



# SHOUGANG CONCORD CENTURY HOLDINGS LIMITED

## 首長寶佳集團有限公司

(Incorporated in Hong Kong with limited liability)

### FINAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2002

#### HIGHLIGHTS

Turnover increased by 25.5% to HK\$234,891,000 (2001: HK\$187,139,000)  
 Operating profit increased by 141.9% to HK\$54,526,000 (2001: HK\$22,543,000)  
 Net profit increased by 110.8% to HK\$42,283,000 (2001: HK\$20,061,000)  
 Earnings per share increased by 110.7% to HK5.52 cents (2001: HK2.62 cents)  
 Net asset value increased by 12.9% to HK\$444,489,000 (2001: HK\$393,659,000)

The board of directors (the "Board") of Shougang Concord Century Holdings Limited (the "Company") is pleased to announce the audited consolidated results of the Company and its subsidiaries (the "Group") for the year ended 31 December 2002 as follows:

	Notes	2002 HK\$'000	2001 HK\$'000
TURNOVER	2	234,891	187,139
Cost of sales		(159,323)	(132,919)
		<b>75,568</b>	54,220
Other revenue and gains		475	2,066
Distribution costs		(919)	(659)
Administrative expenses		(28,036)	(25,435)
Other operating expenses		(8,002)	(2,481)
Recovery of/(provision for) bad and doubtful debts, net		15,440	(5,168)
<b>PROFIT FROM OPERATING ACTIVITIES</b>	3	<b>54,526</b>	22,543
Finance costs		(2,024)	(4,969)
		<b>52,502</b>	17,574
Share of profits and losses of jointly controlled entities		6,853	7,198
Share of profit of an associate		4,885	4,733
<b>PROFIT BEFORE TAX</b>		<b>64,240</b>	29,505
Tax	4	(1,638)	(2,157)
<b>PROFIT BEFORE MINORITY INTERESTS</b>		<b>62,602</b>	27,348
Minority interests		(20,319)	(7,287)
<b>NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS</b>		<b>42,283</b>	20,061
<b>EARNINGS PER SHARE</b>	5		
Basic		<b>HK 5.52 cents</b>	HK 2.62 cents
Diluted		N/A	N/A

Notes:

- ADOPTION OF NEW AND REVISED STATEMENTS OF STANDARD ACCOUNTING PRACTICE ("SSAPs")**  
 The Group has adopted the following recently-issued and revised SSAPs which are effective for the first time for the current year's financial statements:
  - SSAP 1 (Revised): "Presentation of financial statements"
  - SSAP 11 (Revised): "Foreign currency translation"
  - SSAP 15 (Revised): "Cash flow statements"
  - SSAP 34: "Employee benefits"

#### 2. TURNOVER AND SEGMENT INFORMATION

(a) Business segments  
 Group  
 Year ended 31 December 2002

	Steel cord HK\$'000	Copper and brass products HK\$'000	Property development and investment HK\$'000	Corporate and others HK\$'000	Eliminations HK\$'000	Consolidated HK\$'000
Segment revenue:						
Sales to external customers	177,705	56,692	489	5	-	234,891
Inter-segment sales	-	-	-	-	-	-
Unallocated revenue	-	-	-	475	-	475
<b>Total</b>	<b>177,705</b>	<b>56,692</b>	<b>489</b>	<b>480</b>	<b>-</b>	<b>235,366</b>
Segment results	74,771	948	(1,137)	(13,763)	-	60,819
Unallocated income and expenses, net	-	-	-	-	-	(6,293)
Profit from operating activities	-	-	-	-	-	54,526
Finance costs	-	-	-	-	-	(2,024)
Share of profits and losses of:						
Jointly controlled entities	-	-	(161)	7,014	-	6,853
An associate	-	-	-	4,885	-	4,885
Profit before tax	-	-	-	-	-	64,240
Tax	-	-	-	-	-	(1,638)
Profit before minority interests	-	-	-	-	-	62,602
Minority interests	-	-	-	-	-	(20,319)
Net profit from ordinary activities attributable to shareholders	-	-	-	-	-	42,283
Other segment information:						
Depreciation and amortisation	22,669	505	48	361	-	23,583
Other non-cash expenses	-	218	890	6,513	-	7,621
Provision for/(recovery of) bad and doubtful debts, net	(12,937)	106	-	(2,609)	-	(15,440)

