

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\$83.9 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\$46.2 million as at 31 December 2002, of which HK\$37.7 million is repayable in 2003.

The Group's financial position remains healthy. At the balance sheet date, the aggregate balance of cash, cash equivalents and pledged deposits of the Group amounted to approximately HK\$22.7 million.

The Group's borrowings are mainly on a floating rate basis and are mainly 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 total assets as at 31 December 2002 is 46.0% (2001: 42.3%).

CHARGE ON THE GROUP ASSETS

Certain bank borrowings are secured by fixed charges over the Group's medium term leasehold land and buildings with aggregate net book value of HK\$26.7 million and bank deposits amounting to approximately HK\$8.2 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.

CAPITAL STRUCTURE

As at 31 December 2002, the Company had approximately 250 million shares in issue with total shareholders' fund of the Group amounting to approximately HK\$101.3 million.

During the prior year, on 16 March 2001, the Company issued 30 million warrants (the "Warrants") with issue price of HK\$0.05 each 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. Subsequent to the balance sheet date, none of these warrants was exercised and all of them were lapsed and cancelled on the expiry date on 15 March 2003.

Pursuant to the share option scheme (the "Old Scheme") which was approved at a special general meeting of the Company held on 4 December 1996, the Board of Directors granted share options to certain senior executives and employees of the Group. Details of the share options granted are disclosed in note 30 to the financial statements. The exercise in full of these share options would result in the issue of 15.5 million additional shares and proceeds of approximately HK\$2.5 million.

MANAGEMENT DISCUSSION AND ANALYSIS

During the year, on 27 May 2002, the Old Scheme was terminated and replaced by a new share option scheme (the "New Scheme") for compliance with the amendments to the Listing Rules effective from 1 September 2002. A summary of the Group's share option schemes is detailed in note 30 to the financial statements. The New Scheme permits the Company to grant options to a wider category of eligible participants.

FUND RAISING

Subsequent to the balance sheet date on 3 March 2003, the Company entered into separate subscription agreements with several independent investors, pursuant to which these investors agreed to subscribe for unlisted convertible notes issued by the Company with principal amount aggregating US\$1,282,500 (equivalent to approximately HK\$10,003,500). These convertible notes bear interest at 2% per annum and are convertible into shares of the Company at an initial conversion price of HK\$0.40 per share, subject to adjustment, during the period commencing from the date falling 24 months after the date of issue of the convertible notes on 17 March 2003, up to and including the day immediately prior to the maturity date of the convertible note.

Under the same agreements, the investors have also agreed to subscribe for unlisted loan notes issued by the Company with principal amount aggregating US\$1,282,500 (equivalent to approximately HK\$10,003,500). These loan notes bear interest at 5% per annum, but are not convertible into shares of the Company.

The net proceeds of US\$2,529,744 (equivalent to approximately HK\$19,732,000) from the issue of these notes would be used to finance the Group's investment in the associate, YOUEAL TTI Limited.

The maturity dates of these convertible notes and loan notes are 27 months and 24 months, respectively, from the date of issue on 17 March 2003. The outstanding convertible notes and loan notes, if any, will be redeemed at maturity by the Company at 132.25% and 114%, respectively.

EMPLOYEES

As at 31 December 2002, the Group available to it a total workforce of approximately 2,340 of which approximately 60 were based in Hong Kong, approximately 20 were based in Singapore and approximately 2,260 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 (the "Old Scheme") for the purpose of providing incentives and rewards to the employees of the Group. The Old Scheme was terminated and replaced by a new share option scheme (the "New Scheme") during the year on 27 May, 2002 as mentioned in the section "Capital Structure" above.

Moreover, under the Mandatory Provident Fund Scheme Ordinance of Hong Kong, the Group 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.