首長國際企業有限公司

SHOUGANG CONCORD INTERNATIONAL ENTERPRISES COMPANY LIMITED

(Incorporated in Hong Kong with limited liability)

(Stock Code: 697)

FINAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2005

The board of directors (the "Board") of Shougang Concord International Enterprises Company Limited (the "Company") is pleased to announce the audited consolidated results of the Company and its subsidiaries (the "Group") for the year ended 31 December 2005 with comparative figures for the year ended 31 December 2004. These final results have been reviewed by the Audit Committee of the Company.

FINANCIAL INFORMATION

CONSOLIDATED INCOME STATEMENT

	NOTES	**2005** *HK$'000*	2004 *HK$'000* (restated)
Revenue	*3*	**4,569,979**	3,289,551
Cost of sales		**(4,141,977)**	(2,770,572)
Gross profit		**428,002**	518,979
Other income	*4*	**63,737**	30,018
Distribution costs		**(22,499)**	(10,040)
Administrative expenses		**(183,053)**	(164,398)
Other operating expenses		**(26,523)**	(42,919)
Interest expenses	*5*	**(39,947)**	(12,870)
Share of results of associates		**130,241**	54,966
Gain on disposal of an associate		**4,355**	–
Loss on deemed disposal of a partial interest in an associate		**–**	(819)
Profit before taxation	*6*	**354,313**	372,917
Income tax expense	*7*	**(20,995)**	(486)
Profit for the year		**333,318**	372,431
Attributable to:			
Equity holders of the parent		**305,032**	279,343
Minority interests		**28,286**	93,088
		333,318	372,431
Dividends			
Proposed final	*8*	**29,604**	–
Earnings per share			
– Basic	*9*	**6.5 HKcents**	7.5 HKcents
– Diluted	*9*	**6.2 HKcents**	7.2 HKcents

CONSOLIDATED BALANCE SHEET

	NOTES	2005 HK$'000	2004 HK$'000 (restated)
NON-CURRENT ASSETS			
Investment properties		**22,605**	17,023
Property, plant and equipment		**4,761,720**	738,417
Prepaid lease rentals		**278,086**	71,814
Intangible assets		**1,003**	1,638
Goodwill		**292,170**	259,596
Negative goodwill		**–**	(3,710)
Interests in associates		**193,835**	478,545
Deposits for acquisition of property, plant and equipment		**40,189**	–
		5,589,608	1,563,323
CURRENT ASSETS			
Amounts due from customers for contract work		**312**	9,914
Inventories		**541,778**	281,259
Trade and bill receivables	*10*	**324,621**	133,269
Prepayments, deposits and other receivables		**33,102**	71,061
Prepaid lease rentals		**8,706**	4,874
Tax recoverable		**9,535**	2,336
Amounts due from related companies		**162,016**	150,313
Amounts due from associates		**–**	30,886
Amount due from a minority shareholder of a subsidiary		**2,884**	2,835
Amount due from ultimate holding company		**12,596**	–
Restricted deposits		**204,526**	–
Bank balances and cash		**558,317**	468,046
		1,858,393	1,154,793
CURRENT LIABILITIES			
Amounts due to customers for contract work		**866**	647
Trade and bill payables	*11*	**521,010**	42,580
Other payables and accrued liabilities		**290,464**	320,012
Tax payable		**2,230**	214
Amounts due to related companies		**234,105**	30,048
Amount due to ultimate holding company		**410,873**	–
Obligations under a finance lease – due within one year		**534**	534
Bank borrowings – due within one year		**1,994,372**	301,825
Provision for a compensation claim		**–**	707
Derivative financial instruments		**2,103**	–
Loan from a fellow subsidiary		**242,189**	–
		3,698,746	696,567
NET CURRENT (LIABILITIES) ASSETS		**(1,840,353)**	458,226
TOTAL ASSETS LESS CURRENT LIABILITIES		**3,749,255**	2,021,549

	NOTES	2005 HK$'000	2004 HK$'000 (restated)
NON-CURRENT LIABILITIES			
Obligations under a finance lease – due after one year		**267**	801
Bank borrowings – due after one year		**429,642**	–
Deferred tax liabilities		**38,777**	26,167
Loan from a fellow subsidiary		**–**	123,904
Loans from ultimate holding company		**796,328**	–
		1,265,014	150,872
		2,484,241	1,870,677
CAPITAL AND RESERVES			
Share capital		**986,811**	927,450
Reserves		**1,239,523**	746,960
Equity attributable to equity holders of the parent		**2,226,334**	1,674,410
Minority interests		**257,907**	196,267
		2,484,241	1,870,677

Notes:

1. BASIS OF PREPARATION

The Group had net current liabilities of approximately HK$1,840,353,000 as at 31 December 2005. Notwithstanding, the directors of the Company (the "Directors") are of opinion that the preparation of these financial statements under going concern basis is appropriate due to the following considerations:

(a) New bank facility

In January 2006, a subsidiary of the Company entered into a facility agreement with a bank and US$20,000,000 facility was granted. In February 2006, the Company entered into a facility agreement with a number of banks and a term loan facility of HK$163,800,000 and US$129,000,000 (equivalent to approximately HK$1,006,200,000) was made available by the banks to the Company.

(b) Issuance of shares

The Company issued 929,000,000 new ordinary shares to a subscriber on 1 March 2006 and raised net proceeds of approximately HK$492,000,000.

(c) Most of the bank financing of the Group is in form of short-term bank loans in the People's Republic of China (the "PRC"). As a result, the Group had net current liabilities of approximately HK$1,840,353,000 as at 31 December 2005. The Directors are confident that the Group will be able to renew its short-term bank loan facilities upon maturity or to identify new sources of financing to replace the current ones.

