Results of Operations

- Turnover

For the year ended December 31, 2002 total Group turnover increased by 1.2% to HK$572.4 million (2001: HK$565.8 million).

Sales for most businesses were stable compared with the previous year except for the direct marketing business of "Mega Warehouse" where sales jumped by almost HK$29 million (+84.3%) given the increased number of outlets opened during the year. However, sales by the motor group were lower than last year by a similar amount of HK$28.7 million (–11.8%) given difficult market conditions experienced in the Hong Kong market.

- Profit attributable to shareholders

For the first year in eight years from 1995 – with the exception of the 1999 when a small profit of less than HK$1 million was recorded – a reasonable overall Group attributable profit of HK$6 million has been achieved. The most pleasing and significant positive factor in this result, was that the operating loss from operations was reduced to only HK$9.1 million (2001: HK$76.5 million) and including an HK$6 million property write-down, which again was the best such result recorded in recent years and was as predicted by management last year.

The results did include some significant items of an exceptional and non-recurrent nature, albeit that the overall effect was virtually neutral on the total Group attributable profit. In the year, the Group announced the debt settlement and rescheduling arrangement of supplier credit finance, which involved the sale of the Group's interest in a joint-venture air-conditioning manufacturing operation in the PRC, that recorded an exceptional profit of HK$10.9 million. The Group also closed and disposed of certain subsidiaries and associates in Singapore and Malaysia which recorded an exceptional profit of HK$27.7 million. Against these profits, given the statutory changes to financial and accounting rules mandated in the PRC, the Group had to book an exceptional loss of HK$9.7 million on its 50% owned joint-venture washing machine manufacturing business in the PRC, relating to the necessary increased write-downs of fixed assets, intangible assets and current assets employed in the business of approximately HK$21.9 million (the Group's 50% share).

Financial Condition

- Cash flows

This was another key measure of Group performance that showed significant improvement in the year. Cash flows from operating activities before working capital movements improved to an inflow of HK$4.6 million in 2002 from an outflow of HK$10.5 million in 2001. On working capital items, trade and other receivables at balance date were exactly in line with last year at HK$59.3 million, whilst trade and other payables (including bills payable) at HK$118 million were HK$17.1 million (–12.7%) lower than last year. The Group operated effectively within very tight cash and credit controls. Cash outflow in investing activities was restricted to HK$4.9 million being largely capital expenditure whereas net cash inflows generated by financing activities were HK$35.6 million (2001: outflows of HK$45.2 million) mainly as a result of a capital raising rights issue in the year that raised HK$46.8 million net of expenses, and was largely used to repay short-term debt and bank loans.

- Debt settlement, capital reorganisations and rights issue

The 2001 Annual Report contained a detailed report of post balance sheet events and a pro-forma summary balance sheet, which explained two significant events that were completed in fiscal 2002 and which materially improved the financial condition and balance sheet of the Group.

1. Debt settlement and rescheduling arrangement of supplier credit finance

   The Conditional Agreement reached between the Group and Mitsubishi Heavy Industries Limited ("MHI") in Tokyo in November 2001 was finalised by a Deed of Settlement signed between the parties on June 28, 2002 and subsequently completed. The two key elements of this transaction were that, firstly, the total debt outstanding of HK$202.9 million in November 2001 was partially repaid as to HK$71.8 million by the sale of the Group's interest in an associated company "MHI-Jinling Air Conditioners Company Limited" (a joint-venture manufacturing company controlled by MHI directly). This enabled a profit of HK$10.9 million to be booked on the disposal. And secondly, the remaining balance of the loan, including accrued interest, of approximately HK$132.9 million, was converted into a long-term, 15 year, largely unsecured loan (secured only as to two floors of the sixteen floor Wo Kee Hong Building located in Hong Kong) which bears a fixed rate of interest of 2.5% per annum, which interest is the only amount payable to MHI until June 30, 2012, when the balance then becomes repayable by ten (10) equal half yearly instalments to be completely repaid on December 31, 2016.

