

Management Discussion and Analysis

Operating Activities

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	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Electroplating Materials and Chemicals	933,008	731,669	24,743	27,625
Paint & Coating Chemicals	91,579	82,240	3,762	2,966
Stainless Steel	30,096	19,524	2,194	(477)
Others	578	338	30	(1,903)
Total	1,055,261	833,771	30,729	28,211

Electroplating Materials and Chemicals

In 2002, we dealt with a very tough business environment. Market competition was extremely keen and competitors continued to slash prices to maintain their sales volumes. Customers were reluctant to stock up inventories but seek the lowest price products when needed. Metal market prices fluctuated violently throughout the year. Highly alert and flexible management in several key areas including time of purchases, inventories controlling as well as marketing strategies formulation were the crucial focal points among all our colleagues during the year. Hard efforts from our staff paid off and total turnover of trading electroplating materials and chemicals business in 2002 rose by 27.6% compared to that in 2001. In addition, new products were introduced during the year so those low profitability products with longer credit term extended to customers could gradually fade out. Still, it was noticeable that market in Singapore was severely hit by price competition. Hong Kong and China markets also suffered from keen price competition although demand in China grew well during the year. Profit margin of most major products was trimmed substantially and overall gross profit margin shrank by over 15%. In 2003, sales turnover is expected to be under pressure due to weak demand from Asian regions. As market prices continue to surge in 2003, customers will accumulate their inventory level and this may improve part of our sales performance.

Paint and Coating Chemicals

Total sales turnover in 2002 rose by 11.4% to HK\$91.6 million from HK\$82.2 million in 2001. Gross profit also advanced by 18.5% in 2002 from a year earlier. Demand in China flourished despite global economic slowdown. Competition in China markets, however, was still very keen as excessive stocks imported from Japan and Korea pressured selling prices downward. In view of surge in oil prices, towards the end of the year, all suppliers seemingly agreed to raise price at the year-end to compensate the damages suffering from price war, and thus price-cutting pressures were slightly relieved. After entering WTO, China has lowered import tariff on chemical products in 2002 to an average of 7.4%, yet there will not be any further cut for most chemical products in 2003. In 2002, we were authorized distributorships of some new products in China. This will assist us to explore more new application area in different industries so as to substitute the decreased demand in traditional coating chemical industry. We will also spend more time to explore new end-users in China applying specialized chemicals so as to avoid direct competition from local and foreign competitors.

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Stainless Steel

As we successfully secured orders from some large manufacturers during the year, sales turnover in 2002 advanced by 54.4% to HK\$30.1 million from a year earlier. Starting from the end of second quarter, market demand was robust due to delayed shipment from many stainless steel mills to customers. In fact, global stainless steel supply was tight throughout the year as major suppliers cut production. Sharp acceleration of molybdenum as well as nickel, major components in making stainless steel, also led average selling prices to climb over 30% at the end of the year. Consequently, gross profit in 2002 rose by 59.0% compared with that in 2001. With anticipation of strong demand early of year 2003, we have placed adequate purchase orders to our suppliers. Also, we have secured new contracts with our customers for the 1st quarter of 2003. In 2003, we will continue to broaden our customer base and develop different kinds of materials to improve our gross profitability.

Property investment division

Total rental income fell by 26.3% in 2002 mainly because of vacancy period after the expiration of tenancies during the second half of the year.

Average occupancy rate for the office properties in Hong Kong during the year was 98%. Pressure on office rents continued as a markedly decline in latest market rental prices persisted due to fear in trading conditions, suspension of office expansion or companies retrenchment. It is expected that rental price of new tenancy or tenancy renewal will fall by 19-25% in 2003.

In 2002, demand for Grade A offices from domestic and foreign companies in Shanghai apparently reduced due to limited capital expenditures on relocation or suspension of office expansion. However, there were still a number of foreign and domestic companies set up offices in Shanghai considering that Shanghai is the most significant commercial cities in China. New office supply offset such demand pressure. Overall demand therefore remained stable but rental price fell slightly at the end of the year. It is expected that Shanghai Grade A offices' rental prices should remain stable in general although it will continue to suffer from additional new supply and weak demand in the short term.

