

Directors' Report

The Directors present to shareholders this annual report and audited financial statements for the financial year ended December 31, 2003.

Principal Activities

The Company acts as an investment holding company.

Its subsidiaries were principally engaged in the import, marketing and distribution of air-conditioning and refrigeration products; audio-visual equipment; car audio and electronic products; motor vehicles and car accessories; and other electronic and electrical products. The activities and other particulars of the principal subsidiaries are set out in Note 41 to the financial statements.

Segmental Information

Details of segmental information are set out in Note 5 to the financial statements.

Group Results

The consolidated profit and loss account is set out on page 33 and further analysis is given in the accompanying notes to the financial statements.

Dividends

The Directors do not recommend the payment of a final dividend (2002: nil) for the year ended December 31, 2003. No interim dividend was paid during the year (2002: nil).

Group Financial Summary

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 5.

Share Capital and Share Options

Details of movements in the share capital of the Company during the year are set out in Note 27 to the financial statements.

Information about the share options of the Company and details of movements in the share options of the Company during the year are set out on pages 100 to 103 of this Annual Report and in Note 40 to the financial statements.



Directors' Report

Reserves

Details of movements in reserves of the Group and of the Company during the year are set out in the statement of changes in equity on pages 36 to 37 of this Annual Report and in Note 28 to the financial statements respectively.

Property, Plant and Equipment

Details of movements in property, plant and equipment of the Group and of the Company during the year are set out in Note 16 to the financial statements.

Donations

During the year, the Group made charitable and other donations of HK\$92,000 (2002: HK\$63,000).

Borrowings

Details of the Group's borrowings are set out in Note 30 to the financial statements. No interest was capitalised by the Group during the year.

Major Customers and Suppliers

The Group's five largest suppliers accounted for 53.5% of the Group's purchases during the year, 18.0% being attributable to the largest supplier.

The percentage of turnover attributable to the Group's five largest customers is less than 30.0% during the year.

As far as the Directors are aware, no Director of the Company, their associates or any shareholder (who to the knowledge of the Directors owns more than 5% of the Company's share capital) has interest in the Group's five largest suppliers.

Connected Transactions

Details of connected transactions of the Company during the year are disclosed in "Directors' Interests in Contracts" in this Directors' Report.

In 2003, the Group paid to Sumwell Property Management Limited, as the manager of Wo Kee Hong Building, management fees of HK\$3,344,408 in respect of its occupancy of various units at Wo Kee Hong Building.

Directors' Report

During the year under review, the transactions in the ordinary courses of business within the Group which involved the companies in which Messrs. Wing Sum LEE, Richard Man Fai LEE, Jeff Man Bun LEE, Herbert ADAMCZYK and Ms. Kam Har YUE are directly or indirectly interested are shown in Note 36 to the financial statements.

Directors

The Directors of the Company who held office during the year and up to the date of this report are:

Executive

Wing Sum LEE *(Honorary Chairman, elected on March 27, 2003)*
Richard Man Fai LEE *(Executive Chairman, elected on March 27, 2003)*
Sammy Chi Chung SUEN
Jeff Man Bun LEE

Non-executive

Kam Har YUE

Independent Non-executive

Boon Seng TAN
Raymond Cho Min LEE

In accordance with Bye-Law No. 99 of the New Bye-Laws of the Company, Messrs. Wing Sum LEE and Raymond Cho Min LEE will retire from office by rotation at the forthcoming Annual General Meeting and, being eligible, offer themselves for re-election.

The Independent Non-executive Directors ("INEDs") are subject to retirement by rotation in accordance with the Company's New Bye-Laws. The Company has received from each INED a confirmation of his independence pursuant to the new independence guidelines set out in Rule 3.13 of the Listing Rules. The Company considers the INEDs to be independent.

Directors' Service Contracts

None of the Directors who is proposed for re-election at the forthcoming Annual General Meeting has an unexpired service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

Directors' Report

Directors' Interests in Securities

At December 31, 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:

(a) Beneficial interest and short position in the shares of the Company at December 31, 2003:

Directors	Number of ordinary shares of HK\$0.10 each ("Share")			
	Personal Interests	Family Interests	Corporate Interests	Total Interests
Mr. Richard Man Fai LEE	33,564,388	6,738,732 (Note 1)	1,171,335,706 (Note 2)	1,211,638,826
Mr. Jeff Man Bun LEE	4,719,000	–	1,185,792,896 (Notes 2 & 3)	1,190,511,896
Ms. Kam Har YUE	52,097,162	–	1,171,335,706 (Note 2)	1,223,432,868
Mr. Sammy Chi Chung SUEN	471,900	–	–	471,900

Notes:

1. The 6,738,732 Shares are owned by Ms. Siew Yit HOH, the spouse of Mr. Richard Man Fai LEE.
2. The 1,171,335,706 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.
3. Out of the 1,185,792,896 Shares, 14,457,190 Shares are held by Fisherman Enterprises Inc., a company incorporated in the British Virgin Islands and wholly owned by Mr. Jeff Man Bun LEE.
4. All interests in the Shares are long positions. None of the Directors held any short position in the Shares.

