

**MANAGEMENT DISCUSSION AND ANALYSIS**

**OPERATION REVIEW**

**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	
	Six months ended		Six months ended	
	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Electroplating Materials and Chemicals	<b>782,969</b>	466,153	<b>17,195</b>	13,579
Paint and Coating Chemicals	<b>53,716</b>	44,897	<b>2,768</b>	1,613
Stainless Steel	<b>23,842</b>	17,103	<b>4,173</b>	1,669
<b>Total</b>	<b>860,527</b>	528,153	<b>24,136</b>	16,861

*Electroplating Materials and Chemicals*

We had an overall robust sales turnover during the first half year of 2004 driven by solid metal prices and strong demand in Asian region. Besides China, which is the main driving force for Asian demand, we also gained new orders stemming from South Korea and Singaporean region. In comparison with terrible shrinking demand last year due to spread of SARS virus epidemic, total revenue rose by 68% for the first six month of 2004. However, we suffered some losses in the second quarter due to sharp fall in all metal prices in April caused by concerns in strong US dollars and slow sales in China after the adoption of tighter credit and investment controls by the Chinese government. Total segment profits only gained by 27% in the first six months of 2004 when compared that of same period last year.

Precious metal business performed moderately during the period under review. There is almost no growth in Hong Kong region but sales of Singaporean region performed better because fewer competitors stayed in that region. Demand from imitation jewelry industry continued to grow in China. Profit margin remained thin mainly because of intensive competition from Chinese competitors.

Demand of base metal also grew stronger in the beginning of the year due to rising demand from various industries. From April onwards, demand started to slow down suffering from tightening credits imposed by Chinese government as well as shortage of power supply in most factories in China.

As at 30th June, 2004, our total inventory level increased by 14% when compared that as at 31st December, 2003, partly because of the rise in metal prices and partly because delay shipments from some suppliers prompted us to accumulate higher safety stock level.

*Paint and Coating Chemicals*

Most raw materials in the first half year of 2004 recorded drastic increases driven by sustainable high oil price. Strong growth in auto industry developed in China boosted demand in paint and coating chemicals. Shrinking supply, however, due to global supply sources restructuring and expanding demand stemming from improving U.S. and European business environment drew out part of materials supply to China market and such situation will persist in the second half of year. Further rally in oil price, together with severe shortage supply in electricity in China and tightening credit control imposed by the Chinese government, has slowed down purchasing power of some local factories despite solid demand growth in China. In this year, we continue to develop new demand from different kinds of applications area for our products, such as textile and personal care during the period under review.

*Stainless Steel*

Market demand in stainless steel remained robust throughout the first six months of 2004. Global tight supply of stainless steel continued and drove up all selling prices. Many stainless-steel suppliers have limited customers' purchase orders or delay shipments. Although some customers shift their purchases to some lower-graded materials as they could not afford the price hike, stable supply is the crucial requirement to most customers. To ensure stable supply to customers, we have increased our inventory level and also added some new product lines to enlarge our customer base. In the coming months, tight supply of raw materials for making stainless steel endures. It is expected that stainless steel price will remain firm in the next half year.

### Property Investment Division

Total rental income reached to HK\$7.0 million for the first six months of 2004, representing a slightly increase of 3.8%.

Average occupancy rate for the office properties in Hong Kong offices in the first six months of 2004 was 91.9%, an increase of 17.8% from the same period last year. Average monthly rental per square foot fell by 16.5% over the figure last year. Supported by the improving business confidence in the beginning of 2004 and attractive low rents and convenient location, all available spaces have been rented out by the period ended.

Average rents for Grade A offices in Shanghai rose 10% in the first half year of 2004 when compared the rent in the same period of 2003. Increasing demand from multinational companies led to a decrease in availability rate of Grade A office spaces. The newly established local or foreign companies with strong financial background were also willing to afford higher rents for Grade A offices. Average occupancy rate during the period under review was 90.7% compared with 94.4% in the same period last year. The fall of average occupancy rate was because it included the transition period of new and old tenancies. At the period end, only about 5% office spaces were available for lease.

