MANAGEMENT DISCUSSION AND ANALYSIS

OPERATIONS REVIEW

For the year ended 31st December, 2005, the Group recorded a turnover of HK$376,521,000 (2004: HK$140,617,000) and a gross profit of HK$21,922,000 (2004: HK$12,520,000). The sharp increases in the Group's turnover and gross profit were principally due to the significant business growth of the Group's core operations, namely, power generation and iron ore trading.

Group's Operations

During the year, the Group was principally engaged in power generation, iron ore trading, provision of finance, property investment and management, and securities brokerage and 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 having an installed capacity of 50 megawatts. One of the power plants was in production throughout 2005 and the construction work of the other one was completed during the year and commercial production has commenced since the third quarter of 2005. For 2005, the two power plants generated a total on-grid electricity sale of about 450 million kilowatt-hours (2004: 291 million kilowatt-hours), translating into a total revenue of HK$117,274,000 (2004: HK$67,325,000). The increases in on-grid electricity sale and revenue by about 55% and 75% respectively were primarily attributable to the commencement of commercial production of the newly-constructed power plant and the increase in electricity tariff rate to which the power plants are entitled since May 2005. Despite the fact that coal prices remained at high level throughout 2005 driven by the continuous industrialization in China and hence an increasing demand for electricity, the operation managed to report an operating profit of HK$3,156,000 (2004: HK$353,000) for the year. Certain counter measures have been adopted by management in order to reduce the adverse financial impact brought by the high standing coal prices; these include stringent cost controls on other elements of production costs and further improvement on utilization rates of the power plants. As commercial production of the newly-constructed power plant has commenced, it is expected that the financial performance of the operation will further improve in the coming years.

The iron ore trading operation delivered impressive results for 2005. The turnover of the operation was HK$248,098,000 (2004: HK$64,734,000), which increased by about 2.8 times when compared with last year. The profit of the operation was HK$1,950,000, which compared favorably against the last year's operating loss of HK$1,030,000. The impressive result of the operation was mainly brought by the rather stable conditions of the iron ore market in most part of the year which created a more advantageous position for management in settling deals. The outlook for iron ore market in China remains positive and management expects the operation to continue to perform well in 2006.

MANAGEMENT DISCUSSION AND ANALYSIS

Interest income generated by the financing operation was HK$3,495,000 (2004: HK$2,808,000) for the year, increased by about 24% when compared with last year. The increase was principally due to the higher average balance of loans advanced to customers during the year as against the same in last year. The operation incurred a loss of HK$908,000 (2004: HK$2,800,000) as impairment losses against certain long outstanding loan and interest receivables totaled HK$4,041,000 were recognised.

In 2005, turnover of the property operation increased by 27% to HK$3,279,000 (2004: HK$2,580,000) when compared with last year. The increase was mainly due to the improvement in occupancy rate of the Group's investment properties which was about 70% at the year end date. Loss of this operation was HK$3,617,000, resulted mainly from the loss on revaluation of investment properties of HK$5,000,000 during the year. If the effect of the revaluation loss is excluded, the operation would have reported a profit of HK$1,383,000 for the year. The Group's investment properties were sold for a total consideration of HK$63,500,000 as stated in the Company's announcement dated 5th January, 2006 and completion of the transaction is scheduled to be in May 2006. The properties were acquired by the Group back in 1992 at an aggregate consideration of approximately $58,000,000.

The turnover of the securities brokerage and investment operation, comprising mainly of brokerage income, amounted to HK$4,375,000 which showed an increase of about 38% when compared with last year. The Group's securities brokerage and financial operations, conducting under the brandname of "GT", has recently expanded its business scope to asset management and wealth management alongside with its traditional business of securities brokerage. The newly developed businesses are performing well and management is expecting the results of this operation to carry additional significance in the Group's results in future years. The operation recorded a loss of HK$4,683,000 for the year which included a loss on disposal of listed securities of HK$6,717,000 and an unrealized holding gain of listed securities of HK$1,580,000.

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 2005. The business strategies adopted by management of Shanghai Hong Qiao in increasing its market share and boosting its sales continued to be highly successful. In 2005, the turnover of Shanghai Hong Qiao reached a new record high of HK$478,261,000 (2004: HK$458,452,000), representing a year-on-year growth of about 4%. The Group's share of profit of Shanghai Hong Qiao, as a result of its strong sales and profitability growth, also rose by over 7% to HK$4,332,000 (2004: HK$4,032,000). As income level of the Shanghai population is on the rise and continuous growth in consumer spending is expected, the Group remains optimistic about the results of Shanghai Hong Qiao in the coming years.