Group  
 Year ended 31 December 2001

	Steel cord HK\$'000	Copper and brass products HK\$'000	Property development and investment HK\$'000	Corporate and others HK\$'000	Eliminations HK\$'000	Consolidated HK\$'000
Segment revenue:						
Sales to external customers	144,593	40,961	1,452	133	-	187,139
Inter-segment sales	-	-	198	-	(198)	-
Unallocated revenue	-	-	-	1,700	-	1,700
<b>Total</b>	<b>144,593</b>	<b>40,961</b>	<b>1,650</b>	<b>1,833</b>	<b>(198)</b>	<b>188,839</b>
Segment results	32,610	306	(120)	(8,872)	-	23,924
Unallocated income and expenses, net	-	-	-	-	-	(1,381)
Profit from operating activities	-	-	-	-	-	22,543
Finance costs	-	-	-	-	-	(4,969)
Share of profits and losses of:						
Jointly controlled entities	-	-	6	7,192	-	7,198
An associate	-	-	-	4,733	-	4,733
Profit before tax	-	-	-	-	-	29,505
Tax	-	-	-	-	-	(2,157)
Profit before minority interests	-	-	-	-	-	27,348
Minority interests	-	-	-	-	-	(7,287)
Net profit from ordinary activities attributable to shareholders	-	-	-	-	-	20,061
Other segment information:						
Depreciation and amortisation	22,463	329	56	263	-	23,111
Other non-cash expenses	-	159	200	-	-	359
Provision for/(recovery of) bad and doubtful debts, net	12,115	(781)	-	(6,166)	-	5,168

#### (b) Geographical segments

Group  
 Year ended 31 December 2002

	Hong Kong HK\$'000	Elsewhere in the People's Republic of China (the "PRC") HK\$'000	Others HK\$'000	Consolidated HK\$'000
Segment revenue:				
Sales to external customers	54,285	180,291	315	234,891
Year ended 31 December 2001				
Segment revenue:				
Sales to external customers	41,263	145,485	391	187,139

#### 3. PROFIT FROM OPERATING ACTIVITIES

The Group's profit from operating activities is arrived at after charging/(crediting):

	2002 HK\$'000	2001 HK\$'000
Cost of inventories sold	158,808	132,747
Depreciation	23,024	22,553
Amortisation of land use rights	559	558
Loss/(gain) on disposal of fixed assets, net	12	(83)
Loss on write off of interest in a jointly controlled entity	6,495	-
Loss on disposal of subsidiaries, net (including realisation of goodwill and negative goodwill)	-	2,152

#### 4. TAX

	2002 HK\$'000	2001 HK\$'000
Group:		
Hong Kong		
Underprovision in prior years	-	49
Mainland China		
Provision for the year	21	187
Overprovision in prior years	(14)	-
Arising from the disposal of a subsidiary	-	356
	7	592
Jointly controlled entities:		
Mainland China	876	798
Associate:		
Mainland China	755	767
	<b>1,638</b>	<b>2,157</b>

No provision for Hong Kong profits tax has been made as the Group did not have any assessable profits arising in Hong Kong during the year. The income tax in Mainland China is calculated at the applicable tax rates on the estimated assessable profits for the year based on existing legislation, interpretation and practices in respect thereof. In accordance with the relevant tax rules and regulations in Mainland China, certain of the Company's subsidiaries, jointly controlled entities and associate in Mainland China enjoy income tax exemptions and reductions.

#### 5. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the net profit from ordinary activities attributable to shareholders of HK\$42,283,000 (2001: HK\$20,061,000) and 765,372,000 shares in issue during the years ended 31 December 2002 and 2001.

As the exercise price of the outstanding share options was higher than the average market price of the Company's shares during the period from the date of grant to 31 December 2002, they exerted no dilution effect on the basic earnings per share for the year ended 31 December 2002. Diluted earnings per share for the year ended 31 December 2001 has not been shown as there were no dilutive potential ordinary shares outstanding during that year.

#### MANAGEMENT DISCUSSION & ANALYSIS

##### Review of Operations

##### Group Results

The Group reported a net profit attributable to shareholders of HK\$42,283,000 for the year ended 31 December 2002, an increase of 110.8% as compared to the corresponding net profit attributable to shareholders of HK\$20,061,000 for the year ended 31 December 2001.

Basic earnings per share was up from HK2.62 cents to HK5.52 cents for the year under review.

