REVIEW OF OPERATION

For the 2001 financial year, the Group marked the new millennium with a return to profitability despite difficult trading conditions in our core international steel trading business especially after the traumatic events of September 2001 in the US, which had aggravated the situation, causing the steel market to be more vulnerable than expected and resulting in a temporary setback in the global trading activities.

Following the arrangement to dispose of all the remaining steel mills in China, the consolidated results for this year would be the last year incorporating the results of the China steel mills. It is imperative to note that the Group has dealt decisively with the legacy of the past involving the China steel mills and that legacy has still dominated the financial results for the current year under review.

Steel trading

2001 was again a year of intense competition in this area of our operations. Margins continued to be squeezed as a number of participants in this market sector sought to achieve growth and market position through unsustainable price cutting and risk taking. Against this background, the Group was again able to hold its market position, achieving sales of steel products broadly in line with those experienced during 2000. The steel trading division continued to maintain its niche in the market and again generated a significant contribution to the Group. For the year 2001, our steel trading division recorded a trading volume of steel products of 357,000 mt with a turnover of HK$485 million.

Weekly steel trading meetings have been carried out to review and assess the business logistics and risk portfolio and all the way, critical review and assessment have ensured that all steel trading transactions have been undertaken in a smooth and professional manner.

An extensive worldwide network has been built up over the years and a firm supplier and customer base has given the Group a channel of opportunities to conclude stable recurring businesses. It is envisaged that the performance for 2002 will improve and the Group's future earning power and recurring income base will be further strengthened.

Steel manufacturing

Regarding our steel manufacturing operation, our two joint ventures with four steel manufacturing mills in China, namely Jiangyin Bofeng and Wuxi Xifeng, continued to report losses for the 2001 financial year with no signs of recovery.

During the year, arrangements were reached to dispose of Jiangyin Bofeng and Wuxi Xifeng to third parties. For Wuxi Xifeng, completion of the disposal would not take place until December 2002 when the final instalment for settlement is paid. As for Jiangyin Bofeng, according to the arrangement, completion of the disposal would take place in June 2004. However, during the interim period, the China joint venture partners have undertaken to bear the operation losses of the steel mills, if there is any. This has the effect of curbing further losses of the steel manufacturing division and the current year under review would be the last year for the Group to absorb the losses of the China joint venture steel mills. This move was in line with our business focus and future direction as the performance of the steel mills in China was not satisfactory in the past.

Electronics

The electronics division continued to deliver stable recurring income to the Group and reported a net profit of HK$3.1 million based on a turnover of HK$19.2 million. Barring any further global economic downturn and devaluation of Japanese yen, it is envisaged that the recurring income base of the electronics division could be sustained.

Portfolio Investments

During the year, the Group realised more than HK$6 million profit from portfolio investing activities. The Group undertakes portfolio investments for 2 reasons. First, the Group takes positions in businesses considered to be undervalued and which might evolve into strategic investments in the longer term if certain conditions are met. If those conditions are not met or the share price rises beyond the point where an investment is considered to be fully valued, the Group will then realise the profit on the investment. Secondly, the Group invests in market disequilibrium opportunities in shares where the management team of the Group has particular knowledge and expertise. The current financial structure of the Group means that substantial cash balances can be generated from time to time and limited portfolio investing activities will improve the return on cash balances and enhance the Group's profitability.

PLACING AND SUBSCRIPTION OF SHARES

In May 2001, 250,000,000 new shares were issued pursuant to the subscription and placing of shares, raising approximately HK$15 million. The net proceeds have been used to provide additional working capital to the steel trading and electronics divisions.

LIQUIDITY AND FINANCIAL RESOURCES

The Group generally finances its operations with internally generated cash flow and banking facilities provided by its principal bankers in Hong Kong. As at 31 December 2001, the Group had available aggregate banking facilities of approximately HK$247 million, out of which HK$162 million had been utilized. The Group's cash and bank balances and short term bank deposits as at 31 December 2001 amounted to approximately HK$102 million. The Group's gearing ratio as at 31 December 2001 was approximately 0.03% based on the total bank borrowings of approximately HK$0.08 million and the aggregate of the shareholders' funds and total bank borrowings of approximately HK$253 million.

Taking into account available credit facilities, cash on hand and recurring cash flows from its core steel trading business, the Group has sufficient working capital for its present requirements.

NUMBER AND REMUNERATION OF EMPLOYEES

Following the arrangement to dispose of the China steel mills, the Group had approximately 150 employees in Hong Kong and China as at 31 December 2001. Remuneration is reviewed annually and in addition to the basic salaries, the Group also provides staff benefits including discretionary bonus, contributory provident fund and professional tuition/training subsidies in order to retain quality employees.

PROSPECTS

It is envisaged that the Group is well placed to go forward after the rationalization of the operation structure of the joint venture steel mills in China. As we look to the future, the Group will continue to concentrate on the development of its core business areas, but will also investigate appropriate acquisition opportunities as and when they arise.

Looking ahead, the Group will endeavour to restore shareholders' confidence and value and achieve capital growth for the investors in the long run.