Management Discussion and Analysis of Results of Operations and Financial Condition

Results of Operations

- **Turnover**

  For the year ended December 31, 2004 total Group turnover soared to a five-year-high of HK$618.6 million, with a sales growth of 11.8% (HK$65.4 million) over last year (HK$553.2 million). This underscored the recovery in aggregate of our business as compared to year 2003 when markets were primarily disrupted by SARS, coupled with the augmentation of First Registration Taxes being introduced in the first quarter of 2003 and caused damage on our motor vehicles business.

  In light of the economic revival in 2004 and the appeal of our products, sales for most businesses, on year-to-year comparison, demonstrated satisfactory enhancement except for air conditioning products and direct marketing, where sales were cut back to the extent of HK$14.7 million (10.7%) and HK$24.0 million (35.3%) respectively with further details and analysis elaborated in the business reviews section to which these segments relate.

- **Gross profit**

  Parallels with the turnover were our gross profit which rose to the summit unmatched in this half decade, showing an uprise by HK$10.5 million (+8.7%) to HK$131.1 million (2003: HK$120.6 million). Despite unrelenting price competition – an unpalatable truth of the consumer market – we strove to deliver record volume of sales while at the same time managed to maintain gross margins at 21.2% with only a slight slip (2003: 21.8%).

  The foregoing overwhelming result witnessed the implementation of the priorities of our Group: focusing more on core business and promising products; rationalizing under-performing business divisions and products; rejuvenating the image and developing the market of self-owned brands. Continuous efforts driven with momentum will be made to achieve these directives.

- **Other revenue, distribution, administration and other operating costs**

  As a consequence of the Group's commitment to exert a tight control on costs, distribution costs and administrative expenses were reduced in absolute number by HK$2.5 million (-4.3%) and HK$16.4 million (-16.9%) respectively as compared to last year. Moreover, from a different perspective, the % to sales in aggregate of these two major operating costs had succeeded in a cascading downfall to the extent of 6.1% from 28.1% (2003) to 22.0% in the year under review. Cost saving in such a magnitude was no-nonsense, as starting from the beginning of the year the Group endeavored to lower staff and other costs to the fullest extent possible yet acceptable to maintain the operating capability through enhancement of staff efficiency and streamlining of operations. Particularly in May 2004 we embarked on, inter alia, a corporate-wide saving plan to alleviate staff, distribution, administrative costs as well as other significant expenses via concerted effort based on a pervasive cost-cutting program. To the date of this statement, our board concluded that this program had proved to be successful and we take the perception that, looking ahead, efforts should not be stopped in all these pragmatic cost-saving measures to maintain our competitiveness in the market.

Management Discussion and Analysis of Results of Operations and Financial Condition

- **Profit from operations**

Similar to turnover and gross profit, the Board is pleased to announce that our profit from operations was at unprecedented high in recent years with a profit booking of HK$2.1 million (2003: loss of HK$49.4 million). This evidenced the efforts our management made in boosting turnover and reducing operating costs.

Other operating income of HK$6.8 million (2003: HK$13.4 million) was mainly derived from rental income received from our properties. As the property market is thriving again, we would anticipate a steady growth of this income in the coming years.

A net profit of HK$0.6 million (2003: loss of HK$18.9 million) was included in profit from operations, representing the results from revaluation of properties. No profit or loss arose from the disposal of properties during 2004 (2003: loss of HK$9.7 million).

Regrettably the segment of direct marketing had, though sarcastically resulted in a loss less than last year, experienced a disappointing year finalizing with a net loss of HK$6.6 million (2003: HK$8.4 million). Had direct marketing not undergone a downsizing exercise during the second half of 2004, the operating result thereof would have been worse. Going forward, this business would undergo a rationalization exercise and a further curtailment may be necessary.

- **Profit attributable to shareholders**

The board is pleased to deliver to shareholders a promising profit attributable to shareholders of HK$1.7 million, a marked turnaround of HK$86.5 million as compared to last year (2003: loss of HK$84.8 million).

Finance costs closed at HK$7.9 million, being HK$2.4 million less than last year (HK$10.3 million). Our cash flow landscape had gradually improved due to net cash generated from normal operations with higher turnover and lower costs; better use of working capital; additional cash realised from disposal of properties.

In the year under review, HK$1.3 million (2003: nil) was incurred in severance payments made as part of the cost-cutting program to save excessive headcount.

Share of results of associates mainly reflected the share of loss of our associated company in Jiangmen amounting to HK$17.5 million (2003: HK$22.2 million). The high costs of certain materials during the year hindered the financial performance. Alternative proposals and evaluations were under consideration in order to work out constructive program to improve the status of this joint venture.

