BUSINESS REVIEW

Similar to the same period of 2000, the Company experienced extremely difficult trading time in the first 6 months of this year. The Group's turnover for the Period was HK$12.43 million as compared with corresponding last period of HK$ 12.98 million. This represents a decrease of 4.25% and it was because of the plunge of the turnover in the People's Republic of China ("PRC"), the Group's principal market place. Comparing to the same period of last year, the sales in PRC fell by 64.15%, which could hardly be remedied by the slight increase of 8.81% in the local sales. However, the interim unaudited consolidated loss attributable to shareholders was decreased by 5.93%, from HK$5.53 million of the same period in 2000 to HK$5.20 million for the Period.

The Group's distribution business in PRC experienced a low level of activity in the Period. The import of left-hand drive motor vehicles was seriously affected by several reasons. Firstly, though the import tariff has been lowered by the range from 7% to 20% in 2001 for different classes of vehicles, the consumers are expecting to purchase imported vehicles at a more cheaper price as a result of tariffs reduction once the nation becomes a member of the World Trade Organization ("WTO"). Secondly, larger market share in the sale of medium-end sedans has been achieved by the joint-venture auto-makers in PRC, such as GM, Audi, Toyota, Daihatsu and Honda. Some of these joint-venture manufacturers had already established the "four-in-one" franchisee outlets to enhance the growth of sale and after-sale services. At present, Guangzhou Honda have successfully established 80 such franchisee outlets in PRC and the number is believed to be increased in the near future. Thirdly, owning a locally-made vehicle is cheaper than before, primarily due to price competition. Apart from the cuts in import tariff, other significant changes of policies, which shall furtherly stimulate the purchasing desire of local consumers, are likely to be: (a) simplified or removal of purchase taxes and levies; (b) the development of car purchase loans; (c) more car-related facilities and infrastructures; for examples, highways, public and private car parks, are under construction; and (d) tax-free policy for small passenger cars. Last but not least, a trade war between China and Japan fired off on 23 April. China has levied a 100% additional punitive import tariff in early June for imported vehicles as a strike back against the Japanese. Until or unless China becomes a member of the WTO, or two nations work thing out peacefully, the Directors, in their belief, the market for imported sedans is hardly back to normal and the Company's operating results for the second half of this year will be seriously damaged.

Effective on 26 July 2001, the Group completed a capital reorganisation by which:

(a) the issued and unissued shares of the Company were consolidated on the basis of every 10 issued and unissued shares being consolidated into 1 share ("Consolidated Share");

(b) the nominal value of each issued Consolidated Share was reduced from HK$0.20 to HK$0.01 by the cancellation of HK$0.19 of the paid up capital on each issued Consolidated Share so that the issued share capital of the Company was reduced from an amount of HK$29,414,880 to HK$1,470,744;

(c) every authorised and unissued Consolidated Share were subdivided into 20 Adjusted Shares. The Adjusted Shares rank pari passu in all respects with each other, having attached thereto the rights set out in the bye-laws of the Company; and

(d) a credit in the sum of HK$27,944,136 arising from the capital reduction as mentioned in (b) above, on the basis of 1,470,744,000 shares in issue, was applied towards setting off part of the accumulated loss of the Company as at 31 December 2000.

The main reason for such capital reorganisation was the trading prices of the Company's shares. Over the last 6 months before the capital reorganisation, the Company's shares had traded within the range of HK$0.014 to HK$0.101 and had at times traded below their nominal value of HK$0.02, with the lowest traded price at HK$0.014 on 30 March 2001. Under Bermuda law, a company may not issue shares at a discount to the nominal value of such shares. With a view to facilitating any capital raising when circumstances arise in the future, the Board decided to undertake the capital reorganisation which, by reducing the nominal value of the shares in the capital of the Company to HK$0.01 per share, allows flexibility for the issue of new shares in the future if the Board considers appropriate. However, the Board has no present intention to issue new shares.

FUTURE OUTLOOK

There always have been numerous trading difficulties, the Company, however, commits to improve the marketing and wholesale distribution of left-hand-drive motor vehicles. It is highly probable that China may close its 15-year campaign to join the WTO by the end of this year. By then, the trade war between China and Japan shall end and the punitive tariff should be removed. Moreover, the import tariffs of motor vehicles should be gradually reduced, as required by the rules of the WTO, to improve the competitive edge of imported vehicles, in terms of price and quality. Until then, the Company keeps on developing direct sale outlets in PRC, mainly in the southern cities of China and seeking for new alliance with sales partners in northern part of China. China has always been the best-known market for the Company's distribution business ever since late 1980s. According to a recent survey conducted by MasterCard International Inc., the nation shall have a sharp increase in consumer confidence rating for the coming six months.

