MANAGEMENT DISCUSSION AND ANALYSIS

OPERATING RESULTS AND DIVIDEND

Sales turnover of the Group for the year was HK$20,863,000, a decrease of 88.3% from prior year. If the sales turnover of discontinuing operations for the year 2003 was segregated, the sales turnover for the year was a decrease of 0.4% only. Audited operating loss attributable to shareholders was HK$74,328,000, an increase of 41.3%, equivalent to a loss of HK 13.0 cents per share, The Board recommends that no dividend will be paid for the year ending 31 December 2004.

OPERATING ENVIRONMENT

During the past year, the world economy progressed under the influence of a number of factors, recording an overall 4.6% growth. Based on an International Monetary Fund projection, a 4.3% growth would be anticipated in 2005. However, due to the drastic oil price increase in the later part of 2004 and its continuing to stay at a high level, this in addition to the expected US dollar interest rate increase and its drastic erosion in value, all these unfavourable variables would render the continued international economic development rather unpredictable. Although the US economy was projected to grow at 3.9% and the Chinese and Indian economies continued to perform very strongly. The Japanese economy remained in the doldrums whilst that of the European Community showed signs of slowing down, we can only be half-heartedly optimistic about the 2005 world economic performance.

Being the core market of the Group's business, China showed exceptional results in her continued development in 2004, reaching a 9.5% growth, a slight increase over the 9.4% average since her economic openness and reform since 25 years ago. In the current year, China's economic development continues to expand rapidly with the government projecting at 8% whilst the IMF anticipated 8.5%. All these indicated China's economic expansion continued to be strong. Due to China's differentiating economic treatment of different areas continuing into 2005, and in line with China's conservative fiscal and monetary policies, the investment of financial resources in the year will continue to be tightened. This in addition to price escalation of oil and raw materials, the imbalance of supply and demand, the possible deterioration in foreign trade's environment, will unavoidably bring along bombardments to the future economic development; its environment will both harbour opportunities and obstacles.

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

OPERATING ENVIRONMENT (continued)

China's economic achievement in the past 20+ years since her economic openness and reform roused the world's admiration. Currently, China is using her strong foundation and catching-up development advantages to trot forward, in order to achieve since 2000 a four fold GDP growth within the first 20 years of this century and to establish a middle class society.

In the wake of world economic globalisation, a state is formed whereby China is reaching out to the world and vice versa. To take advantage of this excellent opportunity of redistribution of the world's wealth, together with China's vast human resources and significant and unique market advantages, a stable social and political environment, China has turned herself into the investment hot spot and "world factory". It is anticipated that in a long time to come and as a centre for product design, manufacture and sale, China will have very rosy economic development prospects.

OPERATION REVIEW

Chinese Pharmaceuticals Business

The Chinese medicine industry is designated as a free competition industry. In the past year, the government has continuously raised standards for Chinese medicine production and supervision of sales/distribution, in addition the control of the sales price of part of the products. In the wake of the industry's consolidation of capital and operators' gaining in size and scale, there is an acceleration of capital reorganization, mergers and acquisition. All these factors have contributed to increased pressure and unpredictable factors for the pharmaceutical trade and production.

The Group's subsidiary Huayi Pharmaceutical Co., Ltd. ("Huayi") (華頤葯業有限公司) was additionally impacted by the forced relocation of its factory due to Beijing City's new development plan in the area. This resulted in Huayi's inability to operate and continue production normally and accordingly its results were unsatisfactory.

2004 was a difficult year for Huayi. On one hand it had to tackle the relocation of its factory, on the other hand it had to comply with the GMP certification requirement. The factory relocation completely disrupted Huayi's strategic planning and operation. Only HK$20.9 million sales were recorded, a slight reduction from prior year. Gross margin dropped to 36.5% from the previous 50% levels reflecting less than ideal production lot processing. Cost of distribution as a factor of sales continued to be high. Cost cutting measures, including staff costs, were made during the year to aligned with the temporary plant shut down due to forced relocation as explained below.

