MANAGEMENT'S DISCUSSION AND ANALYSIS

LIQUIDITY AND FINANCIAL RESOURCES

At the end of 2000, the Group had total assets of US$1,340.5 million, down 0.06% from 1999. Total debt was US$991.6 million (1999: US$978.5 million). Our debt to equity ratio was 643% (1999: 522%).

An analysis of our balance sheet is shown on page 11 and 12.

CAPITAL STRUCTURE

The Group finances its working capital requirements through a combination of funds generated from operations, short term and long term bank loans, floating rate notes and from the disposal of certain assets and investments. The Group had cash and cash equivalents of US$191.2 million as at 31st December, 2000 (1999: US$209.1 million), a decrease of US$17.9 million.

INTEREST STRUCTURE AND EXCHANGE RATES EXPOSURE

Most of the borrowings by the Group in Hong Kong are in U.S. dollars, and the interest rates ranged from 6.1% to 9.5% per annum in 2000.

The majority of the borrowings by the Group's ventures in the PRC are in RMB obtained from the local banks, with a small amount in U.S. dollars. Most of these ventures are paying interest rates ranging from 5.6% to 7.1% per annum in 2000.

All sales in the PRC are denominated in RMB, and export sales are denominated in foreign currencies. The ventures require foreign currencies for the purchase of imported raw materials, parts and components, and they are able to obtain the foreign currencies necessary to meet their operational needs. We expect that the exchange rate between RMB and U.S. dollar will remain stable, otherwise, the Group's cash inflow of dividends generated from the PRC ventures will be affected. Please refer to note 35 to the financial statements for details. As neither the Bank of China nor other financial institutions authorised to engage in foreign exchange transactions in the PRC offers forward exchange contracts, the Group is not able to hedge for the foreign exchange exposure of RMB.

The Group's borrowing in Turkey are predominantly in U.S. dollars, with a small amount in Turkish Lira. The interest rates for U.S. dollar borrowings ranged from 6.1% to 7.1% per annum in 2000. The Group has suffered from both the interest and exchange rate risks after the outbreak of the financial turmoil and the free float of the Turkish Lira since February, 2001. The Group will keep on observing the local Government actions and will formulate strategic plans to improve the situation.

The Group had not engaged in any derivative for hedging against both the interest and exchange rate risks at the balance sheet date (1999: nil).

CHARGES ON GROUP ASSETS

As at 31st December, 2000, out of the total borrowings of US$991.6 million (1999: US$978.5 million) obtained by the Group, only US$108.5 million (1999: US$96.9 million) were secured and accounted for 10.9% (1999: 9.9%) of the total. Details of the classification and charges on Group assets are set out in note 31 to the financial statements.

CAPITAL COMMITMENTS

The capital expenditure commitments and the operating lease commitments of the Group at the balance sheet date are set out in note 36 to the financial statements.

CONTINGENT LIABILITIES

As at 31st December, 2000, the Group has provided certain guarantees to jointly controlled entities, a related company and third parties, details of the contingent liabilities are shown in note 37 to the financial statements.

EMPLOYEE AND REMUNERATION POLICIES

As at 31st December, 2000, the Group employed around 30,000 staff in the PRC, Hong Kong and Turkey. The Group remunerates its employees based on their performance, experience and prevailing market rate while performance bonuses are granted on a discretionary basis. Other employee benefits include insurance and medical cover, subsidised educational and training programmes as well as executive share option scheme.