MANAGEMENT DISCUSSION AND ANALYSIS

Associate

The Group's associate, Xi'an Gaoxin Hospital Co., Ltd. ("Xi'an Gaoxin"), which owns a general hospital in Xian, the PRC as well as other investments, reported an increase in turnover of about 6% reaching HK$99,134,000 in 2005 (2004: HK$ 93,774,000). The Group's share of loss of Xi'an Gaoxin was HK$41,421,000 for the year (2004: HK$ 389,000). The significant loss incurred by Xi'an Gaoxin was mainly the result of an impairment loss recognised against its investment in a coal mine in Shaanxi Province, the PRC. There are uncertainties involved regarding the future return and recoverability of this investment and hence an impairment loss was recognised against it. The management of Xi'an Gaoxin is currently closely monitoring the developments of this coal mine investment. Xi'an Gaoxin is effectively about 37% owned by the Group.

FINANCIAL REVIEW

Liquidity, Financial Resources and Capital Structure

At 31st December, 2005, the Group had current assets of HK$196,155,000 (2004: HK$194,554,000) and liquid assets comprising bank balances and marketable Hong Kong listed securities totaled HK$38,441,000 (excluding pledged bank deposits of HK$9,615,000) (2004: HK$108,025,000).

At the balance sheet date, total bank and other borrowings amounted to HK$306,078,000 (2004: HK$243,252,000) and a majority of such borrowings were raised to finance the Group's power generation operation. Of the total bank and other borrowings, about 82% was due within one year, 10% was due after one year but not exceeding two years and the remaining 8% was due after two years but not exceeding five years. In terms of currency denomination, about 63% of the balance was denominated in Renminbi with the rest in Hong Kong dollars. In terms of interest rate, about 35% and 65% of the total balance were bearing floating and fixed interest rate respectively.

The Group was in net current liabilities of HK$199,391,000 at 31st December, 2005 (2004: HK$125,674,000). For bank and other borrowings of HK$251,983,000 that were classified as current liabilities at year end, the Group have obtained consents from one bank and two financial institutions subsequent to year end that credit facilities concerned of approximately HK$92,000,000 in total will be renewed for another year. In addition, other borrowing with balance of approximately HK$42,000,000 at year end was refinanced by a financial institution for a term of over one year. As such, out of the bank and other borrowings of HK$251,983,000 that were classified as current liabilities at year end, the repayment dates of credit facilities of an aggregate amount of approximately HK$134,000,000 have been restructured to fall due after one year from the year end date. Moreover, the Group has an unutilized standby loan facility of HK$50,000,000 granted by a financial institution to meet short term funding needs when required.

MANAGEMENT DISCUSSION AND ANALYSIS

There was no change in the issued share capital of the Company during the year. At 31st December, 2005, the shareholders' funds of the Group was HK$473,142,000 (2004: HK$524,512,000), equivalent to a consolidated net asset value of about HK39 cents (2004: 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$280,574,000 (ie. bank and other borrowings of HK$306,078,000 minus bank balances and cash (excluding pledged bank deposits) of HK$25,504,000) over the shareholders' funds of HK$473,142,000 was at the moderate level of about 59%.

With the amount of liquid assets on hand and credit facilities available, 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 revenues versus foreign expenditures. In light of the above, it is considered that the exposure to foreign exchange risks is not significant and no hedging measure has been undertaken by the Group.

Pledge of Assets

At 31st December, 2005, the Group's property, plant and equipment, investment properties and bank deposits with an aggregate value of HK$194,254,000 were pledged to secure credit facilities granted to the Group.

At 31st December, 2005, the Group's equity interest in a subsidiary which in turn holds the interest in Shanghai Hong Qiao was pledged to secure a credit facility of HK$42,000,000 granted to the Group.

The Group entered into a long-term loan agreement with a bank during the year ended 31st December, 2004 pursuant to which a subsidiary of the Group had pledged its rights in collection of electricity tariff to the bank to secure banking facilities granted to the Group.

Capital Commitments

At 31st December, 2005, the Group had a commitment of HK$3,089,000 primarily in relation to acquisitions of fixed assets for its power generation operation.

MANAGEMENT DISCUSSION AND ANALYSIS

Contingent Liability

A subsidiary of the Company was named a respondent in a shipping dispute for an amount of approximately of HK$4,100,000. The amount has not been accrued in the financial statements of the Group because the matter has not been proceeded to an advance stage such that the directors can fairly predict the outcome of the matter. The Group is of the opinion that though the outcome of the dispute is not certain, any eventual settlement will not have a material adverse impact on the financial position of the Group.

EMPLOYEES AND REMUNERATION POLICY

At 31st December, 2005, the Company and its subsidiaries had about 440 employees in Hong Kong and the Mainland. Total staff costs incurred during the year, including director's remuneration, was HK$19,876,000 (2004: HK$15,718,000), representing an increase of about 26% when compared to last year. The increase was mainly due to additional staff employed by the Group's securities brokerage and power generation operations for their business expansion. 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, subsidised training course, provident fund scheme as well as medical insurance.