



MANAGEMENT DISCUSSION AND ANALYSIS

Business review

The Group recorded a loss attributable to shareholders of HK\$39.9 million for the six months ended 30 June 2001, representing a decrease of HK\$14.6 million or 26.8% when compared to that of the corresponding period in 2000. Basic loss per share for this interim period has reduced to HK2.1 cents, a decline of 27.6% from HK2.9 cents as recorded in the same period last year. As at 30 June 2001, net assets per share of the Group was HK\$0.40.

The decrease in loss was mainly attributable to the turnaround of performance by the Group's steel products trading and shipping businesses, resulting from the proactive restructuring actions and cost reduction measures undertaken by the Group as an ongoing management task.

Trading of steel products

Shougang Concord Steel Holdings Limited and its subsidiaries ("Shougang Steel Group") recorded a turnover of HK\$86.4 million for the first half of 2001. When compared with the turnover of HK\$92.3 million for the corresponding period last year, it showed a moderate decrease of HK\$5.9 million, mainly as a result of consolidation of non-core businesses. Notwithstanding this, Shougang Steel Group achieved a turnaround in profitability during the period with a profit of HK\$1.5 million, against a loss of HK\$8.8 million for the same period last year. This recovery in profitability was mainly due to improvement in cost controls and the recovery of debts previously fully provided in the current period.

Shipping

Shougang Concord Shipping Holdings Limited and its subsidiaries ("Shougang Shipping Group") also achieved an encouraging turnaround. For the six months ended 30 June 2001, it reported a profit of HK\$7.9 million, a substantial improvement of HK\$9.5 million from a loss of HK\$1.6 million in the corresponding period last year. The main contribution came from its sublet freight business with substantial improvement in profit margin – whilst freight rates for transportation of iron ore charged by Shougang Shipping Group during this interim period were at similar levels to those in last corresponding period, there was a marked reduction in freight rates paid and other operating costs through effective negotiation and tight cost control.



MANAGEMENT DISCUSSION AND ANALYSIS (continued)

Manufacture and sale of steel products

The attributable loss to the Group reported by Firstlevel Holdings Limited and its subsidiaries ("Firstlevel Group") for the first half of 2001 amounted to HK\$30.3 million, representing a marginal increase in attributable loss of HK\$1.6 million from HK\$28.7 million in the same period last year. During the period under review, Firstlevel Group experienced keen market competition and increasing pressure from industry consolidation. These translated into lower profit margins and higher operating costs, which impaired its performance. The Board is now taking corrective measures aiming to reduce the loss of Firstlevel Group and to evaluate this investment in a cautious manner.

Property investment, management and developments

Net profit achieved by Shougang Concord Grand (Group) Limited and its subsidiaries ("Shougang Grand Group") showed a slide of HK\$10.5 million, from HK\$11.4 million in the last interim period to HK\$0.9 million in the current interim period. This significant decrease in profit was mainly attributed to the poor performance of its associate, Shougang Concord Technology Holdings Limited, which encountered fierce market competition in the current interim period and incurred a loss of HK\$4.1 million, against a profit of HK\$15.1 million in the same period last year. Shougang Grand Group's own activities in property investment, management and development were relatively stable in spite of the persistent poor market sentiment in the local property market during the period under review.

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

Shougang Concord Century Holdings Limited and its subsidiaries ("Shougang Century Group") has made a substantial progress in performance. For the six months ended 30 June 2001 it achieved a profit of HK\$8.9 million, compared with a profit of HK\$0.3 million for the last interim period. This surge in profit was mainly derived from Shougang Century Group's core business of manufacture and sale of steel cord, where improved technical standard, better product quality, economies of scale from increased sales volume, enhanced productivity and improved sales management were key drivers which have improved its profitability.