A net credit of income tax amounting to HK$29.5 million (2003: net charge of HK$2.7 million) was recognised in the statement which was largely in the nature of deferred tax, as more explicitly explained in the notes to the financial statements.

Management Discussion and Analysis of Results of Operations and Financial Condition

Financial Condition

The Group continued to be financed by a combination of its equity capital base, cash flow generated from operations, loan advanced from a supplier and bank borrowings. As usual, bank and other liabilities were being met upon their maturities in the normal course of business.

Cash generated from operating activities amounted to HK$63.6 million (2003: cash used in operating activities of HK$28.3 million), representing a significant rebound of cash flow performance. Better use of working capital, for example decrease in inventory (amounted to HK$22.1 million or 34.7% of the cash generated); decrease in properties held for sale (HK$23.2 million or 36.5% of the cash generated); increase in trade and other payables (HK$21.8 million or 34.3% of the cash generated), was an essence in this improved cash position.

The Group had total borrowings at December 31, 2004 amounting to HK$164.4 million (2003: HK$220.1 million). The Group's gearing ratio stood at 50.2% (2003: 55.3%), based on long term liabilities (excluding deferred tax) of HK$132.2 million and shareholders' equity of HK$263.3 million. The current ratio was 1.1 (2003: 1.2), based on current assets of HK$217.6 million and current liabilities of HK$189.5 million.

At December 31, 2004, debtor collections period was 31 days (2003: 27 days) and inventory turnover 64 days (2003: 90 days). The significantly improved inventory turnover period evidenced the efforts our management made in enhancing the efficiency and effectiveness of our operations.

It is the Group's management practice to hedge foreign currency transactions with the objective to stabilise the cost via the pegging of the exchange rates with bankers. At December 31, 2004 the total outstanding foreign exchange contracts purchased with banks amounted to HK$14.5 million (2003: HK$9.0 million).

The Group had trading facilities at December 31, 2004 amounting to HK$128.2 million (2003: HK$155.6 million) of which HK$91.8 million was utilised. Certain of the Group's properties, bank deposits and all assets of a subsidiary in an aggregate amount of HK$325.4 million (2003: HK$342.0 million) were pledged at year ended 2004 to secure facilities granted by bankers and a supplier to the Group.

At December 31, 2004, the Group had contingent liabilities of approximately HK$29.2 million arising out of a court case involving a subsidiary of the Company in PRC and approximately HK$1.3 million in respect of proceedings involving a subsidiary in India respectively. The Group had no material contingent liabilities at December 31, 2003.

There was no material capital commitment at both year end.

Management Discussion and Analysis of Results of Operations and Financial Condition

Business Reviews

- **Air-conditioning products**

"Mitsubishi Heavy Industries" products & logo

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 parts of the mainland China markets. MHI provides a full range of air-conditioning products both for the packaged 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 pre-eminent global brands. The Group also provides after-sales service and support to its customers. Also in 2004 the Group supplied a full range of consumer and commercial air-conditioning products under the brand name "GREE-Bodysonic" for the Hong Kong market.

Total sales to third party customers were HK$122.4 million, a decrease of 10.7% compared with last year.

"LG" Product & Logo

Despite intensified price competition, the Group did well to maintain its gross margin level by purchasing mostly in US dollars and gradual switching to lower-cost production centres by manufacturers.

In addition, streamlining of our distribution process led to reduction in costs; shifting the business from consumer to commercial air-conditioning products also helped to improve profit margins.

"GREE" Products & Logo

Looking to 2005 and beyond, it is expected that more air-conditioning products and brands will come from mainland China; this will pose increasing pressure to foreign brands and manufactured products. The Group will seize opportunities to distribute more Chinese products and brands. Stability of this business will be maintained by the Group as a steady profit contributing segment.

Management Discussion and Analysis of Results of Operations and Financial Condition

- **Audio-visual and other electrical products**

Sales in this business segment increased by 12.8%. The audio-visual business includes the international marketing and distribution of products developed for the Group's own brands of "Rogers" (from the UK) and "Bodysonic" (from Japan). The Group also distributes "Sansui" products in Hong Kong and Macau; "Marantz" and "Mordaunt-Short" products in Singapore and Malaysia. This segment also includes sales of the "LG" branded home electrical appliance products, as well as car audio and electronic products of the famous "Alpine" brand (from Japan) and our own "Rogers" brand.

