旺城國際

# WANG SING INTERNATIONAL

控股集團有限公司 HOLDINGS GROUP LIMITED

(incorporated in the Cayman Islands with limited liability)

## Interim Report

# 2003

# INTERIM REPORT
# FOR THE SIX MONTHS ENDED 30 JUNE 2003

The directors ("Directors") of Wang Sing International Holdings Group Limited ("the Company") are pleased to announce the unaudited condensed consolidated financial statements of the Company and its subsidiaries (together referred to as the "Group") for the six months ended 30 June 2003 together with comparative figures for the corresponding previous period as follows:

## CONDENSED CONSOLIDATED INCOME STATEMENT – UNAUDITED

*FOR THE SIX MONTHS ENDED 30 JUNE 2003*

| | NOTES | Six months ended 30 June 2003 HK$'000 (unaudited) | 2002 HK$'000 (unaudited) |
|---|---|---|---|
| Turnover | 3 | **133,276** | 193,654 |
| Cost of sales | | **(116,001)** | (161,652) |
| Gross profit | | **17,275** | 32,002 |
| Other operating income | | **848** | 448 |
| Selling and distribution expenses | | **(6,660)** | (6,397) |
| Administrative expenses | | **(7,868)** | (6,698) |
| Profit from operations | | **3,595** | 19,355 |
| Finance costs | 5 | **(843)** | (479) |
| Share of result of an associate | | **8,428** | – |
| Profit before taxation | | **11,180** | 18,876 |
| Taxation | 6 | **(4,915)** | (99) |
| Profit before minority interest | | **6,265** | 18,777 |
| Minority interest | | **173** | 89 |
| Profit for the period | | **6,438** | 18,866 |
| Interim dividend | 7 | **3,360** | 6,720 |
| Earnings per share (in Hong Kong cents) | | | |
| – Basic | 8 | **1.9** | 6.7 |

# CONDENSED CONSOLIDATED BALANCE SHEET – UNAUDITED

*AT 30 JUNE 2003*

| | NOTES | As at 30 June 2003 HK$'000 (unaudited) | As at 31 December 2002 HK$'000 (audited) |
|---|---|---|---|
| **Non-current Assets** | | | |
| Property, plant and equipment | 9 | **135,166** | 115,766 |
| Interests in an associate | 10 | **34,230** | – |
| Deposit for an investment | | **–** | 23,391 |
| | | **169,396** | 139,157 |
| **Current Assets** | | | |
| Inventories | | **31,859** | 20,014 |
| Trade and other receivables | 11 | **65,386** | 78,324 |
| Trade receivable from an associate | 12 | **35,920** | – |
| Deposits and prepayments | | **23,405** | 15,345 |
| Advance to an associate | | **2,968** | – |
| Amount due from a former director | | **698** | 698 |
| Pledged bank deposits | | **2,473** | 288 |
| Bank balances and cash | | **29,138** | 20,720 |
| | | **191,847** | 135,389 |
| **Current Liabilities** | | | |
| Trade and other payables | 13 | **122,727** | 106,210 |
| Deposits and accrued expenses | | **5,763** | 5,145 |
| Amounts due to related companies owned by a former director | | **1,251** | 1,883 |
| Tax payable | | **958** | 839 |
| Secured bank borrowings | | **1,887** | – |
| Unsecured bank borrowings | 14 | **60,684** | – |
| | | **193,270** | 114,077 |
| **Net Current (Liabilities) Assets** | | **(1,423)** | 21,312 |
| Total assets less current liabilities | | **167,973** | 160,469 |
| Minority interest | | **(445)** | (618) |
| | | **167,528** | 159,851 |
| **Capital and Reserves** | | | |
| Share capital | | **33,600** | 33,600 |
| Reserves | | **124,952** | 118,280 |
| | | **158,552** | 151,880 |
| **Non-current Liability** | | | |
| Deferred tax | | **8,976** | 7,971 |
| | | **167,528** | 159,851 |

# CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY – UNAUDITED

*FOR THE SIX MONTHS ENDED 30 JUNE 2003*

| | Share capital HK$'000 | Share premium account HK$'000 | Merger reserve HK$'000 | Revaluation reserve HK$'000 | Translation reserve HK$'000 | Other reserves HK$'000 | Retained profits HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|---|---|---|
| At 1 January 2002 | 1,000 | – | – | – | (262) | 710 | 43,104 | 44,552 |
| Exchange loss on translation of overseas operations | – | – | – | – | (300) | – | – | (300) |
| Revaluation increase on land and buildings | – | – | – | 25,234 | – | – | – | 25,234 |
| Deferred tax liability arising on revaluation of property | – | – | – | (7,897) | – | – | – | (7,897) |
| Net gain (loss) not recognised in the consolidated income statement | – | – | – | 17,337 | (300) | – | – | 17,037 |
| Merger reserve arising on the Group Reorganisation | (800) | – | 800 | – | – | – | – | – |
| Proceeds from issue of shares through initial public offering | 8,400 | 71,400 | – | – | – | – | – | 79,800 |
| Share issue expenses | – | (13,979) | – | – | – | – | – | (13,979) |
| Capitalisation of share premium for issue of shares | 25,000 | (25,000) | – | – | – | – | – | – |
| Profit for the period | – | – | – | – | – | – | 18,866 | 18,866 |
| At 30 June 2002 | 33,600 | 32,421 | 800 | 17,337 | (562) | 710 | 61,970 | 146,276 |
| Exchange gain on translation of overseas operations | – | – | – | – | 1,011 | – | – | 1,011 |
| Release of revaluation reserve | – | – | – | (552) | – | – | 552 | – |
| Exchange difference on deferred tax | – | – | – | (74) | – | – | – | (74) |
| Net gain (loss) not recognised in the consolidated income statement | – | – | – | (626) | 1,011 | – | 552 | 937 |
| Profit for the period | – | – | – | – | – | – | 11,387 | 11,387 |
| Interim dividend paid | – | – | – | – | – | – | (6,720) | (6,720) |
| At 31 December 2002 | 33,600 | 32,421 | 800 | 16,711 | 449 | 710 | 67,189 | 151,880 |
| Share of translation reserve of an associate | – | – | – | – | 192 | – | – | 192 |
| Release of revaluation reserve | – | – | – | (255) | – | – | 255 | – |
| Reversal of deferred tax liability arising on release of revaluation reserve | – | – | – | 42 | – | – | – | 42 |
| Net gain (loss) not recognised in the consolidated income statement | – | – | – | (213) | 192 | – | 255 | 234 |
| Profit for the period | – | – | – | – | – | – | 6,438 | 6,438 |
| **At 30 June 2003** | **33,600** | **32,421** | **800** | **16,498** | **641** | **710** | **73,882** | **158,552** |

# CONDENSED CONSOLIDATED CASH FLOW STATEMENTS – UNAUDITED

*FOR THE SIX MONTHS ENDED 30 JUNE 2003*

| | Six months ended 30 June | |
|---|---|---|
| | **2003** | 2002 |
| | ***HK$'000*** | *HK$'000* |
| | **(unaudited)** | (unaudited) |
| NET CASH USED IN OPERATING ACTIVITIES | **(30,645)** | (3,496) |
| NET CASH USED IN INVESTING ACTIVITIES | **(21,325)** | (24,725) |
| NET CASH FROM FINANCING ACTIVITIES | | |
| New unsecured bank borrowings raised | **62,571** | – |
| Increase in pledged bank deposits | **(2,185)** | – |
| Issue of shares | **–** | 79,800 |
| Share issue expenses | **–** | (13,979) |
| Repayment of unsecured bank borrowings | **–** | (6,443) |
| Repayment to a director | **–** | (3,738) |
| Repayment to a former shareholder | **–** | (2,795) |
| | **60,386** | 52,845 |
| NET INCREASE IN CASH AND CASH EQUIVALENTS | **8,416** | 24,624 |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD | **20,720** | 39,240 |
| EFFECT OF FOREIGN EXCHANGE RATE CHANGES | **2** | – |
| CASH AND CASH EQUIVALENTS AT END OF THE PERIOD | **29,138** | 63,864 |
| ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS | | |
| Bank balances and cash | **29,138** | 63,864 |

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

*FOR THE SIX MONTHS ENDED 30 JUNE 2003*

## 1. BASIS OF PREPARATION

The condensed financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules") and with Statement of Standard Accounting Practice No. 25 ("SSAP 25") Interim Financial Reporting issued by the Hong Kong Society of Accountants.

Reference is made to the Company's announcement dated 9 April 2003 in relation to the termination of the Subcontracting Agreements and the annual report of the Company for the year ended 31 December 2002.

In September 2001, Jiangsu Golden Harbour Enterprises Ltd. ("Golden Harbour"), an indirectly wholly owned subsidiary of the Company, entered into two subcontracting agreements ("Subcontracting Agreements") with each of Hai An Xian Electronic Meter Factory ("Hai An") and Hai An Xian Tian Yuan Power Tools Manufacture Company Limited ("Tian Yuan") for the production by Hai An and Tian Yuan (together the "Subcontractors") of certain of the Group's power tools for a period of two years commencing from 1 October 2001 to 30 September 2003. Based on the information available to the Board, Mr. Weng Shao Bo ("Mr. Weng"), a former executive director of the Company who resigned from the Board on 8 October 2002, has approximately 94.9% and 82% equity interests in Hai An and Tian Yuan, respectively.

