

Directors' Report

The Directors present to shareholders this annual report and audited financial statements for the financial year ended December 31, 2004.

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 43 to the financial statements.

Segmental Information

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

Group Results

The consolidated income statement is set out on page 27 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 (2003: nil) for the year ended December 31, 2004. No interim dividend was paid during the year (2003: 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 29 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 75 to 85 of this Annual Report and in Note 42 to the financial statements.

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Reserves

Details of movements in reserves of the Group and of the Company during the year are set out in the consolidated statement of changes in equity on pages 31 to 32 of this Annual Report and in Note 30 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\$74,000 (2003: HK\$92,000).

Borrowings

Details of the Group's borrowings are set out in Note 32 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 57.8% of the Group's purchases during the year, 21.1% 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 2004, in respect of the Group's occupancy of various units at Wo Kee Hong Building, the Group paid to Sumwell Property Management Limited ("SPML"), as a building manager to operate a building management fund for Wo Kee Hong Building, building management and other fees of total HK\$4,187,000 which SPML received on behalf of the management fund.



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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, Tik Tung WONG, Herbert ADAMCZYK and Ms. Kam Har YUE are directly or indirectly interested are shown in Note 38 to the financial statements.

Directors

The Directors of the Company who held office during the year were:

Executive

Wing Sum LEE *(Honorary Chairman)*
Richard Man Fai LEE *(Executive Chairman and Chief Executive Officer)*
Sammy Chi Chung SUEN
Jeff Man Bun LEE
Tik Tung WONG *(Appointed on June 28, 2004)*

Non-executive

Kam Har YUE

Independent Non-executive

Boon Seng TAN
Raymond Cho Min LEE
Kenji Tak Hing CHAN *(Appointed on September 1, 2004)*

In accordance with Bye-Law No. 99 of the New Bye-Laws of the Company, Ms. Kam Har YUE and Mr. Jeff Man Bun LEE will retire from office by rotation at the forthcoming Annual General Meeting and, being eligible, offer themselves for re-election.

In accordance with Bye-Law No. 102(B) of the New Bye-Laws of the Company, Messrs. Tik Tung WONG and Kenji Tak Hing CHAN will retire from office 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.

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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' Interests in Securities

At December 31, 2004, 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, 2004:

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:

- The 6,738,732 Shares are owned by Ms. Siew Yit HOH, the spouse of Mr. Richard Man Fai LEE.
- 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.
- 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.
- All interests in the Shares are long positions. None of the Directors held any short position in the Shares.



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(b) Beneficial interests and short positions in underlying shares of equity derivatives of the Company at December 31, 2004 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, 2004:

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

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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 2004 was HK\$417,000.

Cyber Tower is the trustee of The WS Lee Unit 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 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.

- (b) Owners entered into a 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 July 29, 2004 for 1 year from April 1, 2004. The total amount of service fee paid to SPML in 2004 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 service agreement was renewed for 1 year from October 1, 2004. The total amount of service fee paid to SPML in 2004 was HK\$43,200.
- (d) Owners entered into a service agreement with SPML on January 1, 2004 in respect of the accounting service of the Wo Kee Hong Building Management Fund rendered by SPML. The service fees are fixed at HK\$162,000 per annum.
- (e) On May 5, 2004, the Company entered into a consultancy agreement with Vision C.P.A. Limited ("Vision"). Pursuant to the agreement, Vision provided internal audit consultancy service to the Group at a monthly fee of HK\$10,000. Vision is controlled by Mr. Tik Tung WONG, a Director of the Company appointed on June 28, 2004. The agreement was terminated on June 30, 2004. The fee paid to Vision pursuant to the agreement in 2004 was HK\$20,000.



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- (f) On April 26, 2004, Italian Motors (Sales & Service) ("IMSS"), a division of Auto Italia Limited which is an indirectly non-wholly owned subsidiary of the Group, sold a unit of Ferrari motor car to Mr. Jeff Man Bun LEE ("Mr. Jeff LEE"), a Director of the Company, for a net consideration of HK\$900,000. IMSS is engaged in trading of cars and related accessories. Mr. Jeff LEE acquired the car for his private use.

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, 2004.

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.

Convertible Securities, Options, Warrants or Similar Rights

Other than the share option scheme of the Company set out in Note 42 to the financial statements, the Company had no outstanding convertible securities, options, warrants or similar rights at December 31, 2004. 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.

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Substantial Shareholders

Save as disclosed below and in the section headed "Directors' Interests in Securities", at December 31, 2004, 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	52.85%

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.

Corporate Governance

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 (which was in force during the year under review) throughout the year ended December 31, 2004 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.

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

The Audit Committee of the Company has reviewed the consolidated final accounts and the Annual Report 2004, and was content that the accounting policies of the Group are in accordance with the current best practice in Hong Kong.



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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. RSM Nelson Wheeler who will retire at the forthcoming Annual General Meeting and being eligible, offer themselves for re-appointment.

On July 19, 2004, Deloitte Touche Tohmatsu resigned as auditors of the Group. On July 20, 2004, Messrs. RSM Nelson Wheeler were appointed as auditors of the Group to fill the casual vacancy following the resignation of Deloitte Touche Tohmatsu to hold office until the conclusion of the forthcoming annual general meeting of the Company.

On behalf of the Board of Directors

Richard Man Fai LEE

Executive Chairman & CEO

Hong Kong, April 25, 2005