OPERATIONS REVIEW

For 2003, the Group achieved turnaround results from a loss of HK$36,048,000 last year to a profit attributable to shareholders of HK$13,644,000. Operating profit of the Group was HK$11,267,000 compared to last year's operational loss of HK$13,331,000 (excluding the effect of the discontinued chemical fibers operation), reflecting impressive financial performance of all continuing Group's operations.

Principal Operations

The Group was principally engaged in trading of iron ore, provision of finance, property and securities investment during the year and had acquired interests in two power plants in October 2003.

An impressive result was delivered by the iron ore trading operation commenced in early 2003 which generated a turnover of HK$117,307,000 and an operating profit of HK$3,266,000. Iron ore is a major raw material for the production of iron and steel products and a majority of our customers are based in the Mainland. With the demand for iron ore is expecting to remain strong in view of China's continuous economic growth, the management is optimistic about the performance of this segment in coming years.

The Group was more active in its financing and securities investment activities during the year. Additional financial resources were allocated to these segments which resulted in increases of the Group's short-term loans receivable and investment in securities when compared to the preceding balance sheet date. Satisfactory results were recorded for both segments. The financing segment booked a profit of HK$6,138,000 when compared to the previous year's loss of HK$4,004,000 whereas the Group's securities portfolio, which comprised wholly of Hong Kong listed shares, recognized a profit of HK$3,656,000 against the loss of HK$130,000 in last year. The profit recognized by the securities segment included an unrealized gain of HK$3,704,000.

The Group's property segment reported a profit of HK$3,150,000 compared to the prior year's loss of HK$3,875,000. The level of rental income received from the Group's investment properties – an office building in Yuen Long, was largely stable and profit earned by this segment was partly related to the surplus arising on revaluation of the property of HK$2,000,000. The property is currently about 57% occupied, there are signs that its occupancy rate is on the rise as a result of the rebound of local economy since the fourth quarter last year. The Group will continue with its flexible leasing and marketing strategies to attract new tenants.

Material Acquisitions and Disposal

In October 2003, the Group completed the acquisition of an effective 80% interest in each of the two power plants in Sanmenxia City, Henan Province, the PRC. The consideration for the acquisition was valued at HK$160,000,000 constituted by cash payments totaled HK$80,000,000 and the issue of two convertible bonds both with principal amount of HK$40,000,000. Details of the acquisition are contained in the circular of the Company dated 24th October, 2003. Both coal-fired power plants acquired have an installed capacity of 50 megawatts, with the first is in production and the second is due for completion of construction before end of 2004. The first power plant was originally running at a loss before acquisition by the Group, however, with management efforts directed to enhance the utilization rate as well as tighten the cost control of the power plant, the result of the power plant was turnaround. Since acquisition, the first power plant achieved an on-grid sale of electricity of about 57 million KWh, generated an operating revenue of HK$15,907,000 and contributed a post-acquisition operating profit of HK$3,585,000 to the Group's 2003 results. The management is of the view that the new power plant operation will continue to perform well in light of strong demand for electricity in the region where the power plants are located. Moreover, positive contributions from the power plant operation, in terms of profitability and recurring cash income, are expected to be more significant when construction of the second power plant is completed. There was an agreement with the minority shareholder of the two power plants that the Group can acquire an additional 15% interest in each of the power plants subject to compliance with the relevant and applicable regulatory requirements in the PRC. The process of effecting the acquisition is underway and the management is confident that raising the Group's interests in the power plants to 95% will create additional benefits to the Group.

In December 2003, the Group completed the acquisition of a 60% equity interest in a financial leasing company in the PRC for a consideration of about HK$2.1 million; and in February 2004, completed the acquisition of the entire equity interest of a securities brokerage company in Hong Kong for a consideration of approximately HK$19 million. The acquisitions were made for reasons that the Group is optimistic about the overall industry prospects of the two companies as well as to achieve further business diversification.

In September 2003, the Group completed the disposal of the chemical fibers operation which had continued to incur loss in the past years, a gain on disposal of HK$6,044,000 was recorded. Further details of the transaction are stated in the announcement of the Company dated 15th January, 2003.

Jointly Controlled Entity

The Group's 30% owned jointly controlled entity, Shanghai Hong Qiao Friendship Shopping Center Co., Ltd. ("Shanghai Hong Qiao"), which owns and operates two shopping centers in Shanghai and Suzhou, the PRC, continued to perform well despite the spread of SARS in Shanghai and major cities in China in the second quarter of 2003. Owing to its effective promotion campaigns and well-selected product mix, Shanghai Hong Qiao continued to record strong sales growth for the past years. For 2003, the shopping centers achieved a total turnover of approximately HK$400 million, representing an overall sales growth of 18% year-on-year. Owing to the strong sales growth and hence increase in profitability of Shanghai Hong Qiao, the Group's share of profit for the year rose to HK$4,964,000, representing a significant increase of 101% over last year's amount of HK$2,464,000.

Associate

The Group's associate, Xi'an Gaoxin Hospital Co., Ltd., which operates a general hospital in Xian, the PRC was nevertheless adversely affected by the SARS epidemic in the Mainland. The associate, which is effectively about 37% owned by the Group, experienced a substantial drop of its income during the outbreak of SARS and a lower than expected turnover of about HK$77 million was recorded for 2003. Albeit the fact that the activity level of the hospital had gradually returned to its normal level after the SARS effect was contained, the hospital incurred an overall loss for the year and a loss of HK$1,989,000 was shared by the Group (2002: HK$291,000).

