Management Discussion and Analysis

1) OPERATING ACTIVITIES

(A) Trading Division

The principal trading activities of the Group and the contribution of each activity to the Group are summarized as below:

	Turnover		Segment Result	
	2001	**2000**	**2001**	**2000**
	HK$'000	HK$'000	HK$'000	HK$'000
Electroplating Materials and Chemicals	731,669	909,041	27,625	33,897
Paint & Coating Chemicals	82,240	84,229	2,966	3,030
Stainless Steel	19,524	23,004	(477)	1,007
Others	338	6,942	(1,903)	(881)
Total	833,771	1,023,216	28,211	37,053

a) Electroplating Materials and Chemicals

Total turnover for the year ended 31st December 2001 slide 18.5% from year earlier. Poor global economic conditions during the year cut down market demand in general and further deterioration continued after the September 11th tragedy. Competitors slashed prices to save volume declines. It was unavoidable that profit earnings were substantially trimmed down but was partly helped by successive interest rate cut and the Group's purchase policy. Market in Taiwan, Thailand and Singapore were heavily hit by severely downsizing in export volume especially in the electronics industries. China was the only market recorded a growth in term of quantity despite suffering from fierce competition.

Price of metal that the Group traded also experienced severe volatility during the year. With resilient and prudent purchase strategy, we tried to take neutral position for most of the time during the year to avoid large exposure of metal fluctuation risk. Trade finance cost dropped by 46.3% from a year earlier. Demand from local and overseas customers are still slow in the first quarter of 2002 despite the lower inventory levels. We are cautiously optimistic of a recovery and a resultant lift in the overall demand in the near term.

b) Paint and Coating Chemicals

Turnover fell 2.4% for the year ended 31st December 2001 compared with HK$ 84.2 million in sales for the year ended 31st December 2000. Oversupply situation continued in Mainland China as foreign competitors dumped their surplus materials into China, leading to fierce competition. We successfully shifted some of our core products to other less competitive products in order to offset part of the significant reduction in sales turnover. Sales of other new chemical products also produced satisfactory results.

During the year, one of our major suppliers merged with a Swedish company. We continue to be the sole agent of this new merged company in China market with wider product range. We also successfully obtained two agency agreements with two new suppliers in China. In line with China's strong economic growth, a rise in revenue in 2002 is expected.

c) Stainless Steel

Demand was gloomy and slow business in watch industries persisted throughout the year. Strong U.S. dollars against other currencies further pushed down demand in Europe and Middle East region. Market price of stainless steel continued to be weak and soft and stainless steel mills kept lowering their price to reduce stock holding. Shrinking demand around the globe did not reverse and sales were stagnant at the end of the year. Insufficient sales resulted in an operation loss for the year ended 31st December 2001. In 2002, we will concentrate on sales of high-end products and tighten cost management to improve the profitability.

(B) Property Investment Division

Total rental income was up by 2.9% from a year earlier. Office properties in

Hong Kong were all rented out at the end of the year and average occupancy rate was 90%. However, demand for office space in Hong Kong remained lackluster and a loss of HK$ 1.3 million was incurred on revaluation of Hong Kong properties as at 31^{st} December 2001.

On the other hand, office rental market improved in Shanghai after bottoming in 1999. After China' entry to the World Trade Organization, many foreign companies took up office spaces either to expand their business in China or to take their first step into China's door. Office space in major financial and commercial districts like Huaihai Zhong Road, Nanjing West Road, and Lujiazui district became limited and market rent rose by more than 35% from the bottom. Demand was cooling down after the September 11^{th} event and rental remained stable at the year-end.

Total occupancy rate of Shanghai's office spaces were 100% during the year. As all existing tenancies in Shanghai offices will expire in 2002, it is expected that office rental will fall in 2002.

After the implementation of the merge of local-owned and foreign-owned residential scheme on 1^{st} August 2001, Shanghai's residential properties value, particularly of downtown luxury apartments and villa houses, improved in general. It was notable that part of the rise in residential properties prices was supported by mortgage financing subsidies after relaxation of banking regulation by local banks. More than 90% of the new homebuyers were financed by mortgage. Taiwanese were also the major buyers during the year. However, this new wave of purchases suppressed the rise in rental because of lower cost in mortgage financing. Average occupancy rate during the year was 89.5% compared with 78.7% for the year of 2000. As at 31^{st} December 2001, occupancy rate was 92%.

With the appreciation of Shanghai properties, a net revaluation gain arising from investment properties amounted HK$ 16.1 million was recorded. Return on properties investment for the year ended 31^{st} December 2001 was 8.5%.

