GROUP RESULTS

The pro-active corporate restructuring programs and cost control measures that had been implemented by the Group in the past two years began to have positive outcome in the current year. The Group recorded a turnover of HK$2,212 million for the year, representing a decrease of HK$445 million or 17% as compared with that of last year. However, gross profit of the Group improved by HK$48.7 million or 2.4 times to HK$68.7 million. The loss from operating activities of the Group was HK$193 million, representing a significant decrease of HK$125 million or 39% from last year's level. The net loss attributable to shareholders markedly improved by 71%, from HK$653 million in 1999 to HK$186 million in 2000.

The drop in turnover was mainly due to the disposal of the rebar stockholding and trading businesses in Hong Kong with a turnover of HK$626 million in last year. This decrease in turnover was partially offset by a 9% growth in the Group's continuing business, which increased by HK$181 million during the year. The said growth was mainly attributed to the reactivation of the shipping business and the rebound of selling prices of the steel products in the PRC market despite the contraction of steel trading business in Hong Kong and Southeast Asia. In addition to the favourable market condition in the PRC steel market, reinforced control on cost also helped to improve gross profit of the Group during the year. Together with a prudent provision policy implemented in last year, the result of the operating activities of the Group was further improved with a decline in loss by HK$125.5 million for the year. The Group's non-operating loss reduced by HK$179 million while the performance of associates improved by HK$150 million as a result of divesting non-performing investments in last year. These favourable factors contributed to the overall improvement of the Group's net loss attributable to shareholders, which was sharply reduced by HK$466 million to current year's level of HK$186 million.

FINANCIAL REVIEW

The Group mainly financed its operations by cash generated from its business activities and banking facilities provided by its bankers. Although the Group incurred a loss of HK$186 million during the year, its cash and equivalents increased from HK$197 million in last year end to HK$230 million by end of 2000. During the year, the Group generated net cash inflow of HK$167 million from its operating activities, obtained net new bank finance for HK$175 million and received dividends from jointly controlled entities for HK$11 million. It paid a net interest expense of HK$54 million, paid HK$84 million for investing activities, repaid net balance of HK$159 million to related companies and paid HK$26 million for finance lease payments.

As at 31 December 2000, the Group had an aggregate bank facilities of HK$164.8 million and RMB429 million with four banking institutions in Hong Kong and two banking institutions in Mainland China. The utilization of the facilities were HK$123.6 million and RMB396 million respectively. The banking facilities in Hong Kong were secured by certain properties of HK$277.7 million, cash deposit of HK$3 million and certain shares in a Hong Kong listed subsidiary with a market value of HK$29.1 million at the year end. The banking facilities in Mainland China were secured by certain plant and machinery for the production of steel plates with a net book value of RMB546.8 million, corporate guarantee of RMB325 million provided by Shougang Corporation and a cash deposit of RMB4 million. The bank loans arranged in Hong Kong were in relation to steel trading and property investment operations in Hong Kong and are denominated in Hong Kong and US Dollars. Those arranged in the Mainland China were in relation to the steel manufacturing business located in Mainland China, and are denominated in RMB. Hence, the Group will not be exposed to any significant exchange risks. The maturity profile of the total bank loans and overdrafts is described in the note 27 to the financial statements.

The current ratio (current assets divided by current liabilities) of the Group decreased from 1.14 times in 1999 to 0.77 times in 2000. The decrease in the current ratio was mainly due to the increase in current liabilities, which arose from two instances. Firstly, bank and other borrowings for the year increased by HK$143 million. Secondly, there was a reclassification from long-term to current liability at current year end for the outstanding convertible bonds of HK$294,414,500 which will fall due in November 2001.

In respect of the interest bearing bank and other borrowings, HK$373 million were related to the steel manufacturing operations in the PRC. The loans are denominated in RMB and therefore bear no exchange risk. According to the banking practice in the PRC, these short-term bank loans can be rollovered upon maturity. Moreover, Shougang Corporation ("SG") has provided corporate guarantee of HK$306 million in respect of the HK$300 million short-term bank loans that were related to the steel manufacturing operations. As regards the convertible bonds, Shougang Holding (Hong Kong) Limited has agreed not to demand repayment of the said outstanding bonds with a face value of HK$144,610,900 upon maturity.

The gearing ratio (total debts divided by equity) of the Group increased from 2.09 times in 1999 to 2.61 times in 2000. It was mainly attributable to the decrease in net worth as a result of the loss incurred during the year. However, there should be no immediate repayment pressure to the Group for certain current and non-current liabilities amounted to HK$1,072 million. Out of the HK$1,438 million current liabilities, HK$303 million were due to SG and its affiliates with no repayment terms, and HK$300 million of short-term bank borrowings in the PRC were guaranteed by SG. The long-term portion of HK$197 million lease payables is payable to the subsidiaries of SG over eight years by instalments. Shougang Holding (Hong Kong) Limited also provided a long-term and interest free loan of HK$272 million to a steel manufacturing subsidiary in the PRC.

