



## MANAGEMENT DISCUSSION & ANALYSIS

### REVIEW OF OPERATIONS

#### Group Results

The Group had a satisfactory performance in the first half of 2002, our core businesses recorded a growth in turnover and profit in various degree, which was primarily brought by the increased sales, enhanced cost efficiencies and persistent economic growth in the PRC. The Group achieved a net profit attributable to shareholders of HK\$27,058,000 for the six months ended 30 June 2002, representing an increase of 2 times as compared to the corresponding net profit of HK\$8,884,000 for the six months ended 30 June 2001.

Turnover for the period under review amounted to HK\$105,558,000, representing an increase of 20.4% as compared to the corresponding period last year. Our principal businesses of manufacturing of steel cord and processing and trading of copper and brass products recorded an increase of 20% and 27.7% respectively, while the property development and investment business reported a drop of 78.9% in turnover due to the partial disposal of equity interest in a subsidiary engaged in this business during the second half of 2001.

Boosted by the rise in turnover and gross profit margin, gross profit increased by 45.4% to HK\$33,094,000 for the period under review. Gross profit margin further rose to 31.4% from 26% in the same period last year, primarily attributable to the further lowering of production costs of our steel cord manufacturing business as a result of the increased production.

Despite a 20.4% increase in turnover during the period, expenses of the Group remained steady as compared to the corresponding period last year. Total expenses, including distribution costs, administrative expenses and finance costs, were down by 2.1% to HK\$14,888,000 for the period under review.

Besides the rise in turnover and gross profit, the significant increase in profit from operating activities was also contributed by specific bad debts recovery of HK\$14,903,000 (the portion attributable to the Group was HK\$10,954,000 after deducting minority interests' portion of HK\$3,949,000) reflecting the relentless pursuit of the management to safeguard the interest of the Group. Net profit attributable to shareholders for the period under review would be HK\$16,104,000 when these specific bad debts recovery were excluded which represented a 81.3% increase from corresponding period last year.



## **PRINCIPAL BUSINESSES**

### **Manufacturing of Steel Cord**

Driven by the increasing demand of steel cord which was brought about by the fast pace development of the radial tire industry in the PRC, Jiaxing Eastern Steel Cord Co., Ltd. ("Jiaxing Eastern"), our 71.8% owned subsidiary, continued to generate a significant growth in turnover and profit during the first half of 2002. Operating profit for the period under review amounted to HK\$39,574,000, representing an increase of 2.2 times over the same period in 2001.

Turnover rose to HK\$79,572,000, 20% higher than the same period in 2001, while its gross profit increased by 44.8% to HK\$30,274,000. Increased production during the period gave rise to lower production costs and hence the gross profit margin advanced from 31.5% in the corresponding period last year to 38% in the current period.

Further to the above, a specific net bad debt recovery of HK\$14,004,000 (the portion attributable to the Group was HK\$10,055,000) during the period also brought forth the significant increase in operating profit which amounted to HK\$27,260,000 for the period ended 30 June 2002, an increase of 2.2 times over the corresponding period last year.

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

Our business of processing and trading of copper and brass products achieved a satisfactory growth both in turnover and profit during the period, attributable to its expanded sales force and lowered cost of sales. This division had generated an operating profit of HK\$907,000 during the period under review, representing an increase of 5.5 times as compared to the same period last year.

Turnover rose by 27.7% to HK\$25,734,000 during the period, while sales volume increased by 49.7% as compared to the same period last year. Growth in turnover lagged behind sales volume growth was primarily the result of the fluctuation in copper price. The LME (London Metals Exchange) three-month copper price fell from a level of US\$1,800 per tonne at the beginning of 2001 to its lowest price of approximately US\$1,340 per tonne in November 2001, though it gradually rebounded to the US\$1,600 level in June 2002. Due to the fluctuation of copper price, this division's average selling price dropped from HK\$21,900 per tonne in the same period last year to HK\$18,700 per tonne in the current period.



**PRINCIPAL BUSINESSES** *(Continued)***Processing and Trading of Copper and Brass Products** *(Continued)*

Gross profit increased by twofold to HK\$2,575,000 for the period under review. Besides the contribution from sales growth, gross profit margin rose from 6.4% in the same period in last year to 10% in the current period. Lower cost of sales was resulted from increased portion of materials procurement from direct manufacturers rather than intermediaries and rebound of international copper price since November 2001.

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

Despite severe market environment and fierce competition, the Group's jointly controlled entity, Shanghai Shenjia Metal Products Co., Ltd. ("Shanghai Shenjia") and associate, Xinhua Metal Products Co., Ltd. ("Xinhua Metal"), the two leading pre-stressed concrete strands and wires manufacturers in the PRC, were able to maintain stable profits through their measures in persistent cost efficiencies and enlarged production.

Turnover of Shanghai Shenjia for the period under review amounted to HK\$149,177,000, a slight increase of 0.1% as compared to the same period last year, while its profit before tax was slightly dropped by 0.9% to HK\$17,816,000. Hence, the Group's share of its profit before tax was also dropped by 0.9% to HK\$4,454,000 during the period.

Xinhua Metal recorded a turnover of HK\$164,621,000 during the period under review, increased by 25.4% over the same period in last year. Its profit before tax was moderately increased by 2.7% to HK\$11,999,000. The Group shared a profit before tax of HK\$2,010,000, also a 2.7% increase over the same period last year.

**CAPITAL STRUCTURE, LIQUIDITY AND FINANCIAL RESOURCES**

Net asset value of the Group increased by 6.9% to HK\$420,717,000 at 30 June 2002. The net asset value per share was up from HK\$0.51 at 31 December 2001 to HK\$0.55 at 30 June 2002.