2. Capital reorganisations, rights issues and bonus share issues

On February 1, 2002 the Company announced a capital reorganisation and rights issue with bonus issue. A circular for the capital reorganisation was issued to shareholders on February 20, 2002. The rights issue, with bonus share issue, was fully underwritten by Kingsway SW Securities Limited with a prospectus issued to shareholders on March 15, 2002. All of the proposals were approved by shareholders in a Special General Meeting held on March 15, 2002. The effect of these transactions was that accumulated losses in the balance sheet up to June 30, 2001 were eliminated by the capital reorganisation, whilst the net proceeds from the rights issue of HK$46.8 million, were used primarily to repay short-term debt, with the balance of funds providing additional working capital to the Group.

In August 2002, a further capital reorganisation was announced by the Company and a circular was issued to shareholders on August 23, 2002. This involved a reduction of the share premium account, cancellation of accumulated losses, a share consolidation, a bonus issue and an increase in authorised share capital. The rationale for the second capital reorganisation in the year was twofold. Firstly, the losses accumulated in the year to December 31, 2001, which were not able to be dealt with in the first capital reorganisation as the audited accounts were not then available, were now able to be eliminated. Secondly, the share consolidation and bonus issue was undertaken to increase the market value per share (in keeping with proposals being considered by the Hong Kong Stock Exchange) and also the liquidity for the trading of the shares, whilst also showing a better balance sheet ratio of issued share capital relative to the balance of reserves available, as part of the total shareholders' funds. These proposals were approved by shareholders in a Special General Meeting held on September 18, 2002.

- **Liquidity and financial resources**

The year of 2002 was a water-shed one for the Group, as decisions taken and successfully implemented by management, significantly improved the financing and capitalisation of the Group. The Group is no longer significantly financed by trade creditor support following the debt settlement arrangements, and is now more traditionally financed only by the combination of its equity capital base; internal cash flows generated from operations; and bank borrowings involving both short and longer–term maturities.

The Group continued to meet its bank and other liabilities upon due dates and the position of actual bank loans and overdrafts again improved in the year and at balance date these amounted to HK$77.1 million (2001: HK$95.6 million). However, because banks generally in Hong Kong continue, at this time, to be cautious in their lending policies to businesses, the Group, in common with other similar commercial enterprises in Hong Kong, was confronted with the need to operate business on restricted overall bank facilities. Amounts of cash generated both from operations and financing activities, was used to pay down debt, which at times adversely affected operations by restricting levels of business activity and the ability of businesses to take advantage of incremental sales and particularly at the time of peak seasonal trading. Total bank borrowings as a percentage of total shareholders' funds, were 22.3% (2001: 32.5% respectively).

At December 31, 2002 cash and bank deposits amounted to HK$14.4 million (2001: HK$13.5 million). The Group balance sheet at the financial year end 2002 showed a positive balance of net current assets of HK$67.3 million (2001: net current liabilities of HK$124.8 million) which was the first year recording a net current assets surplus since December 31, 1999. Effective current asset management is essential to Group operations, such that the key management ratios continue to show satisfactory positions including inter-alia: debtor collections averaging 21 days (2001: 23 days); inventory turn at 81 days (2001: 74 days); and overall short-term net debt gearing ratio at 17.3% (2001: 78%), with total net debt gearing ratio at 61.9% (2001: 107.4%).

An integral part of the Group's risk management policy, is to hedge foreign currency transactions to eliminate adverse currency movements on indent sales, in the normal course of business. At December 31, 2002 the total outstanding foreign exchange contracts purchased with banks amounted to HK$44 million (2001: HK$17 million).

The Group had bank financing facilities amounting to HK$166.2 million at December 31, 2002 (2001: HK$158.7 million) all based on Hong Kong best lending rates, and mainly secured by assets of the Group. The Group had no contingent liabilities at December 31, 2002 (2001: HK$2.1 million).

Business Reviews

- Air-conditioning products

"Mitsubishi Heavy Industries" products & logo

The business consists of marketing and distribution of the range of products from Mitsubishi Heavy Industries of Japan ("MHI") for which the Group holds exclusive distribution rights for Hong Kong, Singapore and Macau (all products) and the mainland China markets. MHI provides a full range of air-conditioning products both for the packaged commercial systems and the consumer markets. Similarly, the Group also markets and distributes a wide range of commercial and consumer air-conditioning products supplied under the "LG" brand ("LG Electronics Inc" of Korea). Both are pre-eminent global brands. The Group also provides after-sales service and support to its customers.