Besides, Shougang Corporation, the ultimate holding company has committed to provide financial support to enable the Group to meet in full its financial obligations as and when they arise and to continue its operations in the foreseeable future.

2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS/CHANGES IN ACCOUNTING POLICIES

In the current year, the Group and the Company has applied, for the first time, a number of new Hong Kong Financial Reporting Standards ("HKFRSs"), Hong Kong Accounting Standards ("HKASs") and Interpretations (hereinafter collectively referred to as "new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") that are effective for accounting periods beginning on or after 1 January 2005. The application of the new HKFRSs has resulted in a change in the presentation of the consolidated income statement, consolidated balance sheet and consolidated statement of changes in equity. In particular, the presentation of share of tax of associates and minority interests have been changed. The changes in presentation have been applied retrospectively. 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 and prior accounting years are prepared and presented:

(a) Business Combinations

In the current year, the Group has applied HKFRS 3 *Business Combinations* which is effective for business combinations for which the agreement date is on or after 1 January 2005.

Goodwill

Goodwill arising on acquisition after 1 January 2001 was capitalised and amortised over its estimated useful life. The Group has applied the relevant transitional provisions in HKFRS 3. With respect to goodwill previously capitalised on the balance sheet, the Group on 1 January 2005 eliminated the carrying amount of the related accumulated amortisation of HK$10,032,000 with a corresponding decrease in the cost of goodwill. The Group has discontinued amortising such goodwill from 1 January 2005 onwards and such goodwill will be tested for impairment at least annually. Goodwill arising on acquisition after 1 January 2005 is measured at cost less accumulated impairment losses (if any) after initial recognition. As a result of this change in accounting policy, no amortisation of goodwill has been charged in the current year. Comparative figures for 2004 have not been restated (see Note 2A for the financial impact).

Excess of the Group's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost (previously known as "negative goodwill")

In accordance with HKFRS 3, any excess of the Group's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over the cost of acquisition ("discount on acquisition") is recognised immediately in profit or loss in the period in which the acquisition takes place. In previous periods, negative goodwill arising on acquisition prior to 1 January 2001 was held in goodwill reserve and negative goodwill arising on acquisition after 1 January 2001 was presented as a deduction from assets and released to income based on an analysis of the circumstances from which the balance resulted. In accordance with the relevant transitional provisions in HKFRS 3, the Group has derecognised negative goodwill held in goodwill reserve of HK$11,238,000 and negative goodwill stated in the balance sheet of HK$3,710,000 on 1 January 2005, with a corresponding decrease to accumulated losses (see Note 2A for financial impact).

(b) Financial Instruments

In the current year, the Group and the Company has applied HKAS 32 *Financial Instruments: Disclosure and Presentation* and HKAS 39 *Financial Instruments: Recognition and Measurement*. HKAS 32 requires retrospective application. HKAS 39, which is effective for annual periods beginning on or after 1 January 2005, generally does not permit the recognition, derecognition or measurement of financial assets and liabilities on a retrospective basis. The principal effects resulting from the implementation of HKAS 32 and HKAS 39 are summarised below:

Convertible note

The principal impact of HKAS 32 on the Group and the Company is in relation to convertible note issued by the Company that contains both liability and equity components. Previously, convertible note was classified as liabilities on the balance sheet. HKAS 32 requires an issuer of a compound financial instrument that contains both financial liability and equity components to separate the compound financial instrument into the liability and equity components on initial recognition and to account for these components separately. In subsequent periods, the liability component is carried at amortised cost using the effective interest method. Because HKAS 32 requires retrospective application, comparative figures have been restated (see Note 2A for the financial impact).

Interest-free non-current loans

Prior to the application of HKAS 39, interest-free non-current loans to the subsidiaries were stated at the nominal amount. HKAS 39 requires all financial assets and financial liabilities to be measured at fair value on initial recognition. Such interest-free loans are measured at amortised cost determined using the effective interest method at subsequent balance sheet dates. The Company has applied the relevant transitional provisions in HKAS 39. As a result of this change in the accounting policy, the carrying amounts of the loans as at 1 January 2005 has been decreased by HK$326,345,000 in order to state the loans at amortised costs in accordance with HKAS 39. Adjustment to cost of investments is accounted as deemed capital contribution. The Company's cost of investment as at 1 January 2005 has been increased by HK$326,345,000. Profit for the year of the Company has been increased by HK$48,832,000 due to the recognition of imputed interest income of the Company.

Derivatives

From 1 January 2005 onwards, all derivatives that are within the scope of HKAS 39 are required to be carried at fair value at each balance sheet date regardless of whether they are deemed as held for trading or designated as effective hedging instruments. Under HKAS 39, derivatives (including embedded derivatives separately accounted for from the host contracts) are deemed as held-for-trading financial assets or financial liabilities, unless they qualify and are designated as effective hedging instruments. For derivatives that are classified as held for trading, changes in fair values of such derivatives are recognised in profit or loss for the period in which they arise. As at 31 December 2005, all derivatives are carried at fair value on the balance sheet.

(c) Owner-occupied Leasehold Interest in Land

In previous years, owner-occupied leasehold land and buildings were included in property, plant and equipment and measured using the cost model. In the current year, the Group has applied HKAS 17 *Leases*. Under HKAS 17, the land and buildings elements of a lease of land and buildings are considered separately for the purposes of lease classification, unless the lease payments cannot be allocated reliably between the land and buildings elements, in which case, the entire lease is generally treated as a finance lease. To the extent that the allocation of the lease payments between the land and buildings elements can be made reliably, the leasehold interests in land are reclassified to prepaid lease rentals under operating leases, which are carried at cost and amortised over the lease term on a straight-line basis. This change in accounting policy has been applied retrospectively and one of the associates which previously recorded the leasehold land and buildings at revaluation model, has restated the revaluated amount of the prepaid lease rentals to cost. Alternatively, where the allocation between the land and buildings elements cannot be made reliably, the leasehold interests in land continue to be accounted for as property, plant and equipment. Accordingly, the interests in associates, accumulated losses and the corresponding revaluation reserve have been restated (see Note 2A for the financial impact).

