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 Results	
For the Year ended:	**31.12.2006**	31.12.2005	**31.12.2006**	31.12.2005
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Electroplating Materials and Chemicals	**2,060,093**	1,759,158	**56,412**	52,156
Paint and Coating Chemicals	**93,880**	124,406	**5,449**	6,271
Stainless Steel	**65,647**	59,930	**9,796**	7,436
Total	**2,219,620**	1,943,494	**71,657**	65,863

Electroplating Materials and Chemicals

The electroplating material segments reported revenues of HK$ 2,060.1 million in 2006, up 17.1% compared with HK$ 1,759.2 million in fiscal 2005. Despite lower sales quantities during the year, the record-high revenues were principally attributable to strong metal prices. During the year, highly volatile metal prices over a short period of time had a significant impact to the demand in electroplating industry. As a result of reducing buying interests among customers in anticipation of rising prices, overall performance was dimmed by de-stocking effect in China and South-East Asian region. Decreasing physical demand put strong pressure on margin as competitors relentlessly sold goods at discount for the need of working capital. This phenomenon continued in the first quarter of 2007.

Precious Metal Products

In 2006, higher gold and silver prices continued. Demand of gold products in China region was stable while demand in Singapore market grew robustly due to absence of Chinese competitors. Overall demand in silver products shrunk in traditional electroplating industry as many silver-plating factories decided to cease operation when facing persistent upward pressure in production costs. Abundant supply from Chinese silver producers also squeezed the premium at low level throughout the year. With the anticipation of rising prices, many end-customers reduced their size of purchase conservatively. Turnover of electroplating chemicals for jewelry also improved mainly due to strong precious metal prices. Yet, many jewelry factories severely suffered from such upward rally in metal prices and reduced their purchases during the year. Other traditional plating chemicals' consumption fell due to replacement of new technology.

Base Metal Products

Although sales quantities of electroplating nickel fell by one-third when compared with that in 2005, total nickel revenues only dropped slightly by 0.5%, mainly benefited by exceptional strong nickel price. At the end of the year, nickel market price soared more than 2.5 times when compared with price at the beginning of 2006. With concerns of working-capital financing and price volatility, many nickel importers sold nickel products at discount against international market prices. As a result, our profit margin was also squeezed by these competitors. Stockpiling situation endured in the second half year of 2006 and the first quarter of 2007. During the de-stocking period, the record-high cost of nickel forced many customers to be conservative with their inventories or even changed to other materials for application instead. Electroplating copper demand was stronger than last year as economic activity picked up in many countries. Amid significant fall in copper market prices during the last quarter of 2006, we unavoidably suffered losses on cost of inventory and profit margin in this product dropped by 36% in 2006. With anticipation of continuous global economic growth, copper demand remains strong in the first quarter of 2007.

Total inventory level as at 31st December, 2006 doubled to HK$ 274.7 million when compared with HK$ 129.7 million as at 31st December, 2005. The advances in metal prices, in particular of nickel price at the year end, significant boosted up the cost of inventory we purchased at the year end. Such abnormal high level of inventory cost over a short period of time not only posed higher cost in financing but also increased risk in cost of inventory at the year end. As greater price volatility in metals was demonstrated at the beginning of 2007, we have purposely reduced the size of purchase in line with shrinking demand in local markets and conservatively controlled the inventory at affordable level. Longer-than-usual receivable turnover was also reported as at 31st December, 2006. Cautiously monitoring payment receivables were one of our key objectives and zero uncollectible invoices payment was recorded in 2006.

Paint and Coating Chemicals

Performance of specialty chemical market in China was unsatisfactory in 2006. Annual revenue dropped by 24.5% while gross profit fell by 20.7%. Global chemicals prices soared in the first half year of 2006 mainly because of increases in global raw material costs such as oil and natural gas based products. In contrary, China's local chemical suppliers, who suffered from growing stockpiling and slow sales, continued to sell goods at discount. With the implementation by the Chinese government's macro-economic control and rectification measures on safety and environmental production problem, demand in many local chemical factories shrunk significantly, especially those located in the Pearl River Delta area. Towards the end of the year, except methanol, global raw material costs in making specialty chemicals stabilized and same as international prices. However, Chinese local stockpiling situation persisted and discounted sales were common. Average selling price of one major trading product in China fell 26.2% compared with average selling price in 2005. In 2006, we managed to service mainly on foreign customers who concerned more on quality and services. Also we explored new users on high-ended chemical products.

