

MANAGEMENT DISCUSSION AND ANALYSIS

REVIEW

The Group's turnover for the six months ended 30 June 2001 was approximately HK\$550 million, a decrease of 25.9% as compared to the last corresponding period. As a result of the decline in turnover and profit margins, the Group recorded a loss attributable to shareholders of approximately HK\$57 million. The downturn in the Group's profit was mainly attributed to loss incurred by Wah Shing International Holdings Limited ("Wah Shing").

Turnover of Wah Shing for the six months ended 30 June 2001 dropped by 37.9% to approximately HK\$392 million as compared to the last corresponding period. Wah Shing recorded a loss of approximately HK\$84.4 million for the six months ended 30 June 2001 as compared to the profit of approximately HK\$3.4 million for the last corresponding period. The slowdown of the US economy has dampened consumer confidence and spending which resulted in a soft demand on toy products. The customers in general deferred their orders to the second half of the year or delayed launching of their new products. Though Wah Shing had endeavoured to control overheads by reducing workforce and expenses, tightening control over inventory levels and shortening the production lead-time, the slack sales in the first half of 2001 adversely impacted its operating results. Its loss was further attributed to the tax provision of approximately HK\$32.6 million for settlement with the Hong Kong Inland Revenue Department on its transfer pricing policy for prior years.

Despite the unfavourable business environment, the turnover of our subsidiary Wah Shing Electronics Company Limited ("WSE"), with upgraded technical expertise in R & D and manufacturing, increased by approximately 57.3%. Its operating results also improved.

Turnover of our associate Nority International Group Limited ("Nority") for the six months period ended 30 June 2001 increased by 24.8% to approximately HK\$245.3 million as compared to the last corresponding period. Its results improved from a loss of approximately HK\$1.7 million to a profit of approximately HK\$24.2 million. The growth in revenue was due to the enhancement of its productivity and the increase in sales. Its profit margins were improved through strengthening cost control and streamlining staff and operating procedures.

South China Information and Technology Limited ("SCIT") recorded a turnover of approximately HK\$46.1 million, representing a threefold increase over the last corresponding period, mainly due to the growth of information and technology related business ("IT businesses"). Its operating loss also dropped. Businesses of SCIT group have continued to develop and its portfolio of IT investments has been enlarged by the conclusion of three additional new joint ventures. The SCIT group has been actively involved with the management of IT joint ventures providing macro-economic market direction to enable them to develop their unique advantage over their competitors. In addition, a special sales team has been introducing its IT solution products to Hong Kong since March 2001.

Occupation permit of the large grade "A" commercial/office development project, "The Centrium", located at Arbuthnot Road/Wyndham Street in Central district was granted during the period under review. Full marketing scheme for leasing is in progress.

Most PRC manufacturing joint ventures incurred losses for the interim period. The legal proceedings against the subordinate corporations of Tianjin Second Bureau of Light Industry, our Chinese partner in a tools factory and a tannery, for breach of the Joint Venture Agreement are still in progress.