



WO KEE HONG (HOLDINGS) LIMITED

(Incorporated in Bermuda with limited liability)

2003

Interim Report

Unaudited interim results for the six months ended June 30, 2003

WO KEE HONG (HOLDINGS) LIMITED is a holding company with major subsidiaries engaged in the import, marketing, distribution and after-sales service of high quality, brand-name products serving customers in the Asian region and, in particular, the markets of mainland China, Hong Kong, Macau, Singapore and Malaysia. The products include principally air-conditioning; domestic appliances; audio-visual electrical items including car audio; motor vehicles and accessories; and other electronic products.

UNAUDITED INTERIM RESULTS

The Directors of Wo Kee Hong (Holdings) Limited (the "Company") announce that the unaudited consolidated results of the Company and its subsidiaries (the "Group") for the six months ended June 30, 2003, along with the comparative figures for the corresponding period and selected explanatory notes, are as follows:–

Condensed Consolidated Profit and Loss Account

	Notes	Unaudited Six months ended June 30	
		2003 HK\$'000	2002 (Restated) HK\$'000
Turnover	2	267,361	296,195
Cost of sales		(209,153)	(223,661)
Gross profit		58,208	72,534
Other operating revenue		7,341	7,825
Distribution costs		(27,032)	(28,272)
Administrative expenses		(44,930)	(46,311)
Surplus on revaluation of properties held for sale		5,000	–
(Loss) profit from operations	3	(1,413)	5,776
Finance costs		(5,272)	(6,653)
Investment income		534	59
Gain on disposal of an associate		–	10,641
Loss on disposal of investment properties		(8,526)	–
Share of results of associates		159	3,678
(Loss) profit before taxation		(14,518)	13,501
Taxation	4	(835)	(1,267)
(Loss) profit after taxation		(15,353)	12,234
Minority interests		579	(400)
(Loss) profit attributable to shareholders		(14,774)	11,834
(Loss) earnings per share – Basic	5	(1.73 cents)	2.44 cents

Condensed Consolidated Balance Sheet

	Notes	June 30 2003 (Unaudited) HK\$'000	December 31 2002 (Audited and restated) HK\$'000
Non-current assets			
Investment properties	6	116,697	131,793
Property, plant and equipment	7	183,406	186,360
Interest in an associate		115,034	115,533
Investment securities		702	702
		415,839	434,388
Current assets			
Inventories		111,654	96,440
Properties held for sale, at net realisable value		93,462	88,462
Trade and other receivables	8	70,824	59,293
Amount due from an associate		3,191	319
Amounts due from related parties		2,083	2,330
Taxation recoverable		1,333	1,282
Other investments		62	73
Bank balances and cash		12,614	14,382
		295,223	262,581
Current liabilities			
Trade and other payables	9	83,956	75,332
Bills payable		37,017	42,673
Amounts due to related companies		3,102	2,840
Obligations under finance leases – due within one year		–	92
Borrowings – due within one year	10	100,207	74,296
		224,282	195,233
Net current assets		70,941	67,348
		486,780	501,736
Capital and reserves			
Share capital	11	85,237	77,488
Reserves		235,960	259,146
		321,197	336,634
Minority interests			
		–	579
Non-current liabilities			
Obligations under finance leases – due after one year		–	300
Borrowings– due after one year	10	154,491	153,950
Loans advanced from minority shareholders		1,522	1,522
Deferred taxation		9,570	8,751
		165,583	164,523
		486,780	501,736

Condensed Consolidated Cash Flow Statement

	Six months ended June 30	
	2003 (Unaudited) HK\$'000	2002 (Unaudited) HK\$'000
Net cash used in operating activities	(31,488)	(2,989)
Net cash generated from (used in) investing activities	6,098	(2,258)
Net cash generated from financing activities	13,438	25,924
Net (decrease) increase in cash and cash equivalents	(11,952)	20,677
Cash and cash equivalents at January 1	1,609	(16,693)
Effect of foreign currency exchange rate changes	(26)	(3,840)
Cash and cash equivalents at June 30	(10,369)	144
Analysis of the balances of cash and cash equivalents		
Being :		
Bank balances and cash	12,614	10,394
Bank loan and bank overdrafts	(22,983)	(10,250)
	(10,369)	144

Condensed Consolidated Statement of Changes in Equity

(Unaudited)	Capital							Total HK\$'000
	Share capital HK\$'000	Share premium HK\$'000	Share redemption reserve HK\$'000	Exchange reserve HK\$'000	Capital reserve HK\$'000	Other reserve HK\$'000	Accumulated losses HK\$'000	
At January 1, 2003	77,488	-	916	(314)	-	261,269	(2,725)	336,634
Bonus issue of shares	7,749	-	-	-	-	(7,749)	-	-
Exchange difference arising on translation of financial statements of overseas operations not recognised in profit and loss account	-	-	-	(663)	-	-	-	(663)
Loss attributable to shareholders	-	-	-	-	-	-	(14,774)	(14,774)
At June 30, 2003	85,237	-	916	(977)	-	253,520	(17,499)	321,197
At January 1, 2002	140,887	725,993	916	2,058	1,434	-	(577,434)	293,854
Effect of adopting SSAP12 (revised) – provided for deferred tax liability	-	-	-	-	-	-	(8,440)	(8,440)
Capital reorganisation	(139,478)	(343,542)	-	-	-	-	483,020	-
Rights issue of shares	1,409	47,902	-	-	-	-	-	49,311
Bonus issue of shares	4,226	(4,226)	-	-	-	-	-	-
Exchange difference arising on translation of financial statements of overseas operations not recognised in profit and loss account	-	-	-	(5,745)	-	-	-	(5,745)
Profit attributable to shareholders	-	-	-	-	-	-	11,834	11,834
At June 30, 2002	7,044	426,127	916	(3,687)	1,434	-	(91,020)	340,814

Notes to the Condensed Consolidated Financial Statements

1. Significant accounting policies

The unaudited condensed consolidated interim financial statements have been prepared in accordance with the Statement of Standard Accounting Practice ("SSAP") 25, "Interim financial reporting", issued by the Hong Kong Society of Accountants ("HKSA").

