

The Directors present their Annual Report and Audited Financial Statements for the year ended 31 December 2001.

Principal Activities

The principal activities of the Company are investment holding. The principal activities of its subsidiaries consist of the marketing and distribution of left-hand drive motor vehicles and property holding for rental income purposes. There were no changes in the nature of the Group's principal activities during the year.

Major Customers and Suppliers

In the year under review, the aggregate turnover attributable to the five largest customers of the Group accounted for approximately 67 per cent of the Group's turnover for the year and sales to the largest customer included therein amounted to approximately 19 per cent.

The aggregate purchases attributable to the three largest suppliers accounted for the total of 100 per cent of the Group's purchases for the year, and purchases from the largest supplier included therein amounted to approximately 98 per cent. None of the Directors, their associates or any shareholders (which to the knowledge of the Directors owned more than 5 per cent of the Company's share capital) had any beneficial interests in the Group's five largest customers and the Group's three largest suppliers.

Results and Dividend

The Group's results of the Company for the year ended 31 December 2001 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 24 to 57.

The Directors do not recommend the payment of any dividend in respect of the year.

Segmental Information

Details of segmental information are set out in note 28 to the financial statements.

Summary Financial Information

The results, assets, and liabilities of the Group for the last five financial years are summarised on page 58. This summary is not part of the audited financial statements.

Fixed Assets and Investment Properties

Details of movements in fixed assets and investment properties of the Group are set out in notes 13 and 14 to the financial statements, respectively.

Subsidiaries

Particulars of the Company's principal subsidiaries are set out in note 15 to the financial statements.

Borrowings

Details of the Group's borrowings are set out in note 22 to the financial statements.

Retirement Scheme

The Group has implemented a provident fund scheme for its staff in compliance with requirements of the Mandatory Provident Fund ("MPF") Schemes Ordinance from 1 December 2000. The Company contributed according to the minimum requirements of the MPF Ordinance (that is, 5 per cent of staffs' relevant income with maximum limit of HK\$1,000) and the contributions are charged to the profit and loss account.

Share Capital, Warrants and Share Options

Details of movements in the Company's share capital, warrants and share options during the year and subsequent to the balance sheet date, together with the reasons for the issue thereof, are set out in note 23 to the financial statements.

Pre-emptive Rights

There are no provisions for pre-emptive rights under the Company's bye-laws or the laws of Bermuda, being the jurisdiction in which the Company is incorporated, which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

Reserves

Details of movements in the reserves of the Company and the Group during the year are set out in note 24 to the financial statements.

Distributable Reserves

At 31 December 2001, the Company had no reserves available for cash distribution and distribution in specie computed in accordance with the Companies Act 1981 of Bermuda except for the Company's share premium account which may be distributed in the form of fully paid bonus shares.

Under the Companies Act 1981 of Bermuda, the Company may make distributions from its contributed surplus in certain circumstances, prescribed by Section 54 thereof, which the Company was unable to satisfy as at 31 December 2001.

Contingent Liabilities

The High Court Action numbered 5306/2000 between a subsidiary of the Company and its vendors had come to an end. The case 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 paid 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 year, there were no significant investments 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 year (2000: nil).

Related Party Transactions

In April 2001, the Group received a cash advance, totally HK\$14.65 million, from the sale of premises previously owned by Winsley Investment Limited ("Winsley"), a company controlled by Mr. Chan Chun Choi and Madam Lam Mo Kuen, Anna, both of whom are Director of the Company. Such advance is unsecured, interest free and has no fixed terms of repayment. Winsley is involved in property investment and is no longer jointly and severally liable for banking facilities granted to the Group by any of our bankers.

Significant Post Balance Sheet Event

On 30 January 2002, the Group issued 73,537,200 rights share on the basis of one rights share for every two existing shares held.

Employees

As at 31 December 2001, the Group had a total of 18 employees, of whom 9 were based in Hong Kong whereas 9 were local staff employed in PRC. The remuneration package for Hong Kong staff was strictly on monthly-salary basis and that for PRC employees was mainly based on their performance. Year-end bonus is linked to the financial results of the Group as well as the performance of individual staff. The remuneration policies of the Group's employees are subject to review regularly. Total staff costs for the year amounted to HK\$4.0 million (2000: HK\$3.9 million). On irregular but necessary basis, the Company organises product seminars, salesmanship and computer training courses and recreational activities.

The Group does not operate any pension or retirement schemes for its Directors or employees until the implementation of MPF in December 2000. The Group has a share option scheme, which was duly approved by the shareholders on 22 January 1998, available for any full-time employees of the Company or any of its subsidiaries, including any executive Director of the Company or of any subsidiaries but no options were granted under the scheme.

Pledge of Assets

The Group's land and building and investment properties with an aggregate book value of HK\$23.8 million (2000: HK\$25.1 million) and fixed deposits of HK\$5.7 million (2000: HK\$10.5 million) were pledged to secure bank loans and overdrafts of the Group.

Property Valuation

A property valuation had been carried out by Vigers Hong Kong Limited, an independent professional valuer, in respect of the Group's leasehold land and buildings and investment properties. The Group's leasehold land and buildings were valued at HK\$9.8 million, comprising a deficit on revaluation of HK\$0.23 million. The Group's investment properties were valued at HK\$14.0 million, comprising a deficit on revaluation of HK\$0.8 million.

