

Management Discussion and Analysis

管理層討論與分析

BUSINESS REVIEW AND OUTLOOK

Changes in the external environment in 2003 had impacted adversely the overall activities of the Group, in particular the steel business.

The outbreak of the Severe Acute Respiratory Syndrome (SARS) and the US-Iraq war had seriously hampered cross-border business dealings and caused disruption to logistics and sales activities. An imbalance in supply and demand was experienced in basic steel raw materials and fuel worldwide whilst the price of various kinds of steel products were subjected to huge fluctuations, ranging from drastic fall in the second quarter to the upsurge in the fourth quarter, leading to extreme volatility in the market. Freight forwarding cost, especially sea freight, increased dramatically as a result of the persistently high oil prices and under capacity of non-containerised goods. Under these market uncertainties, operating cost increased for many of the operations in steel trading, warehousing, logistics services and downstream steel products processing, who were the main users of raw materials, and therefore the results were adversely affected.

In the year under review, turnover of the Group was HK\$3.89 billion, an increase of 4% as compared with that of 2002. However, owing to the above-mentioned external factors, performance of the Group's steel operation was seriously affected. At the same time, provisions had to be made for certain investment items. Consequently, overall turnover of the Group was substantially below that of last year and a loss was recorded.

回顧與展望

二零零三年外部環境的變化對本集團整體業務，尤其是鋼鐵業務的經營構成不利影響。

非典型肺炎（「非典」）爆發、美伊開戰，嚴重阻礙了跨地域商業洽談和物流、銷售活動的開展；全球鋼鐵基礎原材料、燃料供求失衡，各種類別鋼材價格由第二季度的大幅下挫至第四季度的大幅上揚，市場歷經跌宕起伏；貨物運輸，特別是全球海運市場因油價高企、散貨船舶運力不足導致運費急劇上漲。種種波動因素，使得眾多鋼鐵貿易、倉儲、物流企業以及使用原材料主要為鋼鐵製品的下游生產加工企業成本增加，業績受到負面影響。

回顧期內，本集團營業額雖較二零零二年增長4%，至38.9億港元，但由於上述外部因素，拖累了主要鋼鐵業務的表現，再加上對部分投資項目作出了撥備，使得本集團整體經營業績遠較去年同期遜色，錄得虧損。

BUSINESS REVIEW AND OUTLOOK (continued)

Steel Business

Steel business has been the core business of the Group for decades. The Group is making a full thrust in participating in the industry's supply chain from three fronts, namely international steel trading, warehousing and distribution, as well as manufacturing and processing.

In 2003, this sector of business encountered exceptionally harsh operating conditions, and despite enormous efforts of the Group, the result was disappointing.

As to international trading and warehousing and distribution businesses, the steel market in China in the first quarter suffered an excess production capacity which was a continuing effect caused by the global upsurge in steel prices in 2002. The subsequent temporary imposition of protective measures in restricting the import of steel by China created massive stockpile within a short period of time. The outbreak of SARS and the US-Iraq war grounded business activities to a virtual halt and precipitated excessive inventory further. Against a backdrop of weakened sentiments and inactive trading, the market underwent a turbulent time and prices crest-fell. Steel prices, in particular steel plates, suffered the greatest plunge. For instance, the price of hot-rolled plates fluctuated at a range of as huge as 45%. In order to safeguard the long-term cooperating relationship with major overseas steel suppliers, the Group abided by business integrity and executed all procurement agreements as far as possible. Every effort was made by the Group's sales force and every market connection was exploited to minimise the loss incurred in price differences in executing those agreements. These notwithstanding, the overall gross profit declined drastically. At the same time, certain import wholesalers, in face with the uncertain market, rescinded their orders and breached their agreements, consequently leading to missed opportunities of re-selling and loss for the Group to the detriment of the overall performance of the business for the year.