These condensed interim financial statements should be read in conjunction with the 2002 annual financial statements.

The accounting policies adopted are consistent with those followed in the Group's annual financial statements for the year ended December 31, 2002, except that the Group has adopted SSAP 12 (revised) "Income taxes" issued by HKSA which is effective for accounting periods commencing on or after January 1, 2003.

The significant change in the Group's accounting policies resulting from the operation of this revised SSAP 12 is set out below :

Deferred taxation is provided in full, using liability method, on temporary differences between the tax base of assets/(liabilities) and their carrying amounts in the financial statements. Taxation rates enacted or substantially enacted by the balance sheet date are used to determine deferred taxation.

Deferred tax assets are not recognised unless it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred taxation is provided on the temporary differences arising on investment in subsidiaries and associates, except where the timing of the reversal of the temporary differences can be controlled by the parent company and it is probable that the temporary difference will not reverse in the foreseeable future.

In prior years, deferred taxation was accounted for at the current taxation rate in respect of timing difference between taxable profit and accounting profit to the extent that a liability or an asset was expected to be payable or recoverable in the foreseeable future. The change in accounting policy has been applied retrospectively so that the comparative figures have been restated to conform to the changed policy. Opening balances of equity at January 1, 2002 and 2003 were reduced by HK\$8,440,000 and HK\$8,734,000 respectively, which represent the unprovided deferred tax liabilities. The comparative figure in respect of taxation charges for the prior period was also increased by HK\$294,000.

2. Business and geographical segments

Turnover represents the net invoiced value of goods sold, after allowances for returns and trade discounts, and maintenance service income during the period. An analysis of the Group's unaudited segment revenues and results for business segments and geographical segments for the period is as follows :

Business segments

2003							
	Air-condit- ioning products HK\$'000	Audio-visual and other electrical products HK\$'000	Cars and car acces- sories HK\$'000	Direct marketing HK\$'000	Property investment HK\$'000	Eliminations HK\$'000	Consolidated HK\$'000
Turnover							
External sales	66,929	55,140	111,435	33,857	-	-	267,361
Inter-segment sales	981	6,778	-	151	-	(7,910)	-
Total turnover	67,910	61,918	111,435	34,008	-	(7,910)	267,361
Inter-segment sales are charged at prevailing market rates.							
Results							
Segment results	(81)	601	(5,103)	(3,572)	7,489	-	(666)
Unallocated corporate expenses							(747)
Loss from operations							(1,413)
Finance costs							(5,272)
Investment income							534
Loss on disposal of investment properties							(8,526)
Share of result of an associate	-	159	-	-	-	-	159
Loss before taxation							(14,518)
Taxation							(835)
Loss after taxation							(15,353)
Minority interests							579
Loss attributable to shareholders							(14,774)

2. Business and geographical segments (Continued)

Business segments (Continued)

2002

	Air-condit- ioning products HK\$'000	Audio- visual and other electrical products HK\$'000	Cars and car acces- sories HK\$'000	Direct marketing HK\$'000	Property investment HK\$'000	Eliminations HK\$'000	Consolidated HK\$'000
Turnover							
External sales	102,867	49,420	114,367	29,541	-	-	296,195
Inter-segment sales	2,096	6,427	-	-	-	(8,523)	-
Total turnover	104,963	55,847	114,367	29,541	-	(8,523)	296,195

Inter-segment sales are charged at prevailing market rates.

Results

Segment results	8,118	593	3,071	(2,597)	2,500	(396)	11,289
Unallocated corporate expenses							(5,513)
Profit from operations							5,776
Finance costs							(6,653)
Investment income							59
Gain on disposal of an associate	10,641	-	-	-	-	-	10,641
Share of results of associates	3,027	651	-	-	-	-	3,678
Profit before taxation							13,501
Taxation							(1,267)
Profit after taxation							12,234
Minority interests							(400)
Profit attributable to shareholders							11,834

2. Business and geographical segments (Continued)

Geographical segments

	Sales revenue by geographical market		Contribution to operating results	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Hong Kong	189,313	227,118	(7,167)	9,048
Singapore	25,366	26,398	52	416
Malaysia	13,555	8,478	680	325
Mainland China	25,167	14,624	5,274	772
Macau	10,282	18,980	206	712
Others	3,678	597	289	16
	267,361	296,195	(666)	11,289
Unallocated corporate expenses			(747)	(5,513)
(Loss) profit from operations			(1,413)	5,776

3. (Loss) profit from operations

(Loss) profit from operations has been arrived at after charging :

	Six months ended June 30	
	2003 HK\$'000	2002 HK\$'000
Depreciation of:		
Owned assets	3,941	3,811
Assets held under finance leases	–	90

4. Taxation

	Six months ended June 30	
	2003	2002
	HK\$'000	HK\$'000
The charge comprises :		
Tax for the period :		
Hong Kong Profits Tax	–	–
Overseas income tax	16	22
	16	22
Deferred tax:		
Current period	–	294
Change in tax rate	819	–
Taxation attributable to the Company and its subsidiaries	835	316
Share of taxation attributable to associates	–	951
	835	1,267

No provision of Hong Kong Profits Tax has been provided for both periods as the Group did not derive any assessable profits.

Overseas taxation is calculated at the rates prevailing in the respective jurisdictions.

5. (Loss) earnings per share

The calculation of the basic (loss) earnings per share is based on the loss attributable to shareholders of HK\$14,774,000 (2002: profit of HK\$11,834,000) and on the weighted average number of 852,367,051 (2002: 485,683,607) ordinary shares in issue during the period. The weighted average number of ordinary shares for the purposes of basic (loss) earnings per share has been adjusted for the bonus issue during the period (2002: has been adjusted for the share consolidation and bonus issue approved on September 18, 2002 and the bonus issue during the period).

No diluted (loss) earnings per share has been presented because the exercise price of the Company's outstanding share options was higher than the average market price for share for both periods.

