REVIEW OF OPERATIONS

RESULTS

The Group's turnover and loss for the six months ended 30 June 2002 were HK$396.3 million (2001: HK$301.1 million) and HK$9.9 million (2001: HK$57.1 million), respectively.

The increase in turnover was mainly attributable to the 28% growth in our plastic and chemical sales and turnover contribution from our home appliances and air-conditioning engineering business acquired in September 2001.

The performance of our trading subsidiaries has been significantly improved during the period. The aggregate segment profit was HK$8.1 million, against a loss of HK$3.9 million a year ago. The unrealised holding loss of our investment in marketable securities and the share of loss of a listed associate, Shun Cheong Holdings Limited ("Shun Cheong"), have however dragged down the half-year results of the Group to a loss of HK$9.9 million, compared with a loss of HK$57.1 million in the prior period.

INTERIM DIVIDEND

The Board does not propose the payment of an interim dividend for the six months ended 30 June 2002 (2001: Nil).

BUSINESS REVIEW AND PROSPECTS

Trading of Plastics and Chemicals

DMT International Hong Kong Limited ("DMT") and Jacobson van den Berg (Hong Kong) Limited ("JvdB") recorded an aggregate turnover of HK$263.6 million compared with HK$206.5 million in 2001. Operating profit posted a year-on-year 123% jump to HK$8.8 million in the first half to 30 June.

The twin engines behind our profit growth are our improving product sourcing capabilities and the experienced and dedicated workforce. DMT and JvdB have maintained excellent relationship with their customers as well as the suppliers. As a result, we are able to capitalise on the upswing of the plastic market as plastic prices rebounded from the historical low in last year and customers started to rebuild their stock levels after September 11. All these transformed into an end-result of 28% revenue growth and 123% profit growth in the period. Barring a significant worsening of the market, it is expected that the positive trend will continue into the second half of the year.

Trading of Industrial Products and Equipment

Chinney Alliance Engineering Limited and its subsidiaries ("CAEL") reported turnover of HK$93.6 million compared with HK$92.7 million in 2001. Having undergone considerable restructuring in the past 9 months, CAEL is now operating at a break-even level. The operating loss has been significantly reduced from HK$8.4 million to HK$1.8 million in the current period.

The Electronic Systems Division under CAEL has been delivering promising results. We have commissioned 3 sets of X-ray container inspection system to be sold to the Australian Customs. The first set of which has been delivered to the site in Melbourne for installation and to be ready for use in coming October. With the step up of security measures after the September 11 terrorist attacks and the increasing effort of the worldwide customs to combat smuggling activities inside the trucks and containers, it is expected that there would be great demand for the high-quality X-ray container inspection system marketed by CAEL. The infrastructure and manpower to develop our trading operations in the Mainland China have been largely in place. With our good connections in the Mainland China, renowned products distributed by CAEL as well as strong support from our principals, it is expected that there will be ample room for CAEL to deliver improving results through PRC trade.

Wholesaling of Electrical Appliances and Air-conditioning Engineering Works

The Group acquired the business of electrical appliances and air-conditioning engineering works in September 2001. The well-known brands include the Brandt washing machines and the Daikin air-conditioners. The business environment was acute under the weak local economy and the depressed property market. Nevertheless, the Group has initiated a number of cost-cutting measures and revenue enhancement schemes to maintain profitability. The turnover and operating profit for the current period amounted to HK$37.3 million and HK$0.3 million, respectively.

Investment and Others

The significant investments held are the carpark assets held for rental income and the marketable securities held for investment purpose. As a result of the persistent weakness of the stock market, the Group suffered further write-down of HK$5.3 million in revaluing the marketable securities to period-end closing prices.

Associates

The Company's equity interest in Shun Cheong increased from 23.5% as at 31 December 2001 to 29.9% as at the date of this interim report through on-market purchases. Shun Cheong reported turnover of HK$698.4 million and a loss of HK$35.3 million for the year ended 31 March 2002, with a qualified opinion arising from limitation of audit scope on certain investments and payments. Out of the loss of HK$35.3 million, the Group has accounted for the half-year loss of Shun Cheong of HK$10.7 million and the provision of goodwill of HK$12.7 million charged from reserves to the profit and loss account of Shun Cheong as at 31 March 2002 in its full-year result for the year ended 31 December 2001. As a result, the Group's share of net loss of Shun Cheong for the current period was HK$3.2 million (2001: share of net loss of HK$17.3 million).