2A. SUMMARY OF THE EFFECTS OF THE CHANGES IN ACCOUNTING POLICIES

The effects of the changes in the accounting policies described above on the results for the current and prior years are as follows:

For the year ended 31 December 2005

	HKAS 1	**HKAS 17**	**HKFRS 3**	**HKAS 39**	**Total effect**
	HK$'000	***HK$'000***	***HK$'000***	***HK$'000***	***HK$'000***
	(Note 2)	*(Note 2c)*	*(Note 2a)*	*(Note 2b)*	
THE GROUP					
Decrease in amortisation of goodwill	**–**	**–**	**13,674**	**–**	**13,674**
Decrease in release of negative goodwill	**–**	**–**	**(185)**	**–**	**(185)**
(Decrease) increase in share of results of associates	**(1,710)**	**132**	**1,025**	**–**	**(553)**
Decrease in income tax expense	**1,710**	**–**	**–**	**–**	**1,710**
Loss on derivative financial instruments	**–**	**–**	**–**	**(2,103)**	**(2,103)**
Increase (decrease) in profit for the year	**–**	**132**	**14,514**	**(2,103)**	**12,543**

For the year ended 31 December 2004

	HKAS 1	HKAS 17	Total effect
	HK$'000	*HK$'000*	*HK$'000*
	(Note 2)	*(Note 2c)*	
THE GROUP			
(Decrease) increase in share of results of associates	(9,153)	114	(9,039)
Decrease in income tax expense	9,153	–	9,153
Increase in loss on deemed disposal of a partial interest in an associate	–	(6)	(6)
Increase in profit for the year	–	108	108

The cumulative effects of the new HKFRSs as at 31 December 2004 and 1 January 2005 are summarised below:

	As at 31 December 2004 (originally stated) HK$'000	Retrospective adjustments HKAS 1 and HKAS 27 HK$'000 (Note 2)	HKAS 17 HK$'000 (Note 2c)	HKAS 32 HK$'000 (Note 2b)	As at 31 December 2004 (restated) HK$'000	Adjustment on 1 January 2005 for HKFRS 3 HK$'000 (Note 2a)	As at 1 January 2005 (restated) HK$'000
THE GROUP							
Balance sheet							
Property, plant and equipment	815,105	–	(76,688)	–	738,417	–	738,417
Prepaid lease rentals	–	–	76,688	–	76,688	–	76,688
Interests in associates	480,808	–	(2,263)	–	478,545	–	478,545
Negative goodwill	(3,710)	–	–	–	(3,710)	3,710	–
Other assets and liabilities	580,737	–	–	–	580,737	–	580,737
Total effects on assets and liabilities	1,872,940	–	(2,263)	–	1,870,677	3,710	1,874,387
Share capital	927,450	–	–	–	927,450	–	927,450
Share premium	1,411,312	–	–	6,805	1,418,117	–	1,418,117
Revaluation reserve	4,700	–	(1,760)	–	2,940	–	2,940
Exchange reserve	24,734	–	(2)	–	24,732	–	24,732
Goodwill reserve	11,238	–	–	–	11,238	(11,238)	–
Accumulated losses	(2,594,141)	–	(501)	(6,805)	(2,601,447)	14,948	(2,586,499)
Other reserves	1,891,380	–	–	–	1,891,380	–	1,891,380
Equity holders of the parent	1,676,673	–	(2,263)	–	1,674,410	3,710	1,678,120
Minority interests	–	196,267	–	–	196,267	–	196,267
Total effects on equity	1,676,673	196,267	(2,263)	–	1,870,677	3,710	1,874,387
Minority interests	196,267	(196,267)	–	–	–	–	–
	1,872,940	–	(2,263)	–	1,870,677	3,710	1,874,387

The financial effects of the application of the new HKFRSs to the Group's equity at 1 January 2004 are summarised below:

	As originally stated HK$'000	HKAS 1 and HKAS 27 HK$'000 (Note 2)	HKAS 17 HK$'000 (Note 2c)	HKAS 32 HK$'000 (Note 2b)	As restated HK$'000
THE GROUP					
Share capital	529,109	–	–	–	529,109
Revaluation reserve	4,382	–	(1,527)	–	2,855
Exchange reserve	18,876	–	(2)	–	18,874
Accumulated losses	(2,865,381)	–	(609)	(6,805)	(2,872,795)
Other reserves	2,834,999	–	–	9,240	2,844,239
Equity holders of the parent	521,985	–	(2,138)	2,435	522,282
Minority interests	–	420,032	–	–	420,032
Total effects on equity	521,985	420,032	(2,138)	2,435	942,314

The Group and the Company have not early applied the following new Standards, Amendments and Interpretations that have been issued but are not yet effective. Except for the financial impact on adoption of HKAS 39 & HKFRS 4 (Amendments) "Financial guarantee contracts" which requires financial guarantee contracts within the scope of HKAS 39 to be measured at fair value on initial recognition, the Directors anticipate that these Standards, Amendments or Interpretations will have no material impact on the financial statements of the Group. The Group is not yet in a position to reasonably estimate the impact on adoption of HKAS 39 & HKFRS 4 (Amendments).

