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	
	30.6.2005	30.6.2004	30.6.2005	30.6.2004
	HK$' 000	HK$' 000	HK$' 000	HK$' 000
Electroplating Materials and Chemicals	840,331	782,969	17,073	17,195
Paint and Coating Chemicals	63,440	53,716	3,242	2,768
Stainless Steel	29,487	23,842	4,530	4,173
Total	933,258	860,527	24,845	24,136

Electroplating Materials and Chemicals

Sales performance remained strong in the first six months of 2005 mainly because of robust metal prices. In geographical points of view, sales in Indonesian and Malaysian region picked up quickly due to strong economic improvement but sales in Korea and Singapore fell drastically as electronic industries were in cyclical down turning. China continued to be major engine driver in this region as most of our products' end-users were located in China, despite the fact that many Chinese factories were suffering from shortage in electricity, skilled labor and some even clear water. Such trend is continuing in the third quarter of 2005.

Profits generated from precious metal and chemical business was disappointing in the first half year of 2005 partly because of intense competition from Chinese producers and partly because of slow demand from end-users such as electronic industries, watches industries, consumer accessories industries, etc. Robust in nickel price, which was mainly supported by global deficits, prompted total sales amount jumped by 14.1% in the first 6 months of 2005 compared with the same period last year, although total sales in quantities remained fairly stable. Trading profit margin of nickel metal was somewhat stable even though the Chinese market started de-stocking after the Chinese New Year due to reducing demand from stainless steel industry. Printed circuit board industry was suffering from cyclical slowdown in electronic industries and trading margin was further squeezed during the period under review. Recurring record-high copper prices also fenced off companies to stock up inventories in their warehouses.

Total inventory level as at 30th June, 2005 was HK$124.5 million, reduced by 7.1% when compared with HK$134.0 million as at 31st December, 2004. As at 30th June, 2005, stock turnover was calculated at 26.4 days when compared 30.4 days as at 31st December, 2004, including the shipment period from overseas to the Group's own warehouses. Account receivable turnover as at 30th June, 2005 was 27.6 days whereas account receivable turnover as at 31st December, 2004 was 25.4 days. The rise in debtor turnover was chiefly because of longer credit collection period in printed circuit board companies and stationery companies. The management has tightened selected customers' credit sales limit or asked for L/C payments to reduce credit exposure.

Paint and Coating Chemicals

Sales performance for the first six months of 2005 grew by 18.1% mainly contributed by the rise in overall product prices. Amid expanded production from Chinese competitors and shrinking demand in China local market, sales of several major products were severely affected. The rise in oil price also prevented key suppliers from delivering adequate stocks to China market. As global market price started to fall at the end of second quarter, supply tightness was eased. Adequate stock is expected to be delivered in the third quarter. Overall profit margin held firm as we shifted our target sales into high-quality paints producers and secured supply channel into foreign-owned chemical companies.

Account and bills receivable turnover increased from 55.1 days as at 31st December, 2004 to 61.9 days as at 30th June, 2005. The rise in total collection days was the result of an increase in sales at the end of second quarter.

Stainless Steel

Global stainless steel prices reported record high during the first half year of 2005 due to the substantial rise in market prices of raw materials and strong demand in global market. However, additional purchase costs prompted the management to reduce the order volume during the period under review, although the inventory level as at 30th June, 2005 (HK$13.8 million) was reported slightly higher than that as at 31st December, 2004 (HK$13.4 million).

Sales and gross profit performance also rose by 23.7% and 7.5% respectively for the six months of 2005 over that of the same period last year, mainly benefited from the rise in metal price. Profit margin was trimmed as many factories were unable to afford the rise in metal price at the same pace. Up to 30th June, 2005, average cost of inventory still maintained below the latest purchase cost. Stock turnover as at 30th June, 2005 was 85.4 days (as at 31.12.2004: 96.5 days) and account receivable turnover was 103.8 days (as at

31.12.2004: 88.3 days). We have tightened customers' credit limits and terms so as to shorten the credit collection days.

Property Investment Division

Total rental income rose by 10.0% to HK$7.7 million in the first six months of 2005 when compared with HK$7.0 million in the same period of 2004. During the period under review, we have sold 4 residential flats in Haihua Garden at an average selling price of RMB 14,501.70 per square meter. Gain in properties sales was recorded at HK$1.3 million before tax.

