Management Discussion and Analysis

LIQUIDITY AND FINANCIAL RESOURCES

Concurrently with the 31% Acquisition described above, the Group proposed to raise approximately HK$183.7 million before expenses by way of rights issue on the basis of five rights shares for every existing share held at a price of HK$0.10 per share (the "Rights Issue"). Full details of the 31% Acquisition and the Rights Issue are contained in the circulars of the Company dated 9 August 2000 and 28 August 2000 respectively. As announced on 18 September 2000, the Rights Issue was oversubscribed by 0.48 times. In line with the intended uses of the proceeds generated from the Rights Issue as set out in the above circulars, out of the net proceeds of approximately HK$175 million, approximately HK$65 million was utilized to finance the 31% Acquisition, HK$30 million to repay loans and borrowings, HK$40 million to finance the Group's existing business in building facade contracting works and the balance as the general working capital of the Group.

In connection with the 31% Acquisition, Speed Profit had unconditionally and irrevocably warranted that the audited profit after taxation but before extraordinary items of Hangzhou Sealand for the year ending 31 December 2000 prepared according to PRC accounting standards will not be less than RMB 20 million (the "Warranted Profit"). Based on the audited financial statements of Hangzhou Sealand for the year ended 31 December 2000 prepared according to PRC accounting standards, the audited profit of Hangzhou Sealand as defined above was more than RMB 20 million.

Pursuant to the Rights Issue, the issued share capital of the Company was increased 5-fold from 367,350,000 shares to 2,204,100,000 shares. To cope with the increase in issued share capital, the Company's authorised share capital was also increased from HK$60,000,000 (600,000,000 shares of HK$0.10 each) to HK$600,000,000 (6,000,000,000 shares of HK$0.10 each).

The liquidity of the Group has substantially improved as a result of the Rights Issue. Additional financial resources generated from the Rights Issue, together with better management on collection of contract monies vis-a-vis project outlays have significantly strengthened the financial position of the Group. As at 31 December 2000, the Group had cash deposits and bank balances amounting to a total of HK$155 million (1999 - HK$44 million) whilst borrowings stood at HK$25 million (1999 - HK$22 million) which effectively yields a zero

From left to right: Mr. Cui Wei, Mr. Shan Zumao, Mr. Yang Chunshu, Mr. Wang Xinyan and Mr. Ren Haifeng gearing ratio (total borrowings less cash deposits and bank balances: shareholders' equity). Current ratio (total current assets: total current liabilities) improved from 1.25 a year ago to 1.75. Shareholders'equity of approximately HK$264 million as at 31 December 2000 as compared to approximately HK$67.5 million as at 31 December 1999 is also another strong indication of the much strengthened capital base of the Group over the year.

Apart from equity financing, the Group generally finances its operation with cash flow internally generated from on-going projects, and banking facilities comprising mainly trade finances by way of documentary credits. As at 31 December 2000, the Group had available banking facilities of HK$80 million (1999 - HK$55.7 million). Out of this amount, HK$51.5 million (1999 - HK$41.6 million), consisting of short term import loans of HK$23.7 million with maturity less than 4 months and the issue of performance bonds of approximately HK$27.8 million, was utilized. As at 31 December 2000, the amount of the Group's assets pledged as security for the Group's banking facilities was HK$50 million (1999 - HK$43 million) comprising short term deposits of approximately HK$28 million and certain properties with an aggregate carrying amount of approximately HK$22 million. Almost all of the Group's cash deposits and bank balances is denominated in either Hong Kong or US dollars and the exposure to foreign exchange fluctuation is minimal.