HKAS 1 (Amendment)	Capital disclosures[1]
HKAS 19 (Amendment)	Actuarial gains and losses, group plans and disclosures[2]
HKAS 21 (Amendment)	Net investment in a foreign operation[2]
HKAS 39 (Amendment)	Cash flow hedge accounting of forecast intragroup transactions[2]
HKAS 39 (Amendment)	The fair value option[2]
HKAS 39 & HKFRS 4 (Amendments)	Financial guarantee contracts[2]
HKFRS 6	Exploration for and evaluation of mineral resources[2]
HKFRS 7	Financial instruments: disclosures[1]
HK(IFRIC) – INT 4	Determining whether an arrangement contains a lease[2]
HK(IFRIC) – INT 5	Rights to interests arising from decommissioning, restoration and environmental rehabilitation funds[2]
HK(IFRIC) – INT 6	Liabilities arising from participating in a specific market – waste electrical and electronic equipment[3]
HK(IFRIC) – INT 7	Applying the restatement approach under HKAS 29 Financial Reporting in Hyperinflationary Economies[4]

[1] Effective for annual periods beginning on or after 1 January 2007.
[2] Effective for annual periods beginning on or after 1 January 2006.
[3] Effective for annual periods beginning on or after 1 December 2005.
[4] Effective for annual periods beginning on or after 1 March 2006.

3. REVENUE AND BUSINESS AND GEOGRAPHICAL SEGMENTS

Revenue represents the net amounts received and receivable for goods sold by the Group to outside customers, less returns and allowances, revenue arising from sales of steel products, electricity, steam and hot water, leasing income and charter hire income during the year.

(a) Business segments

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

Steel manufacturing	– manufacture and sale of steel products;
Shipping operations	– vessel chartering and the hiring of floating cranes;
Electricity generation	– generation of electricity, steam and hot water;
Steel trading	– trading of steel products;
Kitchen and laundry equipment	– manufacture and installation of kitchen and laundry equipment; and
Others	– management services business.

Segment information about these businesses is presented below:

INCOME STATEMENT

For the year ended 31 December 2005

	Steel manufacturing *HK$'000*	Shipping operations *HK$'000*	Electricity generation *HK$'000*	Steel trading *HK$'000*	Kitchen and laundry equipment *HK$'000*	Others *HK$'000*	Elimination *HK$'000*	Consolidated *HK$'000*
Revenue								
External customers	2,762,955	230,859	411,023	1,086,341	77,105	1,696	–	4,569,979
Inter-segment sales	338,654	–	–	–	–	–	(338,654)	–
Total	3,101,609	230,859	411,023	1,086,341	77,105	1,696	(338,654)	4,569,979
Segment results	120,689	71,916	72,082	14,039	613	5,648	–	284,987
Unallocated other operating income								7,335
Unallocated corporate expenses								(32,658)
Interest expenses								(39,947)
Share of results of associates	130,241	–	–	–	–	–	–	130,241
Gain on disposal of an associate	–	–	–	4,355	–	–	–	4,355
Profit before taxation								354,313
Income tax expense								(20,995)
Profit for the year								333,318

Inter-segment sales are charged at the terms agreed by both parties.

For the year ended 31 December 2004 (Restated)

	Steel manufacturing *HK$'000*	Shipping operations *HK$'000*	Electricity generation *HK$'000*	Steel trading *HK$'000*	Kitchen and laundry equipment *HK$'000*	Others *HK$'000*	Elimination *HK$'000*	Consolidated *HK$'000*
Revenue								
External customers	2,377,903	275,807	381,408	186,982	66,227	1,224	–	3,289,551
Inter-segment sales	39,612	–	–	–	–	–	(39,612)	–
Total	2,417,515	275,807	381,408	186,982	66,227	1,224	(39,612)	3,289,551
Segment results	171,756	113,074	63,319	(10,720)	12,232	1,224	–	350,885
Unallocated other operating income								4,352
Unallocated corporate expenses								(23,597)
Interest expenses								(12,870)
Share of results of associates	54,966	–	–	–	–	–	–	54,966
Loss on deemed disposal of a partial interest in an associate	(819)	–	–	–	–	–	–	(819)
Profit before taxation								372,917
Income tax expense								(486)
Profit for the year								372,431

Inter-segment sales are charged at the terms agreed by both parties.

(b) Geographical segments

The Group's operations are located in the PRC including Hong Kong.

The following table provides an analysis of the Group's revenue by geographical market, irrespective of the origin of the goods or services:

	Revenue **2005** ***HK$'000***	2004 *HK$'000*
PRC, excluding Hong Kong	**3,287,404**	2,526,930
Hong Kong	**397,874**	295,925
Others	**884,701**	466,696
	4,569,979	3,289,551

4. OTHER INCOME

	2005 ***HK$'000***	2004 *HK$'000*
Change in fair value/surplus arising on revaluation of investment properties	**5,456**	749
Compensation income	**3,706**	2,564
Interest income	**7,335**	4,352
Recovery of bad and doubtful debt, net	**12,658**	14,915
Scrap sales income	**11,568**	4,053
Sundry income	**9,316**	3,385
Tax refund on reinvestment of retained profits to subsidiaries	**9,878**	–
Refund of value added tax	**3,820**	–
	63,737	30,018

5. INTEREST EXPENSES

	2005 ***HK$'000***	2004 *HK$'000*
Interest on		
– bank and other borrowings wholly repayable within five years	**46,099**	12,838
– convertible note	**–**	16
– finance leases	**32**	16
Total borrowing costs	**46,131**	12,870
Less: amounts capitalised	**(6,184)**	–
	39,947	12,870

Borrowing costs capitalised during the year arose on the general borrowing pool and are calculated by applying a capitalisation rate ranges from 4.65% to 5.76% to expenditure on qualifying assets.