The external economic environment was still unstable during 2002, whereas the economy of Mainland China remained outstanding and achieved an economic growth of approximately 8% in 2002; this helps created a favorable operating environment for our Group's businesses. Turnover of the Group for the year under review reached to HK\$234,891,000, increased by 25.5% as compared to the corresponding year of 2001. Our core businesses of manufacturing of steel cord and processing and trading of copper and brass products recorded an increase in turnover of 22.9% and 38.4% respectively. In contrast, the turnover of the property development and investment business dropped by 66.3% due to the partial disposal of equity interest in a subsidiary engaged in the property development during 2001 with the objective of concentrating our resources on the Group's more profitable core businesses.

Gross profit amounted to HK\$75,568,000, representing an increase of 39.4% over the corresponding year of 2001. This significant increase was attributable to the increase in turnover and the improvement in gross profit margin from 29% in 2001 to 32.2% in the year under review which was primarily as a result of reduced cost of sales arising from increased production.

Regarding expenses and other costs, despite a 25.5% increase in turnover, administrative expenses only increased by 10.2% to HK\$28,036,000 under our resilient cost control measures. The Group's finance costs sharply dropped by 59.3% to HK\$2,024,000 only, being the result of reduced interest bearing borrowings and lowered borrowing rates during the year.

Moreover, the significant increase in net profit was also contributed by specific bad debts recovery of HK\$16,612,000 (the portion attributable to the Group was HK\$12,663,000 after deducting minority interests' portion of HK\$3,949,000) reflecting the relentless pursuit of the management to safeguard the interest of the Group.

#### Principal Businesses

##### Manufacturing of Steel Cord

Our segment of manufacturing of steel cord, principally operated by Jiayang Eastern Steel Cord Co., Ltd. ("Jiayang Eastern"), the Group's 71.8% owned subsidiary in China, had recorded an operating profit of HK\$74,771,000 for the year under review, representing an increase of 129.3% as compared to HK\$32,610,000 for 2001.

The strong economic growth in China, specifically the rapid development of the domestic motor vehicles market and freeway and expressway network, has further stimulated the demand for radial tyres, and hence, steel cord during the year. Turnover increased by 22.9% to HK\$177,705,000 for the year under review. Its gross profit rose to HK\$70,148,000 for the year of 2002 from HK\$50,646,000 in 2001. Apart from the 22.9% growth in turnover, the increase was also contributed by the improvement in gross profit margin from 35% in 2001 to 39.5% for the year under review, which was the result of further costs savings and enhanced operational efficiency arising from increased production.

Besides the increase in gross profit margin, the remarkable growth in operating profit was also contributed by a specific bad debt recovery of HK\$14,004,000 (the portion attributable to the Group was HK\$10,055,000). When this bad debt recovery was excluded, the operating profit for the year under review would be HK\$60,767,000, an increase of 86.3% over the corresponding year of 2001.

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

Notwithstanding the instability in the external economic environment, our segment of copper processing and trading was able to maintain a satisfactory growth in turnover and gross profit during the year under review. This was attributable to its strengthened sales force and sourcing network. This business segment realized an operating profit of HK\$948,000 during the year under review, representing an increase of 209.8% as compared to the corresponding amount of HK\$306,000 in 2001.

Turnover was up from HK\$40,961,000 in 2001 to HK\$56,692,000 during the year under review, which represented an increase of 38.4% while sales volume shown an increase of 53.2% as compared to the last corresponding year. Despite that London Metal Exchange copper price had rebounded from its lowest level of approximately US\$1,340 per tonne in November 2001 to a high of approximately US\$1,690 per tonne in 2002, on average, it still hovered around at a relatively low level when compared to the year of 2001. As such, the average selling price of our copper products dropped by 9.6% to HK\$18,870 per tonne for the year under review.

However, gross profit was not affected by this fluctuation in the copper price. Gross profit increased by 65.4% to HK\$4,929,000 for the year under review. In addition to sales growth, the significant increase was also attributable to the improvement of gross profit margin from 7.3% in 2001 to 8.7% in the year under review. This improvement in gross profit margin was the results of increased portion of materials procurement from direct manufacturers rather than intermediaries and implementation of effective cost control measures.

The establishment of the new production plant in Dongguan, the PRC was completed in July and commenced operations in August 2002 aiming to providing better service to our customers in the Pearl River Delta region and reducing operating costs in the long run. Due to set up costs incurred during the period of establishment and sales needed to be built up over time, an operating loss of HK\$878,000 was incurred during the year under review. However, it is expected that the plant will breakeven in the first half of 2003.

