

MANAGEMENT OPERATION

REVIEW AND ANALYSIS

The turnover and profit after taxation of each of our principal activities are analyzed as follows:

<i>(HK\$' 000)</i>	<i>Turnover</i>		<i>Profit after taxation</i>	
	<i>2000</i>	<i>1999</i>	<i>2000</i>	<i>1999</i>
Trading in Chemical & Metals	1,023,216	820,237	22,942	20,752
Trading in Electronic & Video Parts	202	356,680	8	10,050
Property Investment	19,712	27,733	16,379	4,321
Others	10,574	18,405	6783	43,736
Total	1,053,704	1,223,055	46,112	78,859

An analysis of the Group's turnover and contribution to the group's operating profit by principal markets is as follows:

<i>(HK\$' 000)</i>	<i>Turnover</i>		<i>Operating profit (loss)</i>	
	<i>2000</i>	<i>1999</i>	<i>2000</i>	<i>1999</i>
Local Sales	635,337	891,464	27,048	66,223
Taiwan	222,158	143,821	7,133	4,148
Elsewhere in People's Republic of China	114,199	109,285	20,508	6,182
Other countries	82,010	78,485	(853)	8,577
Total	1,053,704	1,223,055	53,836	85,130

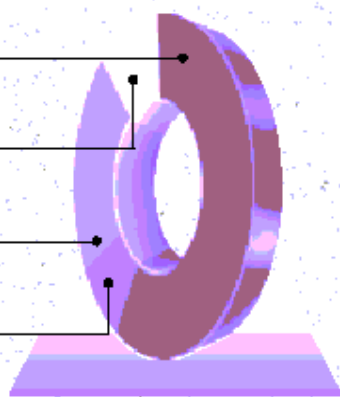
Group's Turnover
by Geographical Market in 2000

Hong Kong 60%

Others 8%

Taiwan 21%

People's Republic of China 11%



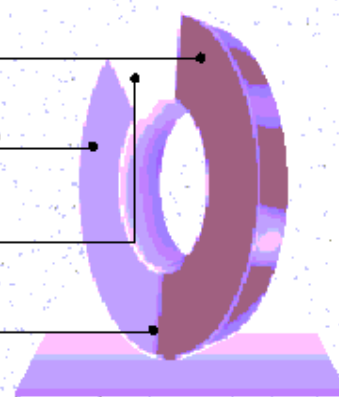
Group's Profit after taxation
by activities in 2000

Trading in Chemicals and Metals 50%

Property Investment 35%

Other activities 14%

Trading Electronics and Video Parts 1%



1. OPERATING ACTIVITIES

A) Trading Division

The principal trading activities of the Group together with the contribution of each activity to the Group are as follows:

<i>(HK\$' 000)</i>	<i>Turnover</i>		<i>Operating profit (loss)</i>	
	<i>2000</i>	<i>1999</i>	<i>2000</i>	<i>1999</i>
-Electroplating Materials	909,041	729,435	31,060	24,894
-Electronic and Video Parts	202	356,680	10	10,762
-Paint & Coating Chemicals	84,229	67,575	3,610	2,502
-Stainless Steel	23,004	21,912	1,161	644
-Others	6,942	1,315	(477)	187
Total	1,023,418	1,176,917	35,364	38,989

i) Electroplating Materials

Total turnover of trading electroplating materials grew by 24.6% to HK\$ 909.0 million for the year ended 31st December 2000 compared with that of the previous year. The business has benefited from the increase in metal prices as well as the overall improvement of demand in Asian regions, like Hong Kong, Mainland China, Singapore and Taiwan. Intensive competition, mainly stemming from Mainland China, was our major concern in the industry that lowered our overall profit margin. We had revised and implemented new measures into our purchasing system for better control of our inventory level and timing of purchases.

In view of the shortage of metals during the first half of year, we raised the inventory level to meet increase in demand. Total trade financial expense was therefore rose accordingly to finance the increase in sales volume as well as the additional inventory. At the end of year 2000, inventory level had returned to normal position. Despite prudent credit policy adopted, an additional specific provision for doubtful debt of HK\$ 4.2 million was charged in 2000, of which HK\$ 3.1 million was charged to Hong Kong customers and another HK\$1.1 million was charged to Taiwan customers. We will continue to make effort to improve its profitability by strengthening our cost and credit controls in 2001.

ii) Electronic and Video Parts

As unfavorable business environment was endured, the Group ceased operation of trading watch parts and videocassette parts in 2000. Total turnover, therefore, recorded only HK\$ 0.2 million for the whole year of 2000.

