

CHAIRMAN'S STATEMENT

BUSINESS REVIEW

Sales of motor vehicles

In a difficult market of heavy commercial vehicles, Scania products still managed to maintain solid position in the Greater China market. To maintain our competitive edge, the Group provided comprehensive repair and maintenance packages and by further enhancement on our quality services to customers to complement vehicle sales. The Group stresses on the importance of securing sales volume and market share in spite of deteriorating gross margin in vehicle sales in order to maintain population to support our after sales service market.

Provision of motor repair and maintenance services

The provision of quality after sales services is very important for its customers' perception of the Group. We have a network of quality service centres which are easily accessible by the customers in the regions the Group covered. We also aim at minimizing the amount of time required to carry our repair and maintenance services, which is greatly enhanced by maintaining a sufficient stock level. During the past financial year, this segment experienced decreases in parallel with the demand for transport services. Despite such decreases, the group continued its effort in increasing its number of service points certified by Scania worldwide Dealer Operating Standard ("DOS").

Provision of other motor-related services

The operation of U-Drive, a membership scheme whose members enjoy various motor-related services and benefits, offers a very comprehensive range of services, ranging from telematics and vehicle repair and maintenance services as well as insurance agency, financing and fleet management control services, to its customers. The chain services offered by U-Drive will complement the business currently carried on by the Group and enable the Group to diversify its scope of business and enlarge its base of recurrent earnings.

During the past year, the number of U-Drive members increased from about 3,000 to 10,000 as at 31 December 2001.

Interest income in respect of provision of hire purchase financing

As certain of the Group's customers require financing for their purchases of vehicles from the Group, the Group facilitates this process through providing financing itself or the introduction of its customers to financing companies. The Group adopted a very prudent approach in exploring this business segment. Credit risk control has always been ranked as the top objective while the assessing of customer financing strength is a very firm and stringent process. The Group's participation in the financing business will be maintained in line with the economic growth in the region and also the overall corporate strategy of the Group.

FINANCIAL REVIEW**Results for the year**

During the year under review, the Group recorded a turnover of approximately HK\$729.2 million representing about 4.3% increase as compared to last year. The increase in turnover was due to the expansion of the business of U-Drive which its turnover amounted to approximately HK\$47.7 million.

The profit attributable to shareholders for the year was approximately HK\$26.1 million (2000: HK\$56.1 million). The Group's results were affected by the eroding gross margin due to fierce competition within the industry and the global economic downturn especially after the 911 incident. The effect was further compounded by the devaluation of the NT Dollars during the year. Operating expenses increased mainly due to the increase in depreciation expenses in relation to the relocation of head office to, and the set up of the new service centre in Yuen Long and also the initial promotional activities of the U-Drive programs.

Bank and other borrowings

Bank and other borrowings increased from HK\$130.5 million to HK\$272.9 million. The increase was in line of the expansion of the business mode of the Group. Due to the nature of business, a majority of the borrowings were trade finance and this explained the high proportion of short-term borrowings. The costs of borrowings were generally in line with cost of funds of the lending banks.

The gearing ratio, computed as total borrowings over equity, increased from 0.72 to 1.25. The current ratio, decreased from 1.59 to 1.40. Both ratio have been greatly improved after the placement of the Company's shares in February 2002.

CHAIRMAN'S STATEMENT

State of order book

As at the date of the report, the order booking resulted in line with the management's expectation.

Material acquisitions and disposals

On 26 March 2001, the Group disposed of its entire interest in a long term investment at its carrying value of HK\$2.3 million to a Company which is beneficially owned by Mr Yang Kwn San, the Honorary Chairman of the Group.

On 15 June 2001, the Group further acquired 45% equity interest in V-Guard Technology Limited ("V-Guard") through its wholly owned subsidiary, U-Drive Company Limited ("U-Drive") and V-Guard became a wholly-owned subsidiary of the Group until the disposal below where it became a 95% subsidiary of the Group.

On 31 December 2001, the Group disposed an aggregate of 5% equity interest in U-Drive to two independent third parties for cash at an aggregate consideration of HK\$10 million.

Comments on segmental information

Revenue on sale of vehicle increased slightly by less than 1% as compared to the last financial year. During the year under review, sale of coaches greatly increased whereas sale of tractors dropped drastically. As the unit selling price of coaches is higher than that of tractors, total number of units sold decreased whereas turnover amount remained at similar level.

Revenue from after sale services decreased by approximately 10%. It was mainly due to the decrease in demand of transportation services. As the Group's after sale services business has been highly recognized in terms of its high quality, it is expected that the revenue therefrom would be increased after the global economy started to rebound.

Sale of fuel under U-Drive in its first year of full operation reached HK\$43 million. Market reception and adoption by customers stayed strong. The U-Drive membership scheme was the Group's another focus area with great potential for further development.

As the economy became tougher during the year, the Group exercised extreme caution in operating the hire purchase financing business. Credit risk control was and will always be the Group's top concern in selecting customers.

