

MANAGEMENT DISCUSSION AND ANALYSIS

RESULTS

Although the Group achieved a net profit of HK\$23.88 million for the year, this was less brilliant than last year's profit of HK\$226.61 million. The gain on disposal of Citybus interest in 1999 was the reason for the difference. The current year showed an operating profit of HK\$32.90 million against a loss of HK\$63.36 million in 1999 mainly attributable to the profit from paint operation.

Earnings per share dropped to 1.72 cents from 17.22 cents in 1999 for the same reason on net profit as stated above.

SEGMENTAL INFORMATION

Turnover by activity

Paint manufacturing continued to be the core business in the Group with a turnover of HK\$359.88 million accounting for 81.0% of the total turnover. In 1999, the turnover was HK\$364.09 million or 78.0% of the total amount of HK\$467.00 million.

Turnover for property investments and development amounted to HK\$64.99 million as compared to HK\$79.43 million in 1999. The decrease was mainly due to reduced rental income following a gradual realization of properties. Turnover for trading and strategic investments and others were HK\$13.04 million (1999: HK\$14.29 million) and HK\$6.64 million (1999: HK\$9.20 million) respectively. The fall in these sectors was due to less market activities.

Turnover by geographical location

Turnover in Mainland China was HK\$195.44 million, an increase of 6.4% from HK\$183.67 million in 1999. On the other hand, the turnover for Hong Kong fell to HK\$249.12 million from 1999 figure of HK\$283.33 million. This follows the Group's strategy to develop its business in Mainland China whilst rationalizing the portfolio in Hong Kong.

LIQUIDITY AND FINANCIAL RESOURCES

The Group relied principally on its internally generated capital to fund its business. The main source of its internally generated capital basically derived from its retained earnings. At the balance sheet date, bank loans and other borrowings amounted to HK\$126.79 million (1999: HK\$136.24 million) of which HK\$32.37 million is payable in 2001, HK\$9.84 million is payable in 2002, HK\$14.90 million is payable between 2003 to 2005 and HK\$69.68 million is payable beyond 2005. Interest rates of the bank loans ranked from 6.26% to 10.75% per annum. The Group monitors its funds on a prudent basis to maintain a solid cash flow for its operating expenses, capital expenditure and investments. This could be seen from the strong liquidity ratios (current assets/current liabilities) at 2.11 times for the year and at 1.79 times for 1999. In August 2000, the Group strengthened its cash position by raising new funds of HK\$42.50 million via a new issue of 212,500,000 shares. Cash and bank balances remained sound at HK\$131.41 million (1999: HK\$176.07 million) and were held in HK\$ and RMB. The Group's borrowings were mainly in these currencies and hence the risk of currency exposure was insignificant. Current assets reduced by HK\$136.06 million mainly due to the new investments made on granite and web business. Current liabilities fell sharply by 41.4% attributable to the reduction in tax payable and other payables. Net asset value per share was 67 cents compared to 88 cents in 1999. The reduction was mainly due to a charge of goodwill on consolidation arising from the acquisition of new investments amounting to HK\$193.92 million. The Group's gearing ratio (long term debt/equity) reduced to 9.3% from 9.6% in 1999.

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

COMMITMENTS

The Group has acquired options to invest in two environmental projects as mentioned in the Chairman's Statement. The total amount of investments is around HK\$40.00 million and would be funded internally.

STAFF

Headcount at 31 December 2000 was 658 (1999: 656). The Group's staff remuneration and benefits system is comprehensive and comparable to market. In addition, an attractive staff option scheme is available to staff. Staff costs amounted to HK\$54.19 million for the year (1999: HK\$51.70 million).

CONTINGENT LIABILITIES

At 31 December 2000, the Group issued guarantees of HK\$91.13 million (1999: HK\$90.09 million) to bankers to secure general banking facilities granted to certain associates. Guarantees issued by the Company to bankers to secure general banking facilities granted to various subsidiaries outstanding at the balance sheet date amounted to HK\$89.66 million (1999: HK\$103.46 million).

PLEDGE OF ASSETS

Land and buildings and investment properties with aggregate net book values of HK\$318.86 million (1999: HK\$240.44 million) were pledged to banks as collaterals for general banking facilities. At 31 December 2000, total outstanding secured bank loans and other borrowings amounted to HK\$121.20 million (1999: HK\$130.65 million).

PLACING

On 2 August 2000, the Company entered into a placing agreement to place 212,500,000 shares of HK\$0.10 each in the capital of the Company to more than six independent places at a price of HK\$0.20 per share. The placing was completed on 23 August 2000. The net proceeds of HK\$41.17 million were used for general working capital purpose. The placing provided an appropriate opportunity for the Company to raise additional capital which enhanced the capital base of the Company and increased the shareholders' base and marketability of the shares of the Company.

The placing price represented (i) a discount of approximately 19.0% to the closing price of HK\$0.247 per share on 2 August 2000, being the date of the placing agreement; and (ii) a discount of approximately 21.9% to the average closing price of approximately HK\$0.256 per share from 20 July 2000 to 2 August 2000, both dates inclusive, being the last ten trading days up to (and including) the date of the placing agreement.

OUTLOOK

The U.S. economy has slowed down in 2001. In addition, the continuous weakness of the Japanese yen has caused concerns on financial crisis in the country. These unfavourable factors would undoubtedly affect the economy of Hong Kong. However, the positive effects of the PRC joining WTO and the low interest rate environment should compensate and the economy of Hong Kong could achieve a moderate growth in this year. The Group will focus on business in the PRC and whilst streamlining its investment portfolio, diversify its investments to new ventures with a view to enhance the shareholder value.