

Management Discussion and Analysis

BUSINESS REVIEW

Property

During the year, the Group had disposed a property located at Shanghai with a gain of HK\$6.8 million and a property located at Jinan with a loss of HK\$29.3 million. Since the property market in Shangdong Province was not as flourishing as when the Group made its investment in the second half of year 2002, the disposal of the property located at Jinan would minimize the loss on impairment of value of the property to the Group.

As at 31 December 2004, the Group held an office property located at Shanghai for investment purpose. Rental income of HK\$2.6 million was contributed from such property for the year.

Treasury and Investment

During the year, the Group had not invested in any listed securities. The investment in securities mainly represents the investment in HMI made in year 2003.

In December 2004, the Group invested HK\$12.0 million in Century Energy for development of coal and chemical products related projects so as to diversify the investment of the Group.

Interest in Associates

In year 2003, the Group had acquired 25% interest in a paper manufacturing plant, Zhejiang Risesun Paper Company Limited (“Risesun”), located at Huzhou, Zhejiang Province, the PRC. The plant remained as an associate of the Group for the year ended 31 December 2004. The production of Risesun had been temporarily suspended since December 2004 due to insufficient working capital. The major shareholder of Risesun, which is a company listed on the Shenzhen Stock Exchange, had committed to provide financial supports to Risesun for resumption of operation shortly.

The Group had also completed an investment in another paper manufacturing plant, Wuhu Dongtai Paper Manufacturing Company Limited (“Dongtai”), by injecting the equipment during the year. In the second half of year 2004, the production of Dongtai had been occasionally suspended due to electricity problem and insufficient funds for production. Actions had been taken by the local government, management and the major shareholder of Dongtai, which is a company listed on the Shenzhen Stock Exchange, to resume production shortly.

Management Discussion and Analysis (Continued)

FINANCIAL REVIEW

The Group's turnover for the year ended 31 December 2004 was HK\$18.2 million. Since the tenancy agreement of the property located at Jinan was expired in June 2004, the rental income from the said property was decreased by HK\$14.7 million.

After the disposal of all the listed securities last year, the Group had not invested in any listed securities during the year. For the investment in the unlisted overseas securities, no dividend income had been received. Thus, there was no income contribution from the treasury and investment segment during the year. In addition, an impairment loss of HK\$27.3 million was recognised during the year to reflect the decrease in net assets value of HMI.

The share of results of the associates engaged in the manufacture and sales of paper-related products were loss of HK\$18.1 million. The goodwill arising from the acquisition of the associates of HK\$41.3 million were fully written off and impairment losses of HK\$138.0 million in respect of the interest in associates were recognised at 31 December 2004 to reflect the temporary suspension of production of the associates.

The management has adopted a very conservative approach to assess the value of the Group's investment. As a result of the impairment losses recognised during the year, the net loss for the year increased from HK\$21.2 million to HK\$249.7 million. The loss per share for the year increased from HK\$0.07 to HK\$0.85.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2004, the Group had cash and bank balances of HK\$4.8 million and had no borrowings.

Charges on Group assets

As at 31 December 2004, an investment property of the Group with a carrying amount of HK\$35.0 million was pledged to a bank to secure a short-term bank loan of RMB24.0 million granted to an unrelated third party. In return, the Group receives a guaranteed income of 8% per annum on the loan from this unrelated third party. In addition, the guaranteed income is secured by a corporate guarantee from another unrelated third party.

EMPLOYEES

As at 31 December 2004, the Group employed 8 persons and the staff cost amounted to HK\$2.0 million. Staff remuneration packages are reviewed annually. The Group does not maintain a share option scheme.

OUTLOOK

In future, the Group would streamline the existing resources and strengthen the return from individual business segment. The Group would also explore various investment opportunities so to diversify the business of the Group and enhance the return to the shareholders.