FINANCIAL REVIEW

Liquidity, Financial Resources and Capital Structure

The Group was in strong liquidity position throughout the year. At 31st December, 2003, the Group had liquid assets comprising bank balances, deposits and cash and marketable Hong Kong listed securities totaled HK$104,255,000. It is the treasury policy of the Group to place surplus funds in banks as interest-earning deposits before the funds are committed to other use.

At the balance sheet date, bank and other borrowings of HK$89,045,000 were all repayable by the Group within one year, with 11% and 89% were bearing fixed and floating interest rate respectively, and 63% and 37% were denominated in Renminbi and Hong Kong dollars respectively. Of the total balance, term loans of HK$56,536,000 or 63% were borrowed by the power plant operation and the balance by other members of the Group for general working capital purpose. For term loans of the power plant operation, the Group is currently in negotiation with the bank for extension of their maturities. For the balance of the Group's borrowings, a large part of which has been refinanced by a bank facility of HK$20,000,000 subsequent to the balance sheet date. As the new bank facility granted is repayable within eight years, it has substantially lengthened the maturity profile of the Group's borrowings. At the balance sheet date, part of the Group's other payables were related to development costs of constructing the second power plant in Sanmenxia City. Subsequent to year end, a long-term bank loan of RMB100,000,000 with repayments spread over five years was obtained by the Group to finance the power plant construction. In light of the new loan raised and other financial resources on hand, the Group has secured adequate funding to finance the construction of the power plant project.

During the year, the Company issued two convertible bonds which constituted part of the consideration for the acquisition of the two power plants in Sanmenxia City. Both convertible bonds have a principal amount of HK$40,000,000 and will mature in October 2004 and April 2006 respectively. The bonds are interest bearing at 1.5% per annum and carry the rights to convert into ordinary shares of the Company at HK$0.5 per share (subject to adjustment) during a specified period before their maturities.

There was no change in the issued share capital of the Company during the year. At 31st December, 2003, the shareholders' funds of the Group was HK$522,320,000, equivalent to a consolidated net asset value of HK43 cents per share of the Company. Gearing ratio as at the year end date calculated on the basis of the Group's net borrowings of HK$11,532,000 (the amount of bank and other borrowings of HK$89,045,000 after deducting for the amount of bank balances, deposits and cash totaling HK$77,513,000) plus convertible bonds of the total principal amount of HK$80,000,000 over shareholders' funds of HK$522,320,000 was at the moderate level of 18%. Compared with the preceding balance sheet date, the decrease of bank and other borrowings by 53% or HK$98,450,000 (2002: HK$187,495,000) was the combined effect of the disposal of the chemical fibers operation of which its borrowings constituted a substantial part of the Group's borrowings at the last year end date; and the acquisition of the power plant operation which was financed by bank borrowings of approximately HK$56,536,000 at the balance sheet date.

With the amount of cash resources and liquid assets on hand as well as committed banking facilities available to the Group, the management is of the view that the Group has sufficient financial resources to meet its ongoing operational requirements.

Foreign Currency Management

The monetary assets and liabilities and business transactions of the Group are mainly carried and conducted in Hong Kong dollars, Renminbi and US dollars. The Group maintains a prudent strategy in its foreign currency risk management, to a large extent, foreign exchange risks are minimized via balancing the monetary assets versus monetary liabilities, and foreign exchange revenue versus foreign exchange expenditures. As the exchange rate of Hong Kong dollar is linked to the US dollar, and the exchange rate between Hong Kong dollar and Renminbi is relatively stable in the past years, it is considered that the Group's exposure to foreign exchange risks is not material. Appropriate measures will be taken by the Group when there are changes in circumstances.

Pledge of Assets

At 31st December, 2003, the Group's property, plant and equipment and investment properties with an aggregate value of approximately HK$127,998,000 were pledged to secure credit facilities granted to the Group.

Capital Commitments

At 31st December, 2003, the Group had a commitment of HK$52,027,000 in relation to construction costs of the second power plant in Sanmenxia City; and another commitment of HK$18,350,000 representing the consideration payable for the acquisition of an additional 15% interest in each of the two power plants in Sanmenxia City.

For the first commitment, a bank facility of RMB100,000,000 has been secured after year end for financing the construction. As for the second commitment, completion of the acquisition is subject to compliance with the relevant and applicable regulatory requirements in the PRC and the process of effecting the transaction is underway.

EMPLOYEES AND REMUNERATION POLICY

At 31st December, 2003, the Company and its subsidiaries had about 350 employees in Hong Kong and the Mainland. Total staff costs paid during the year, excluding directors' remuneration, was HK$8,698,000 (2002: HK$37,108,000), representing a decrease of 77% when compared to last year. The decrease was mainly due to the substantial reduction in headcount of the Group following the disposal of the chemical fibers operation. The Group generally remunerates its employees with reference to their qualifications, experience, work performance and prevailing market conditions. Benefits offered by the Group to its employees included discretionary bonus, provident fund scheme as well as medical insurance.