,392,000 of net cash in its operating activities and generated HK\$5,777,000 of net cash from its investing activities.

As at 30 June 2006, the Group's total bank borrowings amounted to HK\$253,929,000, increased by HK\$10,916,000 as compared to HK\$243,013,000 as at 31 December 2005. Other than HK\$58,489,000 fixed-rate borrowings that carry interest ranging from 2.64% to 5.4% per annum, the remaining bank borrowings are floating-rate borrowings. The nature and maturity profile of the Group's bank borrowings at 30 June 2006 were as follows:

	30 June 2006 HK\$'000
Due within one year or on demand	
– Trust receipt loans	79,332
– Bank advances for discounted bills	19,632
– Short term loans and current portion of medium term loan	141,580
	<hr/>
Subtotal	240,544
Due in the second year	
– Medium term loans	13,385
	<hr/>
Total	253,929

Furthermore, the Group received a loan of HK\$30,000,000 from a wholly owned subsidiary (which is engaged in financial services) of Shougang Holding (Hong Kong) Limited ("Shougang HK"), the substantial shareholder of the Company during the period. The loan is for a period of two years and bears interest at a fixed rate of 5.825% per annum (which is similar to the rate offered by the bankers of the Company), and is partly used to finance the Group's business expansion projects.

Taking into consideration the loan from Shougang HK, gearing ratio (total interest bearing borrowings less cash and bank balances/shareholders' equity) of the Group at 30 June 2006 was 29.8% (31 December 2005: 29.2%). While the Group's current ratio was 1.60 times at 30 June 2006, as compared to 1.54 times at 31 December 2005.

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

The Group's sources of revenue are principally denominated in RMB and HKD, while purchases and payments are primarily in RMB, HKD and USD. On the other hand, the currency mix of bank borrowings of the Group at 30 June 2006 were as follows:

	30 June 2006	31 December 2005
	%	%
HKD	42.8	38.2
USD	34.2	61.8
RMB	23.0	–
	<hr/>	<hr/>
Total	100.0	100.0
	<hr/> <hr/>	<hr/> <hr/>

The Group shifted a certain part of its USD borrowings to RMB and HKD borrowings during the period as USD borrowing rate became higher than RMB and HKD borrowing rates after a sustained period of interest rate hikes by the Federal Reserve of the United States of America. We believe these adjustments could reduce our interest costs and further minimize our exposure to currency risks as our major sources of income are in RMB and HKD.

Regarding interest rate risks, out of the HK\$195,440,000 variable rate bank borrowings at 30 June 2006, HK\$100,000,000 had been hedged by two structured interest rate swap contracts, covering 51.2% of variable rate bank borrowings at 30 June 2006.

Notwithstanding, we would keep monitoring the currency composition of our bank borrowings and take appropriate action to minimize our exchange and interest rate risks when needed.





MANAGEMENT DISCUSSION AND ANALYSIS (continued)

BUSINESS DEVELOPMENT PLAN AND CAPITAL COMMITMENTS

Manufacturing of steel cord for radial tyres

The plan to expand the production capacity of Jiaxing Eastern from existing 30,000 tonnes to 45,000 tonnes per annum by the second half of 2007 is under way. Total costs of the expansion was adjusted to be approximately HK\$250,000,000 to HK\$300,000,000 (excluding working capital requirement) and would be financed by the Group's internal resources and external financing.

Processing and trading of copper and brass products

The additional production plant in the PRC principally for domestic sales of copper and brass products in the Mainland is under construction and is expected to start operation in the fourth quarter of 2006. Total capital expenditure for the development was approximately HK\$4,000,000 and would be financed by internal resources of the Group.

EMPLOYEES, REMUNERATION POLICIES AND TRAINING SCHEME OF THE GROUP

At 30 June 2006, the Group had a total of 697 employees located in Hong Kong and the PRC. The emolument policy regarding the employees of the Group is based on their merit, qualifications and competence as well as the prevailing market condition. 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 period amounted to HK\$1,102,000. 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. On the other hand, the emoluments of the directors of the Company are decided by the Remuneration Committee of the Company, having regard to individual performance, the Group's performance and profitability, remuneration benchmark in the industry and prevailing market condition.

