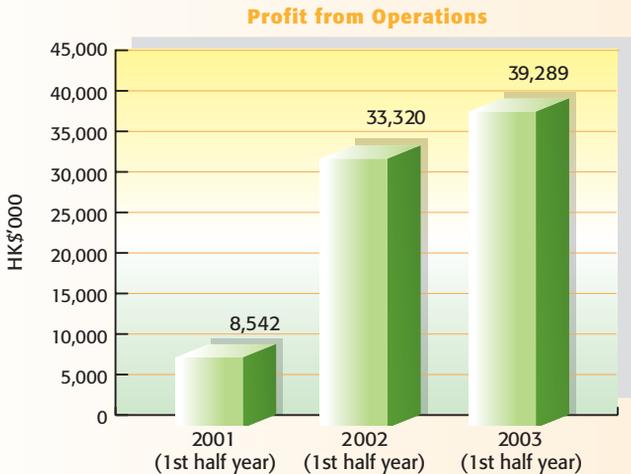
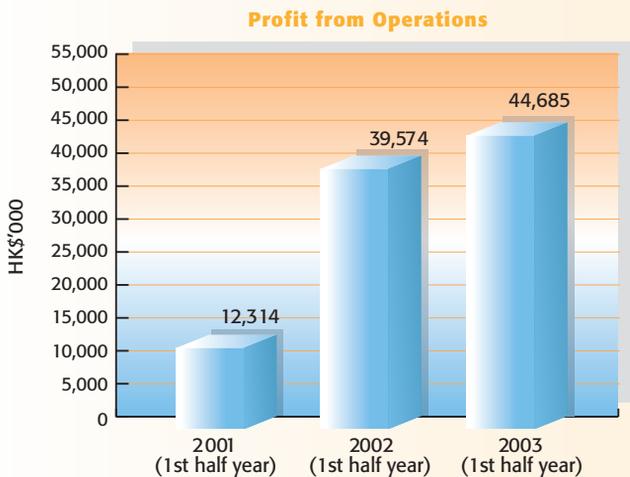
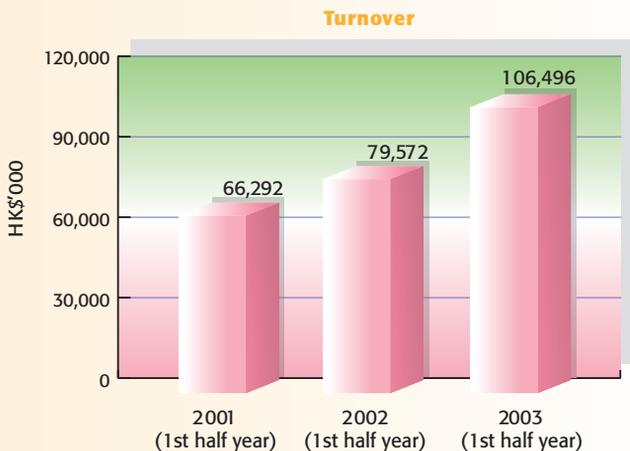




Shougang Concord Century
Holdings Limited

INTERIM REPORT
2003

**FINANCIAL HIGHLIGHTS (FOR THE GROUP)**

**FINANCIAL HIGHLIGHTS (FOR THE STEEL CORD SEGMENT)**



CONDENSED CONSOLIDATED INCOME STATEMENT

FOR THE SIX MONTHS ENDED 30 JUNE 2003

| | | Six months ended 30 June | |
|---|--------------|---------------------------------|--------------|
| | | 2003 | 2002 |
| | <i>Notes</i> | (Unaudited) | (Unaudited) |
| | | HK\$'000 | HK\$'000 |
| | | | (Restated) |
| Turnover | 3 | 137,354 | 105,558 |
| Cost of sales | | (88,110) | (72,464) |
| Gross profit | | 49,244 | 33,094 |
| Other operating income | | 191 | 243 |
| Distribution costs | | (592) | (459) |
| Administrative expenses | | (13,386) | (13,231) |
| Other operating expenses | | (48) | (203) |
| Recovery of bad and doubtful debts, net | | 3,880 | 13,876 |
| Profit from operations | 4 | 39,289 | 33,320 |
| Finance costs | 5 | (807) | (1,198) |
| Share of results of jointly controlled entities | | 2,991 | 4,389 |
| Share of result of an associate | | 2,871 | 2,010 |
| Profit before taxation | | 44,344 | 38,521 |
| Taxation | 6 | (4,867) | (547) |
| Profit before minority interests | | 39,477 | 37,974 |
| Minority interests | | (11,244) | (10,720) |
| Net profit for the period | | 28,233 | 27,254 |
| Earnings per share | 8 | | |
| Basic | | HK3.68 cents | HK3.56 cents |
| Diluted | | HK3.65 cents | N/A |