The Board believes that the import of foreign vehicles shall be healthily improved because China is now trying to boost the domestic demand through various measures, including the increase of vehicle consumption. Speaking at a car show on 25 August 2001 in Changchun, Jilin, Mr. Liu Hai Yan, the Vice-Mayor of Beijing, expects the number of cars in the capital to be 2.5 million, an increase of 1.6 million over the coming seven years.

In order to promote the distribution business of imported vehicles, the Board will consider to raise funds from external sources at appropriate time during 2001. The Group's financing costs had been drastically reduced over the last three years as a result of turnover shrinkage and financial restructuring. Fortunately, almost 72% of the Group's interest-bearing loans had been settled during the Period, the burden of financing costs for the Group should then be greatly released in the future. From now on, focusing on the re-development of our distribution business has become the top priority job for all members of the Board. In the mean time, the Company will continue to improve the efficiency and competitiveness of its cost control and operations in order to meet the challenges and to capture the huge business opportunities arising from the PRC's entry into the WTO.

FINANCIAL SUMMARY

The Group continued to keep tight control of its working capital management on the credit policies, inventory, funding and treasury planning. As at 30 June 2001, more than 95% of our receivables were less than two months old, providing unnecessary provision for doubtful debts over the Period. During the past three years, the Company experienced great hardship in the clearance of our enormous slow-moving inventories. Since the last small portion of such inventories had been successfully disposed during the Period, bigger gross margins were then achieved for the Period from the sale of new versions of sedans. Though we had tried good enough, the Company failed to implement the just-in-time procurement policy. It was mainly because most Japanese auto-makers, under their normal trading practices, insist to take overseas orders 3 months in advance. Nevertheless, the Company had managed its inventories efficiently by focusing on precise forecasting of market changes. As at 30 June 2001, we believe that, the Company carried the least inventory risk by holding updated inventories of HK$2.40 million, which was about 70.10% and 63.82% cut in inventories held at 30 June 2000 and the last year-end day respectively.

In terms of liquidity, the current ratio at the end of the Period was 0.39, a slight improvement to that achieved in the last year end date of 0.35. The Group's gearing ratio, resulting from a comparison of the total borrowings with issued capital, was 1.74 at the interim period end date (31 December 2000: 2.00).

Comparing to the same period in last year, the turnover for the Period plunged by 4.25% but the gross profit had been largely improved, resulting in 5.93% decrease in the net loss from operating activities attributable to shareholders. The main reason was that most of the slow-moving inventories had been gradually disposed in last financial year, giving us room for new models of sedans. These newly updated inventories generated more profit margins in the Period.

The total bank loans as at 30 June 2001 were HK$36.22 million, representing a decrease of 31.90% during the six-month period from the balance at 31 December 2000 and a decrease of 28.87% from the balance at same day of last year. As at 30 June 2001, the Company had cash and cash equivalents of HK$13.04 million (including pledged bank balance of HK$10.69 million), representing a decrease of 8.55% during the six-month period from the balance at 31 December 2000 and a increase of 16.81% from the balance at same day of last year.

CONTINGENT LIABILITIES

The High Court Action numbered 5306/2000 between a subsidiary of the Company and its vendors had come to an end during the preparation of this interim report. The case has evolved into a situation where our subsidiary is not subject to any counter claim by the defendants. One of the defendants successfully dismissed the claims against them and obtained a "costs order" in their favor to be taxed if not agreed. On or about 21 August 2001, our subsidiary and the defendants reached an agreement on the question of legal costs. The subsidiary will pay a sum of HK$274,895.00 for full and final settlement of the costs award to the defendants in September 2001.

SIGNIFICANT ISSUES

During the Period, there was no significant investment and material acquisitions or disposals of subsidiaries or associated companies. Also, there is no plan for material investments or capital assets in the near future mainly because of the Group's limited funding position. Since all the purchases of our merchandise had been fixed at an agreed exchange rate prior to the confirmation of purchase orders by the Group to its vendors, the Group had no exposure to fluctuation in exchange rates and any related hedges. Furthermore, the Company and the Group had no significant commitments during the Period (2000: nil).