

I present to shareholders the annual report of the Group for the year ended 31st March, 2002.

### **BUSINESS REVIEW AND OUTLOOK**

#### **RESULTS AND FINANCIAL HIGHLIGHTS**

The results of the Group during the year ended 31st March, 2002 are summarised below:

- Consolidated turnover was HK\$40.1 million, a decrease of 36.4% as compared to the last corresponding year of HK\$63.1 million. The decrease in turnover was mainly due to the decrease in interest income resulting from the drop in interest rate.
- Profit from operations decreased by 75.6% to HK\$3.6 million, as compared to the last corresponding year of HK\$14.9 million. The decrease in profit from operations was mainly due to the decrease in interest income.
- Loss for the year reduced to HK\$289.3 million, as compared with the loss of HK\$612.4 million for the last corresponding year, despite the impairment loss in respect of goodwill recognised on Star East Holdings Limited, as there was an improvement in the contribution from share of results of associates during the year under review and there was loss arising from disposal of the entire interest in Tung Fong Hung (Holdings) Limited last year.
- Basic loss per ordinary share for the year was HK\$0.51 (2001: HK\$1.20).
- Total assets of the Group decreased by 12.4% to HK\$2,115.6 million and shareholders' funds decreased by 7.6% to HK\$1,489.4 million, as compared with the total assets and shareholders' funds as at 31st March, 2001.

#### **REVIEW OF OPERATIONS**

Last year was very tough to most business around the world. The global economic downturn was aggravated by the September 11th terror attack in the United States.

During the year ended 31st March, 2002, the Group continued to hold significant interests, both directly or indirectly, in a number of diversified companies listed in Hong Kong, Canada, Australia and the United States and unlisted investments with high potential pursuant to its long term strategy of exploring potential investments and to enhance the value of its strategic investments by active participation in or close liaisons with the management of the companies invested. As at 31st March, 2002, the Group had the following strategic investments:

*Listed strategic investments directly held*



*Paul Y. - ITC Construction Holdings Limited ("Paul Y. - ITC")*

The Paul Y. - ITC group's principal business includes, inter alia, building construction, civil engineering, specialist works, property development and investment, hotel management and operations, catering business, manufacture and trading of construction materials, investment in a major associate, Downer EDI Limited that engaged in engineering service business, as well as strategic investments in China Strategic Holdings Limited, elevators installation and internet related services. It has operations in Hong Kong and the PRC. For the year ended 31st March, 2002, Paul Y. - ITC reported a consolidated profit for the year of HK\$70.7 million and its after tax contribution to the Group was a profit of HK\$40.2 million.



*Hanny Holdings Limited ("Hanny")*

The Hanny group's principal business includes, inter alia, the manufacture, distribution and marketing of data storage media (primarily floppy disks, CD-R and CD-RW) and the distribution and marketing of computer accessories and storage media drives, scanners, audio and video cassettes, minidiscs, household electronic products and telecommunication accessories through its core *Memorex®* and *Dysan®* business, and securities trading. North America and Europe are the major markets for the products of *Memorex®* which has got its market share leadership position for optical media in the United States. Hanny also holds strategic investments in companies engaged in information technology, internet, internet related and investment business. For the year ended 31st March, 2002, Hanny reported a consolidated loss for the year of HK\$102.5 million and its after tax contribution to the Group was a loss of HK\$26.7 million.



Listed strategic investments directly held (continued)

**Burcon** *Burcon NutraScience Corporation ("Burcon")*  
A New World in Protein

Burcon is a research and development company developing a portfolio of composition, application and process patents around its core micelle technology – a novel plant protein purification and extraction technology. The goal of Burcon's research is to develop its patented process to utilize inexpensive oilseed meals for the production of purified plant proteins that exhibit both valuable nutritional profiles and broad functionality. Burcon is currently focusing its efforts on developing the world's first commercial canola proteins, Puratein™ and Supertein™, each with unique functional and nutritional profiles. Canola, recognized for its nutritional qualities, is Canada's largest oilseed crop and the second largest in the world after soybean. Burcon's goal is to develop Puratein™ and Supertein™ to participate with soy, dairy, and egg proteins in the expanding multi-billion dollar protein ingredient market with potential uses in prepared foods, nutritional supplements, and personal care products. Recently, Burcon has commissioned and received a third-party engineering report that confirmed the economic viability of Burcon's manufacturing process to produce Puratein™ and Supertein™ on a large scale at a significant yield and a low cost of production. Given that Burcon was still in the stage of research and development of its business, its results and contribution to the Group for the year ended 31st March, 2002 were not significant.