回顧與展望 (續)

鋼鐵業務

鋼鐵業務是本集團經營了數十年的核心業務。本集團致力在鋼鐵國際貿易、倉儲物流分銷和加工製造三個層面介入行業的價值鏈。

但就二零零三年而言，該項業務在特殊困難的情況下經營，雖經努力，業績卻未盡人意。

在國際貿易和倉儲物流分銷業務方面，承接二零零二年全球鋼鐵價格的上揚，中國市場於第一季度國內鋼材生產過量，進口鋼材則因國內實施臨時進口保障措施的限期，造成貨物集中大批量短時間到岸；隨之而來的非典爆發、美伊開戰使得商業活動陷於阻滯，社會庫存形成積壓；在人心怯弱、交易淡靜之下，市場出現震盪，價格急劇下跌，各類鋼材尤其是板材類品種的跌幅擴大，例如熱軋卷板年內價格上下波動逾45%。為保持與海外各主要鋼鐵供應廠商的長期合作關係，本集團恪守商業誠信，竭力履行採購合約，通過自身的銷售隊伍和市場網絡，在合約執行過程中盡一切可能減低價差損失，但整體毛利率仍不可避免地陡然下降。同時，有個別進口批發商於此波動的市況下撤單違約，造成本集團在若干單合約執行時失去轉售的時機，產生虧損，拖累到該項業務的全年整體表現。

BUSINESS REVIEW AND OUTLOOK *(continued)***Steel Business** *(continued)*

In respect of steel manufacturing and processing business, reduced cost and improved operating efficiency have been achieved in the Group's steel pipe processing plant in Dongguan after extensive investment in its expansion. Production capacity has increased by 40% and operating scale is gradually taking shape. Another newly established coil centre began production in March 2003. The advanced facilities of the production plant and the high quality of the end-products have been well received by customers. Despite the fact that the coil centre was still in its early days, turnover in 2003 exceeded the original expectation by 32%. The excellent start was achieved through two efforts. Externally, the Group leveraged on the strong market demand on high value-added steel plate processing and managed to secure the confidence and orders of customers. Internally, stringent control on cost and wastage was exercised. Nevertheless, these two plants had to bear the negative impacts caused by SARS and market volatility also. For the steel manufacturing business, during the SARS epidemic and the several months afterwards, orders were postponed or cancelled by downstream customers, leading to a sharp fall in sales and gross profit. When prices surged upwards by a wide margin in the following six months, downstream customers again were unable to shoulder the increased price in the short term as this was beyond their budget. In these circumstances, the Group, with a long term view, adjusted its sales strategy duly and absorbed some of the processing cost and transferred the benefits to customers as a means to tide over the difficult period together. Despite a decrease in the overall gross profit margin in 2003, turnover of the business remained at the same level as last year and a similar market share was maintained. The Group has thus sealed the long term cooperation with its quality end-user customers.

回顧與展望 *(續)***鋼鐵業務** *(續)*

在鋼鐵加工製造業務方面，本集團位於中國東莞的鋼管加工中心經斥資完成擴建後，成本得以降低，營運效率得以增強，產能增長了40%，形成了規模經營。另一間投資新建的鋼卷加工中心於二零零三年三月正式投產後，設備精良，產品質量廣受用戶的好評。該廠雖尚處開業初期，但因應市場高附加值板材延伸加工的強勁需求，對外贏取到客戶的信心和訂單，對內嚴控成本、減低損耗，二零零三年營業額超過原計劃32%，取得了良好的開端。但回顧期內，上述兩間工廠同樣受到非典和市場波動的負面影響。鋼管製造業務在非典以及疫情後的數月內，下游客戶延遲或甚至取消訂單，造成銷售和毛利率下挫；下半年價格大幅上漲時，下游客戶亦失去預算，短時期內難以承受產品價格的上調。在此情況下，本集團為長遠考慮，適時調整銷售策略，採取了承擔部分加工費用，讓利給客戶，以共渡時艱的應變措施。雖然該項業務於二零零三年整體毛利率下降，營業額仍能與去年持平，保持了市場佔有率，鞏固了終端高質素客戶的長期合作基礎。

BUSINESS REVIEW AND OUTLOOK (continued)

Property Development and Investment

Property development and investment business constitutes one of the core ongoing businesses of the Group.

