MANAGEMENT DISCUSSION AND ANALYSIS

REVIEW OF OPERATION

The 2003 financial year saw the Group emerging as a more streamlined and focused company. Cost efficiencies are the key to maintaining a competitive advantage in our markets. Significant activity was undertaken during the year to improve efficiency and streamline our administrative functions.

Steel trading

2003 was a year of intense competition in this area of our operations. Steel prices were escalating at a very fast pace and customers were not willing to acquire bulk volume and accumulate stock of steel products at a high price. This sudden escalating effect in particular provided a very difficult atmosphere for international steel trading. Besides, 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 for the year under review, achieving sales of steel products broadly in line with our expectation. The steel trading division continued to maintain its niche in the market and again generated a significant contribution to the Group. For the year 2003, our steel trading division recorded a trading volume of steel products of 227,197 mt with a turnover of HK$469 million, representing a drop of 54.6% when compared to the previous corresponding period.

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.

Steel manufacturing

Regarding our steel manufacturing operation, as mentioned in the 2002 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 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 in the past.

Electronics

For the year under review, the electronics division continued to deliver stable recurring income to the Group and reported a net profit of HK$1 million based on a turnover of HK$14 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

During the year, the Group realised a profit of more than HK$5 million 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.

However, due to the outbreak of SARS, the Hong Kong stock market was very volatile and vulnerable during the year under review and as a result, the Group incurred an unrealized loss of HK$3 million when marking the investment portfolio to the market valuation as at 31 December 2003.

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 2003, the Group had available aggregate banking facilities of approximately HK$270 million, out of which HK$78 million had been utilized. The Group's cash and bank balances and short term bank deposits as at 31 December 2003 amounted to approximately HK$71 million. The Group had no bank borrowings as at 31 December 2003.

Taking into account available credit facilities, cash on hand and recurring cash flows from its core 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 2003. 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. However, due to surging fuel cost, handling expenses and shipping charges, we expect the steel trading business volume will be contracting in the first half of 2004. As we look to the future, the Group will still 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 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.

In addition to tapping into the Shanghai property market, the Group will be working towards the goal of maximizing the returns for our shareholders through restructuring our business mix and strengthening the competitiveness of our business. In addition, our management will focus its attention more on expansion and opportunities which are profitable and have a promising outlook. Whether expansion will be organically driven or by way of acquisition, we can only say it will be a calculated and measured expansion, tempered by caution.

REVIEW BY AUDIT COMMITTEE

The Group's Audit Committee has reviewed with the management the accounting principles and practices adopted by the Group and discussed the auditing, internal control and financial reporting matters including the review of the Group's audited results for the year ended 31 December 2003.