BUSINESS REVIEWS

Air-conditioning Products

Sluggish market conditions continued in Hong Kong in both the mass consumer market and in the commercial and residential property development markets. In Mainland China, there was increased competition from domestic product, which was also unexpectedly aided with the imposition in June, of special penal and arbitrary import tariffs imposed on air-conditioning products sourced from Japan, as a result of a trade dispute between the sovereign governments of China and Japan. However, it is expected that this dispute will be resolved within a reasonable time and that tariffs will return to the prior norm. Despite these difficulties, some new products were launched satisfactorily; the greater emphasis placed on the commercial air-conditioning markets improved margins; and in some product categories sales, margins and profits actually improved over last year given innovative marketing programs and strategies. As a result, whilst sales were only slightly below the Group's management plan in which the prevailing market conditions were foreseen, profits were somewhat better than of plan.

Audio Visual and Other Electrical Products

The domestic markets of Hong Kong and Mainland China were subdued and therefore sales were 18% lower than last year. However, there were many encouraging aspects to the Group's markets and operations. The Group successfully launched new products in both the brown goods category (under the Group's own "Rogers" and "Bodysonic" brands) and in the white goods category. The Lunar New Year promotion and other sales and advertising campaigns were also successful. Increasing brand awareness is being established for the Group's own brands of "Rogers" (from the U.K.) and "Bodysonic" (from Japan), whilst other spend on the "LG" brand (from Korea) was also very successful in raising the brand image and increased sales for these products.

Whilst total sales were down on the same period last year and losses were recorded, these were significantly reduced and the Group is encouraged and expects that such sales and profit improvement programs will continue to show improving results.

Car Electronic Products

The Hong Kong, Mainland China and other regional markets of Singapore and Malaysia were difficult for the Group's car audio visual products and sales were therefore lower than last year. However, a major contributory reason for the significant drop in sales volume was the decision to discontinue sales to the Indian market, which were unprofitable. Therefore, whilst sales volume figures were down on the comparable period last year, losses were reduced and the division's performance is expected to continue to improve. Product pricing is increasingly competitive, but the Group's "Alpine" brand is a market leader and is proving resilient in such market conditions.

Direct Warehouse Outlet Marketing

The business, under the "Mega Warehouse" outlets, was affected by the continuing keen competition for sales of consumer electronic and electrical products in a poor market. In April, the major trading outlet was relocated to a location in Tsing-Yi. Another outlet was opened at the MTR Kowloon Station, but only in June, and therefore, sales were significantly lower than the same period last year. However, given the new lower cost retail space arrangements; the simplified organisation structure; more aggressive promotional sales; improved merchandising; and an improved team spirit, the financial performance improved dramatically. Other outlets in strategic locations and with sensible logistics may be added and management expects improved results to continue.

Motor Vehicle Distribution

As noted elsewhere in the report, the business became a subsidiary of the Group from the beginning of the year. The core business activities are the sales, services and distribution of motor vehicles, parts and accessories under the premier global brands of "Ferrari" and "Maserati" in the markets of Hong Kong, Macau and Mainland China. Whilst the statutory accounting treatment and reporting of the numbers are different this year compared with last year – given the consolidation of the sales and profit results this year as a subsidiary, whereas last year only profits were accounted on an equity basis as an associated company – the underlying business has operated very satisfactorily. Sales are up 23% and pre-tax profits up 11% on the same period last year. Demand for the luxury sports car segment in Hong Kong has doubled over last year and the unique "Ferrari" models continue to be in strong demand. The 360 Modena / Spider and 550 Maranello sales have been excellent and with the introduction of the now popular "F1" gear shift giving the "automatic" option for the whole model range, then prospects remain exciting for the ensuing periods. The "Maserati" marque is becoming established and carving its own unique separate identity and brand recognition and consumer awareness. New products scheduled to be available later in the year and 2002, make for another radical shift in technology available to the model range which should ensure significantly increased demand for this marque. Whilst car sales in Hong Kong have declined almost 4% year on year, the Group's products have strengthened, given their unique appeal. Operations continue to be well managed from a customer and service viewpoint and also having regard to cost efficiency and working capital utilisation.

PROSPECTS

The economic environment in Hong Kong and in other markets in the region in which the Group operates, is difficult. Having said that, the Group has reviewed its operations and is taking action with strategies to improve group results, the benefits of which are being seen, despite lower sales figures in some business divisions. It is notable that the Group achieved an operating profit for the first half this year compared with the operating loss in the comparable period last year. The Group has developed its management plan performance for this year and the results now declared are in line with those internal budgets. Your group has a long history and well established name and reputation as a market leader in marketing and distribution of quality consumer products and services in Hong Kong, Macau, Mainland China and other regional markets in South East Asia. In particular the Group is carefully increasing its business across each division, and including progressive business development in the Mainland China market.

The Board remains optimistic that the results for the second half year will be in line with its own management plans and be on track for re-establishment of the Group, with sound growth in business, revenues and profits. The only caveat is any negative market sentiment or disruption which may arise from the current tense international situation, following the attacks in the U.S. which took place only last week.

HUMAN RESOURCES

As of June 30, 2001, the Group's employees, excluding associated companies, numbered 327. Given the difficult market environment, and the needs of the business, to improve further the operating and staff efficiencies, the Group recognises and highly appreciates the contributions of its staff. The stable team of loyal and dedicated people, the Group is fortunate to have, are committed to achieving the targets of the Group. The Board is pleased to record its appreciation.