As announced by the Company, the Subcontracting Agreements were formally terminated by Golden Harbour on 4 April 2003 as a result of the breaches committed by the Subcontractors. The Subcontractors have been withholding various inventories of Golden Harbour and subsequently, the Directors have been carried out investigation whether any account receivables due to Golden Harbour had been collected by the Subcontractors.

Having considered the interests of the Group and the Shareholders, the Company has sought to resolve the matter since the termination of the Subcontracting Agreements. With the assistance of the governmental authorities in the PRC, Golden Harbour and the Subcontractors have entered into an agreement on 22 September 2003 ("Settlement Agreement") to settle the issues as mentioned above. Given that the Subcontractors are connected persons of the Company under the Listing Rules, the transactions contemplated by the Settlement Agreement constituted connected transactions under the Listing Rules. The Settlement Agreement and the transactions contemplated thereby are subject to disclosure and independent shareholders' approval requirements under Rule 14.26 of the Listing Rules. As the execution of the Settlement Agreement was made immediately before the date of the interim result announcement of the Company and the Directors consider the signing of the Settlement Agreement is a part of the full settlement of the issue arose from the Subcontracting Agreements mentioned above, the financial effect on the financial position of the Group resulting from the full settlement of issue regarding the Subcontracting Agreements has yet to be determined.

## 2. PRINCIPAL ACCOUNTING POLICIES

The condensed financial statements have been prepared under the historical cost convention, as modified for the revaluation of certain properties.

The accounting policies adopted are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2002, except as described below.

## 2. PRINCIPAL ACCOUNTING POLICIES – *continued*

In the current period, the Group has adopted the Statement of Standard Accounting Practice ("SSAP") No. 12 (Revised) "Income Taxes". The principal effect of the implementation of SSAP 12 (Revised) is in relation to deferred tax. In previous periods, partial provision was made for deferred tax using the income statement liability method, i.e. a liability was recognised in respect of timing differences arising, except where those timing differences were not expected to reverse in the foreseeable future. SSAP 12 (Revised) requires the adoption of a balance sheet liability method, whereby deferred tax is recognised in respect of all temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, with limited exceptions.

In the absence of any specific transitional requirements in SSAP 12 (Revised), the new accounting policy has been applied retrospectively. Comparative amounts for 2002 have been restated accordingly, the revaluation reserve as at 1 January 2003 has been decreased by HK$7,971,000 (2002: Nil), which is cumulative effect to the change in the policy on the financial position for the periods prior to 2003.

***Interests in an associate***

The condensed consolidated income statement includes the Group's share of the post-acquisition results of its associate for the period. In the condensed consolidated balance sheet, interests in an associate are stated at the Group's share of the net assets of the associate plus the premium paid on acquisition in so far as it has not already been amortised or written off to income, less any identified impairment loss.

## 3. SEGMENT INFORMATION

The Group is engaged in the manufacture and distribution of power tools. The nature of the products and the production processes and the methods used to distribute the products to customers in different geographical locations are similar. The Group's production facilities are located in the People's Republic of China ("the PRC"). The Directors of the Company consider that geographical segments by location of customers are the primary source of the Group's risk and returns.

## 3. SEGMENT INFORMATION – *continued*

Segment information by location of customers:

For the six months ended 30 June 2003:

| | Germany *HK$'000* | Other European countries *HK$'000* | Europe Sub-total *HK$'000* | Asia *HK$'000* | North America and other continents *HK$'000* | Consolidated *HK$'000* |
|---|---|---|---|---|---|---|
| Turnover | **74,083** | **31,020** | **105,103** | **21,053** | **7,120** | **133,276** |
| Segment results | **8,333** | **5,958** | **14,291** | **2,429** | **555** | **17,275** |
| Unallocated corporate income and expenses | | | | | | **(13,680)** |
| Profit from operations | | | | | | **3,595** |
| Finance costs | | | | | | **(843)** |
| Share of result of an associate | **8,428** | | | | | **8,428** |
| Profit before taxation | | | | | | **11,180** |

For the six months ended 30 June 2002:

| | Germany *HK$'000* | Other European countries *HK$'000* | Europe Sub-total *HK$'000* | Asia *HK$'000* | North America and other continents *HK$'000* | Consolidated *HK$'000* |
|---|---|---|---|---|---|---|
| Turnover | 99,087 | 33,681 | 132,768 | 60,272 | 614 | 193,654 |
| Segment results | 17,463 | 7,784 | 25,247 | 6,621 | 134 | 32,002 |
| Unallocated corporate income and expenses | | | | | | (12,647) |
| Profit from operations | | | | | | 19,355 |
| Finance costs | | | | | | (479) |
| Profit before taxation | | | | | | 18,876 |

## 4. DEPRECIATION

Depreciation charged for the period in respect of the Group's property, plant and equipment amounted to HK$1,933,000 (2002: HK$1,169,000).

