

# MANAGEMENT DISCUSSIONS AND ANALYSIS

## LIQUIDITY AND FINANCIAL RESOURCES

Net cash outflow from the operating activities for the year amounted to HK\$20 million. As at 31st December, 2000, the Group had HK\$53 million short term bank borrowings to fund its working capital requirements. The Group's cash and bank balances at year end amounted to HK\$336 million.

Working capital of the Group decreased by 30% to HK\$559 million at 31st December, 2000, which is mainly the result of the following:—

1. A decrease in cash and cash equivalents of HK\$102 million.
2. A decrease in current investments of HK\$196 million.
3. An increase in trade and other payables of HK\$75 million.

Apart from the items set out below in the paragraph Use of Proceeds, the Group did not have material capital expenditure in 2000. Other planned capital expenditure are minimal and are expected to be funded by the Group's internal resources.

## USE OF PROCEEDS

The Company raised approximately HK\$234 million net of related expenses from the issue of 115,000,000 new shares of the Company under a private placement on 30th November, 1999. The net proceeds have been applied in part as follows:—

- as to HK\$40 million as partial consideration to acquire 71% equity interest in Shanghai Stone-MTI Computer System Engineering Co. Ltd.
- as to HK\$30 million to provide a deposit for acquisition of an unlisted equity investment.
- as to approximately HK\$14 million to acquire interest in associated companies in the PRC.

The balance of the proceeds will be applied to acquire equity interests in companies engaged in internet-related value-added business and general working capital.

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## FINANCIAL POSITION

As at 31st December, 2000 bank and other borrowings for the Group was HK\$59 million while cash on hand was HK\$336 million. The gearing ratio (as defined as the total of net borrowings as a percentage of the total of equity interests) as at 31st December, 2000 was approximately 7.3%. This reflects a strong financial position for the Group.

## DETAILS OF CHARGES ON GROUP ASSETS

As at 31st December, 2000 fixed deposits with banks of HK\$49.5 million and certain properties with an aggregate carrying value of HK\$22.2 million were pledged as security against general banking facilities of the Group and the banks' guarantees issued to a customer of a subsidiary.

## EXPOSURES TO FLUCTUATIONS IN EXCHANGE RATES AND RELATED HEDGES

The Group has exposed to the fluctuations in Japanese Yen as certain purchases are payable in Japanese Yen. At 31st December, 2000, the Group arranged forward exchange contracts for hedging purposes to buy Japanese Yen 520 million during 2001.

## EMPLOYEES

The Group employs a total of 1,443 employees, of which 1,413 are employed in the PRC and 30 are in Hong Kong. In addition to receiving salaries and bonus, employees are also entitled to other benefits, including medical subsidies and a retirement scheme contribution. Share options are made available to certain employees of the Group.