Chairman's Statement

The key markets for the Group's range of products remained very weak during the year 2001. A consolidated loss of HK$99.5 million was recorded for the year ended December 31, 2001.

No interim dividend was paid during the year (2000 : nil) and the Directors do not recommend the payment of a final dividend (2000 : nil).

The loss from operations in the year amounted to approximately HK$65.4 million which included non-recurrent losses of HK$8.0 million on the sale of a Singapore property; HK$20.0 million on the write-off of intangible assets and HK$10.6 million on the write-down of properties held for resale. All core business sectors showed improved performance over the previous year with the one significant exception of the key air-conditioning products business. The operating profits from this business drastically decreased and were at a level of half of those of FY2000, principally caused by six months of a 100% import penalty duty, imposed by the Chinese customs on such Japanese-made products, as part of a trade dispute between China and Japan. However, the total Group loss from operations was almost 41.1% lower than that recorded in FY2000 after adjusting for the non-recurrent items. A further much improved result could have been possible without the adversity caused by the sudden imposition of the penalty duty on air-conditioning products. This penalty duty was lifted at the end of 2001.

Turnover increased by 46.3% to approximately HK$565.8 million, largely as a result of the buyback at the end of the previous year of the vehicle distribution business for "Ferrari" and "Maserati", which is now a group subsidiary operation.

During the year, as part of the corporate reorganisation programme, the "Mega Warehouse" operation became an wholly-owned subsidiary and since that time has been expanding profitably. The ebuystore.com sales support facility, also became an wholly-owned unit.

Management focused on a profit recovery programme, as detailed in last year's report, and it has been successful in substantial cost cutting in all functions and businesses. The full year benefits of this will be seen in FY2002. Further actions in reduction of costs through small business closures or disposal; reduction of indebtedness through the sale of a small property and improvements in working capital utilisation; brand building; integration of the vehicle distribution business; and dealership networking, also began to make contributions.

In 2001 management have prudently decided to take the opportunity to clean-up the balance sheet by making all considered appropriate substantial provisions and write-downs on properties and of intangible assets and goodwill. Again, benefits to the bottom-line from this action will be seen in FY2002.

It is important to note that in November 2001 a conditional agreement was reached with Mitsubishi Heavy Industries Limited ("MHI") to settle the significant outstanding supplier account payable, a large portion of which was due for repayment on December 31, 2001. This agreement will now be satisfactorily finalised during the early part of 2002. The result of the settlement will allow a profit to be booked from the sale of our minority interest in a manufacturing joint-venture with MHI and, even more importantly, the remaining balance of debt will be converted to a long-term, largely unsecured and low-interest loan over 15 years, the first ten years of which has limited repayment terms. This will substantially reduce the Group's short-term net gearing ratio to around 20%, thereby dramatically improve the balance sheet and short-term liquidity and cash flow.

Other major initiatives which management will take in 2002 include:–

- Capital reorganisation to raise working capital and reduce indebtedness and to include elimination of accumulated losses, to pave the way for possible early resumption of dividend payments;
- Continuation of profit improvement programmes, of cost cutting whilst stimulating sales growth and margin improvements;
- Dealership networking in mainland China for air-conditioning products and motor vehicle distribution;
- Own in-house product brand building and distribution networking;
- Profitable expansion of the direct marketing "Mega Warehouse" operation in Hong Kong, and which may then eventually include mainland China;
- Continuous strengthening of the management team and control systems.

Despite the current weak markets in Hong Kong and Southeast Asia, we believe that mainland China will provide even bigger potential for consumer and industrial product imports, given its accession to the World Trade Organisation. The Japanese yen is expected to remain weak, which will continue to benefit profit margins. The management are confident that 2002 will be a year which marks profit recovery and sales growth, as we focus all our efforts towards this goal.

We must express our utmost appreciation to all of the shareholders, suppliers, customers, bankers and employees, who continuously support our Group in our recovery programme. Together, we look forward to a rewarding 2002 for our Group.

Wing Sum LEE
Chairman

Richard Man Fai LEE
Vice Chairman & CEO

Hong Kong, April 24, 2002