Premium arising on acquisition of an associate after 1 January 2003 is capitalised and amortised on a straight-line basis over its estimated useful economic life of twenty years. Amortisation of goodwill for the period in respect of the investment in an associate amounted to HK$99,000 (2002: Nil) which has been included in the share of result of the associate.

## 5. FINANCE COSTS

The finance costs represent interest on bank borrowings wholly repayable within five years and discounted bill charges.

## 6. TAXATION

| | Six months ended 30 June | |
|---|---|---|
| | **2003** | 2002 |
| | ***HK$'000*** | *HK$'000* |
| | **(unaudited)** | (unaudited) |
| PRC income tax | **119** | 99 |
| Share of taxation attributable to an associate | **3,749** | – |
| Deferred tax | **1,047** | – |
| | **4,915** | 99 |

The Company's subsidiary, Golden Harbour is eligible for exemption from the PRC income tax for the two years ended 31 December 2002, followed by a 50% reduction in the PRC income tax for the next three years. The PRC income tax is calculated at the applicable rates on assessable profits for the six months ended 30 June 2003.

The PRC income tax of the representative office of the Company's Hong Kong subsidiary is calculated on a deemed income basis.

No provision for Hong Kong Profits Tax has been made for the period as the Group did not have any assessable profits for the period.

Deferred tax charged to income statement represents the withholding tax on the undistributed earnings of the associate shared by the Group. Deferred tax relating to the revaluation of the Group's properties has been charged directly to equity.

## 7. INTERIM DIVIDEND

The Directors have determined that an interim dividend of HK 1 cent per share (2002: HK2 cents per share) amounting to HK$3,360,000 (2002: HK$6,720,000) should be paid to the shareholders of the Company whose names appear on the Register of Members on 31 October 2003 and payable on 12 November 2003.

The Register of Members of the Company will be closed from Friday, 31 October 2003 to Thursday, 6 November 2003, both days inclusive, during which period no transfer of shares will be effected.

In order to qualify for entitlement to the interim dividend declared, all transfers accompanied by the relevant share certificates and the appropriate transfer forms must be lodged with the Company's Share Registrars, Hong Kong Registrars Limited at Rooms 1901-05, 19th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong, for registration by not later than 4:00 p.m. on Thursday, 30 October 2003.

## 8. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the unaudited consolidated profit for the period of HK$6,438,000 for the six months ended 30 June 2003 (2002: HK$18,866,000) and on the weighted average of number of 336,000,000 (2002: 283,094,000) shares.

## 9. MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT

The Group spent HK$21,334,000 on the establishment of its new production facilities for the six months ended 30 June 2003 in order to expand its manufacturing capability.

At 30 June 2003, the directors have considered the Group's land use right carried at revalued amounts and have estimated that the carrying amounts do not differ significantly from that which would be determined using fair values at the balance sheet date.

## 10. INTERESTS IN AN ASSOCIATE

| | **As at 30 June 2003** *HK$'000* **(unaudited)** | As at 31 December 2002 *HK$'000* (audited) |
|---|---|---|
| Share of net assets | **5,075** | – |
| Premium on acquisition of an associate | **12,817** | – |
| | **17,892** | – |
| Loan to an associate | **16,338** | – |
| | **34,230** | – |

| Name of Entity | Form of business structure | Place of incorporation and operation | Class of shares held | Proportion of share capital held by the Group | Nature of business |
|---|---|---|---|---|---|
| SBW Technische Gerate GmbH ("SBW") | Incorporated | Germany | Ordinary | 50% | Distribution of power tools |

The premium on acquisition of an associate arose on the acquisition of SBW in 1 January 2003. Amortisation charged in the current period amounting to HK$99,000 has been included in the amount reported as share of result of an associate in the consolidated income statement.

In the opinion of the Directors, they will not demand repayment of the loan to an associate of HK$16,338,000 within one year from the balance sheet date, accordingly, the loan is classified as a non-current asset.

The financial information of the associate, which is extracted from its management accounts for the six months ended 30 June 2003, is as follows:

Results for the six months ended 30 June 2003:

| | 1 January 2003 (date of acquisition) to 30 June 2003 *HK$'000* |
|---|---|
| Turnover | 126,713 |
| Profit before taxation | 17,055 |
| Profit before taxation attributable to the Group | 8,527 |

| | **As at 30 June 2003** ***HK$'000*** |
|---|---|
| Current Assets | **181,859** |
| Current Liabilities | **(135,962)** |
| Non-current Liabilities | **(35,748)** |
| Net Assets | **10,149** |
| Net Assets attributable to the Group | **5,075** |

## 11. TRADE AND OTHER RECEIVABLES

The Group has a policy of allowing average credit period of 20 – 120 days to its trade customers.

