



---

**SECOND QUARTER  
REPORT TO SHAREHOLDERS 2001**

1	2
3	4

---

## RESULTS OF OPERATIONS

---

### Net Sales

Sales for the six months to June 30, 2001 were \$376.6 million, which represents a decrease of \$39.6 million or 9.5% from the \$416.2 million achieved in the comparable period of last year, while second quarter sales at \$190.0 million, were \$20.4 million or 9.7% below last year. The slowing North American economy which resulted in weak business conditions in the final six months of last year and the first quarter of this year has continued to impact the Company in the second quarter. All segments except for Distribution recorded lower sales in the quarter compared to last year. Compared to the first quarter of this year, however, overall Company-wide sales are up 1.8%.

Sales of the Packaging segment in the second quarter, at \$96.7 million, were down \$11.1 million or 10.3% with weakness noted in all geographic areas. Metal Processing sales for the quarter were \$67.9 million, which is down \$9.6 million or 12.4% due primarily to lower sales of roll formed products. Distribution sales were \$25.4 million which is \$0.2 million or 1.0% higher than last year due to higher sales in Canada.

### Earnings

Earnings before goodwill amortization for the first half of 2001 were \$8.3 million or \$0.25 per share, which represents a decrease of 52.7% from the \$17.6 million or \$0.51 per share earned last year. Net earnings for the six months to June 30, 2001 were \$7.5 million or \$0.23 per share compared to \$16.7 million or \$0.49 per share last year. For the second quarter, earnings before goodwill amortization were \$5.2 million or \$0.16 per share, which represents a decrease of 43.7% from the \$9.3 million or \$0.27 earned last year. Net earnings for the second quarter were \$4.8 million or \$0.15 per share, a decrease of 45.1% from \$8.8 million or \$0.26 per share earned in the second quarter last year. Compared to the first quarter of this year, however, net earnings are up 79.0% in the second quarter.

Operating profit (earnings before interest, income taxes and goodwill amortization) for the second quarter amounted to \$10.7 million which is \$5.3 million or 33.1% below the comparable quarter of last year. The Packaging segment had operating profit of \$4.4 million which is 8.7% below the \$4.8 million earned last year. Although the U.S. enjoyed much improved results, overall earnings were down because of the reduction in demand for steel strapping in Canada and reduced earnings in the U.K. due to a slowdown in the U.K. economy, increased competition from mainland Europe and margin compression on exports due to the strength of the British Pound compared to the Euro. Compared to the first quarter of this year, operating profits for the Packaging segment increased by 88.4% with the majority of the increase flowing from the U.S. as initial savings related to last year's restructuring are realized.

The Metal Processing segment generated an operating profit of \$7.8 million which is 29.3% below the comparable quarter of last year. The major reason for the shortfall is a decline in earnings from pickling operations due to the slowdown in the North American auto industry. Earnings from roll formed products also declined due to reduced demand from the railroad industry. Compared to the first quarter of this year, operating profits for the Metal Processing segment are up 23.4%.

Within the Distribution segment there was an operating loss of \$0.1 million which is substantially below the \$0.8 million earned in the comparable quarter last year and also below the \$0.2 million earned in the first quarter this year and reflects soft market conditions in both Canada and the U.S.

## FINANCIAL CONDITION

---

### Liquidity and Capital Resources

Cash flow before changes in non-cash working capital for the first six months of 2001 amounted to \$22.8 million which is down \$7.9 million from \$30.7 million in the comparable period of last year. Overall cash flow from operating activities increased to \$25.6 million from \$17.5 million last year reflecting reduced requirements for non-cash working capital.

Cash used for investing activities at \$21.6 million is well below last year's \$36.1 million and is due to decreased spending on business acquisitions. Cash used for financing activities amounted to \$8.8 million in

the six months compared to an inflow of \$3.4 million last year. During the six months, the Company spent \$2.1 million on the purchase of 363,400 shares under its Normal Course Issuer Bid compared to \$1.2 million last year. Dividends paid on common shares for the six months were \$2.7 million or \$0.08 per share compared to \$3.4 million or \$0.10 per share in the comparable period of last year, reflecting the recent reduction in the dividend rate from \$0.05 per share to \$0.03 per share effective with the second quarter of this year. This reduction was in response to the continued softness in the Company's earnings in the current year.