6. PROFIT BEFORE TAXATION

	2005	2004
	HK$'000	*HK$'000*
		(restated)
Profit before taxation has been arrived at after charging:		
Staff costs, including Directors' emoluments		
– basic salaries and allowances	**111,940**	88,166
– retirement benefits scheme contributions	**10,290**	9,803
	122,230	97,969
Amortisation of goodwill (included in administrative expenses)	**–**	6,095
Amortisation of intangible assets (included in administrative expenses)	**665**	1,026
Amortisation of prepaid lease rentals	**4,729**	6,190
Depreciation of property, plant and equipment	**73,741**	58,070
Total depreciation and amortisation	**79,135**	71,381
Allowance for inventories	**10,899**	–
Auditors' remuneration	**2,347**	1,352
Charter hire costs	**156,573**	158,381
Cost of inventories recognised as expenses	**3,919,428**	2,597,592
Exchange loss	**413**	1,050
Impairment loss recognised in respect of investment securities	**–**	11,503
Loss on disposal of land use rights (included in prepaid lease rentals)	**1,594**	–
Loss on disposal of property, plant and equipment	**10,700**	24,044
Loss on derivative financial instruments	**2,103**	–
Minimum lease payments under operating leases in respect of land and buildings	**1,883**	1,632
Share of tax of associates (included in share of results of associates)	**1,710**	9,153
and after crediting:		
Change in fair value/surplus arising on revaluation of investment properties	**5,456**	749
Interest income	**7,335**	4,352
Gain on disposal of an investment property	**–**	1,397
Rental income from investment properties under operating leases, less outgoings of HK$110,000 (2004: HK$280,000)	**1,377**	1,367
Reversal of provision for compensation	**344**	–
Recovery of bad and doubtful debt, net	**12,658**	14,915
Write-back of other payables and accrued liabilities	**34**	75
Write-back of allowance for inventories	**–**	20

7. INCOME TAX EXPENSE

	2005	2004
	HK$'000	*HK$'000*
		(restated)
Current tax:		
PRC	**22,287**	21,311
Other jurisdictions	**17**	13
Overprovision in prior years	**(166)**	(16,415)
	22,138	4,909
Deferred tax:		
Current year	**(1,143)**	(4,423)
	20,995	486

Pursuant to Income Tax Law of the PRC for Enterprises with Foreign Investment and Foreign Enterprises, Qinhuangdao Shougang Plate Mill Co., Ltd. ("Qinhuangdao Plate Mill"), a principal subsidiary of the Company operating in Economic and Technology Development Zone of the PRC, is entitled to a preferential income tax rate of 15%. In addition, Qinhuangdao Plate Mill is subject to a local income tax rate of 3%. Pursuant to an approval granted by the local tax bureau in October 2004, Qinhuangdao Plate Mill is entitled to a reduction of income tax rate to 10% for the years from 2003 to 2005 as an Advanced Technology Enterprise and is exempted from the local income tax.

Qinhuangdao Plate Mill and certain other subsidiaries of the Company operating in the PRC are eligible for certain tax holidays and concessions in respect of PRC income tax and are exempted from PRC income taxes for the year. The PRC income tax charges are arrived at after taking into account these tax incentives.

Taxation arising in other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions.

8. DIVIDENDS

	2005 HK$'000	2004 HK$'000
Final dividend proposed: HK0.6 cent per share (2004: Nil)	**29,604**	–

The Directors propose that final dividend of HK0.6 cent per share will be paid to shareholders and this dividend is subject to approval by shareholders at the Annual General Meeting.

The proposed dividend for 2005 is payable to all shareholders on the Register of Members on 26 May 2006.

9. EARNINGS PER SHARE

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

	2005 HK$'000	2004 HK$'000 (restated)
Profit for the purposes of basic earnings per share	**305,032**	279,343
Effect of dilutive potential ordinary shares:		
Adjustment to the share of result of an associate based on dilution of its earnings per share	**(631)**	(3,841)
Interest on convertible note	**–**	16
Earnings for the purposes of diluted earnings per share	**304,401**	275,518
Weighted average number of ordinary shares for the purposes of basic earnings per share	**4,717,802,025**	3,708,709,632
Effect of dilutive potential ordinary shares:		
Options	**169,766,575**	128,441,080
Convertible note	**–**	1,561,280
Weighted average number of ordinary shares for the purposes of diluted earnings per share	**4,887,568,600**	3,838,711,992

The following table summarises the impact on basic and diluted earnings per share as a result of:

	Impact on basic earnings per share		Impact on diluted earnings per share	
	2005 HK cents	2004 HK cents	2005 HK cents	2004 HK cents
Reported figures before adjustments	**6.2**	7.5	**5.9**	7.2
Adjustments arising from changes in accounting policies *(Note 2A)*	**0.3**	–	**0.3**	–
Restated	**6.5**	7.5	**6.2**	7.2

10. TRADE AND BILL RECEIVABLES

	THE GROUP	
	2005 HK$'000	2004 HK$'000
Trade and bill receivables	**598,003**	418,220
Less: Allowance for bad and doubtful debts	**(273,382)**	(284,951)
	324,621	133,269

Trading terms with customers are largely on credit, except for new customers, where payment in advance is normally required. The Group allows a range of credit period to its customers normally not more than 30 days, except for certain well established customers, where the terms are extended to 60 days. The following is an aged analysis of trade and bill receivables at the reporting date:

	THE GROUP	
	2005 HK$'000	2004 HK$'000
Within 60 days	**204,585**	122,861
61 – 90 days	**3,613**	3,381
91 – 180 days	**42,715**	6,027
181 – 365 days	**70,661**	677
1 – 2 years	**3,047**	323
	324,621	133,269

The Directors consider that the carrying amounts of the Group's trade and bill receivables at 31 December 2005 approximate to the corresponding fair values.

