



## INTERIM DIVIDEND

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The Board of Directors does not recommend the payment of an interim dividend for the six months ended 30 June 2002 (2001: Nil).

## MANAGEMENT DISCUSSION AND ANALYSIS

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### Interim review and business outlook

The turnover of the Group for the period under review was lower than that of the corresponding period in 2001 due to the decrease in rental income. In spite of this, the Group still reported a net profit of HK\$3,418,000 for the period under review, representing an increase of 264% from that in 2001. The increase was mainly attributable to the increase in contribution from an associate (Shougang Concord Technology Holdings Limited (“Shougang Technology”)) and the decrease in the Group’s operating expenses.

### Hong Kong investment properties

Notwithstanding the Group’s dedicated actions and strategies on improving the leasing of its investment properties in Hong Kong, the rental rate was still under downward pressure in the first half of 2002 due to the continuous sluggishness of the economy in Hong Kong. At the same time, some certain significant tenants of the Group’s properties terminated their leases with the Group as they closed down their offices in Hong Kong. As a result, during the period before new tenants moved in, the occupancy rate of the Group’s properties decreased. Thus the rental income for the half year ended 30 June 2002 fell behind that for the corresponding period in 2001 as the combined result of lower rentals for new tenancies and the decrease in the occupancy rates.

### Shougang Technology

Shougang Technology achieved the satisfactory results for the period under review despite the continued slowdown of global economy. With its effort in minimizing its stock level and rationalization of its overheads, Shougang Technology achieved a profit of HK\$14.7 million for the six months ended 30 June 2002 by comparing to a loss of HK\$4.1 million for the corresponding period in 2001.

In order to improve its operational efficiency and overall financial performance further, Shougang Technology is currently reviewing various investment opportunities that are in line with its existing business operation. The management is optimistic about the future contribution of Shougang Technology to the Group.

**Beijing Dongzhimen International Apartment Co., Ltd. (“Dongzhimen”)**

The aftermath of last year's economic set-back in the United States which was compounded by the terrorist attacks has seriously affected the world-wide economy. With the target tenants being the expatriates engaged by foreign companies, the occupancy rate of the multi-storey villas of Dongzhimen was affected by the cost-cutting measures of those companies. In addition, the operation of Phase 2 gave rise to an increase in depreciation charges and other costs but did not make significant contribution to the Group in its initial stage of operation.

To improve its performance, it is intended that Dongzhimen would enlarge the target leasing groups and put more emphasis on advertising, enhance further the leasing management and quality of services while endeavour to exercise tight cost controls. In order to enhance its competitiveness, it plans to renovate the Phase 1 in the year 2003. Furthermore, the entry into the World Trade Organization and the Beijing's 2008 Olympics are expected to lead to a strong demand for quality serviced apartments and villas in Beijing.

With the anticipated trend in the increase in the demand and the adjusted strategies and policies, management is confident of the future prospects and contribution of Dongzhimen to the Group.

**Liquidity and capital resources**

At 30 June 2002, the Group's gearing ratio (i.e. ratio of bank borrowings to equity) and current ratio were 0.13 and 0.33 respectively.

There were decreases in net cash and bank balances from approximately HK\$23.9 million at 31 December 2001 to approximately HK\$9.8 million at 30 June 2002 while there was decrease in bank borrowings from HK\$100 million at 31 December 2001 to HK\$85 million at 30 June 2002.

The bank loan was secured by certain of the Group's Hong Kong investment properties and land and buildings with an aggregate carrying value of approximately HK\$225 million. Included in the total outstanding bank borrowings of HK\$85 million at 30 June 2002, HK\$30 million is due to repay within one year. The Group anticipates that it will meet its obligations for the coming year by its internally generated financial resources and credit facilities from its bankers.



The routine business operation and investment of the Group are in Hong Kong and the Mainland, with revenue and expenditure denominated in HKD and RMB. The RMB income from the Mainland is mainly remitted to Hong Kong at the prevailing official exchange rate. Given the stable official exchange rate of RMB to HKD, the Group believes that it will not be subject to any significant exposure associated with fluctuation in exchange rates under foreseeable circumstances.

### **Employees**

The total number of employees including those controlled by the property management subsidiaries but excluding those under the payroll of the associates and the jointly-controlled entity of the Group at 30 June 2002 was 28 compared with that 28 at 31 December 2001.

Remuneration packages are reviewed either annually or by special increment. In addition to the basic salary, other staff benefits include medical and hospitalisation subsidies, and mandatory provident fund scheme.

### **Share options**

At the Annual General Meeting of the Company held on 7 June 2002, the shareholders of the Company approved the adoption of a new share option scheme (the "New Scheme") and the termination of the operation of the share option scheme adopted by the Company by ordinary resolution of its shareholders on 8 September 1993 ("Old Scheme"). No options were outstanding under the Old Scheme at its date of termination.

Subsequent to the review date, on 23 August 2002, pursuant to the term of the New Scheme, share options of 53,811,414 shares were granted to eligible persons at an exercise price of HK\$0.73 per share.

### **Outlook**

Hong Kong's economy has entered into a phase of uncertainty. Weak worldwide economic conditions, the structural change of Hong Kong's economy, the persistently high unemployment rate and the slow recovery of the local economy have led to a difficult business environment in Hong Kong. It will be difficult to be too optimistic about the prospect of local economy in Hong Kong in the short term. In contrast, the Mainland is still in a period of high economic growth. It holds out some cause for optimism, given the size of its domestic economy and its focus on the domestic economy as an engine for growth. In view of this, the Group will endeavour to explore the business opportunities in the Mainland. By taking full advantage of strong positioning of Shougang Corporation, the Board of Directors is confident of its prospects.