The Group's development, Times Square in Yangzhou, Jiangsu, having a total gross floor of 68,800 square metres, has been in operation for more than one and a half years since opening of its first phase and at present, has been fully leased out. In addition to the 300 plus shops engaged in retail of clothing, jewellery, watches and cosmetics, other major tenants include restaurants, supermarkets, electrical appliances city, digital cinema complex, book city, piano shop, business leisure centre and KTV.

The small portion of floor space sold is managed through the same property management company with the same system as the other tenants. In this way, sale-and-leased back or leasing arrangements are all under a uniform operation, management and planning. This ensures the stable long term development of the mall and the ultimate enhancement of its asset value.

The Group's investment property in Mongkok, Hong Kong has been leased to a major well-known local retailer throughout. During the SARS epidemic, the Group offered certain relief measures to help the tenant through the difficult period. Following the gradual recovery of the economy in Hong Kong and the introduction of private individual travel by China, retail business is picking up again. The tenant also recorded satisfactory performance and has extended its lease with the Group.

回顧與展望 (續)

房地產開發與投資

房地產開發與投資是本集團持續經營的一項主要業務。

本集團於江蘇揚州投資興建的68,800平方米建築面積的時代廣場自首期開業已有一年半時間，至今已全部出租。除經營百貨類的服飾、珠寶、首飾、手錶、化妝品等300餘間店鋪外，其他大型及長期租客還包括多家酒樓和超市、電器城、數碼多廳影院、書城、琴行、商務休閒中心及KTV等項目。

該廣場小部份已售出的樓面，則通過統一委託相同系統下的經營、物業管理公司，採取了售後返租及委託出租等措施，成功實施了統一經營、統一管理和統一佈局，從而有效地維護了該廣場長期穩定的發展及最終提升其資產價值。

本集團位於旺角的投資商場物業一直由知名的本地大型零售商承租。非典期間，本集團提供了紓困措施，與其共渡時艱。隨著本港經濟好轉，「自由行」的實施，零售業逐漸邁向復甦，該租客的經營表現獲得提升，與本集團重新簽定了新的續租合約。

BUSINESS REVIEW AND OUTLOOK (continued)

The Group's management deeply regretted and was disappointed at the less than satisfactory performance for the year 2003 and for failing the support of the shareholders, the business associates and the management. However, the management firmly believes that the Group's strategy in participating and investing in the steel business is long-term. The unsatisfactory performance in 2003 is but temporary and the worst is over now. Through this experience, the Group has learned a very instructive lesson from the market and is in the process of implementing a range of internal adjustments and improvements. It is gratifying to note that in this very turbulent year, the Group had managed to consolidate its market share and reinforce its relationship with major suppliers, customers and banks on the strengths of its outstanding reputation and professional staff. All these have laid a solid foundation for the long term development of the operation and improvement of performance in future.

Outlook

The global economy is projected to recover further in 2004. The Group is set to benefit from this in driving forward its business and improving its overall profit performance.

For the steel business, contracted orders received by the Group's trading department at the end of 2003 for execution and delivery in the first quarter of 2004 has already reached HK\$1 billion, attaining an obvious improvement in gross profit. As to the Group's two processing plants, orders for the first quarter were fairly substantial and production, sale and profit positions were more promising than anticipated.

回顧與展望 (續)

綜上所述，本集團管理層深感二零零三年的表現不盡人意，令股東、各方友好以及本集團管理層自身亦感遺憾和失望。但管理層堅信，本集團對鋼鐵行業的參與和投入策略是長遠的，二零零三年不理想的表現是暫時的，最壞的情況已經過去。難能可貴的是，憑藉良好的商譽、專業的團隊，在過去動盪的一年裡，本集團鞏固了市場佔有率，加強了與各主要供應廠商、客戶和主要往來銀行的關係，為日後業務的長期發展、業績的改善奠定了良好的基礎。