**stareast** 東方魅力 *Star East Holdings Limited ("Star East")*

Star East is principally engaged in entertainment-related business, including the franchising and operation of "Planet Hollywood" theme restaurants and "Star East" entertainment complexes in Asia, strategic investments in Sing Pao Media Group Limited (formerly "STAREASTnet.com Corporation"), development of out-of-home media services through investment in an associate, production of movies and television and documentary programmes, public relations and event marketing and production, market communications, talent management, music production and property investment and development. For the year ended 31st March, 2002, Star East reported a consolidated loss for the year of HK\$461.7 million and its after tax contribution to the Group was a loss of HK\$57.6 million. In addition, the Group has recognised impairment loss of HK\$195.5 million in respect of the goodwill on Star East during the year after considering the impact of the stagnant market on the entertainment-related business.



Listed strategic investments indirectly held



Downer EDI Limited ("Downer")

Downer is the second largest Australian listed engineering, infrastructure and resource services company. The Downer group provides comprehensive engineering and infrastructure management services to the public and private rail, road, power, telecommunications, mining and resource sectors in Australia, New Zealand, South East Asia, Hong Kong and the Pacific.



Sing Pao Media Group Limited ("Sing Pao")  
(formerly "STAREASTnet.com Corporation")

Sing Pao is a global Chinese internet content provider on multimedia entertainment and life-style information. Sing Pao produces and distributes original interactive programmes through its network of vertically-integrated entertainment portals and creates cost-effective one-stop advertising and marketing services packages to advertiser. In December 2001, Sing Pao has acquired various media business including Sing Pao Daily News (a well known daily Chinese newspaper published in Hong Kong) and Wide Angle magazine (a current affairs magazine sold in Hong Kong and the PRC).



China Strategic Holdings Limited ("China Strategic")

China Strategic is engaged in the holding of investments in a diversified range of business including manufacturing, property investment and development, toll road and hotel operations through its subsidiaries, China Land Group Limited and China Enterprises Limited. China Strategic is also engaged in the business of Chinese medicine, food supplements, health products, western pharmaceutical products under the brand names of Tung Fong Hung and Jean-Marie.



*Listed strategic investments indirectly held (continued)*

*China Enterprises Limited ("China Enterprises")*

China Enterprises is one of the largest tire manufacturers in the PRC. Through its sino-foreign joint ventures and other international joint ventures in the PRC, China Enterprises manufactures and sells tires and other rubber products in both the PRC and overseas. To diversify away from over dependence on a single vertical business, China Enterprises continues to seek other investment opportunities and took an initial step by investments in travel related business by acquiring a substantial interest in Ananda Wing On Travel (Holdings) Limited ("Ananda") in April 2002.



*China Land Group Limited ("China Land")*

China Land is principally engaged in property trading and development, hotel and toll road operations in the PRC.



*Australia Net.Com Limited ("Australia Net")*

Australia Net continues to look for strategic investment opportunities to maximise return on its capital resources.



### *Other unlisted investment*

#### *Gold Focus Ltd. ("Gold Focus")*

During the year ended 31st March, 2002, the Group held interest in Gold Focus, the holding company of the Mobile Media group which is engaged in out-of-home audio and video advertising business in Hong Kong and the PRC (including Guangzhou, Harbin and Beijing). Such out-of-home audio and video advertising business of Mobile Media group involves installing, operating and maintaining multi-media telecasting systems comprising display units and telecasting equipment on transit vehicles such as buses and public light buses and fixed location in commercial venues, broadcasting of tailor-made programming and advertisements through "M Channel" to capture transit vehicle viewers and the general public, marketing and selling advertisements on the system. The business is an emerging and fast-growing sub-sector of the outdoor media industry in both Hong Kong and the PRC as it offers a relatively low cost-per-thousand audience. Complementing the interactive out-of-home media services, Mobile Media group is also developing the bus body advertising service. In April 2002, the business of Mobile Media group was disposed of to 36.com Holdings Limited ("36.com"), a company listed on the Growth Enterprise Market of the Hong Kong Stock Exchange, in consideration of 36.com issuing new shares to the shareholders of Gold Focus. After the completion of the disposal, the Group has direct interest of 18.8% in 36.com which is now renamed as M Channel Corporation Limited ("M Channel Corp").



The Group's interests in listed strategic investments are summarised below:

***Listed strategic investments directly held***

Name of investee company	Place of listing	Shareholding percentage	
		As at 31st March, 2002	As at the date of this report
Paul Y. - ITC	Hong Kong Stock Exchange	42.6%	42.6%
Hanny	Hong Kong Stock Exchange	27.7%	27.7%
Burcon	TSX Venture Exchange	26.0%	26.0%
Star East	Hong Kong Stock Exchange	21.1%	20.0%
M Channel Corp	The Growth Enterprise Market of the Hong Kong Stock Exchange	–	25.0% <i>Effective interest (Note a)</i>

