

BUSINESS REVIEW

The Group's turnover for the six months ended 30th September, 2001 was approximately HK\$474,250,000, a significant decrease of 41% as compared with the same period last year. The loss attributable to shareholders amounted to approximately HK\$34,219,000. (compared with a profit of approximately HK\$41,518,000 for the last period)

Electronics Division

The Group's core business, consumer electronic business was adversely affected by the slowdown in global economy, especially the weak market demand in U.S.A., and severe price competition. Turnover for the period, as compared with last year, decreased by 35%. Manufacturing expenses increased because of the inefficiency in the utilisation of production facilities resulting from the decrease in turnover and, hence a significant decrease in profit margin was recorded. In order to cater for and to reduce the harmful effects from the drop in turnover, part of the Group's production factories has been closed and management team and structure were consolidated. During the period, an operation loss of approximately HK\$10,280,000 was recorded for the consumer electronic division. (compared with an operation profit of approximately HK\$60,028,000 last period)

As the demand for traditional CD audio products was weak, during the period, a series of new high technology digital audio products with WMA and DSP technology were designed by the Group to stimulate the demand. New MP3 solid state player and MP3 with hard disk with decode and encode features will launch to the market. We expect the new products will improve the Group's turnover as well as the overall profit margin.

Securities Trading

The equity price dropped significantly owing to the slowdown in global economy coupled with 11th September event in U.S.A. During the period, the securities trading division recorded an operation loss of approximately HK\$19,045,000. (compared with last period of an operation loss of approximately HK\$11,632,000.) The loss was mainly attributable to the provision for diminution in value of securities of approximately HK\$17,370,000 based on the market value of securities held by the Group as at 30th September, 2001.

As securities trading is not the core business of the Group and present uncertainty in world wide economy and the stock markets, the management has decided to reduce the securities trading activities in order to ensure that the Group's future operation profits are more stable.