All tenancies in Shanghai offices expired in the first half-year of 2002. Tenancies were either renewed or entered into with new tenants and as at 31st December, 2002, occupancy rate stood at 94%.

High demand for downtown luxury apartments and villa almost dominated the whole residential market in Shanghai during 2002. As more people chose to buy rather than rent with expectation that residential property prices will continue to surge, average occupancy rate dropped to 83.8% for the year 2002 from 89.5% in 2001. Average monthly rent per unit flat also dropped 4.3% in 2002 over a year earlier. As at 31st December, 2002, occupancy rate was 68%.

For the year ended 31st December, 2002, a deficit of HK\$1.0 million was recognized on revaluation of investment properties in Hong Kong. Carrying value of total investment properties as at 31st December, 2002 was HK\$237.1 million. Gross return in 2002 on Hong Kong investment properties at carrying cost as at 31st December, 2002 was 7.0% whilst yield on Shanghai properties was 6.2%.

Securities investment division

Market value of the securities portfolio decreased to HK\$137.6 million as at 31st December, 2002 from HK\$176.2 million as at 31st December, 2001.

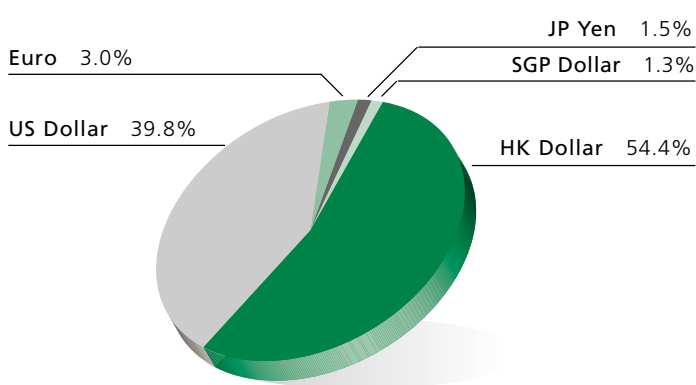
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An analysis of the portfolio by type of securities as at 31st December, 2002 is as below:

	Market Value of Investment	Percentage of Total
Equities	HK\$82.3 Million	59.8%
Bonds	HK\$15.6 Million	11.3%
Unit Fund — Equities	HK\$25.8 Million	18.8%
Unit Fund — Debt	HK\$13.9 Million	10.1%

As at 31st December, 2002, the Group used its own fund to finance 90.8% of total securities holdings and the remaining 9.2% was financed by bank borrowings.

An analysis of the portfolio by currency denomination as at 31st December, 2002 is listed below:



2002 was one of the worst years of global equities markets due to persistent fears of double-dip recession and the threat of an Iraq war. European markets were the worst performers and Asia markets were marginally better. Deflation fears and low interest rate environments favored the bond market.

For the year ended 31st December, 2002, we recognized an impairment loss of HK\$1.3 million in our investment securities. Our portfolio of other investments recorded an unrealized loss of HK\$19.4 million. During the year, we disposed of HK\$34.4 million of securities including corporate bonds, equities and some currency-linked derivatives and earned HK\$3.5 million in total. Total dividend and interest income generated from securities portfolio accounted for HK\$2.6 million in 2002.

We expect that 2003 is another difficult year for investment as large volatility in equities and bonds markets will continue. Concerns include weakness in US dollars, slow global economic recovery, consistent low level among investors' confidence, as well as results and aftermath of US-led war against Iraq may dictate different investment strategies in 2003. Under tremendous uncertainties, we preferred to preserve capital and constantly reviewed our strategies to cope with any change ahead.