***Listed strategic investments indirectly held***

Name of investee company	Place of listing	Effective interest	
		As at 31st March, 2002	As at the date of this report
Downer	Australian Stock Exchange	15.7% <i>(Note b)</i>	15.7% <i>(Note b)</i>
Sing Pao	The Growth Enterprise Market of the Hong Kong Stock Exchange	12.6% <i>(Note c)</i>	11.7% <i>(Note c)</i>
China Strategic	Hong Kong Stock Exchange	12.3% <i>(Note d)</i>	10.2% <i>(Note d)</i>
China Enterprises	New York Stock Exchange	6.8% <i>(Note e)</i>	5.7% <i>(Note e)</i>
China Land	Hong Kong Stock Exchange	8.0% <i>(Note e)</i>	6.7% <i>(Note e)</i>
Australia Net	Australian Stock Exchange	7.0% <i>(Note e)</i>	5.9% <i>(Note e)</i>
Ananda	Hong Kong Stock Exchange	–	2.0% <i>(Note f)</i>

*Notes:*

- (a) The effective interest of the Group represents its direct interest of 18.8% and indirect interest of 6.2%. Indirect interest is held through the Group's direct interest in Star East and indirect interest in China Strategic.
- (b) The Group's interest is held through its direct interest in Paul Y. - ITC.
- (c) The Group's interest is held through its direct interests in Hanny and Star East and indirect interest in China Strategic.
- (d) The Group's interest is held through its direct interests in Paul Y. - ITC and Hanny.
- (e) The Group's interest is held through its indirect interest in China Strategic.
- (f) The Group's interest is held through its indirect interest in China Enterprises.

**LIQUIDITY AND FINANCIAL RESOURCES**

Cash, bank balances and deposits as at 31st March, 2002 amounted to approximately HK\$86.0 million of which only 0.03% were in other currencies. The convertible notes in issue at principal values of HK\$120 million and HK\$460 million will be redeemed on 5th October, 2002 and 1st March, 2003, respectively, or the next following business day if it is not a business day. As at 31st March, 2002, the Group's total borrowings, including the convertible notes in issue, were HK\$604.1 million of which bank overdrafts and other loan repayable within one year or on demand amounted to approximately HK\$26.4 million. Approximately 1.5% of the Group's total borrowings were denominated in Canadian dollars. The Canadian dollars denominated borrowings are directly tied in with the Group's business in Canada. All the Group's borrowings are at floating interest rates. The Group's current ratio was 0.46 and the gearing ratio, which was expressed as a percentage of the Group's net borrowings of HK\$518.1 million to the shareholders' funds of HK\$1,489.4 million, was 34.8% as at 31st March, 2002.

As at 31st March, 2002, certain land and buildings of the Group with an aggregate carrying value of approximately HK\$17.6 million were pledged to banks to secure general facilities granted to the Group. The Group did not have any significant contingent liabilities as at 31st March, 2002.

**EMPLOYEE AND REMUNERATION POLICY**

As at 31st March, 2002, the Group employed a total of approximately 45 employees. The Group recruits and promotes individuals based on merit and their development potentials for the positions offered. Remuneration package is determined with reference to their performance and the prevailing salary levels in the market. The Group also offers other benefits to employees including training, provident funds and medical coverage. Through the share option scheme established for the eligible employees, it is intended to integrate their responsibilities, authority and benefits.

**MAJOR EVENTS*****Fund raising***

In June 2001, Galaxyway Investments Limited, a substantial shareholder of the Company, placed 68,500,000 ordinary shares in the Company to independent professional investors at a price of HK\$0.60 per share and simultaneously subscribed for 105,000,000 new ordinary shares at the same price per share. The net proceeds received by the Company under the subscription, which was completed on the same date, were approximately HK\$61.5 million and as to about HK\$12.4 million were used to subscribe for the shares in Star East pursuant to a conditional agreement as announced by Star East on 12th June, 2001, and as to the remaining were used as additional working capital of the Company.

***Securities in issue***

As a result of the new issue of shares under the placing and subscription as referred to above, the total number of issued ordinary shares of the Company as at the date of this report is 630,960,774.



### OUTLOOK

The tragedy in last September exacerbated the slowdown of the United States and global economies. During the year, Hong Kong economy had also experienced a downward adjustment with high unemployment rate and government budget deficits. Nevertheless, recent releases of statistical economic data have shown that the United States economy is recovering in the low interest rate environment. Moreover, China's accession to the World Trade Organisation and Beijing's successful bid to host the 2008 Olympic Games will make the China market the center stage for global investors and will provide Hong Kong with significant business opportunities. The Group will build on its existing platform with stringent cost control measures to maintain a sound financial management and, under a prudent investment and development policy, pursue its long term strategy of exploring high potential investments and attractive business opportunities, especially in China. Cooperation between the Group and its strategic investments or between its strategic investments themselves will surely bring in synergy. With a strong financial foundation and diversified investment portfolio, the Group is well positioned to meet future challenges and take advantage of the new opportunities lying ahead with great confidence.

### APPRECIATION

On behalf of the Board, I wish to express our sincere appreciation to the shareholders for their continuous support to the Company and to all management and staff members for their commitment and dedication throughout the year.

Dr. Chan Kwok Keung, Charles  
*Chairman*

Hong Kong, 18th July, 2002