Despite the Chinese central government's attempt to cool down the economy, interests among investors or homebuyers in residential property market remained positive. Demand of leasing spaces for accommodation held firm but rental growth stayed flat. Average occupancy rate during the first six months of 2004 was 95%, climbing up from 80% during the same period a year earlier. As at 30th June, 2004, occupancy rate was reported at 96%.

### Securities Investment Division

An analysis of the portfolio, current and non-current, by type of securities as at 30th June, 2004 is as below:

	Market Value of Investment	Percentage of Total
Equities	HK\$56.9 million	30.3%
Bonds	HK\$46.9 million	25.0%
Unit Fund	HK\$51.7 million	27.6%
Long Term Deposits	HK\$31.2 million	16.7%
Equity-Linked Deposit	HK\$0.8 million	0.4%

As at 30th June, 2004, the Group used its own fund to finance 92.3% of total investment in securities and the remaining 7.7% was financed by bank borrowings.

An analysis of the portfolio by currency denomination as at 30th June, 2004 is listed below:

US dollar	HK dollar	Euro	JP Yen	SGP Dollar	RMB	AUD Dollar
70.1%	19.0%	1.1%	5.7%	0.8%	1.4%	1.9%

In the beginning of 2004, it was noticeable that worldwide economies grew strongly and the most sparkling star shined in China. Better-than-expected economic figures raised investors' concern on inflation pressure. Rising demand for certain commodities like steel and constricted supplies, such as energy, have led higher prices of most products. As a result, the U.S. Federal Reserves has raised its benchmark interest rate by 25 basis points in June meeting, taking a first step to reverse the stimulating monetary policy into a tightening one. Other central banks' policy-makers, such as China, U.K., Australia, etc., also adopted tightening policies to cool down their local economies. Nevertheless, global intensive competition continues undercutting companies' profits that holds back capital investments and inventory build-up. Combining with constant threats of terror and worries of weakening global economies in future caused investors to put money into various form of short-term investment or principal-protected strategies. Markets also reacted responsively with unprecedented volatility throughout the period.

As at 30th June, 2004, we recorded an unrealized loss of HK\$3.6 million. During the period under review, we disposed HK\$42.1 million securities, mainly corporate debt, and gained HK\$0.4 million. Dividend and interest income generated from securities portfolio accounted for HK\$0.5 million and HK\$2.0 million respectively during the period. Our portfolio has invested on principal-protected products, high quality equities and low-risks, high rating corporate debts to minimize risk exposure from market uncertainties. This strategy will continue in the coming second half year.

## EMPLOYEES

The Group employed a staff of 87 at the end of 30th June, 2004 of whom 62 worked in Hong Kong, 15 worked in Mainland China and 10 worked in overseas offices. To ensure the pay levels of the employees are competitive in the market, total remuneration to all staff for the first six months of 2004 rose slightly by 3.7% over the cost in the same period last year to HK\$10.3 million. For the first six months of 2004, there is no significant change relating to remuneration and bonus policy as well as training scheme.

## FINANCIAL RESOURCES AND LIQUIDITY

The Group's total shareholders' fund slightly rose 0.9% from HK\$606.8 million as at 31st December, 2003 to HK\$612.4 million as at 30th June, 2004.

Cash and cash deposits totaled at HK\$232.1 million as at 30th June, 2004 whereas HK\$153.5 million and HK\$245.9 million was recorded as at 30th June, 2003 and 31st December, 2003 respectively. For the six months period ended 30th June, 2004, major cash outflow accounted HK\$14.0 million of inventory, HK\$16.4 million of prepayment to suppliers and general debtors as well as HK\$17.7 million of payment due to suppliers.

An analysis of cash and bank deposit by currencies as at 30th June, 2004 is set out below:

HK Dollar	US Dollar	Euro	SGP Dollar	Reminbi	NT Dollar	Others
14.6%	77.0%	3.7%	0.6%	0.8%	2.1%	1.2%

## DEBT STRUCTURE

Total bank borrowings jumped from HK\$240.0 million as at 31st December, 2003 to HK\$277.7 million as at 30th June, 2004. Net borrowings of HK\$45.6 million were posted as at 30th June, 2004. Gearing ratio, representing total bank borrowings divided by shareholders' fund, was 0.45 as of 30th June, 2004. All bank borrowing were in forms of trust receipt and money market loans at the period ended.

