Management Discussion and Analysis

Following an extremely robust 2000, trading conditions were more difficult in the first half of this year. Nevertheless your Company added another 32% to turnover to HK$13.6 billion. However, a large part of this increase was due to Colby, acquired at the end of last year, which achieved a turnover of HK$2.8 billion in the first half. Excluding Colby, internally generated turnover growth was 5% for the period.

Taking into account all operations, interest income and expenses, associated companies' performance and tax, the attributable profit of the Group was HK$338 million, an increase of 15% over the same period last year.

The operating environment for the Group's majority owned e-commerce unit in the US, StudioDirect, was also more difficult than anticipated. Prudent management of the start up operation still resulted in an attributable loss of HK$35 million for the Group. Excluding this new business, the net profits of the Group would have been HK$373 million, an increase of 27% for the period.

The slowdown in the North American market has resulted in more buyer caution and generally lower prices, but despite worsening economic conditions, the Group's turnover there increased 40%. Business to Europe suffered from a weak Euro and severe price pressures resulting in flat sales and a drop in profits. East Asia and the Southern Hemisphere markets are small but building steadily.

Your Group's financial position continues to be very strong with over HK$2 billion in cash reserves, a current ratio of 1.53 and a gearing (long term liabilities to net worth) of 2.2%. The Group has negligible bank borrowings and has little exposure to foreign exchange fluctuations as most of its assets, receipts and payments are in HK$ or US$.

At the end of June 2001, the Group had a staff of 5,048, of whom 1,774 were in Hong Kong and 3,274 overseas.

Prospects for the rest of the year

Business to the major markets of North America and Europe would remain sluggish for the rest of the year, especially in comparison to last year which was a banner year for the Group. However, overall Group turnover would still see a good increase mainly due to the full year inclusion of Colby's business.

The Management is taking stringent measures to control costs at StudioDirect but this new business will continue to be a net loss operation for the year.

However, barring unforeseen circumstances, the Group should still achieve its current (1999-2001) 3-Year Plan target of doubling profits over this period.

Next 3-Year Plan (2002 - 2004)

The Group is in the midst of finalizing its next 3-Year Plan (2002-2004). Despite a cautious projection of business prospects in the Group's major markets of North America and Western Europe, management is confident that we can double Group profits again the next three years.

The Group will continue to benefit from the major trends of retailers increasing their private brand merchandise, the outsourcing of the management of their supply chain and the globalization of consumer products manufacturing.

Management is confident that in a tough environment, the Group can continue to take market share away from other suppliers to its main markets. We also have plans to begin making inroads into the Japanese market in this period.

However, the Group's focus in this 3-Year Plan is on increasing margins. Its core business will be enhanced with more value added services and operating costs will be reduced through achieving economies of scale in IT and systems. The Group aims to be the most efficient and lowest cost service provider in our field over this period.

In addition, with a strong balance sheet and ample cash reserves the Group will be in a good position to capitalize on acquisition opportunities that present themselves in this slow economic environment.