

## BUSINESS REVIEW AND PROSPECT

For the six months ended 30 June 2001, the Group registered consolidated net loss attributable to shareholders of HK\$57.1 million (2000: consolidated net profit of HK\$24.4 million). The result was largely affected by considerable amount of loss shared by the Group for a listed associate, Shun Cheong Holdings Limited ("Shun Cheong"), in which the Group owns 25.05% of the share capital and provisions for diminution in value of investment in Shun Cheong and a listed investment, EC-Founder (Holdings) Company Limited ("EC-Founder"), in which the Group has approximately 4% shareholding.

Contrary to our expectation earlier, the business of the trading operations remained slow in the difficult market environment, which was indeed worse than the previous year. The Group's consolidated turnover increased from HK\$259 million for the same period last year to HK\$301 million in 2001, which, however, included HK\$85 million attributable to Chinney Alliance Engineering Limited ("CAEL"), a wholly-owned subsidiary acquired by the Group in October 2000.

There was approximately 25% drop in sales of the Group's major trading operation, DMT International Hong Kong Limited, from HK\$179 million to HK\$134 million as a result of the poor market condition and sharp decline in the prices of plastic resins. Not only the gross profit margin to sales decreased, the amount of gross profit also decreased as a result of the decrease in sales value. However, the operation remained profitable. Turnover of Jacobson van den Berg (Hong Kong) Limited ("Jacobson") modestly improved 3.9% from HK\$77 million in 2000 to HK\$80 million this year, primarily attributable to the increase in sales of plastic materials and chemicals while the business in distribution of equipment and engineering services was lacklustre. Despite the increase in sales, gross profit actually declined reflecting the change in sales mix with more proportion of lower-margin plastic sales and less proportion of higher-margin chemicals and equipment sales. The overall result of Jacobson was a small net loss for the first six months in 2001 as compared to the net profit of considerable amount in the previous year. The poor market environment affected the performance of CAEL, which showed a net loss of approximately HK\$8.3 million for the first half of the year.

Shun Cheong announced its audited results showing consolidated net loss attributable to shareholders of HK\$35.4 million for the year ended 31 March 2001 with a qualified audit opinion. Although Shun Cheong's traditional business in building services and related trading activities remained steady and profitable, the loss was primarily due to provisions for impairment in value of high-tech investments and other assets amounting to HK\$62.4 million. Furthermore, Shun Cheong wrote off all the goodwill arising from acquisition of the interests in its subsidiaries and an associate of HK\$36 million and directly charged the entire amount to the retained profits account as at 31 March 2001 (Please see the results announcement of Shun Cheong dated 24 August 2001). In view of Shun Cheong's net loss and goodwill write-off, the Group made appropriate provision of HK\$9.2 million for the impairment in value of goodwill of Shun Cheong.

Failing to see any significant progress in business development of EC-Founder, the Group considered to treat the investment as short term rather than long term and reclassified it accordingly. The investment was revalued according to closing share price of EC-Founder as of 30 June 2001, resulting in a provision of HK\$17.1 million for diminution in value.

The United States was hit by massive terrorist attacks. Any adverse impact on the U.S. economy will lead to a knock-on impact to our export-oriented industries including toy and electronic manufacturing in Hong Kong and China, which are the major markets for the Group's plastics trade. In addition, the economic condition in Hong Kong at present is quite depressed without showing any sign of recovery. The business environment for distribution of building materials, electrical products and various equipment in the local market is expected to remain difficult. However, the China market appears to be more encouraging as it is quite probable that China is able to continue its economic growth of 7 – 8%. With the eminent entry of China to the World Trade Organization and later on the economic development accelerated by the Beijing Olympic Games, the Group looks forward for a gradual improvement of its trading businesses in future.