

MANAGEMENT

DISCUSSION AND ANALYSIS

REVIEW OF OPERATION

During the year, the Group continued to focus on its core international steel trading business and cost efficiencies. Significant activity was undertaken during the year to improve efficiency and streamline our administrative functions.

Steel trading

Succeeding from 2003, the year of 2004 was still a period with intense competition among the international steel trading. Steel prices were escalating at a fast pace and customers were not willing to acquire bulk volume and accumulate stock of steel products at high price. Besides, margins continued to be squeezed as a number of participants in this market sector sought to achieve growth and higher market share through unsustainable price cutting and risk taking. Against this background, with an established worldwide network of supplier and customer base and successful business methodology adopted, the Group has again uphold its market position. For the year of 2004, our steel trading division recorded a trading volume of steel products of approximately 150,000 mt with a turnover of HK\$526 million, representing an increase of 12% over the previous year.

Moreover to this plausible result, to further ensure success in forthcoming years, regular steel trading meetings have constantly been carried out to review and assess the business logistics and risk portfolio. Furthermore, critical reviews and assessments had been carried out for all steel trading transactions to ensure that they have been undertaken in a smooth and professional manner. Continuous effort has also been devoted to develop into outsourcing sources and expanding business opportunities.

Electronics

For the year under review, the electronics division continued to deliver small portions of recurring income to the Group and reported a net profit of approximately HK\$1 million based on a turnover of HK\$12.4 million. Considering only limited income generated, it is our intention to seek a potential buyer to dispose the related business.

Portfolio investments

During the year, the Group realised more than HK\$7.6 million profit from portfolio investing activities. 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.

In order to diversify investment risk, apart from the Hong Kong market, the Group also focused in the investments among Thailand, Japan and Korea stock markets.

However, the stock market was very unstable and vulnerable during the year and as a result, the Group incurred an unrealized loss of HK\$5.1 million when marking the investment portfolio to the market valuation as at 31 December 2004.

MANAGEMENT DISCUSSION AND ANALYSIS

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 2004, the Group had available aggregate banking facilities of approximately HK\$289 million, out of which HK\$146 million had been utilized. The Group's cash and bank balances and short term bank deposits as at 31 December 2004 amounted to approximately HK\$41 million. The Group had no bank borrowings as at 31 December 2004.

Taking into account the 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

The Group had approximately 110 employees in Hong Kong and China as at 31 December 2004. 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 further developing its supplier and customer base during the year. It is envisaged that the Group will continue to develop its core business activities within the Asia Pacific regions in order to enhance its standing as a focused steel group.

As we look into 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 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. 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 2004. The audit committee comprises the three independent non-executive directors of the Company.