In addition, for certain customers with long-established relationship and good past repayment histories, a longer credit period may be granted.

An aged analysis of trade receivables is as follows:

| | **As at 30 June 2003** *HK$'000* **(unaudited)** | As at 31 December 2002 *HK$'000* (audited) |
|---|---|---|
| Within 30 days | **16,358** | 33,918 |
| Between 31 to 60 days | **4,543** | 6,725 |
| Between 61 to 90 days | **2,266** | 1,062 |
| Between 91 to 120 days | **213** | 5,394 |
| Over 120 days | **24,303** | 21,058 |
| Trade receivables | **47,683** | 68,157 |
| Other receivables | **17,703** | 10,167 |
| | **65,386** | 78,324 |

## 12. TRADE RECEIVABLE FROM AN ASSOCIATE

The Group has a policy of allowing credit period of 120 days to its associate.

An aged analysis of trade receivable is as follows:

| | **As at 30 June 2003** *HK$'000* **(unaudited)** |
|---|---|
| Within 30 days | **7,049** |
| Between 31 to 60 days | **11,030** |
| Between 61 to 90 days | **5,529** |
| Between 91 to 120 days | **11,481** |
| Over 120 days | **831** |
| | **35,920** |

## 13. TRADE AND OTHER PAYABLES

An aged analysis of trade payables is as follows:

| | **As at 30 June 2003 *HK$'000* (unaudited)** | As at 31 December 2002 *HK$'000* (audited) |
|---|---|---|
| Within 30 days | **48,164** | 35,841 |
| Between 31 to 60 days | **15,289** | 3,927 |
| Between 61 to 90 days | **9,336** | 3,153 |
| Between 91 to 120 days | **2,961** | 16,549 |
| Over 120 days | **20,995** | 21,381 |
| Trade payables | **96,745** | 80,851 |
| Other payables | **25,982** | 25,359 |
| | **122,727** | 106,210 |

## 14. SECURED AND UNSECURED BANK BORROWINGS

During the period, the Group obtained new secured and unsecured bank loans in the amounts of HK$1,887,000 (2002: Nil) and HK$60,684,000 (2002: Nil) respectively. The loans bear interests at market rates and are repayable within the next twelve months.

## 15. PLEDGE OF ASSETS

As at 30 June 2003, the Group had pledged its bank deposit and other receivables of HK$2,473,000 (2002: HK$288,000) and HK$2,695,000 (2002: Nil) to secure its bills payable and bank loans respectively.

## 16. CONTINGENCIES AND COMMITMENTS

As at 30 June 2003, the Group had

(a) contingent liabilities in respect of bills discounted with recourse of approximately HK$43,687,000 (31 December 2002: HK$25,312,000).

(b) capital expenditure of HK$16,114,000 (31 December 2002: HK$26,766,000) in respect of the acquisition of property, plant and equipment contracted for but not provided in the financial statements.

## 17. RELATED PARTY TRANSACTIONS

During the period, the Group sold goods to an associate amounting to HK$68,976,000 (30 June 2002: Nil). The transactions were carried out at market price or, where no market price was available, at cost plus a percentage profit mark-up.

# MANAGEMENT DISCUSSION AND ANALYSIS

## Financial Review

For the six months ended 30 June 2003, the Group recorded a turnover of HK$133,276,000, representing a decrease of 31% as compared to the HK$193,654,000 recorded in the previous year. Profit attributable to shareholders was approximately HK$6,438,000, representing a decrease of 66% from HK$18,866,000 in 2002. Earnings per share were HK1.9 cents, representing a decrease of 72% when compared to the HK6.7 cents recorded during the same period last year.

The outbreak of the Severe Acute Respiratory Syndrome ('SARS') hindered the progress of the Group's business development in the period under review. Delivery of the Group's 14 types of newly-developed products had to be postponed. Additionally, Original Design Manufacturer ('ODM') and Original Equipment Manufacturer ('OEM') customers postponed their schedule of plant visits for the discussion of possible co-operations. Whilst the Group also has decided not to participate in the Canton Fair held in Guangzhou in April 2003. During this period, the Group's subsidiary, Jiangsu Golden Harbour Enterprises Ltd. ("Golden Harbour") also terminated its subcontracting agreements with Hai An Xian Electronic Meter Factory and Tian Yuan, reducing the turnover contribution from its subcontracting activities; these factors have affected and led to a reduction in the Group's total turnover. Nevertheless, the Group has established solid business foundations in the power tools industry and built a strong customer base. Its new plant is operating satisfactorily and will reach its production peak in the second half of the year. Together with the Group's continuous efforts to expand its customer base and with the spread of SARS now under control, the Group's business performance will greatly improve. The improvement is expected to be either reflected in the second half of the year or in 2004. During the period, operating expenses increased as fixed expenses were relatively higher with the commencement of operations of Golden Harbour's new plant. More resources were also allocated to enhance its research and development capabilities to facilitate the Group's development of new products to satisfy and cater to different customer needs.

