

Post Balance Sheet Events and Pro-forma Summary Balance Sheet

Two significant developments were announced to take effect early in the new financial year of 2002 which, upon completion, will dramatically improve the financial standing of the Group.

1. Debt settlement and rescheduling arrangement of supplier credit finance

For some years the Group has been indebted to Mitsubishi Heavy Industries Limited ("MHI"), by a combination of short-term and long-term unsecured debt. In November 2001 this amounted to approximately HK\$202.9 million, of which HK\$134.7 million was due for repayment on December 31, 2001 with the balance of HK\$68.2 million being repayable in monthly instalments up to June 30, 2009. Since the Group did not have the financial resources to meet the repayment at the end of December 2001, negotiations between MHI and management were undertaken in Tokyo in November 2001 which resulted in a Conditional Agreement, details of which were announced to shareholders on November 30, 2001.

The summary of the Conditional Agreement was as follows:-

- a. Settlement and rescheduling of HK\$134.7 million debt due on December 31, 2001
- Sale to MHI of the Group's indirectly held 24.5% minority equity interest in a joint venture manufacturing company in the PRC. The joint venture company is principally engaged in the manufacture of air-conditioners and MHI already holds a 51% direct equity interest. The consideration agreed is RMB76.0 million (equivalent of HK\$71.8 million), which amount shall be set-off against the debt due on December 31, 2001, the balance of which would then be reduced to HK\$62.9 million.
 - The balance of debt of HK\$62.9 million would then be aggregated with the outstanding balance of the longer-term debt of HK\$68.2 million due for repayment in monthly instalments until June 30, 2009. The resultant total debt of HK\$131.1 million, would then become subject to the terms and conditions of a new long-term loan arrangement.
- b. Repayment arrangement for the long-term debt
- Aggregate debt principal, to be converted to a long-term loan, is HK\$131.1 million;
 - 15-year tenure effective from January 1, 2002;
 - First 10 years from commencement date, subject to no principal repayments, unless in any year a minimum profit of HK\$50.0 million shall be earned by the Group whereupon HK\$10.0 million of the principal of the outstanding loan shall be repaid;

- The outstanding loan, after 10 years from the commencement date, shall be repaid over the following 5 years by 10 equal instalments at each half year;
- Interest shall be fixed at 2.5% per annum on the loan and shall be payable on December 31 each year; and
- The Group shall charge the first and second floors of Wo Kee Hong Building to MHI, as the only security for the loan.

The Agreement was conditional upon the approval and consent of the equity parties of the PRC joint venture company; the relevant government authorities; the Directors of the Company and the Directors of MHI; and the completion of these transactions on or before March 31, 2002.

It was announced on March 27, 2002 that the completion arrangements had been extended by mutual agreement of MHI and the Company, to May 31, 2002. Since the first announcement of this arrangement on November 30, 2001 most documentation had been completed and the equity parties to the PRC joint venture company had approved the transaction. Further, a positive response had also been indicated by the relevant government authorities and therefore what remains to complete the proposed transaction is final completion of documentation; formal approval of both boards of Directors; and formal approval of the relevant government authorities. It is expected that all documentation and approvals will be completed on or before May 31, 2002.

Two key aspects to be noted by shareholders on successful completion of the proposed transaction:

- A profit of approximately HK\$10.0 million would be realised from the sale of the Group's interest in the PRC joint venture company and would be brought to account in the 2002 financial results.
- The Auditors' Report on the Group Accounts this year contains, as last year, a note on the "Fundamental uncertainty relating to the going concern basis". This is not a qualification of the audit opinion, and reference is made to the on-going loan rescheduling arrangements. Upon their successful completion the Group will be able to meet in full its financial obligations as they fall due for the foreseeable future, and therefore these comments in the audit opinion, relative to this specific situation, should not recur in future periods.

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2. Capital Reorganisation, Rights Issue with Bonus Share Issue

On February 1, 2002 the Company announced a proposed capital reorganisation and, rights issue with bonus share issue.

a. Capital Reorganisation

The capital reorganisation was subject to approval by shareholders and a circular was issued on February 20, 2002 giving details of the proposed Scheme as follows:–

- the paid up capital and nominal value of each of the issued shares to be reduced from HK\$0.10 to HK\$0.001 each, by cancellation of HK\$0.099 of the paid up capital for each issued Share;
- each authorised but unissued share to be subdivided into 10 Adjusted Shares of HK\$0.01 each;
- every 10 issued Reduced Shares to be consolidated into 1 issued Adjusted Share;
- the credit of approximately HK\$139.5 million arising from the Capital Reduction, to be fully utilised to eliminate part of the Accumulated Losses; and
- an amount of approximately HK\$343.5 million standing to the credit of the Share Premium Account to be applied to eliminate the balance of Accumulated Losses.