MANAGEMENT DISCUSSION AND ANALYSIS (continued)

Manufacture and sale of electrical, electronic and telecommunication products

Shougang Concord Technology Holdings Limited and its subsidiaries ("Shougang Technology Group") incurred a loss of HK\$4.1 million for the six months ended 30 June 2001. Compared with a profit of HK\$15.1 million in the last interim period, there was a substantial decline in profit of HK\$19.2 million which was mainly caused by fierce competition in Shougang Technology Group's main market segments. The apparent decrease in the demand of consumer products including telecommunication and computer equipment following the slow-down of the U.S. economy has disrupted the original market equilibrium. The management will concentrate their efforts to control costs and upgrade technological competence of Shougang Technology Group in order to regain its competitive edge in the market.

Prospects

Hong Kong is still facing a prolonged period of slow economy. Despite the current low level of interest rates, general weaknesses in purchasing power and market sentiment are expected to persist for the rest of the year. Against this background, the Board is adopting a prudent policy in developing new businesses, whilst remains pro-active in seeking ways to improve the existing business activities. In-depth studies of reconstructing certain business segments of the Group are now being taken place. The Board is also considering to invest jointly with Shougang Corporation, the ultimate controlling shareholder of the Company, for new projects in the PRC in order to further strengthen the Group's assets and earning qualities. With the expected increase in investment opportunities, rising demand in infrastructure and the continuing economic growth in PRC as a result of the forthcoming accession of PRC to WTO and the hosting of the Olympics in Beijing, the Board is confident that the development and growth of the Group's core business activities in PRC will lead to encouraging results in the long term.

Liquidity and financial resources

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\$39.9 million for the first half of 2001, it generated about HK\$89.7 million net proceeds during the period from the placing and subscription of new shares in the Company, further details of which are described under the paragraph of capital structure below.



MANAGEMENT DISCUSSION AND ANALYSIS (continued)

As at 30 June 2001, the Group had an aggregate banking facilities of HK\$164.8 million and RMB414.8 million with four banking institutions in Hong Kong and two banking institutions in PRC, respectively. These banking facilities were utilised to the extent of HK\$126.7 million and RMB381.8 million, respectively. The banking facilities in Hong Kong were secured by certain properties of HK\$277.4 million, cash deposit of HK\$3 million and certain shares in a Hong Kong listed subsidiary with a market value of HK\$43.7 million as at 30 June 2001. The banking facilities in PRC were secured by certain plant and machinery in the Group's PRC plants with an aggregate net book value of RMB501.1 million and corporate guarantees of RMB314.8 million provided by Shougang Corporation.

The Group's cash and cash equivalents as at 30 June 2001 amounted to HK\$260.3 million, showing an increase of more than 13% over the amount of HK\$229.6 million in last year end. In contrast, the Group's short term interest-bearing borrowings have decreased to HK\$423.5 million as at 30 June 2001 from HK\$424.3 million as at 31 December 2000. The Group's current ratio (current assets divided by current liabilities) stood at 0.77 times as at 30 June 2001, same as that at last year end. The Group's gearing ratio (total debts divided by equity) decreased from 2.61 times by last year end to 2.41 times by this interim period end.

Capital structure

On 12 June 2001, arrangements were made by the Company and CEF Capital Limited, the placing agent, for the private placement by Jasmine Group Limited, a wholly-owned subsidiary of Shougang Holding (Hong Kong) Limited ("Shougang HK") which is the controlling shareholder of the Company, of an aggregate of 200,000,000 existing ordinary shares of the Company at HK\$0.46 per share to independent investors. On the same date, Jasmine Group Limited also entered into agreement with the Company to subscribe for 200,000,000 new ordinary shares of the Company at a price of HK\$0.46 per share. All expenses relating to the placing were deducted from the aggregate consideration received by the Company under the subscription. During the period under review, convertible bonds with an aggregate principal amount of HK\$1,141,900 were converted into ordinary shares of the Company at a conversion price of HK\$0.38 per share, resulting in the issue of 3,005,000 ordinary shares of HK\$0.20 each in the Company, credited as fully paid. Accordingly, the issued share capital of the Company has been increased to HK\$419,772,291 and the principal amount of the remaining convertible bonds has been reduced to HK\$293,272,600 as at 30 June 2001.



