

MANAGEMENT DISCUSSION AND ANALYSIS

REVIEW OF OPERATION

Despite the global economic slowdown which has undermined the general public confidence, the underlying core operating results of both the steel trading and electronic divisions for the six months ended 30 June 2001 were pleasing. However, the profits generated from these two divisions were again badly affected by the operating results of the joint venture steel manufacturing plants in China. Due to the inherent volatility of the steel prices and surging costs of fuel and electricity, the joint venture steel mills in China were not performing well for the last few years. Although the operation of the steel mills in China is predominantly financed by the China joint venture partners and has not created any cash drain to the head office, however, their results of operation have to be consolidated into the Group at the end of each financial period. Considering the unsatisfactory performance of the China joint ventures, task group has already been set up and active steps have been undertaken to restructure and rationalize the operation structure of the China steel manufacturing division and dispose of all the unprofitable steel mills with a view to enhance the Group's performance expectations in the future.

Steel trading

It has been the Group's primary goal to devote much of its efforts in developing the core international steel trading operation in order to fulfil the strategy of becoming a focused steel group in the Asia Pacific Region. For the first half of 2001, the steel trading division continued to maintain its leading edge and generate a significant contribution to the Group with a turnover of HK\$214 million.

Steel manufacturing

Jiangyin Bofeng and Wuxi Xifeng, the two joint ventures with four steel manufacturing mills in China, reported a loss before minority interests of HK\$36 million and HK\$4 million respectively mainly due to the instability of steel product prices, surging costs of fuel and electricity and keen competition in the surrounding areas.

Electronics

The electronics division continued to deliver stable recurring income to the Group and reported a net profit of HK\$2 million based on a turnover of HK\$11 million. Barring any further global economic downturn, it is envisaged that the recurring income base of the electronics division could be sustained.