Total average occupancy rate for Hong Kong office during the period under review was 87.2% when compared with 96.7% for the first six months of 2004. As at 30th June 2005, occupancy rate was 87.2%. Although upswing economic improvement in Hong Kong generated upward rental market price on Grade A office building, ample supply in second-tier office buildings continued to exert pressure on rental level and demand interests. Such trend is expected to be continued in the second half year of 2005. The Group has credited HK$2 million of revaluation gain on Hong Kong properties to the interim income statement after a valuation performed by an appointed surveyor as at 30th June, 2005.

Average occupancy rate of Shanghai office during the first six months of 2005 was 99.8% when compared with 91.1% during the same period last year. As at 30th June, 2005, all office spaces were fully occupied. Strong rental demand of Grade A offices continued due to limited supply as persistent new corporate formation and expansion activities took up all new supply of prime office spaces. Rental level of the renewed tenancies in 2005 also jumped about 32 to 35% over the previous tenancies. Total rental income of Shanghai offices in the first half year of 2005 rose by 18.3% over that of the first half year of 2004. Witnessed by stable rental growth by the office segment over the past years, many foreign or local institutional investors have been attracted to Shanghai prime office market to seek for opportunities. Market value of office properties continued to rise steadily at the end of June and the Group has credited HK$7.02 million of revaluation gain on Shanghai office properties to the half-year income statement.

Average occupancy rate of Shanghai residential properties for the first six months of 2005 was 85.6% when compared with 95.8% for the first six months of 2004. As at 30th June, 2005, occupancy rate was 86.7%. The fall in occupancy rate in the first half year of 2005 was because the availability of residential rental properties increased significantly during the period. Although the government adopted severe measures to cool down the residential property market, such trend did not cease and there were still plenty of supply in rental residential properties. Under keen competition, our rental level was forced to cut down by 6 to15% to attract potential tenants.

After the Shanghai residential properties rallied to an all-time high, with fear of bubble creation, Shanghai government took measures to slow down new projects approvals and put restrictions on bank lending to property developers. Also, new tax policies were introduced by the Shanghai government to curb speculative activities on the residential market. Thereafter, many potential buyers take a wait-and-see approach. Therefore, the selling process will be drastically slow down in the second half year of 2005. When compared with the market price at the end of 2004, the Group could still credit HK$0.9 million of revaluation gain on such properties to the interim income statement.

Securities Investment Division

Following the adoption of new HKFRSs, the Group's securities portfolio was reclassified and fair-valued as at the 30th June, 2005.

	Market Value of Investment	**Percentage of Total**
Equities – Listed in Hong Kong	HK$39.1 million	19.1%
Equities – Listed in overseas	HK$23.0 million	11.3%
Available-for-sale investments	HK$0.6 million	0.3%
Debt – Quoted/Listed	HK$17.4 million	8.5%
Managed Unit Funds	HK$29.2 million	14.3%
Managed Hedge Funds	HK$55.6 million	27.2%
Structured Products -Capital Protected	HK$8.8 million	4.3%
Structured Products – Non-Capital Protected	HK$1.2 million	0.6%
Long Term Deposit	K$29.3 million	14.4%
	HK$204.2 million	100.0%

As at 30th June 2005, the Group used its own fund to finance 93.0% of total investment in securities and the remaining 7.0% was financed by bank borrowings.

An analysis of the portfolio by currency denomination as at 30th June 2005 is listed below:

US dollar	**HK dollar**	**Euro**	**JP Yen**	**SGP Dollar**	**RMB**	**AUD Dollar**
68.6%	19.1%	2.3%	5.2%	1.2%	0.3%	3.3%

During the first half year of 2005, we saw the global markets were in a mix of uncertainty on global recovery, post-bubble hangover and risk aversion. Notwithstanding higher oil prices and successive interest rate hike by U.S. Federal Reserve policymakers, US interest rate in long term was marked at relative low level. Companies remained cautious and preferred to save rather than spend. Cash surplus became one of major features on companies in the

US, UK, Germany, Japan, etc. The corporate profits were used to pay off debt, to boost pension scheme and contributed higher dividend back to shareholders or share buybacks. On the consumer side, the spending power was vulnerable to tighter monetary polices as house mortgages installments shared majority of household expenses.