**CONDENSED CONSOLIDATED BALANCE SHEET**

AT 30 JUNE 2003

| | <i>Notes</i> | 30 June 2003 (Unaudited) HK\$'000 | 31 December 2002 (Audited) HK\$'000 (Restated) |
|--|--------------|--|--|
| NON-CURRENT ASSETS | | | |
| Investment properties | | 8,000 | 8,000 |
| Property, plant and equipment | 9 | 315,417 | 321,410 |
| Land use rights | | 13,193 | 13,500 |
| Interests in jointly controlled entities | | 49,808 | 51,097 |
| Interests in associates | | 42,828 | 44,079 |
| Club memberships | | 675 | 675 |
| | | 429,921 | 438,761 |
| CURRENT ASSETS | | | |
| Inventories | | 39,121 | 32,564 |
| Trade receivables | 10 | 47,906 | 47,948 |
| Bills receivable | | 50,651 | 46,369 |
| Amount due from a related company | | – | 471 |
| Prepayments, deposits and other receivables | | 23,615 | 3,684 |
| Pledged bank deposits | | 4,000 | 3,000 |
| Bank balances and cash | | 100,803 | 26,412 |
| | | 266,096 | 160,448 |
| CURRENT LIABILITIES | | | |
| Trade payables | 11 | 5,430 | 6,342 |
| Other payables and accruals | | 12,605 | 9,780 |
| Taxation payable | | 1,265 | 349 |
| Bank borrowings – due within one year | | 20,152 | 22,599 |
| Obligations under finance leases | | | |
| – due within one year | | 895 | 872 |
| Loans from minority shareholders | | | |
| – due within one year | | 13,254 | – |
| | | 53,601 | 39,942 |
| NET CURRENT ASSETS | | | |
| | | 212,495 | 120,506 |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | | |
| | | 642,416 | 559,267 |


CONDENSED CONSOLIDATED BALANCE SHEET (continued)

AT 30 JUNE 2003

| | <i>Notes</i> | 30 June 2003 (Unaudited) HK\$'000 | 31 December 2002 (Audited) HK\$'000 (Restated) |
|-------------------------------------|--------------|--|--|
| NON-CURRENT LIABILITIES | | | |
| Provision for long service payments | | 1,395 | 1,319 |
| Obligations under finance leases | | | |
| – due after one year | | 244 | 698 |
| Deferred taxation | 12 | 1,496 | 1,295 |
| Loans from minority shareholders | | | |
| – due after one year | | 12,710 | 25,964 |
| | | 15,845 | 29,276 |
| MINORITY INTERESTS | | | |
| | | 97,759 | 86,502 |
| NET ASSETS | | | |
| | | 528,812 | 443,489 |
| CAPITAL AND RESERVES | | | |
| Share capital | | 95,585 | 76,537 |
| Reserves | 13 | 433,227 | 366,952 |
| SHAREHOLDERS' FUNDS | | | |
| | | 528,812 | 443,489 |



CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 30 JUNE 2003

| | 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 (Restated) | HK\$'000 (Restated) | HK\$'000 | HK\$'000 | HK\$'000 (Restated) | HK\$'000 |
| At 1 January 2002 | | | | | | | | | | |
| – as originally stated | 76,537 | 357,181 | 54,098 | 463 | 1,491 | 3,101 | 7,352 | 22,306 | (12,870) | 3,93,659 |
| – prior period adjustment | – | – | – | – | (217) | (509) | – | – | (161) | (887) |
| – as restated | 76,537 | 357,181 | 54,098 | 463 | 1,274 | 2,592 | 7,352 | 22,306 | (129,031) | 392,772 |
| Transfer | – | – | – | – | – | – | – | 1,106 | (1,106) | – |
| Profit for the period | – | – | – | – | – | – | – | – | 27,254 | 27,254 |
| Credit to equity for the period | – | – | – | – | 14 | 11 | – | – | – | 25 |
| At 30 June 2002 | 76,537 | 357,181 | 54,098 | 463 | 1,288 | 2,603 | 7,352 | 23,412 | (102,883) | 420,051 |
| Surplus on revaluation | – | – | – | – | 1,178 | 874 | – | – | – | 2,052 |
| Arising from write off of interest in a jointly controlled entity | – | – | 6,495 | – | – | – | – | (1,130) | 1,130 | 6,495 |
| Transfer | – | – | – | – | – | – | – | 5,163 | (5,163) | – |
| Profit for the period | – | – | – | – | – | – | – | – | 15,227 | 15,227 |
| Charge to equity for the period | – | – | – | – | (195) | (141) | – | – | – | (336) |
| At 31 December 2002 | 76,537 | 357,181 | 60,593 | 463 | 2,271 | 3,336 | 7,352 | 27,445 | (91,689) | 443,489 |
| Issue of shares | 19,048 | 40,952 | – | – | – | – | – | – | – | 60,000 |
| Share issue expenses | – | (2,945) | – | – | – | – | – | – | – | (2,945) |
| Reduction of share premium | – | (149,098) | – | – | – | – | – | – | 149,098 | – |
| Profit for the period | – | – | – | – | – | – | – | – | 2,823 | 28,233 |
| Credit to equity for the period | – | – | – | – | 20 | 15 | – | – | – | 35 |
| At 30 June 2003 | 95,585 | 246,090 | 60,593 | 463 | 2,291 | 3,351 | 7,352 | 27,445 | 85,642 | 528,812 |



CONDENSED CONSOLIDATED CASH FLOW STATEMENT

FOR THE SIX MONTHS ENDED 30 JUNE 2003

| | Six months ended 30 June | |
|--|---------------------------------|-------------|
| | 2003 | 2002 |
| | (Unaudited) | (Unaudited) |
| | HK\$'000 | HK\$'000 |
| | | (Restated) |
| Net cash generated from operating activities | 36,754 | 36,221 |
| Net cash used in investing activities | (18,420) | (6,660) |
| Net cash generated from (used in) financing activities | 56,057 | (20,092) |
| Net increase in cash and cash equivalents | 74,391 | 9,469 |
| Cash and cash equivalents at beginning of the period | 26,412 | 24,582 |
| Cash and cash equivalents at end of the period | 100,803 | 34,051 |
| ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS | | |
| Cash and cash equivalents as previously reported | 100,803 | 21,785 |
| Effect of reclassification of pledged bank deposits | - | (2,000) |
| Effect of reclassification of trust receipt loans | - | 14,266 |
| Cash and cash equivalents as restated, represents bank balances and cash | 100,803 | 34,051 |

**NOTES TO THE CONDENSED FINANCIAL STATEMENTS**

FOR THE SIX MONTHS ENDED 30 JUNE 2003

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. ("SSAP") 25 "Interim Financial Reporting" issued by the Hong Kong Society of Accountants.