Directors' Report

- (b) Beneficial interests and short positions in underlying shares of equity derivatives of the Company at December 31, 2003 are disclosed in the section headed "Share Option Information" of this Annual Report.
- (c) Beneficial interests and short position in shares in associated corporations at December 31, 2003:

Directors	Name of associated corporation	Number of shares or equity interests held or interested in	Class and/or description of shares/interests
Mr. 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
Ms. Kam Har YUE	Forward International Corporation, Limited	34,335	non-voting deferred shares
	Shinwa Engineering Company, Limited	3,850,000	non-voting deferred shares
	Stoneycroft Estates Limited	340,000	non-voting deferred shares
	Wo Kee Hong Limited	400	non-voting deferred shares

Directors' Report

Directors' Interests in Contracts

- (a) Stoneycroft Estates Limited ("Stoneycroft") and Ever Rising Investments Limited, both are wholly-owned subsidiaries of the Company, (altogether, "Owners") entered into a deed of mutual covenant and management agreement with Sumwell Property Management Limited ("SPML"), a company owned by Cyber Tower Inc. ("Cyber Tower"), and Ms. Kam Har YUE. Pursuant to the agreement, Owners appointed SPML to be the manager for a term of 2 years from December 29, 1998 (renewable automatically thereafter) to undertake the management, operation, servicing, maintenance, repair, renovation and replacement of Wo Kee Hong Building. The agreement can be terminated by either the committee of the Owners or SPML by giving 3 months' prior notice. The total management fee paid by the Owners to SPML in 2003 was HK\$417,000.

Cyber Tower is the trustee of The WS Lee Trust, 99% of the units of which 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, all of which are Directors of the Company, are the beneficiaries. The remaining 1% of the units of The WS Lee 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.

- (b) Owners entered into service agreement with SPML in 2001. Pursuant to the service agreement signed in 2001, Owners appointed SPML to be the service company for a term of 1 year from April 1, 2001 for providing administrative and advisory services on the tenancy of Wo Kee Hong Building. The service agreement was renewed on September 17, 2003 for 1 year from April 1, 2003. The total amount of service fee paid to SPML in 2003 was HK\$18,000.
- (c) Owners entered into another service agreement with SPML on October 2, 2003. Pursuant to the agreement, Owners appointed SPML to be the service company for a term of one year from October 1, 2003 for arranging, administrating, advising and/or supervising the repair and maintenance projects in Wo Kee Hong Building. The agreement can be terminated by either the Owners or SPML by giving to the other party/parties three months prior written notice. The total amount of service fee paid to SPML in 2003 was HK\$10,800.
- (d) On January 30, 2003, Mr. Wing Sum LEE, Cyber Tower and the Company entered into a loan assignment deed ("Loan Assignment Deed"). On the same day, Mr. Wing Sum LEE, Cyber Tower and Wo Kee Hong Finance Limited, a wholly-owned subsidiary of the Company, entered into another loan assignment deed. Pursuant to both loan assignment deeds, the loans of HK\$15,142,980 and HK\$4,189,781 advanced from Mr. Wing Sum LEE to the Company and Wo Kee Hong Finance Limited respectively were assigned to Cyber Tower.

Directors' Report

- (e) On July 18, 2003, the Company, Modern Orbit Limited and Kingsway SW Securities Limited (as underwriters) entered into an underwriting agreement in respect of a rights issue with bonus shares issue. Modern Orbit Limited is wholly owned by Cyber Tower as trustee of The WS Lee Trust. Pursuant to the underwriting agreement, Modern Orbit Limited and Kingsway SW Securities Limited would underwrite on a several basis in the proportion of 65.16% and 34.84% of the total unsubscribed rights shares, respectively.
- (f) On September 15, 2003, a deed of novation was entered into amongst the Company, Stoneycroft, a wholly owned subsidiary of the Company and Fisherman Enterprises Inc. ("Fisherman"), a company wholly owned by Mr. Jeff Man Bun LEE, an executive Director in relation to the novation of an outstanding indebtedness in the amount of HK\$5,110,895.46, being the aggregate of the outstanding principal amount and interest accrued thereon, due from Stoneycroft to Fisherman as at September 3, 2003 pursuant to a loan agreement dated November 23, 2001 for the principal amount of HK\$9,000,000 at the interest rate of 6% per annum (the "Fisherman Loan");
- (g) On September 15, 2003, a capitalisation agreement was entered into amongst the Company, Cyber Tower and Fisherman in relation to the capitalisation of the amount of HK\$15,000,000, being the outstanding principal amount due under a loan from the Company to Cyber Tower pursuant to the Loan Assignment Deed and an amount of HK\$4,633,437.6 due under the Fisherman Loan to pay up the amounts due from the 196,334,376 rights shares to be allotted to Ms. Kam Har YUE, Mr. Richard Man Fai LEE, Mr. Jeff Man Bun LEE, all of whom are Directors, Fisherman and Modern Orbit Limited under the rights issue of not less than 340,946,820 shares by the Company as announced in an announcement made by the Company dated July 24, 2003.
- (h) On December 24, 2003, Italian Motors (Sales & Service) ("IMSS"), a division of Auto Italia Limited which is indirectly owned as to approximately 86% by the Company, sold a unit of ENZO Ferrari motor car to Mr. Richard Man Fai LEE, the Executive Chairman of the Company, for a consideration of US\$638,000 (equivalent to approximately HK\$4,976,400). IMSS is engaged in trading of cars and related accessories.