Stainless Steel

Segment of stainless steel trading recorded a distinguished performance both in revenue and profitability due to strong recovery in stainless steel industry since the latter part of 2005. Stainless steel base prices advanced throughout the year. The strong recovery in stainless steel market in 2006 resulted from alarming constraints of elements in production of stainless steel including nickel, ferrochrome and molybdenum. These constraints limited the stainless steel production volume and caused an unusual tight supply from our suppliers during the year. At the beginning of 2007, tight supply continued and same as rising base prices. During the year, the underlying demands in local market reduced because upward rally in stainless steel prices put strong pressure on production cost among local factories especially watches manufacturers. Yet, our inventory shortage situation remained at the end of 2006 because of delayed shipment among suppliers and this situation has not been changed in the beginning of 2007.

Property Investment Division

Total rental income rose by 7.8% to HK$17.0 million in fiscal year of 2006 when compared with HK$ 15.8 million in 2005.

Occupancy rate for Hong Kong offices was 100% in 2006 when compared with an average rate of 89.3% in 2005. Demand of Grade “B” office spaces was strong throughout the year. Rather than seeking for quality buildings, many tenants searched for suitable rental prices in this segment after rental in Grade “A” offices hit record high during the second half year of 2006. Average market rental remained firm and stable. Selling prices also soared in this segment during the year. We credited HK$2.53 million, or an increase of 22.2%, on revaluation of Hong Kong properties after revalued by appointed surveyor as at 31st December, 2006.

Average occupancy rate of Shanghai offices in 2006 was 99.9% (2005: 100%). Office rentals continued to grow in Shanghai due to rapid expansion of business among small and multi-national companies. Supply of office spaces in Shanghai downtown area was still very limited. Vacancy rate of Shanghai offices in prime location fell to almost zero since the second half year of 2006. Average selling price of Grade “A” offices also rose in 2006 due to rising gross rental yield. We credited HK$ 3.01 million on revaluation of our Shanghai office properties as at 31st December, 2006.

Average occupancy rate of Shanghai residential properties in 2006 was at 93.3% while 81.3% was recorded in 2005. As at 31st December, 2006, occupancy rate was at 97.8%. Shanghai residential property market was clamped down by the implementation of Chinese government administrative measures to curb speculative activities. Following market turmoil and slack transaction volume, residential prices of Shanghai stabilized towards the end of the year. Demand in rental market recovered in the second half year as resilient economic growth in Shanghai continued to draw talents and professionals from different Chinese provinces and overseas countries to seek for opportunities. As at 31st December, 2006, we debited HK$ 2.12 million on revaluation of Shanghai residential properties after revalued by appointed surveyor.

Singapore rental income remained stable during the year. The rise in rental income was contributed from appreciation of Singapore dollars during the year. As at 31st December, 2006, we credited HK$ 101,000 on revaluation of Singapore properties after revalued by appointed surveyor.

Securities Investment Division

An analysis of the Group’s securities portfolio, current and non-current, by type of securities as at 31st December, 2006 is as below:

Market Value as at	31/12/2006	31/12/2005	Diff %
Investment held for trading (in HKD’000)	**179,833**	175,783	+2.3%
Available-for-sale Investments (in HKD’000)	**14,258**	29,299	-51.3%

Distribution of Securities in Investment held for trading (in HKD’000):

Equities – Hong Kong	**34,406**	33,195	+3.6%
Equities – Overseas	**31,478**	25,804	+22.0%
Mutual Funds – Quoted	**113,949**	116,784	-2.4%

Although the world was experienced with military conflicts, sharp rising in energy and commodities prices, and collapse of large hedge funds, overall equities markets performed remarkably in 2006. Global economy was in resilient in 2006 with inflation contained and the growth of major economies hovering around the trend. US dollar continued to show volatility throughout the year. Performance of equities outpaced bonds as multi-national companies posted attractive earnings reports quarter after quarter. Loose liquidity conditions still existed in global markets, resulted a decline in volatility in foreign exchange market and other assets classes in the second half year of 2006.

