MANAGEMENT DISCUSSION AND ANALYSIS

Interim Results

To the Group, the trading operations in the Period was still severely difficult. The unaudited net loss attributable to shareholders amounted to HK$2.73 million for the Period, representing an improvement of 47.5 per cent from that of the Last Period. The unaudited turnover, however, slipped almost 59 per cent as compared to that for Last Period. Due to the market slump and shrinkage of interest rates, other revenue for the Period had also experienced a drop of 74.4 per cent from that of Last Period. The good news was that the attributable loss was mitigated by the great increase in trading gross profits, which had been increased to 11 per cent in the Period from only 3 per cent in the Last Period. The main reason was that most of the slow-moving inventories had been disposed in the last financial year, giving us room for new models of sedans. All these newly updated merchandise generated more profit margins in the Period. Furthermore, the tight cost control measures resulted in an remarkable 48 per cent decrease in the administrative and other operating expenses, achieving the anticipated cost cutting results.

Business Review

The trading difficulties in the import automotive market in China had been mitigated quite a bit over the Period. Although the 100 per cent additional punitive duty on Japanese imported vehicles imposed by China in last June, the principal reason for our bad performance in 2001, was removed in January this year, the Group's automotive business could not recover rapidly during the Period. The market has been greatly improving ever since February this year after China became a member of the World Trade Organisation in late last year. Yet, we did not have sufficient merchandise to satisfy the recovery of the market. It was mainly because of our banking facilities which had been largely shrunk as a result of our business performance over the past three years. Another reason was related to the uniqueness of the purchasing process in our operating environment. The purchasing orders to the Japanese auto-makers must be placed three month prior to the delivery of merchandise. In other words, if we planned to distribute the merchandise in January this year, we must have had placed the purchasing orders in early November last year and by that time, the trade war between China and Japan still dragged on. Our prudent financial policy did not allow risky procurement before the removal of the aforesaid punitive duty on our merchandise. Therefore, the Group despairingly requires working fund to re-develop its automotive business in both Hong Kong and China.

During the Period, the Company raised 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$6,184,000 had been raised.

Of which, HK$3.5 million had been used to reduce the bank loans and the remaining funds were used to purchase merchandise from the Japanese auto supplier for our distribution sales in China.

Pursuant to a resolution passed in the Board meeting of the Company on 28 May 2002, the Company issued a total of 44,000,000 new ordinary shares of HK$0.01 each at a price of HK$0.115 per share on 10 June 2002 to six independent investors by means of placing. HK$2.1 million of the net proceeds of HK$5,130,000 were used for reducing the bank loans and the remaining funds were used to purchase merchandise. Together with other measures, the fund raising activities in the Period helped the Company reduced the financial expenses by a significant decrease of 53.5 per cent from the same period of last year.

Financial Summary

During the Period, the Group continued to keep tight control of its working capital management on the credit policies, inventory, funding and treasury planning. As a result, the Group had no exposure to credit risk, inventory risk, fluctuation in exchange rates and any related hedges. As at 30 June 2002, the Group's trade receivables increased to HK$226,000 (31 December 2001: HK$27,000). Since about 90 per cent of the receivables were less than 2-month old, the directors considered unnecessary to provide provision for doubtful debts for the Period.

Within the Period, the Group successfully maintained insignificant amount of slow-moving inventories. As at 30 June 2002, the Group reduced holding of inventories by 28.8 per cent to HK$2,094,000 (31 December 2001: HK$2,941,000) and of which more than 90 per cent were less than half-year old. The Group has undertaken a highly efficient inventory system by focusing on precise forecasting of our funding availability in response to market demand. The directors believed that the Company carried the least inventory risk by holding updated inventories at 30 June 2002 and it was unnecessary to make any provision for the Period.

As at 30 June 2002, the Group's net current liabilities and net liabilities amounted to HK$29,243,000 (31 December 2001: HK$36,824,000) and HK$13,494,000 (31 December 2001: HK$21,310,000) respectively. At the same day, the Group's cash and bank balances, excluding pledged time deposits, amounted to HK$2,634,000 (31 December 2001: HK$1,471,000). The total bank loans and overdrafts as at 30 June 2002 were HK$28,657,000, representing a slight decrease from such balances at 31 December 2001. The Group's banking facilities are backed by a pledged time deposit amounted to HK$5,754,000 at 30 June 2002 (31 December 2001: HK$5,735,000).

In terms of liquidity, the current ratio at the end of the Period was 0.34 (31 December 2001: 0.22). The Group's gearing ratio, resulting from a comparison of the total borrowings with issued capital, was 12.95 at 30 June 2002 (31 December 2001: 31.11).