2. SIGNIFICANT ACCOUNTING POLICIES AND PRIOR PERIOD ADJUSTMENT

The condensed financial statements have been prepared under the historical cost convention, as modified for the revaluation of investment properties, 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 2002, except that the Group has adopted SSAP 12 (Revised) "Income Taxes" in the current period.

Income Taxes

The principal effect of the implementation of SSAP 12 (Revised) is in relation to deferred tax. In prior periods, partial provision was made for deferred tax using the income statement liability method, i.e. a liability was recognised in respect of timing differences arising, except where those timing differences were not expected to reverse in the foreseeable future. SSAP 12 (Revised) requires the adoption of a balance sheet liability method, whereby deferred tax is recognised in respect of all temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, with limited exceptions. In the absence of any specific transitional requirements in SSAP 12 (Revised), the new accounting policy has been applied retrospectively. Comparative amounts for 2002 have been restated accordingly. Opening accumulated losses at 1 January 2002 have been increased by HK\$161,000, which is the cumulative effect of the change in policy on the results for periods prior to 1 January 2002. The balances on the Group's property revaluation reserve and land use rights revaluation reserve at 1 January 2002 have been reduced by HK\$217,000 and HK\$509,000, respectively, representing the deferred tax liabilities recognised in respect of the revaluation surplus on the Group's properties and land use rights at that date. The effect of the change is an increased charge to income taxes in the current period of HK\$249,000 (six months ended 30 June 2002: HK\$297,000 decreased charge to income taxes).



NOTES TO THE CONDENSED FINANCIAL STATEMENTS (continued)

FOR THE SIX MONTHS ENDED 30 JUNE 2003

3. SEGMENT INFORMATION

Business segments

Six months ended 30 June 2003

| | Steel cord (Unaudited) HK\$'000 | Copper and brass products (Unaudited) HK\$'000 | Property investment (Unaudited) HK\$'000 | Others (Unaudited) HK\$'000 | Consolidated (Unaudited) HK\$'000 |
|---|---------------------------------------|---|---|-----------------------------------|---|
| Segment turnover | 106,496 | 30,621 | 225 | 12 | 137,354 |
| Segment results | 44,685 | (145) | (131) | (93) | 44,316 |
| Unallocated corporate income less expenses | | | | | (5,027) |
| Profit from operations | | | | | 39,289 |

Six months ended 30 June 2002

| | Steel cord (Unaudited) HK\$'000 | Copper and brass products (Unaudited) HK\$'000 | Property investment (Unaudited) HK\$'000 | Others (Unaudited) HK\$'000 | Consolidated (Unaudited) HK\$'000 |
|---|---------------------------------------|---|---|-----------------------------------|---|
| Segment turnover | 79,572 | 25,734 | 252 | - | 105,558 |
| Segment results | 39,574 | 907 | 168 | (224) | 40,425 |
| Unallocated corporate income less expenses | | | | | (7,105) |
| Profit from operations | | | | | 33,320 |

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

FOR THE SIX MONTHS ENDED 30 JUNE 2003

4. PROFIT FROM OPERATIONS

Profit from operations is arrived at after charging:

| | Six months ended 30 June | |
|--|---------------------------------|-------------|
| | 2003 | 2002 |
| | (Unaudited) | (Unaudited) |
| | HK\$'000 | HK\$'000 |
| Depreciation of property, plant and equipment | 12,150 | 11,371 |
| Amortisation of land use rights (included in cost of sales) | 307 | 280 |
| Total depreciation and amortisation | 12,457 | 11,651 |
| Cost of inventories sold | 85,677 | 72,356 |
| Loss on disposal of property, plant and equipment | 4 | – |

5. FINANCE COSTS

| | Six months ended 30 June | |
|--|---------------------------------|-------------|
| | 2003 | 2002 |
| | (Unaudited) | (Unaudited) |
| | HK\$'000 | HK\$'000 |
| Interest expenses on: | | |
| Bank and other borrowings wholly repayable within five years | 771 | 1,198 |
| Obligations under finance leases wholly repayable within five years | 36 | – |
| | 807 | 1,198 |



NOTES TO THE CONDENSED FINANCIAL STATEMENTS (continued)

FOR THE SIX MONTHS ENDED 30 JUNE 2003

6. TAXATION

| | Six months ended 30 June | |
|--|---------------------------------|-------------|
| | 2003 | 2002 |
| | (Unaudited) | (Unaudited) |
| | HK\$'000 | HK\$'000 |
| | | (Restated) |
| The charge comprises: | | |
| The People's Republic of China (the "PRC") Enterprises | | |
| Income Tax | 3,682 | 8 |
| Deferred taxation | 249 | (297) |
| | 3,931 | (289) |
| Share of taxation attributable to jointly controlled entities | 623 | 500 |
| Share of taxation attributable to an associate | 313 | 336 |
| | 4,867 | 547 |

No provision for Hong Kong Profits Tax has been made as the Group did not have any assessable profits for the period (six months ended 30 June 2002: Nil).

PRC Enterprises 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.

7. DIVIDENDS

No dividends were paid during the period. The directors have determined that an interim dividend of HK1.5 cents (2002: Nil) per share should be paid to the shareholders of the Company whose names appear in the register of members of the Company on 24 October 2003.