MATERIAL ACQUISITIONS, INVESTMENTS AND REALIZATIONS

As announced on 20 November 2000, in order to provide recurrent income on a long term basis, the Company acquired from CATIC (H.K.) Limited, the parent company of the Company's controlling shareholder, an investment property situated at Office B, 15th Floor, United Centre, No. 95 Queensway, Central, Hong Kong at a consideration of HK$22 million. This consideration was satisfied by a cash payment of approximately HK$5 million with the balance by way of issue of 141,667,000 new shares at HK$0.12 per share which further increased the issued share capital of the Company to 2,345,767,000 shares as at 31 December 2000. Although this acquisition was completed on 21 December 2000 without much contribution to the Company for the current year, this property, currently being leased for a monthly rental of HK$126,000 pursuant to a tenancy agreement expiring on 31 October 2002, will provide the Company with an additional source of income in the future.

Further to the 31% Acquisition mentioned above and as announced on 4 January 2001, the Group acquired from Speed Profit a further 39% in Hangzhou Sealand, increasing its stake in Hangzhou Sealand to 70%, at a consideration of HK$81.12 million. The consideration was satisfied by a cash payment of approximately HK$15 million, funded by the Group's general working capital, and the balance thereof by the issue and allotment of 508,616,000 new shares at HK$0.13 per share. Upon completion of the acquisition of the controlling interest in Hangzhou Sealand by the Group on 9 February 2001, Hangzhou Sealand has since become a subsidiary of the Company. This represents one giant step forward in the realization of the strategic plans of the Group to diversify the scope of its existing business into other business sectors. Given Hangzhou Sealand being in the utilities sector, the earning power of the Group on a long term basis will be significantly enhanced. Furthermore, as a result of this new issue of 508,616,000 shares, the total issued share capital of the Company was further increased to 2,854,383,000 shares in February 2001.

Board Meeting

Whilst the Group has been capitalizing on the investment opportunities as evidenced by its acquisition of a majority interest in Hangzhou Sealand and the acquisition of the investment property described above, the Group has not overlooked the opportunities to dispose of its factories in Hong Kong which are no longer required for its operations. In December 2000, the Group sold its factories in Chai Wan, namely Units A, B, C and D, 1st floor, Wah Shing Centre, No. 5 Fung Yip Street, Chai Wan, Hong Kong for approximately HK$6.9 million. The disposal, which was completed subsequent to 31 December 2000, resulted in a loss of approximately HK$642,000 for the year. As to the three properties in Shanghai which are offices being held for sale, the Group will continue to closely monitor the property market in Shanghai and, should opportunities arise, sell them in order to further enhance its cash position.

Recently in March 2001, the Group acquired a 23.5% stake in a software development company which has undertaken a major investment project, namely the Web-enable Document System, an innovative software system designed to provide value-added information technology services for use by institutional customers and end-users, at a consideration of HK$26 million by way of issue of 200,000,000 new shares at HK$0.13 per share. Further details are set out in the announcement of the Company dated 13 March 2001. 100,000,000 new shares have been issued upon completion of the acquisition on 20 March 2001 and the remaining 100,000,000 new shares shall be issued pursuant to the terms and conditions set out in the announcement. This acquisition, considered by the Group as a long term investment in the rapidly developing information technology sector, is in line with the Group's overall diversification strategy.

EMPLOYEE AND REMUNERATION POLICY

To optimize its manpower requirements in relation to the increasing business volume without losing its competitiveness in the market, the Group continues to streamline the utilization of its human resources, both in terms of more efficient job allocations and functional effectiveness, whilst actively recruiting high-calibre and experienced project management staff to cater for the needs of its increasing business activities. From time to time, the Group reviews the level of remuneration of its employees relative to the market trends and, for the purpose of promoting the personal goals of individual staff members in congruence with the common interest of the Group as a whole, awards performance-driven incentive bonus to those employees with exceptional performance and contribution to the Group.

The Company's existing share option scheme adopted in 1991 will expire in 2001. In order to allow the employees of the Group an opportunity to participate in its growth and as another means of performance incentive, the Company will be proposing a new share option scheme for approval by the shareholders at the upcoming annual general meeting.

Currently the Group has approximately 430 employees and the total staff costs, including the amounts charged to project costs, for the year ended 31 December 2000 was approximately HK$55 million (1999 - HK$61 million).