OPERATIONS REVIEW

For the year ended 31st December, 2004, the Group recorded a turnover of HK$140,617,000 (2003: HK$418,348,000) and an operating loss of HK$14,953,000 (2003: operating profit of HK$19,561,000). The decline in the Group's turnover was principally due to the absence of sales from the discontinued chemical fibers operation whereas the overall operating loss incurred by the Group was primarily resulted from the downward performance of the Group's power generation, trading and securities investment operations after partially offset by the profit derived from the Group's property operation.

PRINCIPAL OPERATIONS

During the year, the Group was principally engaged in power generation, trading of iron ore, provision of finance, property investment and brokerage and securities investment.

The Group's power plant operation currently comprising two coal-fired power plants in Sanmenxia City, Henan Province, the People's Republic of China (the "PRC") with each has an installed capacity of 50 megawatts. One of the power plants is in production and construction work of the other power plant has completed and commercial production is scheduled to commence before June 2005. For 2004, the power plant in operation generated an on-grid electricity sale of about 291 million kilowatt-hours, equivalent to a revenue of HK$67,325,000. Despite the persistent increase in coal prices throughout 2004 driven by strong economic growth and substantial industrialisation in China, the operation managed to report an operating profit of HK$353,000 (2003: HK$3,585,000) for the year. Certain counter measures have been taken by the management in order to reduce the adverse impact brought by the high standing coal prices including stringent cost control on other elements of production costs and further improvement on utilization rate of the power plant. With commercial production of the other power plant is scheduled to commence soon, it is expected that certain incremental financial benefits can be derived by the operation through economies of scale and improving its results in the coming years.

The Group's iron ore trading operation reported an operating loss of HK$1,030,000 compared to a profit of HK$3,266,000 recorded in last year. The operation's turnover amounted to HK$64,734,000 (2003: HK$117,307,000), representing a decrease of about 45% when compared to last year. The decline in sales of the operation was principally related to the macro-control measures imposed by the Chinese government over the steel industry in early 2004 which caused a general decline in demand of iron ore in China. The demand for and price of iron ore had been volatile since then and lasted for a long time during the year. The volatility of the iron ore market in China had posed difficulties on the management in settling deals which ultimately led to the decline in sales activity of the operation. As the China market for iron ore has stabilized since late 2004 and sales activity of the operation has increased in recent months, the Group is optimistic about the performance of this operation in 2005.

The Group was less active in its financing business during the year. The operation recorded an interest income of HK$2,808,000 and a loss of HK$2,800,000. The loss was mainly attributable to the provision of HK$3,000,000 made against an overdue loan in view of the decrease in value of the underlying collateral.

For the year under review, the Group's property segment reported a profit of HK$7,296,000 (2003: HK$3,150,000), representing an increase of about 132% when compared to last year. The rental revenue from the Group's property holdings – an office building in Yuen Long, remained at similar level as last year and occupancy rate of the property is currently about 70%. As a result of strong rebound of the local property market, the office building was valued at HK$68,000,000 in November 2004, showing a substantial increase in value of over HK$15 million when compared to the end of 2003. The Group has plan to dispose this property in order to capture the benefits brought by the upturn of the property market.

The securities brokerage company acquired by the Group in February 2004 contributed HK$3,170,000 to the Group's turnover. As a whole, the brokerage and securities investment operation recorded an operating loss of HK$10,786,000 which mainly represented the unrealized holding loss of Hong Kong listed securities of HK$8,281,000.

During the year, the Group entered into an agreement under which the Group's interest in a subsidiary engaged in financial leasing in the PRC was diluted following the injection of capital from the new investor. A profit of HK$8,825,000 on deemed disposal of the subsidiary was recorded.

JOINTLY CONTROLLED ENTITY

The Group's 30% owned jointly controlled entity, Shanghai Hong Qiao Friendship Shopping Center Co., Ltd. ("Shanghai Hong Qiao"), which owns two department stores in Shanghai and Suzhou, the PRC, continued to perform well in 2004. Throughout the year, theme promotion campaigns, product mix strategies and corporate branding programs implemented by the management were all proved to be highly successful and had again boosted the sales of Shanghai Hong Qiao reaching its record high of approximately HK$445 million (2003: HK$400 million), representing a year-on-year growth of about 11%. The Group's share of profit of Shanghai Hong Qiao, as a result of its strong sales and profitability growth, also rose by about 21% to HK$6,016,000 (2003: HK$4,964,000). As income level of the Shanghai population is on the rise and continuous growth in consumer spending is expected, the Group is optimistic about the results of Shanghai Hong Qiao in the coming years.