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

FOR THE SIX MONTHS ENDED 30 JUNE 2003

8. EARNINGS PER SHARE

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

| | Six months ended 30 June 2003 (Unaudited) HK\$'000 | 2002 (Unaudited) HK\$'000 (Restated) |
|---|---|---|
| Earnings | | |
| Earnings for the purposes of basic and diluted earnings per share (net profit for the period) | 28,233 | 27,254 |

| | Six months ended 30 June 2003 | 2002 |
|--|--|-------------|
| Number of shares | | |
| Weighted average number of ordinary shares for the purpose of basic earnings per share | 766,424,000 | 765,372,000 |
| Effect of dilutive share options | 6,936,000 | — |
| Weighted average number of ordinary shares for the purpose of diluted earnings per share | 773,360,000 | 765,372,000 |

The restatement of the net profit for the six months ended 30 June 2002 due to the implementation of SSAP 12 (Revised) (see note 2) did not have a material effect on the calculation of the earnings per share for that period.

9. MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT

During the period, the Group spent approximately HK\$6,162,000 on additions to manufacturing plant in the PRC, in order to expand its production capacity.



NOTES TO THE CONDENSED FINANCIAL STATEMENTS (continued)

FOR THE SIX MONTHS ENDED 30 JUNE 2003

10. TRADE RECEIVABLES

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

The aged analysis of trade receivables is as follows:

| | 30 June 2003 (Unaudited) HK\$'000 | 31 December 2002 (Audited) HK\$'000 |
|-----------------|--|--|
| 0 – 90 days | 45,622 | 43,437 |
| 91 – 180 days | 2,283 | 4,410 |
| 181 – 365 days | 1,346 | 1,386 |
| | 49,251 | 49,233 |
| Less: allowance | (1,345) | (1,285) |
| | 47,906 | 47,948 |

11. TRADE PAYABLES

The aged analysis of trade payables is as follows:

| | 30 June 2003 (Unaudited) HK\$'000 | 31 December 2002 (Audited) HK\$'000 |
|----------------|--|--|
| 0 – 90 days | 4,466 | 5,356 |
| 91 – 180 days | – | 13 |
| 181 – 365 days | – | – |
| Over 1 year | 964 | 973 |
| | 5,430 | 6,342 |

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

FOR THE SIX MONTHS ENDED 30 JUNE 2003

12. DEFERRED TAXATION

For the purposes of balance sheet presentation, certain deferred tax assets and liabilities have been offset in accordance with the conditions set out in SSAP 12 (Revised). The following is the analysis of the deferred tax balances for financial reporting purposes:

| | 30 June 2003 (Unaudited) HK\$'000 | 31 December 2002 (Audited) HK\$'000 (Restated) |
|--------------------------|--|--|
| Deferred tax liabilities | 1,663 | 1,696 |
| Deferred tax assets | (167) | (401) |
| | 1,496 | 1,295 |

13. SHARE CAPITAL

| | Number of ordinary shares of HK\$0.10 each | | Amount | |
|--|---|----------------------------------|--|--|
| | 30 June 2003 (Unaudited) | 31 December 2002 (Audited) | 30 June 2003 (Unaudited) HK\$'000 | 31 December 2002 (Audited) HK\$'000 |
| Authorised: | | | | |
| At beginning of the period | 1,000,000,000 | 1,000,000,000 | 100,000 | 100,000 |
| Increased on 25 June 2003 (Note i) | 1,000,000,000 | - | 100,000 | - |
| At end of the period | 2,000,000,000 | 1,000,000,000 | 200,000 | 100,000 |
| Issued and fully paid: | | | | |
| At beginning of the period | 765,372,000 | 765,372,000 | 76,537 | 76,537 |
| Issued on share placing (Note ii) | 63,492,000 | - | 6,349 | - |
| Issued on subscription of new shares (Note iii) | 126,984,000 | - | 12,699 | - |
| At end of the period | 955,848,000 | 765,372,000 | 95,585 | 76,537 |



NOTES TO THE CONDENSED FINANCIAL STATEMENTS (continued)

FOR THE SIX MONTHS ENDED 30 JUNE 2003

13. SHARE CAPITAL (continued)

Note:

- (i) Pursuant to an ordinary resolution passed on 25 June 2003, the authorised share capital of the Company was increased from HK\$100,000,000 divided into 1,000,000,000 ordinary shares of HK\$0.10 each to HK\$200,000,000 divided into 2,000,000,000 ordinary shares of HK\$0.10 each by the creation of additional 1,000,000,000 ordinary shares of HK\$0.10 each in the share capital of the Company.
- (ii) The Company entered into a placing agreement on 6 May 2003 with a placing agent pursuant to which the Company issued 63,492,000 ordinary shares of HK\$0.10 each in the Company at a price of HK\$0.315 per share to independent placees.
- (iii) The Company entered into a subscription agreement on 6 May 2003 pursuant to which the Company issued 126,984,000 ordinary shares of HK\$0.10 each in the Company at a price of HK\$0.315 per share which were subscribed by a nominee of Shougang Holding (Hong Kong) Limited ("Shougang HK").

14. CAPITAL COMMITMENTS

| | 30 June 2003 HK\$'000 | 31 December 2002 HK\$'000 |
|--|--------------------------------------|---------------------------------|
| Capital expenditure in respect of the acquisition of property, plant and equipment contracted for but not provided in the financial statements | 120,044 | 5,818 |
| Capital expenditure in respect of the acquisition of property, plant and equipment authorised but not contracted for | 101,968 | 188,111 |

15. CONTINGENT LIABILITIES

At 30 June 2003, the Group has given guarantees amounting to approximately HK\$22,384,000 (31 December 2002: HK\$23,360,000) for bank loans granted to a jointly controlled entity.

