



## MANAGEMENT DISCUSSION & ANALYSIS

### REVIEW OF OPERATIONS

#### Group Results

The satisfactory performance of our core business of manufacturing of steel cord in the first half of 2001 had brought forth an encouraging results to the Group for the six months ended 30 June 2001. The Group had achieved a net profit attributable to shareholders of HK\$8,884,000, an increase of 25.1 times over the corresponding period in last year.

Turnover for the period under review amounted to HK\$87,639,000, representing a slight decrease of 1% when compared to the same period in last year. However, turnover for the comparative period included business operations that had discontinued during 2000. When these discontinued operations are excluded, turnover increased by 41.8% as compared to the same period in last year. The Group's profit from operating activities after finance costs had turned from loss to profit as a result of the increase in turnover, significant improvement in gross profit margin and reduction in administrative expenses and finance costs. Furthermore, our jointly controlled entity and associate were able to provide stable profit to the Group, all these factors contributed to the increase in profit.

#### Principal Businesses

##### *Manufacturing of Steel Cord*

Jiaxing Eastern Steel Cord Co., Ltd. ("Jiaxing Eastern") had recorded a significant growth in turnover and profit during the first half of 2001. The demand for steel cord remained strong during the period. On the other hand, Jiaxing Eastern was able to provide stable quality steel cords to fulfill customers' requirements with reduced costs arising from increased production and efficiency. These external and internal factors had enabled Jiaxing Eastern to make a significant profit contribution to the Group.

Turnover for the period under review amounted to HK\$66,292,000, representing an increase of 53.8% over the corresponding period in last year while its operating profit had increased by 171% to HK\$12,311,000.

##### *Processing and Trading of Copper and Brass Products*

The slowdown of economy in the United States and Europe together with the drop of international copper price had affected the Group's business of processing and trading of copper and brass products during the first half of 2001. Turnover had increased by 34.8% to HK\$20,151,000 during the period under review but its gross profit margin had decreased from 8.7% in the corresponding period in last year to 6.4% in the current period. In addition, the amount of bad debt recovery for the period under review was much less than the same period in last year. As such, its operating profit had decreased by 81% to HK\$151,000.

##### *Property Development and Investment*

The performance of the Group's property development and investment business was relatively sluggish during the period under review. Turnover for the period amounted to HK\$1,196,000, representing a decrease of 67% over the corresponding period in last year. This business recorded an operating profit of HK\$147,000, representing a decrease of 82.4% over the same period in last year.



### *Property Development and Investment (continued)*

As we had adopted a strategy to concentrate the Group's financial resources to develop our core businesses that look more promising, the Group exercised a disposal (the "Disposal") of a 63% equity interest in a subsidiary (the "Subsidiary") which was involved in the business of real estate development in the People's Republic of China (the "PRC"). After the Disposal, the Group's interest in the Subsidiary will reduce to 25%. Details of the Disposal were set out in the Company's announcement dated 10 August 2001 and the Company's circular to shareholders dated 30 August 2001. The Disposal will require the approval of shareholders of the Company at an extraordinary general meeting to be convened and held on 28 September 2001 and the obtaining of the necessary approval from the relevant authorities in the PRC.

### *Jointly Controlled Entity's and Associate's Business*

Our jointly controlled entity, Shanghai Shenjia Metal Products Co., Ltd. ("Shanghai Shenjia") and associate, Xinhua Metal Products Co., Ltd. ("Xinhua Metal") had satisfactory performance during the first half of 2001. Both companies were able to maintain growth in turnover and profit despite the downward pressure on market price of pre-stressed concrete strands and wires caused by increasing competition.

Shanghai Shenjia's turnover for the period under review amounted to HK\$148,977,000, an increase of 5.2% over the corresponding period in last year, and its operating profit before tax was also increased by 5.1% to HK\$17,982,000. However, the Group's share of its operating profit before tax was decreased by 18.3% to HK\$4,495,000 as our share of the results of Shanghai Shenjia was decreased from 51% to 25% following the disposal of 26% equity interest in March 2000.

Xinhua Metal's turnover for the period under review amounted to HK\$131,306,000, an increase of 33.2% over the same period in last year, this was attributable to the gradual growth in sales of new products launched during 2000. Its operating profit before tax for the period amounted to HK\$11,682,000, an increase of 53.6% as compared to the same period last year, and therefore the Group's share of its operating profit before tax also increased from HK\$1,274,000 in the same period last year to HK\$1,957,000.

## **CAPITAL STRUCTURE, LIQUIDITY AND FINANCIAL RESOURCES**

Net asset value of the Group at 30 June 2001 amounted to HK\$377,626,000, net asset value per share was HK\$0.493.

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 period, the Group generated a cash inflow of HK\$9,770,000 from its operating activities and it had repaid a net amount of HK\$4,747,000 of bank borrowings, further reducing the amount of bank borrowings to HK\$48,312,000 at 30 June 2001. As such, the gearing ratio (bank borrowings/shareholders' equity) decreased from 14.3% at 31 December 2000 to 12.8% at 30 June 2001. Furthermore, the liquidity (current assets/current liabilities) of the Group was also improved from 2.0 times at 31 December 2000 to 2.4 times at 30 June 2001.