### **Capital Expenditures**

Capital expenditures in the six months to June 2001 were \$19.0 million compared to \$9.6 million during the comparable period last year. Expenditures in the current six months relate primarily to the new pickling line expansion at Nanticoke, Ontario and upgrades to plastic strapping machines in the United States.

### **Business Acquisition**

On March 12, 2001, the acquisition of the business and assets of Surrey Wire Rope Ltd. ("Surrey") and Pearce Industries Ltd. ("Pearce") was completed at a cost of \$2.7 million. Surrey and Pearce based in Surrey, British Columbia, are involved in the distribution of wire rope products in British Columbia, Alberta and the U.S. Pacific Northwest and will complement the activities of the Company's Distribution segment.

### **Working Capital**

Working capital at June 30, 2001 was \$154.4 million, a decrease of \$4.7 million from the year-end position, due mainly to lower inventories which have decreased by \$7.2 million. Overall, the working capital ratio of 2.2 remained unchanged from both the year-end position and the end of the first quarter this year, but slightly above the end of the second quarter last year when it was 2.0.

### **Net Borrowings to Capitalization**

The Company's net borrowings as at June 30, 2001 amounted to \$211.2 million, an increase of \$2.5 million from \$208.7 million at December 31, 2000. This increase reflects the higher spending on fixed assets and business acquisitions. The net debt to capitalization ratio at the end of the quarter at 48.5% remained unchanged from year-end.

### **Normal Course Issuer Bid**

Under the Company's Normal Course Issuer Bid 363,400 common shares of Samuel Manu-Tech Inc. were purchased during the six months bringing the cumulative total under the Issuer Bid to 1,192,400 shares. The Issuer Bid approves the purchase for the Company of up to 1,713,277 common shares during the one-year period commencing August 19, 2000.

### **Other Items**

Effective June 1, 2001, John D. Amodeo was appointed to the position of Vice-President and Chief Financial Officer replacing Wallace H. Rayner who retired in the first half of 2001. Most recently, John was Executive Vice-President and CFO at Bracknell Corporation and previous to that spent many years in the Molson group of companies, most recently as Senior Vice President, Finance and Chief Financial Officer.

### **Outlook**

Although difficult business conditions are expected to continue in the third quarter, the Company is experiencing improving conditions in certain areas and remains optimistic for a stronger performance in the second half of the year.



Mark C. Samuel  
*President and CEO*

## CONSOLIDATED STATEMENTS OF EARNINGS

Six Months ended June 30, 2001 and 2000 (unaudited)

(thousands of dollars except per share amounts)

	2ND QUARTER		SIX MONTHS	
	2001	2000	2001	2001
NET SALES	\$186,964	\$210,377	\$376,603	\$416,249
COSTS (INCOME) AND EXPENSES:				
Cost of sales, selling & administration	172,432	187,800	344,485	372,317
Depreciation and amortization	6,864	6,620	13,734	12,916
Interest on long-term debt	3,069	2,793	6,212	5,653
Interest on short-term debt	255	370	594	657
Interest income	(45)	(54)	(124)	(167)
	182,575	197,529	364,901	391,376
EARNINGS BEFORE INCOME TAXES AND GOODWILL AMORTIZATION	7,389	12,848	11,702	24,873
INCOME TAXES:				
Current	1,739	3,479	2,536	7,158
Future	417	71	833	92
	2,156	3,550	3,369	7,250
EARNINGS BEFORE GOODWILL AMORTIZATION	5,233	9,298	8,333	17,623
GOODWILL AMORTIZATION, net of income taxes	401	496	802	938
NET EARNINGS	\$ 4,832	\$ 8,802	\$ 7,531	\$ 16,685
BASIC AND DILUTED EARNINGS PER SHARE BEFORE GOODWILL AMORTIZATION	\$ 0.16	\$ 0.27	\$ 0.25	\$ 0.51
BASIC AND DILUTED EARNINGS PER SHARE	\$ 0.15	\$ 0.26	\$ 0.23	\$ 0.49

See accompanying notes to consolidated financial statements.

