



INTERIM DIVIDEND

The Board of Directors does not recommend the payment of an interim dividend for the six months ended 30 June 2003 (2002: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

Interim review

The turnover of the Group amounted to approximately HK\$7,577,000 for the period under review, representing a slight decrease of approximately 2 per cent as compared with that for the corresponding period in 2002. Due to the exceptional and non-recurring decreases in the contribution from both Shougang Concord Technology Holdings Limited ("Shougang Technology"), its associate, and Beijing Dongzhimen International Apartment Co., Ltd. ("Beijing Dongzhimen"), its jointly controlled entity, the Group incurred a net loss of HK\$3,297,000 for the period under review as compared to a net profit of HK\$3,497,000 for the same period in 2002.

Hong Kong investment properties

With the Group's dedicated efforts and revised leasing strategies, the occupancy rates of its Hong Kong investment properties have improved gradually. However, due to the continuous sluggishness of the property leasing market in Hong Kong and the outbreak of Severe Acute Respiratory Syndrome ("SARS"), rental rate was still under downward pressure in the first half of 2003.

Beijing Dongzhimen

During the period under review, Beijing was also hit by the outbreak of SARS. As a result of the combined effect of the reduction in revenue of Phase 1 of Beijing Dongzhimen during the close-down period for its renovation and the outbreak of SARS, the Group shared an after-tax loss of Beijing Dongzhimen of approximately HK\$3,036,000 for the period under review.

Now SARS is under control and the business of Beijing Dongzhimen has returned to normal. It is expected that the renovation of Phase 1 of Beijing Dongzhimen will be completed by the end of 2003 and its contribution will be enhanced gradually by then. In addition, the hosting of the Olympic Games is further expected to spur the growth of the retail industry and tourism, which is expected to benefit the hotel industry and boost the demand for serviced apartments in Beijing. Moreover, China's accession into the World Trade Organization will stimulate the inflow of foreign investments. As the capital, Beijing is well positioned to capture the growth in demand for both commercial and residential properties including serviced apartments.



MANAGEMENT DISCUSSION AND ANALYSIS (continued)

These various favourable factors together with competitive advantages of Beijing Dongzhimen such as its advanced property management and convenient location in the embassy district, give the Board strong reason for a better performance of Beijing Dongzhimen for the coming years.

Shougang Technology

Shougang Technology recorded a drop in net profit attributable to shareholders of approximately HK\$10,900,000, i.e. 72%, for the six months ended 30 June 2003 as compared with that of the corresponding period in 2002. The drop was mainly attributable to the significant decrease in contribution from its copper wire jointly controlled entity, the increase in its financial cost, and the slight downward pressure on the selling prices of its products.

With factories located in Pearl River Delta Region, the performance of its copper wire jointly controlled entity was severely affected by the outbreak of SARS during the second quarter of 2003. Its business has strongly rebounded in the third quarter of 2003 when the SARS is under control.

According to its sales orders on hand, management is optimistic about the contribution of Shougang Technology to the Group in the second half of the year.

Moreover, Shougang Technology is establishing a new business on the manufacturing of the photomasks. It is expected that the trial run of its new factory at Tai Po Industrial Estate for the photomask business will commence in the fourth quarter of 2003 and its source of profit will be enhanced further by then.



MANAGEMENT DISCUSSION AND ANALYSIS (continued)

Financial Services Business

The Group has entered into a joint venture agreement with its immediate holding company, Shougang Holding (Hong Kong) Limited ("Shougang Holding"), and Simplex Capital Asia Limited ("Simplex") on 14 July 2003 ("Joint Venture Agreement") pursuant to which the Group together with Shougang Holding and Simplex will establish a joint venture to principally carry out the business of provision of financial services, including the arrangement of trade finance, lease finance and bridge finance as well as provision of advisory and asset management services to companies on the Mainland and in Hong Kong. Upon completion of the subscription of the shares in the joint venture by the respective parties in accordance with the terms of the Joint Venture Agreement, the Group will own 55 per cent of the issued share capital of the joint venture.

In view of the current market condition of the Hong Kong property sector, the Group has been reviewing various investment opportunities with an aim to diversify its business portfolio in order to improve its overall financial performance and to enhance shareholders' value. Having considered the extensive business connections of Shougang Corporation, the ultimate holding company of the Company, on the Mainland and in Hong Kong, and the experience of Simplex in the financial service industry, the Board believes that the entering into the Joint Venture Agreement represents a good opportunity for the Group to enter into and to capture the growth potential of the financial service industry on the Mainland and in Hong Kong and as its first step to diversify its income base.

Outlook

During the period under review, the China economy continued to demonstrate burgeoning growth. According to the statistics issued by the National Statistics Bureau of China, the gross domestic product of the Mainland China for the first half of 2003 grew by 8 per cent on a year-on-year basis, demonstrating high growth potential. Despite the outbreak of SARS, its economy was only temporarily affected. With the anticipated economic growth, China's accession to the WTO and the hosting of the Olympic Games in 2008, a promising future lies ahead for the Mainland's economy from which the Group is expected to benefit.

Apart from its diversification into the business of the provision of financial services, the Group will continue to explore further business opportunities to enhance its income source and strengthen its asset base.



MANAGEMENT DISCUSSION AND ANALYSIS (continued)

Liquidity and capital resources

At 30 June 2003, the Group's gearing ratio (i.e. ratio of bank borrowings to equity) and current ratio were 0.18 and 7.56 respectively.

There were increases in cash and bank balances from approximately HK\$6.5 million at 31 December 2002 to approximately HK\$50.9 million at 30 June 2003 while there was increase in bank borrowings from HK\$82 million at 31 December 2002 to HK\$111.7 million at 30 June 2003.

The bank loans were secured by all of the Group's Hong Kong investment properties and land and buildings with an aggregate carrying value of approximately HK\$236 million. Included in the total outstanding bank borrowings of HK\$111.7 million at 30 June 2003, HK\$600,000 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.

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. 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 2003 was 28 compared with that 28 at 31 December 2002.

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.