In addition, the Company had adopted a share option scheme (the "Scheme"). Under the Scheme, the board of directors (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 Rule"), 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. No share options were granted or exercised during the period.

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

PLEDGE OF ASSETS AND CONTINGENT LIABILITIES

As at 30 June 2006, 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\$36,469,000;
2. Prepaid lease payments amounting to HK\$7,268,000;
3. Plant and machinery with net book value of HK\$130,281,000;
4. 100% equity interests in Everwinner Investments Limited, Online Investments Limited and Jiaxing Eastern; and
5. Bank deposits amounting to HK\$3,000,000.

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 2006 amounted to approximately HK\$11,050,000.

BUSINESS OUTLOOK

Looking forward in the second half year of 2006, it is expected that the environment of steel cord industry in the PRC will remain competitive, but we will endeavor to strengthen the profitability of Jiaxing Eastern through relentless cost control measures and the improvement of operational efficiency, the strengthening of strategic cooperations with market participants and the development of new products and overseas markets.

For our copper and brass products segment, as opposed to an upward trend in the first half year of 2006, international copper price has been moving within the range between US\$6,000 to US\$8,000 since it reached its peak of approximately US\$8,800 in May 2006. We expect that copper price will continue to fluctuate in a smaller range in the second half year and as such, we will not anticipate the first half year's exceptional performance to recur in the second half year of 2006, but we are confident to maintain at a reasonable and satisfactory profit level.

Overall speaking, the operating environment of the Group's businesses will be more challenging in the second half of year 2006, but we will strive to generate acceptable growth in profit to our shareholders.





PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES

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 2006.

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

As at 30 June 2006, save for the interest of the directors in the shares and share options held by some of the directors as below, none of the directors had any interests and short positions in the shares, debentures or underlying shares of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) which had to be notified to the Company and The Stock Exchange of Hong Kong Limited (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 as follows:

Long position in shares

(a) Ordinary shares of HK\$0.10 each of the Company

Name of director	Total number of shares held	Approximate % of the issued share capital as at 30 June 2006	Capacity
Tang Cornor Kwok Kau ("Mr. Tang")	2,496,000	0.24%	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 AND SHORT POSITIONS IN SHARES, DEBENTURES OR UNDERLYING SHARES (continued)

Long position in shares (continued)

(b) Share options

As at 30 June 2006, there were a total of 163,196,000 outstanding share options of the Company granted to the directors of the Company, details of which are summarized in the following table:

Options to subscribe for shares of the Company								Exercise price per share HK\$	Capacity in which interests are held	Approximate % of the issued share capital as at 30 June 2006
Name of director	Outstanding options at the beginning of the period	Number of options granted during the period	Number of options exercised during the period	Outstanding options at the end of the period	Date of exercise	Date of grant (Note b)	Exercise period			
Cao Zhong	7,652,000	-	-	7,652,000	-	23/8/2002	23/8/2002 to 22/8/2012	0.295		
	57,350,000 (Note a)	-	-	57,350,000	-	2/10/2003	2/10/2003 to 1/10/2013	0.780		
	65,002,000	-	-	65,002,000					Beneficial owner	6.34
Li Shaofeng	7,652,000	-	-	7,652,000	-	23/8/2002	23/8/2002 to 22/8/2012	0.295		
	30,614,000 (Note a)	-	-	30,614,000	-	25/6/2003	25/6/2003 to 24/6/2013	0.365		
	38,266,000	-	-	38,266,000					Beneficial owner	3.73
Tong Yihui	7,652,000	-	-	7,652,000	-	23/8/2002	23/8/2002 to 22/8/2012	0.295		
	38,268,000 (Note a)	-	-	38,268,000	-	25/6/2003	25/6/2003 to 24/6/2013	0.365		
	45,920,000	-	-	45,920,000					Beneficial owner	4.48
Leung Shun Sang, Tony	4,592,000	-	-	4,592,000	-	23/8/2002	23/8/2002 to 22/8/2012	0.295		
	3,060,000	-	-	3,060,000	-	12/3/2003	12/3/2003 to 11/3/2013	0.325		
	4,592,000	-	-	4,592,000	-	25/6/2003	25/6/2003 to 24/6/2013	0.740		
	12,244,000	-	-	12,244,000					Beneficial owner	1.19
Mr. Tang	1,000,000	-	-	1,000,000	-	25/6/2003	25/6/2003 to 24/6/2013	0.740		
									Beneficial owner	0.10
Yip Kin Man, Raymond	382,000	-	-	382,000	-	23/8/2002	23/8/2002 to 22/8/2012	0.295		
	382,000	-	-	382,000	-	25/6/2003	25/6/2003 to 24/6/2013	0.740		
	764,000	-	-	764,000					Beneficial owner	0.07
	163,196,000	-	-	163,196,000						





