

The main issues affecting the Group during the period were the debt and capital restructuring which was effected in September 1999 and the effort to re-build the business post restructuring.

LIQUIDITY AND FINANCIAL RESOURCES

Pursuant to the restructuring of the Group effected on September 1999, secured convertible notes with an aggregate principal value of approximately HK\$39,563,000 (the "Convertible Notes") were issued by the Company. The principal amount of the Convertible Notes, which bear interest at 7% per annum payable semi-annually in arrears, are to be repaid by the Company within the period of 24 to 36 months after the issuance of the Convertible Notes.

As at 31 December 2000, the Group had net current liabilities of approximately HK\$218 million total assets of HK\$287 million and deficiency of shareholders' funds of approximately HK\$65 million. This has been caused primarily by the operating losses incurred as we sought to recover after the re-organisation. Subsequent to 31 December 2000, agreement has been reached with certain banks in the PRC to reschedule the repayment date of approximately HK\$34 million of borrowings to 2002. The Directors remain in discussion with the PRC banks with a view to further rescheduling the remaining borrowings.

As at 31 December 2000, the cash balance of the Group stood at HK\$14 million.

EMPLOYEES AND EMOLUMENTS POLICIES

As at 31 December 2000, the Group has approximately 2,500 employees. Total payroll costs amounted to approximately HK\$85 million.

The board may exercise its discretion to grant share options to the executive directors and employees as an incentive to their contribution to the Group. During the period under review, the Group had granted a total of 120,470,000 share options to the executive directors and the employees in accordance with the share option scheme adopted on 7 September 1999.

PLEDGE OF ASSETS

As at 31 December 2000, the Group has pledged leasehold land and buildings with an aggregate net book value of HK\$142,250,000, plant and machinery with an aggregate net book value of HK\$16,674,000 and a bank deposit of HK\$775,000 to secure credit facilities granted to the Group.

All the Company's assets and its entire equity interests in two wholly-owned subsidiaries were pledged to secure the Convertible Notes.

CONTINGENT LIABILITIES

The Company has outstanding guarantees of approximately HK\$89 million to secure general banking facilities granted to certain subsidiaries.

SEGMENTAL INFORMATION

Customers in the United Kingdom accounted for approximately HK\$362 million or 70% of total turnover. Other European countries accounted for approximately HK\$78 million or 15% of total turnover.

GENERAL

We continued to fully service our debt obligations during the period, whilst at the same time we are seeking ways of reducing our debt through asset disposals and/or further capital raising.