

Management Discussion and Analysis

(Amounts expressed in Hong Kong dollars)

LIQUIDITY AND FINANCIAL RESOURCES

As at 31st December 2001, the net current assets of the Group was HK\$369,349,000 (2000: HK\$349,296,000). Of the current assets, HK\$317,948,000 (2000: HK\$141,855,000) was free cash and cash equivalent.

As at 31st December 2001, the total bank borrowings and obligations under finance leases of the Group was HK\$344,712,000 (2000: HK\$80,145,000), 30% of which, that is HK\$104,543,000 (2000: HK\$7,957,000), was due after one year.

The financial health of the Group is reflected by two key financial ratios. Firstly, the Group's current ratio as at 31st December 2001 was 220% (2000: 367%). It means that the Group has twice as much current assets to meet its current liabilities. The second ratio is the net debt gearing (i.e. total borrowings less free cash/net tangible assets) which was only 7% (2000: -10%) as at the balance sheet date. It means that the Group does not expect having any problem servicing its debt.

Its financial strength has put the Group in an ideal position to carry out its expansion plans. For the aluminium extrusion business, the Group is contemplating capital investments of HK\$100,000,000 for its factory in Nanhai. These investment plans include the installation of a new powder-coating line, a new paint-coating line, an aluminium extrusion products fabrication line and a new anodizing line. In addition, the installation of a 3,600-tonne extrusion press machine is also under consideration. Regarding the precious metal electroplating chemical business, a large scale plant is being set up in Zhuhai, and the capacity in our Hunghom factory will be doubled. The capital investment for this business is also expected to exceed HK\$100,000,000.

Management is confident that the capital investments will enhance the overall productivity and profitability of the Group without having any adverse effect on our financial position.

CAPITAL STRUCTURE

The Group had relied heavily on short-term financing in the past. In 2001, the Group had adopted a strategy to obtain financing with a longer tenure to enhance its liquidity and minimize the maturity mismatch between assets and liabilities. The strategy has bore fruit in the sense that as at 31st December 2001, more than 30% of the Group's bank borrowings and obligations under finance leases was due after one year. This strategy will be maintained in the near future.

In 2001, the Group had also improved its capital structure by raising HK\$35,104,000 from the issue of shares.

FOREIGN EXCHANGE RISK AND INTEREST RATE RISK

The majority borrowings of the Group are denominated in HK\$, RMB and USD at floating interest rates. Financing in RMB is used only by the Group's factory in Nanhai, which usually receives its revenue in RMB. Management is of the opinion that the Group's exposure to interest rate risk and foreign exchange risk is insignificant.

BUSINESS PROSPECT AND SEGMENTAL INFORMATION

Turnover and contributions to operating profits of the aluminium extrusion business segment in 2001 were HK\$866,252,000 (2000: HK\$811,568,000) and HK\$94,910,000 (2000: HK\$113,355,000) respectively. The aluminium extrusion business is highly competitive in the PRC. Fortunately, with the accession of the PRC into the WTO, the PRC Government's plan to develop the Northwestern Region, and continued economic growth in the PRC, the demand of aluminium extrusion products is expected to remain strong in the foreseeable future. Management expects the growth in this market in the next few years to remain stable, and is planning to invest heavily to increase our competitive edge in product quality, diversity and pricing. It is also envisaged that with our additional productivity from the capital investment, the Group will be in a good position to develop overseas markets and broaden its revenue base.

Significant growth has been sustained in the precious metal electroplating chemical business segment. Turnover and contributions to operating profits for the year ended 31st December 2001 were HK\$150,625,000 (2000: HK\$89,673,000) and HK\$25,677,000 (2000: HK\$17,400,000) respectively. The precious metal electroplating chemical business is expected to be the star in our Group in the next few years. High demand for such chemicals from the clock and watch industry, computer hardware industry, jewellery industry, and light and lamp industry has convinced management that the investment in both the Hunghom and Zhuhai factories will be highly lucrative. The capacity enhancement in Hunghom will be completed by May 2002, and the Zhuhai factory is scheduled to start operation by June 2002.