11. TRADE AND BILL PAYABLES

An aged analysis of trade and bill payables is as follows:

	THE GROUP	
	2005	2004
	HK$'000	*HK$'000*
Within 90 days	**421,018**	32,643
91 – 180 days	**12,747**	5,335
181 – 365 days	**39,187**	1,324
1 – 2 years	**45,765**	742
Over 2 years	**2,293**	2,536
	521,010	42,580

The Directors consider that the carrying amounts of the Group's trade and bill payables at 31 December 2005 approximate to the corresponding fair values.

FINAL DIVIDEND

The Board recommends a final dividend of HK$0.006 per share for the year ended 31 December 2005 (2004: Nil) payable to shareholders whose names appear on the register of members of the Company on Friday, 26 May 2006. Subject to shareholders' approval of the proposed final dividend at the Company's annual general meeting to be held on Friday, 26 May 2006, the final dividend is expected to be paid on Friday, 23 June 2006.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Thursday, 25 May 2006 to Friday, 26 May 2006, both days inclusive, during which period no transfer of shares will be effected. In order to qualify for the proposed final dividend, all share transfers accompanied by the relevant share certificates must be lodged with the Company's share registrars, Tengis Limited at 26/F, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong, for registration not later than 4:00 p.m. on Wednesday, 24 May 2006.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

For the year ended 31 December 2005, the Group posted a record high turnover of approximately HK$4,570.0 million, representing an encouraging increase of approximately 38.9% as compared to approximately HK$3,289.6 million for the previous year. Net profit attributable to shareholders amounted to approximately HK$305.0 million, representing an increase of HK$25.7 million over the previous year. The strong growth in turnover and profit was the combined positive result of the Group's further investments in the steel manufacturing business and the organic growth of its core business during the year.

Manufacture and sale of steel products

The Group operates in this business segment through a wholly-owned subsidiary, Qinhuangdao Shougang Plate Mill Co., Ltd. ("Qinhuangdao Plate Mill") and a 96% owned subsidiary (previously an associate), Qinhuangdao Shouqin Metal Materials Co., Ltd. ("Shouqin").

At the beginning of the year, the Group held an effective interest of 51% in Shouqin (27% held by the Group directly and 24% held by Qinhuangdao Plate Mill). As mentioned in the Company's 2005 Interim Report, the Group acquired a further direct interest of 45% in Shouqin during the year, the transaction of which was completed as of November 2005, making up a total effective interest of 96% in Shouqin.

Qinhuangdao Plate Mill achieved a good performance for 2005. Its turnover recorded a new height of HK$2,914.8 million (before elimination of intersegment sales) for the year, representing an increase of HK$497.3 million from HK$2,417.5 million (before elimination of intersegment sales) in 2004. This significant growth in turnover was driven by both favourable volume variance and favourable price variance.

During the year, Qinhuangdao Plate Mill increased the sales of its major steel products by approximately 114,000 metric tonnes to approximately 689,000 metric tonnes, with an increase of average price of HK$25 per metric tonne. Similar to last year, by virtue of increased production and economies of scale in the procurement of raw materials, Qinhuangdao Plate Mill successfully lessened the adverse effects of a general rise in the price of raw materials. Accordingly, net profit of Qinhuangdao Plate Mill and its intermediate holding companies attributable to the Group (excluding the result for Shouqin, which will be described below) was HK$161.8 million for the year ended 31 December 2005, showing an impressive increase in profit of HK$44.2 million over that in 2004.

Shouqin recorded a turnover of HK$3,136.3 million for the year. As it only commenced production in mid 2004, turnover of last year was HK$1,378.2 million. Approximately 1,099,000 metric tonnes of steel slabs were sold in 2005, representing an increase of 633,000 metric tonnes as compared to approximately 466,000 metric tonnes sold in 2004. Despite the apparent decline in steel product price in the fourth quarter which caused a negative impact on sales revenue and earnings, Shouqin's full year operation in 2005 was deemed satisfactory. For the year ended 31 December 2005, net profit attributable to the Group from Shouqin amounted to HK$36.1 million, versus a profit contribution of HK$38.9 million for last year.

Shipping operations
Shougang Concord Shipping Holdings Limited and its subsidiaries ("Shougang Shipping Group") was mainly engaged in the time charter business for the year ended 31 December 2005. During the year, the adjustment of freight rates in the market has caused a decline of HK$45.3 million in charter hire income, from HK$270.8 million in 2004 to HK$225.5 million in 2005. Against this background, the time charter business achieved an operating profit of HK$68.9 million for the year, as compared to an operating profit of HK$112.4 million for 2004. Shougang Shipping Group also conducted a floating crane business with operating profit of HK$3.2 million for the year ended 31 December 2005, which increased moderately from a profit of HK$2.7 million for the year ended 31 December 2004. For the year ended 31 December 2005, Shougang Shipping Group reported a net profit attributable to shareholders of HK$70.6 million, a decrease of HK$39.9 million from a net profit attributable to shareholders of HK$110.5 million in 2004.

