



## TO OUR SHAREHOLDERS

Fiscal year 2001/2002 can be characterized as a year of difficulty – downturn in basically every sector except the infrastructure stream. The Group's performance has also been affected.

The impact of the September 11 incident is much deeper than originally anticipated. Despite the continuous reduction in the discount rate by Mr. Alan Greenspan to stimulate the U.S. economy, the same is still in a declining track. This situation has further worsened in the successive falling of giants in form of substantial reduction in business; hence, profitability or even to the worst situation of filing even Chapter 11 (Protection of Bankruptcy Act) and the financial scandal.

The performance of the Company is also affected due to

- 1) the slower than anticipated pace in business development. Please see the analysis of each major subsidiaries in section of "Management Discussion and Analysis" below;
- 2) the downturn in economy; thereby, affecting the business of the buyers – cancellation of orders by ultimate buyers and the goods had to sell to alternative ultimate buyers at a substantial discount. Consequently, the repayment power of buyers and/or borrowers had also been affected. The Group is already adopting the strategy of reducing exposure to "cold" customers and focusing on those on referral basis. Nonetheless, loans had still to write off on an actual/prudent basis;
- 3) the losses in the investment
  - a) Due to the tightening of budget by companies, business of the portfolio/investee companies had been affected. This, coupled with the continuing sliding of the "hi-tech" favor resulting in the reduction in relative valuation of "hi-tech" companies, has rendered the Group in adopting a prudence policy make provision on its various investments, when deem necessary.
  - b) The Board has also to admitted that in a view to capture additional benefit to shareholders and that the Group is not an equity traders, management had not sold the relevant shares during the peak timing. The share values of certain investment had subsequently dropped and giving rise to losses. Yet, the Board is confident that given times, those investments may pick up again.
  - c) There are also incidents that market potential for certain investee companies pick up again. However, to avoid throwing good money against the bad, the Group prefers the taking up of additional shares by other shareholders via subscription of new shares to generate working capital for growth. The other shareholders, however, are also adopting similar approach and the business has finally dormant due to absence of working capital. Investment on the same has since been written off.
  - d) Additional, the poor investing atmosphere has also affected the performance of the whole stock market of Hong Kong. Recently, the Heng Sang index has dropped dramatically. It must affect by surrounding environment, such as U.S.A. will fight Iraq.

Yet, the Group has pre-determined its emphasis to be on the PRC which Gross National Product ("GNP") growth remains ~7%. Thereby, the Group's performance was still better off.

Market sentiment of Hong Kong would rely on the integration with the PRC. Hopefully, economy of Hong Kong would resume its growth momentum in the coming years.

## FUTURE DIRECTION AND OUTLOOK

The coming years would definitely not be years of easiness – ups and downs would continue prevails and competition would be even more intense. Irrespective, as the board members of a listed company have to be accountable to the shareholders, we would try our best, though cannot be guaranteed, to identify promising (or to the least, least pessimistic) industries, identify means to out-beaten competitors in the market and trigger to create value to shareholders – Plan for the worst but work for the best. It must be the promise of the board to all shareholders.

The Board is pleased to mention that following the expansion in business circle, referrals are now expanding to different sectors and from different introducers. Opinion as to investment has also been gathered from additional sources.

The Group has also shifted its emphasis from purely hi-tech focus to some investment of fundamental in nature and that is less vulnerable to ups and downs. Continuous emphasis would be placed on companies/projects that have shown a positive future.

To crystallize the strength and in view of the market trend, the PRC would remain the prime focus, though is definitely not an easy market.

Taking into account the various attributes including

- 1) the still depressed world-wide economy except the PRC which the Group presently places more emphasis in;
- 2) potential of the PRC is even on an upward trend following the entry to the World Trade Organization (the "WTO"), the opening up of certain restrictive industries to foreigners to participate;
- 3) change in business emphasis to industries of more fundamental related (in contract to hi-tech);
- 4) the progress made in its various investment, some of which would start moving to harvesting phase;
- 5) the synergy effect built up via its various investee projects; and
- 6) the necessity of short-term, medium-term and long-term revenue model to generate revenue and/or profit to shareholders.



The Group would focus/move on the followings,

- 1) as to new investment:
  - a) fundamental in nature – basic necessity;
  - b) synergy effect can be assumed;
  - c) proper valuation report (preferably 2) be obtained; and
  - d) sufficient financial and management resources be devoted.
  
- 2) as to existing portfolio:
  - a) additional management resources be placed on individual investee company, especially the high potential one;
  - b) closely following the business progress and assistance been placed when necessary;
  - c) create value-added features via additional horizontal and/or vertical integration of products that can bring in revenue/benefit to existing revenue model; and
  - d) create further value-added features via synergy of various investee companies in form of business complementary and/or geographic co-operation – Beijing, Shanghai, Guangzhou, Shenzhen, Hong Kong and Taiwan.

## OTHERS

In recent months, a number of events in the U.S. and Hong Kong have shaken the public's confidence over the accounting discipline, the disclosure requirement and the possible consolidation of shares to attain the minimum trading price requirement of the HKSE; thereby, hard-hitting the share value of medium to small market capitalization shares as the Group. Yet, the Board would try its best in ensuring the shareholders in getting the best governance and value. The Board would review again its internal controls and disciplines to make relevant improvements wherever possible. We believe that only the good corporate governance can enhance the wealth of the shareholders.



## APPRECIATION

The Board itself is not satisfied with the result. Yet, the Board has also promptly reacted by re-orienting some of its approach to revenue generating business rather than continuously heading for "interested" projects/operations. Taking times when the existing operations become more mature, shareholders would be properly rewarded.

Would like to thanks all colleagues for their hardworking during the years, business colleagues for their referrals and/or guidance, partners and customers in trying to achieve the target and shareholders for their patience. Would work hard to replenish your continuous support.

### **Chan Tak Hung**

*Chairman*

Hong Kong, 24th October 2002