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

Long position in shares (continued)

(b) Share options (continued)

Other than the holdings and option holdings disclosed above, none of the directors, chief executives and their associates had any interests or short positions in any shares, debentures or underlying shares of the Company or any of its associated corporations at 30 June 2006.

Notes:

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

The above share options are unlisted cash settled options granted pursuant to the Company's share option scheme adopted on 7 June 2002 (the "Scheme"). Upon exercise of the share options in accordance with the Scheme, 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.

INTERESTS AND SHORT POSITIONS OR UNDERLYING SHARES OF THE SHAREHOLDERS OF THE COMPANY UNDER THE SFO

As at 30 June 2006, 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	Approximate % of the issued share capital as at 30 June 2006	Capacity
Richson Limited ("Richson")	148,537,939	14.48	Beneficial owner
Fair Union Holdings Limited ("Fair Union")	286,655,179	27.94	Beneficial owner and deemed interest ⁽¹⁾
Shougang Concord International Enterprises Company Limited ("Shougang International")	286,655,179	27.94	Deemed interest ⁽²⁾
Able Legend Investments Limited ("Able Legend")	126,984,000	12.38	Beneficial owner ⁽³⁾
Shougang HK	443,707,179	43.24	Deemed interest ⁽⁴⁾
Cao Zhong	65,002,000	6.34	Beneficial owner ⁽⁵⁾





INTERESTS AND SHORT POSITIONS OR UNDERLYING SHARES OF THE SHAREHOLDERS OF THE COMPANY UNDER THE SFO (continued)

Long position in shares (continued)

Notes:

- (1) Fair Union is beneficially interested in 135,721,936 shares and is deemed to be interested in the 148,537,939 shares held by Richson and the 2,395,304 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 135,721,936 shares held by Fair Union, the 148,537,939 shares held by Richson and the 2,395,304 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 21,998,000 shares held by Able Legend and Prime Success Investments Limited ("Prime Success") respectively as Able Legend and Prime Success are its wholly owned subsidiaries and is deemed to be interested in the 8,070,000 shares held by Lyre Terrace Management Limited, a subsidiary of Shougang Concord Grand (Group) Limited ("Shougang Grand") and Shougang HK is the controlling shareholder of Shougang Grand. It is also deemed to be interested in the 135,721,936 shares held by Fair Union, the 148,537,939 shares held by Richson and the 2,395,304 shares held by Casula as it is the controlling shareholder of Shougang International.
- (5) 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 AND SHORT POSITIONS IN SHARES, DEBENTURES OR UNDERLYING SHARES" 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 sub-section “Share options” under “DIRECTORS’ INTERESTS AND SHORT POSITIONS IN SHARES, DEBENTURES OR UNDERLYING SHARES”, the share options granted to other eligible participants are set out as below:

Category of participant	Options to subscribe for shares of the Company				Date of exercise	Date of grant ⁽¹⁾	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	Outstanding options at the end of the period				
Employees other than the directors of the Company	27,500,000	-	-	-	27,500,000	25/8/2003	25/8/2003 to 24/8/2013	0.740
All other eligible participants	7,652,000	-	-	-	7,652,000	23/8/2002	23/8/2002 to 12/4/2008 ⁽²⁾	0.295
	9,948,000	-	-	-	9,948,000	23/8/2002	23/8/2002 to 22/8/2012	0.295
	20,660,000	-	-	-	20,660,000	12/3/2003	12/3/2003 to 11/3/2013	0.325
	<u>38,260,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>38,260,000</u>			

Note:

- (1) The vesting period of the share option is from the date of grant to the end of the exercise period.
- (2) The exercise period was changed by the approval of the Board.