For the Period, the directors are not aware of any significant change from the position as at 31 December 2001 and the information published in the report and accounts for the year ended 31 December 2001. The capital structure of the Company only consists of share capital, no other capital instrument was issued by the Company. After the rights issue and placing in the Period, the Board will keep on exploring any opportunities that could strengthen the capital base of the Company. At present, the Board has no intention to issue new shares by whatever means.

Future Outlook

The recovery of the Group's automotive business in the forthcoming years primarily depends on the availability of working funds. During the past three years, the Group carried out a series of massive debt restructuring activities to reduce the financial burden firstly triggered by the Asian financial turmoil in late 1997. The debt restructuring scheme brought in positive results though our turnover as well as profitability had been greatly diminished.

Starting from this year, the Company begins to shift its focus on strengthening the base of working capital for re-boosting our core business. Similar to those acquired in the Period, the working funds should be invested in building a good business partnership with the distributors in China, mainly those franchised 3S (Sales, Services and Spares) outlets nationwide. Due to the gradually opening of the automotive market in China, the Group must diversify its operational strategies to adopt to the market trend. Other than grasping the direct importing channel, the Group has begun to penetrate into the nation's local automobile market by forming alliance with selected 3S outlets which have gained the franchise co-operative from well-known auto-makers such as GM, Toyota, and Honda. Relieved from the import tariffs and other trade barriers, the foreign branded but locally made vehicles shall dominate the automotive market in China through the operations of 3S outlets in the long run. Since marketing locally made vehicles will generate bigger profit margins than as compared to imported vehicles, the Company is looking for an opportunity to form alliance with existing 3S outlets or to find way to penetrate the 3S market.

DISCLOSURE OF ADDITIONAL INFORMATION

Contingent Liabilities

At 30 June 2002, contingent liabilities not provided for in the interim results were banking facilities amounting to HK$28,657,000 (Last Year-end Date: HK$28,947,000) guaranteed by the Company which were utilized by its subsidiaries.

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 (Last Period and the year ended 31 December 2001: nil).

Related Party Transactions

Except for the disclosure in the note 10 to financial statements, there was no related party transactions in the Period.

Directors' Interests in Contracts

Except as disclosed in the note 10 to 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 Period (Last Period and the year ended 31 December 2001: nil).

Directors' Interests in Share Capital of the Company

At the end date of the Period, 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 ("SDIO"), were as follows:

(i) The Company:

Name of directors	Number of shares held (other interest)
Chan Chun Choi	110,377,586
Lam Mo Kuen, Anna	110,377,586

The above shares are held by Eternal Victory Enterprises Inc. ("EVEI"), 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 EVEI.

(ii) Associated Corporations:

Names of associated corporation	Name of directors	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 Company 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 SDIO.

Major Customers and Suppliers

In the Period under review, the aggregate turnover attributable to the five largest customers of the Group accounted for approximately 71 per cent of the Group's turnover for the Period and sales to the largest customer included therein amounted to about 18 per cent.

The aggregate purchases attributable to the three suppliers accounted for the total 100 per cent of the Group's purchases for the Period and purchases from the largest supplier included therein amounted to approximately 94 per cent. None of the directors of the Company and their respective associates or any shareholders (which to the knowledge of the directors own more than 5 per cent of the Company's issued share capital) have interest in the Group's five largest customers and five largest suppliers.

Employees

As at 30 June 2002, the Group had a total of 18 employees, of whom 9 were based in Hong Kong and the others were employed in China. 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 Period were about HK$1.53 million (Last Period: HK$1.94 million). On irregular but necessary basis, the Company organises product seminars, salesmanship and computer training courses and recreational activities.

Other than the Mandatory Provident Fund, the Group does not operate any pension or retirement schemes for its Directors or employees. No options were ever granted under 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 Directors of the Company or of any subsidiaries.

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 as set out in Appendix 14 of the Listing Rules of The Stock Exchange of Hong Kong Limited during the Period. The Company's audit committee 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 unaudited interim accounts for the Period.

Purchase, sale or redemption of shares in the Company

There was no purchase, sale or redemption of the Company's shares by the Company or any of its subsidiaries during the Period (Last Period and the year ended 31 December 2001: nil).

Ultimate Holding Company and Substantial Shareholders

The directors consider the ultimate holding company at 30 June 2002 to be EVEI. During the Period, no person other than EVEI, details of whose share interest are set out under the section headed "Directors' Interests in Share Capital of the Company", 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 SDIO.

On behalf of the Board
Chan Chun Choi
Chairman

Hong Kong, 25 September 2002