The reason for these proposals was to eliminate the existing balance of accumulated losses; allow the Company thereby to declare dividends at an early opportunity other than by generating future profits to offset accumulated losses; and facilitate greater flexibility in the market pricing of shares, made possible by way of the reduced share par value.

b. Rights Issue with Bonus Share Issue

The Rights Issue with Bonus Share Issue announced was fully underwritten by Kingsway SW Securities Limited. A prospectus was issued to Shareholders on March 15, 2002 giving details of the issues, a summary of which is as follows:–

- Upon completion of the Capital Reorganisation, the Company would raise approximately HK\$46.8 million (net of expenses) (assuming Share Options are not exercised on or before the Record Date of March 15, 2002) or approximately HK\$47.7 million (net of expenses) (assuming full exercise of the subscription rights attached to the Share Options by the Share Option holders other than the Directors), by way of the Rights Issue of not less than 140,887,117 Rights Shares and not more than 143,346,157 Rights Shares at the Issue Price after the Capital Reorganisation.

- The Company would allot one Rights Share for each Adjusted Share held by the Qualifying Shareholders upon the Share Consolidation becoming effective. It would also issue to the first registered holders of the Rights Shares, Bonus Shares on the basis of three Bonus Shares for every one Rights Share. The Rights Issue would not be available to the Overseas Shareholders.
- The estimated net proceeds of the Rights Issue of approximately HK\$46.8 million would be used as to approximately HK\$15.0 million to repay the amounts due to a subsidiary of the Company; as to approximately HK\$20.0 million to repay bank loans; as to approximately HK\$10.0 million to develop the Group's franchise and distribution businesses, specifically in the motor car business and air-conditioning marketing franchises; and as to approximately HK\$1.8 million as additional working capital of the Group.

All of the proposals were approved by Shareholders in a Special General Meeting held on March 15, 2002 and the arrangements proceeded. The Rights Issue was successfully completed as to a subscription level of 77.8% by Shareholders, and net proceeds were received by the Company on April 11, 2002.

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Pro-forma Consolidated Summary Balance Sheet

at December 31, 2001

The audited consolidated balance sheet at December 31, 2001 has been taken and the financial effects of the two post balance sheet events previously outlined, have been super-imposed on that balance sheet to show the financial impact of both arrangements. The following pro-forma summary balance sheet shows the resultant figures and for comparison purposes shows the audited figures for the years 2001 and 2000. The pro-forma summary balance sheet has not been subject to audit and is for no purpose other than to inform shareholders of the likely impact of the two major events which (a) in the case of the capital reorganisation, rights issue with bonus share issue has been completed in April 2002; and (b) in the case of the new proposed arrangements for settlement of the total supplier credit finance, remain to be completed on or before May 31, 2002.

	Pro-forma HK\$'000	Audited 2001 HK\$'000	Audited 2000 HK\$'000
Non-current assets			
Investment properties	131,923	131,923	135,516
Property, plant and equipment	188,749	188,749	252,891
Intangible assets	–	–	21,547
Interests in associates	129,583	190,076	179,427
Investment securities	1,447	1,447	1,842
Finance lease receivable	–	–	355
	451,702	512,195	591,578
Current assets	268,540	256,659	280,778
Current liabilities	(199,771)	(381,442)	(368,028)
Net current assets (liabilities)	68,769	(124,783)	(87,250)
Assets employed	520,471	387,412	504,328
Shareholders' funds			
Issued capital	7,044	140,887	140,507
Reserves			
Capital and others	430,535	730,401	722,141
Accumulated losses	(85,607)	(577,434)	(477,817)
	351,972	293,854	384,831
Minority interests	591	591	(3,791)
Non-current liabilities	167,908	92,967	123,288
Source of funds	520,471	387,412	504,328
Ratios:			
Net gearing (%)			
– excluding MHI debt	19.2		
– inclusive of MHI debt	56.6		
Net assets per share (HK cents)	49.97		