## SEGMENTED INFORMATION

Six Months ended June 30, 2001 and 2000 (unaudited)

(thousands of dollars)

	2ND QUARTER		SIX MONTHS	
	2001	2000	2001	2000
NET SALES				
Packaging	\$ 96,693	\$107,750	\$192,550	\$211,670
Metal Processing	67,882	77,482	134,243	151,549
Distribution	25,389	25,145	49,810	53,030
Consolidated	\$189,964	\$210,377	\$376,603	\$416,249
	2ND QUARTER		SIX MONTHS	
EARNINGS BEFORE INTEREST, INCOME TAXES AND GOODWILL AMORTIZATION	2001	2000	2001	2000
Packaging	\$ 4,420	\$ 4,839	\$ 6,766	\$ 9,375
Metal Processing	7,835	11,082	14,182	21,259
Distribution	(79)	823	141	2,309
Corporate	(1,508)	(787)	(2,705)	(1,927)
Earnings before interest, income taxes and goodwill amortization	10,668	15,957	18,384	31,016
Interest on long-term debt	3,069	2,793	6,212	5,653
Interest on short-term debt	255	370	594	657
Interest income	(45)	(54)	(124)	(167)
Earnings before income taxes and goodwill amortization	\$ 7,389	\$ 12,848	\$ 11,702	\$ 24,873

See accompanying notes to consolidated financial statements.

## CONSOLIDATED BALANCE SHEETS

June 30, 2001 (unaudited) and December 31, 2000 (audited)

(thousands of dollars)

	June 30, 2001	Dec. 31, 2000
<b>ASSETS</b>		
CURRENT ASSETS:		
Cash and short-term deposits	\$ 4,962	\$ 7,009
Accounts receivable	114,256	114,405
Inventories	153,689	160,914
Prepaid expenses and sundry	3,123	3,607
Income taxes receivable	2,502	555
Future income taxes	9,071	9,343
	<b>287,603</b>	295,833
FIXED ASSETS	<b>208,381</b>	201,741
FUTURE INCOME TAXES	<b>8,165</b>	10,617
DEFERRED PENSION COSTS	<b>4,260</b>	4,372
INTANGIBLE ASSETS	<b>40,674</b>	42,535
	<b>\$549,083</b>	\$555,098
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
CURRENT LIABILITIES:		
Bank indebtedness	\$ 39,504	\$ 36,722
Accounts payable and accrued liabilities	80,594	86,329
Dividends payable	997	1,673
Current portion of long-term debt	12,112	11,996
	<b>133,207</b>	136,720
LONG-TERM DEBT	<b>164,508</b>	166,984
POST-RETIREMENT BENEFITS OTHER THAN PENSIONS	<b>3,569</b>	3,751
FUTURE INCOME TAXES	<b>23,942</b>	25,834
	<b>325,226</b>	333,289
SHAREHOLDERS' EQUITY:		
Capital stock	26,657	26,951
Retained earnings	192,634	189,552
Cumulative translation adjustment	4,566	5,306
	<b>223,857</b>	221,809
	<b>\$549,083</b>	\$555,098

See accompanying notes to consolidated financial statements.

## CONSOLIDATED STATEMENTS OF RETAINED EARNINGS

Six Months ended June 30, 2001 and 2000 (unaudited)

(thousands of dollars)

	2001	2000
RETAINED EARNINGS, BEGINNING OF PERIOD	\$189,552	\$193,957
CHANGE IN ACCOUNTING POLICY FOR INCOME TAXES	—	(10,004)
NET EARNINGS	7,531	16,685
DIVIDENDS PAID ON COMMON SHARES	(2,651)	(3,430)
SHARES PURCHASED AND CANCELLED	(1,798)	(1,095)
RETAINED EARNINGS, END OF PERIOD	<b>\$192,634</b>	\$196,113

See accompanying notes to consolidated financial statements.

# CONSOLIDATED CASH FLOW STATEMENTS

Six Months ended June 30, 2001 and 2000 (unaudited)

(thousands of dollars)

