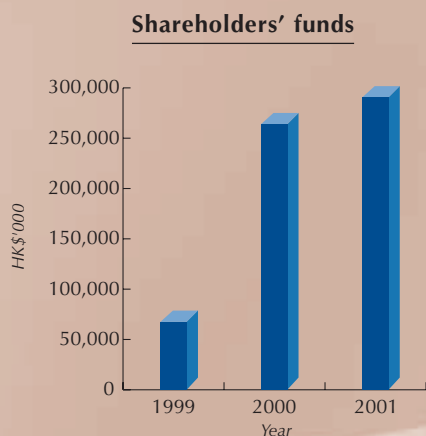


Management Discussion and Analysis

FINANCIAL REVIEW

Overall performance



Notwithstanding the substantial loss this year, the Group's overall financial position remains sound. As at 31 December 2001, the net asset value of the Group was approximately HK\$290,502,000 (2000 – HK\$264,072,000); time deposits and bank balances have increased substantially from HK\$155,000,000 in 2000 to HK\$185,000,000; current ratio (current assets/current liabilities) of 1.48 times (2000 – 1.75 times) with total borrowings, which remained at low level, amounting to HK\$29,500,000 (2000 – HK\$25,200,000) are indicative of the Group's healthy financial position; the gearing ratio (total borrowings less time deposits and bank balances over shareholders' equity) of zero (31 December 2000 – zero) remained unchanged.

Facade contracting works

Working capital is mainly derived from contract payment cash inflows from ongoing projects. Also for project requirements, banking facilities provide documentary credits for procurement of major materials and issue of performance

bonds. As at 31 December 2001, Far East Aluminium, the abovementioned principal wholly-owned operating subsidiary of the Company, had banking facilities totalling HK\$91,000,000 (2000 – HK\$80,000,000) which were secured by pledge of certain fixed assets with a net book value of HK\$4,200,000 and time deposits of HK\$41,500,000. As at 31 December 2001, the amount of banking facilities utilized was HK\$30,920,000 (2000 – HK\$51,500,000), consisting of overdraft and short term import loans with maturities within four months in the aggregate of HK\$37,000 and issue of performance bonds of HK\$30,883,000. The interest on the abovementioned overdraft and short term import loans is calculated on the basis determined in accordance with floating interest rate.

A substantial portion of project receipts and expenditures is denominated in Hong Kong dollars. Moreover, as to Mainland projects in which contract sum is denominated in RMB, RMB will also be used to defray the relevant major project outlays. Therefore, fluctuations in foreign exchange would not pose a significant impact on facade contracting works.

Generation and sale of electricity and steam power

The operation of Hangzhou Sealand was mainly financed by steady and recurrent cash inflows from its sale of electricity and steam power and banking facilities. Banking facilities obtained mainly by way of fixed interest rate term loans amounted to RMB31,500,000 (HK\$29,400,000) as at 31 December 2001, of which RMB28,200,000 (HK\$26,400,000) are maturing within one year and RMB3,300,000 (HK\$3,000,000) maturing beyond one year. The

above bank borrowings to the extent of RMB3,000,000 were secured by a guarantee by a subsidiary of Hangzhou Sealand's minority shareholder and the balance thereof by certain fixed assets of Hangzhou Sealand with an aggregate carrying value of RMB39,750,000 (HK\$37,150,000) as at 31 December 2001.

Since acquisition by the Group during the year, Hangzhou Sealand has incurred capital expenditures of RMB7,738,000 (HK\$7,232,000), funded by the cash inflows from its operation, for the purposes of expanding steam supply network and the construction of boiler no. 4 in order to meet its business requirements.

The operations of Hangzhou Sealand are mainly in the PRC with most transactions denominated in RMB, hence its exposure to foreign exchange risk is minimal.

MATERIAL ACQUISITIONS AND INVESTMENTS

Further to the acquisition of 31% interest in Hangzhou Sealand, which is principally engaged in the generation and sale of electricity and steam power in the regional industrial areas of Yuhang Hangzhou in Mainland China, from Speed Profit Enterprises Limited ("Speed Profit"), the then fellow subsidiary of the Company, in September 2000, the Group acquired from Speed Profit a further 39% interest 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 HK\$14,999,920, funded by the Group's general working capital, and the balance thereof by the issue and allotment of 508,616,000 new shares in the Company at an issue price of HK\$0.13 per share. By reference to the prevailing market prices of the Company's

shares on the date of completion, the above new shares issued were valued at HK\$0.11 per share, resulting in an adjustment of the cost of acquisition (including legal and professional fees and related expenses of HK\$2,502,556) to HK\$73.6 million in accordance with the requirements under the new Statement of Standard Accounting Practice No. 30 ("SSAP 30"). The acquisition of 39% interest was completed on 9 February 2001 and since then Hangzhou Sealand has become a 70% owned subsidiary of the Company.

As set out in the announcement dated 13 March 2001, the Group acquired from an independent third party 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 in the Company at an issue price of HK\$0.13 per share. By reference to the prevailing market prices of the Company's shares on the date of completion, the above new shares issued were valued at HK\$0.18 per share, resulting in an adjustment of the cost of acquisition (including legal and professional fees and related expenses of HK\$414,905) to HK\$36,415,000 in accordance with the requirements under SSAP 30. The recent operating conditions of the information technology sector continue to be difficult, hindering the market development potential of this information technology service. Therefore the Group, taking a prudent view, has made a provision of HK\$36,415,000 in full for impairment in value against the cost of this long term investment.

EMPLOYEES AND REMUNERATION POLICY

As at 31 December 2001, the Group had 670 employees including 205 under the employ of Hangzhou Sealand in the generation and sale of electricity and steam power.

It is the Group's policy to determine the remuneration of its employees in accordance with their performance and experience as well as the prevailing market conditions and their remuneration levels and related benefits are reviewed on a regular basis. In addition, the Group may also award incentive bonus to those employees in recognition of their outstanding performance and contribution to the Group. In respect of the facade contracting works, the Group provides the relevant employees with training courses for the purposes of enhancing their technical competence and promoting the quality of works at the same time. Share option scheme has been set up by the Company pursuant to which key staff may be granted share options to subscribe for shares in the Company so as to parallel their personal goals with the interest of the Group as a whole. At the annual general meeting held on 14 May 2001, the shareholders of the Company had approved the adoption of a new share option scheme to replace the old one.