

## Distributable Reserve

The Company had no distributable reserve at 30th June, 2003 and 30th June, 2002.

## Business Review

For the first half of 2003, the Group's results achieved a turnaround from the prior period's loss of HK\$12,037,000 to a profit of HK\$384,000, representing a significant improvement to the Group's financial performance. Turnover for the half year was HK\$243,010,000, 41% higher than the comparable period, profit from operations was HK\$8,790,000, against the previous period's operational loss of HK\$14,059,000.

## Principal Operations

The Group is at present principally engaged in the trading of iron ore, provision of finance, property investment and securities investment. Iron ore trading activities commenced in early 2003 was one of the main contributors to the increases of the Group's half year turnover and profitability. Sales achieved by this business segment amounted to HK\$54,542,000 and a profit of HK\$2,547,000 was reported. Iron ore is a major raw material for the production of iron and steel products. As majority of the Group's customers importing iron ore are based in the Mainland, further growth of this segment is expected in light of China's increasing level of fixed capital investment.

The Group was more active in its financing and securities investment activities during the review period. Additional financial resources were allocated to these segments which led to the increases of the Group's loans receivable and investments in securities when compared to the preceding balance sheet date. Both business segments performed satisfactorily for the half year, the financing segment reported an increased profit of HK\$3,433,000 compared to HK\$861,000 for the prior period, whereas the securities segment recognised a profit of HK\$2,062,000, representing mainly unrealised holding gain on securities, against the previous period's loss of HK\$115,000.

Performance of the Group's property investment activities during the review period was largely stable and rental income was at a similar level compared with the prior period. Since demand for rented office premises in Yuen Long where the Group's commercial property is situated remains weak, the Group will continue with its flexible leasing strategy to improve the property's occupancy rate.

As stated in the Company's announcement dated 13th January, 2003, the Company had entered into an agreement with an independent third party to dispose of its chemical fibers business for a cash consideration of HK\$50,000,000 (subject to adjustment). The disposal has been completed and the Group has since discontinued its chemical fibers operations. Turnover and net loss of this discontinued segment were HK\$183,408,000 and HK\$1,608,000 respectively for the period under review.

### **Jointly Controlled Entity**

The Group's share of profit from the 30% owned consumer goods retailer operating in Shanghai and Suzhou increased by 25% to HK\$1,975,000. Though adversely affected by the outbreak of the Severe Acute Respiratory Syndrome (SARS) in Shanghai, this retail company managed to increase its overall sales for the half year by close to 20% after a series of successful promotion campaigns. The retail company is expected to perform well in the remainder of the year.

### **Associate**

The Group's share of loss from the 37% owned general hospital operating in Xian was HK\$2,802,000 for the half year. The outbreak of SARS in Beijing and Shanghai and later in Xian had to a large extent adversely affected the operations of this hospital. When SARS was sweeping across the cities, the demand for the hospital's medical consultation and health care services decreased drastically which resulted in an overall drop of its revenue for the six months period. With the effect of SARS fading, activity of the hospital is gradually returning to its normal level.

## **Financial Review**

### **Liquidity, Financial Resources and Capital Structure**

The Group was in strong liquidity position throughout the first half year. At 30th June, 2003, the Group had cash balances and marketable listed securities totalling HK\$104,558,000 (excluding pledged bank deposits) and net current assets of HK\$20,984,000. The level of surplus cash decreased compared to the preceding balance sheet date as funds were applied to finance the increased level of financing and securities investment activities.

The Group's bank and other borrowings increased by 15% to HK\$215,056,000 compared to the preceding year end date. These borrowings are repayable within one year and the majority of them carry fixed interest rates. In terms of currency denomination, about 75% of these borrowings were in Renminbi with the balance in Hong Kong dollars. Funds raised from new borrowings were primarily used as additional working capital of the Group.

There had been no change to the Company's issued share capital during the period. At 30th June, 2003, shareholders' funds of the Group was HK\$515,497,000, equivalent to a consolidated net asset value of HK42 cents per share of the Company. Gearing ratio as of the period end date calculated on the basis of the Group's net borrowings of HK\$129,349,000 (after deducting bank balances, cash and deposits totalling HK\$85,707,000) over shareholders' funds was at the low level of 25%.