The Group mainly financed its operations by cash generated from its business activities and ongoing banking facilities provided by its bankers. During the period under review, the Group had generated a net cash inflow of HK\$36,221,000 from its operating activities, while it had utilized a net cash of HK\$5,660,000 for its investing activities and repaid a net amount of HK\$26,475,000 of its bank loans and a loan from a related company. Bank borrowings at 30 June 2002 further reduced to HK\$35,138,000 and therefore the gearing ratio (total bank borrowings/shareholders' equity) was lowered from 11% at 31 December 2001 to 8.4% at 30 June 2002. Besides the lower gearing, the Group's current ratio (current assets/current liabilities) was also increased to 2.5 times from 1.8 times at 31 December 2001.

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

Total bank borrowings as at 30 June 2002 amounted to HK\$35,138,000, of which 42.9% was denominated in Renminbi ("RMB"), 2.9% in Hong Kong Dollars ("HKD") and 54.2% in United States Dollars ("USD"). Although the Group did not have any USD income, but 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 amongst RMB, HKD and USD.

The Group's bank borrowings were granted under ongoing banking facilities provided by its bankers, which bear interest at floating interest rate and are repayable within one year. These bank loans can be renewable under the normal circumstances. Given the ongoing banking facilities, together with our robust operating cash inflow and solid financial position, the directors do not foresee any difficulties in meeting these financial obligations during the second half of 2002.

**BUSINESS DEVELOPMENT PLAN AND CAPITAL COMMITMENT**

Whilst the operating results in the first half of 2002 are encouraging, the directors will continue to adhere to a prudent expansion program on our core businesses with an acute control to keep the Group's expenses at bay. Further, the directors will consider having capital reorganization exercise which is in the best interest of the Company and its shareholders for the purpose of strengthening and reflecting the real value of the shares of the Company.

**Manufacturing of Steel Cord**

The plan to enlarge annual production capacity by 20% to 12,000 tonnes of Jiaying Eastern, the company that engaged in the manufacturing of steel cord, was under way. It is expected that the construction and installation of the additional production line will be completed at end of 2002 and commencement of operations to be scheduled in 2003. HK\$9,191,000 was expended on the expansion plan as at 30 June 2002, it is anticipated that an additional investment of approximately HK\$31,000,000 will be required, which will be financed by the Group's internal working capital and bank loans.

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

The establishment of the new production plant in Dongguan, the PRC was completed in July 2002 and commenced operations in August 2002. At 30 June 2002, HK\$1,106,000 was expended on the establishment of the plant, and a further HK\$881,000 will be spent subsequent to the balance sheet date.



## **EMPLOYEES AND REMUNERATION POLICIES**

At 30 June 2002, the Group had a total of 418 (31 December 2001: 395) 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 employee benefits include medical subsidies, hospitalization scheme and a defined contribution provident fund, Mandatory Provident Fund Scheme and other retirement scheme or other similar defined contribution provident fund stipulated by the State Regulations of the PRC which provide retirement benefits to employees in Hong Kong and the PRC respectively. Contributions to these schemes are charged against profits as they are incurred. The amount charged to the consolidated profit and loss account for the period under review amounted to HK\$331,000.

In addition, the Group adopted a share option scheme on 11 March 1992 (“1992 Scheme”). Under 1992 Scheme, the Board may exercise its discretion to grant share options to any director and employee as an incentive to his/her contribution to the Group. However, 1992 Scheme expired on 10 March 2002. Hence, the adoption of a new share option scheme was approved by the shareholders of the Company at the annual general meeting held on 7 June 2002 (“2002 Scheme”). The Board shall, subject to and in accordance with the provisions of 2002 Scheme and the Listing Rules, grant share options to any eligible participant to subscribe for shares in the capital of the Company for the purpose of providing incentives or rewards to him/her for contribution to the Group.

No share options were granted during the period, and there were no share options outstanding as at 30 June 2002.

Subsequent to the balance sheet date, the Company granted certain eligible participants under 2002 Scheme totalling 49,740,000 share options to subscribe for shares in the capital of the Company on 23 August 2002.



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

The following assets, totalling HK\$51,034,000 had been pledged to the Group's bankers as securities for banking facilities provided to the Group:

1. Leasehold land and buildings and investment properties with an aggregate net book value of HK\$36,472,000;
2. Land use rights with a net book value of HK\$12,562,000; and
3. Time deposits amounting to HK\$2,000,000.

Furthermore, the Group's interest in a jointly controlled entity with a carrying value of HK\$46,733,000 was also pledged to a related company for loans advanced to the Group. This security was released subsequent to 30 June 2002, on 29 July 2002, upon full repayment of the loans.

In addition to above, the Group also has executed 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 as at 30 June 2002 amounted to approximately HK\$24,540,000.

## **BUSINESS OUTLOOK**

The PRC recorded an economic growth of over 7% in the first half year of 2002, while the radial tire industry in the mainland had also enjoyed a rapid growth during the period. The directors believe that this strong growth will continue to sustain in the second half year of 2002 and in the foreseeable future given its huge development potential as compared to other developed countries in the world. Nevertheless, China's entry into the World Trade Organization has begun to intensify competition on the Group's principal businesses. However, the directors are confident that the Group can withstand to these competitions through its competitive advantages of cost efficiencies and stable product quality, and the Group will continue to generate satisfactory profits in the second half year of 2002.

## **INTERIM DIVIDEND**

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