MANAGEMENT DISCUSSION AND ANALYSIS (continued)

Shortly subsequent to the balance sheet date, the respective wholly-owned subsidiaries of Shougang HK and Cheung Kong (Holdings) Limited, a substantial shareholder of the Company, converted the principal amount of the convertible bonds to the extent of HK\$58,900,000 and HK\$15,200,000 respectively into ordinary shares of the Company at a conversion price of HK\$0.38 per share, resulting in the issue of 155,000,000 and 40,000,000 ordinary shares of HK\$0.20 each in the Company, credited as fully paid. This represented an aggregate amount of HK\$39,000,000 in the increase of the Company's issued share capital and a reduction in the principal amount of the remaining bonds by HK\$74,100,000.

Contingent liabilities

The contingent liabilities of the Group, being guarantees in respect of performance bonds, increased from HK\$2.4 million as at 31 December 2000 to HK\$3.3 million as at 30 June 2001.

Employees and remuneration policies

The Group had a total of approximately 5,400 employees as at 30 June 2001.

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



INTERIM DIVIDEND

The Board did not declare an interim dividend for the six months ended 30 June 2001 (2000: Nil).

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

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

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SECURITIES

As at 30 June 2001, the interests of the Company's directors in the share capital of the Company as recorded in the register kept under Section 29 of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance") were as follows:

Name of director	Nature of interest	Number of ordinary shares held
Lai Kam Man, David	Personal	250,000

Save as disclosed above, none of the Company's directors or chief executives had any interests in, or rights to subscribe for, the equity or debt securities of the Company or any of its associated corporations as recorded in the register maintained in accordance with Section 29 of the SDI Ordinance.

SUBSTANTIAL SHAREHOLDERS

As at 30 June 2001, according to the register kept by the Company under Section 16(1) of the SDI Ordinance, the following persons were, directly or indirectly, beneficially interested in 10% or more of the issued share capital of the Company:

Name of shareholder	Notes	Number of ordinary shares held
Shougang Holding (Hong Kong) Limited ("Shougang HK")	1	745,341,925
Jasmine Group Limited ("Jasmine")	2	329,844,769
Cheung Kong (Holdings) Limited ("Cheung Kong")	3	212,033,955

Notes:

1. The 300,000,000 shares in which Shougang HK is interested were registered in the name of The Hongkong Chinese Bank, Limited (the "Bank") as such shares were mortgaged by Shougang HK to the Bank pursuant to a share mortgage deed dated 3 November 2000.



SUBSTANTIAL SHAREHOLDERS (continued)

2. Jasmine is a subsidiary of Shougang HK and its interests are included in the interests held by Shougang HK.

3. By virtue of their interests in Cheung Kong, the following person and companies are each deemed to be interested in the 212,033,955 shares held by Cheung Kong:

Mr. Li Ka Shing
Li Ka-Shing Unity Holdings Ltd
Li Ka-Shing Unity Trustee Co Ltd
Li Ka-Shing Unity Trustee Corporation Ltd

AUDIT COMMITTEE

The Company has engaged the Auditors to assist the Audit Committee to review the 2001 interim results of the Group. A meeting of the Audit Committee was held with the Auditors and the management of the Company on 17 September 2001 for, amongst other things, reviewing the interim results of the Group for the period ended 30 June 2001.

CODE OF BEST PRACTICE

None of the directors of the Company is aware of information which would reasonably indicate that the Company is not, or was not, for any part of the six months ended 30 June 2001, in compliance with the Code of Best Practice set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited except that the independent non-executive directors are not appointed for a specific term but are subject to retirement by rotation and re-election at annual general meetings of the Company in accordance with the provisions of the Company's articles of association.

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 my gratitude and appreciation to all management and staff for their hard work and dedication throughout the year.

By Order of the Board
Su Genqiang
Managing Director

Hong Kong, 20 September 2001