For the first year in 2002, the Group is the sole distributor in Hong Kong and Macau for the range of air-conditioning products from "Galanz", a leading Chinese electrical appliances brand.

Total sales to third party customers at HK$178.9 million were similar to the HK$176.1 million recorded in FY2001.

In Hong Kong the economy is in a trough with consumer confidence at a low point and with no immediate sign of recovery. Both the retail market and the property development market sectors, which are important for retail and project sales, are depressed. In the mainland PRC market, the unstable weather and severe flooding in certain provinces of southern and eastern China affected the sales in those areas during the peak selling season in the year. And lastly, China is becoming the "air-conditioning factory of the world", initially producing low-end air-conditioning products for domestic usage, but now gradually moving up the technology chain to manufacture commercial products. The over-capacity situation of China-based air-conditioning factories has forced prices in the mainland market to fall, thus creating an ever bigger gap of price differentials with imported products, which products become more difficult to sell.

However, there were also positive market developments. MHI supplied substantial quantities of split-type air-conditioning products at very competitive prices for the Hong Kong market, enabling "MHI" products to increase their market share and to become the market leader in this product

"LG" products & logo

sector. "LG" similarly continued to provide an excellent range of competitively priced products. Also, the Group re-organised and re-aligned the sales focus during the year. With the setting up of a mainland China-operation headquarters in Dongguan, Guangdong Province, it enabled the Group to co-ordinate the various functions of sales, marketing, personnel, finance and administration inside the mainland. The Group understands the necessity of working closer to the market and has increased efforts to cultivate "networking". Additionally, the marketing strategy of expanding the project business segment, is also being successful and will certainly show accelerated momentum in future years. The market for "LG" and "MHI" products will also be stimulated by lower tariffs necessitated on imported products, as part of the WTO requirements.

Operational efficiencies improved and lower unit costs were achieved through streamlined organisation in after-sales service and warehousing operations. Working capital efficiencies were also made in respect of both inventories and receivables. Despite the very competitive market situation, total gross margins and total profit contributions were maintained at about the same levels as achieved last year.

Looking to the year 2003, management believes the air-conditioning products market will continue to be very competitive. There will be a mixture of market uncertainty as well as opportunity. The Hong Kong market will likely remain weak until such time that the economy and consumer confidence recovers. The mainland China market will provide a steady growth in demand, yet the production over-capacity situation in China will exert downward pressure on prices and therefore profit margins, especially for domestic type products; China's entry to WTO will offer more favourable trading conditions including the gradual reduction of import tariffs and increased market and business opportunities; and the Group will focus on the commercial product sector to provide higher margins, given lesser competition with less comprehensive commercial product ranges available from China produced products.

"Bodysonic" logo

In 2003, "Bodysonic" will commence a co-operation arrangement with "GREE", a leading Chinese air-conditioning products brand, to launch a full range of room and commercial air-conditioning products under the brand name "GREE-BODYSONIC" for the Hong Kong market. The market prospects for the joint-brand name products, is very encouraging. And, at the same time, the sales of "Bodysonic" branded air-conditioning products in the mainland market is steadily increasing. The product range is concentrated on commercial products, including multi-system units. They are manufactured in mainland China, which makes them very cost-competitive. The forecast for FY2003 is for a return to growth in sales for this business.

- **Audio-visual and other electrical products**

"Rogers" products & logo

The audio-visual business is now largely focused upon marketing and distribution of a range of products developed for the Group's own brands of "Rogers" (from the UK) and "Bodysonic" (from Japan). This business segment also includes sales from "LG" branded domestic electrical appliance products which are now well established in the market, as well as sales from the "Alpine" and "Rogers" branded car audio and electronic products. The car audio and electronic products business consists of marketing and distribution of car-audio products largely under the "Alpine" brand (from Japan) which is one of the top brands in global markets, together with products developed under the Group's own "Rogers" brand of car speakers and power amplifiers. Products are distributed in Hong Kong, Macau, Singapore and Malaysia.

