

REVIEW

The Group recorded turnover and profit attributable to shareholders of approximately HK\$771.1 million and approximately HK\$13.6 million respectively for the six months ended 30 June 2001. A major part of the Group's operations in the first half of 2001 were affected by the slowdown of the global economy.

Turnover from trading and manufacturing operations fell by over 30%, and toys manufacturing income was down severely as a result of reduced demand from the US market. The financial and brokerage services turnover fell by half as compared to the last corresponding period, as a result of the massive contraction in the local stock market in the first half of the year. The net position however was offset by the substantial increase in the value of some securities in the Group's investment portfolio and an one-off gain from placement of warrants of a listed subsidiary, that gave the Group an overall improved interim profit of 8.8 times the comparable period last year.

Brokerage and Financial Services

The large contraction in daily sales volume in the Hong Kong stock market had a direct impact on the business of the Group's financial arm, South China Brokerage ("SCB") group. Commission income from securities and commodities broking was down significantly and interest income from share margin operations and bank deposits dropped. However, personal loan business was encouraging with satisfactory interest income notwithstanding it is at its early development stage. The rebound in the share prices of certain securities in the investment portfolio and a gain on a private placement of warrants upon expiry raised the aggregate profit from financing activities. SCB recorded approximately HK\$120.6 million net profit in the current interim period.

Trading and Manufacturing

South China Industries ("SCI") group's performance was affected by the disappointing result of its major subsidiary, Wah Shing International Holdings Limited ("Wah Shing Toys") which was due to the slowdown of the US economy that slackened customer demand which in turn further deferred orders for toys products to the second half of the year 2001. Wah Shing Toys recorded a loss of approximately HK\$84.4 million and a substantial reduction of turnover to approximately HK\$392.0 million for the first six months of the current year. One of the main reasons for Wah Shing Toys' loss was a tax provision of HK\$32.6 million for settlement with the Hong Kong Inland Revenue Department on its transfer pricing policy for prior years.

SCI's other subsidiary, Wah Shing Electronic Company Limited ("Wah Shing Electronic"), increased its turnover despite competitive and adverse market conditions due to its upgraded technical expertise in research and development and the manufacturing process. The associate, Nority International Group Limited ("Nority"), which engages in manufacturing of shoes, had an unexpectedly good interim result this year. It turned around from loss to a profit attributable to shareholders of approximately HK\$24.2 million in the period under review.

Information and Technology

South China Information and Technology ("SCIT") group increased turnover by three times mainly due to the information and technology ("IT") related businesses. SCIT's overall net loss of approximately HK\$26.2 million for the period was mainly due to high finance costs and share of loss from an associate.

The IT business development continued to move forward satisfactorily. Three new joint ventures were formed in the first six months. A sales team has been established to promote IT solutions to Hong Kong businesses and it includes Enterprise Resource Planning, Point of Sale and System Integration in which the market has shown great interest due to our competitive pricing, comprehensive turn key solutions and user friendliness. IT professionals have been granted visas to Hong Kong under the "Admission of Mainland Professionals Scheme" which will allow a closer integration of the PRC joint ventures of SCIT to the Hong Kong market.

Property Development and Investment

The occupation permit for “The Centrium”, the Grade A commercial/office building at Arbuthnot Road in which SCIT holds a 30% interest, was obtained in June 2001. Its marketing scheme for leasing is under way.

Rental income of the investment properties improved slightly in the current period due to a higher occupancy rate.

Travel and Related Services

Fourseas.com Limited (“Fourseas”), an associate of SCIT, reduced its operating loss with a successful reduction in administrative and operating expenses by 30% over the last comparable period.

Media and Publications

The publishing operations have performed well in terms of circulation, with “3 weekly”, according to Hong Kong Audit Bureau of Circulation, recording audited circulation at approximately 92,100 copies per issue, for the months from April to June 2001. “Express Weekly” maintained its circulation, as one of the best selling weeklies in Hong Kong. “Jessica” magazine’s circulation grew to approximately 60,000 and 88,000 copies for the months June and July 2001, respectively, on the back of a vigorous promotion campaign. Circulation of other magazines also improved satisfactorily. Advertising income slowed down due to reduced advertising expenditure given the sluggish economy.

Other Investments in the PRC

The Group has planted an additional 140,000 lychee tree seedlings on its wholly owned lychee farms which are amongst the largest in Guangdong. The pharmaceutical joint venture in Shenyang started its expansion plan which involves relocating the production site to the high technology zone where it will increase its production capacity by 2 to 3 fold. Another 55% owned pharmaceutical joint venture in Tianjin launched a new series of medicine products named “Elixirs”, for treating fever and flu, in early 2001. The products were sold to a sole medical distribution agent who supported them by a strong advertising campaign. The new Elixirs are now well known to most pharmacies and users in the Mainland China.