



Chairman's Statement

Richard Man Fai LEE
Executive Chairman & CEO

Your Board of Directors is very pleased to announce that a consolidated profit of HK\$6 million was recorded for the year ended December 31, 2002. This is a welcome turnaround from the substantial losses suffered by the Group in recent years. Congratulations to the excellent team work shown by the management and all the staff!

No interim dividend was paid during the year (2001: nil) and the Directors do not recommend a final dividend (2001: nil) having a prudent regard for the need to preserve cash for the working capital needs of the Group. However, given the return to profitability; given the significantly improved balance sheet position; given the significant reserves available to the Group in proportion to the capital base, the Directors are pleased to recommend a bonus issue of shares at the rate of 1 bonus share for every 10 existing shares.

We would draw the shareholders' attention to the following positive Group highlights in 2002:

- A capital reorganisation and rights issue with a bonus issue was successfully completed in April. The net proceeds from the rights issue of HK\$46.8 million were used primarily to repay short-term debt, with the balance providing additional working capital.
- Another capital reorganisation was completed in September which, together with the earlier capital reorganisation exercise, ensured that all accumulated losses of the Group were eliminated, paving the way for future dividends, as and when appropriate, which hopefully will stimulate share liquidity and enhance shareholder value over time.

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Annual Report

- The long outstanding supplier credit situation was finally settled with Mitsubishi Heavy Industries Limited (“MHI”) by the partial repayment of HK\$71.8 million with the sale of the Group’s interest in an associated company “MHI-Jinling Air Conditioners Company Limited” and the remaining debt balance of HK\$132.9 million was converted into a long-term, 15 year, largely unsecured loan. This settlement enabled a profit of HK\$10.9 million to be booked on the sale of the associated company, and also eliminated any further uncertainty with regard to the debt in the balance sheet which has now been designated as long term debt. It must also be noted that the resolution of this issue has eliminated comments in the previous Audit Reports, relative to “going concern uncertainty”, and has enabled the Group to have a clean audit opinion this year.
- Liquidity was greatly improved with positive cashflows generated in the year, being inflows of HK\$18.5 million compared with outflows of HK\$18.1 million last year.
- Net current assets of HK\$67.3 million were recorded at the year end, a significant turnaround from the balance of net current liabilities of HK\$124.8 million which existed at year end 2001. Total net debt gearing ratio was greatly improved to 61.9% (2001: 107.4%) with specific bank debt gearing reduced to 18.1% (2001: 28.0%).
- Operational administration overheads were reduced by 30.7%, as part of the ongoing reorganisation of the Group’s operating units, to achieve higher productivity and adaptability to changing market conditions.

After years of combating adverse market situations, your Board of Directors is proud to work with a strengthened management, leading a highly disciplined staff who can face up to challenges and create values. Perseverance builds character; indeed, character we have as a strong marketing company.

In our vision, we see a strong Chinese mainland market growing for decades into the future; we see more and more cities and major townships growing into metropoli; we see rural areas becoming more affluent and providing markets for our products; we see rising sophistication and income levels desiring more products of the brands we market; we see more privately owned homes filled with the latest electrical appliances, pockets stuffed with mobile electronic gadgets and more highways filled with passenger cars – all products we market.

In particular, we forecast strong growth in our distribution business of imported premium cars of “Ferrari” and “Maserati”, as import tariffs continue to fall in mainland China. Thus the Group is refocusing more of its resources to build an extensive national distribution network for our cars, composed of exclusive showrooms and premium service facilities. As a result of the car boom in China, we foresee our car

audio and electronics business will also grow rapidly, especially the "Alpine" brand, a clear market leader. We also envisage growing demands for our commercial air-conditioning systems for projects and small central units designed for upmarket houses and our "MHI", "LG" and "Bodysonic" brands cover almost the entire market spectrum from high-end to budget systems.

On the international front, we expect our 50%-owned manufacturing joint venture, (Jin Ling Electrical Company Limited), to maintain its position as the third leading Chinese exporter of washing machines and even challenge to become the second largest Chinese exporter of such products. Export growth is preferred over local sales for reasons of higher margin and quick cashflow. Our own "Rogers" British origin brand of audio visual products should also grow by engaging more international distributors in more countries.

In the recent years, the Group has properly been making prudent and significant required provisions against certain of our assets and the balance sheet is now solid. There is still some need for certain asset reallocation by way of realisations and reinvestment in our core businesses but the balance sheet now provides a stronger foundation for both organic and acquisitive growth and profit generation.

In the coming years, your Group will stay very focused on building and adding value to our brands and our products in our growth markets. Local talents will be recruited progressively to maximize our adaptability and local knowledge. Our mission is to grow into a leading marketing organisation serving the rising Asian markets; a vision turning into reality since the Company was founded forty-nine years ago. The Board is confident that the Group will enjoy sustainable growth in sales and profit over the coming years, as it has rode out successfully from earlier years of adverse trading conditions, with sharpened skills and seasoned perseverance.

Regarding the very recent outbreak of military action in the Middle East, although the extent and duration of the fighting may be limited, nonetheless, we are cautious of its possible effects on our business. The last Gulf war in 1991 did not have any adverse effect on our business. On the contrary, business increased with the surge of imports of our products into mainland China.

We must express our deep gratitude and sincere appreciation to all our shareholders, suppliers, bankers and capable management together with our staff, for their continuous loyal support and commitment.

Wing Sum LEE
Honorary Chairman

Richard Man Fai LEE
Executive Chairman

Hong Kong, March 27, 2003