展望

二零零四年，預期全球經濟進一步的復甦將有利於本集團各項業務的推進和整體盈利表現。

在鋼鐵業務方面，本集團貿易部門自二零零三年底接獲至二零零四年第一季度付運結算的合約訂單已逾10億港元，毛利率明顯獲得提升；至於本集團兩間加工製造工廠，第一季度的訂單充實，生產、銷售及盈利情況亦明顯勝過預期。

BUSINESS REVIEW AND OUTLOOK *(continued)***Outlook** *(continued)*

The Group is fully convinced that global demand for steel will continue to hold steady and that the macro-economic conditions in China will remain robust. Though recently the Chinese Government has imposed control measures to stamp out the low-level, repetitive investment behaviour of certain sectors, including the steel industry, China has embarked onto the heavy industrial development phase and thereby fostered a cluster of high growth industries, such as residential property development, shipbuilding, automobile, oil pipelines, infrastructure construction, machinery and telecommunication equipment, which all consume massive volume of steel. The rapid development of these industries will accelerate a corresponding growth in steel consumption. This will generate a steady demand as well as extend the demand cycle. Shortage in raw materials and fuel resources necessary in steel production in the global context, such as iron ore lumps, coke, scrap will remain acute and basic relief seems not forthcoming. Shortage in electricity and transportation will also limit the development in full capacity and cost control for the steel industry in China. These fundamental factors will eventually prop up the price of steel at a high level for an extended period. At the same time, in the next few years, the strong and prolonged demand of new construction projects will necessitate the continual import of high-technology and value-added steel products, which domestic production lines are incapable to provide, to China in addition to raw materials.

回顧與展望 *(續)***展望** *(續)*

本集團堅信，全球的鋼鐵需求仍能保持平穩持續的增長，而中國的宏觀經濟形勢仍然長線趨好。儘管中國政府近期開始對鋼鐵等行業的低水平重複建設的投資行為將採取降溫的調控措施，但中國正在進入重型化工業階段，形成了一批如住宅、造船、汽車、輸油管、基礎建設、機械、電子通信等耗用大量鋼鐵的高增長產業群。這些產業群自身行業的快速發展，勢必帶動鋼鐵消費的快速增長，其不僅需求穩定，且增長週期長。特別是全球範圍內鋼鐵生產所需的鐵礦石、焦炭、廢鋼等原材料、燃料資源性供應緊張的局面難以得到根本性的緩解；電力、運輸緊張的局面亦將對中國鋼鐵生產企業產能的釋放、成本的控制形成制約。這些基本因素，最終將對鋼材價格一段時期內高位運行起到支撐作用。同時，由於需求強勁和新上項目投資建設週期長的原因，未來數年，除原料外，中國仍將持續大量進口國內生產線無法滿足供應的技術含量高、附加值高的各類鋼鐵製品。

BUSINESS REVIEW AND OUTLOOK (continued)**Outlook** (continued)

In view of market demands, the Group will source raw materials such as iron ore lumps, pig iron, scrap, fluxes from North and South America, Russia, Ukraine, Japan, India, Australia and South Africa as well as build up long term stable supply relationship with major domestic steel mills. A special procurement and sales system integrating various resources will be instituted with the particular requirements of the automobile, IT and home appliances industries in mind and will focus on the marketing of specialised steel plates and sheets. At the same time, the Group reckons that the prospect of the steel processing industry in producing ancillary products for foreign enterprises investing in China is very promising, in particular processing of products related to galvanised steel sheets, stainless steel and silicon steel sheets. Building on the two existing processing plants in the Pearl River Delta, the Group will strive to develop this business sector more actively. The Group plans to establish a steel coil processing plant in the Yangtze River Delta in 2004 to target customers in the IT, home appliances and automobile industries. The management envisages that while exercising prudence in risk management, the Group's steel business will maintain a stronghold in the market in 2004 which will generate a better operating performance and profit return to the Group.