ASSOCIATE

The Group's associate, Xi'an Gaoxin Hospital Co., Ltd. ("Xi'an Gaoxin Hospital"), which owns a general hospital in Xian, the PRC, reported an increase in turnover of about 22% reaching approximately HK$94 million in 2004 (2003: HK$77 million). The increase in consultation income of the hospital was chiefly due to the recovery of demand for the hospital's medical and health care services after the SARS effect was under control in late 2003 and the result of active marketing of the hospital services to public during the year. The Group's share of loss of Xi'an Gaoxin Hospital, which is effectively about 37% owned by the Group, was HK$389,000 and compared favorably against the share of loss of HK$1,989,000 in last year.

FINANCIAL REVIEW

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

At 31st December, 2004, the Group had current assets of HK$182,354,000 (2003: HK$200,240,000) and liquid assets comprising bank balances and marketable Hong Kong listed securities totalling HK$94,694,000 (2003: HK$104,255,000).

At the balance sheet date, total bank and other borrowings amounted to HK$243,252,000 and increased by about 1.7 times when compared to last year (2003: HK$89,045,000). Such increase was mainly due to the new bank loans raised to finance the operations of the power plant business and the construction of the second power plant in Sanmenxia City. Of the total bank and other borrowings, about 51% was due within one year, 22% was due after one year but not exceeding two years, 22% was due after two years but not exceeding five years and the remaining 5% was due after five years. In terms of currency denomination, about 75% of the balance was denominated in Renminbi with the rest in Hong Kong dollars. In terms of interest rate, about 61% and 39% of the total balance were bearing floating and fixed interest rate respectively.

The Group was in net current liabilities of HK$126,695,000 at 31st December, 2004 (2003: HK$31,034,000). For bank and other borrowings of HK$124,522,000 that were classified as current liabilities at year end, the Group have obtained consents from two banks and a finance company that credit facilities concerned of approximately HK$88 million will be renewed for another year and that the repayment date of the facilities will accordingly be due after one year. A majority of such credit facilities are used to finance the Group's power plant operation and are subject to renewal on an annual basis. In view of the long term nature of the Group's investment in the power plant operation, the Group is in the course of arranging bank facilities of a longer term in order to better match with the funding needs of the operation. In addition, for the purpose of further enhancing the Group's liquidity, the Group is pursuing to dispose certain non-core assets including the investment properties in Yuen Long. The divestment plan for such properties is also made for the reason that the Group will be able to capture the benefits of the strong rebound of the local property market which has resulted in a substantial increase in the value of the properties.

In relation to the acquisitions of the two power plants in Sanmenxia City, the Company issued two convertible bonds in October 2003 both of the principal amount of HK$40,000,000 with maturity dates in October 2004 and April 2006 respectively. A winding-up petition was presented against the Company in relation to the alleged default in payments by the Company under the bonds and the Company is currently in the course of opposing the petition. Further information in relation to the petition is contained in the following section headed "Material Litigations". The bonds are classified as current liabilities in the balance sheet of the Company.

There was no change in the issued share capital of the Company during the year. At 31st December, 2004, the shareholders' funds of the Group was HK$524,512,000 (2003: HK$522,320,000), equivalent to a consolidated net asset value of about HK43 cents (2003: HK43 cents) per share of the Company. As of the year end date, gearing ratio calculated on the basis of the Group's net borrowings of HK$249,669,000 (i.e. bank and other borrowings of HK$243,252,000 plus convertible bonds of HK$80,000,000 minus the sum of bank balances, deposit and cash of HK$73,583,000) over the shareholders' funds of HK$524,512,000 was at the moderate level of about 48%.

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 revenues versus foreign 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 has been stable, it is considered that the Group's exposure to foreign exchange risks is not significant. Appropriate measures will be taken by the Group when there are changes in circumstances.

CHARGE ON ASSETS

At 31st December, 2004, the Group's investment properties, property, plant and equipment, and investment securities with an aggregate value of HK$159,225,000 (2003: HK$127,998,000) were pledged to secure credit facilities granted to the Group.