Electricity generation
Beijing Shougang Firstlevel Power Company Limited ("Beijing Power Plant") reported a turnover of HK$411.0 million for the year ended 31 December 2005, representing an increase of HK$29.6 million from HK$381.4 million achieved in 2004. The total quantity of electricity generated and sold by Beijing Power Plant was approximately 1,171 million Kwh with a sales revenue of HK$354.5 million for 2005, a rise of approximately 43 million Kwh and HK$26.1 million as compared with the sales quantity of approximately 1,128 million Kwh and sales revenue of HK$328.4 million in 2004. Sales revenues for steam and hot water for 2005 also increased by HK$2.0 million and HK$1.5 million, to HK$33.1 million and HK$23.4 million respectively. The higher output and enhanced revenue for the year have fully offset the impact of surging prices for major fuel sources including coal, coal gas, water and other ancillary materials. As a result, the Group's share of Beijing Power Plant's net profit has increased moderately to HK$28.8 million in 2005 from HK$26.6 million in 2004.

Manufacture of steel cord for radial tyres
For the year ended 31 December 2005, turnover of Shougang Concord Century Holdings Limited and its subsidiaries ("Shougang Century Group") reached a new height of HK$592.9 million, representing a growth rate of 38.6% from HK$427.9 million for that of last year. During the year, the strong growth in turnover was mainly driven by its core business of manufacture of steel cord for radial tyres, which grew by 50.6% to HK$401.4 million for the current year due to expansion of production capacity since mid 2004.

In spite of the increase in sales volume, the radial tyres business faced strong price competition during the year, which has caused Shougang Century Group's gross profit to decline by HK$16.8 million to HK$95.9 million. However, Shougang Century Group successfully continued to maintain its expenditure at a satisfactory level during the year. As a result, the net profit contributed by Shougang Century Group to the Group only declined slightly by HK$0.3 million to HK$17.1 million for the year ended 31 December 2005.

Trading of steel products; manufacture and installation of kitchen and laundry equipment
Following the efforts of the management to streamline its operations and to strengthen the steel trading business last year, Shougang Concord Steel Holdings Limited and its subsidiaries ("Shougang Steel Group") achieved a further improvement in performance in 2005, both in terms of sales growth and profitability. It reported a turnover of HK$1,163.4 million for the year ended 31 December 2005, representing an increase of HK$910.2 million as compared to HK$253.2 million for last year. Turnover of the steel trading business amounted to HK$1,086.3 million, whereas the turnover of the kitchen and laundry equipment business also reached HK$77.1 million during the year. In terms of profitability, Shougang Steel Group achieved a net profit of HK$19.4 million for the year, a substantial growth of HK$18.1 million from HK$1.3 million earned in 2004.

Liquidity and financial resources
The Group normally financed its operations by cash generated from its business activities and banking facilities provided by its bankers. For the year ended 31 December 2005, the Company obtained extra source of funding in the sum of HK$9.9 million by the issue of 25.1 million new ordinary shares of the Company to certain employees upon their exercise of share options of the Company.

As at 31 December 2005, the Group had aggregate banking facilities of HK$245.5 million and RMB2,762.0 million with banking institutions in Hong Kong and in the PRC, respectively. These banking facilities were utilized to the extent of HK$44.5 million and RMB2,732.0 million respectively as at 31 December 2005. The banking facilities in Hong Kong were secured by certain properties and prepaid lease rentals of HK$18.4 million in total, and those in the PRC were secured by certain plant and machinery with an aggregate net book value of RMB329.3 million and corporate guarantees from Shougang Corporation of RMB2,562.0 million.

Due to consolidation of Shouqin's accounts, the Group's current assets as at the current year amounted to HK$1,858.4 million, an increase of HK$703.6 million from last year end's level of HK$1,154.8 million (restated). The Group's current liabilities also increased from HK$696.6 million to HK$3,698.8 million, representing an increase of HK$3,002.2 million for the year. Hence, the Group's working capital showed a net current liabilities position of HK$1,840.4 million by end of 2005 from net current assets of HK$458.2 million by end of 2004. The Group's current ratio, defined as current assets divided by current liabilities, accordingly decreased to 0.50 times as at 31 December 2005 from 1.66 times as at end of last year. The Group's gearing ratio which is defined as total debts divided by equity increased to 2.23 times as at 31 December 2005 as compared to 0.51 times as at 31 December 2004. In order to hedge against foreign currency risks, the Group had entered into some forward exchange contracts for certain normal business transactions during the year. By the end of 2005, the outstanding forward exchange contracts were denominated in United States Dollars ("USD"), Renminbi, Euro ("EUR") and Switzerland Francs ("CHF"), for which the Group sold USD 11 million against Renminbi, sold HK$85 million against Renminbi, bought EUR249,581.73 against Hong Kong Dollars and bought CHF103,275 against Hong Kong Dollars.

Capital Structure

At the beginning of the current year, the issued share capital of the Company was HK$927.5 million, represented by 4,637,251,215 ordinary shares at par value of HK$0.20 each. During the year, certain option holders of the Group exercised the granted options, pursuant to which 25,146,000 new ordinary shares were issued at the exercise prices range of HK$0.295 to HK$0.41 per share. In addition, a wholly-owned subsidiary of the Company entered into agreements with third parties in August 2005 to acquire a total of 45% interest in Shouqin for a consideration of RMB467.5 million (equivalent to HK$448.2 million). According to the terms of the agreements, 40% of the said consideration which amounted to HK$179.3 million, would be satisfied by the issue of 271,659,999 new ordinary shares of the Company at HK$0.66 per share. The said transaction was completed during the year. As a result of the aforesaid events, the issued share capital of the Company increased to HK$986.8 million, represented by 4,934,057,214 ordinary shares as at 31 December 2005.