Acquisitions and Disposals of Subsidiaries and Associates

During the year, there was no material acquisition on disposal of the Company's subsidiaries or associated companies.

Directors

The Directors of the Company during the year were:-

Executive Directors:

Chan Chun Choi (Chairman and Managing Director)
Lam Mo Kuen, Anna (Deputy Chairman)

Non-executive Director:

Liu Kwok Fai Alvan

Independent non-executive Directors:

Ng Chi Shing
Yuen Kwok Wah, Bernard

In accordance with clause 86(2) of the Company's bye-laws, Madam Lam Mo Kuen, Anna will retire and, being eligible, will offer herself for re-election at the forthcoming annual general meeting.

Directors and Senior Management Biographies

Biographical details of the director of the Company and the senior management of the Group are set out on pages 8 to 10 of the annual report.

Emoluments of Directors and the five highest paid individuals

Details of the Directors' emoluments and of the five highest paid individuals in the Group are set out in notes 8 and 9 to the financial statements, respectively.

Directors' Service Contracts

No Director proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable by the Group within one year without payment other than statutory compensation.

Directors' Interests in Contracts

Except as disclosed in the note 29 to the financial statements, none of the Directors had a significant beneficial interest in any contract of significance to the business of the Company to which the Company or any of its subsidiaries was a party during the year.

Purchase, Redemption or Sale of Listed Securities

Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year.

Directors' Rights to Acquire Share

Pursuant to the Company's share option scheme (the "Scheme"), the Directors may, at their discretion, grant to the Directors and the full-time employees of the Group the right to subscribe for shares of the Company.

Details of the Scheme are set out in note 23 to the financial statements. No options were granted during the year.

Save as disclosed above, at no time during the year was the Company or any its subsidiaries a party to any arrangement to enable the Director of the Company or their respective spouse or children under 18 years of age to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

Directors' Interests in Share Capital

At the balance sheet date, the interests of the Company's Directors in the share capital of the Company and its associated corporations, as recorded in the register required to be kept by the Company under Section 29 of the Securities (Disclosure of Interests) Ordinance ("SDI Ordinance"), were as follows:

- (i) The Company

Name of Directors

Number of shares held (other interest)

Chan Chun Choi	71,851,724
Lam Mo Kuen, Anna	71,851,724

REPORT

OF THE DIRECTORS ►

Victory Group Limited

The above shares are held by Eternal Victory Enterprises Inc., a company incorporated in the British Virgin Islands, as trustee of a unit trust, the units of which are held by a discretionary trust established for the family members of Chan Chun Choi, including Lam Mo Kuen, Anna, Chan Chun Choi holds all the issued share of Eternal Victory Enterprises Inc.

(ii) Associated Corporations

Name of associated corporation	Name of Director	Number of shares held	Class of shares	Type of interest
Victory Motors Centre Limited	Chan Chun Choi	100,000	Non-voting deferred	Personal
		2,800,000	Non-voting deferred	Corporate (Note)
Victory Motors Centre Limited	Lam Mo Kuen, Anna	100,000	Non-voting deferred	Personal
		2,800,000	Non-voting deferred	Corporate (Note)

Note: The 2,800,000 non-voting deferred shares are held by Kwong Hung Hing Enterprises Co. Limited of which Chan Chun Choi and Lam Mo Kuen, Anna together hold the entire issued share capital.

Save as disclosed above, none of the Directors or their associates had any personal, family, corporate or other interest in the equity or debt securities of the Company or any of its associated corporations, as defined in the SDI Ordinance.

Substantial Shareholders

At the balance sheet date, no person other than Eternal Victory Enterprises Inc., details of whose share interest are set out under the section headed "Directors' interests in share capital", was registered as having an interest of 10% or more in the share capital of the Company that was required to be recorded pursuant to Section 16(1) of the SDI Ordinance.

Corporate Governance

None of the Directors of the Company is aware of any information that would reasonably indicate that the Company had not complied with the Code of Best Practices (the "Code") as set out in Appendix 14 of the Listing Rules of The Stock Exchange of Hong Kong Limited during the year. The Audit Committee, which had been developed in compliance the Code by the Company in 1999, had reviewed with management the accounting principles and practices adopted by the Group and discussed internal controls and financial reporting matters, including a review of the audited financial statements of the Company for the financial year under review. After such review, the Audit Committee reached a decision that the aforesaid audited financial statements should be submitted to the Board for proper approval.

Auditors

Fan, Mitchell & Co. were first appointed as auditors of the Company in 2001 upon the resignation of Ernst & Young.

Fan, Mitchell & Co. retire and, being eligible, offer themselves for re-appointment. A resolution for the re-appointment of Fan, Mitchell & Co. as auditors of the Company is to be proposed at the forthcoming Annual General Meeting.

Appreciation

Needless to say, the operating results for the financial year under review was unsatisfactory. Yet it does not discourage the determination of the Company and its Board to overturn the performance in the challenging years ahead. Plans and strategies have been formulated and should be in place when conditions permit. At the mean time, the Board would like to thank all our staff for their hard work and hope to have their continuous support and patience in the attempt of making future years success.

On Behalf of the Board

Chan Chun Choi

Chairman and Managing Director

HONG KONG, 19 APRIL 2002