Chairman's Statement

Richard Man Fai LEE
Executive Chairman & CEO

Your Board of Directors regrets to announce that a consolidated loss of HK$84.8 million was recorded for the year ended December 31, 2003. The results were largely the consequences of the tragic outbreak of Severe Acute Respiratory Syndrome (SARs) which seriously disrupted both the Hong Kong and mainland China economies and the untimely increase of Hong Kong's First Registration Tax (FRT) on passenger cars. Our air-conditioning, electrical appliances and direct distribution businesses were severely disrupted during the SARs period, and were only able to recover to normal levels towards the later half of 2003.

No interim dividend was paid during the year (2002: nil) and the Directors do not recommend a final dividend.

The very high increases in FRT introduced in the Budget on March 5, 2003, 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.

As for our 50% owned manufacturing joint venture (Jin Ling Electrical Company Limited) in mainland China, high material consumption and the weak U.S. dollar forced up significantly the costs of materials and thus caused a loss of HK$22.2 million attributable to our Group. A prudent further provision on account receivables was made. The joint venture maintained its position as one of the leading Chinese exporters of washing machines and was awarded the "Top 100 Star Enterprises of Overseas Chinese Entrepreneurs in the period of 2000-2002" by the Central Government.

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 with bonus shares issued on the basis of three bonus shares for every fully paid rights share. The Directors considered that the rights issue would provide an opportunity for the Group to raise funds to improve its financial position and capability to develop its franchise and distribution businesses. The results of the rights issue were very successful and it was over-subscribed by approximately 146.89%. The Company raised approximately HK$32.0 million (net of expenses).

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As the car market in China has grown over 50% in 2003, the Group was working with the suppliers on a long term strategy in developing car sales network. The Group is delighted to conclude an equity joint venture agreement with Ferrari SPA of Italy and Poly Technologies, Inc. of China to enter into a joint venture to import exclusively 'Ferrari' and 'Maserati' cars and parts into China. I shall be appointed as the Chairman and CEO of this joint venture. We are confident that this joint venture will provide a long term platform for us to capture more profits in the huge and fast growing China car market.

The Hong Kong economy is now benefiting from Closer Economic Partnership Arrangement and the relaxation of rules which encourages mainland Chinese to visit Hong Kong. For 2004, we foresee an increase in our Hong Kong local businesses as a result. With the setting up of the new venture to import cars into China, we shall be able to get more allocation of cars from the manufacturers which in turn will generate higher profit for the Group. The Group will also be actively seeking for car dealership opportunities in China which has proven a high growth and profitable sector.

As our shares have been recently trading substantially below our net asset value, it is the Board's commitment to enhance shareholders' value by reallocating the Group's key resources to growth areas: financial resources will be maximized to support fast growing and high turnover markets and products; disposals of fixed assets and the conversion of proceeds into current assets will be undertaken to increase the productivity of our assets; competent personnel resources will be utilized in key growth departments; and all efforts will be made to ensure our business activities will be conducted to capture arising opportunities out of the market trends.

All the necessary reallocation of resources will result in a fundamental rebuilding of our organization, not to catch up but to innovate and lead the markets. The management is working diligently to achieve operational profitability in the coming years. Despite the seemingly large loss we suffered in 2003, the major part of the loss was non-cash in nature, the qualities of our assets remain sound and the operations continue to be viable. We foresee the Group will generate net positive cashflow and possibly to achieve profits at the operational level in 2004.

We like to express our utmost gratitude and sincere appreciation to all our shareholders, suppliers, bankers and our very dedicated staff, for their continuous support. We all share a high level of commitment and confidence in the future of the Group.

Richard Man Fai LEE
Executive Chairman

Hong Kong, April 14, 2004