CHAIRMAN'S STATEMENTS

Global economic deflation in 2001 presented a very difficult operating environment to business enterprises. Since the burst of the internet bubble in 2000, there has been a severe downturn in the global investment of internet technology and e-commerce business. The negative impact of this tough environment on Silvernet was severe. During the past financial year, the Group incurred a loss of approximately HK$141,890,000, largely attributable to provisions for decreased valuation of some of the Group's portfolio investments, and to the loss incurred on the disposal of one of our investment in Korea.

BUSINESS REVIEW

Project Investments

Since disposing of the retailing business in 2000, management has repositioned the Group's business to investing in technology-related ventures primarily in China. In early 2001, the Group injected additional capital of US$1,000,000 into Egochina together with US$2,000,000 from minority shareholders to expand the company's business. As a result of the dilution of the Group's effective interest, Egochina has been accounted for as an associated company. In April, the Group completed the acquisition of Citystar Venture Limited, which holds an option to acquire 49% of Guanghuan Xinwen, a digital network provider and data center operator in Beijing, at a total consideration of HK$49,000,000. The Group also invested US$2,000,000 for a 14.7% stake in 9xo9.com, a wine and liquor trading e-commerce portal with five of the top 10 liquor producers in China as shareholders.

The performances of our investee companies varied. Xinhua Control, with its industry leading experience and expertise as a manufacturer and systems integrator of large scale digital control systems, achieved a strong growth of over 20% in revenue as compared to the previous financial year, and contributed approximately HK$11,200,000 to the profit after tax of the Group. On the other hand, the operating results of our investment in Korea, IBR – an internet service and data centre service provider, were far from expectation despite the implementation of tight cost control and operation efficiency improvement measures. During the year under review, the Group shared a loss of approximately HK$24,300,000 from IBR. In view of the unsatisfactory performance of the company and the difficult operating conditions of the data center business, management decided to dispose of all its interest in IBR for a consideration of US$3,470,000, resulting in a non-cash loss of approximately HK$38,700,000. In order to reflect the post-bubble investment environment in the technology space, the Group decided to aggressively clean up its balance sheet by making substantial provisions for the diminution in carrying value of its other investments which amounted to approximately HK$51,000,000 at year-end.

With the disposal of and provisions for the under-performing investments, we believe that our remaining portfolio companies will provide the Group with positive capital growth value in the long term.

BUSINESS REVIEW *(Continued)*

Properties Investments

Faced with the continued softness in the real estate market caused by the sluggish economy in Hong Kong, the Group experienced a significant decline in its rental income from its investment properties. Moreover, the Group suffered a revaluation deficit on the investment properties of approximately HK$6,000,000 at year end. As mentioned in 2000, it was the Group's strategy to gradually dispose of the entire properties portfolio. During the year under review, the Group disposed of two properties for a total consideration of HK$30,300,000. The net profit on disposal was approximately HK$1,800,000.

BUSINESS PROSPECTS

After a careful review of its current business strategy, the Group decided to seek a large and profitable business to anchor its future profitability and growth. To that end, the Group has entered into a conditional agreement in March 2002 to acquire a 70% equity interest in Shenzhen Fuhuade Electric Power Company Limited which operates the Dapeng power plant in Shenzhen. The power plant is expected to generate a net profit of not less than RMB135,000,000 by 2003. The Group believes that there exist many opportunities to acquire profitable and growing electric power generating companies at attractive prices in China.

With this new strategic direction, we hope that the Group will be able to deliver profitable growth and substantial value to its shareholders in the future.

APPRECIATION

I would like to take this opportunity to express my sincere thanks to our management team and staff for their dedication, support and commitment. I particularly wish to express my gratitude to our shareholders and business associates for their continued support and confidence in the Group.

By Order of the Board
Sun Qiang Chang
Chairman

Hong Kong, April 24, 2002