The Group continues to maintain its sound financial position. As at 30 June 2003, the Group's cash on hand amounted to HK$29,138,000, the gearing ratio (Bank borrowings/Equity) remained at 39% while the current ratio was 1.04 times (excluding the amount payable related to investment in an associate). The Group's short term loans increased to HK$62,571,000 in the review period. The loan was mainly used to pay for the investments in infrastructure, which have progressively been completed together with the purchase of new machineries and laboratory facilities. The Group regards its present gearing ratio to be at a safe and reasonable level. With the expansion of Golden Harbour's production facilities, the gearing ratio will drop to a lower level. With this solid financial footing, the Group is very well and soundly position to further expand its electric power tools manufacturing business while also diversifying into other products in the future.

# *MANAGEMENT DISCUSSION AND ANALYSIS* – *continued*

## Dividend

The Directors recommend the payment of an interim dividend of HK1 cent per share for the six months ended 30 June 2003.

## Business Review

The Group's operations can be divided into manufacturing and outsourcing of goods. To meet its business target to increase the manufacturing proportion, the Group actively expanded its design and production capabilities in the period under review. This has also helped to guarantee the quality of its products, facilitating the Group's move towards its long-term goal to raise profit margins, and further consolidating the Group's status in the electric power tools industry.

Since Golden Harbour commenced its operations in November 2002, the Group's annual production volumes have maximised to 3,000,000 product units. However, as the Group reduced its subcontracting production during the review period, the proportion of its manufacturing activities decreased to 31.5% in the first half of this year as compared to 64% in the first half year of 2002. However, all the Group's newly launched products are manufactured in its own plants. This not only ensures the quality control of its products, it also capitalises on its well-established production capabilities whilst enhancing the gross profit margins of its products.

Golden Harbour employs a modernised management and operational model, comprising standardised and automated production facilities to guarantee the quality of its products. It is equipped with state-of-the-art facilities, including a fully automated Italian AXIS motor production line, a high-speed precision press, CNC turning center, vertical machining center, etc. The Group has also introduced a highly flexible circular production line, which enables the simultaneous production of different products to satisfy the different customers' needs and greatly boost production flexibility and efficiency. The Group distinguishes itself from other mainland manufacturers by its extensive production experience and its goal to pursue the highest standard of excellence in producing its mechanical engineering products. The engineers design large numbers of quality manufacturing instruments moulds, and semi-automatic fluid connector and hydraulic equipment, enhancing reliability and quality controls. These models and prototypes minimise the number of faulty products generated by human error and thus help to guarantee stable product quality. The Group is also implementing a phased Enterprise Resource Planning ("ERP") System to strengthen its corporate resources management and to manage its supply chain more effectively. At the same time, the Group has increased the proportion of its manufacturing product components, enhancing the gross profit margin of its products and improving the management of quality. Leveraging its raised production capacities and the introduction of advanced facilities, the Group will continue to enlarge its manufacturing proportion and further improve the quality of its electric power tools production, to increase its competitive edge in the market.

## *MANAGEMENT DISCUSSION AND ANALYSIS* – *continued*

**Business Review** – *continued*

The Group continues to place strong emphasis on research and development. With its outstanding R&D team, its professional knowledge and in-depth industry experience, the Group successfully developed 14 new types of electric power tool products during the review period. These new products have achieved quality approval and are currently under trial production. Bulk orders have been received for these products and the initial batch of products will be delivered in September 2003. This new program of products is being developed in line with the requirements of well-known international customers, creating the groundwork for the Group's future product development. These products are being produced with the automated facilities and thus enjoy a higher gross profit margin. They will be distributed to well-known chain stores in Europe. In addition to its electric power tools, the Group has also developed 8 air tool series, consisting of a total of 49 product items. The Group has obtained patents for 24 of these product items. The air tool products are mainly distributed to chain stores and distributors in the United States and Japan. With higher technology requirements, these air tool products enjoy a relatively higher profit margin. Cooperating with some of the world's top international brands, part of the Group's current products are ODM products for professional use. The success of these product developments demonstrates the Group's high-level R&D capabilities. In the pipeline, the Group is preparing to set up a branch in Taiwan, aiming to gain an in-depth understanding of the new technology development of these products in the industry, and to enhance the product development. The Group believes that combining the advantages in the PRC and Taiwanese markets will strengthen its R&D capabilities and further highlight the Group's research and development abilities and consolidate its status in the industry.