Subsequent to the disposal of the rebar stockholding and trading business in Hong Kong in 1999, the contingent liabilities of the Group reduced significantly from HK$41.5 million by year end of 1999 to HK$2.4 million by year end of 2000, details of which are disclosed in note 35 to the financial statements.

The net assets value of the Group as at 31 December 2000 was HK$795.6 million, representing a decrease of 17.6% as compared with HK965.5 million at last year's end. The decrease was mainly due to the loss incurred during the year.

EMPLOYEES

As at 31 December 2000, the Group had a total of approximately 5,600 employees.

The remuneration policies of the Group are to ensure the fairness and competitiveness of total remuneration to motivate and retain existing employees, while at the same time to attract potential employees. Remuneration packages are structured in a way that to take into account local practices under various geographical locations in which the Group operates.

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

BUSINESS REVIEW

Trading of steel products

Shougang Concord Steel Holdings Limited and its subsidiaries ("Shougang Steel Group") reported a turnover of HK$297 million for the year, representing a decrease of HK$848 million as compared with that of last year. The decrease in turnover was mainly due to the sale of the rebar stockholding operation in Hong Kong in October 1999. The sales volume of steel products of the continuing business, steel trading, grew by 56% to 152,000 metric tonnes and represented an increase of HK$102 million to HK$220 million in 2000. The adoption of a cautious sales strategy and improved market conditions had enabled the steel trading business to turnaround to operating profit. Shougang Steel Group successfully recovered certain doubtful debts during the year and improved its cashflow position. However, its stainless steel kitchen equipment manufacturing and installation businesses suffered losses because of the relatively low contract volume in relation to the overhead costs. In the forthcoming year, Shougang Steel Group will continue to focus on the profitable steel trading business while increasing its marketing forces on the kitchen equipment manufacturing and installation businesses. Cost control measures will also be closely monitored with an aim to restore the overall profitability.

Shipping

In order to reduce the exposure in the dry bulk carrier shipping business, the Group had disposed of its 25% interest in Associated Bulk Carriers Limited in April 2000 and retained two capesize time-chartered vessels. During the year, Shougang Concord Shipping Holdings Limited and its subsidiaries ("Shougang Shipping Group") began to reactivate the transportation of dry bulk commodities business which recorded a transportation capacity of 4.96 million metric tonnes of iron ores. Although Shougang Shipping Group incurred a loss of HK$10.3 million during the year, it was an impressive improvement as compared to a loss of HK$132 million in last year due to the losses shared by the Group in Associated Bulk Carriers Limited.

As Japan and China increased steel outputs in the second half of the year, the demand for raw material and the ocean borne iron ore transportation also increased. After years of slump, freight rates for the capesize bulk carrier rebound and marked the historical high level throughout such period. Accordingly, the time charter business operated by Shougang Shipping Group was benefited. However, the pick up of the market freight rates increased the operating costs of the bare boat operation, the freight income of which had been fixed by the contract of affreightment entered at the beginning of the year. As a result, an operating loss was incurred in the year.

Looking forward, it is expected that the economy of U.S.A. and Japan will slowdown and the supply of capesize tonnage will slightly exceed the demand of dry bulk commodities in the forthcoming year. The market freight rates may therefore be under pressure. Under such circumstances, Shougang Shipping Group will deploy a more flexible operating strategy to capture the freight rates at a higher level.

Manufacture and sale of steel products

Firstlevel Holdings Limited and its subsidiaries ("Firstlevel Group") achieved a sales volume of approximately 684,000 metric tonnes of steel products for the year, an increase of 3.5% as compared with that of last year. It represented a turnover of HK$1,565 million, showing a 15% growth for the year.

Subsequent to the PRC government control on steel output since 1999, the import limitation and the recent economic growth in the PRC during the year, both the demand and selling price of all types of steel products in the PRC market rebound significantly since the second quarter of the year. As a result, the average selling price of the major steel products sold by the Firstlevel Group increased by 10% during the year. The turnover of the joint venture manufacturing steel plates increased by 26% whilst its profit margin enhanced by 4 times accordingly. Moreover, Firstlevel Group was successful in adjusting its product mix to accommodate more high yielding products to capture the market opportunity. Stringent cost control measures were also implemented and redundant staff were laid off to reduce costs. The performance of Firstlevel Group had turnaround and reported a HK$32 million gross profit during the year. The reported operating loss, however, was incurred as output volume was still low in light of the usual high overhead costs in the industry.

The Board believes that 2001 will be a year of both challenge and opportunity to the metallurgical industry in the PRC. Industry consolidation is unavoidable to achieve structural transformation. However, it is anticipated that the PRC would be able to maintain a high economic growth in 2001. Fiscal spending on infrastructure projects and the development of the western region will create a favourable market condition for the steel industry in the country. The price of steel products in the PRC markets is expected to stabilize at current levels which would be beneficial to Firstlevel Group in the forthcoming year.