In 2006, we unloaded some weights in bond-related securities and took profits from selling equity-related securities in view of rally in global equity markets. At the end of the year, a gain arising from changes in fair value of investments held for trading of HK$ 14.1 million was recorded. Also, a disposal of a long term investment in an unlisted Chinese equity gained HK$ 585,000. Dividend income was reported at HK$ 2.5 million in 2006 (2005: HK$ 2.4 million). Interest income generated from the portfolio was reported at HK$ 1.5 million whereas HK$ 1.7 million was posted in 2005.

Outlook of global financial markets remained positive with expectation of modest growth in global economies, tame inflation and buoyed employment figures. It is expected that financial markets will experience another year of volatility in 2007, with concern of impact on unwinding of carry trade, housing slump in the U.S., liquidity tightening across global central banks. Yet, major economic fundamentals around the globe have not changed. We will cautiously re-allocate assets in the portfolio so as to diversify the risk of volatility during the year of 2007.

EMPLOYEES

Total number of staff reduced by 2 to 83 persons as at 31st December, 2006. Employee turnover rate during the year was in acceptable level and staff turnover group concentrated at young staff under 35 years old with less experience.

Staff cost increased by 1.08% in the fiscal year of 2006 to HK$ 27.9 million when compared to HK$ 27.6 million in 2005. The rise in employees' salaries and other benefits was in line with market inflation. In accordance with HKAS 19 Employment Benefits, additional cost of long service payment obligation amounting HK$ 88,000 was included and total long service payments obligation of the Group was at HK$ 2.16 million as of 31st December, 2006.

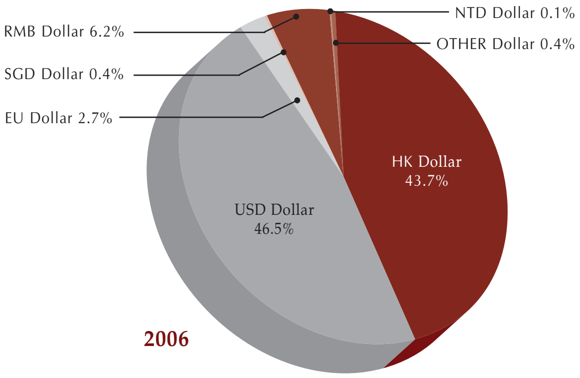
In 2007, the management will continue to encourage staff to continue his/her further studies. Also, the company will introduce different kinds of internal or external courses to staff so as to enhance staff's knowledge and to upgrade operation efficiency.

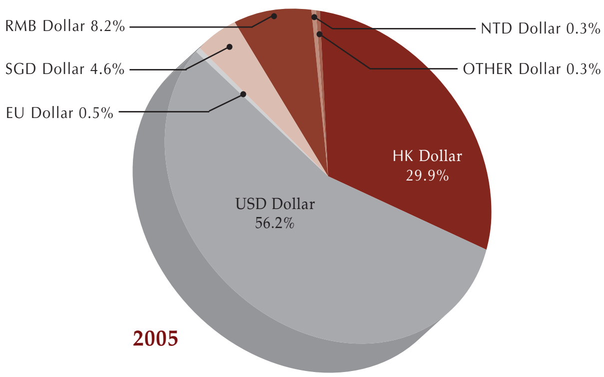
FINANCIAL RESOURCES AND LIQUIDITY

For the fiscal year of 2006, cash outflow from operation jumped to HK$ 122.2 million. Due to exceptional strong metal prices in the fourth quarter of 2006, additional bank borrowings were required to finance inventory and receivables. Equity attributable to equity holders of the parent company as at 31st December, 2006 advanced to HK$ 611.7 million after the Group distributed dividend totaling HK$ 62.4 million during the year. Return on equity ratio for 2006 rose to 12.7% when compared with 11.8% for 2005.

Primarily due to the rise in inventory cost and trade receivable, working capital as 31st December, 2006 rose to HK$ 324.8 million when compared with HK$ 265.7 million as at 31st December, 2005. Inventory as at 31st December, 2006 advanced to HK$ 289.9 million, representing an increase of 99.4% when compared with HK$145.4 million as at 31st December, 2005. Cost of electroplating nickel comprised major portion of the inventory. Nickel metal began in 2006 with an international price of US$13,786 per metric ton and ended with a price of US$34,025 per metric ton. Trade debtor amounted to HK$ 230.2 million as at 31st December, 2006, representing a rise of 60.3% when compared with HK$143.6 million as at 31st December, 2005. Trade debtor turnover cycle reported at 37.8 days as at 31st December, 2006 (as at 31st December, 2005: 27.0 days). The rise in trade debtor turnover days were partly due to abnormal increase in trade receivable at the year end due to the rise in metal price and partly because of longer payment by customers under current tough operating environment.