"LG" Products & Logo

The distribution of "LG" home appliances includes refrigerators, washing machines, microwave ovens and dehumidifiers for Hong Kong and Macau. Sales increased 38% over last year and profit margin was maintained at similar level. The Group was successful in promoting a premium product strategy to grow our business towards high-end products and stayed out of price competition. As the costs to maintain this home appliances business is relatively high, the Group will review this segment in 2005 with respect to resources allocation.


"Rogers" Plasma TV & Logo

In March 2005, the Group received a notice from LG Electronics Inc., a major supplier of home appliances, informing us that it will terminate the Distributorship Agreement with effect from June 1, 2005. The termination is due to the change of global sales policy of the supplier. We are now negotiating with LG Electronics Inc. on the possible future distribution role of the Group in specific product segments. Since the discussion of such arrangement is in process, the management could only assess the impact of the termination upon conclusion of discussion and inform the shareholders where appropriate.

It was encouraging to note the strong performance of "Rogers" branded LCD and Plasma TVs. The "Rogers" 30-inch LCD TV was ranked the top seller in the Hong Kong market in December and awarded the Best Buy Prize by magazines in Hong Kong and mainland China. The successful launch of the "Rogers" DVD recorder also boosted our confidence in achieving fast growth by replacing the traditional VCR products. Efforts were stepped up to expand the international distribution of "Rogers" by searching and appointing more distributors in various countries, including Norway, Russia, Korea and Croatia. "Rogers" will participate in important international and regional consumer electronics shows, including the largest Consumer Electronic Show in Las Vegas to further build up its international awareness and business.


2004 Best Buy Prize – *"Rogers" 30-inch LCD TV*

Management Discussion and Analysis of Results of Operations and Financial Condition


"Alpine" Products & Logo

New line-up for 2005 will include Plasma TV and LCD TV, DVD recorder with media card function, new speaker systems and portable MP4 player.

The car audio and electronics business of "Alpine" achieved good results in Singapore and Malaysia. Yet this business suffered a decline in Hong Kong as less demand came from China for imported car audio. We expect improvement in 2005 with popularisation of car navigation systems and new units that can integrate with MP3 players. Our own "Rogers" brand of car speakers and amplifiers made good growth in sales with an expanded line-up of products.

- **Direct marketing**

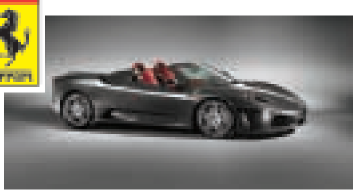
The business is the operation under "Mega Warehouse" branded outlets in the Hong Kong market. Sales to customers in 2004 were 35.3% lower than 2003. The significant drop in sales was mainly due to the closing of seven shops during the year. The decision of closing down the non-performing shops reflected the strategy of the Group to reposition "Mega Warehouse" amid the competitive retail environment.


A "Mega Warehouse" retail outlet

Looking to 2005, management believes the competition in retail market will be very strong. It is expected that further stringent measures will be made to improve the operational efficiency of Mega Warehouse.

- **Motor vehicle and car accessories distribution**

Recovering from a bad 2003 (when the car business was disastrously hit by the high increase in First Registration Tax, which was then lowered due to mounting public pressure), 2004 witnessed a strong turnaround of our car distribution business. This was fueled by the introduction of strong new model of both Ferrari and Maserati, including the Ferrari Challenge Stradale, 612 Scaglietti, 575 HGTC, Maserati Quattroporte and GranSport. This resulted in a sharp increase of right-hand-drive car sales of 51%, which was much higher than the 5.2% increase of private car sales in Hong Kong in the year. Increased turnovers were also recorded by workshop service and parts sales. Profit margins were maintained at a stable level despite the surge of the value of Euro.


FERRARI F430 Spider

2005 is expected to be a record year for our car business. This will be made possible by the tremendously popular Ferrari F430, which has already collected a large number of orders awaiting for deliveries; the 612 Scaglietti and the new models to be launched: Superamerica and F430 Spider.

Maserati car sales are expected to increase strongly with the excellent sales achieved by Quattroporte and GranSport; the highly acclaimed MC12 and new 2 door models to be launched. We are also looking into the possibility of taking up the distributorship of a complementary brand of cars, which will benefit from a good economy of scale.


MASERATI MC12

Management Discussion and Analysis of Results of Operations and Financial Condition

MASERATI GranSport

To support the planned growth of business, a third workshop in the form of a new 3S-centre (Sales, Services and Spare parts) with a large showroom will be setup in Ap Lei Chau on the Hong Kong side in the third quarter of this year. An exclusive large Maserati showroom will be completed within the first half year. Upon completion, the car business group will have four showrooms and three workshops in both Hong Kong and Kowloon and be able to provide high quality services to our expanding group of valued customers.