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

FOR THE SIX MONTHS ENDED 30 JUNE 2003

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 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 controlling shareholder of Shougang International.

| | | Six months ended 30 June | |
|---|--------------|---------------------------------|-----------------|
| | | 2003 | 2002 |
| | <i>Notes</i> | (Unaudited) | (Unaudited) |
| | | HK\$'000 | HK\$'000 |
| Consultancy fees paid to | | | |
| Shougang HK Group | <i>(i)</i> | 240 | 60 |
| Management fees paid to | | | |
| Shougang International Group | <i>(i)</i> | 120 | 300 |
| Rental expenses paid to: | | | |
| Shougang HK Group | <i>(ii)</i> | 484 | 382 |
| Shougang International Group | <i>(ii)</i> | - | 78 |
| Interest paid to Shougang HK Group | <i>(iii)</i> | - | 126 |
| Corporate guarantees given to a jointly controlled entity | <i>(iv)</i> | 22,384 | 24,540 |

Notes:

- (i) The Group paid consultancy fees to the Shougang HK Group and paid management fees to the Shougang International Group in relation to business and strategic development services provided at rates determined between both parties.
- (ii) The Group paid rental expenses to the Shougang HK Group and the Shougang International 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) In 2002, the loans advanced from the Shougang HK Group are secured by the Group's interest in a jointly controlled entity with interest payable at HIBOR per annum.
- (iv) 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.

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

FOR THE SIX MONTHS ENDED 30 JUNE 2003

17. PLEDGE OF ASSETS

At 30 June 2003, the Group's investment properties and certain of the leasehold land and buildings with an aggregate net book value of HK\$40,393,000 (31 December 2002: HK\$40,929,000), land use rights amounting to HK\$13,193,000 (31 December 2002: HK\$13,500,000) and time deposits amounting to HK\$4,000,000 (31 December 2002: HK\$3,000,000) were pledged to banks to secure banking facilities granted to the Group.

18. POST BALANCE SHEET EVENTS

Subsequent to the balance sheet date, the Company's wholly-owned subsidiary entered into sale and purchase agreements on 21 August 2003 with Bravo Industrial Limited and Skyriver (B.V.I.) Limited for the acquisition of approximately 10.24% and 18% of the issued share capital of Online Investments Limited ("Online"), the investment holding company of Jiaxing Eastern Steel Cord Co., Ltd. which is engaged in the manufacturing of steel cord for radial tyres in the PRC, at a consideration of approximately HK\$58,012,000 and HK\$101,988,000 respectively (the "Acquisition"). Upon completion of the Acquisition, the Company's shareholding in Online will be increased from 71.76% to 100%.

In addition, the Group entered into a placing agreement on 21 August 2003 with a placing agent for the placement of 60,000,000 new ordinary shares at HK\$0.68 each. The net proceeds from the placement will be used as general working capital of the Group and, in particular, to finance the payment of the consideration of the Acquisition.

Further details were set out in the Company's announcement dated 22 August 2003 and the Company's circular dated 15 September 2003.

**INDEPENDENT REVIEW REPORT****德勤·關黃陳方會計師行**

Certified Public Accountants
26/F, Wing On Centre
111 Connaught Road Central
Hong Kong

香港中環干諾道中111號
永安中心26樓

**Deloitte
Touche
Tohmatsu**

To the board of directors of
SHOUGANG CONCORD CENTURY HOLDINGS LIMITED
(incorporated in Hong Kong with limited liability)

We have been instructed by the Company to review the interim financial report set out on pages 3 to 17.

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 Society of Accountants. 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 Society of 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 2003.

Deloitte Touche Tohmatsu
Certified Public Accountants

Hong Kong, 26 September 2003



MANAGEMENT DISCUSSION & ANALYSIS

REVIEW OF OPERATIONS

Group Results

The Group recorded a net profit of HK\$28,233,000 for the six months ended 30 June 2003, an increase of 3.6% as compared to the corresponding profit of HK\$27,254,000 in 2002, whereas our operating profit (excluding recovery of bad and doubtful debts, net) was significantly increased by 82.1% when compared to the same period in 2002. Basic earnings per share was HK3.68 cents during the period under review, an increase of 3.4% over HK3.56 cents for the same period in 2002 (based on weighted average of 766.4 million and 765.4 million shares in issue during the six months ended 30 June 2003 and 2002).

Turnover of the Group amounted to HK\$137,354,000 for the period under review, increased by 30.1% as compared to the same period last year. Such increase was principally coming from the Group's core business segment of manufacturing of steel cord for radial tyres which recorded an increase in turnover of 33.8% over the same period last year.

Gross profit amounted to HK\$49,244,000 for the period under review, an increase of 48.8% as compared to the same period in 2002. Such increase was primarily attributable to the continuous expansion of our business segment of manufacturing of steel cord for radial tyres, the improvement of our product quality and further enhancement of operating efficiency. As such, gross profit margin rose from 31.4% in the same period last year to 35.9% in the period under review.

Administrative expenses amounted to HK\$13,386,000 for the period under review, which was just moderately increased by 1.2% as compared to the same period last year. As turnover increased by a greater extent of 30.1% as compared to the administrative expenses, the percentage of administrative expenses to turnover was further reduced from 12.5% in the same period last year to 9.7% in the current period. The strong operating cash inflows during the period under review had reduced the need for bank borrowings, hence, finance costs also dropped by 32.6% to HK\$807,000 for the period under review.

Tax charge increased by 789.8% to HK\$4,867,000 during the period under review, as the Company's subsidiary, Jiaxing Eastern Steel Cord Co., Ltd. ("Jiaxing Eastern") engaging in manufacturing of steel cord for radial tyres in the People's Republic of China (the "PRC") had utilized its income tax exemptions in 2002 and subject to income tax at half of normal rate commencing from 2003, which increased the tax charge of the Group by approximately HK\$3,680,000. Besides, the first time adoption of SSAP 12 (Revised) "Income Taxes" also increased the deferred tax charge of the Group by HK\$249,000 during the first half year of 2003, as compared to deferred tax credit of HK\$297,000 for the same period in 2002 (which has been accounted for as a prior period adjustment in accordance with the requirements of SSAP 12 (Revised)).



