Business Review

The Company experienced the most difficult business time in its trading history over the financial year under review. The Group's audited turnover for the year ended 31 December 2001 was HK$16.4 million, a 41.3 per cent decrease from that of last year. Again, there were no material provisions of any kind in the accounts and the Group's audited loss for 2001 was HK$10.8 million, a significant improvement as compared with those of the last three years.

The bad performance in 2001 was primarily triggered by the unfavorable changes in automobile import market in China, the Group's principal market place. The trade war between China and Japan fired off on 23 April last year and ended by January this year after China closed its 15-year campaign to join the World Trade Organisation (the "WTO") in November last year. Last June, China imposed 100 per cent additional punitive duty on Japanese imported vehicles as part of its retaliation against Japan's emergency tariff on mushrooms, leeks and tatami rushes imported from China. Consequently, the Group's distribution business in China was seriously damaged by a devastating drop in import demand, especially in the second half of the year where the auto sales to China were inevitably ceased. For the entire year of 2001, the Company had seen sales slump at both local and China's market, slipping 37.8 and 73.4 per cent respectively as compared to those of last year.

Pursuant to a resolution passed in the Board Meeting of the Company on 8 January 2001, the Company issued a total of 240,000,000 new ordinary shares of HK$0.02 each at a price of HK$0.023 per share on 23 January 2001 to ten independent investors by means of placing. The net proceeds of HK$5,081,000 were used for reducing the bank loans. Together with other measures, the placing helped the Company reduced the financial expenses by a significant decrease of 44.4 per cent from last year.

On 26 July 2001, the Company 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 losses 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.

Subsequent to the balance sheet date, the Company raised additional funds through a rights issue on the basis of one rights share for every two existing shares held. The Directors considered that it was in the interest of the Company and the shareholders to raise additional funds by way of rights issue instead of external borrowing so as to reduce the burden of the Group on financial costs and not to increase the gearing ratio of the Group. 73,537,200 rights shares had been issued on 30 January 2002 and a net proceeds of HK$6.1 million had been raised. About HK$3.5 million of the net proceeds had been used to reduce the bank loans and the remaining funds were used to purchase merchandise from our Japanese supplier for our distribution sales in China.

Financial Summary

As previous years, the Group continued to keep tight control of its working capital management on the credit policies, inventory, funding and treasury planning. As at 31 December 2001, the Group's trade receivables amounted to HK$27,000 (2000: HK$524,000). During the past three years, the Group experienced great hardship in the clearance of our enormous slow-moving inventories. The last portion of such inventories had been successfully disposed during the financial year under review. As at 31 December 2001, more than 95 per cent of our inventories were less than one year old. Though we had tried good enough, the Group failed to implement the just-in-time procurement policy. It was mainly because most Japanese carmakers, under their normal trading practices, insist to take overseas orders 3 months in advance. Nevertheless, the Group had managed its inventories efficiently by focusing on precise forecasting of market changes. As at 31 December 2001, we believe that, the Company carried the least inventory risk by holding updated inventories of HK$2.9 million, which was about 55.7 per cent cut in inventories held at 31 December 2000.

As at 31 December 2001, the Group's net current liabilities and net liabilities amounted to HK$36,824,000 (2000: net current liabilities of HK$40,727,000) and HK$21,310,000 (2000: net liabilities of HK$15,561,000) respectively. At the same day, the Group's cash and bank balances, excluding pledged time deposits, amounted to HK$1,471,000 (2000: HK$3,738,000). The total bank loans and overdrafts as at 31 December 2001 were HK$28.9 million, representing a decrease of 38.1 per cent from the balance at 31 December 2000.

In terms of liquidity, the current ratio at the end of the Year was 0.22 (31 December 2000: 0.35). The Group's gearing ratio, resulting from a comparison of the total borrowings with issued capital, was 31.11 at the year-end date (31 December 2000: 2.00). The capital structure of the Company only consist of share capital, no capital instrument is issued by the Company.

After the placing and capital reorganisation in 2001 and a rights issue in 2002, the Board will keep on exploring any opportunities that could strengthen the capital base of the Company.

Future Outlook

The trading environment in China's automotive imports has been largely improved ever since the nation becomes a member of the WTO. The punitive duty on imported Japanese autos was removed early this January, resuming the normal trading of Japanese imported vehicles in China. The demand of foreign vehicles has been furtherly stimulated by the import tariff cuts. The tariffs reached as high as 300 per cent in the past. The impact of China's accession to the WTO has been enormous. Among all others, no sector has been affected as quickly as the car industry. China signed its accession agreement on 13 November 2001, under which the country agreed to cut the tariff on imported cars on a gradually basis to 25 per cent by mid-2006. The first cuts took effect on 1 January 2002. China slashed car import tariffs to 43.8-50.7 per cent from the previous 80-100 per cent to honour commitments for accession to the WTO. The tariff cut unlocked market demand that had built up in expectation of a drastic price reduction upon WTO entry.

Despite world economic recession and the continual weakening of the Japanese currency, the Board believes that the rapid development of China's economy will not be hindered and we are rather optimistic about the future of China's automobile industry. To comply the obligations of WTO, China is obliged to grant a total auto import quota of US$8 billion this year (US$4 billion last year) for foreign-made vehicles and components and thereafter a 15 per cent annual increase till 2005 when import quota shall be totally waived. Approximately 48,000 foreign-made vehicles, amounting US$1 billion, were imported to China last year. The expected number of imported vehicles for this year is 75,000, a 56 per cent growth according to many analysts' forecasts. For the first quarter of this year, China's automobile industry had achieved an increase of more than 20 per cent from the same period of last year.

Other than the increase of import quota and tariff cuts, China has vowed to stimulate domestic demand, including automobile consumption, to maintain its rapid economic growth. The government has carried out a number of actions that help spur the demand, including:

- setting up a national credit system for individuals;
- room for interest rate cuts;
- breaking down local protectionism;
- setting up a unified, fair and orderly national market; and
- simplifying and reducing the fee and taxation system for car purchase and maintenance.

Furthermore, the US economy has passed through its worst stage, as is seen from recent economic indicators. Not only China but also the whole Asia region could benefit quickly from the US turnaround. Due to the positive changes in China's automobile industry, the Company must grasp the present opportunity firmly in order to improve the distribution sales to our most important market. Depending on the size of our operational funds, auto sales for 2002 and later years should be greatly improved to generate positive profits to the Group. Meanwhile, the Company shall keep on developing direct sale outlets in China, mainly in the southern cities, and seeking for new sales alliance in northern part of China.

Chan Chun Choi
Chairman and Managing Director

Hong Kong
19 April 2002