Chairman's Statement

The Group's turnover for the year was HK$48,823,000, representing a decrease of 5% over the same period of last year. Turnover was mainly derived from the trading of air-conditioning and mechanical equipment and provision of engineering related services, and while this business saw a slight improvement over the same period of last year, drop in turnover was reported by the Group's other businesses, leading to a drop in the overall turnover. During the year, operating activities of the Group still recorded no improvement, and loss was again resulted. In addition, the adoption of newly issued statement of standard accounting practice has resulted in a charge for goodwill amortisation of HK$31,657,000 and provision for impairment loss of HK$61,892,000 had been made for an associate Value-Net Limited ("Value-Net") and its related goodwill; as such, a huge loss of HK$156,418,000 was recorded, representing a substantial increase of 539% over the same period of last year.

INFORMATION TECHNOLOGY

In March and May 2000, the Group acquired from Mr Cheng Yuk Kuen, David ("Mr Cheng") an aggregate 30% interest in Value-Net for a total consideration of HK$89,910,000, which was satisfied by the issue of 449,550,000 new shares of the Company at HK$0.2 each. Mr Cheng provided a personal guarantee to the Group that the profit of Value-Net for the year ended 31st March, 2001 would not be less than HK$16,000,000 ("Guaranteed Profit"), and Mr Cheng was also required to provide the Group with the financial statements of Value-Net which is audited by the auditors of the Group by 31st July, 2001, for the purpose of certifying that Value-Net had attained the Guaranteed Profit. Should Value-Net fail to attain the Guaranteed Profit, the Group shall exercise its put option to require Mr Cheng to buy back the 30% interest in Value-Net at the original purchase price. Other than the management accounts of Value-Net up to 31st October, 2000, the Group had not received any further updated management accounts despite repeated requests were made. The management accounts up to 31st October 2000 indicated that Value-Net had recorded a loss of HK$4,799,000. In March this year, the two nominee directors appointed by the Group in accordance with the shareholders' agreement of Value-Net ("Nominee Directors") had each received demand letters for amounts payable by Value-Net. The Group has tried to contact Mr Cheng for the current status of Value-Net, but in vain; and office of Value-Net at Causeway Bay had been closed. In this connection, the Nominee Directors requested the convening of two directors' meetings of Value-Net in April this year in order to look into the operating and financial position of Value-Net. However, apart from the Nominee Directors, the other three executive directors (including Mr Cheng) were absent, making it impossible for the Group to collect any information about the latest position of Value-Net. Moreover, Mr Liu Ren Shung, a non-executive director of the Company and also an executive director of Value-Net, had not been able to contact in respect of this matter since March this year. Based on the management accounts up to 31st October, 2000, Value-Net was still loss-making. The auditors of the Group further confirmed that they had never been appointed by Value-Net to carry out audit work of its financial statements for the year ended 31st March, 2001. As such, the Board believes that Mr Cheng has breached certain provisions of the sale and purchase agreements which he had entered into with the Group, and accordingly the Group issued a writ against Mr Cheng on 13th July this year for the damages of HK$89,910,000, the interest thereon and other costs. In view of the uncertainty in

Value-Net, the Board has made a provision of HK$61,892,000 in the current year. The Board shall pursue all possible legal actions to claim the damages in order that loss to the Group can be minimised. Given the Value-Net incident, the Board has decided that all investment activities relating to information technology be suspended.

PROPERTY DEVELOPMENT AND INVESTMENT

The Group's wholly owned subsidiary, Long River Development Limited ("Long River") holds all the registered capital of a jointly controlled entity, Beijing Kang Xin Yuan Real Estate Development Co., Ltd. in which Long River is entitled to share 80% of its profit and loss. The jointly controlled entity's sole development project is Lomond Lake Villa, a low-rise property development project in Beijing ("Beijing Project"). For the year under review, Beijing Project reported sale of villas in an amount of HK$118,403,000. Even though the project reported a satisfactory sales record, taking into account of the exchange losses incurred in the process of capital injection, distribution of special staff bonus and promotion expenses, the project did not contribute any profit to the Group for the year. The preliminary sales and promotion activities have well positioned the project as deluxe villa in Beijing. In view of the expected decline in promotion expenditure and the prosperous property market in Beijing, it is expected that the Beijing Project may bring profits to the Group in the coming years. To date , the sales of Beijing Project has been satisfactory. An accumulated total of 80 detached and semi-detached houses were sold with a turnover of RMB396,913,000, of which 44 houses have been hand-overed to purchasers, and sale proceeds of RMB209,014,000 have been received. Construction works of Phase II Villas and the Club House have already commenced and are scheduled to be completed by end of 2001. According to the past sales performance, the Group believes that all the Phase II Villas can be sold at time of completion. In respect of the Phase III development, construction work is scheduled to commence in late 2001. The completion of the Beijing Project requires approximately HK$454,712,000 in the coming years which will be financed by pre-sale proceeds and project financing.