Compared with 2004, market volatilities were reduced greatly. With the expectation of aggressive interest rate hike, we gradually restructured our securities portfolio and shifted part of bond or bond-related funds to equities-related funds or managed hedge funds. During the period under review, the Group purchased HK$23.0 million of securities and disposed HK$6.2 million. As at 30th June, 2005, we recorded an unrealized loss of HK$2.2 million and a small realized gain of HK$12K. As many corporations preferred to increase their dividend payout during the period, our dividend income rose to HK$1.5 million when compared with HK$0.5 million for the same period last year. Interest income was reported at HK$1.2 million for the first six months of 2005.

In the following months of 2005, we will continue to re-construct our strategic asset allocation and risk distribution. Global markets are still full of uncertainties and we will keep cautious on market directions.

EMPLOYEES

As of 30th June 2005, total number of staff reduced by 3 persons to 86 persons compared with 89 persons at the year ended 2004. Turnover rate remained fairly stable. Total salaries and other benefits increased by 8.2% as we adjusted all staff salary and benefits at the year end of 2004. The Group believes that it would be better to motivate staff in bonus-awards basis on yearly performance evaluation. Yearly salary will be adjusted in accordance with staff performance, current inflation rate and market competition. For the first six months of 2005, all junior staff of the Group has passed the medium level of Putonghua by the end of period under review. With the introduction of new accounting standards and Corporate Governance practices, we also sponsored staff to take training on these subjects. Same as before, we continued to encourage staff continuing his/her further studies in his/her particular field to enhance and enrich professional knowledge and current practices.

FINANCIAL RESOURCES AND LIQUIDITY

For the period ended 30th June, 2005, cash inflow of HK$29.3 million from operation when compared with cash outflow of HK$31.1 million was reported due to reduced inventory level and rise in investment held for trading. Equity attributable to equity holders of the parent company dropped by 1.0% to HK$604.3 million as the Group has distributed interim and final dividends totaling HK$89.1 million for the fiscal year of 2004. Return on equity ratio for the first six months ended 30th June, 2005 was 5.56% when compared with 2.83% for the same period ended 30th June, 2004.

Capital expenditure was reported at HK$1.9 million for the first six months of 2005 (first six months of 2004 : HK$1.3 million) mainly in respect of replacement of computers and computer-related system. Working capital as at 30th June, 2005 dropped to HK$273.9 million when compared with HK$274.2 million as at 31st December, 2004. Inventory as at 30th June, 2005 was posted at HK$138.1 million, representing a decrease of HK$9.2 million when compared with HK$147.3 million as at 31st December, 2004. Limited supply from our core suppliers due to global deficits reduced part of shipment delivered to our Hong Kong warehouse at the end of the period under review. Trade debtor amounted to HK$156.9 million as at 30th June, 2005, rising by HK$28.1 million, mainly due to the rise in metal price mirroring to the rise in credit sales.

An analysis of cash and bank deposit by currencies as at 30th June 2005 is set out below:

HK Dollar	US Dollar	Euro	SGP Dollar	Renminbi	NT Dollar	Others
26.8%	55.9%	0.2%	3.4%	10.5%	3.1%	0.1%

DEBT STRUCTURE

Total bank borrowings as at 30th June, 2005 was HK$271.8 million (as at 31st December, 2004 : HK$302.1 million). As at 30th June, 2005, total banking facilities granted by banks to the Group amounted HK$616.3 million. Average banking utilization rate accounted at 41.2% during the period under review. Debt to equities ratio, which was calculated by dividing net borrowings by total equity, declined to 0.43:1 as at the period ended 30th June, 2005 when compared with 0.48:1 as at the year ended 31st December, 2004 because we used part of our internal funds to finance our inventory.

Currency distribution on Bank Borrowings as at 30th June, 2005:

	HK$' 000	
Hong Kong Dollars	236,942	87.2%
United States Dollars	20,567	7.6%
Japanese Yen	14,274	5.2%
	271,783	100.0%

All borrowings bear interests on floating rates and matured within one year. They are all in form of Money Market bank loans and Trust Receipt for the period under review. Average lending tenor for our Trust Receipt in financing trading facilities was about 56 days for the first six months of 2005, two days longer when compared with 54 days for the first six months of 2004. Money-Market bank loans is either used to finance additional safety stocks held or to financed assets purchased in the same foreign currencies.

FOREIGN CURRENCY RISK

During the first six months ended 30th June, 2005, the Group's transactions were conducted in Hong Kong Dollars, United Stated Dollars, Japanese Yen, Euro, British Sterling, Renminbi, 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, 2005. Short-term borrowings denominated in foreign currencies other than United States Dollars were used to finance assets purchased in the same currencies.