REVIEW OF OPERATION

During the year under review, we remained very focused on our core international steel trading business and have taken further steps to enhance our international business network.

Following the arrangement to dispose of all the remaining steel mills in China towards the end of 2001, the results of the China steel mills have not been incorporated into the consolidated results of the Group for this year. The management team has dealt decisively with the legacy of the past involving the China steel mills and from this year onwards, the burden of that legacy would no longer have any adverse impact on the financial results of the Group.

Steel trading

After the traumatic events of September 2001 in the US, the first half of the year in particular provided a very difficult climate for international steel trading. However, since the third quarter of 2002, the international steel market has shown signs of recovery with a significant increase in demand from the Asian market especially China.

With an established worldwide network of supplier and customer base, our steel trading operation achieved remarkable results for 2002 and this division has continued to maintain its niche in the market and again generated a significant contribution to the Group. For the current financial year under review, our steel trading division recorded a trading volume of over 675,000 mt steel products, increasing by 89% over the previous year with a turnover of HK$1,034 million, representing an increase of 113% over the previous year.

As always, the competition in this area of our operations has always been keen with 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 uphold its market position, achieving sales of steel products broadly in line with our expectation. This solid performance of the steel trading division is a direct result of the business methodology adopted by the Group and the knowledge of the trading team which has been assembled.

Weekly steel trading meetings have been constantly 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.

Even though an extensive worldwide network has been built up over the years and a firm supplier and customer base has been established, continued efforts have been devoted to develop new sources and expand business opportunities. It is envisaged that barring any unforeseen circumstances, the Group's future earning power and recurring income base in this sector of the steel business will be further secured.

Steel manufacturing

Regarding our steel manufacturing operation, as mentioned in the 2001 annual report, arrangements were reached to dispose of our two joint ventures with four steel manufacturing mills in China, namely Jiangyin Bofeng and Wuxi Xifeng, to third parties.

For Wuxi Xifeng, completion of the disposal took place after the year end in January 2003 when the final installment for settlement was 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 partner of Jiangyin Bofeng has 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 has not reflected the financial results of Jiangyin Bofeng. We reiterated that this move was in line with our business focus and strategy as the performance of the steel mills in China was not satisfactory for the past 6 years.

Electronics

For the financial year under review, the electronics division continued to deliver stable recurring income to the Group and reported a net profit of HK$2.9 million based on a turnover of HK$18 million which was broadly in line with those experienced during the previous year. Barring any further global economic downturn, it is envisaged that the recurring income base of the electronics division could be sustained.

Portfolio Investments

As at 31 December 2002, the Group maintained a listed investment portfolio with a market value of around HK$61 million. The Group undertakes portfolio investments for 2 reasons. Firstly, 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 December 2002, 235,000,000 new shares were issued pursuant to the subscription and placing of shares, raising approximately HK$10 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 2002, the Group had available aggregate banking facilities of approximately HK$273 million, out of which HK$84 million had been utilized. The Group's cash and bank balances and short term bank deposits as at 31 December 2002 amounted to approximately HK$122 million. The Group had no bank borrowings as at 31 December 2002.

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 disposal of the China steel mills, the Group had approximately 150 employees in Hong Kong and China as at 31 December 2002. 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

The Group remains well positioned to deliver solid performance into the future after the rationalization of the operation structure of the joint venture steel mills in China. It is envisaged that the Group will continue to develop its core business activities in the Asia Pacific region in order to enhance its standing as a focused steel group. As we look to the future, the Group will again concentrate on organic growth while remaining attuned to market opportunities that can sustain growth and deliver a strong recurring income to the Group.

In line with this corporate direction and philosophy, detailed feasibility study on the Shanghai property market has been performed and certain passive investments have been made. However, more active participation in this sector of the business will be carried out once we consider the timing is appropriate. We strongly believe that we have the necessary skills and expertise to enable us to step into this sector of the new business.

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

REVIEW BY AUDIT COMMITTEE

The Group's Audit Committee has reviewed the accounting principles and practices adopted by the Group and discussed with the management, the auditing, internal control and financial reporting matters including the review of the Group's audited results for the year ended 31 December 2002.