



首長國際企業有限公司

SHOUGANG CONCORD INTERNATIONAL ENTERPRISES COMPANY LIMITED

(Incorporated in Hong Kong with limited liability)

INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2002

INTERIM RESULTS

The board of directors (the “Board”) of Shougang Concord International Enterprises Company Limited (the “Company”) is pleased to announce the unaudited consolidated interim results of the Company and its subsidiaries (the “Group”) for the six months ended 30 June 2002. These interim results have been reviewed by the Company’s Audit Committee and its Auditors.

CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the six months ended 30 June 2002

		Continuing operations		Discontinued operations		Total operations	
		For the six months ended 30 June		For the six months ended 30 June		For the six months ended 30 June	
		2002	2001	2002	2001	2002	2001
		(Unaudited)	(Unaudited)	(Unaudited)		(Unaudited)	(Unaudited)
(Unaudited)							
	Notes	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
TURNOVER	(2)	897,942	1,018,622	7,718	11,468	905,660	1,030,090
Cost of sales		(906,857)	(954,757)	–	–	(906,857)	(954,757)
Gross profit/(loss)		(8,915)	63,865	7,718	11,468	(1,197)	75,333
Other revenue and gains, net		12,322	22,993	1,444	5,130	13,766	28,123
Distribution costs		(4,570)	(7,281)	–	–	(4,570)	(7,281)
Administrative expenses		(73,695)	(89,532)	(7,668)	(10,699)	(81,363)	(100,231)
Other operating expenses, net		(5,834)	(22,715)	(23)	(276)	(5,857)	(22,991)
Loss on disposal of a subsidiary	(3)	–	–	(213,340)	–	(213,340)	–
PROFIT/(LOSS) FROM OPERATING ACTIVITIES	(2), (4)	(80,692)	(32,670)	(211,869)	5,623	(292,561)	(27,047)
Finance costs	(5)	(20,358)	(32,941)	(1,754)	(3,307)	(22,112)	(36,248)
Share of profits less losses of associates		10,201	2,830	6,885	(1,442)	17,086	1,388
Share of profits less losses of jointly-controlled entities		–	–	(1,508)	4,218	(1,508)	4,218

PROFIT/(LOSS) FROM ORDINARY ACTIVITIES BEFORE TAX		(90,849)	(62,781)	(208,246)	5,092	(299,095)	(57,689)
Tax	(6)	<u>(550)</u>	<u>(211)</u>	<u>(945)</u>	<u>(935)</u>	<u>(1,495)</u>	<u>(1,146)</u>
PROFIT/(LOSS) BEFORE MINORITY INTERESTS		(91,399)	(62,992)	(209,191)	4,157	(300,590)	(58,835)
Minority interests		<u>18,808</u>	<u>19,305</u>	<u>(1,366)</u>	<u>(376)</u>	<u>17,442</u>	<u>18,929</u>
NET PROFIT/(LOSS) FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS		<u>(72,591)</u>	<u>(43,687)</u>	<u>(210,557)</u>	<u>3,781</u>	<u>(283,148)</u>	<u>(39,906)</u>
TRANSFER TO RESERVES	(7)	<u>190</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>190</u>	<u>–</u>
LOSS PER SHARE							
– BASIC, <i>HK cents</i>	(8)					<u>12.3</u>	<u>2.1</u>

Notes:

(1) Basis of preparation and accounting policies

The unaudited condensed consolidated interim financial statements are prepared in accordance with Hong Kong Statement of Standard Accounting Practice (“SSAP”) No. 25 “Interim financial reporting”.

The accounting policies and basis of preparation used in the preparation of the interim financial statements are the same as those used in the annual audited financial statements for the year ended 31 December 2001, except that the Group has changed certain of its accounting policies following the adoption of the following recently-issued and revised SSAPs issued by the Hong Kong Society of Accountants which are effective for the first time for the current period’s condensed consolidated financial statements:

SSAP 1 (Revised):	Presentation of financial statements
SSAP 11 (Revised):	Foreign currency translation
SSAP 15 (Revised):	Cash flow statements
SSAP 33:	Discontinuing operations
SSAP 34:	Employee benefits

These SSAPs prescribe new accounting measurement and disclosure practices, and the implementation of which has had no significant effect on the financial results and the financial position of the Group.