In accordance with Beijing's uniform plan, Huayi's place of operation was designated by the Beijing City Planning Committee (北京市規劃委員會) and Beijing City Land Administration Bureau (北京市土地管理局) as redevelopment zone and Huayi has to vacate by end of 2004. Huayi was able to relocate its tangible assets within the timeframe and managed to reduce any negative impacts to a minimum. It also took the opportunity to streamline its crew by redunduncing approximately 120 workers to achieve better efficiency and reduce costs.

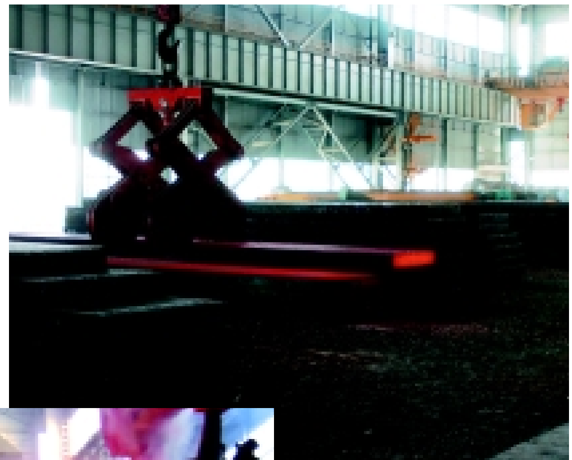
2004 was the final year in which all pharmaceutical manufacturers in China must clear for Good Manufacturing Practice ("GMP") permit. Due to Huayi's forced relocation, its GMP permit clearing process was severely hampered. After the relocation matters were clarified and being implemented, albeit on a transitional basis, it can only maintain production and sales/distribution of "七厘膠囊" as the factory licenced under the GMP may only fill needs of this particular medicine. Should it intend to resume production, sale/distribution of other products, it has to consider appointing sub-contractors and/or acquiring a new factory site for erecting new factory and leasing operating premises to cope with such increase and these remain to be evaluated by Huayi's management.

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

OPERATION REVIEW (continued)

Chinese Pharmaceuticals Business (continued)

The forced relocation has significantly disrupted Huayi's operating plans and its cash flows. It is difficult to envisage that within a short period Huayi would be able to finance, from its own resources, either the acquisition or rental of a much larger factory site, which in either case requires rather substantial investment. The shareholders have to carefully consider how to solve the issue of meeting Huayi's substantial investment requirement, which is vital to its future prospects.



The group has to thoroughly evaluate, from a risk and reward viewpoint, on a short and long term basis, the partial and overall effects of an investment, irrespective of whether it be an investment in a new business or as an increase of current stake in the Chinese pharmaceutical manufacturer.

New Growth Focus-Steel Business

During 2004, the Company has been actively seeking for investment opportunities that would expand its earning base and provide sustainable income to the Group. On 7 February 2005, the Company entered into the conditional sale and purchase agreement the details of which was released in the Company's announcement dated 7 March 2005.

China has become the largest steel producer in the world with production capacity reaching close to 350 million tonnes. Steel industry is the backbone of many industries. As these industries grow demand for steel products is created. With a combined consumption exceeding 80% of China's total steel production, the construction industry, machinery manufacture, the auto industry, shipbuilding, railroads, oil and natural gas, household electricals and container industry all expand rapidly with significant demand increase. According to the country's economic development plan, from now until 2020, China's economic growth will not be lower than 7% p.a. According to studies by international authoritative institutions, the GDP of a country or a district when reaching 7% will spark its steel industry to grow by 10% concurrently. China's high level of economic development and industrialization create significant room for her steel industry's future growth.

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

OPERATION REVIEW (continued)

New Growth Focus-Steel Business (continued)

In general, the key to a steel operator's competitiveness and growth lies with its scale of effectiveness, technology and specialisation. As a result of the government's austerity measures, the magnitude of investments in government-owned enterprises and credits granted by financial institutions have to certain extent, been curtailed. This leads to enterprises whose operations are sound, their products are in demand with growth prospects but nevertheless impacted by the country's austerity measures. They face the same difficultly in raising capital as operators in general. One of the counter measures of these enterprises is to energetically seek foreign capital in order to implement their expansion plans to meet the market demand and reap the benefits of economy of scale. Objectively this creates an extraordinary opportunity for investors who are interested to look for chances investing in China's steel industry Through the acquisition of all the issued shares of Guohua International Investment Limited, the Company has seized the unique opportunity of investing in "五礦營口中板有限責任公司" (Minmetals Yingkou Middle Plate Company Limited) ("Minmentals Yingkou"). This investment establishes a milestone in the Group's operation expansion, in significantly broadening its revenues and profits base and enhancing its competitive ability. This accords with the Group's diversification and expansion policy for growth.