	2ND QUARTER		SIX MONTHS	
	2001	2000	2001	2001
<b>CASH FLOWS FROM (USED IN) OPERATING ACTIVITIES:</b>				
Net Earnings	\$ 4,832	\$ 8,802	\$ 7,531	\$ 16,685
Items not involving cash:				
Depreciation and amortization	6,864	6,620	13,734	12,916
Goodwill amortization	487	596	971	1,188
Future income taxes	417	71	833	92
Increase in deferred pension costs	(52)	(127)	(86)	(7)
Decrease in post-retirement benefits other than pensions	(143)	(69)	(215)	(194)
	<b>12,405</b>	15,893	<b>22,768</b>	30,680
Change in non-cash operating working capital:				
Decrease (increase) in accounts receivable	350	(3,663)	(76)	(10,603)
Decrease (increase) in inventories	7,534	(6,988)	10,271	(11,660)
Decrease in prepaid expenses and sundry	718	636	494	429
Decrease (increase) in income taxes receivable	1,615	(1,395)	(1,868)	540
Increase (decrease) in accounts payable and accrued liabilities	(11,008)	1,987	(6,020)	8,161
	<b>11,614</b>	6,470	<b>25,569</b>	17,547
<b>CASH FLOWS FROM (USED IN) INVESTING ACTIVITIES:</b>				
Proceeds on sale of fixed assets	51	129	127	442
Gain on disposal of fixed assets	(24)	(58)	(12)	(78)
Purchase of fixed assets and intangible assets	(8,140)	(5,902)	(19,017)	(9,627)
Business acquisition	—	(26,886)	(2,701)	(26,886)
	<b>(8,113)</b>	(32,717)	<b>(21,603)</b>	(36,149)
<b>CASH FLOWS FROM (USED IN) FINANCING ACTIVITIES:</b>				
Purchase of common shares	(1,499)	(417)	(2,092)	(1,245)
Increase in long-term debt	—	22,054	11,047	22,054
Repayment of long-term debt	(15,125)	(10,369)	(15,125)	(13,954)
Dividends paid on common shares	(990)	(1,713)	(2,651)	(3,430)
	<b>(17,614)</b>	9,555	<b>(8,821)</b>	3,425
<b>EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS</b>				
	<b>(358)</b>	1,067	<b>26</b>	1,302
<b>DECREASE IN CASH AND CASH EQUIVALENTS</b>	<b>(14,471)</b>	(15,625)	<b>(4,829)</b>	(13,875)
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD</b>	<b>(20,071)</b>	(7,775)	<b>(29,713)</b>	(9,525)
<b>CASH AND CASH EQUIVALENTS, END OF PERIOD</b>	<b>\$ (34,542)</b>	\$ (23,400)	<b>\$ (34,542)</b>	\$ (23,400)

Cash and cash equivalents is comprised of cash and short-term deposits less bank indebtedness.

See accompanying notes to consolidated financial statements.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Six Months ended June 30, 2001 and 2000 (unaudited)

(thousands of dollars)

## 1. SIGNIFICANT ACCOUNTING POLICIES:

The unaudited consolidated financial statements are prepared in accordance with accounting principles generally accepted in Canada. These financial statements should be read in conjunction with the Company's audited annual financial statements for the year ended December 31, 2000. Effective January 1, 2001 the Company adopted the new recommendations of the CICA with respect to the calculation of earnings per share. The adoption of these recommendations had no effect on basic earnings per share, and the assumed exercise of outstanding stock options would not have a dilutive effect. All other accounting policies and methods of their application used in the interim financial statements are consistent with the Company's annual financial statements.

## 2. COMMON STOCK:

	June 30, 2001	Dec. 31, 2000
Number of common shares outstanding	32,937,540	33,300,940
Number of options outstanding	671,000	671,000

## 3. BUSINESS ACQUISITION:

Effective March 12, 2001, the Company acquired the net assets and business of Pearce Industries Ltd. and Surrey Wire Rope Ltd. This acquisition has been accounted for under the purchase method of accounting and the results of operations since the acquisition have been included in the consolidated statement of earnings. Details of the consideration given and the fair value of net assets acquired are as follows:

Cash consideration	\$2,701
Net assets acquired, at fair values:	
Inventories	\$2,369
Prepaid expenses	4
Fixed assets	412
Accounts payable	(84)
Net assets acquired	\$2,701



Over 50% recycled paper  
including 25% post-  
consumer fibre.

M - An official mark of Environment Canada

Printed in Canada

---

 **SAMUEL MANUTECH INC.**

185 The West Mall, Suite 1500, Toronto, Ontario M9C 5L5

Telephone: (416) 626-2190 Fax: (416) 626-5969

E-mail: [smt@samuelmanutech.com](mailto:smt@samuelmanutech.com)

Web site: [www.samuelmanutech.com](http://www.samuelmanutech.com)

---