

## Chairman's Statement

Dear Shareholders:

The year 2001 was still a difficult year for the Company and its subsidiaries (the "Group").

The Group has recorded an audited consolidated turnover and loss attributable to shareholders of approximately HK\$14,263,000 and HK\$35,110,000 respectively for the year ended 31st December, 2001. Compared with the results of the Group for the year ended 31st December, 2000, turnover has been decreased by approximately 55.4% from HK\$32,002,000 to HK\$14,263,000. The loss attributable to shareholders has been increased by approximately 107.6% from HK\$16,912,000 to HK\$35,110,000. The board of directors (the "Board") does not recommend the payment of a final dividend for the year.

With the continual slowdown of global economy which was further aggravated by the September 11 incident at USA, foreign trade and direct investments in Hong Kong continue to diminish. The official Gross Domestic Product percentage increase estimate for 2002 has been revised to a lower percentage. In light of the uncertain economic climate, consumer confidence continues to decline and the desire for spending shrinks. In light of the deflationary pressure, economic growth cannot be driven by internal demand. Reduction in bank interest rate fails to stimulate an increase in private investments. Layoffs, downsizing and freezing or reduction of salaries are viewed as an effective means to relieve the financial burden of most of the local enterprises. The official unemployment rate, as recently announced, was recorded at 7%. Stock and property prices are under continual pressure, which will ultimately have an adverse effect on accumulation of wealth. All these negative factors have undermined the future economic and investment prospective of Hong Kong. Without doubt, the Group has been operating under very difficult conditions during the year ended 31st December, 2001. To weather through the market downturn and be well positioned to capitalize opportunities when economic conditions improve, the Group continues to implement cost control measures aiming to lower administrative costs, streamline operations and improve work efficiency.

During the period under review, the Group continued to operate seven indoor family entertainment games centres (the "entertainment centres") in the People's Republic of China (the "PRC"), the performances of which were adversely affected by the weak consumer sentiment and discretionary spending patterns of the parents, resulting in a decrease in turnover as well as profit margins. Two entertainment centres were closed down because of the weak market conditions. As the PRC regulatory authorities continue to rationalize the relevant laws and regulations regulating the entertainment centres business, the Board is on the outlook for any policy or rule changes and is acting cautiously in formulating any expansion plans and the direction of future developments.

The joint venture (the "JV"), Shenyang Liao Hua Automobile Axles Company Ltd., which is engaged in the business of manufacturing and selling automobile axles in the PRC, has suspended production in 2000, due to the restructuring of the production lines of its principal customer. The management of the JV is reviewing the situation with a view to resuming production.

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On 3rd January, 2001, the Company entered into a collaboration agreement with the Trustee of Columbia University in the City of New York (the "Columbia"), pursuant to which Columbia is to conduct research of antigen and antibody-based biochips for the use of immunological diagnostic and functional genomic applications. In consideration of an aggregate sum of US\$2,500,000 (payable in five years at five instalments) as the financial support for the said research, the Company obtains the invention disclosure reports and research information reports to be furnished by Columbia from time to time, and the Company is granted to an option to enter into exclusive licence agreement with Columbia in respect of each invention disclosure or researched information. The collaboration provides the Company with ongoing opportunities to access and exploit potential business opportunities with the novel development of antibody-based biochips and their applications and share the invaluable findings at a reasonable cost. The arrangement also helps the Company to reduce the strategic risk inherent in diversification of business, and at the same time enables the Group to capture the advantages of joint information and technical synergies. Revenues will be in the form of license fees, sub-license fees and royalties of the licensed products developed from technology transfer activities. At the initial stage of research, the findings have not yet been proven to be able to be transferred into practices and processes of commercial production, sale and distribution.

As the existing businesses of the Group continued to be operated at a loss, the Board has been considering the feasibility of expanding the Group's operations into other areas, such as hi-tech and e-commerce projects, so that the Group will be well positioned to benefit from opportunities arising out of changes in Hong Kong's and the PRC's economy, in particular, the business opportunities arising out of the entry of the World Trade Organization by the PRC. This is in line with management policy to look for new investment opportunities so as to broaden the assets and income bases of the Group and to return the Group to profitability.

Following the major shifts in the global technology market and the consolidation of internet business in the industry last year, the Board is particularly wary in considering any proposal for diversifying into the hi-tech areas. Barring the unforeseen circumstances and based on the performance achieved to date, e-commerce and internet business cannot sustain growth in the foreseeable future. Given the recent volatilities in global hi-tech industries, it will remain difficult to locate good investment targets at reasonable and reliable valuations. Hence, it remain the Company's strategy to be highly selective in investing in the hi-tech areas. The shareholders' interest is the primary concern of the Board in choosing the investments, which will be made at the right time and at the right price, and when long term potential of the market for value creation is sustainable. With the PRC's entry into the World Trade Organization and gradual opening up of its financial markets, the Company intends to focus more on the PRC's and Hong Kong's financial services.

In conclusion, I would like to thank you, our shareholders and staff, for your strong support. Your continued support is vital to the future diversification of our businesses.

**Yung Yeung**

*Chairman*

25th April, 2002