

On behalf of the Board of Directors, I take pleasure in presenting the Group's annual report and audited accounts for the year ended 31st December, 2000.

Review of business activities

The year in retrospect

As the millennium unfolds, Year 2000 will go down in history as one in which more stock market wealth was destroyed than ever before. Barely one year ago, investors saw the Nasdaq soar above 5000. Those who suggested that the new dot.com bubble might burst were dismissed and shunted aside. The bubble did burst, however, the swiftness of the tumble caught investors by surprise, leaving behind its aftermath and consequences to be felt by investors worldwide. Of the 62 global market indices tracked by Bloomberg, 48 declined last year. Every major stock market fell, except for China. The Nasdaq plunged 39% to 2470, recording its worst year since it was created in 1971 and the Dow dropped 7% to 10786, breaking a nine year winning streak and recording its worst year since 1981. The Nikkei, likewise, finished the year at 13785, down 27%. In Hong Kong, the Hang Seng Index joined the ranks of the fall, tumbling 13% to end the year at 15095.

Review of results

Operating under these adverse conditions, the Group reported an increase in turnover of 18% to HK\$6.6 million as a result of higher income derived from its fixed income instruments. However, operating expenses also rose by 35% to HK\$10.4 million due to higher staff costs and management fees incurred by one of the Group's subsidiaries, IT Star Limited.

The Group's performance deteriorated rapidly in the second half of the year due mainly to a fall in value of its quoted investments. Unrealized loss on other investments amounted to HK\$33.2 million. In view of the current market environment, the directors prudently added another HK\$10.8 million provision for diminution of investment securities. These, when partially offset by a realized gain of HK\$14.7 million, the Group incurred a net loss after tax of HK\$37.8 million for the year. On a per share basis, the net loss amounted to HK\$0.04 per share whereas tangible assets per share decreased by 24% to HK\$0.16 per share.

Share capital

The number of issued shares for the year increased from 768 million to 973 million as a result of an issue of 205 million new shares, 143 million of these were issued as a result of the conversion of the year 2000 warrants at HK\$0.17 each during the year, and a further 62 million new shares were placed by the Company to ITOCHU Corporation at HK\$0.208 per share on 11th December, 2000. The former added HK\$24.3 million, while the latter HK\$12.9 million to the Company's share capital. The placement to ITOCHU Corporation represented 6.4% of the enlarged share capital of the Company. The directors consider that by bringing in ITOCHU, the Group will benefit from synergies arising from ITOCHU's business experience and expertise and this will complement the Group's business activities. ITOCHU has indicated its willingness to hold the shares as a long term investment.

Convertible bonds

To facilitate further expansion of the Group, IT Star Holdings Limited, a wholly owned subsidiary of the Company, raised HK\$19.9 million on 12th January, 2000 and a further HK\$30 million on 8th December, 2000 by issuing convertible bonds to several independent parties. IT Star Holdings Limited was

incorporated earlier in the year to hold the entire share capital of IT Star Limited which, in turn, holds an investment portfolio of advanced technology related businesses. These bonds may be converted into shares, which on conversion would amount to the equivalent of 13.2% and 16.5% respectively of the issued share capital of IT Star Holdings Limited. The directors intend to place a further 35.3% of IT Star Holdings Limited to keen investors as a divestment and to unlock the intrinsic value of the Group's direct investment in these advanced technology related ventures.

Liquidity and Financial Resources

Apart from the convertible bonds issued by IT Star Holdings Limited mentioned above, the Group had no other borrowing at year end. Cash on hand of HK\$24 million was mainly placed with banks as time deposits and the Group had unutilized banking facilities of HK\$25 million as at 31st December, 2000.

Employee

As at 31st December, 2000, the Group employed 7 staff. The Group has a retirement benefit and share option scheme to its employees. For details of the information, please refer to Notes 11 and 18 respectively.

Prospects

Globally, we see a slow down in the economy driven mainly by sluggish growth in the United States and Japan. The question is how fast the U.S. economy can recover from this trough and how far upwards the NASDAQ will move.

Our strategy in the forthcoming year is one of caution. We shall adopt a defensive approach and where possible, we shall trim our investments in listed shares. We remain positively optimistic that the stocks we hold will eventually recover their original values and provide us with impressive rewards when we dispose of them.

Looking forward, we shall allocate more of our resources to fixed income instruments. We believe that our investments in convertible note and bonds will guarantee us not only a steady source of income but also the opportunity to participate in the growth of the investee companies should we decide to convert the note and bonds into equity stakes in the companies.

As at 31st December, 2000, our investments in convertible note and bonds constituted 22% of our total investments. Listed investments and unlisted investments make up the balance of 40% and 38% respectively. We intend to shift the current asset mix in favour of convertible note and bonds, and, in so doing, hope to attain a better result for our shareholders this coming year.

Appreciation

On behalf of the Board of Directors, I thank the management and team for their dedicated efforts during the past year, and look forward to their continued support in the coming year.

Lee Fong Lit, David

Chairman

Hong Kong, 19th April, 2001

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