BUSINESSES SEGMENTS

Manufacturing of Steel Cord for Radial Tyres

The rapid development of the automotive industry and the continuing strong demand of steel cord for radial tyres in the PRC, together with the increase in production capacity of Jiaying Eastern at the beginning of 2003 had brought about the notable growth in turnover and operating profit of the steel cord segment during the six months ended 30 June 2003. During the period under review, this segment recorded an operating profit of HK\$44,685,000, representing an increase of 12.9% as compared to HK\$39,574,000 for the same period last year. Net profit for both periods included non-recurring net bad debts recovery of HK\$2,773,000 and HK\$13,096,000 respectively, when these non-recurring net bad debts recovery were excluded, the operating profit for the period under review would have been increased by 58.3% as compared to the same period in 2002.

Turnover amounted to HK\$106,496,000 for the period under review, up by 33.8% as compared to HK\$79,572,000 for the same period last year, while gross profit increased by 56.1% to HK\$47,251,000 for the period under review. Gross profit margin rose further from 38% to 44.4%, reflected the reduced production costs from increased production capacity.

Processing and Trading of Copper and Brass Products

Turnover of the Group's segment of processing and trading of copper and brass products increased by 19% to HK\$30,621,000 for the period under review. The Iraqi war and the outbreak of SARS during the first half of 2003 had hindered global economic growth and hence led to reduced demand for our copper products. Such increase in turnover was achieved by the widening of customer base after the establishment of the new production plant in Dongguan, the PRC in the second half of 2002.

Although turnover increased by 19%, gross profit had recorded a decrease of 31.5% as compared to the same period last year to HK\$1,763,000, while gross profit margin dropped from 10% in the same period last year to 5.8% in the current period. The significant drop was primarily because sales generated by the Dongguan production plant was yet to be built up to achieve economy of scale during the first half of 2003. Thus its fixed operating costs remained relatively high in the initial operating stage. Furthermore, fixed operating costs in Hong Kong plant also increased resulting from the replenishment of new plant and machineries during the second half of 2002. Nevertheless, such replenishment has improved product quality and as a result will benefit the business of this segment in the long run.



BUSINESS SEGMENTS (continued)

Processing and Trading of Copper and Brass Products (continued)

Owing to the significant drop in gross profit, this segment recorded an operating loss of HK\$145,000 during the period under review, this segment recorded an operating profit of HK\$907,000 for the same period in last year.

Jointly Controlled Entity's and Associate's Business

Turnover of Shanghai Shenjia Metal Products Co., Ltd. during the period under review was HK\$154,336,000, moderately increased by 3.5% as compared to the same period last year. However, its profit before tax was affected by intense price competition in the industry and dropped by 31.8% to HK\$12,159,000. The Group's share of its profit before tax was HK\$3,040,000 for the current period, also a drop of 31.8% as compared to the same period last year.

Xinhua Metal Products Co., Ltd. ("Xinhua Metal") recorded a turnover of HK\$237,271,000, representing an increase of 44.1% as compared to the same period last year. Though Xinhua Metal was also affected by intense price competition that caused significant drop in gross profit margin, this was compensated by its' expansion in production capacity together with approximately HK\$5,777,000 of reversal of bad debt provisions during the period. As such, Xinhua Metal recorded a profit before tax of HK\$17,142,000 during the period under review, a 42.9% increase as compared to the same period last year. The Group's share of its profit before tax was HK\$2,871,000, an increase of 42.8% as compared to the same period last year.

CAPITAL STRUCTURE, LIQUIDITY AND FINANCIAL RESOURCES

On 6 May 2003, the Company entered into a subscription agreement with Shougang Holding (Hong Kong) Limited for the subscription of 126,984,000 new shares (the "Subscription"), and a placing agreement with CITIC Capital Markets Limited ("CITIC Capital") for the placement of 63,492,000 new shares (the "1st Placement"), both at HK\$0.315 each. The Subscription and the 1st Placement were both completed on 30 June 2003 and raised net proceeds of approximately HK\$57,100,000 for the Group. After the Subscription and the 1st Placement, the total issued share capital increased from 765,372,000 shares to 955,848,000 shares, and hence the net asset value of the Group increased by 19.2% from HK\$443,489,000 at 31 December 2002 to HK\$528,812,000 at 30 June 2003. Net asset value per share was lowered from HK\$0.58 at 31 December 2002 to HK\$0.55 at 30 June 2003.



CAPITAL STRUCTURE, LIQUIDITY AND FINANCIAL RESOURCES (continued)

The net proceeds from the abovementioned shares issue will be used to finance the investment in Jiaying Eastern and for the Group's working capital. Other than this shares issue, during the period under review, the Group mainly financed its operations by cash generated from its business activities and ongoing banking facilities provided by its bankers. The Group had generated a net cash inflow of HK\$36,754,000 from its operating activities and applied net cash of HK\$18,420,000 for its investing activities. The Group further repaid a net amount of HK\$2,878,000 of its bank loans during the period under review, therefore its bank borrowings at 30 June 2003 was reduced to HK\$21,291,000. As a result of the increase in net asset value arising from shares issues and reduction of bank borrowings, the Group's gearing ratio (total bank borrowings/shareholders' funds) lowered from 5.4% at 31 December 2002 to 4% at 30 June 2003. Besides, the Group's current ratio (current assets/current liabilities) increased from 4 times at 31 December 2002 to 5 times at 30 June 2003.