Apart from the foregoing, there were no other contracts of significance in relation to the Group's business, to which the Company or any of its subsidiaries was a party and in which a Director had, whether directly or indirectly, a material interest subsisting at the end of the year or at any time during the year ended December 31, 2003.



Directors' Report

Directors' Interests in Competing Business

None of the Directors of the Company (other than Independent Non-executive Directors) is interested in any business apart from the Company's business, which competes or is likely to compete, either directly or indirectly, with the Company's business.

Rights Issue and Bonus Issue

(a) Bonus Share Issue approved on May 6, 2003

Pursuant to 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.

(b) Rights Issue and Bonus Share Issue approved on September 1, 2003

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 issue on the basis of three bonus shares for every fully-paid rights share ("Bonus Shares Issue"). On September 23, 2003, pursuant to the Rights Issue with Bonus Share Issue, the Company issued 1,363,787,280 new shares of HK\$0.10 each.

Use of Proceeds of the Rights Issue

During the year under review, the Company issued rights shares at HK\$0.10 each in the proportion of two rights shares for every five existing shares held on September 1, 2003 with three bonus shares for every fully-paid rights shares ("Rights Issue with Bonus Share Issue").

Net proceeds of the Rights Issue with Bonus Share Issue, net of expenses, were approximately HK\$32.0 million. The Directors applied such proceeds in line with the proposed application as set out in the prospectus dated September 1, 2003 in respect of the Rights Issue with Bonus Share Issue:

- as to approximately HK\$15.1 million to repay the outstanding amounts of a loan advanced from a Director;
- as to approximately HK\$4.6 million to repay part of the outstanding amounts of a loan advanced from Fisherman Enterprises Inc., a company wholly owned by a Director;

Directors' Report

- as to approximately HK\$5.0 million to repay part of the bank overdrafts of the Group; and
- as to approximately HK\$7.3 million to provide additional working capital to the Group.

Convertible Securities, Options, Warrants or Similar Rights

Other than the share option scheme of the Company set out in Note 40 to the financial statements, the Company had no outstanding convertible securities, options, warrants or similar rights at December 31, 2003. Other than the issue and exercise of share options pursuant to the share option schemes of the Company as explained in the "Share Option Information" section, there was no issue or exercise of any convertible securities, options, warrants or similar rights of the Company during the year.

Substantial Shareholders

Save as disclosed below and in the section headed "Directors' Interests in Securities", at December 31, 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 of 5% or more of the interests 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	1,171,335,706	52.86%

Note: The 1,171,335,706 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.

Compliance with Code of Best Practice

In the opinion of the Directors, the Company has complied with the Code of Best Practice as set out in Appendix 14 of the Rules governing the Listing of Securities on The Stock Exchange of Hong Kong Limited throughout the year ended December 31, 2003 except that the Non-executive Directors of the Company are not appointed for a specific term but are subject to retirement by rotation and re-election at the Company's annual general meeting in accordance with Bye-Law No. 99 of the New Bye-Laws of the Company.



Directors' Report

The Company set up an Audit Committee comprising Mr. Raymond Cho Min LEE (Chairman) and Mr. Boon Seng TAN, Independent Non-executive Directors of the Company. In establishing the terms of reference for this Committee, the Directors have had regard to the "Guide for Effective Audit Committees" issued by the Hong Kong Society of Accountants in February 2002.

The Audit Committee of the Company has reviewed the condensed final accounts and the Annual Report 2003, and was content that the accounting policies of the Group are in accordance with the current best practice in Hong Kong.

Purchase, Sale or Redemption of Securities

The Company and its subsidiaries have not repurchased, sold or redeemed any of the Company's securities during the year.

Pre-emptive Rights

There are no provisions for pre-emptive rights under the Company's Bye-laws or the laws in Bermuda although there are no restrictions against such rights under the laws in Bermuda.

Auditors

The financial statements for the year were audited by Messrs. Deloitte Touche Tohmatsu who will retire at the forthcoming Annual General Meeting and being eligible, offer themselves for re-appointment.

On behalf of the Board of Directors

Richard Man Fai LEE

Executive Chairman & CEO

Hong Kong, April 14, 2004