The Group's total bank borrowings at 30 June 2001 amounted to HK\$48,312,000, of which 11% was denominated in Hong Kong dollars ("HKD"), 68.3% in Renminbi ("RMB") and 20.7% in United States dollars ("USD"). The portion of USD borrowings



### **CAPITAL STRUCTURE, LIQUIDITY AND FINANCIAL RESOURCES (Continued)**

had been further lowered from 24.7% at 31 December 2000 to 20.7% at 30 June 2001. In so far as the exchange rate peg between HKD and USD is maintained, the directors believe the Group will not be exposed to any significant risk from exchange rate fluctuations between HKD, RMB and USD.

Regarding the maturity profile of these bank borrowings, HK\$46,455,000 is due to repaid within one year of which approximately HK\$38,425,000 was revolving in nature and can be rolled over under normal circumstances. The Group has been able to meet its financial obligations in the past and the directors anticipate that the Group will have sufficient financial resources to meet these obligations following the improvement of the Group's financial and liquidity position.

### **EMPLOYEES AND REMUNERATION POLICIES**

At 30 June 2001, the Group had a total of 400 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, hospitalization 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 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 period, nor any share options outstanding as at 30 June 2001.

### **CHARGE ON ASSETS AND CONTINGENT LIABILITIES**

At 30 June 2001, the following assets have been pledged to the Group's bankers as securities for granting of banking facilities to the Group:

- (i) Fixed assets with a net book value of HK\$68,676,000;
- (ii) Land use rights amounting to HK\$13,121,000;
- (iii) Inventories amounting to HK\$3,770,000; and
- (iv) Bank deposits amounting to HK\$5,473,000.

The Group's interest in a jointly controlled entity with a carrying value of HK\$40,399,000 was also pledged to a related company for loans advanced to the Group.

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 renewable on an annual basis. The amount of guarantees granted at 30 June 2001 amounted to approximately HK\$24,540,000.



## BUSINESS OUTLOOK

In contrast to the economic slowdown in other territories of the world, the economic growth of Mainland China remained strong during the first half of 2001. We foresee that this growth will persist in the foreseeable future with the support of China's entry into the World Trade Organization and the gradual development of the Northwestern provinces of the PRC. Competition in our principal businesses is expected to be heightening. However, the Group has plans to enlarge its production capacity and explore new markets to counter any negative effect on its profitability. The Group will continue to benefit from this growth with its business mainly conducted in Mainland China. Barring unforeseen circumstances, the Board is confident that the Group will provide a palpable improvement in the second half of 2001.

## INTERIM DIVIDEND

The Board did not declare an interim dividend for the six months ended 30 June 2001 (six months ended 30 June 2000: Nil).

## PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES

Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the six months ended 30 June 2001.

## DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN THE SHARE CAPITAL OF THE COMPANY AND ITS RESPECTIVE ASSOCIATED CORPORATIONS

As at 30 June 2001, the interests of the directors, chief executives and their associates in the share capital of the Company and its associated corporations as recorded in the register required to be kept under Section 29 of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance") were as follows:

### Interests in the share capital of Shougang Concord International Enterprises Company Limited ("Shougang International"):

Name of director	Nature of Interest	Number of shares
Lai Kam Man	Personal	250,000

Save as disclosed above, none of the directors, chief executives or their respective associates had any personal, family, corporate or other interests in the equity or debt securities of the Company or any of its associated corporations as defined in the SDI Ordinance.

## SUBSTANTIAL SHAREHOLDERS' INTERESTS

As at 30 June 2001, according to the register kept by the Company under Section 16(1) of the SDI Ordinance, the following parties were, directly or indirectly, beneficially interested in 10% or more of the issued share capital of the Company:

Name of shareholder	Notes	Number of shares held
Shougang Holding (Hong Kong) Limited ("Shougang HK")	(1)	279,797,400
Shougang International	(2)	279,797,400
Fair Union Holdings Limited ("Fair Union")		279,797,400
Richson Limited ("Richson")	(3)	144,984,400



## **SUBSTANTIAL SHAREHOLDERS' INTERESTS (Continued)**

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Notes:

- (1) Shougang HK was deemed to be interested in those shares by virtue of its controlling interest in Shougang International.
- (2) Shougang International was deemed to be interested in those shares by virtue of its 100% shareholding in Fair Union.
- (3) Richson is a wholly owned subsidiary of Fair Union and the interest in the 144,984,400 shares held is included in the interest in 279,797,400 shares reported by Fair Union.

Save as disclosed above, no other person had registered an interest in the share capital of the Company under section 16(1) of the SDI Ordinance.

## **AUDIT COMMITTEE**

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The Audit Committee has reviewed the interim report and oversees the financial reporting process and the effectiveness of the Company's system of internal control. It had reported its findings and recommendation to the Board at the Audit Committee meeting held on 6 September 2001.

## **CODE OF BEST PRACTICE**

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In the opinion of the Board, the Company has complied with the Code of Best Practice as set out in Appendix 14 of the Listing Rules throughout the accounting period under review, except in relation to guideline 7, where the non-executive directors are not appointed for specific terms. Non-executive directors are subject to retirement by rotation and re-election at the annual general meetings of the Company, in accordance with the Company's articles of association.

## **APPRECIATION**

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On behalf of the Board, I would like to extend our gratitude and sincere appreciation to all management and staff members for their perseverance and dedication to the Group throughout the period. Last but not least, I would also thank for the shareholders' continual long-term support.

By Order of the Board

**Su Genqiang**

*Chairman*

Hong Kong

20 September 2001

*This interim report can also be accessed through the internet at the Company's website <http://www.shougangcentury.com.hk>.*