

Chairman's Statement

As markets for most of the Group's range of consumer products remained sluggish during the year 2000, a consolidated loss of approximately HK\$85.5 million was recorded for the year ended 31st December, 2000.

No interim dividend was paid during the year (1999 : nil) and the Directors do not recommend the payment of a final dividend (1999 : nil).

The operating loss amounted to approximately HK\$54.0 million, resulting primarily from a significant loss incurred by the "Mega Warehouse" direct marketing business in the highly competitive retail market; the difficult trading conditions in the audio visual product sector; and the poor performance in the overseas Asian markets which equally experienced weak market conditions.

Significant exceptional and non-recurrent provisions of approximately HK\$48.6 million were necessary. These included provisions on aged account receivables in respect of the washing machine joint venture in mainland China; a deficit on revaluation of investment properties; and the provision necessary to facilitate the buy back of the motor vehicle distribution business.

The bright spot of the operations was the air-conditioning business, which generated a healthy profit for the year. The strategy of shifting the business focus from mass consumer market air-conditioners to commercial air-conditioners has proven successful - higher profit margins and improved cashflows were achieved. The air-conditioning manufacturing and sales joint venture was also profitable.

As the global economy continues to slow in 2001, and the impact is felt in the regional markets in which the Group operates, management will focus on a profit recovery programme, the key elements of which involve:

- substantial cost cutting in all functions and businesses, which would include relocation of some of the operations to mainland China to increase efficiency and reduce costs;
- disposing of some of the Group's property and other assets to further reduce Group indebtedness and provide additional working capital to develop the core trading businesses.
- continuous expansion of the "MHI" commercial air-conditioning and project business, by leveraging the Group's technical expertise and strong marketing of the "MHI" product's competitive advantages;
- growing the "Alpine" car audio and electronics product and "LG" electrical appliance businesses;
- building the "Rogers" and "Bodysonic" Group - owned brands, with high-margin commercial electrical and electronic products such as Plasma display monitors;
- integrating the motor vehicle distribution business, that is being repurchased, back into the Group as a subsidiary and which is expected to generate good revenues and profits in the coming year;

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- building strong dealership networks by inculcating the disciplines of partnership and distribution chain management; and
- developing a viable telecommunication business in mainland China based on broadband and IP technologies.

The current year trading prospects are expected to be improved by the global trend of sliding interest rates and also the declining value of the Japanese yen, against the Group's major trading currency, the HK dollar. Both factors will reduce financial costs and improve profit margins. As China is expected to join World Trade Organisation ("WTO") in the coming year, management is confident that given Wo Kee Hong's unique position as a renowned marketing and product distribution company in the Chinese markets, the Group will benefit from the inevitable increase in trading activities and opportunities.

The Board is extremely pleased by the recent appointment of Mr. Barry John Buttifant as the Group Managing Director. Mr. Buttifant will assume the general management responsibilities of the Group. He brings to the Group his wide managerial experience and reputable business expertise, which includes impressive performances as the managing director of several successful listed companies in Hong Kong and Singapore in the recent years. We also welcome Mr. Raymond Cho Min Lee, a seasoned investor, who joins the Board as an Independent Non-executive Director. The strengthened Board of Directors of your Group will certainly contribute to the rebuilding of Wo Kee Hong and should lead it into a new era of healthy growth and development.

We must thank all of the shareholders, suppliers, customers, bankers and employees who continue to strongly support the Group in this recovery period. Such support will undoubtedly be rewarded by improved performance of the Group in 2001 and beyond.

Wing Sum LEE

Chairman

Richard Man Fai LEE

*Vice Chairman &
Chief Executive Officer*

Hong Kong, 28th May, 2001