Subsequent to the balance sheet date, the Company entered into a share subscription agreement on 13 February 2006 with an independent investor, Carlo Tassara International S. A. (the "Subscriber"), pursuant to which the Subscriber would subscribe for 929,000,000 new ordinary shares of the Company at HK$0.53 per share. Details of the said share subscription were described in the Company's announcement dated 14 February 2006 and the transaction was completed in early March 2006.

As described in our circular to the shareholders dated 20 May 2005 and the special resolution of which was duly approved by the shareholders at the extraordinary general meeting held on 13 June 2005, the Company sought to cancel the share premium account and the capital reserve account (the "Cancellation") in writing off its accumulated losses, to the extent permitted by the High Court of Hong Kong (the "High Court"). The High Court made an order confirming the Cancellation on 1 September 2005, which was duly registered with the Companies Registry in Hong Kong on 1 September 2005. Accordingly, the Cancellation became effective on the same day. As a result, the share premium account of the Company has been reduced by HK$1,412,855,741.98 and the capital reserve account of the Company has been reduced by HK$1,800,000,000.00. An amount of HK$2,920,201,029.67 arising from such reduction has been applied towards the elimination of the accumulated losses of the Company and the remaining balance of HK$292,654,712.31 has been credited to the Company's special capital reserve account. Against this background, the Company will consider distributing dividends in the future.

Contingent Liabilities

The Company has provided guarantees for the due and punctual performance and observance by a wholly-owned subsidiary of the Company of each and every of its obligations, undertakings and liabilities under two time charter hires, through which the Group leases certain of its vessels. The time charter hires commenced on 26 September 1997 with a lease period of 15 years, plus two months more or less in the Group's option. The daily rates of the time charter hires increase by US$250 every half year until December 2007, and thereafter the daily rates will increase by US$125 every half year.

Employees and Remuneration Policies

The Group had a total of approximately 3,500 employees as at 31 December 2005.

The remuneration policies of the Group are to ensure the fairness and competitiveness of total remuneration in order to motivate and retain existing employees as well as to attract potential employees. Remuneration packages are structured in a way that takes into account local practices under various geographical locations in which the Group operates.

The remuneration packages of Hong Kong employees include salary payments, discretionary bonuses on a performance basis, medical subsidies and a hospitalisation scheme. All of the subsidiaries of the Group located in Hong Kong provide pension schemes for their Hong Kong employees as part of their staff benefits. The remuneration packages of certain employees in the PRC include salary payments, discretionary bonuses on a performance basis, medical subsidies and welfare fund as part of their staff benefits.

Prospects

With the further acquisition of interest in Shouqin, our enlarged Group is empowered to step up its efforts to strengthen the growth and profitability potentials. The Group will also proactively identify suitable investment opportunities to further develop its long-term growth. We will focus on opportunities which are most beneficial to the Group and can strengthen our value chain.

Given the bright prospects of the PRC's economy and the competitive market position enjoyed by the Group, the Group is in excellent position to capture good business opportunities with an objective to maximize shareholders' return in the long run.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities (whether on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") or otherwise) during the year.

COMPLIANCE WITH CODE ON CORPORATE GOVERNANCE PRACTICES

The Company has complied with the Code on Corporate Governance Practices (the "Code") (with the exception of code provision C.2 on internal control which is effective for accounting periods commencing on or after 1 July 2005) as set out in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") during the financial year ended 31 December 2005, except for the following deviations:

– Under code provision A.4.1 of the Code, 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. However, non-executive directors of the Company are subject to retirement by rotation and re-election at annual general meetings in accordance with the provisions of the articles of association of the Company. As such, the Company considers that sufficient measures have been taken to ensure that the Company's corporate governance practices are no less exacting than those in the Code. To further improve its corporate governance structure, the Company will try its best to procure any future appointment of non-executive director with a specific term and subject to retirement.

– Under the first part of code provision E.1.2 of the Code, the chairman of the board should attend the annual general meeting and arrange for the chairman of the audit, remuneration and nomination committees (as appropriate) or in the absence of the chairman of such committees, another member of the committee or failing this his duly appointed delegate, to be available to answer questions at the annual general meeting.

  The Chairman of the Board had not attended the annual general meeting of the Company held on 13 June 2005 (the "Meeting") as he had another business engagement. The Managing Director of the Company, who took the chair of the Meeting, and other members of the Board together with the Chairman and majority of the members of the audit, remuneration and nomination committees attended the Meeting. The Company considers that the members of the Board and the audit, remuneration and nomination committees who attended the Meeting were already of sufficient calibre and number for answering questions at the Meeting.

During the year, the Company has amended its articles of association to ensure compliance with the code provision A.4.2 of the Code in respect of appointment and re-election of directors and the code provision E.2.1 of the Code in respect of voting by poll. Details of the Company's compliance with the provisions of the Code during the year together with the above deviations will be set out in the Corporate Governance Report in the Company's 2005 Annual Report.

APPRECIATION

On behalf of the Board, I would like to extend our sincere thanks to our customers, suppliers and shareholders for their continuous support to the Group. I would also extend our gratitude and appreciation to all management and staff for their hard work and dedication throughout the year.

By order of the Board
Cao Zhong
Managing Director

Hong Kong, 20 April 2006

As at the date of this announcement, the Board comprises Mr. Wang Qinghai (Chairman), Mr. Cao Zhong (Managing Director), Mr. Chen Zhouping (Deputy Managing Director), Mr. Luo Zhenyu (Deputy Managing Director), Mr. Ip Tak Chuen, Edmond, Mr. Leung Shun Sang, Tony, Ms. Choy Hok Man, Constance, Ms. Kan Lai Kuen, Alice (Independent Non-executive Director), Mr. Kwan Bo Ren, Dick (Independent Non-executive Director) and Mr. Wong Kun Kim (Independent Non-executive Director).

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