Total sales increased 3.1%, compared with FY2001, to HK$115.5 million despite a slow domestic market. The audio-visual products sector of the business remains extremely competitive especially given the range of innovative products offered to the market; the constantly reduced market pricing; and gross margins being relatively narrow. Nevertheless, the range of products marketed broadened in the year to include CD, VCD, DVD players and mini hi-fi systems; speakers, surround sound and home theatre systems; and Plasma display televisions. Sales were stimulated by a successful launch of the new 42" Rogers Plasma TV; special sales campaigns in mid-year and at Christmas and pre-Lunar New Year; and joint promotions with local credit cards. The international markets for "Rogers" products were expanded to include Australia, New Zealand, Taiwan and Brunei; whilst sales outlets were expanded in Hong Kong. Sales of "LG" domestic appliances were exceptionally buoyant with sales of refrigerators and washing machines up 35.4% and 28.8% respectively over last year. Distribution channels were expanded and sales and promotional campaigns were organised in a cost effective manner to achieve these increased sales. Operational efficiencies and cost controls were effective with the result that the good sales achieved satisfactorily increased profit contributions.

Total sales in the car audio business for the year were HK$57.4 million, which was an HK$4.9 million (+9.3%) increase over FY2001. The regional markets for the sales of automobiles, with the exception of the mainland China, were sluggish. There was intense competition in car-stereo products with new product innovations, and pricing and margins were affected. However, given the excellent support of "Alpine", the management aggressively marketed the products in their region and excellent sales growth was achieved, including notably significant OEM business in Singapore, with satisfactory increases in profit contributions.

Looking at 2003, the consumer audio-visual market will still be highly competitive given a sluggish economic outlook and an expanding Plasma TV market; changing consumer tastes which stimulate demand for home theatre products; and increased competition from mainland Chinese brands. Nevertheless, the introduction of competitive and new products; increased distribution efforts and particularly in the markets of Hong Kong, mainland China, Singapore and Malaysia; the development of international markets; increased promotional activity; and the increasing brand awareness of "Rogers" and "Bodysonic" following continuous marketing efforts, will all be positive for this business sector, and satisfactory sales growth is expected.

"Alpine" products & logo

In FY2003, "Alpine" is offering further exciting competitive products with car navigation, audio and audio-visual features, which are targetted at the growing larger cabin vehicle sector. "Alpine" is also a leader in products featuring integrated navigation systems and these will stimulate sales once this technology becomes available in the markets we serve. The business is forecasting continued growth in sales in 2003.

- **Direct marketing**

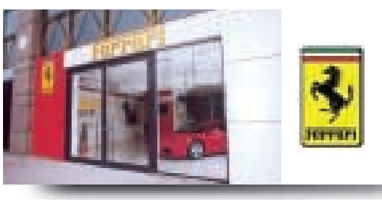
This business involves direct retailing in consumer electronic and electrical products, in the Hong Kong market under "Mega Warehouse" branded outlets.

Sales to customers in the year were almost double those of FY2001. The business has been refocused in the year. The chain-store type strategy to cover Hong Kong, Kowloon and the New Territories, on a cost effective basis, was implemented. With the opening of 6 new shops in Tuen Mun, Yuen Long, North Point, Mongkok, Kwai Hing and Tseung Kwan O in 2002, "Mega Warehouse" has successfully positioned itself as a significant retail chain store with a total of 9 shops in Hong Kong. To differentiate the merchandising mix of the company, a new merchandising channel to import competitive AV products directly from China was also successfully established. The business model is based upon competitive warehouse retail concepts with regular promotional and key product category sales, to provide value-for-money products to customers.

A "Mega Warehouse" retail outlet

This strategy is increasing business levels, and other sales and marketing efforts in the year developed clear customer acceptance of the "Mega Warehouse" chain. Despite a weak retail environment, there is latent consumer demand for products providing innovation and value for money. "Mega Warehouse" outlets are becoming recognised for providing these values. Activities in the year included grand clearance sales campaigns; launch of the "Mega Warehouse" Master Card to build loyalty and customer affinity; payment-by-installment finance; regular monthly consumer promotions; and increased publicity of the "Mega Warehouse" brand and sales activities. Plans for FY2003 are set against a sluggish retail environment in Hong Kong, which is also given to intense competition. Developments will include improved sales and inventory systems; appropriate expansion of the retail network; consolidation of certain retail locations; a wider range of product categories offered; increased marketing and promotion efforts; and possible sales outlets in mainland China to be considered later in the year. All of these activities will be undertaken cautiously, with a view to increasing sales, utilisation of cost and capital efficiencies; and forecasts are for both sales to increase and profit contributions to materialise.

