

CHAIRMAN'S STATEMENT

ANNUAL RESULTS

Despite the dissatisfaction of business performance, the directors of the Company (the "Directors") are pleased to achieve an overturn of the Group's bottom-line result for the year under review. After five consecutive losing years since 1999, the Group hereby reported a net audited profit of HK\$9,000 for the year ended 31 December 2004 (31 December 2003: net audited loss of HK\$5,072,000).

BUSINESS REVIEW

The audited net profit for 2004 was contributed primarily by the re-valuation of the Company's land and building as a result of the drastic increase in the market price. The turnover, however, slipped 57 per cent from that of last financial year although the gross profit margins were greatly improved. The overall running cost had been sustained at its minimal level through the strict cost control measures adopted years ago. Likewise, human resources had been maintained at the least possible status to produce maximum productivity. In brief, the cost structure of the Group has been successfully locked at the least possible efficient level.

The Board must admit that the Group's results were continuously hindered by the supply of new working capital throughout the year under review. For the past five years, it was the best we could do to operate in such a minimal funding support. The dealership of the automotive products demands an influx of enormous working fund, as it always does. The Group had experienced failures in various attempts of exploring new banking facilities but the Board is still determined to improve the funding position in the near future nonetheless.

Between 4 February 2004 and 20 April 2004, the Company undertook a scheme of fund raising and debt restructuring (the "Capitalisation Scheme") in which: –

- (1) the Company entered into a conditional placing agreement with Forex Investment Development Limited ("Forex") for the subscription of 265,100,000 new shares of the Company at HK\$0.018 each. The consideration of HK\$4,771,800 was satisfied by cash. The said placing was conditional on, among other things, the completion of (2) and (3) below;
- (2) the Company entered into a conditional loan capitalization agreement with Winsley Investment Limited ("Winsley") for the subscription of 430,000,000 new shares of the Company at HK\$0.018 each (all together, the "Loan Capitalization"). The consideration of HK\$7,740,000 was satisfied as to HK\$7,647,163 by setting off against amount owed by the Company to Winsley and the remaining HK\$92,837 by cash. The Loan Capitalization was conditional on, among other things, the completion of (1) above and (3) below; and
- (3) Winsley, a related company as described under the section named "Related Party Transactions" in "The Report of the Directors" of this annual report, must apply to the Securities and Futures Commission (the "SFC") for the grant of a waiver from the obligation of Winsley and parties acting in concert with it, if any, to make a general offer for all the shares of the Company not already owned or agreed to be acquired by them upon completion of the Loan Capitalisation.



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In the opinion of the Directors, the Capitalisation Scheme helped the Group (i) reduce its level of indebtedness by HK\$10.75 million; (ii) reduce the adjusted net deficit of the Group from approximately HK\$13.68 million to approximately HK\$2.93 million and the adjusted net current liabilities from approximately HK\$30.48 million to approximately HK\$19.73 million; and (iii) broaden the Company's shareholder and capital base.

The Loan Capitalisation constituted a connected transaction under Rule 14.26 of the Rules Governing The Listing of Securities on the Stock Exchange (the "Listing Rules") and required the approval by the independent shareholders of the Company. A special general meeting was held on 1 April 2004 and all resolutions in relation to the Capitalisation Scheme were duly passed. The Capitalisation Scheme was completed on 20 April 2004.

A net proceed of HK\$4.22 million was raised from the Capitalisation Scheme, applying approximately HK\$3 million for partial repayment of debts and the remaining HK\$1.22 million for other general working capital purposes. The Company made all necessary announcements in respect of the progress of the Capitalisation Scheme on 17 February 2004, 9 March 2004, 1 April 2004, and 20 April 2004.

FINANCIAL SUMMARY

Throughout the years presented, the Group had no exposure to credit risk, inventory risk, fluctuation in exchange rates and any related hedges because our tight control of working capital management on the credit policies, inventory, funding and treasury planning was proven effective. At year-end date, the Group's trade receivables decreased to nil (31 December 2003: HK\$87,000) while there had been no inventories (31 December 2003: HK\$369,000) due to shortage of working fund.

As at 31 December 2004, the Group's net current liabilities and net liabilities amounted to HK\$17,435,000 and HK\$4,775,000 respectively (31 December 2003: HK\$24,515,000 and HK\$16,650,000 respectively). At the same day, the Group's cash and bank balances amounted to HK\$2,777,000 (31 December 2003: HK\$1,357,000). The total bank loans and overdrafts at 31 December 2004 were HK\$14,559,000, a 9.8 per cent increase from such balances at 31 December 2003. No time deposits were pledged to back the banking facilities granted to the Group at 31 December 2004 (31 December 2003: HK\$ nil).

In terms of liquidity, the current ratio at year-end date was 0.14 (31 December 2003: 0.08). The Group's gearing ratio, resulting from a comparison of the total borrowings with issued capital, was 1.89 at 31 December 2004 (31 December 2003: 6.1).

FUTURE OUTLOOK

Together with lots of other unfavorable changes in the automotive industry, local distributors such as our subsidiaries have been forced to expand the marketing channels. Unfortunately, the required capital is exactly what the Group lacks of. Although the Group has achieved a high cost effective structure, steady sources of revenue through diversification of distribution channels must be materialized.

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Undoubtedly China is the world's fastest growing auto market. If the Group continues to view the Mainland as its principal market for its automotive merchandise, direct distribution channel must be developed within the country, inside the core of the marketplace. Evidently, direct marketing channel in China requires a large-scale building of the operational infrastructure, including the acquisition of both capital and human resources. Large amount of funding is inevitably required, but developing such marketing channel is the immediate goal of the Group nonetheless. It is the right way to go and we have to do it so the Board is therefore determined to overturn the funding situation in the years to come. Other than existing negotiations and any local opportunities in Hong Kong, new banking facilities from foreign capital markets should also be attempted. Thorough strategic planning shall be formulated, possibilities shall be weighted, and actions shall be plotted accordingly. The Board is making its best effort to fix things right.

Chan Chun Choi

Chairman

Hong Kong, 8 April 2005

