Management's Discussion and Analysis

LIQUIDITY AND FINANCIAL RESOURCES

As at 31st December, 2002, the Group had total assets of US$1,109.1 million, up 2.6% from US$1,081.5 million at the year end of 2001. Total debt and debt to equity ratio (debt to equity ratio is calculated by dividing the total debt by the net asset value) were US$659.9 million and 283% respectively, as compared to US$752.4 million and 508% as at 31st December, 2001.

An analysis of our balance sheet is shown on page 13.

CAPITAL STRUCTURE

The Group finances its working capital requirements through a combination of funds generated from operations, short term and long term loans, floating rate notes and from the disposal of certain assets. The Group had cash and cash equivalents of US$95.6 million as at 31st December, 2002 (2001: US$88.6 million), an increase of US$7.0 million.

INTEREST STRUCTURE AND EXCHANGE RATES EXPOSURE

Most of the borrowings were in U.S. dollars and RMB, and the interest rates ranged from 2.1% to 7.9% per annum in 2002.

The majority of the borrowings by the Group's ventures in the PRC are in RMB obtained from the local banks, with a small amount in U.S. dollars. Most of these ventures are paying interest rates ranging from 2.9% to 7.9% per annum in 2002.

All sales in the PRC are denominated in RMB, and export sales are denominated in foreign currencies. The ventures require foreign currencies for the purchase of imported raw materials, parts and components, and they are able to obtain the foreign currencies necessary to meet their operational needs. We expect that the exchange rate between RMB and U.S. dollar will remain stable, otherwise, the Group's cash inflow of dividends generated from the PRC ventures will be affected. Please refer to note 34 to the financial statements for details. As neither the Bank of China nor other financial institutions authorised to engage in foreign exchange transactions in the PRC offers forward exchange contracts, the Group is not able to hedge for the foreign exchange exposure of RMB.

The Group's borrowing in Turkey are predominantly in U.S. dollars, with a small amount in Turkish Lira. The interest rates for U.S. dollar borrowings ranged from 2.1% to 7.0% per annum in 2002. The Group has benefited from the relatively stable value of Turkish Lira during 2002 when compared with the exchange loss from free float of Turkish Lira last year. Hence, the performance of our Turkish operation has significant improved during the year.

The Group had not engaged in any derivative for hedging against both the interest and exchange rate risks at the balance sheet date (2001: nil).

CHARGES ON GROUP ASSETS

As at 31st December, 2002, out of the total borrowings of US$659.9 million (2001: US$752.4 million) obtained by the Group, only US$123.5 million (2001: US$120.3 million) were secured and accounted for 18.7% (2001: 16.0%) of the total. Certain of the Group's fixed assets located in the PRC with net book value of US$195.4 million (2001: US$132.6 million), fixed deposits of US$1.7 million (2001: US$3.2 million) and inventories of US$3.0 million (2001: nil) have been pledged as security for various short and long term bank loans. Details of the classification and charges on Group assets are set out in note 30 to the financial statements.

CAPITAL COMMITMENTS

The capital expenditure commitments and the operating lease commitments of the Group at the balance sheet date are set out in note 36 to the financial statements.

CONTINGENT LIABILITIES

As at 31st December, 2002, the Group has provided certain guarantees to jointly controlled entities, a related company and third parties, details of the contingent liabilities are shown in note 37 to the financial statements.

EMPLOYEE AND REMUNERATION POLICIES

As at 31st December, 2002, the Group employed around 54,000 staff (including 20,000 staff from the jointly controlled entities and associates) in the PRC, Hong Kong and Turkey. The Group remunerates its employees based on their performance, experience and prevailing market rate while performance bonuses are granted on a discretionary basis. Other employee benefits include insurance and medical cover, subsidized training programme as well as share option scheme. Details of retirement benefits schemes are shown in note 3 to the financial statements.