6. Investment properties

During the period, the Group had disposed certain of its investment properties situated outside Hong Kong at HK\$7,670,000. A loss of HK\$8,526,000 (2002 : nil) arising on the disposal of these investment properties has been charged to the profit and loss account.

7. Property, plant and equipment

	June 30 2003 HK\$'000	December 31 2002 HK\$'000
Opening net book value	186,360	188,749
Exchange difference	(8)	32
Additions	1,854	6,645
Disposals	(859)	(443)
Depreciation charge	(3,941)	(8,623)
Closing net book value	183,406	186,360

8. Trade and other receivables

The Group allows an average credit period of 30 to 90 days to its customers. The aged analysis of trade receivables is as follows:

	June 30 2003 HK\$'000	December 31 2002 HK\$'000
Within 30 days	22,780	18,608
Over 30 days	8,020	9,503
Over 60 days	3,869	1,289
Over 90 days	2,615	2,108
Over 1 year	1,203	1,370
Total trade receivables	38,487	32,878
Deposits, prepayments and other receivables	32,337	26,415
	70,824	59,293

9. Trade and other payables

The aged analysis of trade payables is as follows :

	June 30	December 31
	2003	2002
	HK\$'000	HK\$'000
Within 30 days	7,908	5,474
Over 30 days	3,277	2,630
Over 60 days	2,781	2,621
Over 90 days	2,080	4,167
Over 1 year	1,675	1,569
Total trade payables	17,721	16,461
Customers' deposits, accruals and other payables	66,235	58,871
	83,956	75,332

10. Borrowings

	June 30	December 31
	2003	2002
	HK\$'000	HK\$'000
Bank loans and overdrafts		
Secured	90,117	75,214
Unsecured	10,683	1,837
	100,800	77,051
Unsecured loans advanced from a Director (note a)	18,726	15,725
Unsecured loans advanced from related companies (note b)	4,473	4,755
Secured loan advanced from a supplier (note c)	130,699	130,715
	254,698	228,246
The maturity of the above loans is as follows:		
Within one year	100,207	74,296
More than one year, but not exceeding two years	14,429	10,924
More than two years, but not exceeding five years	4,675	6,779
More than five years	135,387	136,247
	254,698	228,246
Less : Amounts due within one year shown under current liabilities	(100,207)	(74,296)
Amounts due after one year	154,491	153,950

10. Borrowings (Continued)

Notes :

- a. The loans advanced from a Director are unsecured. HK\$15,000,000 (2002 : HK\$12,000,000) of the balance bears interest at 10% per annum and is repayable in three instalments on or before July 31, 2003, August 31, 2003 and September 30, 2003, respectively. The remaining balance has no fixed term of repayment and is non-interest bearing.
- b. The loan advanced from a related company is unsecured, has no fixed term of repayment and bears interest at 1% above the best lending rate.

The loans advanced from related companies as at December 31, 2002 were unsecured and have no fixed terms of repayment. HK\$4,475,000 of the balance bore interest at 1% above the best lending rate. The remaining balance was non-interest bearing.

- c. The loan advanced from a supplier is secured by properties of the Group, bears interest at 2.5% per annum and is repayable semi-annually by ten instalments commencing from June 30, 2012.

11. Share capital

	Number of shares	Nominal value HK\$'000
Authorised:		
At January 1, 2002 of HK\$0.10 each	3,500,000,000	350,000
Cancellation of HK\$0.099 of the paid up capital of each of 1,408,871,178 issued shares	–	(139,478)
Share consolidation of ten reduced issued shares into one share of HK\$0.01 each	(1,267,984,061)	–
Subdivision of one unissued share into ten shares of HK\$0.01 each	18,820,159,398	–
Share consolidation of ten shares into one share of HK\$0.10 each	(18,946,957,804)	–
Increase of authorised share capital	1,394,782,467	139,478
At January 1, 2003 and June 30, 2003 of HK\$0.10 each	3,500,000,000	350,000

11. Share capital (Continued)

	Number of shares	Nominal value HK\$'000
Issued and fully paid:		
At January 1, 2002 of HK\$0.10 each	1,408,871,178	140,887
Cancellation of HK\$0.099 of the paid up capital of each of 1,408,871,178 issued shares	–	(139,478)
Share consolidation of ten reduced issued shares into one share of HK\$0.01 each	(1,267,984,061)	–
Issue of shares upon rights issue	140,887,117	1,409
Issue of shares upon bonus share issue	422,661,351	4,226
Share consolidation of ten issued shares into one share of HK\$0.10 each	(633,992,027)	–
Issue of shares upon bonus share issue	704,435,580	70,444
At January 1, 2003 of HK\$0.10 each	774,879,138	77,488
Issue of shares upon bonus share issue (Note)	77,487,913	7,749
At June 30, 2003 of HK\$0.10 each	852,367,051	85,237

Note:

Pursuant to the resolution passed on the special general meeting held on May 6, 2003, a bonus issue of ordinary shares, on the basis of one bonus share for every ten shares of HK\$0.10 each held by the shareholders of the Company, was approved. The Company issued 77,487,913 new shares of HK\$0.10 each pursuant to the bonus issue of shares.

12. Related party transactions

During the period, the Group entered into the following transactions with related parties:

	Six months ended June 30	
	2003 HK\$'000	2002 HK\$'000
Interest expenses paid to a Director	737	187
Interest expenses paid to a related company	135	234
Interest income received from a related party	52	20
Management and agency fee paid to a related company	1,665	1,662

13. Contingencies and commitments

There is no material change in the contingencies and commitment since the last annual reporting date.

14. Pledge of assets

At the interim balance sheet date, certain of the Group's land and building, investment properties, properties held for sale and inventories with an aggregate net book value of HK\$355,176,000 (December 31, 2002 : HK\$349,952,000) and all assets of a subsidiary of HK\$13,833,000 (December 31, 2002 : HK\$12,617,000) have been pledged to secure facilities granted by banks and a supplier of the Group.

15. Post interim balance sheet event

Pursuant to the resolutions passed on the special general meeting held on September 1, 2003, a rights issue of 340,946,820 shares of HK\$0.10 each at HK\$0.10 per share on the basis of two rights shares for every five shares held on the record date with the bonus shares issue on the basis of the three bonus shares for every fully paid rights share was approved.