- Motor vehicle and car accessories distribution

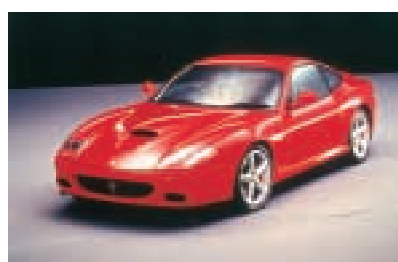


The "Ferrari" showroom in Beijing

The business is the marketing, sales and parts supply and after-sales servicing of the "Ferrari" and "Maserati" vehicle franchises. The Group is the sole distributor for these two unique premier sports marques in Hong Kong, Macau and mainland China.

Total sales for the year were HK$214.7 million which was an 11.8% fall compared with the sales achieved in FY2001 on lower unit sales of new vehicles. The pre-tax profits were therefore much lower than the previous year.

"Ferrari" continues to be the premium sports car available in the world today and demand for the models generally outstrips supply. Demand for the "Ferrari" entire model range was good, and especially for the new 575 Maranello model introduced in June. All units of these cars allocated by the factory were pre-sold. The new special super sports car "Enzo Ferrari" was made available only to



A "Ferrari" 575 Maranello

selected customers and, having been allocated 9 units (out of a limited world wide supply of only 399 units), this very expensive but unique highly sought-after model has been all pre-sold, ahead of the first 5 units to be delivered in 2003.

The "Maserati" showroom in Beijing

The "Maserati" marque enjoys improving brand awareness in Hong Kong and the mainland and unit deliveries increased 29% over FY2001. The exciting new "Maserati" models introduced in 2002 are popular with the new "Maserati" Spyder beginning deliveries to customers in February and the new Coupe model beginning deliveries in April 2002. The new Cambiocorsa version marks a radical uplift in "Maserati" technology, incorporating a 4.2 litre engine with F1 type gear shift.

The product line-up therefore, for both marques, is very strong and increased total unit sales are forecast for FY2003. The entire market in Hong Kong for passenger vehicles fell 7.5% in 2002 over 2001 and given the recent budget introducing significantly increased first registration taxes, will undoubtedly fall further in 2003. However, the vehicle market in mainland China increased in 2002 by 61% over 2001 and is expected to register further significant increases in 2003. Management will increasingly concentrate on developing business in that market, and any shortfall in unit sales domestically in Hong Kong, will be taken–up in the mainland market in 2003.

In the year, a dedicated "Maserati" showroom was opened in Beijing. The personnel employed in the whole vehicle business modestly increased with emphasis in the parts, service and bodyshop facilities, where demand is increasing as the road population of "Ferrari" and "Maserati" grows in Hong Kong and the mainland.

The mainland market represents a great opportunity for this business and plans for 2003 are well developed to further establish sales and service activities in key strategic cities including Beijing, Shanghai, Guangzhou, Shenzhen and Dalian. Exciting corporate plans are being progressed to develop the mainland market, which will be announced later in the year.

We look to the mainland China market to provide rapid and substantial increased business volumes for the coming years. It is expected that within a short time horizon, given the substantial mainland market and growing consumer affluence, allied to the easing of import restraints and lowered tariffs which will apply to the China market under WTO rules (at a time when Hong Kong is doing the exact opposite), the mainland market is expected to quickly overtake Hong Kong.

- ## The Singapore and Malaysian markets

The Group has had, for many years, marketing and distribution businesses based in Singapore and Kuala Lumpur, for the Malaysian market. These have now been right-sized to ensure recurrent profitability. In 2002 the Singapore operations consisted of "MHI" air-conditioning products and the distribution of car audio products (principally "Alpine" brand) and home audio products (principally "Marantz", "Rogers" brands). With the business being more focused on its markets and given success in securing additional OEM business for car audio products, and also achieving steady sales growth in the home audio market in difficult market conditions, it is pleasing to record the successful return to sales growth and profits achieved by Singapore. Total sales grew 34.2% to HK$54.1 million (2001: HK$40.3 million) and a satisfactory profit was earned compared with a substantial loss in 2001.