(2) Segment information

The following tables present revenue and results for the Group's business segments and geographical segments:

(a) Business segments

2002

	Steel manufacturing (Unaudited) HK\$'000	Steel trading (Unaudited) HK\$'000	Kitchen and laundry equipment (Unaudited) HK\$'000	Shipping (Unaudited) HK\$'000	Property investment and management (Unaudited) HK\$'000	Corporate and others (Unaudited) HK\$'000	Eliminations (Unaudited) HK\$'000	Consolidated (Unaudited) HK\$'000
Segment revenue:								
Sales to external customers	708,540	18,393	29,478	140,595	7,718	936	–	905,660
Intersegment sales	–	–	–	–	–	978	(978)	–
Other revenue	6,286	4,526	319	39	493	13	–	11,676
Total	<u>714,826</u>	<u>22,919</u>	<u>29,797</u>	<u>140,634</u>	<u>8,211</u>	<u>1,927</u>	<u>(978)</u>	<u>917,336</u>
Segment results	<u>(36,245)</u>	<u>(651)</u>	<u>(3,049)</u>	<u>(30,916)</u>	<u>543</u>	<u>(10,970)</u>	<u>–</u>	<u>(81,288)</u>
Unallocated revenue and gains								2,090
Unallocated expenses								(23)
Loss on disposal of a subsidiary								(213,340)
Loss from operating activities								<u>(292,561)</u>

2001

	Steel manufacturing (Unaudited) HK\$'000	Steel trading (Unaudited) HK\$'000	Kitchen and laundry equipment (Unaudited) HK\$'000	Shipping (Unaudited) HK\$'000	Property investment and management (Unaudited) HK\$'000	Corporate and others (Unaudited) HK\$'000	Eliminations (Unaudited) HK\$'000	Consolidated (Unaudited) HK\$'000
Segment revenue:								
Sales to external customers	754,749	49,351	37,015	176,457	11,468	1,050	–	1,030,090
Intersegment sales	–	–	–	–	–	780	(780)	–
Other revenue	8,354	10,822	3	–	280	2	–	19,461
Total	<u>763,103</u>	<u>60,173</u>	<u>37,018</u>	<u>176,457</u>	<u>11,748</u>	<u>1,832</u>	<u>(780)</u>	<u>1,049,551</u>
Segment results	<u>(37,542)</u>	<u>(346)</u>	<u>(1,694)</u>	<u>8,497</u>	<u>1,023</u>	<u>(5,397)</u>	<u>–</u>	<u>(35,459)</u>
Unallocated revenue and gains								8,662
Unallocated expenses								(250)
Loss from operating activities								<u>(27,047)</u>

(b) *Geographical segments*

	Hong Kong		Mainland China		Corporate and others		Eliminations		Consolidated	
	2002	2001	2002	2001	2002	2001	2002	2001	2002	2001
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment revenue:										
Sales to external customers	166,418	207,861	725,128	763,682	14,114	58,547	-	-	905,660	1,030,090
Intersegment sales	-	-	-	-	978	780	(978)	(780)	-	-
Other revenue	3,509	1,847	6,359	8,354	1,808	9,260	-	-	11,676	19,461
Total	<u>169,927</u>	<u>209,708</u>	<u>731,487</u>	<u>772,036</u>	<u>16,900</u>	<u>68,587</u>	<u>(978)</u>	<u>(780)</u>	<u>917,336</u>	<u>1,049,551</u>
Segment results	<u>(38,545)</u>	<u>(3,757)</u>	<u>(33,615)</u>	<u>(33,591)</u>	<u>(9,128)</u>	<u>1,889</u>	<u>-</u>	<u>-</u>	<u>(81,288)</u>	<u>(35,459)</u>

(3) **Discontinued operations**

On 11 April 2002, a conditional agreement was entered into between the Company, a wholly-owned subsidiary of Shougang Holding (Hong Kong) Limited (the “First Purchaser”) and a wholly-owned subsidiary of Cheung Kong (Holdings) Limited (the “Second Purchaser”) pursuant to which, the Company agreed to sell and the First Purchaser agreed to acquire 430,491,315 ordinary shares of HK\$0.01 each in the capital of Shougang Concord Grand (Group) Limited (the “SC Grand Shares”) and the Second Purchaser agreed to acquire 91,491,193 SC Grand Shares for an aggregate cash consideration of approximately HK\$172,254,000 (equivalent to HK\$0.33 per SC Grand Share). The above disposal was completed on 21 June 2002. The Company has no interests in SC Grand after the completion of the above disposal.

A loss on disposal of SC Grand of approximately HK\$213,340,000 was recorded by the Group upon the completion of the above disposal and there was no tax arising from the disposal.