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

Shanghai Shenjia Metal Products Co., Ltd. ("Shanghai Shenjia") and Xinhua Metal Products Co., Ltd. ("Xinhua Metal") maintained a stable profit for the year under review, despite the deteriorating operating environment arising from severe competition in the pre-stressed concrete strands and wires industry in China. Prices continued to fall but this negative impact was offset by increased sales volume and reduced costs through enhanced operating efficiencies and enlarged production capacity. Shanghai Shenjia, our 25% owned jointly controlled entity, had recorded a moderate growth in turnover of 2.9% to HK\$300,135,000. While its profit before tax dropped by 2.5% to HK\$28,055,000, hence, our Group's share of its profit before tax was also dropped to HK\$7,014,000, a 2.5% decrease as compared to the corresponding year of 2001.

Turnover of Xinhua Metal, our 16.75% owned associate, increased by 35.7% to HK\$374,524,000. However, since no further profit was earned from short term investment during the year (as opposed to a profit of approximately HK\$7,000,000 in 2001), its profit before tax slightly increased by 3.2% to HK\$29,164,000. Therefore, our share of its profit before tax was HK\$4,885,000 for the year under review.

#### *Corporate and Others*

Besides to the costs incurred in relation to the Group's management services, the results of our corporate and others segment include those bad debts recovery from the business of trading and processing of metallic ores and metals which had been discontinued in 1999. The amount recovered during the year ended 31 December 2002 was HK\$2,315,000, substantially less than the amount of HK\$6,166,000 for 2001. As a result, the net cost incurred by this segment increased from HK\$8,872,000 in 2001 to HK\$13,763,000 for the year ended 31 December 2002.

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

Net asset value of the Group at 31 December 2002 amounted to HK\$444,489,000, representing an increase of 12.9% as compared to HK\$393,659,000 at 31 December 2001. Total issued share capital of the Company remained at 765,372,000 shares, hence, the net asset value per share was up from HK\$0.51 at 31 December 2001 to HK\$0.58 at 31 December 2002.

The Group mainly financed its operations by cash generated from its business activities and ongoing banking facilities provided by its principal bankers. During the year under review, the group had generated a net cash inflow of approximately HK\$76,543,000 from its operating activities and had invested HK\$35,987,000 of capital expenditure for our business expansion projects. Moreover, with the support of its strong operating cash inflow, the Group had repaid a net amount of HK\$40,058,000 of its bank loans and a loan from a related company. Total bank borrowings (including finance lease payables) at 31 December 2002 therefore reduced to HK\$24,169,000 and hence the gearing ratio (total bank borrowings/shareholders' equity) further lowered from 11% at 31 December 2001 to 5.4% at 31 December 2002. Besides the lower gearing, the Group's current ratio (current assets/current liabilities) also rose to 4 times from 1.8 times at 31 December 2001.

Bank borrowings, which are interest bearing at floating interest rates, amounted to HK\$24,169,000 as at 31 December 2002. Out of which 23.4% (2001: 69.8%) was denominated in Renminbi ("RMB"), 9.7% (2001: 5.4%) in Hong Kong Dollars ("HKD") and 66.9% (2001: 24.8%) in United States Dollars ("USD"). The significant change in currency mix as compared to 2001 was because the Group had reduced its short term working capital loan which are denominated in RMB or HKD while our USD bank borrowings used to finance materials procurement from overseas increased. 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.

As to their nature and maturity, HK\$23,471,000 are due within one year which comprise HK\$16,944,000 of trust receipt loans, HK\$5,655,000 of short term working capital loan and HK\$872,000 of finance lease payables. The balance of HK\$698,000 of finance lease payables are due within one to two years. The directors do not foresee any difficulty in meeting those financial obligations during the year ending 31 December 2003.

#### **Business Development Plan and Capital Commitment**

Jiaxing Eastern had completed the plan to enlarge its annual production capacity to 12,000 tonnes of steel cord and commenced operations during the first quarter in 2003. In view of the growing demand of steel cord in Mainland China, the Group planned to progressively expand the annual production capacity of Jiaxing Eastern to 30,000 tonnes in the coming three years with the goal to achieve 15,000 tonnes at the end of 2003. Total costs of the expansion will be in the region of HK\$300 – HK\$350 million, and it is estimated that approximately HK\$143.7 million will be incurred during 2003, to be financed by the Group's internal working capital and bank loans.