iii) Paint and Coating Chemicals

Turnover of trading paint and coating chemicals achieved good overall growth of 24.6% for the year ended 31st December 2000. This was mainly derived from strong demand in Mainland China. With our solid industry-specific expertise and knowledge in Mainland China, we continued to develop and improve our distribution network so as to reinforce market penetration. Better control over costs and pricing will further enhance profitability as well as cash flow generated from operations. In view of China's expected accession to the World Trade Organization in 2001, growth in revenue and profitability is expected.

iv) Stainless Steel

Turnover of trading stainless steel only recorded a slight increase of 5.0% to HK\$ 23.0 million in 2000 when compared with HK\$ 21.9 million in 1999. The business continued to suffer from difficult market conditions and fierce competition. With tight cost control, growth in profitability was recorded in 2000. Difficult market environment is expected to carry on in 2001. We will continue to explore our customers base and improve our service to customers so as to strengthen our earnings ability.

v) Others

Trading business of oil drilling equipment and chemicals in China has greatly suffered from intensified competition and adverse change of policies in Mainland China. Therefore, the Group decided to cease the operation in 2001. All related accounts receivable and payable had been settled by March 2001. The financial impact of the ceased operation is minimal, as the contribution generated was insignificant in the past years.

B) Property Investment Division

Total gross rental income was HK\$ 19.7 million for the year ended 31st December 2000, representing a decrease of 28.9% when compared with HK\$ 27.7 million for the year ended 31st December 1999.

Average occupancy rate of our residential units in Shanghai was 77.8% during the year. As at 31st December 2000, its occupancy rate was 88%, an increase of 10% compared with 80% as at 31st December 1999. Offices in Shanghai were fully occupied in 2000. Average occupancy rates in Hong Kong offices was recorded at 82% for the whole year.

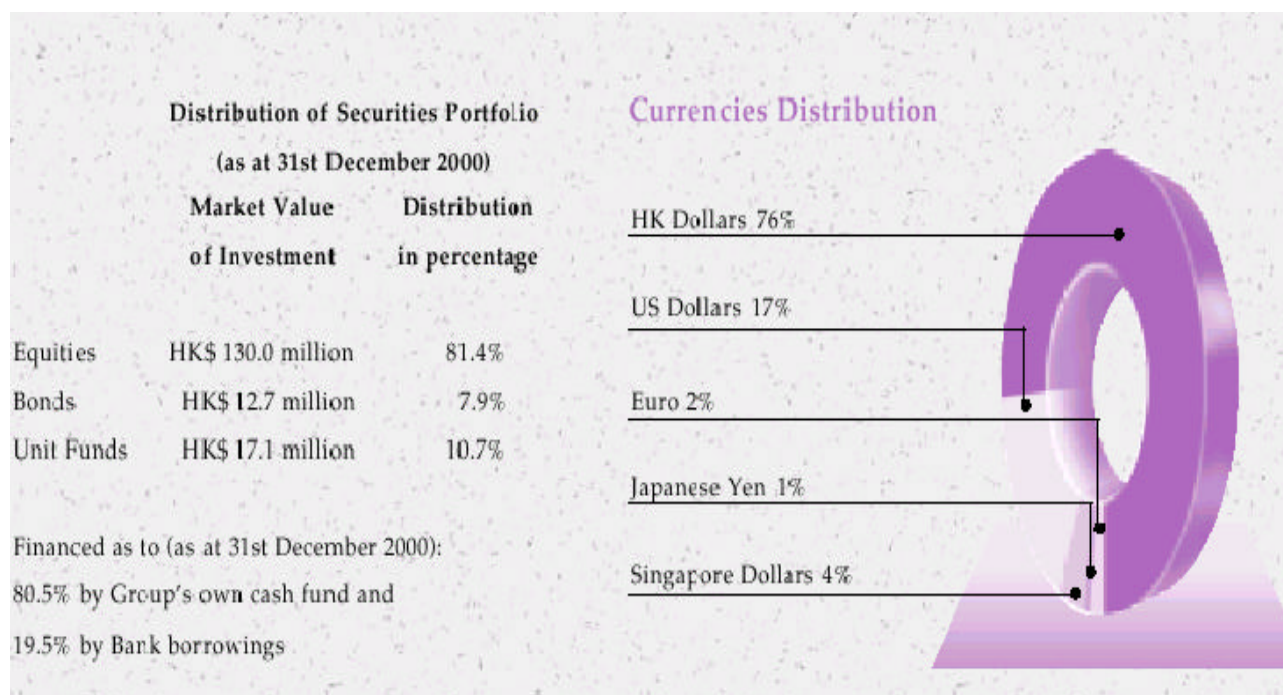
Rental income declined during the year mainly due to a full year's reflection of the reduction in rent of one of our offices in Shanghai after the renewal of a three-year lease contracts in April of 1999.