In addition, the Group's equity interest in a subsidiary which in turn holds the Group's interest in Shanghai Hong Qiao was pledged to secure a credit facility of HK$25,000,000 granted to the Group.

During the year, the Group entered into a long-term loan agreement with a bank. Pursuant to the terms of the agreement, a subsidiary of the Group engaged in the power generation business has pledged its rights in collection of tariff to the bank to secure banking facilities granted to the Group. At 31st December, 2004, the Group's right of collection of tariff from power generation business amounted to HK$5,545,000.

CAPITAL COMMITMENTS

At 31st December, 2004, the Group had a commitment of HK$10,432,000 in relation to construction works of the power plant operation and a commitment of HK$18,350,000 representing the consideration payable for the acquisitions of an additional 15% equity interest in each of the two power plants in Sanmenxia City.

EMPLOYEES AND REMUNERATION POLICY

At 31st December, 2004, the Company and its subsidiaries had about 400 employees in Hong Kong and the Mainland. Total staff costs incurred during the year, including director's remuneration, was HK$15,718,000 (2003: HK$11,770,000), representing an increase of about 34% when compared to last year. The increase was mainly due to staff costs incurred by the power plant operation for 2004 was fully incorporated in this year Group's results whereas in last year, the Group only accounted for such staff costs since October 2003. The Group generally remunerates its employees with reference to their qualifications, experience and work performance as well as to market benchmarks. Benefits offered by the Group to its employees included discretionary bonus, provident fund scheme as well as medical insurance.

MATERIAL LITIGATIONS

On 17th November, 2004, Asian Power Development Limited ("Asian Power") served on the Company a writ of summons (the "Writ Action") claiming a sum of HK$81,627,878.49 together with interests and costs (the "Claim") and alleged that the Company defaulted in making payments under two convertible bonds (the "First Convertible Bond" and the "Second Convertible Bond") issued by the Company on 30th October, 2003 in the aggregate sums of HK$80,000,000. The maturity dates as stated in the First Convertible Bond and the Second Convertible Bond (together the "Bonds") were 15th October, 2004 and 15th April, 2006 respectively. On 29th November, 2004, the Company filed an acknowledgment of service and indicated its intention to defend the Writ Action.

On 13th December, 2004, a notice of discontinuance was filed by Asian Power whereby the Writ Action was discontinued. However, a winding-up petition (the "Petition") was presented against the Company by Asian Power on the same day in relation to the alleged default in payments by the Company under the Bonds. On 16th December, 2004, the Company filed a Notice of Intention to Appear on Petition indicating its intention to oppose the Petition.

The Bonds were previously issued by the Company under a sale and purchase agreement dated 27th September, 2003 (the "S&P Agreement") as part of the consideration payable to Asian Power in connection with the acquisitions of an effective 80% interest in two sino-foreign equity joint ventures in the PRC with each holding a power plant in Sanmenxia City, Henan Province, the PRC. Details of the transactions were disclosed in the Company's circular dated 24th October, 2003.

The Company considers that Asian Power has acted in breach of the S&P Agreement pursuant to which the Bonds were issued and therefore the Company has bona fide defences to the Claim as well as claims for the losses it suffered as a result of the breaches. In any event, as the parties' disputes have yet to be properly resolved, the Company considers it inappropriate for Asian Power to commence the winding up proceedings. The Company is currently preparing affirmations in opposition to the Petition and will ask the Court to dismiss the Petition at the appropriate stage of the proceedings. Further, arbitration proceedings (the "Arbitration") have been commenced in relation to breaches of the S&P Agreement. Since matters concerning arbitration are regarded in law as confidential, the Company is not in a position to disclose further information concerning the Arbitration. The Company will do its best to defend the Petition and assert its rights under the S&P Agreement. The Company will keep shareholders informed of the progress of the Petition and press announcements will be made as and when appropriate.

Without prejudice to the matters stated above and in particular its position in respect of the Petition, the Company has already accounted for and classified the Bonds as current liabilities in the balance sheet of the Company and accrued interest up to the balance sheet date. In the opinion of the directors, any eventual outcomes of the Petition and the Arbitration will not have a material adverse effect on the financial position of the Group.