Since the Hong Kong Government encourages developers to build "Green and Innovative Buildings", floor plans of the commercial/residential property development project at Connaught Road West, Sheung Wan ("Sheung Wan Project") was amended in April, 2001 in order to add "seaview balconies" in the residential units whereas such balconies are excluded from the calculation of redevelopment gross floor area under the new policy. Because of the amendment of building plans and also of the adverse weather, the scheduled completion date of Sheung Wan Project has to be postponed to August 2002. The contract for superstructure works has been awarded and works will commence shortly. The Sheung Wan Project is not bound by the pre-sale consent scheme and can be launched to the market at any time. Notwithstanding the outlook of the property market remain uncertain, the Group still sticks into its original plan to launch the project soonest possible in order to reduce bank borrowings.

As a result of the continuing deflationary economic environment of Hong Kong, the Food Court at Hunghom was operated under a loss situation with only 45% occupancy. High vacancy rate of nearby shops on the same floor worsens the situation and the decreasing number of visitors put much pressure on the Food Court operation. However, the Group is continuing to seek ways to improve the rental yield or to dispose of the Food Court.

Since the purchaser of the Group's seven residential/commercial properties in the People's Republic of China (the "PRC") failed to complete the assignments, those shops or domestic flats in Shantou, Dongguan and Zhongshan are still owned by the Group. It is the intention of the Group to put them up for sale again.

ELECTRICAL AND MECHANICAL ENGINEERING AND DISTRIBUTION

The electrical and mechanical engineering and distribution business recorded a slight improvement, and turnover for the year amounted to HK$28,851,000 representing a slight increase of 8% as compared with the same period of last year. The Group is still tightening the resources available for this business. Given the shortage of fund, high risk of bad debts and the sluggish economic environment in the PRC and Hong Kong, it is expected that the electrical and mechanical engineering market remains stagnant. However, following the hosting of the 2008 Olympics by Beijing and the imminent entry of the PRC into the World Trade Organisation, Beijing will commit huge capital expenditure on infrastructure and the overall business volume in the PRC will rise tremendously. As such, the division has already prepared for these and has sent engineers and technical staff to Shanghai and Beijing, to guide and assist the distributors in the eastern and northern regions in the PRC upgrading from ordinary distributors to technical ones. In this regard, their existing networks can be utilised for the sale of the Group's products.

PHARMACEUTICAL PLANT

Turnover of Beijing Health Medical Development Co., Ltd. ("BHMD") for the year amounted to HK$7,661,000, a drop of 14% over the same period of last year. The recorded loss of HK$5,692,000 was mainly due to impairment loss of HK$3,681,000 in respect of a land interest at Beijing Daxing County, and the write-off of costs of HK$1,494,000 in the acquisition of new pharmaceutical formula. BHMD has completed its plant renovation and is now waiting for on-site inspection and issuance of the GMP (Good Manufacturing Practice) certificate by the relevant authority. However, due to lack of fund for further development, it is expected that there will not be any growth in this business. In the interim report, the Group mentioned about the execution of a sale and purchase agreement for BHMD and a cooperation agreement with a founder of a United States bio-technology company. Since the buyer failed to complete the acquisition before the completion date, the agreement was lapsed. The Group will continue to look for all possible ways to realise the potential value of BHMD.

DEPARTMENT STORE

During the year, the turnover for Shenzhen Rainbow Shopping Co. ("Shenzhen Rainbow"), the Group's associate, amounted to HK$518,195,000, an increase of 44% over the same period of last year. The recorded loss of HK$63,435,000 was attributable to various provisions, including investment in the Oriental Rainbow and the subcontracting fee receivables of HK$26,493,000, receivables from 深圳天虹投資發展有限公司 of HK$27,944,000, improper property development project of HK$6,472,000 and other receivables of HK$5,474,000. In light of the remarkably recovery of the Shenzhen consumer market as well as the full provision of all doubtful receivables in the current year, the Board believes that there will be significant improvement in the results of Shenzhen Rainbow in the coming year.