The net proceeds of HK\$32 million has been received and used to reduce the indebtedness and to provide additional working capital to the Group.

INTERIM DIVIDEND

The Directors have resolved not to declare the payment of an interim dividend (2002: nil).

MANAGEMENT DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION

Results

Group turnover at HK\$267.4 million, was HK\$28.8 million (-9.7%) down on the same period last year. Two key factors adversely affected the businesses in Hong Kong. Firstly, the serious panic brought about by the outbreak of the Severe Acute Respiratory Syndrome ("SARS") epidemic, significantly disrupted the markets. And secondly, the market in Hong Kong for the sale of passenger motor vehicles was also badly affected by the very high increases in the First Registration Tax ("FRT") introduced in the Budget on March 5, 2003. This announcement, overnight, caused motor sales to plummet. Any sales which were subsequently achieved were at little or no profit and were made at special pricing in order to quickly reduce inventories. The products sold by the Group are at the upper range of the premium and luxury vehicle sector and attract the highest rates of FRT which were proposed to increase from a flat rate of 60% to a progressive rate up to 150%. In the event, intense lobbying by the motor trade and many political, economic and market groups, as well as the Hong Kong customers, caused the Hong Kong Government to reduce the rate of tax increases and this was done in June 2003. Between early March to the end of June, the market for sales of new vehicles at proper pricing was almost non-existent.

Gross profits fell by HK\$14.3 million (-19.8%) to HK\$58.2 million compared with the first six months of last year. Gross margins were reduced to 21.8% (2002: 24.5%) largely as a result of pricing power being drained from the market by the combined effect of SARS and FRT and which domestic market was already seriously weak and price competitive.

Both distribution costs and general administrative expenses were below the comparative costs for the same period last year, showing a saving of 3.5% or HK\$2.6 million.

The Group recorded a loss on disposal of investment properties, sold in the mainland China, in the period of HK\$8.5 million. These were three separate small investment properties which were sold to a local property developer for redevelopment purposes at values well below book value. It was envisaged at the end of the last financial year, that some small marginal properties may have to be sold below book value and for that reason a general provision of HK\$5 million was made. It was deemed appropriate, therefore, to write-back the provision to partially cushion the loss realized in the period, and the net loss effect in the results was HK\$3.5 million in this period.

MANAGEMENT DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION (CONTINUED)

Results (Continued)

The results from the one remaining mainland China joint-venture business, being a domestic appliance manufacturing and marketing business, were significantly below last year. Also the first half of 2002 included contributions from a second manufacturing joint-venture company, which was sold in June 2002, and therefore there were no such profit contributions this year. For both reasons, the share of profits from associates fell by HK\$3.5 million.

The combined effect of the three major factors of (a) the market disruption and gross margin impact of the SARS epidemic and the FRT hiatus; (b) the loss on disposal of small properties; and (c) the reduction in profit contributed by associated companies not controlled by the Group, caused an attributable loss for the period of HK\$14.8 million to be recorded (2002: HK\$11.8 million profit).

Cash flow, liquidity and financial resources

At June 30, 2003 cash and bank balances amounted to HK\$12.6 million (December 31, 2002 : HK\$14.4 million) and total borrowings were HK\$254.7 million (December 31, 2002 : HK\$228.2 million). At the end of the reporting period, the Group's total net debt gearing was 75.4% (December 31, 2002: 63.5%) based on shareholders' equity of HK\$321.2 million (December 31, 2002: HK\$336.6 million).

At June 30, 2003 the Group had trade finance and revolving loan facilities amounting to HK\$169.1 million (December 31, 2002 : HK\$166.2 million) of which HK\$137.4 million had been drawn and was outstanding.

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 the business. At June 30, 2003 the total outstanding foreign exchange contracts purchased with banks amounted to HK\$15 million (December 31, 2002: HK\$44 million).

The Group had total banking facilities amounting to HK\$178.4 million at June 30, 2003 (December 31, 2002: HK\$177.1 million) largely based on Hong Kong best lending rates and mainly secured by assets of the Group. The Group had no contingent liabilities both at June 30, 2003 and December 31, 2002.

BUSINESS REVIEW

Air-conditioning products

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 part of the mainland China market. MHI provides a full range of air-conditioning products both for the package 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 prominent global brands. The Group also provides after-sales service and support to its customers. In addition, the Group is the sole distributor in Hong Kong and Macau for two ranges of air-conditioning products manufactured in the mainland China. The Group distributes products in Hong Kong under the "Galanz" brand, a leading Chinese electrical appliances brand. The Group also has a joint-brand product distribution with the leading "GREE" air-conditioning products brand manufacturer and a range of air-conditioning products are sold under the "GREE-BODYSONIC" joint-label, "BODYSONIC" being an in-house brand used by the Group for all markets other than Japan; Taiwan; Korea and Middle East.

Total sales to third-party customers for the six months amounted to HK\$66.9 million which was a 35% reduction on sales recorded in the same period last year. Sales for home air-conditioning products were badly hit by SARS which occurred during the peak trading months of the season for such products. Gross margins were still satisfactory although they were approximately 1.5% of sales lower than last year. In the continuing weak market with the residential sector being badly affected by SARS this year and given competitive product pricing pressure, the Group did well to maintain overall profitability from the business. The commercial product sector has maintained a steady position in Hong Kong, although business has significantly declined in the mainland China market due to severe local competition. The Group has been increasing its marketing and distribution efforts in this key market.

The product sector is competitive, but the Group's marketing activity has strengthened and in an improving market environment, the second half sales are expected to be increased over those achieved last year.

BUSINESS REVIEW (CONTINUED)

Audio-visual and other electrical products

The audio-visual business markets and distributes a range of products which include "LG" branded domestic electrical appliance products that are now well established in the market; sales of "Alpine" and "Rogers" branded car audio and electronic products. The "Alpine" brand (from Japan) is undoubtedly one of the top brands in the global market for car audio and visual entertainment equipment; and a range of audio-visual products produced and sold under the Group's in-house owned brands of "Rogers" (from the UK) and "Bodysonic" (from Japan).