In Malaysia, the operation was right-sized at the beginning of the year, and the office was relocated to Petaling Jaya, outside of Kuala Lumpur, to trim costs. The Malaysian economy recorded growth in 2002, and whilst the business was restricted to car audio products ("Apline" brand) and home audio visual products ("Marantz" and "Rogers" brands), it benefited and prospered by market and product concentration. Sales in 2002 grew 15.3% over 2001 and the business recorded a good profit compared to a substantial loss in 2001.

Both operations in Singapore and Malaysia are forecast to increase business in 2003.

- ## Joint-venture manufacturing business

(Jin Ling Electrical Company Limited – "JLE")

The "JLE Factory" in Jiangmen

JLE is a joint-venture between Jiangmen Washing Machine Factory and the Group, with each party owning a 50% interest. The business is engaged in designing and manufacturing washing machines mainly under the "Jinling" brand for sale in the PRC but also as an Original Equipment Manufacturer ("OEM") presently for customers in Africa, Latin America and South East Asia.

The business had a reasonably good sales year with turnover up by 15.3% over 2001, to reach RMB 484.1 million and particularly noteworthy was that export sales were up by almost 30% over the previous year. The level of exports has now increased to 33.6% of total sales. Whilst gross profit margins were 11.4% up on last year's level, the business recorded a significant loss. This was because the accounting policies have changed in the PRC with regard to provisioning levels mandated for amortization, depreciation and provisions in respect of intangible assets, fixed assets and accounts receivable. The total largely one-time provisions required to bring the net assets in line with the new PRC accounting rules, increased these charges to the profit and loss account with an exceptional and largely one time non-current charge of approximately RMB 46.2 million. This joint-venture investment is treated as an associated company and neither sales nor profits are consolidated into the Group's accounts, but profits or losses are brought to account on an equity accounting basis. Therefore, in the year, because of the changes in accounting policy, these exceptional costs incurred meant that a significant loss was recorded by the business and the Group's share of results of associates showed a loss of HK$11.6 million (2001: a loss of HK$4.0 million).

Personnel

At the year end 2002, the total number of employees of the Group, excluding associates, was 361 (the comparable number last year was 338 people). Following the painful measures taken last year including closure, disposal or consolidation of certain business units; implementation of a 55 years of age retirement scheme; and reduction in remuneration packages; the Group is now operating competitively and the results are evident.

The Group knows the importance of its employees and despite the measures taken last year and in earlier years, has been fortunate to retain a core staff of loyal, experienced and dedicated people. Productivity and morale are being enhanced steadily with continuous organisational improvements. The management team has remained stable and committed throughout the year.

Prospects

Given the tough market environment, for reasons explained for each business and market in which the Group is involved, it was really pleasing to see that a significant improvement in operating results was recorded in 2002 compared with substantial losses in 2001 and earlier years. The year also saw completion of many plans of management to deal finally with remaining issues of restructuring and it is not expected to have significant continuing exceptional non-recurrent items in future years. However, in 2002 such items yielded an overall surplus, such that a profit attributable to shareholders was recorded. As explained, the balance sheet issues have now been addressed, such that the business goes forward into 2003 in a significantly healthier financial state. In that regard, it is also pleasing to note that the auditors' report is clean and the reference in the past two years, to the "fundamental uncertainty relating to the going concern basis", has been dropped, and this is of critical importance to the bankers and suppliers who support the business.

2002 marked a turning point for the Group. Looking at 2003, the prospects for each business in which the Group is involved, appear somewhat brighter, but there are clearly uncertainties on both the global economic and the geo-political fronts, which may affect our markets and their economies in different ways and which makes prediction as to overall sales and profit performance difficult. The Group has a long history and an established name and reputation in its markets which it cherishes. It is a market leader in marketing and distribution of consumer products in Hong Kong, Macau, mainland China and certain other markets in South East Asia. The actions management has taken on costs and financing with the rationalisation measures and strategic positioning in each business, should facilitate and stimulate future profitable growth. The Group in 2003 can look more positively at opportunities from a greatly strengthened financial position.

Barry John BUTTIFANT
Adviser to the Board

Hong Kong, March 27, 2003