

BUSINESS REVIEW

Turnover for the six months ended 30 June 2001 amounted to HK\$719 million, a slight increase compared to the corresponding period of the previous year. Loss for the period was HK\$65 million (2000: profit of HK\$41 million).

The Group's core business remains the trading of nonferrous metals, ores and semi-finished products, and related direct industrial investments. Affected by the downturn in the external economy, there was an oversupply of nonferrous metals in the market during the period. This placed pressure on the Group's overall business, particularly its nonferrous metals trading. However, the Group's restructuring of its direct industrial investments to improve their efficiency was reflected in a reduced loss attributable to them.

Trade Business

The slowdown of the global economy during the period had a negative impact on the demand for nonferrous metals, leading prices of copper and aluminium to decrease compared to the previous period.

As a result of three factors – a drop in the price of aluminium, decrease in production capacity of aluminium smelting plants, and expanded production capacity of alumina plants – the price of alumina in the international market was 60% lower than that in the corresponding period last year. Although the continued strong growth of China's economy during the period raised demand for nonferrous metals, increases in both imports and domestic production further depressed the prices of copper and aluminium in the China market. The over-import of alumina in China also dragged down its price. All these factors exerted considerable pressure on the trading revenue and profit margin of the Group's trade business. In the period, the turnover from trade business decreased by 38%, while profit contribution recorded a sharp fall.

Direct Industrial Investments

As a consequence of the consolidation of the Group, which further enhanced its operational efficiency, the Group's direct industrial investments recorded an improvement compared to the corresponding period last year. In the period, the Group's direct industrial investments recorded a reduction in loss, with turnover posting a 22% increase.

Increase in turnover primarily resulted from the increase in trade volume of aluminium foils. The aluminium foils operation achieved satisfactory performance by adjusting the product mix and raising the production capacity of products with higher added value. However the aluminium can operation, owing to oversupply in the PRC market, still recorded a loss during the period.

The Group's copper wire rod operation recorded an excellent performance, making a significant profit contribution to the Group, up 14% compared to that of the previous period. The synergy enjoyed between Hong Kong, Japanese and PRC partners in the areas of management expertise, production technology and their trading network continued to benefit this operation. As a result of the Group's steps to enhance the

operational efficiency of its industrial investments, the Group's share of loss incurred by copper smelter operations was significantly decreased, even in the face of an unfavourable nonferrous metals market.

Administrative Expenses

As a result of the Group's streamlining of its structure, administrative expenses were successfully brought down by 15% compared to those of the previous period.

Interest Expenses

The decrease in interest expenses was mainly due to the Group's lower level of debt compared with that of the previous period, and also to falling interest rates in the market.

Financial Resources and Cash Flow

Over the period, the Group's net cash flow from operating activities amounted to HK\$13 million (2000: HK\$18 million). After deducting the returns on investments, servicing of finance, tax and other payments, the net cash outflow before the Group's financing activities amounted to HK\$35 million (2000: HK\$21 million). Net cash inflow from financing activities amounted to HK\$25 million (2000: HK\$35 million). As at 30 June 2001, the Group had cash in hand and cash deposits totalling HK\$52 million (all unsecured deposits), of which 43% and 47% were denominated in United State dollars and Renminbi respectively, and the remaining portion was in Hong Kong dollars.

As at 30 June 2001, the Group's total outstanding bank loans amounted to HK\$793 million (HK\$450 million at floating interest rates and the remainder at fixed interest rates), of which HK\$245 million was repayable after more than one year. Of the total bank loans, 48% were denominated in United States dollars and the remainder in Renminbi. Bank loans amounting to HK\$320 million were secured by fixed assets of the Group with a net book value of HK\$264 million as at 30 June 2001. As at the same date, the bank debt to equity ratio, which is measured as total bank loans (net of cash balances) as a proportion of shareholders' equity, stood at 168% compared with 139% on 30 June 2000.

As at 30 June 2001, bank loans of HK\$417 million in total remained overdue, and the directors continued to reschedule the loan repayment dates. The Board of Directors is confident that the Group can obtain sufficient capital through various channels (including the proposal regarding certain receivables, disclosed in Note 3) to resolve the problem of overdue bank loans, as well as to cater for the Group's needs for working capital and other capital commitments in the future.

Contingent Liabilities

During the period, the Group continued to enter into futures contracts for nonferrous metals to reduce its exposure to risks arising from fluctuation in nonferrous metals prices. As at 30 June 2001, the Group had outstanding futures contracts amounted to HK\$25 million.

Prospects

The Group continues to focus on its core business, nonferrous metals trading and direct industrial investments. The unfavourable global economic trend predicted by some analysts is expected to have a negative impact on the nonferrous metals market. This will put considerable pressure on the Group's nonferrous metals trading business. Despite this, and despite the uncertainties arising from concerns over working capital, as described above, the Group will continue to build on its strong network of suppliers and customers and its expertise in nonferrous metals in order to expand its business and improve the Group's operating results. In respect of the Group's direct industrial investments, the Group expects that their performance will continue to improve, following the consolidation made in order to enhance the operational efficiency of these investments.