

BUSINESS REVIEW AND PROSPECT

After the acquisition of a controlling stake in the Group by Hi Sun Limited ("Hi Sun") from Guangdong Investment Limited ("GDI") in March 2001, the Group had undertaken a number of changes in its corporate structure and begun to diversify its businesses. Major exercises undertaken up to the date hereof are summarised as follows:

a. Disposal of a loss-making subsidiary

In March 2001, the Group disposed of Eastop International Investments Limited, which held 65% of Buildcon Building Supplies Limited, to a subsidiary of GDH Limited for a cash consideration of US\$1, resulting in a gain on disposal of approximately HK\$1.38 million.

b. Delisting from the Australian Stock Exchange Limited

Since the Group has no operations in Australia and only a small percentage of its issued shares are held by Australian nationals, and after considering the minimal benefit against the significant cost of maintaining a dual listing status in Australia as well as in Hong Kong, the Directors had decided to withdraw the Group's listing status in Australia since June 2001.

c. Group reorganisation

As set out in detail in the Company's scheme document issued on 9 August 2001, a scheme of arrangement pursuant to Section 166 of the Hong Kong Companies Ordinance was proposed to be implemented. The scheme was subsequently approved by shareholders and sanctioned by the Hong Kong High Court. Under the scheme, the Company became the new holding company of the Group and replaced Hi Sun Holdings Limited as the publicly listed holding company on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 17 October 2001 when the Company's shares were listed by way of introduction.

d. Placement of 16.8 million new shares in December 2001

To strengthen the capital base of the Group, the Company issued 16.8 million new shares at HK\$1.14 each in December 2001 to independent third parties, raising net proceeds of approximately HK\$18.8 million.

e. Diversification into consulting and information technology businesses

After the change of management as mentioned above, the new management has reviewed the Group's existing businesses and recognised the need to diversify and expand business of the Group and, in particular, in the areas of provision of consulting services and information technology solutions. Hi Sun Consulting Limited ("Hi Sun Consulting") was established in late 2001, as a wholly-owned subsidiary of the Group, to provide management and financial consulting services in the Mainland China market. It focuses on providing its

clients ranging from Chinese enterprises to multinationals with tailor made solutions to their operations in China. Based in Hong Kong, Hi Sun Consulting operates in China through its offices in Beijing and Shenzhen. On top of this, subsequent to the year end date on 24 January 2002, the Group had also entered into an agreement to acquire the entire issued capital of Hi Sun Technology Holding Limited ("Hi Sun Tech") for a cash consideration of HK\$9.6 million, which was arrived at after arm's length negotiation with reference to and represents a slight discount of 0.5% to the unaudited consolidated net tangible asset value of Hi Sun Tech of HK\$9.65 million at 31 December 2001. The acquisition represents a discloseable and connected transaction under the Listing Rules of the Stock Exchange, details of which are set out in the circular issued by the Company on 7 February 2002. Hi Sun Tech and its subsidiaries (the "Hi Sun Tech Group") are principally engaged in the provision of customised business consulting and information technology solutions for its customers in the banking, insurance and telecom industries in Mainland China, Hong Kong and other Asia pacific regions. The Hi Sun Tech Group operates business and research development centers in Hong Kong and Mainland China, employing a total of approximately 800 staff. The acquisition was completed on 28 February 2002. The Hi Sun Tech Group is aggressively expanding its business and the acquisition is expected to bring in significant benefits to the Group in the long run.

Apart from the above new development, the Group has also been continuing its business in the design, supply and installation of curtain wall systems and aluminium windows. Major project undertaken is Phase 2 of Belcher Garden in Pokfulam, Hong Kong, which has been substantially completed and is expected to be handed over to the developer in mid 2002.

FINANCIAL REVIEW

The Group recorded a turnover of HK\$35.5 million in 2001, representing a drop of 54% from HK\$77.4 million in 2000. This was mainly due to reduction in the number of projects undertaken due to difficult market conditions for the construction industry in Hong Kong. Margins remain under significant pressure and the Group will continue to be cautious in tendering new projects in the market place.