Total sales in the six months increased by 11.6% to HK\$55.1 million, over the same period last year. Despite a weak domestic market in Hong Kong, an increased range of product offerings and excellent car product sales in Hong Kong, Singapore and Malaysia, provided the increased business. Despite continued and ever-present price competition gross margins were maintained and the overall results of the business were considered satisfactory and similar to those of last year.

New products continue to be introduced (e.g., car audio and video products; plasma TVs and home theatre systems etc) and with increased sales efforts in new export markets; with increased market penetration in existing markets; and given rising car sales in PRC and greater OEM business being done in Singapore, then the prospects for sales for the second half of this year are to at least be at the same level of those of the previous year.

Direct marketing

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

Sales to customers in the first six months this year were HK\$33.9 million which showed a 14.6% increase over the same period last year. Obviously, the advent of the SARS epidemic seriously affected the Hong Kong retail sector, however, the Group was able to offer very competitive products available in an increased number of outlets which traded for the full half-year over those available last year, and therefore total revenues increased. The business still has not reached a level of volume which will enable profit to be earned but a programme of steady growth in outlets; improved merchandising; increased ranges of innovative value-for-money products; and increasing brand awareness activities to promote consumer loyalty; will all work towards achievement of that objective.

BUSINESS REVIEW (CONTINUED)

Car and car accessories

The business is the importing, 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.

Turnover for the first half year was HK\$111.4 million which was a decline of HK\$2.9 million (-2.6%) on the same period last year. The first six months was particularly taxing because of the hiatus and disruption to the luxury car market caused by the large increase proposed to the top rate of 150% in First Registration Tax announced in the budget in early March. The market for luxury car sales virtually came to a complete stop. Any cars that were sold were done so with special pricing at no-profit in order to reduce inventories and turn cash flow in the business. Fortunately, the lobbying by the Company together with interested parties was successful in reducing the penal rates of tax increases which were proposed tax rates applicable to the luxury sector still increased from a flat rate of 60% to a progressive rate to 100%, but customers can more readily accept these increases in difficult economic conditions. Since the new rates were confirmed in June, the market has returned to near normality and sales in the second half year are projected to increase substantially. Both sales and profits are forecast to recover strongly and be well ahead of last year. Plans are being advanced for a further exciting development of the China market and with exciting new models expected from both Maserati and Ferrari in the course of the next six to twelve months, it is expected that this business will show excellent growth in the coming years.

HUMAN RESOURCES

As of June 30, 2003, the Group employed 374 people (2002: 344), excluding employees of the associated company. The market environment continued to be extremely difficult and further staff savings and cost reductions were undertaken. However, there is only minimal room for further such exercises and the Group looks to improvements in operating practices and staff efficiencies. The Group has maintained a stable team of loyal, dedicated employees and looks for an improving market environment to allow it to once more offer improved competitive remuneration packages, target related bonuses and share option incentives based on performance and contribution. The Board is extremely pleased to record its appreciation of its employees.

POST INTERIM BALANCE SHEET EVENT

In the special general meeting on September 1, 2003, the Company passed resolutions for approving the rights issue of shares at HK\$0.10 per rights share on the basis of two rights shares for every five existing shares held on September 1, 2003 ("Rights Issue") with bonus shares issued on the basis of three bonus shares for every fully paid rights share ("Bonus Shares Issue"). The Directors consider that the Rights Issue provides an opportunity for the Group to raise funds to improve its financial position and capability to develop its franchise and distribution businesses. The proceeds of the Rights Issue will enhance the working capital and the net asset position of the Company as a whole and improve the financial gearing of the Company.

The Company had received 155 valid acceptances for 320,622,377 Rights Shares provisionally allotted under the Rights Issue and 141 valid excess applications for 521,171,807 Rights Shares, amounting to 841,794,184 Rights Shares in aggregate (representing approximately 246.89% of the total number of Rights Shares available for subscription under the Rights Issue). Accordingly, the Rights Issue was over-subscribed by approximately 146.89%. On September 23, 2003, pursuant to the Rights Issue with Bonus Shares Issue, the Company issued 1,363,787,280 new shares of HK\$0.10 each.

PROSPECTS

For special reasons of the outbreak of SARS; the continued economic malaise affecting the domestic market of Hong Kong; and the further hit on the domestic automobile market by the high FRT; the trading of the Group's businesses have all uniformly been adversely affected. As a consequence, a trading and attributable loss was recorded. However, there are signs of improved trading conditions in the second half. The stimulus of the CEPA arrangement and the increased number of visitors from mainland China due to relaxation of rules governing such visits, is greatly improving prospects. Excluding any non-recurrent items, it is expected that the second six months will provide the Group with profitable operations and improved results over the second half last year. Whilst the whole year may not be profitable, after allowing for small non-recurrent losses, it is expected that the Group will be able to plan for improved and increased revenues and much improved results, given the improved economic outlook for the regional domestic economies.

OTHER INFORMATION

Disclosure of directors' interests

(a) As at June 30, 2003, the interests and short positions of each Directors and chief executive of the Company in the Shares, underlying shares and debentures of the Company or any associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) as recorded in the register required to be kept under Section 352 of the SFO; or are required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies to be notified to the Company and the Stock Exchange are as follows:

(i) Beneficial interest and short position in Shares as at June 30, 2003:

Name of Director	Personal Interests	Number of Shares		Total
		Family Interests	Corporate Interests	
Richard Man Fai LEE	12,909,380	2,591,820 (Note 1)	450,513,734 (Note 2)	466,014,934
Jeff Man Bun LEE	1,815,000	–	456,074,192 (Notes 2 & 3)	457,889,192
Kam Har YUE	20,037,370	–	450,513,734 (Note 2)	470,551,104
Sammy Chi Chung SUEN	181,500	–	–	181,500

Notes:

