

Management Discussion and Analysis

LIQUIDITY AND FINANCIAL RESOURCES

The Group generally finances its operations with internally generated cashflow and banking facilities provided by its principal bankers and other financial institutions in Hong Kong.

The Group currently has aggregate composite banking facilities of approximately HK\$83.2 million with various banks and financial institutions. The total borrowings from banks and financial institutions include long term loans, finance leases, overdraft, import and export loans, amounted to approximately HK\$37.4 million as at 31 December 2001, of which HK\$31.2 million is repayable in 2002.

The Group's financial position remains healthy. During the year under review, the Group has generated a net cash balance from its operations of more than HK\$11 million.

The Group's borrowings are mainly on a floating rate basis and are denominated in either Hong Kong dollars or United States dollars. These match with the principal currencies in which the Group conducts its business. Therefore, the Group does not have any significant foreign exchange risk.

The gearing ratio on the basis of total debts to equity as at 31 December 2001 is 73.3% (2000: 74.8%)

CHARGE ON THE GROUP ASSETS

Certain bank borrowings are secured by fixed charges over the Group's medium term leasehold land and buildings in Hong Kong with a net book value of HK\$9.5 million and bank deposit amounting to approximately HK\$5 million.

CONTINGENT LIABILITIES

Except for corporate guarantee given to banks and other financial institutions in relation to facilities granted to the subsidiaries, the Company has no other contingent liabilities as at the balance sheet date.

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CAPITAL STRUCTURE

As at 31 December 2001, the Company had approximately 250 million shares in issue with total shareholders' fund of the Group amounting to approximately HK\$100.6 million.

During the year under review, on 16 March 2001, the Company issued 30 million warrants (the "Warrants") with issue price of HK\$0.05 to several independent investors. The Warrants entitle the holders to subscribe for new shares of the Company at a price of HK\$0.30 per share from March 2001 to March 2003. The Company would receive a subscription amount of HK\$9 million on a full exercise of the Warrants and would apply the proceeds, if received, for general working capital purposes.

Pursuant to the share option scheme which was approved at a special general meeting of the Company held on 4 December 1996, the Board of Directors have granted share options to certain senior executives and employees of the Group. Details of the share options granted are disclosed in the Report of Directors under the section "Share option scheme". The exercise in full of these share options would result in the issue of 17.3 million additional shares and proceeds of approximately HK\$2.77 million.

APPLICATION OF PROCEEDS FROM CAPITAL RAISING

As mentioned in the section "Capital Structure" above, the Company issued 30 million Warrants with issue price of HK\$0.05 to several independent investors during the year under review. The aggregate issue proceeds of the Warrants is HK\$1.5 million and had been used by the Group for general working capital purposes in accordance with the intended applications.

EMPLOYEES

As at 31 December 2001, the Group available to it a total workforce of approximately 2,150 of which approximately 60 were based in Hong Kong, approximately 20 were based in Singapore and approximately 2,070 were based in the PRC.

The Group remunerates its employees largely based on the prevailing industry practice and labor laws. Since December 1996, the Company has adopted a share option scheme whereby employees of the Group may be granted options, at the Board of Directors' discretion, to acquire shares in the Company.

Moreover, under the Mandatory Provident Fund Scheme Ordinance of Hong Kong, the Group has operates a defined contribution Mandatory Provident Fund retirement benefits scheme for all its Hong Kong employees. For overseas and PRC employees, the Group is required to contribute a certain percentage of its payroll costs to the central pension scheme operated by the respective local government.