An analysis of cash and short term bank deposits by currencies as at 31st December, 2006 and 31st December, 2005 are set out below:

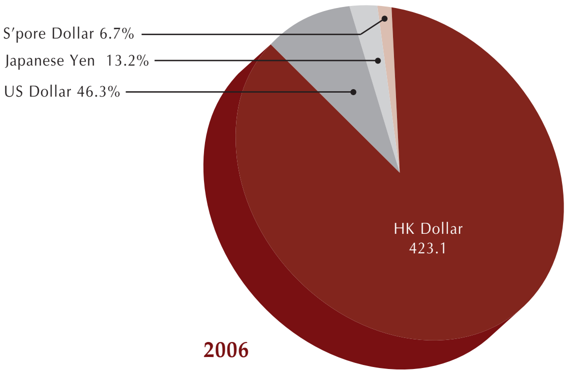




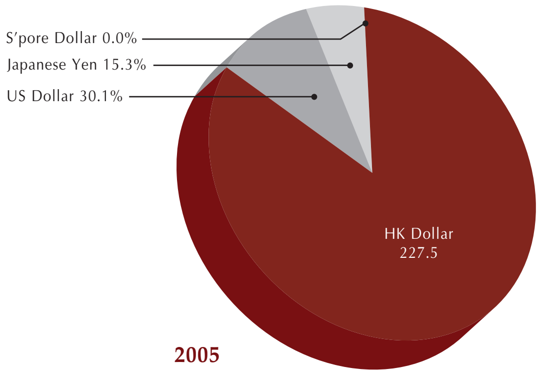
The Group recorded cash balance of HK$171.2 million as at 31st December, 2006, a rise of HK$ 71.0 million when compared with HK$100.1 million as at 31st December, 2005. A negative net cash at the fiscal year end widened to HK$ 318.2 million (as at 31st December, 2005: negative HK$ 172.8 million). The expanded negative net cash was partly due to larger outflow of cash dividend distributed in the past 2 years and partly due to an abnormal increase in bank borrowing at the year end to finance the rise in inventory and trade receivable. Capital expenditure only amounted to HK$ 538,548 during the year of 2006.

DEBT STRUCTURE

An analysis on bank borrowings by currencies as at 31st December, 2006 and 31st December, 2005 are set out below:



2006



2005

All borrowings were in form of Money Market bank loans, Overdraft and Trust Receipt for the fiscal year ended 31st December, 2006. Average lending tenor for Trust Receipt in financing trading facilities was about 54 days during the year, 2 days shorter than 56 days in fiscal year of 2005. Money-Market bank loans were either used to finance additional stocks held or securities assets purchased in the same foreign currencies. Average interest rate charged to trust receipt borrowings was 5.16% in 2006 when compared with 3.86% in 2005. Average total bank borrowing interest rate charged at 5.04% in 2006 whereas 3.77% was charged in 2005. Total finance cost during the year amounted to HK$ 15.6 million (2005: HK$ 9.9 million).

Total bank borrowings as at 31st December, 2006 was HK$ 489.3 million (as at 31st December, 2005: HK$ 272.9 million). As at 31st December, 2006, total banking facilities granted by lenders to the Group amounted to HK$ 727.9 million and the average banking utilization rate was 45.3%. Debt to equities ratio rose to 0.80: 1 as at the fiscal year ended 31st December, 2006 when compared with 0.46:1 as at the year ended 31st December, 2005.

FOREIGN CURRENCY RISK

The Group's monetary transactions were conducted in Hong Kong Dollars, United Stated Dollars, Japanese Yen, Euro, Australian Dollars, British Sterling, Reminbi, Singapore Dollars and New Taiwanese Dollars. In order to reduce the risk, the Group normally used forward exchange contracts to hedge the return currency of such transaction or borrowed the same currency to fund such transaction. As at 31st December, 2006, there were US$1,500,000 forward contracts of New Taiwan Dollar outstanding to be expired on January and February of 2007. Short-term borrowings denominated in foreign currencies other than United States Dollars were used to finance assets purchased in the same currencies.