Employees

The Group employed a staff of 98 at the end of 2002 of whom 63 worked in Hong Kong, 15 worked in Mainland China and 20 worked in overseas offices. Employee turnover rate remained low and the additional 5 staff employed during the year was for staff replacement and an increase in workforce in Mainland China. All qualified staff had enrolled in pension funds schemes in accordance with applicable local rules and regulations. Total staff costs slightly increased by 0.8% in 2002 over a year ago. The Group offers a competitive package to all staff and will review the package from time to time based on staff performance. The Group also provides other benefits including medical insurance, discretionary bonus scheme, recreation allowances as well as training and education allowances to all staff. In order to broaden the scope of knowledge among staff, the Group always encourages staff to participate in continuing education programs in recognized institutions.

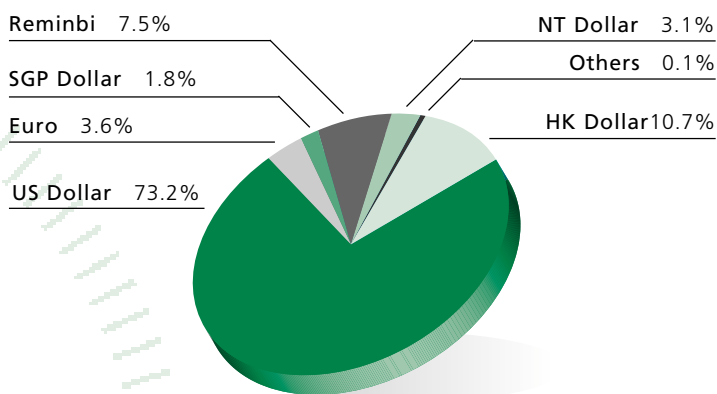
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Financial Resources and Liquidity

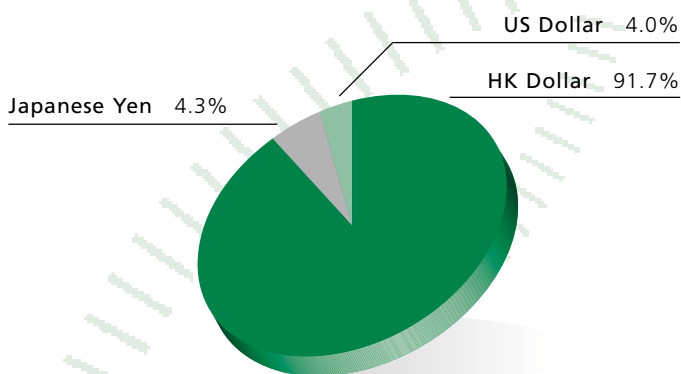
The Group's shareholders' fund decreased from HK\$592.7 million at year-end of 2001 to HK\$586.3 million as at 31st December, 2002.

The Group held total cash and bank deposits of HK\$186.3 million as at 31st December, 2002, an increase of HK\$24.0 million compared with that of previous year. Net cash position was HK\$7.3 million as at 31st December, 2002, declining from net cash of HK\$25.0 million as at 31st December, 2001. The decrease in net cash was mainly due to the increase in trade receivables and inventories at the year-end. Gearing ratio, representing total bank borrowings divided by shareholders' fund, was 0.31 as at 31st December, 2002.

An analysis of cash and bank deposits by currencies as at 31st December, 2002 is set out below:



An analysis on bank borrowings by currencies as at 31st December, 2002 is set out below:



Debt Structure

All bank borrowings were in forms of trust receipts and money market loans as at 31st December, 2002. Total bank borrowings utilized about 39.6% of total available banking facilities granted by various banks as at 31st December, 2002. Guarantee given in respect of bank loans to the Group's subsidiaries as at 31st December, 2002 amounted to HK\$452.5 million.

All borrowings bear interests on floating rates and matured within one year.

Average interest rate charged on borrowings during the year 2002 was 2.8% per annum. Interest expenses in 2002 were HK\$4.4 million, representing a decrease of 25.4% compared to HK\$5.9 million in 2001.

Foreign Currency Risk

During the year, the Group's transactions 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. There were no outstanding forward exchange contracts as at 31st December, 2002.

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