Minmetals Yingkou is located at Yingkou City (營口市), Liaoning (遼寧) Province of China. It has 30 years' history specializing in hot rolled medium steel plate production technology. With the strong backing of the provincial government and China Minmetals Corporation (中國五礦集團), Minmetals Yingkou has, in 2002, transformed into a limited liability entity, Yingkou Middle Plate Factory, a company wholly-owned by the Local Large Enterprise Supervisory Committee of the State Council, a department of Yingkou City (營口市國資委屬下的營口中板廠) and China Minmetals Corporation are Minmetals Yingkou's major shareholders Minmetals Yingkou with a paid up capital of RMB600 million. With the transformation, Minmetals Yingkou has become a properly organized, clearly market driven, well managed under advanced techniques, an efficiently staffed, highly competitive and fairly sizeable steel manufacturer carrying the ISO2000 and ISO 9002 certificates.

Traditionally, Minmetals Yingkou has specialised in the manufacture of hot rolled medium plate and its related products, which demand far exceeds supply in China therefore commanding a very satisfactory gross margin. Due to supply falling well short of demand and price increases of imported steel plates, Minmetals Yingkou products are viewed to be selling at very competitive prices and they have a strong patronage due to their reputation of stable quantities. Currently its products top the trade in terms of gross margins. In the future, it will, in addition to strengthening its product base, further open up markets for various products that are prospectively promising and profitable. Through the years, its clientele covers piping manufacturers, shipbuilders, machinery manufacturers, oil and natural gas operators and explorers in the key markets of north-east, north, east and southern China, therefore establishing a very diversified and wide market coverage and client network.

Minmetals Yingkou has built a strong strategic alliance with China Minmetals Corporation and Shanghai Baosteel Group Corporation (中國寶鋼集團), ("Baosteel") jointly established a highly efficient product distribution network. A substantial portion of its products is sold through the agency network where China Minmetals and BaoSteel played a key role. The balance is sold directly to end users in the north-east to companies such as 大慶油田，長春機車etc. In terms of product sales, Baosteel took up 31%, China Minmetals 14%, 大連金華金屬材料廠 and 哈爾濱中板廠 each took up approximately 6%. Minmetals Yingkou adopts a payment-in-advance settlement method which on one hand reduces the plant's need for working capital requirement and on the other hand avoiding "triangle debt financing".

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

OPERATION REVIEW (continued)

New Growth Focus-Steel Business (continued)

The senior management team members of Minmetal Yingkou have over thirty years experience in the trade, most being graduates of professional colleges. They are experienced and forward thinking; equipped with modern management and engineering expertise. In addition they are operators with a vision. China Minmetals Corporation and Shanghai Baosteel Group Corporation have seconded senior management to assist Minmetals Yingkou, ascertaining its product quality and management competence.

Management considers that Minmetals Yingkou has a unique edge in the ever vigorously competitive Chinese Steel market due to the following factors:

1. CLOSE PROXIMITY TO THE RAW MATERIAL SOURCE AND PRODUCT MARKET. The most important factor affecting a steel operator's competition edge is its closeness to either the raw material source or product market. It is an irreplaceable strength should it have benefit at both ends. Minmetals Yingkou is located at one of the three iron ore rich provinces – Liaoning Province. In addition Minmetals Yingkou is also in proximity to a seaport having the capacity to load/unload iron ores and finished steel products. This is highly desirable as in recent years, approximately half of the iron ore required is imported. The excellent seaport facilities and the strong rail road and highway network form a highly efficient transportation continuum for Minmetals Yingkou enabling it to enhance efficiency in moving raw materials, finished products, reducing lag time, speed up cash flows, reduce operating costs and most importantly contribute to Minmetals Yingkou overall economic performance and competitiveness.