(4) **Profit/(loss) from operating activities**

The Group’s profit/(loss) from operating activities was arrived at after charging/(crediting):

	For the six months ended 30 June	
	2002	2001
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Cost of inventories sold	811,205	925,721
Cost of services provided	1,311	1,418
Staff costs	68,251	71,527
Depreciation	48,427	53,045
Amortisation of intangible assets	802	382
Provisions for bad debts, net	34	11,700
Loss on disposal of land and buildings	-	66
Loss on disposal of a subsidiary	213,340	-
Loss/(gain) on changes in fair values of short term investments, net	23	(3,250)
Gain on dissolution of a subsidiary	(921)	-
Gain on disposal of short term listed investments	(750)	(1,077)
Dividend income from listed investments	(28)	(28)
Interest income	<u>(1,312)</u>	<u>(4,057)</u>

(5) Finance costs

	For the six months ended 30 June	
	2002	2001
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Interest expense on:		
Bank loans, bank overdrafts and other loans wholly repayable within five years	21,531	19,639
Convertible note	395	–
Convertible bonds	–	11,634
Finance leases	186	213
	<hr/>	<hr/>
Net interest expense	22,112	31,486
Accretion of premium on convertible bonds	–	4,762
	<hr/>	<hr/>
	22,112	36,248
	<hr/>	<hr/>

(6) Tax

Hong Kong profits tax has been provided at the rate of 16% (2001: 16%) on the estimated assessable profits arising in Hong Kong during the period. Taxes on profits assessable elsewhere have been calculated at the tax rates prevailing in the countries in which the Group operates based on existing legislation, interpretations and practices in respect thereof.

	For the six months ended 30 June	
	2002	2001
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Group:		
Hong Kong	141	439
Elsewhere	241	–
Overprovision in prior periods	(35)	(207)
Deferred tax	–	(118)
	<hr/>	<hr/>
	347	114
Share of tax attributable to:		
Jointly-controlled entities	765	695
Associates	383	337
	<hr/>	<hr/>
Tax charge for the period	1,495	1,146
	<hr/>	<hr/>

(7) Transfer to reserves

In accordance with the financial regulations applicable in the PRC, subsidiaries, associates and other joint ventures in the PRC are required to transfer part of their profits after tax to the enterprise expansion fund and the statutory reserve fund, which are non-distributable, before profit distributions to joint venture partners. The quanta of the transfers are subject to the approval of the board of directors of these subsidiaries, associates and joint ventures in accordance with their respective joint venture agreements.

(8) Loss per share

The calculation of basic loss per share for the six months ended 30 June 2002 is based on the net loss from ordinary activities attributable to shareholders of HK\$283,148,000 (2001: HK\$39,906,000) and 2,295,546,454 (2001: weighted average number of 1,902,022,421) ordinary shares in issue during the period.

The diluted loss per share for the six months ended 30 June 2002 and 30 June 2001 is not shown as there were no dilutive effects on the basic loss per share. The 3% convertible note had no dilutive effect on the basic loss per share during the period ended 30 June 2002. The 8% convertible bonds had an anti-dilutive effect on the basic loss per share during the period ended 30 June 2001. The outstanding share options of the Company would not result in the issue of ordinary shares for less than the fair value as their exercise price was above the average market price of the Company's shares during the period ended 30 June 2001.

MANAGEMENT DISCUSSION AND ANALYSIS

Business review

For the six months ended 30 June 2002, the Group incurred a loss attributable to shareholders of HK\$283.1 million, which was classified by net loss on continuing operations and discontinued operations of HK\$72.6 million and HK\$210.5 million, respectively. In the corresponding period last year, the Group recorded a net loss attributable to shareholders of HK\$39.9 million, represented by net loss on continuing operations of HK\$43.7 million and net profit on discontinued operations of HK\$3.8 million.

The increase in loss on continuing operations was mainly due to the disappointing result of the Group's shipping operations, where poor market sentiment and severe competition had caused the operating loss to accelerate in the period. The Group's net loss on discontinued operations for the current period included the loss on disposal of a subsidiary of HK\$213.3 million. Such loss was incurred in connection with the disposal of the Company's 63.05% shareholdings in Shougang Concord Grand (Group) Limited pursuant to the Group Reorganization, details of which were announced previously. In the current period, net profit on discontinued operations before accounting for this substantial loss amounted to HK\$2.8 million, showing a decrease of HK\$1.0 million in profit as compared to the net profit of HK\$3.8 million recorded in last period.