The Group's total bank borrowings of HK\$21,291,000 at 30 June 2003 were granted under ongoing banking facilities provided by its bankers and bear interest at floating interest rate. HK\$21,047,000 are due within one year and HK\$244,000 are due in the second year.

22

BUSINESS DEVELOPMENT PLAN AND CAPITAL COMMITMENT

The Group's plan to expand the annual production capacity of Jiaying Eastern to 30,000 tonnes of steel cords during 2005 is under way as planned. Total cost of the expansion will be in the region of HK\$300 - 350 million. Approximately HK\$24,400,000 were incurred during the first half of 2003.

In addition to the above, on 21 August 2003, the Company entered into sale and purchase agreements with the minority shareholders of Online Investments Limited ("Online") which is the investment holding company of Jiaying Eastern for the acquisition of approximately 28.24% of the issued share capital of Online at a consideration of HK\$160 million (the "Acquisition"), and a placing agreement with CITIC Capital for the placement of 60,000,000 new shares at HK\$0.68 each (the "2nd Placement") respectively. The 2nd Placement was completed on 8 September 2003 and raised net proceeds of approximately HK\$39,800,000. The consideration of the Acquisition will be paid out of the Company's internal resources, the net proceeds from the 2nd Placement and bank borrowings. The Acquisition is expected to be completed by early of October 2003 and Jiaying Eastern will become a wholly-owned subsidiary of the Company thereafter. In view of the prospect of Jiaying Eastern, the Acquisition is expected to be earnings enhancing for the Group. We are considering to borrow approximately HK\$100,000,000 from our bankers in this respect as well as for the general working capital of the Group. Despite such potential borrowings, the Group's capital structure is expected to remain strong given its ample shareholders' equity and liquidity.



EMPLOYEES, REMUNERATION POLICIES AND TRAINING SCHEME

At 30 June 2003, the Group had a total of 466 (31 December 2002: 449) 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 period under review amounted to approximately HK\$431,000. The Group has 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. Under this 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 period under review, the Company granted certain eligible participants including the directors of the Company under the scheme totaling 95,666,000 share options to subscribe for shares in the capital of the Company. However, there were no options being exercised, cancelled or lapsed.

FOREIGN CURRENCY EXPOSURES

The Group's bank borrowings are mainly denominated in Hong Kong Dollars ("HKD"), Renminbi ("RMB") or United States Dollars ("USD"). Total bank borrowings amounted to HK\$21,291,000 at 30 June 2003, out of which 13% was denominated in HKD and 87% was denominated in USD. The respective ratio at 31 December 2002 was 9.7% in HKD, 23.4% in RMB and 66.9% in USD. The changes in ratio reflected the reduced need for HKD or RMB denominated working capital loans, and hence the ratio of USD borrowings for financing procurement of materials from overseas increased. The Group did not have USD income as most of its business receipts were in HKD or RMB, but in so far as the exchange rate peg between HKD and USD is maintained, the Board believes the Group will not be exposed to any significant risk from exchange rate fluctuations amongst HKD, RMB and USD.



FOREIGN CURRENCY EXPOSURES (continued)

In addition to the above exposures, the Group had signed several contracts totaling Euro13,922,000 for the acquisitions of plant and machineries in respect of the expansion plan of Jiaying Eastern during the first half of 2003. In view of the significant fluctuations in the exchange rate of Euro, which had once climbed to its record peak level of Euro1 against approximately USD1.1934 during the first half year, 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 totaling Euro5,500,000 at an average forward rate of 1.138, to partially hedge against the payments of Euro12,340,000 due between December 2003 to August 2004. Further hedges will be done in the second half of 2003 when suitable circumstances arise.

PLEDGE OF ASSETS AND CONTINGENT LIABILITIES

The following assets, totaling HK\$57,586,000 had been pledged to the Group's bankers as securities for banking facilities granted to the Group:

1. Leasehold land and buildings and investment properties with an aggregate net book value of HK\$40,393,000;
2. Land use rights with a net book value of HK\$13,193,000; and
3. Time deposits amounting to HK\$4,000,000.

In addition to the above, the Group also has executed corporate guarantee 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 2003 amounted to approximately HK\$22,384,000.

BUSINESS OUTLOOK

The economic performance of the PRC remained very strong during the first half year of 2003 despite the outbreak of SARS. As major economic systems such as North America and Japan appear to be stepping towards economic recovery in the second half of 2003, we believe the global business atmosphere will be improved and as such will stimulate the demand for our products, including steel cords and copper and brass products. The Board is particularly optimistic that the demand for steel cord which is the crucial material required for the production of radial tyres will further be boosted as there is rapid development of the domestic automotive market and freeway and expressway network in the PRC. The Board further believes that after the completion of the Acquisition as stated in the section "Business Development Plan and Capital Commitment" above, the Group will fully enjoy the growth of Jiaying Eastern in the near future. Notwithstanding, we will endeavor to expand our principal business of manufacturing of steel cord for radial tyres in a cautious manner during the second half year. In conclusion, we are confident that the Group can maintain stable and reasonable growth in profits and net assets in the second half year of 2003.



INTERIM DIVIDEND

The Board has resolved to declare an interim dividend of HK1.5 cents for the six months ended 30 June 2003 (six months ended 30 June 2002: Nil) per share payable on or about 31 October 2003 to shareholders on the register of members of the Company (the "Register of Members") on 24 October 2003.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members will be closed from 22 October 2003 to 24 October 2003, 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 21 October 2003.

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 2003.

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

As at 30 June 2003, save for the share options held by some of the Directors, details of which are 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 of Hong Kong Limited 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 Companies.