2. A FLEXIBLE AND HIGH STANDARD INFRASTRUCTURE AND AN EFFICIENT AND COMPETENT STAFF. After the Company restructure, Minmentals Yingkou has a clear identification of asset ownership: the labour system, distribution system, management and decision making system are all clearly defined and autonomous. The allocation/assignment of labour fully reflects the concise and highly effective qualities required of a modern enterprise. Currently the company has a staff of approximately 1,400, about half of that prior to the restructure and is significantly smaller than comparable enterprises of the same trade, resulting in its being the leader in terms of productivity among its peers. Its being an enterprise having just completed its restructure spares the company in bearing the heavy burden of supporting large number of retired staff.

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

OPERATION REVIEW (continued)

New Growth Focus-Steel Business (continued)

3. COMPANY'S PRODUCTS AIM AT THE USER MARKET RESULTING IN ITS CONTINUOUS PROFIT INCREASE. In the long term, company's main product, hot rolled medium plate products could hardly meet demand in mainland China. It was estimated that in 2004, China's requirement of such products totalled about 30 million tonnes, of which approximately 10% shortage has to be made up from imports. Minmetals Yingkou products are of very high quality and comparatively much cheaper than imports and therefore there is a strong patronage. As a result of the strong showing in both fronts, i.e. production and sales, the company experienced significant growth in terms of size and efficiency. In 2002, six months after restructuring, production of medium plate was 256 thousand tonnes whist production in 2003 reached 690 thousand tonnes; the newly constructed steel production line with 1.2 million tonnes capacity was completed in the 2nd half of 2004. Hot rolled medium plate production capacity was doubled from the 2003 level to reach 1.2 million tonnes. When the 2nd phase of the expansion plan is expected to be complete at around middle of 2005, production of steel slabs will again be doubled. Concurrently, the company's profits showed extraordinary increase, with 2002's bottom line reaching RMB51 million, RMB118 million in 2003 and the estimated 2004 figure to approximately double that.

4. FULL SUPPORT FROM THE LOCAL GOVERNMENT AND SHAREHOLDERS' STRENGTH AUGMENTING EACH OTHER. The company maintains a very good relationship with the local provincial government. With the continuous support of the local government, the company is able to develop into a pivotal enterprise thereby promoting and developing the local economy. The local major shareholder and the company's management have built up a close working relationship with Minmetals and BaoSteel in its sales network. This has effectively enhanced efficiency and strengthened each party's production/sales planning. It will continue to benefit the company and its shareholders based on such co-operation model.

5. AN EFFECTIVE SALES/DISTRIBUTION MODEL. The company has traditionally concentrated on the production of hot rolled medium plate and related products which are hot selling items in China. In addition, the company has teamed up with the Minmetals and BaoSteel sales network. This has effectively enhanced efficiency and strengthened each party's production/sales planning. It will continue to benefit the company and its shareholders based on such co-operation model.

6. SIGNIFICANT DEVELOPMENT POTENTIAL. STEEL TRADE HAS LONG TERM PROSPECTS. In addition products of the company are state encouraged goods; users of its products are in majority engaged in trades promoted by the state as priority industries, these include transportation, shipbuilding, natural resources exploration, energy infrastructure development. All these will continue to stimulate the company's product sale/distribution, for increased production capacity to meet market needs, laying the foundation for the company to continue to expand. For a steel manufacturer, the economy of scale being vital. The company has significant land reserve, excellent transportation infrastructure, an efficient raw material sourcing and end product sales/distribution network, forming a strong foundation for the company's future development success. The company will continue to assess the feasibility for other major expansion to meet market demand and to becoming one of the leading steel manufactures in China.

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

OPERATION REVIEW (continued)

New Growth Focus-Steel Business (continued)

The Group's management feels that this is a very rare opportunity that they must act to participate in China's steel industry through investing in Minmetals Yingkou, enabling the Group to expand its operating circumference, nurturing new dimension for profits and increasing earning power for shareholder value.