Taken into account the significant increase in loss attributable to shareholders which arose mainly on discontinued operations, basic loss per share has increased to HK12.3 cents for this interim period from HK2.1 cents for the same period last year.

Trading of steel products, and manufacture and sale of kitchen and laundry equipment

Due to weak market demand and strong price competition among the steel manufacturers and traders, Shougang Concord Steel Holdings Limited and its subsidiaries ("Shougang Steel Group") recorded a decrease of HK\$38.5 million or 44.6% in turnover for the current period, from HK\$86.4 million in 2001 to HK\$47.9 million in 2002. This significant drop in turnover was mainly attributable to the contraction in its steel trading business, where sales volume of steel products declined to 10,000 metric tonnes in 2002 from 28,000 metric tonnes in 2001. The average price of the steel products sold also decreased to US\$163 per metric tonne in the current period from US\$189 per metric tonne in the last period. These adverse volume and price variances were the main triggers that caused the turnover of the steel trading business to drop by HK\$31.0 million to HK\$18.4 million in the current period when compared with that of last period. The turnover of kitchen and laundry equipment also experienced a decline of HK\$7.5 million or 20.3% to HK\$29.5 million in the current period.

In spite of the increased efforts of the management to tighten cost control measures, the significant decrease in turnover had an apparent impact on overall performance. Shougang Steel Group suffered a loss of HK\$3.4 million for the first half of 2002, against a profit of HK\$1.5 million for the corresponding period last year. As the steel market is expected to remain sluggish in the second half year of 2002, the management will remain cautious in controlling costs while exploring opportunities to boost turnover.

Shipping

Shougang Concord Shipping Holdings Limited and its subsidiaries (“Shougang Shipping Group”) reported a total operating revenue of HK\$140.6 million for this interim period, representing a decrease of HK\$35.9 million from HK\$176.5 million for the last corresponding period. Operating revenue relating to the voyage charter and floating crane businesses grew marginally, however there was a significant shrinkage of HK\$39.0 million in operating revenue for the time charter business, which fell from HK\$84.3 million in 2001 to HK\$45.3 million in 2002. During the period under review, the global economic downturn continued to exert substantial negative impact on the market freight rates, which were dragged down to much lower levels than those in the first half of 2001. This translated into tremendous pressure for the operations of the time charter business and resulted in its operating loss of HK\$34.5 million, a decline in profit of HK\$35.0 million when compared with an operating profit of HK\$0.5 million in the last period. The depressing freight rates also led to a fall in operating profit of HK\$6.7 million for the voyage charter business, from HK\$8.8 million in 2001 to HK\$2.1 million in 2002. The floating crane business was quite unaffected and maintained a small growth in operating profit to HK\$3.2 million during the period. On the whole, Shougang Shipping Group incurred a loss attributable to shareholders of HK\$32.8 million for the six months ended 30 June 2002, against a profit attributable to shareholders of HK\$7.9 million for the last corresponding period. As it is expected that the prospect of shipping operations will remain dim in the near future, the Group will review the operational issues and evaluate its investment in Shougang Shipping Group in a critical manner.

Manufacture and sale of steel products

During the period under review, the depressed market conditions continued to cast a shadow over the operations of Firstlevel Holdings Limited and its subsidiaries (“Firstlevel Group”). The PRC steel markets, which had deteriorated in the second half of 2001 due to over supply of steel products by the steel manufacturers in relation to the sluggish demand, remained shaky during this interim period and became more fragile in the first quarter, where downward price pressure of the steel products dominated the markets. In view of the persistent weak market situation driven by slackened demand, price competition among steel manufacturers was keen and Firstlevel Group had to follow the lead in order to maintain its sales. For the six months ended 30 June 2002, Firstlevel Group was able to maintain its sales volume and sold approximately 333,000 metric tonnes of steel products, while its sales amount declined by 6.1% from HK\$754.7 million in 2001 to HK\$708.5 million in 2002. Despite such adversity, Firstlevel Group successfully minimized the negative impact on performance by implementing stringent cost control measures. As a result, the attributable loss to the Group for this interim period amounted to HK\$29.0 million, representing a decrease of HK\$1.3 million from the attributable loss of HK\$30.3 million incurred for the last period.

The Group’s investment in Firstlevel Group includes three joint ventures in the PRC, in each of which the Group has a 65% interest. During the period under review, the Group entered into agreements to dispose of its 50% interest in each of the three joint ventures pursuant to the Group Reorganization, details of which were announced previously. The Group’s share of the attributable loss in these three joint ventures amounted to HK\$20.2 million for this interim period. It is expected that the said disposal will be completed in the second half of 2002. As these joint ventures have been running at a loss for years, the disposal will improve the Group’s performance in the future.