Currency distribution on Bank Borrowings as at 30th June, 2004:

	HK\$'000	
Hong Kong Dollars	206,248	74.3%
United States Dollars	56,794	20.4%
Japanese Yen	14,698	5.3%
	<u>277,740</u>	<u>100.0%</u>

All borrowings were based on floating rate and matured within one year. Average interest rate charged on borrowings during the review period was 1.33% per annum. Interest expense for the first six months ended 30th June, 2004 was HK\$1.7 million when compared with HK\$2.1 million for the six months ended 30th June, 2003.

## FOREIGN CURRENCY RISK

During the first six months ended 30th June, 2004, the Group's transactions were conducted in Hong Kong Dollars, United States Dollars, Japanese Yen, Euro, British Sterling, Reminbi, Australian Dollars, 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 was no forward foreign contract outstanding as at 30th June, 2004. Short-term borrowings denominated in foreign currencies other than United States Dollars were used to finance assets purchased in the same currencies.

## PURCHASE, SALE AND REDEMPTION OF SHARES

There was no purchase, sale or redemption of the Company's listed securities by the Company or any of its subsidiaries during the six months to 30th June, 2004.

## DIRECTORS' INTEREST IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 30th June, 2004, the interests of the directors and their associates in the shares, underlying shares and debentures of the Company and its associated corporations, as recorded in the register maintained by the Company pursuant to Section 352 of the Securities and Futures Ordinances ("SFO Ordinances"), or as otherwise notified to

the Company and The Stock Exchange of Hong Kong Limited pursuant to the Mode Code for Securities Transactions by the Directors of Listed Companies, were as follows:

### Long Positions

(a) *Ordinary shares of HK\$0.05 each in the Company*

Name of director	Capacity	Number of issued ordinary shares held	Percentage of the issued share capital of the Company
Leung Shu Wing	Beneficial owner	184,691,075	41.457%
Yuen Tin Fan, Francis	Held by controlled corporation (Note 1) Founder of discretionary trust (Note 2)	26,984,000 74,770,000	6.057% 16.783%
		101,754,000	22.840%
Leung Miu King	Beneficial owner	20,634,000	4.632%
Kwan Hing Hin, Stephen	Beneficial owner	5,000,000	1.122%
Wong Chi King	Beneficial owner	767,000	0.172%
Wong Choi Ying	Beneficial owner	9,500	0.002
		312,855,575	70.225%

Notes:

- 26,984,000 shares in the Company are owned by Tien Fung Hong Group Limited, a company which is 60% owned by Mr. Yuen Tin Fan, Francis.
- 74,770,000 shares in the Company are owned by TF Yuen Trust. Mr. Yuen Tin Fan, Francis is the founder who has set up the TF Yuen Trust.

(b) *Non-voting preferred shares in the Company's subsidiaries*

Name of subsidiary	Name of director	Capacity	Number of non-voting preferred shares	Percentage of the non-voting preferred share capital of the company
Kee Shing Hardware Supplies Limited	Wong Chi Kin	Beneficial Owner	400,000	100%
Kee Shing Industrial Products Limited	Leung Shu Wing Kwan Hing Hin, Stephen	Beneficial Owner Beneficial Owner	7,000 2,000	70% 20%
Sam Wing International Limited	Leung Shu Wing	Beneficial Owner	19,440	90%

Saves as disclosed above, at 30th June, 2004, none of the directors nor their associates had any interests or short positions in any shares, underlying shares or debentures of the Company or any of its subsidiaries or associated corporation as defined in the SFO Ordinances.

### SUBSTANTIAL SHAREHOLDERS

Other than the interests of certain directors disclosed under the heading "Directors' Interest in Shares, Underlying Shares and Debentures" above, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO Ordinance discloses no other person as having a notifiable interest or a short position in the issued share capital of the Company as at 30th June, 2004.

### CORPORATE GOVERNANCE

The Company has complied throughout the period ended 30th June, 2004 with the Code of Best Practice as set out in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited.

By Order of the Board

**LEUNG SHU WING**

Chairman

Hong Kong, 15th September, 2004