CHAIRMAN'S STATEMENT

BUSINESS REVIEW

In terms of revenue, the Company had recorded an overturn in the financial year under review from the past difficult business periods. The Group's audited turnover for the year ended 31 December 2002 was HK$33.4 million (2001: HK$16.4 million), a double increase from that of last year. As a combined result of larger turnover and written back of previous over-provision for taxation, the Group's audited loss for 2002 was therefore largely reduced to HK$2.5 million (2001: HK$10.8 million), representing a significant improvement over the last four years. The drastic cost control measures taken by the Company during the year made further contribution to the improvement of the operating results, including a decrease of 35 per cent in staff cost. Again, there were no material provisions of any kind in the accounts of the year.

The improved performance in 2002 was primarily resulted from numerous favorable changes in the automotive market in China, the Group's principal market place. Of which, the most important improvement driver was the removal of trade war between China and Japan in early 2002. Other effective measures stimulating the growth of the automobile market included the reduction of import tariff and increase of import quotas right after the country became a member of the World Trade Organisation (the "WTO"). Moreover, the grant of a new banking facility from Guangdong Development Bank provides the Company greater flexibility in placing orders to suppliers in form of letters of credit. Collectively, the Company achieved an incredible increase of sales at the mainland market over the entire year of 2002, recording a 26-fold rise as compared to that of last year.

By late January 2002, the Company raised additional funds through a rights issue on the basis of one rights share for every two existing shares held. The directors of the Company (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. Eventually, 73,537,200 rights shares had been issued on 30 January 2002. Net proceeds of HK$6,184,000 had been raised and of which, HK$3,500,000 were used to reduce the bank loans and the remaining funds were used to purchase merchandise for meeting the demand of the Group's distribution sales in China.

Furthermore, pursuant to a resolution passed in the board meeting of the Company on 5 June 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 to six independent investors by means of placing on 10 June 2002. However, one of the investors was in fact placed with 15.12 per cent of the enlarged issued share capital of the Company immediately after completion of the placing. Therefore, the Company was required to issue a clarification announcement and a further clarification announcement on 30 January 2003 and 25 March 2003 respectively. The net proceeds of HK$4,362,000 from the placing were used for reducing the bank mortgages and the procurement of updated inventories. Together with other administrative measures, the fund raising campaigns in the year helped the Company reduce the financial expenses by a significant decrease of 31.2 per cent from last year.

CHAIRMAN'S STATEMENT

FINANCIAL SUMMARY

Given the positive achievements in the previous years, the Company continues to keep tight control of its working capital management on the credit policies, inventory, funding and treasury planning. As at 31 December 2002, the Group's trade receivable increased to HK$190,000 (2001: HK$27,000) as a reasonable reflection of larger turnover during the year. Within the first two quarters of 2002, the Group cleared up most slow-moving inventories so that more than 90 per cent of the inventories at 31 December 2002 were less than 4-month old. The Group had managed its inventories efficiently by focusing on precise forecasting of market changes. Even though the sales turnover was a tremendous breakthrough in the last three years, the Group held even lesser inventories than ever. At the year-end date, the Directors strongly believed that the Company carried the least inventory risk by holding least but updated inventories of HK$0.8 million, which was about 72 per cent cut in inventories held at 31 December 2001.

At the balance sheet date, the Group's net current liabilities and net liabilities amounted to HK$33,029,000 (2001: net current liabilities: HK$36,824,000) and HK$13,428,000 (2001: net liabilities: HK$21,310,000) respectively. At the same day, the Group's cash and bank balances, excluding pledged time deposits, amounted to HK$3,360,000 (2001: HK$1,471,000). The total bank loans and overdrafts as at 31 December 2002 were HK$23.4 million, representing a decrease of 19 per cent from the same balances at last year-end date.

In terms of liquidity, the current ratio at the year-end date was 0.12 (31 December 2001: 0.22). The Group's gearing ratio at the same date, resulting from a comparison of the total borrowings with issued capital, was 12.62 (31 December 2001: 31.11).

After the placing and the rights issue in 2002, the board of Directors (the "Board") will keep on exploring any opportunities that could strengthen the capital base of the Company.

FUTURE OUTLOOK

Equally important as the availability of working fund, the prospect of the automotive industry in China determines the future of the Company. The good news is that the automotive imports to China have been largely increasing ever since the nation becomes a member of the WTO. The punitive duty on imported Japanese autos was finally removed in early January of 2002, resuming the normal trading of Japanese imported vehicles in China. Moreover, the demand of foreign vehicles has been furtherly stimulated by the required obligations imposed by the WTO. The impact of China's accession to the WTO has been enormous in the car industry because the nation is obliged to fulfil its WTO membership terms by slashing tariffs and increasing quotas on imported vehicles and parts until 2005.

CHAIRMAN'S STATEMENT

Despite the world economic recession continues in the clouds of war over Iraq, maintaining fast growth has become China's dominant ambition. In his report to the 16th Communist Party Congress, Chairman Jiang Zemin predicted that mainland gross domestic product ("GDP") would quadruple in the years to 2020, representing an average GDP growth of 7 to 8 percent a year. The nation's policy on car consumption has rapidly shifted to encouragement from restriction and protectionism. With the influx of foreign capital into China, the domestic spending in the country moves in astonishing pace ever. Other market driving forces come from the initiatives of the nation, including the introduction of market-stimulating measures and deregulating attempts. Among all, the car makers, both local and overseas, are benefited most by the constructive actions such as the massive strikes against vehicle smuggling, the free exchange of the country's currency at six provinces under a trial basis for preparation of nation-wide practices.

For surviving severe competition in the coming years, the Board has realised that teaming up competitive partners in China and enhancement of the working capital are inevitable. In this regard, the Company is determined to build up its strength as a strong auto distributor and to upgrade its funding management. The Company strongly believes that it has the momentum to overcome all operating obstacles of whatever kind. The Board; however, does not consider fund raising activities necessary at the present moment.

Chan Chun Choi
Chairman

Hong Kong
16 April 2003