Property investment, management and developments

Shougang Concord Grand (Group) Limited and its subsidiaries ("Shougang Grand Group") recorded a turnover of HK$24 million and a profit attributable to shareholders of HK$4.4 million for the year 2000, representing a decrease of 4% and 76% respectively from those of last year. The decrease was mainly attributable to the decline in profit contribution from the associate Shougang Concord Technology Holdings Limited ("SCT") and the jointly controlled entity, Beijing Dongzhimen International Apartment Co., Ltd ("Dongzhimen"). However, its investment properties in Hong Kong managed to record a 5% increase in rental income for the year despite the poor market sentiment in the local property market.

The decline in profit contribution from SCT was mainly due to its provision for permanent diminution in value of the investment in a jointly controlled entity for HK$51.5 million, whilst the result of Dongzhimen was adversely affected by the poor market condition and keen competition in the service apartment industry in Beijing, the PRC. However, it is expected that the contribution of Dongzhimen will improve by the end of 2001, when the expansion construction work is expected to be completed.

The Board believes that the economic growth in the PRC would be maintained in 2001 and the imminent WTO accession will stimulate the economic growth of the PRC economy in the long term. In respect of the Hong Kong economy, the strong commitment of the HKSAR government to restore confidence in the property market is likely to improve market rentals. The Board is therefore optimistic about the rental incomes from the PRC and Hong Kong property investment portfolio of Shougang Grand Group in the forthcoming year.

Manufacture and sale of metallic products and trading of copper and brass products

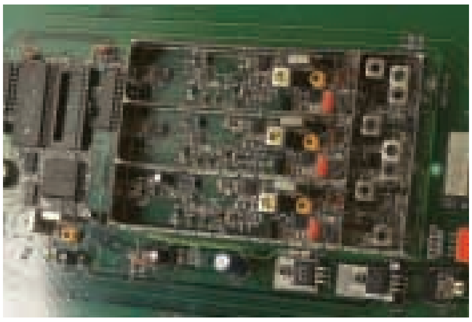
Shougang Concord Century Holdings Limited and its subsidiaries ("Shougang Century Group") reported a profit of HK$4.7 million for the year as compared to a loss of HK$65.6 million in last year. Due to the discontinuance of certain non-core businesses during the year, turnover of Shougang Century Group decreased from HK$268.8 million in 1999 to HK$169.1 million in 2000. In contrast, its turnover of the continuing operation recorded a growth of 32% to HK$142.4 million as compared to that of last year.

The core business of Shougang Century Group, the manufacture and sale of steel cord business, achieved a turnaround in profitability during the year. Improved technical standard, product quality, economies of scale from increased sales volume, restructuring of operation and sales management all contributed to the positive outcome of the business. Continuous restructuring program and tightened cost control measures on administrative and finance costs further improved the operating profit of Shougang Century Group.

Through persistent focus of management efforts and deployment of adequate financial resources, the Board believes that the growth of Shougang Century Group's core business in the forthcoming year will remain satisfactory.

Manufacture and sale of electrical, electronic and telecommunication products

SCT and its subsidiaries ("Shougang Technology Group") reported a decline in turnover of 8% to HK$687 million for the year. Affected by a write down of HK$51.5 million for its interest in a jointly controlled entity, Shougang Technology Group incurred a loss of HK$22.8 million in 2000, as compared to a profit of HK$26.1 million in 1999.



The decline in turnover was mainly caused by the fierce competition in the electrical adaptors market and the consequent tightened credit policy implemented by Shougang Technology Group to control the credit risk. As a result, there was only a marginal improvement in profit for the division of telephone accessories, power cord and adaptor. On the other hand, the printed circuit board division had achieved a satisfactory growth in profit in the year. The performance of the Shougang

Technology Group as a whole could have achieved a 10% profit growth in 2000 if the write down in investment had not been taken place in the year.

Shougang Technology Group will continue to enhance its efforts in cost control and technology advancement so as to build up its competitive edge in the market. The Board is optimistic about its performance in the forthcoming year.

BUSINESS OUTLOOK

Recent phenomenon evidences that the US economy has entered into a period of consolidation in 2001 and will have a significant impact on the global economy. However, the Board believes that the growth momentum of the PRC economy could be maintained in the coming year under the fiscal stimulus of the PRC government. The Hong Kong economy has shown signs of recovery. The Board believes that most of our businesses are able to benefit from the growth in the PRC and Hong Kong economy. Nevertheless, the Board will maintain a prudent operating strategy to monitor the performance of each division. Despite a significant improvement in performance of the Group for the year, the Board will continue to improve the profitability and operating efficiency of the Group's traditional business. On the other hand, the Board will also consider new restructuring programs and reassess the non-performing investment in the steel manufacturing operations so as to improve the performance of the Group and deploy funds for new investments. In respect of assessing investment opportunity in manufacturing of high-tech products, the Board will explore cautiously investment opportunity with stable cash returns in view of the uncertainties for the prospect of the technology industry. The Board will also consider to invest jointly with SG in new investment to exploit its competitive advantage in the PRC.

By Order of the Board

Su Genqiang
Managing Director

Hong Kong, 19 April 2001