(C) Securities Investment Division

Market value of the securities portfolio increased from HK$ 159.8 million as at 31^{st} December 2000 to HK$ 174.7 million as at 31^{st} December 2001.

An analysis of the portfolio by type of securities as at 31st December 2001 is listed as below:

	Market Value of Investment	Distribution in Percentage
Equities	HK$ 114.8 Million	65.7%
Bonds	HK$ 25.9 Million	14.8%
Unit Fund – Equities	HK$ 28.1 Million	16.1%
Unit Fund – Debt	HK$ 5.9 Million	3.4%

As at 31st December 2001, the Group used its own fund to finance 96% of total securities holdings and the remaining 4.0% was financed by bank borrowings.

An analysis of the portfolio by currency denomination as at 31st December 2001 is listed as below:

HK Dollar	US Dollar	Euro	JP Yen	SGP Dollar
59.0%	36.5%	1.9%	1.9%	0.7%

Year 2001 was a very difficult year for equity markets around the world, including the U.S. and Hong Kong equity markets. Sharp decline in value was recorded in September but was recovered in the period from October to December. For the year ended 31st December 2001, an unrealized loss of HK$ 21.9 million was recorded. During the year, we disposed part of our corporate bonds and equities to the market with a total gain of HK$ 165,550. Total interests and dividend income generated from the portfolio accounted HK$ 6.6 million for the year ended 31st December 2001.

Most investors are expecting economic recovery in 2002 but current global economic data, such as consumer confidence, leading economic indicators, equity indexes, etc. presented a mixed picture. Interest rate may start to rise in the second half of the year 2002 but such rise is not expected to be significant. In 2001, we selected high quality unit funds and structured products to improve part of the portfolio performance. In hope of taking advantage of the better economic climate in 2002 and beyond, we will continue to monitor the progress of markets and to position cautiously our portfolio in the year ahead.

2) EMPLOYEES

The Group employed a staff of 93 at the year-end of 2001 of whom 60 worked in Hong Kong, 12 worked in Mainland China and 21 worked in overseas office. A decrease of 9 staff was mainly due to the cessation of one of the Group's subsidiaries and closure of the Group's Beijing office at the beginning of the year.

All qualified Hong Kong staff were under the Group's Mandatory Provident Fund Scheme. Retirement scheme for those staff working in other offices was in place in accordance with the relevant rules and regulations.

The Group offers a competitive package to staff with bonus award based on staff performance evaluation and the individual company's performance. We also encourage staff to enhance their knowledge and improve their skill by taking external courses.

On behalf of the Group's management team, I would like to thank all staff who works very hard under such difficult environment. Their efforts are the main force to drive the Group's achievement during the challenging year.

3) FINANCIAL RESOURCES AND LIQUIDITY

The Group's total shareholders' fund increased from HK$ 581.1 million at year-end of 2001 to HK$ 592.7 million as at 31st December 2001.

The Group's financial position remained strong with total cash and bank deposits of HK$ 162.3 million as at 31st December 2001, a slight decrease of HK$ 0.5 million compared with that of previous year. Net cash position was HK$ 25.0 million as at 31st December 2001 compared with that of HK$ 17.4 million as at 31st December 2000. Gearing ratio, representing total bank borrowings divided by shareholders' fund, was 0.23 as at 31st December 2001.

Total bank borrowings utilized about 32% of total available banking facilities granted by various banks as at 31st December 2001. Group assets totaling HK$ 41.2 million were pledged to secure these bank facilities.

An analysis on cash and bank deposits by currencies as at 31st December 2001 is set out below:

HK Dollar	US Dollar	Euro	SGP Dollar	Remin-bi	NT Dollar	Japanese Yen	Aust. Dollar
12.3%	73.34%	6.32%	2.85%	4.36%	0.59%	0.20%	0.03%

4) DEBT STRUCTURE

As at 31st December 2001, all bank borrowings were in form of trust receipts and money market loans. Interest rate charged on total borrowings during the year were at range of 6.78% to 2.97% p.a. on monthly average basis.

An analysis on bank borrowings as at 31st December 2001 is as below:

HK Dollar	US Dollar	Japanese Yen
91.4%	3.4%	5.2%

All borrowings were on a floating rate basis. Interest expenses for the year ended 31st December 2001 were HK$ 5.9 million, representing a decrease of HK$ 6.7 million compared from a year earlier.

5) FOREIGN CURRENCY RISK

During the year, the Group's transactions were conducted in Hong Kong Dollars, United Stated 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. There were no outstanding forward exchange contracts as at 31st December 2001.

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