

REVIEW OF OPERATIONS

Group Results

The Group had recorded a satisfactory performance during the year ended 31 December 2000. It had achieved a net profit attributable to shareholders of HK\$4,739,000, a significant turnaround as compared to the loss of HK\$65,616,000 incurred in the corresponding year of 1999.



Turnover dropped by 37.1% to HK\$169.1 million for the year under review. This was attributable to the discontinuance of certain non-core businesses of the Group, including the trading and processing of metallic ores and metals, processing of electrical wires and accessories and trading of industrial chemical products during the year. Turnover of these discontinued activities in aggregate decreased by 83.4% as compared to last corresponding year, on the contrary, the Group's continuing operations has much better performance, its turnover recorded a growth of 32.1% to HK\$142.4 million as compared to last corresponding year.

Gross profit had increased by 42.1% to HK\$33.8 million despite the decrease in turnover, this was mainly the result of the improvement of gross profit margin from 8.9% in 1999 to 20% in 2000, attributable to the continuing operations. Besides, other factors such as reduction in administrative expenses and finance costs by 41.5% and 39.6% respectively, recovery of bad debts during the year and net gain on disposals of subsidiaries, interests in jointly controlled entities and other long term investments also contributed to the profit of the Group for the year ended 31 December 2000.

PRINCIPAL BUSINESSES

Manufacturing of Steel Cord

Our core business of steel cord manufacturing had achieved a better result in 2000, it was restored to profitability after losses were made during 1999. Turnover for the year under review amounted to HK\$91 million, an increase of 36.8% over last corresponding year and it recorded an operating profit of HK\$7.6 million as compared to an operating loss of HK\$10.8 million incurred in the last



corresponding year. The underlying performance was greatly improved as a result of the effect of economies of scale from increased sales and production and our tremendous effort put on the restructuring of the operations and sales management of this division and the reduction of its cost of production. Measures have been taken to tackle the technical problems on the manufacturing process, the upgrading of technical standard and product quality and the marketing and sales of the products. These measures had brought positive outcome to the Group.

Processing and Trading of Copper and Brass Products

Following the completion of the increase in shareholdings in a non wholly owned subsidiary engaged in the processing and trading of copper and brass products from 51% to 91% through further acquisition at the later half of 1999, the Group has restructured and consolidated its various subsidiaries operated in this business segment. The management of this division thus became more centralised and the Group was able to operate this business in a more effective and efficient manner. Furthermore, the availability of credit facilities had steadily increased during the year, the earnings ability was gradually improved and the gross profit margin has returned to a reasonable level. Turnover was increased by 25.4% to HK\$39.8 million for the year under review and this division had recorded an operating profit of HK\$3,963,000 as compared to an operating loss of HK\$18.3 million in the year 1999.

Property Development and Investment

The Group's activities in property development and investment comprised the development of residential properties for sale in the PRC and letting of properties in Hong Kong. Turnover for the year under review amounted to HK\$11.4 million, representing an increase of 127% over last corresponding year. Two residential development projects were completed during the year for sale which contributed to the significant increase in turnover. This



business segment had recorded an operating profit of HK\$4.4 million for the year under review as compared to an operating loss of HK\$12.2 million (including HK\$11.3 million of deficit on revaluation of properties) in last corresponding year.

Jointly Controlled Entity's and Associate's Business



Our jointly controlled entity and associate engaged in the business of manufacturing of pre-stressed concrete strands and wires in the PRC, namely Shanghai Shenjia Metal Products Co., Ltd. ("Shanghai Shenjia") and Xinhua Metal Products Co., Ltd. ("Xinhua Metal"), continued to contribute satisfactory profits to the Group. Both companies had recorded a remarkable growth in turnover and

profit during the year under review, this was greatly attributable to the continuous economic growth in the PRC, the increased production capacity and improved operational efficiency of these two companies.

Shanghai Shenjia's turnover for the year under review amounted to HK\$309.9 million, representing a significant increase of 60.8% over the last corresponding year and its operating profit before tax was also increased by 60.4% to HK\$33.3 million. The Group's share of the pre-tax profit of Shanghai Shenjia was HK\$9.6 million, a decrease of 9.8% compared to last corresponding year, this was as a result of the reduction of our equity interest from 51% to 25% arising from the partial disposal of 26% interest in March 2000.

Xinhua Metal had recorded a turnover of HK\$239.8 million for the year ended 31 December 2000, an increase of 54.5% over the year 1999. Its operating profit before tax was increased by 53.5% to HK\$27.4 million. As a result, the Group's share of its pre-tax profit was increased from HK\$3.3 million in 1999 to HK\$4.6 million in the year under review.

Price competition in this market is expected to remain intense during 2001, both Shanghai Shenjia and Xinhua Metal will adopt the strategy to increase its production capacity and improve its operational efficiency to maintain its respective market-leading position and competitiveness.

BUSINESS REORGANISATION

As emphasised in our 1999 Annual Report, the Group had adopted the strategy to dispose of its non-core businesses and non-performing assets with the aims to rationalise the group structure, streamline our operations and strengthen the financial position of the Group. The following material transactions were carried out in this respect during 2000:

1. The Group had disposed of its subsidiaries engaged in the business of processing of electrical wires and accessories in January 2000 due to intense price competition in its market. The Group received a total consideration of HK\$19,047,000 and recorded a profit of HK\$640,000 from this disposal.
2. The Group ceased its business of trading and processing of metallic ores and metals, comprising manganese ores and ferroalloys in February 2000. This was in furtherance to the discontinuance of the involvement in its jointly controlled entities engaged in the ferroalloy processing and manufacturing activities during 1999.
3. In view of the continuing decline in profit margin and severe market competition of trading of industrial chemical products, the directors decided to discontinue this business segment and disposed of the subsidiary and jointly controlled entity engaged in this business to an independent third party in July 2000.