LIQUIDITY AND FINANCIAL RESOURCES

As at December 31, 2004, the Group had HK$5,771,000 cash and bank balances. The Group's working capital requirements were mainly financed by internal resources, other borrowings and convertible notes. During the year 2004, the Group has issued unsecured convertible notes of HK$21,500,000 which enable the subscriber to convert into 50,000,000 new shares at a conversion price of HK$0.43 per share. In December 2004, convertible notes of HK$9,890,000 have been converted into 23,000,000 shares. As at 31 December 2004, there was HK$11,610,000 convertible notes remained outstanding, and the Group had HK$21,957,000 short term other borrowings. The Group's other borrowings and convertible notes were mainly denominated in Hong Kong dollars and have interest rates pegged to prime rate. As the level of borrowing was at a low level, the Directors believe that, for currency risk management purposes, no hedging of foreign currency or interest rate is considered necessary.

CAPITAL STRUCTURE

As at 31 December 2004, the Group had total assets of HK$131,391,000 which were financed by shareholders' funds of HK$60,484,000, total liabilities of HK$59,413,000 and minority interests of HK$11,494,000. As a result of the conversion of the convertible notes of HK$9,890,000, 23,000,000 additional shares had been issued during the year 2004. The issue share capital of the Company at 31 December 2004 was 594,650,673 shares. Subsequence to the year end date, the remaining outstanding convertible notes of HK$11,610,000 have also been converted into 27,000,000 new shares.

As at 31 December 2004, the Group had a current ratio dropped to approximately 0.28 as compared to that of approximately 1.77 at 31 December 2003. The Group's gearing ratio, (other borrowings and convertible notes to shareholders' equity) increased to 58.8% because of the new issue of convertible notes of which HK$11,610,000 remained outstanding temporarily at year end.

PLEDGE OF ASSETS AND CONTINGENT LIABILITIES

As a consequence of the Group's business restructuring and disposal of electronics business at the end of 2003, at 31 December 2004, the Group has neither assets pledged nor contingent liabilities of trade nature relating to trust receipts and export loans (2003: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

PROSPECTS

Following the economic recovery of the surrounding regions, in particular the Chinese economy continues to develop at a very respectable pace, the implementation of individual traveling in Hong Kong and CEPA, Hong Kong's economy rebounded strongly in 2004, and the economic restructuring has shown initial results. The property market has regained much luster, retail, tourism and foreign trade continue to flourish and employment increased. With an economic growth at 7.8%, Hong Kong's performance in 2004 may be termed as the most significant since the Asian economic fiasco. Although in the current year the US dollar interest rate increase may post threat to Hong Kong's recovery, the expanding individual travel scheme and the opening of the Disney Land will unavoidably put impetus into tourism, retail and the hospitality industries. Hong Kong continues to be the platform for PRC enterprises for raising capital, these coupled with the implementation of the Greater Pearl River Delta Region project (泛珠三角州區域計劃), we are cautiously optimistic of Hong Kong's economic development prospects.

We anticipate a strong economic growth and reasonably bright prospects. China will continue to offer investors excellent investment opportunities. The Group will, based on its strength and utilizing Hong Kong's capital market, continue to seek new investments in China, with the view of expanding our earnings base, solidify our strength and bringing a satisfactory return to our shareholders. We believe that the steel manufacturing project in which we will invest in the year will generate immediate profit. It will, as a core investment of the Group, significantly enhance the Group's profitability. Accordingly we are fully confident of the Group's future growth.

STAFF REMUNERATION AND BENEFITS

As of 31 December 2004, the Group has a staff of 150 in China and Hong Kong, they include management, administration, production and sales personnel. The number of staff proportionately reduced during the year mainly due to Huayi's factory relocation and streamlining of personnel.

The Group continued to remunerate its staff based on professionalism, work efficiency and contribution. Since 2002, the Group implemented a staff stock option plan and certain senior management executives and Directors are offered housing benefits as part of their remuneration package. All employees and Directors in Hong Kong have joined the MPF scheme.

GRATITUDE

The Board and management would take this opportunity to express their gratitude to persons and organizations who supported the Group and would like to sincerely thank all the staff for their loyal contributions during the year.

ON BEHALF OF THE BOARD

Wu Fred Fong
Director

Hong Kong
26 April 2005