Currently, the Group's products are mainly distributed in the European market. To further expand this market which is showing huge potential, the Group acquired a 50% interest in SBW Technische Gerate GmbH ("SBW"), an electric power tools distributor in Germany, from Barth Und Schoenemann GdbR ("B&S"). The acquisition agreement took effect on 1 January 2003. SBW enjoyed an outstanding business performance during the review period, with its contribution to the Group's profit being better than expected. B&S has transferred its business in association with TIP, one of the most well-known power tool brands in the German market, to SBW according to the agreement. The arrangement enables the Group to tap into the existing distribution networks of SBW and TIP in the European electric power tools market, and to distribute its products to European countries such as Germany, Austria, Spain and Italy. Additionally, the Group has benefited from the strong performance of the Euro in the foreign exchange market, which has allowed the Group's products to enjoy competitive advantages in pricing, and has strengthened the purchasing power of its European customers.

During the period under review, the Group actively explored various export distribution channels. In addition to its major markets in Europe, the Group is also committed to developing markets in Japan, the United States, New Zealand, Australia, South America and India. At the same time, it successfully opened up new markets in Eastern Europe. Under the impact of the SARS outbreak in the PRC, the Group slowed down its expansion into the PRC market. But as the outbreak is now under control, the Group will launch its air tools in the PRC, gradually increasing its sales proportion in this market. During the review period, the European market contributed 78.9% to the Group's total turnover, while Asia brought in 15.8%. North America and other continents accounted for the remaining 5.3%. The Group has also been extending its customer base to include renowned European chain stores and large-scale European electric power tool distributors such as Leroy Merlin and TIP, as well as PRC exporters.

## *MANAGEMENT DISCUSSION AND ANALYSIS* – *continued*

### Business Review – *continued*

On 4 April 2003, Golden Harbour terminated its subcontracting agreements with Hai An Xian Electronic Meter Factory and Tian Yuan. According to the subcontracting agreements, Golden Harbour would have total control of the operations of both Hai An Xian Electronic Meter Factory and Tian Yuan. The two subcontractors, however, breached the agreements by failing to pass their entire operations and release their inventories to Golden Harbour. The Group has referred the matter to the People's Government of Nan Tong City and Hai An County, both of which fully support the Group. Their greatest assistance has facilitated the Group's ability to sign agreement with the subcontractors on major matters before the results announcement date and to strive for the greatest benefit of our shareholders. The Group believes the matter will soon be settled completely with satisfactory results, and will present related details of the matter by then. As the Group has two well-equipped production bases of its own, Golden Harbour has rapidly established highly advanced facilities with top standards, to emerge as a comprehensive and international specialist group. These advantages, together with its established network of close to 50 suppliers in the PRC, have strengthened the Group's production facilities. As a result, the production capabilities of the Group have not been affected by this matter and the Group is fully able to fulfill orders for customers and make timely deliveries of its finished products.

### Prospects

With the SARS epidemic under control, the Group's production volumes have been gradually rising. Currently, the Group's order book is full until November this year. Furthermore, the 14 types of electric power tools, newly developed in the first half of 2003, have been well received by well-known chain stores and distributors, and the Group has successfully received a number of bulk orders. As production was slightly delayed due to the SARS outbreak, the first batch of new products is expected to be delivered in September this year.

Regarding its production model, the Group aims to adjust the proportion between its manufacturing and outsourcing activities to 80:20 within 3 to 5 years. The objective is to enhance the quality of its products while lowering the cost of production, raising the gross profit margin of its products and thus the Group's profitability. To keep pace with the rapid developments in production technology in the PRC, the Group is actively forming strategic alliances with ODM and OEM manufacturers to enhance its manufacturing technology and quality. The Group will also continue to invest in Golden Harbour's new plant, to furnish and implement new facilities to cope with the Group's future development.

## *MANAGEMENT DISCUSSION AND ANALYSIS* – *continued*

### **Prospects** – *continued*

Looking at its product portfolio, the Group has been concentrating on diversifying its product range and developing manufacturing for its own brand name. The Group plans to launch a series of electric power tools brand in Germany by the end of the year or early next year. Currently under patent application, these product series are expected to bring the Group a further revenue stream. In addition to electric power tools, the Group has developed numerous air tool products. The Group plans to bring in overseas design and manufacturing techniques for its air tool products via technology transfers and expects to launch a line of air tool products under its own brand name in Japan. With high technology requirements and complex production skills, this type of product commands comparatively higher profit margins. These air tool products will help the Group to explore new markets and expand its customer base in countries such as Japan, Europe and Australia. The Group is currently negotiating with well-known customers in Canada, the United States, Japan and Korea. The final stage of negotiations has been reached, and the co-operation agreements are expected to be signed in the near future. The Group's business is expanding from these customers and is expected to create a tremendous driving force for the Group's future business growth.

