

MANAGEMENT DISCUSSION AND ANALYSIS

1) OPERATION REVIEW

A) Trading Division

During the first half year of 2001, the global economic slowdown had undermined the demand of trading metals and chemicals in the Southeast Asian region. Total turnover dropped by 16.4% in the first half year of 2001 compared with the corresponding period in 2000. Significant fall in demand, particularly from the electronics and computer related industries, intensified competition and drove prices downwards. Faced with pressure on both prices and volumes, profitability decreased by 11.9%. Profit margin, however, sustained benefiting from the successive interest rate cut during the period and the improvement from purchasing system and inventory control.

i) Electroplating Materials and Chemicals

Total turnover of electroplating materials and chemicals fell by 17.4% to HK\$386.2 million for the first six months ended 30 June, 2001, as compared with the corresponding period in the previous year. The weakening economies shrank demand for metal from most factories among Asian countries. Prices were pressured down due to fall in market prices during the period together with fierce price competition among rivals. Our business in Taiwan was worst hit by our customers' concentration in computer-related and mobile phones-related industries, and suffered further from the depreciation of New Taiwanese dollars. Sales in Mainland China had robust growth during the period, albeit sign of slowdown started to be noticed at the end of June. Improvement in cost efficient management had taken effects towards depressing sales that helped to increase profitability against price competition.

ii) Paint and Coating Chemicals

Sales of paint and coating chemicals in Mainland China declined by 3.9% for the first six months ended 30 June, 2001. Global over-production with fall in demand led abundant supply in Mainland China, eyeing on its persistent growth in the past years. Despite difficult market with fall in prices and volume of major chemical products, sales of other new chemical products introduced in the market in previous years grew at satisfactory pace and stringent cost controlling reduced the impact of declining profitability.

iii) Stainless Steel

With sluggish demand in watch industries especially those export to the U.S. market, total sales decreased significantly during the first half-year in 2001. Market price of stainless steel continuously fell till the end of June as slow demand created stockpiling in global market. Turnover of stainless steel for the first half-year in 2001 was down by 8.3% compared with same period in 2000. A loss was incurred for the period ended 30 June, 2001.

B) Property Investment Division

Total rental income received for the first half-year of 2001 remained stable compared to that received for the corresponding period in 2000. Office properties in Hong Kong were almost fully occupied during the period but rental prices had adjusted downward by about 5% as compared with same period in 2000.

Overall office rental market in Shanghai is in a stage of recovery after severe contraction in 1999. Demand in Grade A offices in major commercial and financial districts had raised rental level by more than 35% from its trough. Existing lease terms of the Group's two office properties in Shanghai will expire in the first half-year next year. Negotiation of renewal terms with tenants has begun.

Residential market in Shanghai remained flat during the first half-year in 2001. In the past years, more and more local-owned residential properties were built and sold in Shanghai, but only limited to local Chinese under the rules of the government. Increased supply of local-owned residential properties had put price pressure on rental market, especially to those properties that were limited to be sold to foreigners. As rental disparity between local-owned and foreign-owned residential properties had almost eliminated last year, a minor impact is expected after China government has united the scheme of local-owned and foreign-owned residential properties with effect from 1st August, 2001. Total occupancy rate in the first six month of 2001 reached to 97%. Average month rental per unit during the period, however, dropped by 21.8% compared with the same period in 2000.

C) Securities Investment Division

Market value of the securities portfolio increased from HK\$159.8 million as at 31st December, 2000 to HK\$165.8 million as at 30th June, 2001.

An analysis of the portfolio by type of securities as at 30th June, 2001 is as

below:

	<u>Market Value of Investment</u> HK\$'000	<u>Distribution in Percentage</u>
Equities	119,834	72.3%
Bonds	16,549	10.0%
Unit Funds	29,415	17.7%

Financed as to (as at 30th June, 2001) 95.1% by Group's own cash fund and 4.9% by Bank borrowings

An analysis of the portfolio by currency denomination as at 30th June, 2001 is as follows:

<u>HK Dollar</u>	<u>US Dollar</u>	<u>Euro</u>	<u>JP Yen</u>	<u>SGP Dollar</u>
67.0%	26.5%	1.9%	4.0%	0.6%

Performance of the securities portfolio for the first six months of 2001 was not satisfactory because of the lackluster global market environment. During the period, the Group made additional purchases of HK\$23.8 million mainly on unit funds and bonds. An unrealised loss of HK\$11.6 million due to decline in value of securities, mainly equities, holding as at 30th June, 2001 was recorded. Interest and dividend income generated from the portfolio for the six months ended 30th June, 2001 accounted for HK\$4.4 million in total. We believe that the markets are close to bottoming out and will closely scrutinise market movement and take conservative approach in managing the portfolio.

2) EMPLOYEES

The Group employed a staff of 94 as at 30th June, 2001, of whom 62 worked in Hong Kong, 12 worked in Mainland China and 20 worked overseas. This represented a decrease of 8 staff when compared with that of 102 as at 31st December, 2000 mainly due to cessation of business of one of our subsidiaries. Salaries of employees stayed at competitive level. The Group also offered benefits to employees with bonuses given based on individual's performance evaluation and financial performance of the business during the year. The Group regularly encouraged employees to take external courses to improve their job-related skill and advance their professional knowledge.

3) FINANCIAL REVIEW

The Group's total shareholders' fund amounted to HK\$575.0 million as at 30th June, 2001. This represented an insignificant drop of 1% when compared to the amount as at 31st December, 2000.

As at 30th June, 2001, the Group held cash deposit totaling HK\$143.7 million, a decrease of HK\$19.1 million compared with total cash held as at 31st December, 2000. The decrease in cash was mainly used to invest in securities during the period. Total bank borrowings as at 30th June, 2001, which were all due within a year, was HK\$110.8 million. Compared with net cash position of HK\$17.3 million as at 31st December, 2000, net cash position as at 30th June, 2001 was HK\$32.9 million. The Group's gearing ratio, representing total bank borrowings divided by shareholders' fund, was 0.19 as at 30th June, 2001.

As at 30th June, 2001, all bank borrowings were in forms of trust receipts and money market loans. Currencies distribution of the Group's bank borrowings as at 30th June, 2001 was 76.0% in Hong Kong Dollars, 17.2% in U.S. Dollars and 6.8% in Japanese Yen respectively. All borrowings were based on floating rate. Interest rate charged on total borrowings during the six months accounted within a range of 4.7% p.a. to 6.8% p.a. on a monthly average basis. Interest expense for the first six months ended 30th June, 2001 was HK\$3.4 million, representing a decrease of 47.8% as compared with HK\$6.6 million for the first six months ended 30th June, 2000.

During the first six months ended 30th June, 2001, transactions made by the Group were conducted in Hong Kong Dollars, United States Dollars, Japanese Yen, Euro, British Sterling, Reminbi, Singapore Dollars and New Taiwanese Dollars. The Group used forward exchange contracts to hedge its foreign currency exposure in trading activities when considered appropriate. Total outstanding forward exchange contracts as at 30th June, 2001 which would expire within 3 months amounted to US\$300,000.

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

4) PROSPECTS

We believe that the global economic slowdown will persist in the near future and overall trading business will continuously to be adversely affected. The Group will focus on stringent cost control to consolidate our established market position. With the assistance of further lowering in interest rates, we have confidence to combat such tough environment in the coming future. Our property investment business is expected to be relatively stable in the coming months while management's attitude towards securities investment remains conservative. We consider that the best strategy for the Group is to stay financially sound and remain focus on our core business.