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

Shougang Concord Century Holdings Limited and its subsidiaries (“Shougang Century Group”) recorded a turnover of HK\$105.6 million for the six months ended 30 June 2002, an impressive growth rate of 20.5% from HK\$87.6 million as achieved in last interim period. The increase in turnover amounted to HK\$18.0 million, out of which HK\$13.2 million was attributed to its core business of manufacture and sale of steel cord, which turnover grew from HK\$66.3 million in 2001 to HK\$79.6 million in 2002. The improved performance of Shougang Century Group over the period was not confined to turnover alone. During the period under review, its gross profit increased from HK\$22.8 million to HK\$33.1 million, which were accompanied by an improvement in the gross profit ratio from 26.0% to 31.4%. Shougang Century Group also managed to keep its expenditure at last corresponding period’s level and, through proactive measures in credit control and debt collection, was able to recover some long outstanding debts in the period, resulting in the write-back of provision for bad and doubtful debts for HK\$14.9 million. Consequently, profit after tax mounted to HK\$37.7 million in 2002 from HK\$11.3 million in 2001. After accounted for minority interests, Shougang Century Group’s net profit attributable to shareholders for the current period rose to HK\$27.1 million, an increase of 2.0 times when compared with HK\$8.9 million achieved in 2001. As was the case in last period, the surged growth in profit was mainly derived from Shougang Century Group’s core business of manufacture and sale of steel cord, an energetic business division with vision and proven competitive edge. With this main contributor and general improvement in other business divisions, it is anticipated that Shougang Century Group will continue to deliver encouraging results to the Group in the future.

Discontinued operations

During the period under review, the Company disposed of its 63.05% shareholdings in Shougang Concord Grand (Group) Limited (“Shougang Grand”) pursuant to the Group Reorganization, details of which were announced previously. Shougang Grand and its subsidiaries (“Shougang Grand Group”) are principally engaged in the activities of property investment, development and management in Hong Kong and the PRC. Shougang Grand Group recorded net profits attributable to shareholders of HK\$18.2 million and HK\$4.4 million for the two years ended 31 December 2000, and incurred a net loss attributable to shareholders of HK\$72.8 million for the year ended 31 December 2001.

The aggregate consideration of the said disposal amounted to HK\$172.3 million and a loss on disposal of HK\$213.3 million was recognized in the accounts for this interim period. The loss on disposal was calculated by reference to the net assets of Shougang Grand Group at the date of the disposal. Although the Group has incurred this one-off exceptional loss, the disposal is in line with the objectives of the Group Reorganization. It is also in the interests of the Group and the shareholders of the Company as a whole.

The result of Shougang Grand Group for this interim period has been accounted for under the heading of discontinued operations in the consolidated accounts up to the date of its disposal. This included a turnover of HK\$7.7 million for the six months ended 30 June 2002 and the corresponding figure of HK\$11.5 million for the last period. Also included therein were the results of Shougang Grand Group’s 46.3% associate, Shougang Concord Technology Holdings Limited and its subsidiaries, in which Shougang Grand Group shared its net profit after tax of HK\$6.8 million for this interim period and its loss after tax of HK\$1.5 million for the last period. On the whole, the Group’s share of net profit contributed by Shougang Grand Group for this interim period amounted to HK\$2.8 million, showing a decrease of HK\$1.0 million as compared with HK\$3.8 million for the last period. After accounted for the loss on disposal of HK\$213.3 million, the Group incurred a net loss on discontinued operations of HK\$210.5 million for this interim period.

Liquidity and financial resources

The Group financed its operations mainly by cash generated from its business activities and banking facilities provided by its bankers. As at 30 June 2002, the Group had banking facilities of HK\$51.8 million with banking institutions in Hong Kong, and banking facilities of RMB418.8 million and US\$1.0 million with banking institutions in the PRC. These banking facilities were utilised to the extent of HK\$15.6 million, RMB368.8 million and US\$1.0 million respectively as at 30 June 2002. The banking facilities in Hong Kong were secured by certain properties of HK\$21.0 million, and those in the PRC were secured by certain plant and machinery with an aggregate net book value of RMB362.6 million, cash deposits of RMB16.4 million and corporate guarantees from Shougang Corporation of RMB321.9 million.