#### **Employees, Remuneration Policies and Training Scheme**

At 31 December 2002, the Group had a total of 449 (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 provided retirement benefits to employees in Hong Kong and the PRC respectively. The Group's contributions to these schemes are charged against profits as they are incurred. The amount charged to the consolidated profit and loss account for the year under review amounted to HK\$798,000. The Group has also provided training programme or course for the mainland staff at all levels from different departments so as to further enhance their technical skills in production operation.

In addition, the Group had adopted a share option scheme (the "1992 Scheme") for the purpose of granting share options to any director and employee as an incentive to his/her contribution to the Group in 1992. The 1992 scheme subsequently expired on 10 March 2002. A new option scheme (the "2002 Scheme") was adopted by the shareholders of the Company at the annual general meeting held on 7 June 2002. Under the 2002 Scheme, the Board also shall, subject to and in accordance with the provisions of the 2002 Scheme and the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (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. The 2002 Scheme will remain in force for a period of ten years from the date of its adoption.

The Company granted certain eligible participants under 2002 Scheme totaling 76,524,000 share options to subscribe for shares in the capital of the Company on 23 August 2002 and 12 March 2003 respectively. During the year under review, there were no options being exercised, cancelled or lapsed.

#### **Pledge of Assets and Contingent Liabilities**

Certain of the Group's assets, totaling HK\$57,429,000 had been pledged to the Group's bankers as securities for banking facilities granted to the Group, as follows:

1. Leasehold land and buildings and investment properties with an aggregate net book value of HK\$40,929,000;
2. Land use rights with a net book value of HK\$13,500,000; and
3. Time deposits amounting to HK\$3,000,000.

Besides the above, the Group had also 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 31 December 2002 amounted to approximately HK\$23,360,000.

#### **Business Outlook**

The performance of the world's economy is still clouded by prolonged deflation and uncertainties from warfare, while Mainland China, because of its stable political and economic conditions, will still immune from these uncertainties, notwithstanding the operating environment will become more challenging with the influx of foreign investments. However, we believe the market for our core businesses will still have enormous space for growth, we will endeavor to further develop our core businesses by way of expansion of production capacity as mentioned in the "Business Development Plan and Capital Commitment" section above, and exploration of new markets in the mainland in a cautious manner. In addition, we will actively seek other opportunities to create additional value for our shareholders. Barring uncertain circumstances, the Board is confident that the Group will be able to provide a satisfactory return to shareholders in the coming year.

#### **DIVIDEND**

The directors do not recommend the payment of final dividend in respect of the year ended 31 December 2002 (2001: Nil).

#### **AUDIT COMMITTEE**

The Company has established an audit committee ("Audit Committee") since 1998 with reference to "A Guide for the Formation of an Audit Committee" issued by the Hong Kong Society of Accountants in December 1997. The Audit Committee currently comprises the two independent non-executive directors of the Company. It reviews, advises and makes recommendation to the Board in relation to the Company's financial reporting process and internal control systems throughout the Group. The Audit Committee meets twice during the year in conjunction with the auditors to review the said financial and internal control matters. During the year, it had reviewed the interim and the final results of the Group before their submission to the Board for approval.

The Audit Committee may also meet with the management of the Company occasionally to make recommendation on corporate governance issues of the Company.

#### **PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES**

Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year.

#### **CODE OF BEST PRACTICE**

In the opinion of the Board, the Company has complied with the Code of Best Practice as set out in Appendix 14 of the Listing Rules throughout the year, except in relation to guideline 7, where the non-executive directors of the Company are not appointed for specific terms but are subject to retirement by rotation and re-election at the annual general meetings of the Company in accordance with the Company's articles of association.

#### **PUBLICATION OF RESULTS ON THE STOCK EXCHANGE OF HONG KONG LIMITED (THE "STOCK EXCHANGE")'S WEBSITE**

The Company's annual report containing all the information required by paragraphs 45(1) to 45(3) inclusive of Appendix 16 to the Listing Rules will be subsequently published on the website of the Stock Exchange in due course.

#### **APPRECIATION**

Finally, on behalf of the Board, we would like to express our sincere appreciation for our shareholders' encouragement and support and to all of those who worked hard and made contribution to the Group during the year.

By order of the Board  
**Cao Zhong**  
Chairman

Hong Kong, 16 April 2003

This announcement can also be accessed through the internet at the Company's website <http://www.shougangcentury.com.hk>.