Operating loss was substantially reduced from HK\$53.4 million in 2000 to HK\$8.3 million in 2001. This was mainly due to recovery of substantial amounts of bad debts and stringent control exercised over operating cost. The new management team has put in substantial effort to collect overdue debts and speed up negotiation of unbilled variation works of completed jobs with customers, resulting in a net recovery of bad debts and contract work in progress of HK\$17.5 million in 2001, against a provision of HK\$24.6 million in 2000. Strict control was also implemented over expenses and head counts, resulting in a 30% reduction in administrative expenses from HK\$31.6 million in 2000 to HK\$22.1 million in 2001.

Net profit attributable to shareholders amounted to HK\$343 million in 2001, compared to net loss of HK\$81.5 million in 2000. This was mainly due to a gain of HK\$357.5 million arising from waiver of loans owed by the Group to the GDI Group following the completion of acquisition by Hi Sun from GDI of a controlling interest in the Group in March 2001.

LIQUIDITY AND FINANCIAL RESOURCES

The Group generally finances its operations with internally generated cash flows and facilities from its bankers. In addition, the Group has significantly strengthened its capital base in December 2001 by issuing 16.8 million new shares, raising net proceeds of approximately HK\$18.8 million. The Group has maintained a healthy cash and liquidity position with cash on hand of HK\$20.2 million, bank borrowings of HK\$1.9 million and unutilised banking facilities of HK\$4.8 million at 31 December 2001, and a gearing ratio (total borrowings over shareholders' equity) of 9% as at that date. All the bank borrowings are short-term trade loans and overdrafts with interest charged at floating rates.

The Group's cash balance and borrowings are mainly denominated in Hong Kong dollar and United States dollar. The Group does not have significant exposure to foreign exchange fluctuations.

CHARGE OF ASSETS

Properties in Hong Kong with book value of approximately HK\$14.6 million as at 31 December 2001 were pledged to a bank to secure banking facilities granted to a subsidiary.

HUMAN RESOURCES

The total number of employees of the Group as at 31 December 2001 was 25, a decrease of 29% as compared with the last year end. Total staff costs (including directors' remuneration) for the year ended 31 December 2001 amounted to HK\$13.0 million (2000: HK\$19.6 million). During the year, the Group adopted very tight control over head counts and salaries in order to lower the cost base of the Group. After acquisition of Hi Sun Tech in February 2002, the Group currently has about 830 employees, of which 30 and 800 are located in Hong Kong and Mainland China, respectively.

The Group ensures that the remuneration packages for its employees are competitive and employees are generally remunerated with a fixed monthly income plus annual performance related bonuses. To provide further incentives to attract, motivate and retain talented employees, the Company adopted a new share option scheme in November 2001. As at the date hereof, no option has been granted under the scheme.

CONTINGENT LIABILITIES

Two of the Company's subsidiaries are named defendants in certain lawsuits regarding certain completed construction projects and a proposed acquisition of two companies several years ago which the subsidiary finally decided not to acquire. Details of these contingent liabilities are set out in note 29 to the financial statements.

POST BALANCE SHEET EVENTS

As mentioned above, acquisition of the entire issued share capital of Hi Sun Tech was completed on 28 February 2002. In addition, the Group disposed of a workshop which was no longer in use to an independent third party for HK\$2.73 million in February 2002 with no material gain or loss on disposal. To allow the Company's shareholders to participate in the growth of the Company by way of capitalisation of a portion of the share premium account, on 12 April 2002, the directors proposed a bonus issue of the shares of the Company to the shareholders whose names appear on the register of members on 23 May 2002 on the basis of one share for every one share held. The bonus issue is conditional upon the approval of shareholders at the annual general meeting to be held on 23 May 2002 and the Listing Committee of the Stock Exchange granting or agreeing to grant listing of and permission to deal in the bonus shares.