The Group's current assets as at the current period end amounted to HK\$960.6 million, showing a decline of HK\$9.6 million from last year end's level of HK\$970.2 million. However, included therein were the Group's cash and cash equivalents, which increased by HK\$60.1 million, from HK\$191.1 million as at 31 December 2001 to HK\$251.2 million as at 30 June 2002. In addition, the Group's current liabilities decreased from HK\$1,206.1 million to HK\$1,029.8 million, representing a decrease of HK\$176.3 million for the period. The Group's current ratio, defined as current assets divided by current liabilities, improved to 0.93 times as at 30 June 2002 from 0.80 times as at last year end. Nevertheless, the Group's gearing ratio, defined as total debts divided by equity, increased to 3.96 times as at 30 June 2002 from 2.62 times as at 31 December 2001. During the period under review, the Group had no significant exposure to foreign exchange fluctuations and therefore no hedging arrangements were made in this aspect.

Capital structure

On 10 April 2002, Sino Fortune Investments Limited ("Sino Fortune"), a wholly-owned subsidiary of the Company and the Company entered into a subscription agreement with China Gate Investments Limited ("China Gate"), a wholly-owned subsidiary of Shougang Holding (Hong Kong) Limited ("Shougang HK") which is the controlling shareholder of the Company, pursuant to which Sino Fortune has agreed to issue and China Gate has agreed to subscribe convertible note to repay part of the existing loans due by the Company to a wholly-owned subsidiary of Shougang HK. The convertible note, in the principal amount of HK\$200 million with an interest rate of 3% per annum, will fall due in 2004 and the noteholder will have the right during the conversion period to convert in whole or in part the convertible note into new ordinary shares of the Company at the initial conversion price (subject to adjustments) of HK\$0.35 per share. Further details in connection with the issue of the convertible note are contained in the circular to the shareholders of the Company dated 17 May 2002.

During the period under review, the issue of the convertible note was completed. The loans in the sum of HK\$292.6 million, inclusive of interest, due by the Company to a wholly-owned subsidiary of Shougang HK were wholly repaid by the said issue of the HK\$200 million convertible note and by cash of HK\$92.6 million, which was funded by part of the net proceeds from the disposal of the Company's 63.05% shareholdings in Shougang Grand.

Contingent liabilities

As at 30 June 2002, the contingent liabilities of the Group consisted of guarantees for banking facilities granted to certain third party business corporations in the PRC of RMB81.9 million and guarantees in respect of performance bonds of HK\$3.5 million.

Employees and remuneration policies

The Group had a total of approximately 4,300 employees as at 30 June 2002.

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

In addition, the adoption of a new share option scheme and the termination of the existing share option scheme were approved by the shareholders of the Company at the annual general meeting held on 7 June 2002. During the period under review, no share options were granted under the new share option scheme and no share options were outstanding as at 30 June 2002.

Prospects

In the wake of a global economic downturn and the intensification of competition in various business sectors in which the Group operates, the first half of 2002 was a difficult period for the Group, during which its performance was adversely affected by such negative factors. On the other hand, the first half of 2002 was also an encouraging period for the Group, during which the concerted efforts of the management to reorganize the Group were materialized. As mentioned in our last Annual Report, the Group has launched a programme of Group Reorganization in 2002. The Group Reorganization is an integral element to streamline the corporate structure of the Group and will broaden its earning bases. Details of the Group Reorganization are contained in the circular to the Company's shareholders dated 17 May 2002. During the six months ended 30 June 2002, the disposal of shareholdings in Shougang Grand and the issue of convertible note were completed pursuant to the Group Reorganization.

The Group Reorganization will continue to guide the Group in the second half of 2002. This is the roadmap to a brighter future. Along this direction, the Group will continue to reorganize its corporate structure and streamline its operations. In this transformation process, the Group will also seek new investments and business opportunities, especially in the PRC. The accession of China into the World Trade Organization will create ample opportunities. We will be in a sound position to take advantage of the new opportunities that will arise by leveraging on our good relationships with business partners in the PRC and by the immense support of Shougang Corporation. From a long-term perspective, these factors will eventually take the Group to a stage of success.

INTERIM DIVIDEND

The Board did not declare an interim dividend for the six months ended 30 June 2002 (2001: Nil).

PUBLICATION OF RESULTS ON THE WEBSITES

All the information required by paragraphs 46(1) to 46(6) of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") will be published on the Stock Exchange's website (www.hkex.com.hk) and the Company's website (www.shougang-intl.com.hk) in due course.

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

Cao Zhong

Managing Director

Hong Kong, 25 September 2002

Please also refer to the published version of this announcement in The Standard.