

## Chairman's Statement and Management Discussion and Analysis

I am pleased to report the activities of the Group for the year 2001.

### BUSINESS REVIEW

For the year ended 31 December 2001, the Group recorded a turnover of approximately HK\$1,720.1 million, representing a decrease of 11.6% as compared with previous year and a loss attributable to shareholders of approximately HK\$136.5 million as compared to a loss attributable to shareholders of approximately HK\$24.1 million in year 2000. The impairment in the Group's profitability was primarily due to the share of loss attributed by Wah Shing International Holdings Limited ("Wah Shing") and South China Information and Technology Limited ("SCIT").

Wah Shing registered a turnover of approximately HK\$1.1 billion for the year ended 31 December 2001, a decline of 26.4% compared to last year, and a loss attributable to shareholders of approximately HK\$157 million as compared to HK\$55.5 million for the year 2000. The decline in turnover coupled with the increased in labour and material costs resulted in a sharp reduction in profit margin. Most customers pressed for expeditious production and short delivery times which resulted in higher manufacturing and logistics costs and upset normal production planning. Other factors causing the losses were the non-recurring restructuring cost of approximately HK\$17.7 million in the last quarter relating to closure of inefficient manufacturing plants and the net under-provision of income tax amounting to HK\$32.6 million in prior years resulting from a field audit by the Hong Kong Inland Revenue Department in Wah Shing group's transfer pricing policy.

Benefiting from its competitive edge on toy production technology and manufacturing process, the turnover and net profits of Wah Shing Electronics Company Limited ("WSE") for the year ended 31 December 2001 surged 85.8% and 142% to approximately HK\$321 million and approximately HK\$16.3 million respectively as compared to last year, despite the harsh operating environment.

Nority International Group Limited ("Nority") managed to achieve an upturn in its performance resulting from effective cost control in 2001. Turnover for the year ended 31 December 2001 increased by 18.9% to approximately HK\$421.2 million as compared to last year. A profit attributable to shareholders of approximately HK\$16.6 million was recorded as compared to a loss attributable to shareholders of approximately HK\$44.7 million of the previous year.

Our leather shoes and safety products joint ventures in Tianjin which are under our management control had made profit contribution for the year ended 31 December 2001. The legal proceedings instituted by the Group against the subordinate corporations of Tianjin Second Bureau of Light Industry, our Chinese partner in tools and a tannery, which are in breach of the Joint Venture Agreement are still in progress. Adequate provision against the likely diminution of our investments in PRC joint ventures has been made.

SCIT group recorded a surge in turnover of 77% to HK\$112.6 million for the year ended 31 December 2001, of which 97% was attributable to IT and related business. The overall net loss of SCIT group was mainly accounted for the high finance cost and provision for property projects and revaluation deficit.

## Chairman's Statement and Management Discussion and Analysis

A full marketing scheme for "The Centrium", a grade A commercial/office building at Arbuthnot Road/Wyndham Street in Central which the Group has a 30% interest, has been launched since July 2001. At present, all of the ground floor shops and around 25% of the total office areas have been leased out. Rental income from other investment properties of SCIT went up slightly increased in the current year due to the higher occupancy rate.

During the year, the Group disposed all of its equity interest in Fourseas.com Limited ("Fourseas"). However, the Group still maintained its participation in the travel and related business by acquiring 49% equity interest in Fourseas' travel business subsidiaries.

### INVESTMENTS

As at 31 December 2001, the Group maintained investment in the shares of companies listed on The Stock Exchange of Hong Kong Limited.

### LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2001, the Group had cash and bank balances of HK\$111.3 million. The Group's gearing ratio is approximately 12% based on the total long-term liabilities of HK\$109.3 million over the aggregate of shareholders' equity HK\$663 million and minority interests of HK\$250.4 million. The Group's operations were mostly financed by both bank borrowings and internal resources.

### CONTINGENT LIABILITIES

At the balance sheet date, the Group has given guarantees of approximately HK\$174 million to banks for banking facilities granted to an associate and undertaking of approximately HK\$23 million to a former associate for banking facility granted to an associate.

### EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2001, the Group employed over 21,000 employees majority of which in the PRC. The remuneration package of the Group's employees are normally reviewed by senior management annually with increments compatible to the market. Apart from medical subsidies, life insurance, provident fund, external subsidised training programs, housing loan interest subsidy, meal subsidy, share options and bonuses are awarded to the employees according to individual performance. Bonus payment may also be made based on performances of individual staff. Share options are also granted to certain employees of the Group.

### EXPOSURE TO FLUCTUATION IN EXCHANGE RATES AND RELATED HEDGES

As at 31 December 2001, the Group had no exposure to fluctuation in exchange rates and any related hedges.

## Chairman's Statement and Management Discussion and Analysis

### MATERIAL ACQUISITION AND DISPOSALS OF SUBSIDIARIES AND ASSOCIATED COMPANIES

In September 2001, Fourseas, a former associate of the Group, completed its group's financial restructuring. The Group disposed all of its equity interest in Fourseas, while acquiring its entire property portfolio together with the related mortgages and 49% of its travel related businesses of Fourseas for a consideration of HK\$15 million. The Group received HK\$70 million as repayment of shareholder loan from Fourseas in its financial restructuring.

Save as disclosed above, there has been no material acquisition and disposal of subsidiaries and associated companies by the Group in 2001.

### CHARGES ON GROUP ASSETS

Fixed assets, investment properties and properties under development with an aggregate net book value of approximately HK\$281 million was pledged as collateral for the Group's banking facilities.

### EVENTS AFTER THE BALANCE SHEET DATE

On 28 February 2002, the shareholders of SCIT have approved a capital reorganisation proposal involving the reduction of its share capital of SCIT. A circular dated 1 February 2002 containing details of the proposal was dispatched to its shareholders.

On 22 April 2002, SCIT entered into agreements with an independent third party, not connected with its directors or substantial shareholders or chief executive to effect a financial restructuring proposal of SCIT. The independent third party will essentially inject HK\$66 million into SCIT. Further details of the agreements will be disclosed as soon as possible.

### OUTLOOK

The recent terrorists attack in the U.S.A. and the possibility of new areas of conflict developing in the Middle East have cast some doubt on the strength of recovery of the US economy. However, the recent rise in economic indicators has signalled the fact that the US economy is rebounding from recession faster than anticipated. Wah Shing will endeavour to achieve profitability through further restructuring and downsizing of some of its production facilities to reduce overhead costs. Its cost saving measures and the downsizing of its production capacities will be felt in year 2002. Focus will be made on striking a better balance by obtaining more orders of conventional products which have a steady demand throughout the year and lower material costs. The relocation of its main operations and functions to Shenzhen, the PRC will be accelerated to improve communication effectiveness and operational efficiency. Looking ahead, Wah Shing should become more resilient against economic downturn and is well-prepared to ride on a recovery of the global economy. Barring unforeseen circumstances, it is expected that Wah Shing will return to profitability in the year 2002.

## Chairman's Statement and Management Discussion and Analysis

WSE will continue to strengthen its competitive advantages with its upgraded manufacturing process. Cost tightening measures are undergoing to optimize and maintain its profit margins.

Nority will endeavour to seek further business development opportunities in the PRC through studies and researches so as to avail itself to the great market potential following China's accession to the World Trade Organisation. It has begun to set up a new company in the PRC as a foothold for its future business development.

SCIT have a fine and dedicated team of employees, advanced technologies, and the resources to meet the challenges and tackle the difficulties. They are fully prepared to focus on our mission of providing leading-edge, best-of-class, highest quality services to our customers in both Hong Kong and China.

Given the present stagnant property market, the leasing progress of "The Centrium" is presently slow. The situation is anticipated to prevail until the local property market and the overall economic environment improve. Some of the existing investment properties with poor occupancy are being or will be renovated to improve leasing income.

In view of China's accession to the WTO and the future hosting of the Olympic Games in the years to come, we believe that the Greater China area is now experiencing a continuous growth in the business and leisure travel industry. More marketing and support staff are being employed to cope with this rapidly expanding market.

### APPRECIATION

On behalf of the Board, I wish to express my gratitude to our customers and shareholders for their continued support and all our staff members for their hard work and dedicated services.

On behalf of the Board  
**Ng Hung Sang, Robert**  
*Chairman*

Hong Kong Special Administrative Region of the People's Republic of China  
24 April 2002