In respect of the property business, Times Square in Yangzhou, Jiangsu, is an excellent RMB asset with long term potential in value appreciation. In 2004, as the planned functions of the mall gradually take shape and the enrichment of business formats, combining shopping, leisure, catering, entertainment and tourism in one place becomes a reality, the mall attracts a customer flow of several tens thousands every day and has become the most trendy place for consumers. This has enabled a higher rental from new tenants and in renewal of existing leases. Benefited from the robust economic development of the Yangtze River Delta, coupled with the promising potential of increase in value of this prime asset and being under no financial pressure to sell, the Group had not carried out any major property sale activities in the last two years. The management firmly believes that the project is yielding returns gradually and it will be able to secure a long-term stable cash flow and satisfactory investment return.

回顧與展望 (續)**展望** (續)

基於市場的需求，本集團貿易部門將加強對鐵礦砂、生鐵、廢鋼、坯料等原材料在北美、北美、俄羅斯、烏克蘭、日本、印度、澳洲、南非等地的採購，建立與國內大型冶煉鋼廠的長期固定供應關係；並因應汽車、IT、家電等行業的特殊需求，整合不同資源的採購和經銷體系，有針對性地進行專項板材類商品的市場營銷。同時，本集團看好主力為外商在華投資企業產品配套的鋼鐵加工製造業的發展前景，尤其是專門從事高附加值產品如鍍鋅塗層鋼板、不銹鋼板、矽鋼片等產品延伸加工的業務。本集團將在珠江三角洲已有兩間工廠的基礎上，更積極地拓展該項業務，擬計劃二零零四年在長江三角洲一帶投資興建另一間針對IT、家電和汽車行業的鋼卷加工工廠。管理層預期，在審慎規避經營風險的同時，本集團鋼鐵業務在二零零四年將繼續保持較大的市場份額，以實現良好的營運表現和盈利貢獻。

在房地產業務方面，江蘇揚州時代廣場是具有長期升值潛力的優質人民幣資產。二零零四年，隨著該廣場功能佈局的完善，經營業態的豐富，購物、休閒、餐飲、娛樂、旅遊漸溶一體，單日人客流量逾數萬人次，已成為了當地時尚的消費場所，使得新進駐的大型長期租戶租金和新一輪續租合約租金水平獲得較大幅度提升。受惠於長江三角洲經濟的發展，在沒有資金壓力及長線看好其資產增值的情況下，本集團在過往的兩年並未急於進行大型的物業銷售活動。管理層堅信，該項目的經營漸入收成期，將能帶來長期穩定的現金流和理想的投資回報。

LIQUIDITY AND FINANCIAL RESOURCES

The Group continued to keep its working capital of high liquidity. As at 31 December 2003, the cash and bank balance of the Group was approximately HK\$196,036,000 (2002: HK\$314,335,000).

The Group's current ratio, as a ratio of current assets to current liabilities, and the gearing ratio, as a ratio of total liabilities to total assets, as at 31 December 2003 were 1.30 and 0.64 respectively (2002: 1.56 and 0.57 respectively).

As at 31 December 2003, the bank borrowings of the Group were approximately HK\$779,126,000 (2002: HK\$603,137,000). Excluding the short-term loans on trade finance amounted to approximately HK\$446,578,000 (2002: HK\$287,341,000), the maturity profile of other bank borrowings as at 31 December 2003 was as follows:

		2003 HK\$ million 港幣百萬元	2002 HK\$ million 港幣百萬元
Within one year	一年內	141	82
In the second year	第二年	114	42
In the third to fifth year	第三年至第五年	38	139
After the fifth year	五年後	39	53
		332	316

All the Group's bank borrowings were denominated in Hong Kong Dollar, US Dollar and Renminbi, bearing interest at prevailing market rates. No material exchange risk is expected on the bank borrowings and no financial instruments have been used for hedging purposes during the year.

