



SHOUGANG CONCORD CENTURY HOLDINGS LIMITED

首長寶佳集團有限公司

(Incorporated in Hong Kong with limited liability)

INTERIM RESULTS

FOR THE SIX MONTHS ENDED 30 JUNE 2003

HIGHLIGHTS

Turnover increased by 30.1% to HK\$137,354,000 (2002: HK\$105,558,000)

Operating profit increased by 17.9% to HK\$39,289,000 (2002: HK\$33,320,000)

Basic earnings per share increased by 3.4% to HK3.68 cents (2002: HK3.56 cents)

Net asset value increased by 19.2% to HK\$528,812,000 (31 December 2002: HK\$443,489,000)

INTERIM DIVIDEND: HK1.5 cents (2002: Nil) per share

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

CONDENSED CONSOLIDATED INCOME STATEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2003

	<i>Notes</i>	Six months ended 30 June	
		2003 (Unaudited) <i>HK\$’000</i>	2002 (Unaudited) <i>HK\$’000</i> (Restated)
Turnover	2	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	3	39,289	33,320
Finance costs	4	(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	5	(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	6		
Basic		HK3.68 cents	HK3.56 cents
Diluted		HK3.65 cents	N/A

Notes:

1. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

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.

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. 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. 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).

2. 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	<u>106,496</u>	<u>30,621</u>	<u>225</u>	<u>12</u>	<u>137,354</u>
Segment results	<u>44,685</u>	<u>(145)</u>	<u>(131)</u>	<u>(93)</u>	<u>44,316</u>
Unallocated corporate income less expenses					<u>(5,027)</u>
Profit from operations					<u><u>39,289</u></u>

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	<u>79,572</u>	<u>25,734</u>	<u>252</u>	<u>-</u>	<u>105,558</u>
Segment results	<u>39,574</u>	<u>907</u>	<u>168</u>	<u>(224)</u>	<u>40,425</u>
Unallocated corporate income less expenses					<u>(7,105)</u>
Profit from operations					<u><u>33,320</u></u>

3. PROFIT FROM OPERATIONS

Profit from operations is arrived at after charging:

	Six months ended 30 June	
	2003	2002
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Cost of inventories sold	85,677	72,356
Depreciation	12,150	11,371
Amortisation of land use rights	307	280
	<u> </u>	<u> </u>

4. 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	–
	<u> </u>	<u> </u>
	<u> </u>	<u> </u>

5. TAXATION

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

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 profits 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.

6. 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	2002
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
		(Restated)
Earnings		
Earnings for the purposes of basic and diluted earnings per share (net profit for the period)	28,233	27,254
	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 1) did not have a material effect on the calculation of the earnings per share for that period.

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, Jiaying Eastern Steel Cord Co., Ltd. ("Jiaying 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)).

BUSINESS 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 remain relatively high in the initial operating stage. Furthermore, fixed operating costs in Hong Kong plant also increased resulting from the replenishment of new plant 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.

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.

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.

BUSINESS DEVELOPMENT PLAN AND CAPITAL COMMITMENT

The Group's plan to expand the annual production capacity of Jiaxing 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 Jiaxing 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 Jiaxing Eastern will become a wholly-owned subsidiary of the Company thereafter. In view of the prospect of Jiaxing 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 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.

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 Jiaxing 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.

INTERIM RESULTS PUBLISHED ON THE STOCK EXCHANGE OF HONG KONG LIMITED (THE "STOCK EXCHANGE")'S WEBSITE

All the information required by paragraphs 46(1) to 46(6) of the Appendix 16 of the Listing Rules will be published on the website of the Stock Exchange at <http://www.hkex.com.hk> as soon as practicable.

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