- The 2,591,820 Shares are owned by Ms. Siew Yit HOH, the spouse of Mr. Richard Man Fai LEE.
- The 450,513,734 Shares are held by Modern Orbit Limited, which is wholly owned by Cyber Tower Inc. as trustee of The WS Lee Unit Trust. 99% of the units of The WS Lee Unit Trust are held by a discretionary trust of which Mr. Wing Sum LEE's family members including Ms. Kam Har YUE, Mr. Richard Man Fai LEE and Mr. Jeff Man Bun LEE are the beneficiaries. The remaining 1% of the units of The WS Lee Unit Trust are held by Skylink International Asset Corporation, a company incorporated in the British Virgin Islands and owned by Ms. Kam Har YUE, Mr. Richard Man Fai LEE and Mr. Jeff Man Bun LEE.
- Out of the 456,074,192 Shares, 5,560,458 Shares are held by Fisherman Enterprises Inc., a company incorporated in the British Virgin Islands and wholly owned by Mr. Jeff Man Bun LEE.
- All interests in the Shares are long positions. None of the Directors held any short position in the Shares.

OTHER INFORMATION (CONTINUED)

Disclosure of directors' interests (Continued)

- (ii) Beneficial interests and short positions in underlying shares of equity derivatives of the Company as at June 30, 2003 are disclosed in the section headed "Share options" of this report:
- (iii) Beneficial interests and short position in shares in associated corporations as at June 30, 2003:

Name of Director	Name of associated corporation	Number of shares or equity interests held or interested in	Class and/or description of shares/interests
Wing Sum LEE	Stoneycroft Estates Limited	15,750,000	non-voting deferred shares
	Wo Kee Hong Limited	8,500	non-voting deferred shares
	Wo Kee Services Limited	1	non-voting deferred shares
Kam Har YUE	Wo Kee Hong Limited	400	non-voting deferred shares
	Shinwa Engineering Company, Limited	3,850,000	non-voting deferred shares
	Stoneycroft Estates Limited	340,000	non-voting deferred shares
	Forward International Corporation, Limited	34,335	non-voting deferred shares

OTHER INFORMATION (CONTINUED)

Substantial shareholders' interests

Save as disclosed below and in the section headed "Disclosure of directors' interests", as at June 30, 2003, so far as is known to the Directors, no other person had, or was deemed or taken to have an interest or short position in the shares or underlying shares of the Company as recorded in the register required to be kept under Section 336 as the SFO:

Company Name	Number of Shares	Approximate % of the total issued Shares
Modern Orbit Limited	450,513,734	52.86%

Note: The 450,513,734 Shares are held by Modern Orbit Limited, which is wholly owned by Cyber Tower Inc. as trustee of The WS Lee Unit Trust. 99% of the units of The WS Lee Unit Trust are held by a discretionary trust of which Mr. Wing Sum LEE's family members including Ms. Kam Har YUE, Mr. Richard Man Fai LEE and Mr. Jeff Man Bun LEE are the beneficiaries. The remaining 1% of the units of The WS Lee Unit Trust are held by Skylink International Asset Corporation, a company incorporated in the British Virgin Islands and owned by Ms. Kam Har YUE, Mr. Richard Man Fai LEE and Mr. Jeff Man Bun LEE.

Share Options

1991 Scheme

The Company's share option scheme was adopted on June 22, 1991 ("1991 Scheme") for the primary purpose of providing incentives to Directors and eligible employees and expired on June 21, 2001. The Directors may, at their discretion, grant options to all eligible employees, including executive Directors of the Company and its subsidiaries.

The total number of shares in respect of which options may be granted under the 1991 Scheme is not permitted to exceed 10% of the issued share capital of the Company at any point in time. The number of shares in respect of which options may be granted to any individual is not permitted to exceed 25% of the maximum aggregate number of shares of the Company for the time being issued and issuable under the 1991 Scheme.

Options granted must be taken up within 28 days of the date of grant, upon payment of HK\$1 per grant. Options are exercisable within a period of 6 years commencing one month from the date of acceptance of options.

OTHER INFORMATION (CONTINUED)

Share options (Continued)

1991 Scheme (Continued)

The subscription price is determined by the Directors, and will not be less than the higher of a price being not less than 80% of the average of the closing prices of the shares on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on the five trading days immediately preceding the date of grant, and the nominal value of a share of the Company.

2001 Scheme

Another share option scheme ("2001 Scheme") was subsequently adopted pursuant to a resolution passed on June 28, 2001 for the primary purpose of providing incentives to Directors and eligible employees, and was terminated on May 30, 2002 pursuant to a resolution passed on that date.

Under the 2001 Scheme, the Directors may grant options to any full-time employees, including executive and non-executive Directors of the Company and its subsidiaries, to subscribe for shares in the Company.

The total number of shares in respect of which options may be granted under the 2001 Scheme is not permitted to exceed 10% of the issued share capital of the Company at any point in time. The number of shares in respect of which options may be granted to any individual is not permitted to exceed 25% of the maximum aggregate number of shares of the Company for the time being issued and issuable under the 2001 Scheme.

Options granted must be taken up within 28 days of the date of grant, upon payment of HK\$1 per grant. Options are exercisable within a period of 6 years commencing one month from the date of acceptance of options.

The subscription price is determined by the Directors, and will not be less than the higher of a price being not less than 80% of the average of the closing prices of the shares on the Stock Exchange on the five trading days immediately preceding the date of grant, and the nominal value of a share of the Company.

Upon termination of the 2001 Scheme, no further options will be granted but in all other respects, the provisions of the 2001 Scheme shall remain in force and all granted prior to such termination shall continue to be valid and exercisable in accordance therewith.

OTHER INFORMATION (CONTINUED)

Share options (Continued)

2002 Scheme

On August 23, 2001, the Stock Exchange has announced amendments to Chapter 17 of the Listing Rules, which has come into effect on September 1, 2001. In compliance with the amendments to the Listing Rules and the announcement of the Stock Exchange, the Company adopted a new share option scheme ("2002 Scheme") and terminated the 2001 Scheme on May 30, 2002 pursuant to a resolution passed on that date. The purpose of the 2002 Scheme is to provide incentives or rewards to participants for their contribution to the Group and enable the Group to recruit and retain high-calibre employees and attract human resources that are valuable to the Group and any companies in which the Group holds any equity interest. The 2002 Scheme will expire on the 10th anniversary of date of adoption.