資產流動性及財務資源

本集團一如以往保持高流動性的營運資金，於二零零三年十二月三十一日，本集團持有現金及銀行結餘約港幣196,036,000元（二零零二年：港幣314,335,000元）。

於二零零三年十二月三十一日，本集團之流動比率（流動資產與流動負債相比）及負債比率（總負債與總資產相比）分別為1.30及0.64（二零零二年：分別為1.56及0.57）。

於二零零三年十二月三十一日，本集團之銀行貸款約為港幣779,126,000元（二零零二年：港幣603,137,000元）。不計短期貿易信貸貸款約為港幣446,578,000元（二零零二年：港幣287,341,000元），於二零零三年十二月三十一日，其他銀行貸款之還款年期如下：

本集團所有銀行貸款均以港元、美元及人民幣為貨幣單位，息率為市場息率。預期銀行貸款不會有重大兌匯風險，於本年度未有行使任何衍生工具對沖之用。

CHARGE ON ASSETS

As at 31 December 2003, the following assets were pledged: (i) certain leasehold land and buildings with a net book value of approximately HK\$105,300,000 (2002: HK\$108,028,000); (ii) certain motor vehicles and machinery of approximately HK\$10,737,000 (2002: HK\$8,396,000); (iii) certain investment properties with a net book value of approximately HK\$362,980,000 (2002: HK\$261,752,000); (iv) certain properties held for sale of approximately HK\$27,220,000 (2002: HK\$2,910,000); (v) certain inventories of approximately HK\$21,822,000 (2002: HK\$17,678,000) released under trust receipts bank loans; and (vi) certain bank deposits amounted to approximately HK\$3,961,000 (2002: HK\$40,503,000).

CAPITAL COMMITMENTS

As at 31 December 2003, the Group had no capital commitments (2002: capital commitments contracted but not provided for amounted to approximately HK\$8,345,000).

CONTINGENT LIABILITIES

As at 31 December 2003, the Group had the following contingent liabilities: (i) guarantee for general banking facilities granted to an associate amounted to approximately HK\$21,730,000 (2002: HK\$21,730,000); (ii) Mainland China land appreciation tax amounted to approximately HK\$17,820,000 (2002: HK\$14,891,000); and (iii) guarantees given to bank for mortgage facilities granted to the buyers of the Group's properties amounted to approximately HK\$29,689,000 (2002: HK\$21,220,000).

STAFF

As at 31 December 2003, the Group employed 720 staff. Staff remuneration packages are structured and reviewed by reference to market terms and individual merits. The Group also provides other staff benefits which include year end double pay, contributory provident fund and medical insurance. Share options and discretionary bonus may also be granted to eligible staff based on individual and Group performance. Training programmes for staff are provided as and when required.

資產抵押

於二零零三年十二月三十一日，以下資產已予抵押：(i)部份租賃土地及樓宇帳面淨值約港幣105,300,000元（二零零二年：港幣108,028,000元）；(ii)部份汽車及機械約港幣10,737,000元（二零零二年：港幣8,396,000元）；(iii)部份投資物業帳面淨值約港幣362,980,000元（二零零二年：港幣261,752,000元）；(iv)部份待售物業約港幣27,220,000元（二零零二年：港幣2,910,000元）；(v)銀行信託貸款項下部份存貨約港幣21,822,000元（二零零二年：港幣17,678,000元）；及(vi)部份銀行存款約港幣3,961,000元（二零零二年：港幣40,503,000元）。

資本承擔

於二零零三年十二月三十一日，本集團並無任何資本承擔（二零零二年：已簽約但未撥備之資本承擔約港幣8,345,000元）。

或然負債

於二零零三年十二月三十一日，本集團有以下或然負債：(i)為聯營公司銀行融資作出之擔保約港幣21,730,000元（二零零二年：港幣21,730,000元）；(ii)中國土地增值稅約港幣17,820,000元（二零零二年：港幣14,891,000元）；及(iii)為集團物業購買者按揭貸款向銀行作出之擔保約港幣29,689,000元（二零零二年：港幣21,220,000元）。

僱員

於二零零三年十二月三十一日，本集團共僱用720名員工。僱員薪酬一般乃參考市場條件及根據個別表現制定及檢討。本集團並為僱員提供其他福利，包括年終雙糧、需供款之公積金及醫療保險。此外，本集團亦根據公司經營業績按員工個別表現而授出購股權及發放花紅，並會視乎需要為僱員提供培訓計劃。