

CHAIRMAN'S STATEMENT

Dear Shareholders,

On behalf of the board of directors (the "Directors") of the Company, I am presenting the report on the operations and other aspects of the Group for the year ended 31 March 2001.

Financial Results

Turnover of the Group for the year ended 31 March 2001 was HK\$7,603,000, representing approximately 60.2% decrease as compared to that of the year 2000. The decrease was primarily due to the disposal of certain subsidiaries engaged in the business on trading and manufacturing of telecommunication products (collectively the "Fleming Group") during the year.

The Group recorded a net loss attributable to shareholders before the share of profits less losses of associates (after tax) for the year ended 31 March 2001 of HK\$68,749,000 as compared with a net loss of HK\$74,390,000 as recorded for the year 2000. This was mainly attributable to the impairment in value on land held for development of HK\$11,000,000 and on investments in securities of HK\$81,770,000. Share of losses of associates (after tax) for the year ended 31 March 2001 amounted to HK\$495,321,000 while a share of profits (after tax) of HK\$111,936,000 was recorded in year 2000.

Dividends

No interim dividend was paid during the year (2000: Nil). The Directors do not recommend the payment of a final dividend in respect of the year (2000: Nil).

Closure of Registers of Members and of Warrantholders

The Registers of Members and of Warrantholders of the Company will be closed from Tuesday, 21 August 2001 to Friday, 24 August 2001, both days inclusive, during which period no transfer of shares and warrants of the Company will be effected.

Review of Operations

As pointed out in the Company's Interim Report for the six months ended 30 September 2000, the Company has disposed of its entire equity interest in Fleming Group that the management believes such disposal of a non-performing asset will enable the Group to focus its financial resources. Following the completion of the disposal of Fleming Group on 6 November 2000, the Group's working capital condition has improved and a corporate guarantee issued to a bank of HK\$25,500,000 has been released.

Of the development project of certain plots of land in Jiangsu Province of the People's Republic of China (the "PRC") (the "PRC Land Development Project"), the Directors have re-assessed its capital value based on the prevailing regional property market and economic environment and have made provision for the impairment in value on such project.

With the world-wide markets of equities swinging ups and downs recently, the Directors have reviewed the Group's strategic investment portfolio and have taken a prudent approach in measuring the fair value of the portfolio by making a provision for the impairment in value of HK\$81,770,000.

During the year under review, the Group acted as the underwriter of the open offer of warrants of China Online (Bermuda) Limited ("China Online"), its associated company and has subscribed for an aggregate of 1,527,440,547 warrants of China Online. China Online has recorded a turnover of HK\$2,442,429,000 and a net profit attributable to shareholders of HK\$1,332,818,000 for its fiscal year ended 31 December 2000. The stock market turmoil experienced in the US market and Hong Kong market which started from the third quarter of the year 2000 and straddled into the year 2001, has significantly affected the performance of the operations of trading and investment in financial instruments of China Online and offset part of its gain realised from long term investment.

Further, the Group has, through China Online, participated in: -

- the mobile handset distribution business in Hong Kong. The operation has performed satisfactorily and the operation management has managed to secure new distribution rights of popular and trendy brands;
- the investment with strategic partner in distribution network of mobile handsets and accessories in the major cities of the PRC and the intelligent building system integration operation in the PRC; and
- the investments in 224,385,000 shares, representing approximately 19.3% of the issued share capital of Sun Hung Kai & Co. Limited, 71,848,000 shares, representing approximately 19.2% of the issued share capital of Takson Holdings Limited and 300,598,000 shares, representing approximately 21.7% of the issued share capital of Millennium Group Limited, respectively.

Liquidity and Financing

The Group's non-current assets comprised mainly of land held for development of HK\$80 million and interests in associates of HK\$551 million. These non-current assets were principally financed by shareholders' funds and interest-bearing borrowings. As at the year end date, the Group has a net current assets of HK\$15 million.

As at 31 March 2001, the Group's outstanding borrowings amounted to HK\$197 million, consisting of secured loan repayable on demand of HK\$1 million, unsecured loan repayable within one year of HK\$20 million, and secured loan repayable in the second year of HK\$176 million.

The gearing ratio of the Group was approximately 37.4% (2000: 5.7%), calculated on the basis of the Group's net borrowings (after deducting cash and bank balances) over shareholders' funds at the year end date.

The Group has little foreign exchange exposure and the Group's borrowings were all denominated in Hong Kong Dollars.

Pledge of Assets

At the balance sheet date, 3,185,740,000 issued ordinary shares of China Online and 1,527,440,547 warrants of China Online held by the Group were pledged to secure its general loan facilities. Subsequent to the balance sheet date, the pledge of warrants of China Online was released.

Prospects

As announced on 28 May 2001, proposals put forward by the Directors, including, inter alia, (i) the reduction of the entire amount of the share premium account against the accumulated losses of the Company as at 31 March 2001 and (ii) the reduction of nominal value of the Company's ordinary shares from HK\$0.10 each to HK\$0.01 each (the "Capital Reduction"), were approved by the shareholders at the extraordinary general meeting held on 11 July 2001. Subject to the conditions including, inter alia, the confirmation and approval of the Capital Reduction by the Grand Court of the Cayman Islands, the issued and paid up capital of the Company will be reduced from approximately HK\$580,677,000, divided into 5,806,770,004 ordinary shares of HK\$0.10 each, to approximately HK\$58,067,700, divided into 5,806,770,004 ordinary shares of HK\$0.01 each.

The Directors believe that such proposals are in the best interest of the Company and its shareholders as a whole and will allow flexibility for any future corporate finance exercises.

Subsequent to the balance sheet date, a planning study report for the PRC Land Development Project has been submitted to the relevant authorities in the PRC for approval. Construction work will be commenced once approvals from the relevant PRC authorities are granted and the detailed plan is materialized.

Due to the uncertainties surrounding the economies of Hong Kong and the United States and the initial stage of project development, it is expected that contributions from the Group's strategic investment portfolio and the PRC Land Development Project would not be meaningful in the forthcoming fiscal year. However, the management will continue to explore business opportunities selectively and to review from time to time the quality of its investment portfolio cautiously, given the challenges ahead.

EMPLOYEES

Employees' cost (excluding directors' emoluments) amounted to approximately HK\$2,286,000 (2000: HK\$5,074,000) for the year. The Group ensures that the pay levels of its employees are competitive and employees are rewarded on a performance related basis within the general framework of the Group's salary and bonus system.

Appreciation

A great deal of works have to be done in the coming fiscal year 2001/2002 and on behalf of all shareholders, my fellow Directors and myself, I extend our grateful thanks to both our management and staff for their loyalty, hard work and dedication.

Law Wing Kit, Stephen

Chairman

Hong Kong, 17 July 2001