

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review and Prospect

Following the acquisition of a controlling stake in the Company by Hi Sun Limited ("Hi Sun") in March 2001, the Company and its subsidiaries (the "Group"), while continuing its existing businesses, has also been exploring other suitable business opportunities. During the period under review, senior management had also conducted a thorough review of the existing operations of the Group and envisaged that certain corporate restructuring exercises will be implemented to strengthen and enhance the performance of the Group.

Major corporate restructuring exercises currently undertaken or having been completed are summarized as follows:

a. Disposal of a loss making subsidiary

On 3 March 2001, the Company had disposed of Eastop International Investments Limited, which is the holding company of Buildcon Building Supplies Limited, to a subsidiary of GDH Limited for a cash consideration of US\$1, which resulted in a gain on disposal of approximately HK\$1.38 million.

b. Delisting from the Australian Stock Exchange Limited ("ASX")

The Company has no business operations in Australia and only a small percentage of its issued shares were registered on the Australian share register and held by Australian residents. Accordingly, the Company had applied to the ASX for removal of its name from the official list of ASX on 15 June 2001 after taking into consideration of the significant costs against minimal benefits to maintain a share register in Australia. The Company had obtained formal approval from the ASX for its removal from the official list of the ASX which has taken effect from the close of trading on 21 June 2001.

c. Scheme of Arrangement

The Company had, on 4 June 2001, announced that it intended to implement a scheme of arrangement pursuant to Section 166 of the Companies Ordinance of Hong Kong whereby the Company shall become an indirect wholly-owned subsidiary of a new listed company ("listco") incorporated in Bermuda (namely Hi Sun Group Limited) and the listing of the Company's shares on The Stock Exchange of Hong Kong Limited (the "Hong Kong Stock Exchange") shall be withdrawn and simultaneously the shares of the new listco will be listed on the Hong Kong Stock Exchange by way of introduction.

Details of the scheme of arrangement are set out in the scheme document issued by the Company on 9 August 2001. A shareholders' meeting as directed by the Hong Kong High Court (the "Court") will be held on 27 September 2001 to approve the scheme. Thereafter, the scheme will be submitted to the Court and will become effective if and when the Court sanctions it.

During the period under review, the Group's business activities are principally the design, supply and installation of curtain wall systems and aluminium windows. The major project being undertaken is Phase II of Belcher Garden which is progressing as planned and is expected to be completed by the end of the current year.

The Group has also been exploring other business opportunities which include areas in the provision of information technology solutions. In addition, Hi Sun Consulting Limited has also been recently established, as a wholly-owned subsidiary of the Group, to provide management and financial consulting services in the Chinese market. It is focusing on providing its clients ranging from Chinese enterprises to multinationals with tailor-made solutions to their operations in China. For example, Hi Sun Consulting Limited has recently been appointed by Industrial and Commercial Bank of China (Asia) Limited, a Hong Kong based commercial bank, to advise it on restructuring and recovery of debts due by Mainland China based companies. Based in Hong Kong, Hi Sun Consulting Limited operates in China through its offices in Beijing and Shenzhen.

Financial Review

The unaudited consolidated turnover for the period under review was HK\$19.4 million, representing a drop of 55% as compared to HK\$42.8 million for the same period in 2000. It was mainly because the Group was under a restructuring period after the acquisition of its controlling stake by Hi Sun. Currently, management is proceeding to identify potential new projects for construction and installation work and intends to prepare and submit tenders if suitable opportunities arise.

Loss from operating activities for the period, on the other hand, has decreased from HK\$45.1 million to HK\$3 million, representing a decrease of 93%. The results have improved since the management has put more efforts to collect the delinquent debts and to exercise strict control over costs and overheads. As a result, gross profit margin for the period increased to 16.5% from 11.4% in 2000. Administrative expenses were reduced from HK\$18.1 million for the same period in 2000 to HK\$11.3 million for the 6 months ended 30 June 2001, representing a decrease of 37%. Furthermore, provision for doubtful trade debts and contract work in progress in aggregate of HK\$5.3 million in the previous years were written back in the current period since the debts have been fully recovered.

The Group recorded net profit attributable to shareholders of HK\$350.3 million for the period under review, as compared to the net loss of HK\$56.3 million for the same period in 2000. The significant net profit recorded is mainly due to a profit of approximately HK\$357.5 million arising from the waiver by the Company's then controlling shareholder, Guangdong Investment Limited, and its subsidiaries (excluding the Group) (the "GDI Group") of loans owed by the Group to the GDI Group as at 3 March 2001, following the completion of acquisition by Hi Sun from GDI of a controlling interest in the Company as at that date. Earnings per share for the period was HK\$4.16.

Liquidity and Financial Position

The Group generally finances its operation from internally generated cash flows and facilities from its bankers. After the above waiver of loans by the GDI Group, the Group no longer had any borrowings from financial creditors or major shareholder as at 30 June 2001. However, subsequent to 30 June 2001, the Group had obtained banking facilities amounting to HK\$6.7 million for trade finance and overdraft facilities. The banking facilities are secured by legal mortgages on certain of the Group's leasehold land and buildings in Hong Kong with aggregate net book value of approximately HK\$15 million as at 30 June 2001. The Group had bank balances of approximately HK\$4.3 million as at 30 June 2001. During the period under review, there has been no change in the Company's share capital. In addition, no gearing ratio is presented here, as the Group had no outstanding financial borrowings as at 30 June 2001. The financial position of the Group has now been recovered to a healthier status.

Exposure to fluctuations in exchange rates and related hedges

The income stream and the newly granted borrowings of the Group are principally denominated in Hong Kong dollars. Hence, the Group has no significant risk exposure in foreign exchange fluctuations.

Human Resources

The total number of employees of the Group as at 30 June 2001 was 32, a drop of 24% as compared to 30 June 2000. The Group continued to adopt a tight control over head counts and salaries in order to maintain sufficient cash flows for the Group.