During the period, there were no options being exercised, cancelled or lapsed.

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.





CORPORATE GOVERNANCE

The Company is committed to maintaining a good standard of corporate governance with a view to enhancing the management of the Company as well as preserving the interests of the shareholders as a whole. Hence, the Board from time to time reviews the effectiveness of the system of internal control, such as financial, operational and compliance controls and risk management functions. The Company has adopted an internal management control since 1999 and subsequently amended and revised in order to be in line with the relevant amendments to the law, rules and regulation and the improvement of the control system.

As a result, in the opinion of the Board, the Company has complied with the principles and code provisions of the Code on Corporate Governance Practices (the "Code") as set out in Appendix 14 to the Listing Rules throughout the six months ended 30 June 2006 save for the deviation from Code Provision A.4.1 of the Code in respect of the service term of non-executive directors of the Company as follows:—

Code Provision A.4.1

Under Code Provision A.4.1, non-executive directors should be appointed for a specific term and subject to re-election. None of the existing non-executive directors of the Company is appointed for a specific term. This constitutes a deviation from Code Provision A.4.1. However, all the directors of the Company (executive and non-executive) are subject to retirement by rotation at least every three years at annual general meetings under the articles of association of the Company. We believe that the retirement and re-election requirements of non-executive directors have given the Company's shareholders the right to approve continuation of their offices.

Furthermore, the Company has three independent non-executive directors (including one with appropriate professional qualifications, or accounting or related financial management expertise), which representing more than one-third of the Board. As such, the Company considers that sufficient measures have been taken to ensure that the Company's corporate governance practices with respect to the service terms of non-executive directors are no less exacting than those in the Code and we have of sufficient caliber and number for views to carry weight.

CORPORATE GOVERNANCE (continued)

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has approved and adopted a "Shougang Concord Century Holdings Limited Code" on "Corporate Governance" (the "SCCH Code") on terms no less exacting than the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Listing Rules.

The Company had also made specific enquiry of all directors whether the directors have complied with the required standard set out in the SCCH Code. During the period under review, 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 SCCH Code.

REMUNERATION COMMITTEE

The Company's remuneration committee was established with specific written terms of reference in accordance with the requirements of the Code and comprises the following persons:

Three independent non-executive directors, namely Mr. Yip Kin Man, Raymond, Mr. Law, Yui Lun and Mr. Chu, Kwok Tsu Gilbert. The other two members are Mr. Cao Zhong and Mr. Leung Shun Sang, Tony.

NOMINATION COMMITTEE

The Company also established a nomination committee with its specific written terms of reference in accordance with the requirements of the Code and it comprises the following persons as well:

Three independent non-executive directors, namely Mr. Yip Kin Man, Raymond, Mr. Law, Yui Lun and Mr. Chu, Kwok Tsu Gilbert. The other two members are Mr. Cao Zhong and Mr. Leung Shun Sang, Tony.





CORPORATE GOVERNANCE (continued)

AUDIT COMMITTEE

The Company's audit committee comprises of three independent non-executive directors, namely Mr. Yip Kin Man, Raymond, Mr. Law, Yui Lun and Mr. Chu, Kwok Tsu Gilbert. Mr. Yip acts as the chairman of the committee. The audit committee was established with specific written terms of reference with the task of monitoring the financial reporting procedures, reviewing internal control and risk management system of the Group and monitoring the relationship with external auditors. The audit committee had reviewed the Group's unaudited condensed consolidated financial statements for the six months ended 30 June 2006. The audit committee had reviewed the accounting principles and practices adopted by the Group and discussed financial report matters related to the preparation of the unaudited condensed consolidated financial statements for the six months ended 30 June 2006.

APPRECIATION

The Board would like to thank all employees for their hard work and dedication and our shareholders, bankers, customers, suppliers and business partners for their continued support.

By Order of the Board

Cao Zhong

Chairman

Hong Kong, 21 September 2006

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