The Group's operating loss from this business and its share of loss of that jointly controlled entity for the year and up to the date of disposal amounted to HK\$1,051,000 and HK\$930,000 respectively.

4. The Group had disposed of its 26% interest in Shanghai Shenjia in March 2000 at a consideration of HK\$61.8 million. The directors were of the opinion that because of the intense competition in this industry, further capital commitment in Shanghai Shenjia would be necessary, and the directors believed that it was in the interest of the Group to reduce its percentage ownership in Shanghai Shenjia, which was not an entity entirely controlled by the Group, in order to allow the Group to concentrate its resources on other core operations. The Group recorded a pre-tax profit of HK\$2,293,000 arising on this disposal.

CAPITAL STRUCTURE, LIQUIDITY AND FINANCIAL RESOURCES

Net asset value of the Group at 31 December 2000 amounted to HK\$370.8 million, an increase of 12.3% as compared to HK\$330.3 million at 31 December 1999. Net asset value per share was increased from HK\$0.43 to HK\$0.48.

The Group mainly financed its operations by cash generated from its business activities and ongoing banking facilities provided by the Group's principal bankers. During the year, the Group generated an aggregate cash inflow of approximately HK\$84.6 million from its operating activities (net of subsidiaries disposed of during the year) and from a series of assets disposal activities as mentioned in 'BUSINESS REORGANISATION' above. The Group had repaid a net amount of HK\$56.1 million of its bank borrowings during the year, reducing the amount of bank borrowings to HK\$53 million at the year end. As such, the gearing ratio (bank borrowings/shareholders' equity) of the Group further decreased from 33% at 31 December 1999 to 14.3% at 31 December 2000, which the directors believe is a comfortable level for future business expansion. The liquidity of the Group was also significantly improved, current ratio increased from 1.03 times in 1999 to 2 times in 2000.

The Group's total bank borrowings as at 31 December 2000 amounted to HK\$53 million, of which 13.1% was denominated in Hong Kong dollars ("HKD"), 62.2% in Renminbi ("RMB") and 24.7% in United States dollars ("USD"). Although less than 1% of the Group's business receipts from continuing operations are in USD, the directors believe the Group will not be exposed to any significant risk from exchange rate fluctuations between HKD, RMB and USD given there is no change in the exchange rate peg between HKD and USD. On the other hand,

the Group has already taken appropriate steps to minimise such risks, including the lowering of the proportion of USD borrowings from 58.8% at the end of 1999 to 24.7% at the end of 2000, the Group aims to reduce this percentage further in 2001.

Regarding the maturity profile of these bank borrowings, HK\$50 million is due to repaid during the year ending 31 December 2001. The Group has been able to meet its financial obligations in the past and the directors anticipate that, with the continuous betterment of our operations and the support of the credit facilities from its principal bankers, the Group will have sufficient financial resources to meet these obligations during 2001.

EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2000, the Group had a total of 396 (1999: 650) employees located in Hong Kong and the PRC. Remuneration packages, which include an element of discretionary bonuses, are generally reviewed annually. In addition to salary payments, other staff benefits include medical subsidies, hospitalisation scheme and a defined contribution provident fund scheme, Mandatory Provident Fund Scheme which provides retirement benefits to employees in Hong Kong. The Group has adopted a share option scheme. The board of directors may exercise its discretion to grant share options to the directors and employees as an incentive to their contribution to the Group. No share options were issued under the share option scheme during the year, nor any share options outstanding as at 31 December 2000.

CHARGE ON ASSETS AND CONTINGENT LIABILITIES

As a normal practice, the Group pledges part of its assets to our principal bankers as securities for granting of banking facilities to the Group. At 31 December 2000, the following assets have been pledged to its bankers to secure banking facilities granted to the Group:

- (i) Investment properties and leasehold land and buildings with a net book value of HK\$44 million;
- (ii) Plant and machinery with a net book value of HK\$9 million;
- (iii) Inventories amounting to HK\$8 million; and
- (iv) Bank balances amounting to HK\$4 million.

In addition to above, the Group also executes corporate guarantees for bank loans granted to a jointly controlled entity to finance its working capital. These corporate guarantees are provided in proportion to the Group's interest in the jointly controlled entity and are normally renewable on an annual basis. The amount of guarantees granted at 31 December 2000 amounted to approximately HK\$34 million.

BUSINESS OUTLOOK

Our reorganisation and consolidation exercise carried out during 1999 and 2000 had built a firm foundation for the future development of the Group. The Group's financial position is significantly improved, bank borrowings are reduced to a comfortable level, and our resources are more concentrated on the core businesses of manufacturing of steel cord and processing and trading of copper and brass products.

Looking forward, the Group will continue to exert prudent management control and take a cautious approach to further develop its core businesses. Externally, we foresee that the expected admittance of the PRC into the World Trade Organisation in 2001 will further stimulate the economic growth of PRC and will have a positive impact on the Group with its business mainly conducted in the PRC and Hong Kong. The directors believe this will bring many business opportunities, and besides that, new challenges to the Group. We will continue to improve ourselves in all aspects to meet these challenges and explore new business opportunities. The directors are confident that the Group will maintain a stable growth and provide satisfactory return in 2001.