Revenue from other motor vehicle related services increased as compared to the last financial year. It was mainly contributed from the actively expanding business of V-Guard, which engages in the selling of telematic products to facilitate provision of information services and security to drivers and fleet operators.

Employees

The total number of employees of the Group as at 31 December 2001 was 409. Besides salary payment, the Company has an employees' share option scheme which was adopted on 21 June 2001. As of the date of this report, no option has been granted under this scheme.

Contingent liabilities

During the year under review, certain advertising firms filed a claim against Forefront International (Hong Kong) Limited, a wholly-owned subsidiary, for the allegedly unpaid advertising fees of approximately HK\$1,763,000. After considering the information available to the Group in relation to the alleged claim and based on legal advice, the Directors of the Company and Forefront International (Hong Kong) Limited consider that the said claim is without merits as the alleged advertising services were not rendered to Forefront International (Hong Kong) Limited or any other group companies. Accordingly, no provision has been made in the financial statements for such a claim.

Charge on group assets

As at 31 December 2001, the Group's borrowings and banking facilities were secured by the following:

- (i) Mortgages over the Group's properties with a net book value of approximately HK\$49,300,000 (2000: Nil);
- (ii) Pledge over certain vehicles of the Group's customers which are pledged to the Group as security for finance leases granted by the Group;
- (iii) Pledges of the Group's accounts receivables of approximately HK\$42,213,000 (2000: Nil) covered by post-dated cheques from customers by the Group's subsidiary in Taiwan;
- (iv) Pledges of the Group's bank deposits of approximately HK\$3,476,000 (2000: HK\$12,326,000) by the Group's subsidiary in Taiwan;



CHAIRMAN'S STATEMENT

- (v) The Group's inventories held under trust receipts bank loans;
- (vi) Corporate guarantees provided by the Company.

Apart from the above, included in the accounts receivable as at 31 December 2000 was an amount of approximately HK\$5,407,000 which was pledged to secure banking facilities granted to a shareholder of the Company. As at 31 December 2001, such balance was fully released.

As at 31 December 2000, certain insurance policies held by a subsidiary of the Company was pledged to secure banking facilities granted to that subsidiary. As at 31 December 2001, that related bank borrowings had been fully repaid and the related pledge was released.

Future plans for material investments or capital assets

The Group had the following plans for investments:

- To continue to establish more self-operated service centres and authorized service centres in the Greater China Region in order to provide convenient accessibility to its customers.
- To expand the financing capabilities of the Group's vehicle financing arm.
- To expand the scope of business of U-Drive both in Hong Kong and Taiwan and later in the PRC.

Exposure to fluctuations in exchange rates

The Group is subject to foreign exposure since its purchases are mainly denominated in US dollars and euro, while the income it derives from the sales of vehicle and provision of after sale services are mainly denominated in NT dollars, Hong Kong dollars and US dollars. The Group closely monitors its foreign currency exposure and hedges such exposure through the use of short-term forward foreign exchange contracts from time to time.

OUTLOOK

Signs of recovery in the United States have been more apparent recently and hopefully it will also benefit the whole global economy. As transport business is always very much in line with the economic growth, we anticipate increases in demand of heavy commercial vehicles to be in line with such trend. Such growth anticipation includes the U-Drive activities.

The Group is actively looking into the possibility of setting up vehicle assembly business to achieve vertical integration and enhance profit margin. Such business can be developed into the assembly of chassis and bodies of heavy commercial vehicles.

U-Drive is developing a "Smart Card" to be launched initially for the use by its members in Taiwan. U-Drive Smart Card is a new generation of contact-free cards usable for a wide range of purposes, including highway and railway travel, and eventually parking, shopping and entertainment. U-Drive Smart Card can offer service provider more efficient operations and management and at the same time offer conveniences to card users. U-Drive Smart Card operations will give priority to forming alliances, as it is this that will eventually encourage greater use of the Smart Card. U-Drive plans to ally with the major public transport networks in Taiwan.

Though short-term outlook for the whole business environment appears not to be progressing exponentially, we do expect improvement at a steady trend. Capturing on the Group's solid position in the industry in the Greater China Area, the directors are confident that the Group will manage to maintain market position while exploring new business. Moreover, we will continue to seek for business opportunities to enhance the profit and growth potential of the Group with prudence.

DIVIDEND

The directors recommended the payment of final dividend of HK\$0.008 per share in respect of the year ended 31 December 2001 to all shareholders whose names appear on the register of members of the Company on 23 May 2002. Subject to the approval of shareholders at the forthcoming annual general meeting, dividend cheques will be sent to shareholders on or before 14 June 2002.

CHAIRMAN'S STATEMENT

APPRECIATION

Finally, I would like to express my deepest gratitude to all our staff for their loyalty and dedication and our customers, suppliers, bankers and shareholders for their continued support.

Liu Chen Wei, Jerry

Chairman

25 April 2002