

# MANAGEMENT

## DISCUSSION AND ANALYSIS

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### REVIEW OF OPERATION

During the year, the Group continued to focus on its core international steel trading business and cost efficiencies.

#### Steel trading

Succeeding from 2004, the year of 2005 was still a period with intense competition in the international steel trading as a result of the control measures introduced by the central government. Steel prices fluctuated significantly and thus customers were not willing to acquire bulk volume and accumulate stock of steel products at comparatively high price. 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 2005, our steel trading division recorded a trading volume of steel products of approximately 322,000 mt with a turnover of HK\$1,143 million, representing an increase of 117% over the previous year.

The management forecasted that the coming year would be a hard time for international steel market and accordingly, continuous effort has also been devoted to develop into outsourcing sources and expanding business opportunities.

#### Electronics

For the year under review, the electronics division reported a net loss of approximately HK\$1.8 million based on a turnover of HK\$7.4 million. In view of the continuing loss, it is our intention to seek a potential buyer to dispose of the related business.

#### Portfolio investments

During the year, the Group continued to undertake 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 fair value loss of HK\$4 million when the investment portfolio was marked to market as at 31 December 2005. Indeed, the Group realised more than HK\$5 million profit from portfolio investing activities.

### 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 2005, the Group had available aggregate banking facilities of approximately HK\$443 million, which had not been utilized. In addition, the Group had other loan of HK\$1.6 million which was secured by certain cash and securities with investment bankers. The Group's cash and bank balances and short term bank deposits amounted to approximately HK\$45 million as at 31 December 2005.

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

As at 31 December 2005, the Group had approximately 105 employees in Hong Kong and China. 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 competent employees.

### PROSPECTS

The Group will continue to 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 both Hong Kong and the PRC 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 business with good potential.

In addition to tapping into the Hong Kong and the PRC property market, the Group will work towards the goal of maximizing our shareholders' wealth through restructuring our business mix and strengthening the competitiveness of our business. We will pay more attention 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.