Residential and office properties in Shanghai have shown signs of firming up. Market confidence is again building up after the severe downturn of Shanghai's property market in the past two years. Improvement in rental yield is slow but the pace is expected to accelerate by the end of 2001.

As at 31st December 2000, a slight surplus arising from the revaluation of investment properties amounted to HK\$ 1.35 million was credited to the income statement in 2000.

C) Securities Investment Division

Market value of the portfolio increased from HK\$ 159.7 million as at 31st December 1999 to HK\$ 159.8 million as at 31st December 2000.



Performance of the securities portfolio for the year 2000 was not satisfactory because of the overall decline in stock markets which reflect the slowdown of the US economy and the rapid change in market sentiment towards high tech stocks in mid 2000. During the year, we disposed of part of our securities at a gain of HK\$ 20.6 million and made additional purchases costing HK\$ 70.8 million. However, an unrealized loss of HK\$ 16.9 million on our portfolio was recorded as at 31st December 2000. Interest and dividend income generated from the portfolio accounted for HK\$ 6.6 million during the year.

In view of the unstable market situation in the first quarter of 2001, we will continue to take a cautious stance in managing our portfolio.

2) **EMPLOYEES**

The Group employed a staff of 102 at the year-end of 2000, of whom 66 worked in Hong Kong, 15 worked in Mainland China, and 21 worked in overseas offices. Their significant efforts are the greatest driving force and major contributors of the Group's success. On behalf of the Group, we would like to thank all staff for their achievement and valuable contributions to the Group.

The Group always encourages staff to enrich its knowledge to cope with future challenge. From time to time, the Group will set up seminars covering topics regarding changes in markets, government policies and new regulations. The Group also finances continuing education of staff in recognized institutions.

3) **FINANCIAL RESOURCES AND LIQUIDITY**

The Group's total shareholders' funds have increased to HK\$ 567.8 million at year-end of 2000 compared with HK\$ 545.5 million at year-end of 1999 mainly due to the rise in retained earnings.

As at 31st December 2000, the Group held cash deposits totaling HK\$ 162.8 million (1999: HK\$ 140.9 million). As at the same date, total bank borrowings, which were all due in one year, amounted to HK\$ 145.5 million (1999: HK\$ 143.3 million). Such bank borrowings utilized about 29.5% of total available banking facilities granted by various banks. Group assets totaling HK\$ 53.5 million were pledged to secure these bank facilities. The Group was in a net cash position of HK\$ 17.3 million as at 31st December 2000 (1999: net borrowings of HK\$ 2.5 million)

The peak level of borrowings occurred in May and June of 2000 while the level was gradually decreased towards the end of Chinese New Year.

Group's gearing ratio, representing total bank borrowings divided by shareholders' fund, was 0.25 as at 31st December 2000 (1999: 0.26).

4) DEBT STRUCTURE

As at 31st December 2000, all bank borrowings were in forms of trust receipt loans and money market loans granted by banks.

An analysis of distribution of the Group's bank borrowing by currency as at 31st December 2000 is as below:

<i>Currency</i>	<i>HK\$ '000</i>	<i>Percentage</i>
Hong Kong Dollars	102,717	70.6%
United States Dollars	34,548	23.8%
Japanese Yen	8,189	5.6%
	145,454	100.0%

All borrowings of the Group were on a floating rate basis. Average monthly interest rate of the year ranged from 6.38% p.a. to 8.50% p.a. during the year.

Interest expense for the year ended 31st December 2000 was HK\$ 12.6 million, representing an increase of 86.8% compared with HK\$ 6.7 million for the year ended 31st December 1999. Interest cover was 4.89 times in 2000.

5) **FOREIGN CURRENCY RISK**

In 2000, trading transactions were conducted in Hong Kong Dollars, United States Dollars, Japanese Yen, Euro Dollars, Reminbi, Singapore Dollars and New Taiwanese Dollars. The Group utilized forward exchange contracts to hedge its foreign currency exposure in its trading activities when considered appropriate. The total outstanding forward exchange contracts as at 31st December 2000 which would mature in the following 3 months amounted to US\$ 600,000.

Short term borrowings denominated in foreign currencies other than United States Dollars were used to finance assets purchased in the same currencies.

6) CONTINGENT LIABILITIES

As at 31st December 2000, the extent of banking facilities utilized by subsidiaries in respect of which guarantees were given to banks by the Company was HK\$ 147.6 million (1999: HK\$ 131.4 million).