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

As at 30 June 2003, there were a total of 117,854,000 share options of the Company granted to directors of the Company, details of which are summarised in the following table:

| Name of director | Outstanding options at the beginning of the period | Number of options granted during the period | Outstanding options at the end of the period | Date of grant* | Exercise period | Exercise price per share HK\$ |
|-----------------------|--|---|--|----------------|------------------------|-------------------------------|
| Cao Zhong | 7,652,000 | - | 7,652,000 | 23/8/2002 | 23/8/2002 to 22/8/2012 | 0.295 |
| Li Shaofeng | 7,652,000 | - | 7,652,000 | 23/8/2002 | 23/8/2002 to 22/8/2012 | 0.295 |
| | - | 30,614,000 | 30,614,000 | 25/6/2003 | 25/6/2003 to 24/6/2013 | 0.365 |
| Tong Yihui | 7,652,000 | - | 7,652,000 | 23/8/2002 | 23/8/2002 to 22/8/2012 | 0.295 |
| | - | 38,268,000 | 38,268,000 | 25/6/2003 | 25/6/2003 to 24/6/2013 | 0.365 |
| Xu Xianghua | 7,652,000 | - | 7,652,000 | 23/8/2002 | 23/8/2002 to 22/8/2012 | 0.295 |
| 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 |
| Tang Kwok Kau | 2,296,000 | - | 2,296,000 | 23/8/2002 | 23/8/2002 to 22/8/2012 | 0.295 |
| Cheng Xiaoyu | 2,296,000 | - | 2,296,000 | 23/8/2002 | 23/8/2002 to 22/8/2012 | 0.295 |
| | - | 5,356,000 | 5,356,000 | 12/3/2003 | 12/3/2003 to 11/3/2013 | 0.325 |
| Lai Kam Man | 382,000 | - | 382,000 | 23/8/2002 | 23/8/2002 to 22/8/2012 | 0.295 |
| Yip Kin Man, Raymond | 382,000 | - | 382,000 | 23/8/2002 | 23/8/2002 to 22/8/2012 | 0.295 |
| | <u>40,556,000</u> | <u>77,298,000</u> | <u>117,854,000</u> | | | |

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



SUBSTANTIAL SHAREHOLDERS' INTERESTS

As at 30 June 2003, 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 2003 | Capacity |
|--|---|---|---|
| Richson Limited ("Richson") | 144,984,400 | 15.17 | Beneficial owner |
| Fair Union Holdings Limited ("Fair Union") | 279,797,400 | 29.27 | Beneficial owner and deemed interest ⁽¹⁾ |
| Shougang Concord International Enterprises Company Limited ("Shougang International") | 279,797,400 | 29.27 | Deemed interest ⁽²⁾ |
| Able Legend Investments Limited ("Able Legend") | 126,984,000 | 13.28 | Beneficial owner ⁽³⁾ |
| Shougang Holding (Hong Kong) Limited ("Shougang HK") | 406,781,400 | 42.56 | Deemed interest ⁽⁴⁾ |
| Hélène Zaleski | 52,802,000 | 5.52 | Beneficial owner ⁽⁵⁾ |

**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 held by Able Legend as Able Legend is its wholly-owned subsidiary 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 beneficial owner of approximately 39.2% of shareholding interest in Shougang International.
- (5) Hélène Zaleski is beneficially interested in 52,802,000 shares.

Save as disclosed above, the Company has not been notified of any other person (other than a director of the Company) who has an interest or a short position in the shares and underlying shares as recorded in the register required to be kept by the Company pursuant to section 336 of the SFO as at 30 June 2003.



SHARE OPTION SCHEME

During the period under review, the Company granted totaling 95,666,000 share options (including totaling 77,298,000 share options granted to directors of the Company) to subscribe for shares in the capital of the Company. Save as disclosed in the above sub-section "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 | Outstanding options at the beginning of the period | Number of options granted during the period | Outstanding options at the end of the period | Date of grant* | Exercise period | Exercise price per share HK\$ |
|---|--|---|--|----------------|---------------------------|----------------------------------|
| Employees working under "continuous contracts" other than the directors | | | | | | |
| In aggregate | 1,532,000 | - | 1,532,000 | 23/8/2002 | 23/8/2002 to 22/8/2012 | 0.295 |
| | - | 3,064,000 | 3,064,000 | 12/3/2003 | 12/3/2003 to 11/3/2013 | 0.325 |
| | <u>1,532,000</u> | <u>3,064,000</u> | <u>4,596,000</u> | | | |
| All other eligible participants | | | | | | |
| In aggregate | 7,652,000 | - | 7,652,000 | 23/8/2002 | 23/8/2002 to 22/8/2012 | 0.295 |
| | - | 15,304,000 | 15,304,000 | 12/3/2003 | 12/3/2003 to 11/3/2013 | 0.325 |
| | <u>7,652,000</u> | <u>15,304,000</u> | <u>22,956,000</u> | | | |

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

During the period, 26,784,000 and 68,882,000 share options were granted on 12 March 2003 and 25 June 2003, respectively. The closing price of the ordinary shares of the Company immediately before the date on which the options were granted, i.e. 11 March 2003 and 24 June 2003, was HK\$0.315 and HK\$0.41, respectively.

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

With regard to the share options granted during the period, 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 two independent non-executive directors. It 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 16 September 2003 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 2003 before the Board's approval) and review the effectiveness of internal control of the Company.

CODE OF BEST PRACTICE

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.

APPRECIATION

On behalf of the Board, I would like to express my gratitude and appreciation to the management team and the employees of the Group for their hard work and dedication.

By Order of the Board

Cao Zhong
Chairman

Hong Kong, 26 September 2003

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