FINANCIAL POSITION

The net asset value of the Group as at 31st March, 2001 was HK$230,936,000, a decrease of 34% over the year end date of last year. The drop is mainly attributable to the decrease in current assets and interests in associates. Since the operating activities of the Group have yet to generate net cash inflow and the property development projects had been consuming the cash reserve, two major components of current assets, namely debtors and bank balances, dropped significantly. Moreover, the substantial loss reported in Shenzhen Rainbow, the disposal of Cheung Tai Hong Foods Limited and the provision made in respect of Value-Net, all contributed to the substantial drop in interests in associates. The Group's trading business which depends on credit purchases did not experience any growth, current liabilities had therefore reduced from HK$33,947,000 of last year to HK$21,166,000 of this year. The only bank indebtedness of the Group was the land and construction loan facilities in respect of the development of the Sheung Wan Project (in which the Group owns as to 60% interest and undertakes the borrowing risk in same proportion). Since construction work has commenced, the construction loan amount will be going up gradually, with a cap of HK$44,000,000. Taking into account the land loan of HK$150,000,000 already utilised, the total borrowings in respect of the Sheung Wan Project as at the year end date was HK$156,696,000, which is denominated in Hong Kong dollars and is bearing interest with reference to the prime rate. The Board anticipates that the project will not be able to generate adequate cashflow for the repayment of all the bank borrowing at the end of this year. Therefore, the Group has obtained a conditional consent from the lending bank that the repayment date be extended from December this year to December 2002, provided that interest rate for the land loan be raised by 0.5%. It is expected that interest expenses will therefore increase by HK$62,500 per month. As at the year end date, the gearing ratio of the Group ((current liabilities + non-current liabilities)/(shareholders' funds + minority interests)) was 76%, an increase of 24% over last year.

Other than the finance lease contract for a motor vehicle which is on fixed interest rate basis, the Group has no other fixed interest borrowings at the year end date. The Beijing Project is exposed to Renminbi exchange rate risk. However, no appropriate hedging arrangement at a reasonable price is available to the Group. As a result, by adjusting sales and purchasing strategies, the Group endeavoured to match same currency incomes with expenses with a view to mitigating foreign exchange risk. Save as afore-mentioned, the Group had no other material foreign exchange commitment and risk. For details of the Group's contingent liabilities and pledge of assets, please refer to notes 35 and 37 to the financial statements respectively.

In May last year, the Group issued to Mr Cheng 193,050,000 new shares at HK$0.2 each for the acquisition of 12.88% interest in Value-Net.

The Group's operating activities are still loss-making, whereas property development projects are at the construction stage. Without further external financing, the Group will be suffering from net cash outflow. No improvement will be expected until the harvest time of the Group's Sheung Wan Project and Beijing Project. Since the construction cost for the Sheung Wan Project is to be financed by committed bank borrowing, the Group will make the best effort to keep the expenditure within budget. Besides the Group will soon launch the Sheung Wan Project for sale, so as to minimise its gearing and interest expenses. As for the Beijing Project, since large amount of capital is involved, development is separated into phases and is financed by pre-sale proceeds and project loan. The Group will adopt a prudent approach in financial management and employ its existing resources effectively by closely monitoring the cash flow. Decisive measures will be taken, if necessary, so as to ensure that the Group has sufficient working capital.

REWARD FOR EMPLOYEES

As at 31st March, 2001, the Group employed some 20 persons in Hong Kong, and 50 persons in the PRC. Salary increment had been made for almost all staff during the year, which ranged from 3% to 15%. Moreover, a special bonus of HK$2,059,000 was paid to a staff for his outstanding performance in the Beijing Project. In addition, the Group had also granted 19,305,000 share options at a subscription price of HK$0.191 to certain directors in recognition of their invaluable service to the Group.

COMPANY AFFAIRS

Mr. Tang Wing Tsoo, Brian, the independent non-executive director of the Group, has resigned from his directorship for personal interests with effect on 10th October, 2000. On behalf of the Board, I hereby express our gratitude to Mr Tang for his invaluable service in the past.

In July this year, a wholly-owned subsidiary of the Group acquired the premises at Unit B, 2nd Floor, Sheung Wan Centre, 38 Connaught Road West, Hong Kong from Master Super Development Limited ("Master Super"), a subsidiary beneficially owned as to 60% by the Company and as to 40% by the Chairman, Chief Executive Officer and substantial shareholder of the Company respectively, for the use as the future permanent headquarter of the Group. The premises has a floor area of approximately 2,800 sq. ft., and is expected to be delivered for occupation in August 2002. During the transition period, the Group will move from its existing office at Central Plaza in Wanchai to Suite 2813, 28th Floor, Office Tower, Convention Plaza, 1 Harbour Road, Wanchai, Hong Kong on 13th August this year. Upon expiry of the new lease in August next year, the Group will then move to the newly acquired permanent office at Sheung Wan Centre.

PROSPECTS

In view of the obstacles encountered in the investment in Value-Net, the Group temporarily suspended its development in the information technology sector. It is expected that the Group's major source of income in the coming years will come from the property development projects in Hong Kong and Beijing.

Wong Chun Hong
Chairman and Chief Executive Officer

Hong Kong, 20th July, 2001