Capitalising on its extensive experience in product development and strong technological foundations, the Group is combining its specialist knowledge in air tools and electric power tools to develop a five-in-one multi-function electric power tool product. This new product will be launched in the next few months and is expected to see high market demand. The Group has also progressed from OEM to ODM, and has also been applying for patents for its self-developed products. To strengthen the research and development of its electric power tool products, the Group will also establish a specialist group to conduct product and market research. The Group expects to introduce new elements such as lasers, electronic protection, computerised controls, etc. to the electronic technology and functionality of its products, in addition to developing new products which will embrace energy saving and environmental friendly concepts and user-friendly designs.

In regards to market development, the Group will continue to focus on expanding the European market while consolidating newly developed markets such as New Zealand and Japan. Additionally, the Group aims to penetrate the North American and Australian markets. It also plans to set up agencies in the South American market and to form cooperative partnership with well-known American brands. The Group has had an excellent start in developing the Taiwanese market. It is currently preparing to set up a new branch office in Taiwan to expand the distribution network and its product development. The new markets are expected to bring in additional revenues, further expanding the Group's revenue base.

## *MANAGEMENT DISCUSSION AND ANALYSIS* – *continued*

### Prospects – *continued*

To further enhance the quality of its products and ensure that products meet international standards, the Group implements stringent quality controls. It will also continue to recruit overseas specialists with extensive industry experience, further strengthening the Group's R&D capabilities. The Group will expedite the implementation of the ERP system, to improve its corporate resources management and to manage its supply chain more effectively. At the same time, the Group is cooperating fully with "TUV", a European standard certification company, to establish a standard laboratory and supporting facilities at Golden Harbour's new plant, and provide professional training for Golden Harbour's engineers. The move will allow finished products to directly undergo professional testing at the plant, instead of being sent overseas for quality approval. This will enhance efficiency in product certification and for product launches.

Leveraging the above advantages, the Group expects to grow rapidly to become a leading electric power tools and air tools manufacturer and export-oriented distributor in the PRC while also commanding a major position in the international market. The Group is enhancing its "one-stop" production model, embracing product design and development, international standards compliance, manufacturing, quality assurance, export and other supporting services in the management of its supply chain. This will provide the Group's customers with top quality products and comprehensive customer services, enabling the Group to further expand its revenue base and bring in satisfactory returns for its shareholders.

## *ADDITIONAL INFORMATION REQUIRED BY THE LISTING RULES*

### Purchase, sale or redemption of listed securities

During the six months ended 30 June 2003, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

### Exposure to foreign exchange risks

The Group conducts most of its business transactions in currencies of U.S. dollars. Hong Kong dollars and Renminbi. As these currencies were relatively stable during the year under review, the Group has not been exposed to any material currency fluctuation risk during the year.

### Employee and remuneration policies

As at 30 June 2003, the Group had approximately 1,088 (2002: 941) employees. The employees were remunerated based on their performance with reference to the prevailing industry practice. Their remunerations are reviewed annually and discretionary bonus is used as drives and encouragements for personal performance be awarded to employees having regard to the performance and contribution of the employees.

## *ADDITIONAL INFORMATION REQUIRED BY THE LISTING RULES* – *continued*

### Directors' interests in shares

At 30 June 2003, the interests of the directors and their associates in the shares of the Company, and it associated corporations, as recorded in the register maintained by the Company pursuant to Section 352 of the Securities and Futures Ordinance, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, were as follows:

| Name of Director | Capacity | Number of issued ordinary shares held | Percentage of the issued share capital of the Company |
|---|---|---|---|
| Ms. Chen Wai Yuk | Beneficial Owner | 252,000,000 *(a)* | 75% |
| Mr. Wang Shu | Held by spouse *(b)* | 252,000,000 *(b)* | 75% |

*(a)* These shares were held by Twinning Wealth Limited which is wholly owned by Ms. Chen Wai Yuk.

*(b)* Mr. Wang Shu is deemed to be interested in 252,000,000 shares of the Company, being the interests held beneficially by his spouse Ms. Chen Wai Yuk.

### Substantial shareholders

Other than the interests disclosed above in respect of a director, the register of substantial shareholders maintained by the Company pursuant to section 336 of the Securities and Futures Ordinance discloses no person as having a notifiable interest or short position in the issued share capital of the Company as at 30 June 2003.

### Corporate governance

None of the Directors of the Company is aware of any information that would reasonably indicate that the Company is not, or was not for any part of the six months ended 30 June 2003, in compliance with the Code of Best Practice as set out in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited.

### Publication of interim results on the stock exchange's website

A detailed results announcements containing all the information required by paragraphs 46(1) to 46(6) of Appendix 16 of the Listing Rules will be published on the website of the Stock Exchange in due course.

On behalf of the Board
**Chen Wai Yuk**
*CHAIRMAN*

23 September 2003