Under the 2002 Scheme, the Board of Directors of the Company may at their discretion grant options to the following participants of the Company, its subsidiaries and any companies in which the Group holds any equity interest, to subscribe for shares in the Company:

1. eligible employees, including Directors; or
2. suppliers or customers; or
3. any person or entity that provides research, development or other technological support; or
4. shareholders; or
5. employees, partners or Directors of any business partners, joint venture partners, financial advisers and legal advisers.

Options granted to a Director, chief executive or substantial shareholder of the Company, or any of their respective associates must be approved by the Independent Non-executive Directors of the Company (excluding any Independent Non-executive Director who is the grantee).

The total number of shares in respect of which options may be granted under the 2002 Scheme and any other schemes is not permitted to exceed 30% of the issued share capital of the Company from time to time. Subject to the above rule, the total number of shares in respect of which options may be granted under the 2002 Scheme and any other schemes must not in aggregate, exceed 10% of the issued share capital of the Company at the adoption date of the 2002 Scheme without prior approval from the Company's shareholders.

OTHER INFORMATION (CONTINUED)

Share options (Continued)

2002 Scheme (Continued)

The number of shares in respect of which options may be granted to any participant in any one year is not permitted to exceed 1% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders. Options granted to a substantial shareholder, or an Independent Non-executive Director of the Company, or any of their respective associates under the 2002 Scheme and any other schemes in any one year in excess of 0.1% of the Company's issued share capital or with a value, based on the closing price of the shares of the Company at the date of each grant, in excess of HK\$5 million must be approved in advance by the Company's shareholders.

Options granted must be taken up within 28 days of the date of grant upon payment of HK\$1 per each grant of options. The exercise period of the share options granted under the 2002 Scheme shall be determined by the Board of Directors when such options are granted, provided that such period shall not end later than 6 years from the date of grant. The subscription price is determined by the Board of Directors of the Company, and will not be less than the higher of the closing price of the Company's shares on the date of grant, or the average closing price of the shares for the five trading days immediately preceding the date of grant, or the nominal value of a share of the Company.

No Share Options were exercised or granted for the six months ended June 30, 2003.

At June 30, 2003, the number of shares in respect of which options had been granted and remained outstanding under the 1991, 2001 and 2002 Scheme were 52,736,402, 67,464,230 and 51,475,569 representing 6.19%, 7.91% and 6.04% of the issued share capital of the Company at that date respectively.

OTHER INFORMATION (CONTINUED)

Movement of share options

The following table discloses the movements in the Company's share options for the six months ended June 30, 2003:

Eligible persons	Scheme	Date of grant	Outstanding options at January 1, 2003		Options lapsed	Outstanding options at June 30, 2003	Exercisable period	Subscription price per share	
			Before adjustment	After adjustment [#]				Before adjustment HK\$	After adjustment [#] HK\$
Mr. Wing Sum LEE (Director)	1991	July 28, 1997	6,875,687	7,563,255	0	7,563,255	August 31, 1997 – August 30, 2003	1.5858	1.4416
	1991	January 19, 1998	1,650,165	1,815,181	0	1,815,181	February 22, 1998 – February 21, 2004	0.6546	0.5951
	1991	December 21, 1999	3,575,357	3,932,892	0	3,932,892	February 11, 2000 – February 10, 2006	0.4165	0.3786
	1991	February 11, 2000	1,650,165	1,815,181	0	1,815,181	March 21, 2000 – March 20, 2006	0.9711	0.8828
	2001	August 10, 2001	19,251,925	21,177,117	0	21,177,117	September 16, 2001 – September 15, 2007	0.2975	0.2705
	2002	September 24, 2002	224,000	246,400	0	246,400	September 24, 2002 – September 23, 2008	0.1000	0.1000 [#]
	Mr. Richard Man Fai LEE (Director)	1991	July 28, 1997	7,425,742*	8,168,315*	0	8,168,315*	August 28, 1997 – August 27, 2003	1.5858
1991		January 19, 1998	1,705,170*	1,875,686*	0	1,875,686*	February 19, 1998 – February 18, 2004	0.6546	0.5951
1991		June 10, 1998	550,055	605,060	0	605,060	July 24, 1998 – July 23, 2004	0.3132	0.2847

OTHER INFORMATION (CONTINUED)

Movement of share options (Continued)

Eligible persons	Scheme	Date of grant	Outstanding options at January 1, 2003		Options lapsed	Outstanding options at June 30, 2003	Exercisable period	Subscription price per share	
			Before adjustment	After adjustment [#]				Before adjustment HK\$	After adjustment [#] HK\$
	1991	December 21, 1999	3,685,368*	4,053,904*	0	4,053,904*	February 7, 2000 – February 7, 2006	0.4165	0.3786
	1991	February 11, 2000	1,925,192	2,117,711	0	2,117,711	March 18, 2000 – March 17, 2006	0.9711	0.8828
	1991	May 28, 2001	2,200,220	2,420,242	0	2,420,242	June 29, 2001 – June 28, 2007	0.2975	0.2705
	2001	August 10, 2001	19,251,925	21,177,117	0	21,177,117	September 16, 2001 – September 15, 2007	0.2975	0.2705
	2001	August 29, 2001	275,027*	302,529*	0	302,529*	September 30, 2001 – September 29, 2007	0.2975	0.2705
	2002	September 24, 2002	7,748,000	8,522,800	0	8,522,800	September 24, 2002 – September 23, 2008	0.1000	0.1000 [®]
Mr. Sammy Chi Chung SUEN (Director)	1991	July 28, 1997	550,055	605,060	0	605,060	August 31, 1997 – August 30, 2003	1.5858	1.4416
	1991	December 21, 1999	165,016	181,517	0	181,517	February 6, 2000 – February 5, 2006	0.4165	0.3786
	1991	February 11, 2000	275,027	302,529	0	302,529	March 22, 2000 – March 21, 2006	0.9711	0.8828
	1991	January 18, 2001	143,014	157,315	0	157,315	March 6, 2001 – March 5, 2007	0.2975	0.2705
	2001	August 10, 2001	550,055	605,060	0	605,060	September 19, 2001 – September 18, 2007	0.2975	0.2705
	2002	June 4, 2002	2,200,220	2,420,242	0	2,420,242	June 4, 2002 – June 3, 2008	0.1440	0.1309
	2002	September 24, 2002	700,000	770,000	0	770,000	September 24, 2002 – September 23, 2008	0.1000	0.1000 [®]