The car importation and distribution joint venture in China, Ferrari Maserati Cars International Trading (Shanghai) Co., Ltd., has commenced operations in the last quarter of 2004. Headquartered in Shanghai, it has now built up a good team of competent personnel, working to develop the dealership network, providing national marketing, sales and technical support to the growing Chinese market.

- **The Singaporean and Malaysian markets**

In 2004, the Singapore operations consisted of the distribution of “MHI” air-conditioning products, “Alpine” and “Rogers” car audio products and home audio products of “Marantz”, “Rogers” and “Mordaunt-Short”. The air-conditioning business did not do well in the year due to a lack of construction activities in the market. However, there was good growth in the OEM car audio business with major car distributors in the market. The Singapore operations were about breakeven for the year.

The Malaysian operations were focused on the car audio product distribution of mainly “Alpine” and complemented with our own “Rogers” brand. This sector achieved very good growth in sales and profit. Whilst the audio-visual sector suffered due to a sluggish market. The same audio-visual brands as in Singapore were also distributed by us in Malaysia.

- **Joint-venture manufacturing business**
  (Jin Ling Electrical Company Limited – “JLE”)

The “JLE Factory” in Jiangmen

This 50%-owned business is engaged in the design and manufacture of washing machines under the “Jinling” brand for sale in the PRC, but also as an Original Equipment Manufacturer (“OEM”) for customers in Africa, Latin America, Middle East and South East Asia.

Sales rose by RMB28.4 million (6.5%) to RMB464.7 million (2003: RMB436.3 million). Gross margins, at 19.02% (2003: 19.48%), were under pressure with increases in raw material costs, though it was lightened to a significant extent by effective cost-cutting measures. Share of loss in JLE amounted to HK$17.5 million (2003: HK$22.2 million), after a write-off in the sum of RMB30.4 million being “technology transfer rights” under intangible assets had been accounted for in the financial statements of JLE.

Management Discussion and Analysis of Results of Operations and Financial Condition

Personnel

At the end of 2004, the total number of employees of the Group, excluding associates, was 283 (2003: 365), representing a 22.5% reduction in headcount. With the launching of a cost-saving program in May 2004, the Group carefully reviewed the staff required in each business and function. It was considered necessary to reduce the headcount further with redundancies already announced, given closure or consolidation of some unprofitable business units.

The Group recognised the importance of its employees and despite the measures previously taken, we were able to retain a core team of loyal, experienced and dedicated people. Productivity and morale were enhanced steadily with continuous organisational improvements. The management team remained stable and committed throughout the year. We are confident that the businesses and the employees will grow together for the benefit of the Group in the years to come.

Subsequent Event

On February 24, 2005, the Group and Mitsubishi Heavy Industries, Ltd (“MHI”) entered into the Deed of Settlement in relation to the settlement of a loan of US$17,039,689 plus interest accrued of US$728,638.27 due from Wo Kee Hong Limited, a wholly owned subsidiary of the Company, to MHI under the loan agreement dated June 28, 2002 by payment of an amount of US$6 million in two equal instalments of US$3 million each payable on or before March 15 and 18, 2005. The Directors are pleased to report that the settlement has been duly completed. This results in a gain of HK$88.2 million to be included in the Group’s interim results of 2005. Subsequent to the full settlement of the loan, the long-term liabilities of the Group are significantly ease and the total debt and liquidity position of the Group has been improved as a whole.

Prospect

The markets of Hong Kong Macau, mainland China, Singapore and Malaysia are expected to enjoy healthy growth in 2005 and provide more business opportunities for our Group.

Strong growth is planned for our car distribution business with the highly successful new models being launched and supported by substantial increase in showroom and workshop space. The car importation and distribution joint venture in China, Ferrari Maserati Cars International Trading (Shanghai) Co., Ltd., is also expected to make good progress during the year, laying a solid foundation for growth in the coming years to this car market.

The increase in tourism and local consumption will also boost our consumer electronics business. Major efforts will be made to push our own “Rogers” to become a major quality life style electronics brand in China and other international markets. The air-conditioning business is being refocused to expand into the commercial areas from the domestic sector. The high overheads of the traditional electrical appliance business will be lowered with rationalisation of this business.

The successful completion of the debt settlement with Mitsubishi Heavy Industries, Ltd. will provide a substantial operational profit contribution to the Group and free the Group from long term commitment to look for strategic investment opportunities.

All the above developments are beginning to bring positive results and operational improvements to the Group. Positive cashflow is also planned to be generated both at the operational level and with the disposal of non-core investments. Healthy deployment of assets and good return on investments will be achievable in 2005.