BUSINESS REVIEW

2004 was a substantial year for the Group. Following our defined strategies to strengthen the established coal businesses, we were successfully to increase our equity interest in an associated company, which is engaged in production and sales of coking coal products. The associate became our subsidiary of the Group ("the Subsidiary"). Through the acquisition, we have consistently increased our exposure in the energy sector and established a business direction for the Group. In addition, the revenue from the coal business was from HK$0.8 million up to a record high as HK$7 million. However, as the Subsidiary is undergoing the final stage of construction and equipment installation, it did not contribute any profits to the Group and indeed, the Group borne its pre-operating expense. Consequently, the Group recorded net loss of approximately HK$14.7 million for the year 2004.

Energy Resources remained as the major subjects throughout last year. Due to the increase of global demand, political unrest in certain districts of Middle East and the weak dollar policy, crude oil prices rose to a record high level. Despite the implementing of control measures to certain overheated industries, the overall economic progress of China was remarkable. Establishment of a rational energy policy and mechanism became crucial to support the continued economic growth in China eventually. In view of such marvelous development environment in China, we made further investment into another associated company in the middle of last December to emphasis ourselves in the coal industry for further earnings growth opportunity.

In the light of these investments, it is clear that our principal activities will be focusing on the production and sale of coking coal products and side products besides the coal trades and jewellery sales and this segment is becoming an important milestone for the Group in terms of revenue and profit growth.

FINANCIAL POSITION

Material acquisitions and disposals

On 27 May 2004, the Group entered into the Acquisition Agreement to acquire further 20% equity interests in an associated company, which was owned 45% equity interests before the acquisition by the Group, at a consideration of approximately HK$18,875,000. Upon completion of the Acquisition Agreement on 8 June 2004, the associated company became a subsidiary of the Company ("the Subsidiary") as the Group held its 65% equity interest. The Subsidiary is engaged in the production and sales of coking coal products and side products through its two non-wholly owned subsidiaries in the PRC.

On 24 June 2004, the Subsidiary entered into the Disposal Agreement to dispose 25% equity interests in one of its non-wholly owned subsidiaries at a consideration of approximately HK$7,054,000. Before and after the completion of the Disposal Agreement on 29 June 2004, the Group held effective interest of 58.5% and 42.25% in this subsidiary respectively.

Charges on Assets

At 31 December 2004, except for bank deposit of HK$4,703,000 and certain construction in progress with a carrying value of approximately HK$26,882,000 pledged for certain banking facilities of HK$4,703,000 and a bank loan of HK$37,622,000 respectively, none of the Group's assets was charged or subject to any encumbrance.

Contingent Liabilities

At 31 December 2004, the Group was not liable to any borrowings or guarantees given to any banks or financial institutions.

Gearing Ratio

At 31 December 2004, the gearing ratio of the Group, which is computed from the Group's interest bearing liabilities divided by shareholders' funds, was approximately 44%. The borrowing was mainly for the financing certain construction and installation of plant and machinery of a subsidiary in the PRC for the production of coking coal products.

Exposure To Fluctuations In Exchange Rates

At 31 December 2004, the Group had no material exposure to foreign exchange fluctuations other than assets denominated in Renminbi.

Liquidity and Financial Resources

Excluded pledged bank deposit of HK$4,703,000, the Group's cash and bank deposits at 31 December 2004 amounted to HK$31,628,000.

Staff

The Group had 8 Hong Kong employees and 144 PRC employees at 31 December 2004 with remuneration package to be reviewed annually. The Group provides a mandatory provident fund scheme for Hong Kong employees and the state-sponsored retirement plan for PRC employees (Note 19 to the financial statements). The Group has also adopted share option scheme since 20 June 2003 (Note 23 to the financial statements). No share option was granted under the share option scheme during the year and no share option was outstanding as at 31 December 2004.

DIVIDEND

The Directors do not recommend the payment of dividend for the year ended 31 December 2004.

FUTURE PROSPECTS

The global economy is expecting to be broadly favorable compared with a year ago due to less uncertainty. China, despite the macro-regulation policies implemented to slow down the overheated economy, the GDP growth was still at a brilliant level as 9.5% in previous year. In the coming year, China continues to make progress on economy and targets to have growth of 8% on GDP and 16% on fixed asset investment respectively. It is anticipated that the global will continue to focus on the development in China with foreign capital inflowing into the market continuously. Major infrastructure projects including railways, highways and pipelines connecting the northwest regions to the southeast coastal cities will be ongoing. Interest rates and inflation remained moderate, encouraging consumer confidence and spending to facilitate the economic activities. All these criteria keep on driving up the demand of raw materials and energy sector to support the economic growth.

According to the statistic from the mainland, there will be another 6% increase on coal demand compared with last year from major industries such as metallurgy, construction materials and oil processing. The buoyant demand of coal is expected to stay intact. We will position ourselves to respond to these opportunities by strengthening the productivities and expanding the capacities to keep up the pace with the economic momentum. We will continue to pursuit the possibility on the integration of business downstream into coal mining to ensure stable and quality supply of raw coal as well as diversification of product range. Accordingly, we have carried out due diligence including mining survey reports on a target mine during last year. By doing so, we will strengthen our business growth and maximize the profit return to the shareholders with presence in the energy industry.

FUTURE PROSPECTS *(continued)*

We will consistently monitor the financial position in a favorable level and utilize our capital strength for the appropriate investments to support our business development in the energy sector. This will enhance the Group to deliver solid performance on profit growth to our shareholders.

On behalf of the Company, I would express our thanks to our fellow Directors and the colleagues for their concern, dedication and performance in the year of challenge.

SO Kwok Hoo
Executive Director

Hong Kong, 21 April 2005