REVIEW AND PROSPECTS

The global economy experienced an apparent slowdown in the first half of the year. Despite repeated rate cuts by the United States, there are yet no signs of economic recovery, nor any major economic figures released by most Asian Pacific countries indicate any trace of economic recovery in the near future. The business environment now in Hong Kong is obviously poorer than the outbreak of Asian financial turmoil in late 1997 and 1998. Notwithstanding all such adverse conditions, the Group still managed to make a steady growth in its core business with profit attributable to the shareholders amounting to approximately HK$15.08 million, an increase of 50.24% as compared with the corresponding period last year.

1. METAL BUSINESS

The global demand for steel dropped in the first half of the year while the demand from the PRC market increased. The Group continued to hold its leading position as a metal trader in Hong Kong.

The Group's metal trading arm continued to strengthen its relations with major clients and consolidated its existing sourcing channels, while on the other hand adjusted its sales product mix according to market needs to evade trading steel plates products which are more sensitive to market volatility and import restrictions. The Group instead focused on the sales of raw materials and semi-finished billets necessary for steel smelting and steel rolling. As a result, the Group managed to improve its overall profits as compared with second half of last year, as the drop in gross profit was offset by an increase in both product varieties and sales quantities. During the period under review, the Group's attempt to explore rail transport trade at the China-Russia border began to flourish and the Group has now become one of the major Chinese traders of steel products from Ispat Karmet, Kazakhstan.

With a view to increase the profit margin and tighten risk control of our warehousing business, and to target specifically at the ample room for development in domestic sales subsequent to China's accession to the WTO, the Group has not only strengthened and enlarged its client base in eastern China, but also started developing a direct wholesale network to end users in southern and northern China. In so doing, it has joined hands with several state-owned and private-owned logistics corporations in launching warehousing business.

The operating profit of the Group's wholly-owned steel pipes processing plant saw a modest decrease amidst a drop in export orders and fierce price competition. Yet our newly invested production line for steel pipes in a wider diameter has successfully completed the assembly and trial run sessions with an outstanding product quality and is scheduled to put into commercial operation in the second half of the year. This will surely enhance our ability to manufacture a wide range of products and achieve economy of scale for the purpose of cost reduction and profit improvement.

In the wake of the limited room for development in export sales, the Group's steel pipes processing plant will keep enhancing its operating and management efficiency and proactively adapting to changes in trade competition, in its prudent attempt to tap into the PRC domestic market by way of wholly-owned or joint venture enterprise.

2. WORLDMETAL.COM

During the period under review, WorldMetal.com, our on-line metal exchange, continued to broaden its income base and reduce its expense items for the purpose of efficient operation and expansion. To date, WorldMetal.com has enrolled as many as 3,800 enterprises in approximately 64 countries and areas as its members. In the first half of the year, it successfully procured transactions exceeding US$300 million. Our business strategy of setting up on-line exchanges in major steel manufacturing and consumption countries began to take effect. SteelnMetal.com, whose 50% interests are owned by WorldMetal.com Limited, and ChinaSteel.com.cn, in which WorldMetal.com Limited offered professional and technical support to its construction and implementation, have both successfully procured on-line transactions and recorded commission income.

During the period, the trading platform WorldMetal.com underwent two system upgrades which facilitated the launch of relevant value-added ancillary services. While transaction commission remained the mainstream income, the advertising business also saw some growth, along with a number of ASP contracts sealed. The incomes from these two sources will be accounted for within this year.

The separate listing of WorldMetal Holdings Limited on the Growth Enterprise Market of the Stock Exchange is now underway. The ailing capital market has no doubt made it more difficult for an emerging business to go public. A successful listing, however, will produce a positive effect on WorldMetal.com in terms of its independent operation, brand building and market expansion.

3. PROPERTY DEVELOPMENT AND INVESTMENT

The sizeable multi-complex project, “Times Square”, jointly developed by the Group and local government authority in Jiangsu, China covering a site area of over 68,000 square metres, is making smooth progress. The construction works and the installation of facilities and the facade are all nearing completion, with the whole project to be completed and delivered for occupation within this year. The grand opening is expected to take place in early 2002.

This project is well received by the market in terms of sale and lease. As the date of its grand opening is drawing near, another pre-sale programme for partial floor area will be conducted this year and most of the floor area will be leased out to selected local and international brand names according to the planned business mix. As benefited from the rapid economic development in the region of Yangtze River Delta, this project will be able to generate handsome proceeds and in the longer term, a steady rental income for the Group.

In’s Square, the shopping centre in Mongkok, Hong Kong, has not been affected by the local economic slowdown and continued to generate a steady rental income in the first half of the year.