

MANAGEMENT

DISCUSSION AND ANALYSIS

REVIEW OF OPERATION

For the year ended 31 December 2006, the Group recorded a net profit attributable to equity holders of the Company of about HK\$3.7 million (2005: HK\$10.5 million).

Steel trading

The Group did not engage in steel trading during the year under review since the management adopted a prudent approach to minimize risk exposure of steel prices which fluctuated significantly. Indeed, the PRC continued to implement macroeconomic control measures to rein in economic development during 2006, with bank borrowing rates raised and export tax rebate rates for steel products reduced. The management forecasted that the coming year would still be a hard time for international steel market and accordingly, much more effort has to be devoted to explore business opportunities.

Electronics

For the year under review, the electronics division reported a net loss of approximately HK\$1.5 million (2005: HK\$1.9 million) based on a turnover of HK\$16.5 million (2005: HK\$7.4 million). In view of the continuing loss, the Group intends to seek a potential buyer to dispose of the related business.

Portfolio investments

The Group continued to undertake portfolio investments during the year under review since the Group believes 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, the Hong Kong and other overseas stock markets were very volatile and vulnerable during the year and as a result, the Group only performed to an acceptable level when marking the investment portfolios to the market valuation as at 31 December 2006.

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 2006, the Group had available aggregate banking facilities of approximately HK\$443,000,000, which had not been utilized. In addition, the Group had other loan of HK\$44,203,000 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\$94,366,000 as at 31 December 2006.

Taking into account the available credit facilities, cash on hand and recurring cash flows from business, the Group has sufficient working capital for its present requirements.

NUMBER AND REMUNERATION OF EMPLOYEES

As at 31 December 2006, the Group had approximately 100 employees in Hong Kong and the PRC. 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 global economy is generally positive despite growing concerns about the impact of interest rates, oil prices, and political developments on economic growth. Hong Kong's economy is therefore expected to remain stable for the year of 2007. Therefore, 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. We strongly believe that we have the necessary skills and expertise to enable us to work towards the goal of maximizing our shareholders' wealth through restructuring our business mix and strengthening the competitiveness of our business.

Further, 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.