During the year ended 31 March 2002, Shun Cheong discontinued the businesses of broadband connectivity service and the design, installation and maintenance services of karaoke-on-demand systems. The aggregate loss of these discontinued operations was HK$16 million. This together with the provision for goodwill of HK$12.7 million, unrealised holding losses on other investments of HK$6.6 million and the one-off legal expenses of HK$7.9 million in defending lawsuits raised by former substantial shareholders have largely accounted for the net loss of Shun Cheong for the year. Shun Cheong remains profitable in its core business in building services engineering and will seek for opportunities to broaden its geographical reach to the Mainland China and Macau on this specialist trade.

FINANCIAL REVIEW

Liquidity and Financial Resources

Total interest-bearing debts of the Group amounted to HK$157 million as at 30 June 2002 (31 December 2001: HK$164 million), of which HK$89 million (31 December 2001: HK$84 million) related to import loans. Approximately 91% of the debts were due and repayable within one year.

Total cash on hand dropped from HK$62 million as at 31 December 2001 to HK$40 million as at 30 June 2002. The Group had a total of HK$66 million committed but undrawn banking facilities at 30 June 2002 available for its working capital purpose.

In January 2002, the Group placed 550 million new shares to a major shareholder at a price of HK$0.025 each. The increase in shareholders' funds through share placement was partially offset by the net loss of the Group for the period. Total shareholders' funds, as a result, increased from HK$180 million as at 31 December 2001 to HK$184 million as at 30 June 2002.

The gearing ratio of the Group, as measured by the net interest bearing debts of HK$117 million over the shareholders' funds of HK$184 million, was 64% as at 30 June 2002.

Use of Placement Proceeds

As disclosed in last year annual report, there were remaining cash proceeds of HK$26 million from shares placed in 1999, which usage has been altered from the purpose of investing in technology and telecommunication related business to the purpose of applying for loan repayment and working capital of the Group. During the period, the Group had fully applied the remaining proceeds for loan repayment and working capital purposes. The proceeds of HK$13 million generated from share placement in January 2002 have been partly applied for working capital as originally intended with the balance of HK$11 million being retained as cash and bank balances in the accounts.

Funding and Treasury Policy

The Group maintains a prudent funding and treasury policy. Surplus funds are maintained in the form of cash deposits with leading banks. Borrowings are mainly denominated in Hong Kong Dollars and bear interest at floating rates. Forward contracts of non-speculative nature are entered to hedge the foreign currency trade purchase commitments of the Group.

Pledge of Assets

Certain properties, investment in securities and debts due from the investee companies having an aggregate book value of HK$62 million as at 30 June 2002 were pledged to secure borrowings of the Group.

Contingent Liabilities

Details of contingent liabilities are set out in note 14 to this interim financial statements.

Employees and Remuneration Policies

The Group employed approximately 310 staff in Hong Kong and other parts of the PRC as at 30 June 2002. Remuneration packages are reviewed annually and determined by reference to market pay and individual performance. In addition to salary payments and year-end discretionary bonuses, the Group also provides other employment benefits including medical insurance cover, provident fund and educational subsidies to eligible staff. A share option scheme was adopted in 1993 to enable the directors to grant share options to selected employees as incentives.

OUTLOOK

The uncertain economic conditions in Hong Kong caused companies to lay off workers or reduce salary, leading to a surge in unemployment rate to 7.8% and continued deflation. The recent weakness of the US Dollars has however provided momentum for export growth, which contributed to a mild GDP growth of Hong Kong in the second quarter. The Mainland China, in contrast, continues to prosper at a GDP growth of over 7% despite an uncertain global environment.

The weak consumer confidence and sluggishness of the property market have severe impact on our trading operations in Hong Kong. Our trading subsidiaries, which supply raw material plastics to end-users for manufacturing and export, have however benefited from the recovery of export trade. Our Group has been transformed into a trading consortium with emphasis in supplying raw materials and industrial equipment to manufacturers based in China and in developing two-way China trade. As a result, the directors are reasonably optimistic on the future of the Group against the backdrop of the continued economic growth in the Mainland China and ongoing improvement of our management teams.

I have received constant encouragement and guidance from my fellow directors and senior management within the Group and wish to express my sincere appreciation to them and also to other colleagues for their continued support and contribution during this difficult period.

By Order of the Board
James Sai-Wing Wong
Chairman

Hong Kong, 12 September 2002