OTHER INFORMATION (CONTINUED)

Movement of share options (Continued)

Eligible persons	Scheme	Date of grant	Outstanding options at January 1, 2003		Options lapsed	Outstanding options at June 30, 2003	Exercisable period	Subscription price per share	
			Before adjustment	After adjustment [#]				Before adjustment HK\$	After adjustment [#] HK\$
Ms. Kam Har YUE (Director)	2001	August 29, 2001	275,027	302,529	0	302,529	September 30, 2001 – September 29, 2007	0.2975	0.2705
Mr. Jeff Man Bun LEE (Director)	2002	June 4, 2002	1,100,110	1,210,121	0	1,210,121	June 4, 2002 – June 3, 2008	0.1440	0.1309
	2002	September 24, 2002	500,000	550,000	0	550,000	September 24, 2002 – September 23, 2008	0.1000	0.1000 [®]
Mr. Raymond Cho Min LEE (Director)	2002	June 4, 2002	770,077	847,084	0	847,084	June 4, 2002 – June 3, 2008	0.1440	0.1309
	2002	September 24, 2002	4,000	4,400	0	4,400	September 24, 2002 – September 23, 2008	0.1000	0.1000 [®]
Mr. Boon Seng TAN (Director)	2002	June 4, 2002	770,077	847,084	0	847,084	June 4, 2002 – June 3, 2008	0.1440	0.1309
	2002	September 24, 2002	4,000	4,400	0	4,400	September 24, 2002 – September 23, 2008	0.1000	0.1000 [®]
Total :			<u>86,000,676</u>	<u>94,600,731</u>	<u>0</u>	<u>94,600,731</u>			

OTHER INFORMATION (CONTINUED)

Movement of share options (Continued)

Eligible persons	Scheme	Date of grant	Outstanding options at January 1, 2003		Options lapsed	Outstanding options at June 30, 2003	Exercisable period	Subscription price per share	
			Before adjustment	After adjustment [#]				Before adjustment HK\$	After adjustment [#] HK\$
Continuous contract employees	1991	July 28, 1997	1,100,110	1,210,121	0	1,210,121	August 29, 1997 – September 10, 2003	1.5858	1.4416
	1991	January 19, 1998	950,480	1,045,524	18,151	1,027,373	February 20, 1998 – March 12, 2004	0.6546	0.5951
	1991	December 21, 1999	724,396	796,832	27,831	769,001	February 1, 2000 – March 21, 2006	0.4165	0.3786
	1991	February 11, 2000	181,517	199,668	0	199,668	March 18, 2000 – March 21, 2006	0.9711	0.8828
	1991	September 8, 2000	1,650,165	1,815,181	0	1,815,181	November 5, 2000 – November 4, 2006	0.4204	0.3822
	1991	May 28, 2001	11,001,100	12,101,210	0	12,101,210	June 30, 2001 – June 29, 2007	0.2975	0.2705
	2001	August 10, 2001	19,251,925	21,177,117	0	21,177,117	September 14, 2001 – September 13, 2007	0.2975	0.2705
	2001	August 29, 2001	1,925,188	2,117,701	0	2,117,701	September 30, 2001 – September 30, 2007	0.2975	0.2705
	2001	November 23, 2001	550,055	605,060	0	605,060	December 23, 2001 – December 22, 2007	0.2975	0.2705
	2002	June 4, 2002	25,027,497	27,530,238	0	27,530,238	June 4, 2002 – June 3, 2008	0.1440	0.1309
	2002	September 24, 2002	7,748,000	8,522,800	0	8,522,800	September 24, 2002 – September 23, 2008	0.1000	0.1000 [®]
Total :			<u>70,110,433</u>	<u>77,121,452</u>	<u>45,982</u>	<u>77,075,470</u>			
Grand Total :			<u>156,111,109</u>	<u>171,722,183</u>	<u>45,982</u>	<u>171,676,201</u>			

OTHER INFORMATION (CONTINUED)

Movement of share options (Continued)

- * Share options granted to Mr. Richard Man Fai LEE's spouse were included.
- # The number of share options granted under 1991, 2001 and 2002 Schemes and their respective subscription prices have been adjusted for the Bonus Share Issue taken place in May 2003. Calculation of the adjustments has been verified by the auditors of the Company.
- @ The exercise price of these share options have been adjusted to HK\$0.10, being the nominal value of a Share as it is not legally permissible to issue new Shares at below the nominal value of HK\$0.10.

Purchase, sale or redemption of securities

During the six months ended June 30, 2003, the Company and its subsidiaries have not repurchased, sold or redeemed any of the Company's securities.

Corporate governance

None of the directors of the Company is aware of any information that would reasonably indicate that the Company is not, or was not during the six months ended June 30, 2003, in compliance with the Code of Best Practice as set-out in Appendix 14 of the Listing Rules except in relation to guideline 7; as non-executive directors of the Company are appointed for a term expiring upon their retirement by rotation as required by the Company's Bye-Laws.

Audit committee

The Audit Committee has reviewed with directors the accounting principles and practices adopted by the Group and discussed internal controls and financial reporting matters related to the preparation of the unaudited condensed financial statements for the six months ended June 30, 2003. The Audit Committee was content that the accounting policies of the Group are in accordance with the current best practice in Hong Kong. The Interim Results have not been audited.

By Order of the Board of Directors

Richard Man Fai LEE

Executive Chairman & CEO

Hong Kong, September 24, 2003