

M A N A G E M E N T D I S C U S S I O N A N D A N A L Y S I S

LIQUIDITY AND FINANCIAL RESOURCES

Operations of the Group are generally funded by internal cash resources. As at 31 December 2000, cash in hand and bank balances of the Group was approximately HK\$32 million. The Group is currently debt-free with its operations funded entirely by shareholders capital.

SHARE CAPITAL STRUCTURE

For the purposes of share issue and future growth and development, the Company increased its authorized capital from HK\$50 million to HK\$300 million by the creation of an addition of 250 million shares of HK\$1.00 each.

For the year ended 31 December 2000, the Company successfully raised proceeds, net of relevant expenses, of approximately HK\$63 million through the following placings and rights issue:

- (1) on 12 January 2000, 5 million shares were placed at HK\$1.00 each;
- (2) on 13 March 2000, 45 million rights issue shares of HK\$1.00 each were issued at HK\$1.00 each in the proportion of 3 rights issue shares for every two then existing shares; and
- (3) on 9 June 2000, 14.99 million shares were placed at HK\$1.00 each.

The net proceeds were principally applied as the general working capital of the Group and for the expansion of investment portfolio of the Company.

Pursuant to the ordinary resolution passed on 29 June 2000, each issued or unissued ordinary share of the Company of HK\$1.00 was subdivided into ten ordinary shares of HK\$0.10 each.

As at 31 December 2000, the share capital structure of the Company was as follows:

the authorized share capital is HK\$300 million, divided into 3,000 million ordinary shares of HK\$0.10 each;

the issued and fully paid share capital is HK\$89.9 million, divided into 899.9 million ordinary shares of HK\$0.10 each.

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REVIEW OF OPERATIONS

(a) Investment Activities in the People's Republic of China**1. Shanghai Sine Pharmaceutical Corporation Limited (“Sine Pharmaceutical”)**

Sine Pharmaceutical recorded a turnover of RMB277 million in the year 2000, an increase of 33% over last year. Net profit after tax was RMB8.586 million. During the year, the company put great emphasis on the adjustment of its product mix and the strengthening of its market development. It has also made progress in several areas including sales, production, technological development and general management. Products such as BIFICO, Yinhuang Bacal Tablet and PROMOD have been accredited as famous brands in Shanghai. Moreover, BIFICO has even been recognized as a product of new technology and has been granted the certificate of national essential new product.

2. Shanghai Evergood Textile Corporation Limited (“Evergood Textile”)

Evergood Textile recorded a turnover of RMB77 million in 2000. Only a small profit was recorded and it was mainly due to the drastic reduction in domestic sales and substantial decline in export price. Despite that it was a difficult year for Evergood Textile, the investors and management of the company were still making effort to help alleviate the enterprise from adversity by some positive measures such as streamlining the senior staff structure, properly adjusting the product mix in the ratio of domestic and export sales, as well as procuring for additional capital. It is expected that the company will benefit from these measures and will emerge in better shape and produce a more satisfactory result.

3. Shanghai Tian An Bearing Company Limited (“Tian An Bearing”)

During a year of fierce competition, Tian An Bearing nevertheless managed to penetrate into the domestic and foreign markets by adjusting its sales strategy and making full use of its strength in product quality and pricing. Tian An Bearing was able to catch this precious opportunity and recorded a turnover of RMB93 million, representing an increase of 18% over last year, within which domestic sales grew by 11% and export sales by 23%. These figures were considered as outstanding among the results of recent years. Profits for the year was RMB1.58 million, 25 times than that of last year's. This is a sign of rapid growth set to continue in the future.

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4. Shanghai Yong An Dairy Company Limited (“Yong An Dairy”)

Yong An Dairy recorded a turnover of RMB71 million for the year, representing an increase of 31% over last year. The net profit after tax was RMB1.7 million, an increase of 70% over the year 1999. In response to the difficult business environment for the entire industry, Yong An Dairy actively developed potential markets and expanded the production scale of its fast moving consumer goods. As a result, the net asset value of the company and its operating results both grew continuously. It achieved the production and operation targets set by the board of directors comfortably.

5. Shanghai Foodstuffs Factory Company Limited (“Shanghai Foodstuffs”)

Shanghai Foodstuffs recorded a total turnover of RMB1.4 million and a loss of RMB0.236 million for the year. Currently, Shanghai Foodstuffs is making great effort in adjusting the structure of its product mix to increase the market share of the distribution network on fast moving consumer goods locally, so that the declining trend in sales can be reversed and the company will turn for the better.

On 5 May 2000, the Group entered into an official agreement with Shanghai Light Industry (Group) Company for the transfer of 26.8% interest in Shanghai White Cat Company Limited. Accordingly, the Group has received the first payment of RMB75 million, which was a satisfactory return for the Group's investment.

(b) Investment Activities in Hong Kong

1. EVI Education Asia Limited (“EVI”)

The Group indirectly holds 3.23% interests in EVI. EVI is devoted to become a provider of internet education and is engaged in the development of the EVI online system. EVI principally provides Chinese pre-school educational services to kindergartens, teachers, parents and pre-school children. By integrating information technology, traditional teaching programs and professional pre-school teaching materials, EVI provides online teaching and education related management tools as well as offline services. Revenue of EVI mainly comes from subscription fees in providing tools and plans through its online system and other diversified sources of income for the online system would be exploited as well. On 15 March 2001, EVI listed on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited through the placement of shares. The Group believes that the return on investment on EVI will be significant.

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2. China Express (Holdings) Limited (“China Express”)

The Group indirectly holds 27% interests in China Express. China Express is an investment holding company which currently holds (1) 60% interests in CETS (HK) Limited; (2) 30% interests in China Eastern Air Development (HK) Limited and (3) 49% interests in China Northern Air Travel Limited. Business activities of CETS (HK) Limited include the provision of air ticketing services between Hong Kong and the PRC as well as domestic flights within the PRC, hotel reservation services both in Hong Kong and the PRC, organization of specific tours to the PRC for business research or cultural exchange activities and being the ticketing agent for the airlines under the Civil Aviation Administration of China. China Eastern Air Development (HK) Limited is mainly engaged in air ticketing business and its substantial shareholder is Eastern Air Group Co.. China Northern Air Travel Limited is mainly engaged in travelling business and its substantial shareholder is China Northern Airline. The Group believes that these investments will provide significant contribution to the Group's return on investment.

3. Victory Faith Investment Limited (“Victory Faith”)

The Group indirectly holds 16.67% interests in Victory Faith, which holds two pieces of agricultural lands for residential or non-residential development purposes at Lot Nos. 2419 and 2425 in Demarcation District No. 91. At the moment, Victory Faith is actively searching for the best way to develop the lands. It is expected that it will provide significant investment returns to the Group in the foreseeable future.