

## REVIEW OF BUSINESS ACTIVITIES

The Group's turnover and profit from operations decreased by about 36.8% and 51.1% respectively compared to the first half of 2001. The fall in turnover was mainly caused by a decrease in sales of the Electronic Manufacturing Service Division while the reduction in profit is mainly attributable to reduced interest income due to lower interest rate.

Due to the sluggishness of the global economy and the termination of the production of mobile phones by a customer in the second half of last year, the turnover of the Electronic Manufacturing Service Division ("EMS Division"), previously known as the Electronic Products Assembly Division, declined 38.1% compared to the corresponding period last year. However, the Division's profit before taxation improved by 50.3% as a result of reduced costs and expenses. During the period under review, the Division continued its efforts to reduce overheads and improve operational efficiency. In June, its factory in Shajing, Shenzhen passed the QS9000 certification audit. The Division is also building a new factory in Suzhou, China, which is expected to commence operation in the first quarter of 2003. A couple of the Division's customers have indicated interest in placing orders with that factory for close-to-customer deliveries after its operation commences. In May, 2002 the Division completed an acquisition of its joint venture partner's interest in the factory in Mexicali, Mexico. Since then, considerable efforts have been made to rationalize the factory's operations and certain machinery and equipment were acquired to improve its manufacturing capability. Recently, the factory has acquired a new strategic customer.

During the period under review, BroadMax, the Original Product Development and Marketing Division of the Group, continued its efforts to market and sell Ayschronous Digital Subscriber Line (ADSL) Customer Premises Equipment (CPE) modem. Due to the weak demand in the U.S. telecommunication and ISP market, BroadMax has increased its focus on other markets such as China, Europe, Japan, SouthEast Asia and South America. Two low-cost models have been developed and they are targeted at the markets in China and Europe. The development of webphone is in the final stage and samples have been delivered to potential customers for evaluation.

BroadMax is studying to develop the Very High Speed DSL (VDSL) modem and to further enhance the application of the webphone to include the Voice and Video over ADSL. BroadMax intends to expand the development work into its facility in Shenzhen in future in order to increase our development resources and to respond quickly to the market in China.

The residential property market in Hong Kong continued to be slow. However, the Directors do not deem it necessary to make additional provisions against its two residential development projects. The project in Kowloon Tong carries a net book value which is close to its prevailing market value. As for the project in the Mid-levels, the yield from rentals is already in the upper part of the market range.