

Management Discussion and Analysis

Review of Operation and Results

In 2001, the Group's turnover was US\$35,833,000, net profit reached US\$24,255,000 and basic earning per share were US0.43 cents, compared to last year's loss per share of US1.25 cents. The net asset value per share was US0.63 cents. The decrease in turnover was mainly due to the disposal of two subsidiaries in the second half of 2000. Net profit, however, reported a significant turnaround. This was mainly attributable to the completion of the restructuring proposal and the bank loans and interest provisions written back in early 2001.

Liquidity and Financial Resources

As at 31 December 2001, the Group's total shareholder equity was approximately US\$35,054,000.

Total bank and other borrowings as at 31 December 2001 were approximately US\$23,269,000. This consisted of outstanding secured and unsecured bank loans, bank overdrafts and other loans which are mainly denominated in Reminbi and US dollars. The sales and purchases of the Group are also denominated in Remninbi and US dollars. As the exchange rates of Reminbi and US dollars against Hong Kong dollars were relatively stable during the year, the Group's exposure to fluctuations in exchange rates in minimal.

As at 31 December 2001, the net cash and bank balances of the Group stood at approximately US\$1,947,000. The gearing ratio (total borrowing as a percentage of non-current assets) of the Group has fallen significantly from 80.2% recorded in 2000 to 46.2% this year, after the completion of the restructuring in March 2001.

Placement of New Shares

In August 2001, the Group raised approximately HK\$31,000,000 from the placement of 790,000,000 new shares. Proceeds will be used for the development of the Group's high technology business.

Pledge of Assets

- (a) At 31 December 2001, certain of the Group's property, plant and equipment with an aggregate net book value of US\$4,524,000 (2000: US\$5,557,000) were pledged to various banks for securing bank loans and general banking facilities granted to the Group.
- (b) During the year, a debenture, which included a fixed charge and floating charge on all the assets and income of the Group held by certain of the Group's bankers and the liquidator of a financial institution in Hong Kong was released after the completion of the corporate restructuring of the Group.

Management Discussion and Analysis

Contingent Liabilities

One of the Group's associates, Tianjin Fortune Timber Co., Ltd. ("TFT") is currently being sued by its bankers to repay bank loans of approximately RMB73.6 million. Part of such loans have been guaranteed by another associate, Tianjin Fortune Furniture Co. Ltd. ("TFFCL"). Both TFT and TFFCL are currently in negotiations with the bankers of TFT for the restructuring of the borrowings of TFT and for rearranging the guarantees granted by TFFCL. As the negotiations have not been completed as of the date of this report and the effect of this litigation on the Group's share of TFFCL's net assets of approximately US\$3,852,000 at 31 December 2001 is dependent on the outcome of the negotiations, the directors are of the view that adjustment regarding this matter would not be practicable for the time being.

As at 31 December 2000, the Group had contingent liabilities of US\$1,000,000 in respect of a bank guarantee granted to a deconsolidated subsidiary. During the year, the guarantee was released as a part of the corporate restructuring.

Employees and Remuneration Policies

As at 31 December 2001, the Group employed approximately 2,300 full time management, administrative and production staff in the PRC and Hong Kong. Total staff costs including directors' emoluments incurred during the year, amounted to US\$3,547,000.

For details, please refer to note 6 of the financial statements.

On behalf of the Board, I would like to take this opportunity to extend my sincere thanks to our shareholders, fellow and ex-directors, staff, customers, suppliers and business associates for their continuous support to the Group. We look forward to better results in the year ahead.

By order of the Board

Yang Ding-Yuan

Chairman