SIGNIFICANT INVESTMENTS

During 2001, the Group had disposed of its interest in King Glass Engineering Limited ("KGE") for a consideration of HK\$130,000,000. A gain on disposal of investment amounting to HK\$21,141,000 has been recognised in 2001.

The Group's acquisition of a 40% interest in Asia Pacific Holdings (China) Limited ("Asia Pacific") in 2001 has proved to be a good investment. Asia Pacific recorded a profit before taxation for the year ended 31st December 2001 exceeding HK\$84,000,000, and together with another associated company, contributed HK\$25,447,000 to the Group's profit in 2001.

Other than the acquisition of Asia Pacific and the disposal of KGE in 2001, there was no material acquisition or disposal of investment.

STAFF POLICY

Management firmly believes that an organisation is only as good as the people who are running it. In 2001, the Group recruited a number of professionals and high-caliber employees to join its management team. Significant improvement in both operational workflow and corporate governance has been achieved. The Group is confident that with the existing management team, it is in a good position to face the challenges in a competitive business environment and achieve its goal of increasing shareholders' value.

Competitive remuneration packages at market level are offered to staff members who render satisfactory performance. Top performers might receive bonus, which are at the absolute discretion of the management. On-the-job training is provided to all staff members to facilitate the carrying out of their duties. As at 31st December 2001, the Group had approximately 400 full-time employees.

Staff costs and Directors' remuneration are disclosed in notes 6 and 7 to the financial statements.

THE EXISTING SHARE OPTION SCHEME

The summary terms and particulars of outstanding options are set out below pursuant to the requirements as contained in Chapter 17 of the Listing Rules.

(a) Participants

The board of Directors ("Board") may, at their discretion, invite any employees of the Company or any of its subsidiaries (including any executive director (of any nationality) of the Company or any of its subsidiaries, but for this purpose, shall not include any employees of the Company or any of its subsidiaries who are PRC nationals) ("Employees").

(b) Maximum number of shares available for issue

The maximum number of Shares in respect of which options may be granted (together with options exercised and options then outstanding) under the Existing Share Option Scheme may not exceed 10% of the issued share capital of the Company from time to time, excluding for this purpose any Shares which have been duly allotted and issued on the exercise of options granted under the Existing Share Option Scheme.

(c) Maximum entitlement to any one employee

No option may be granted to any employee which, if exercise in full, would result in the total number of Shares already issued and issuable to him under the Existing Share Option Scheme exceeding 25% of the aggregate number of Shares for the time being issued and issuable under the Existing Share Option Scheme.

THE EXISTING SHARE OPTION SCHEME (continued)

(d) Time of exercise of option

An option may be exercised in accordance with the terms of the Existing Share Option Scheme at any time during a period to be notified by the Board to each grantee. Such period shall not exceed the period of 10 years from the Adoption Date but such period is subject to the provisions for early termination contained in the terms of the Existing Share Option Scheme.

(e) Payment on acceptance of options

A remittance in favour of the Company of HK\$1 by way of consideration for the grant of an option is required to be paid by the grantee upon acceptance of the option, and such remittance shall in no circumstances be refundable.

(f) The basis of determining the exercise price

The subscription price for Shares under the Existing Share Option Scheme will be a price determined by the Board and notified to each grantee and will be the higher of: (i) a price being not less than 80% of the average of the closing prices of the Shares on the Stock Exchange on the five trading days immediately preceding the date of offer of the option; and (ii) the nominal value of a Share.

(g) Remaining life of scheme

The Existing Share Option Scheme is valid until 3rd September 2007.

CHARGES ON GROUP ASSETS

Most of the borrowings of the Group are unsecured. Charges on group assets are disclosed in note 34 to the financial statements.

CONTINGENT LIABILITIES

The Group has been paying Mainland China value-added tax ("VAT") at a concessionary basis of calculation as agreed with the local State Tax Bureau. Had standard basis of calculation as stipulated by the Mainland China tax law been strictly enforced, the VAT liability of the Group would be significantly increased. However, in the opinion of the Directors, such liability is unlikely to crystallise and it is not practicable to estimate the amount.