

Directors' Report

The directors submit their report together with the audited financial statements for the year ended 31 December 2002.

1. PRINCIPAL ACTIVITIES AND GEOGRAPHICAL ANALYSIS OF OPERATION

The principal activity of the Company is investment holding. The activities of the subsidiaries are set out in note 13(b) to the financial statements. The Group has acquired subsidiaries engaged in the provision of internet security system, computer network solutions and obtained a licence right in hotel operations.

An analysis of the Group's performance for the year by business and geographical segments is set out in note 3 to the financial statements.

2. FINANCIAL POSITION AND APPROPRIATIONS

The results of the Group for the year are set out in the consolidated income statement on page 21.

The state of the Group's affairs at 31 December 2002 is set out in the consolidated balance sheet on pages 22 and 23.

The changes in equity of the Group for the year are set out in the consolidated statement of changes in equity on page 25.

The cash flows of the Group for the year are set out in the consolidated cash flow statement on page 26.

The directors do not recommend the payment of any dividend.

3. RESERVES

Movements in the reserves of the Group and the Company during the year are set out in note 21 to the financial statements.

At 31 December 2002, the Company's reserves available for cash distribution and/or distribution in specie computed in accordance with the Companies Act 1981 of Bermuda (as amended) consisted of contributed surplus amounting to approximately HK\$Nil (2001: HK\$77,536,000). In addition, the Company's share premium account may be distributed in the form of fully paid bonus shares.

4. PROPERTY, PLANT AND EQUIPMENT

Details of the movements in property, plant and equipment of the Group are set out in note 12 to the financial statements.

5. INTANGIBLE ASSETS

Details of the movements in intangible assets of the Group are set out in note 11 to the financial statements.

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6. SHARE CAPITAL AND SHARE OPTIONS

Details of the movements in share capital and share options of the Company are set out in note 20 to the financial statements.

7. PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's Bye-Laws or the Laws of Bermuda which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

8. FIVE YEARS FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out below:

Results	Year ended 31 December				
	2002	2001	2000	1999	1998
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover	24,645	46,870	83,926	85,364	288,050
Operating loss after finance costs	(234,736)	(103,363)	(101,980)	(141,210)	(74,990)
(Loss)/gain on disposal of subsidiaries	(1,905)	(84,147)	26,954	–	–
Impairment loss on investments held for resale	(30,816)	–	–	–	–
Share of results of associated companies	(486)	(11,685)	(6,950)	(57)	106
Share of result of a joint venture	–	(310)	(59)	–	–
Amortisation of premium on acquisition of associated companies	(5,823)	–	–	–	–
Loss before taxation	(273,766)	(199,505)	(82,035)	(141,267)	(74,884)
Taxation	–	(82)	(225)	1,259	(1,339)
Loss from operating activities	(273,766)	(199,587)	(82,260)	(140,008)	(76,223)
Minority interest	60,762	(1)	–	1,419	–
Loss attributable to shareholders	(213,004)	(199,588)	(82,260)	(138,589)	(76,223)

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8. FIVE YEARS FINANCIAL SUMMARY (Cont'd)

Assets and Liabilities	2002 HK\$'000	As at 31 December			
		2001 HK\$'000	2000 HK\$'000	1999 HK\$'000	1998 HK\$'000
Total assets	255,217	550,767	435,708	511,458	468,177
Total liabilities	(105,918)	(184,732)	(95,233)	(284,880)	(182,566)
	149,299	366,035	340,475	226,578	285,611
Minority interest	(74,827)	(135,589)	–	(2,507)	(10,670)
Shareholders' equity	74,472	230,446	340,475	224,071	274,941

9. PURCHASE, SALE OR REDEMPTION OF SHARES

The Company has not redeemed any of its shares during the year. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's shares during the year.

10. DIRECTORS

The directors during the year and up to the date of this report were:

Executive directors:

Mr. TAM Jin Rong	(re-designated on 11 February 2003)
Mr. TAO Ke Wei	(appointed on 28 April 2003)
Mr. YU Won Kong, Dennis	
Mr. KO Chung Ting, Peter	(appointed on 3 January 2002)
Mr. CHEUNG Doi Shu	(resigned on 27 November 2002)
Mr. LO Ka Wai	(appointed on 6 May 2002 and resigned on 11 November 2002)
Mr. WANG Hai Sheng	(resigned on 3 January 2002)
Mr. ZHANG Daxiang	(resigned on 3 January 2002)

Non-executive directors:

Mr. TAM Jin Rong	(appointed on 11 November 2002 and re-designated on 11 February 2003)
Mr. Colin Clive HILES	(resigned on 10 January 2002)

Independent non-executive directors:

Mr. YUE Wai Keung	(appointed on 8 January 2002)
Ms. LEE Sau Ying, Ellie	(appointed on 6 May 2002)
Mr. CHOY Sai Man	(appointed on 13 September 2002)
Mr. TANG Cheung Fai	(appointed on 3 January 2002 and resigned on 28 April 2003)
Mr. TONG Chor Yin, Augustine	(resigned on 3 January 2002)
Mr. HO Yiu Ming	(resigned on 3 January 2002)

10. DIRECTORS (Cont'd)

In accordance with Clause 99 of the Company's Bye-Laws, Messrs. YU Won Kong, Dennis and YUE Wai Keung retire by rotation and, being eligible, offer themselves for re-election at the forthcoming Annual General Meeting.

In accordance with Clause 102 (B) of the Company's Bye-Laws, Messrs. TAM Jin Rong and CHOY Sai Man, being appointed by the Board during the year and eligible, offer themselves for re-election at the forthcoming Annual General Meeting.

11. DIRECTORS' SERVICE CONTRACTS

None of the directors who are proposed for re-election at the forthcoming Annual General Meeting has a service contract with the Company which is not determinable within one year without payment of compensation, other than statutory compensation.

12. DIRECTORS' INTERESTS IN CONTRACTS

Save as disclosed in note 29 to the financial statements, no contracts of significance in relation to the Company's business to which the Company, its subsidiaries or its fellow subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

13. BIOGRAPHICAL DETAILS OF DIRECTORS

Brief biographical details of directors are set out on pages 10 and 11.

14. RETIREMENT BENEFIT SCHEME

Details of the retirement benefit scheme of the Group and the employer's costs charged to the consolidated income statement for the year are set out in note 9 to the financial statements.

15. CONNECTED TRANSACTIONS

Significant related party transactions entered by the Group during the year ended 31 December 2002, which do not constitute connected transactions under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules"), are disclosed in note 29 to the financial statements.

16. DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN EQUITY OR DEBT SECURITIES

At 31 December 2002, the interests of the directors and chief executives in the equity or debt securities of the Company and its associated corporation (within the meaning of the Securities (Disclosure of Interests) Ordinance ("SDI Ordinance")), as recorded in the register maintained by the Company under section 29 of the SDI Ordinance or as notified to the Company and The Stock Exchange of Hong Kong Limited ("Stock Exchange") pursuant to the Model Code for Securities Transactions by Director of Listed Companies ("Model Code") were as follows:

Company

Name of directors	Type of interests	Number of shares held
Mr. TAM Jin Rong	Corporate (<i>Note</i>)	215,000,000
Mr. YU Won Kong, Dennis	Personal	20,000,000

Note: These shares were held through Euro Concord Assets Limited ("Euro Concord") in which Mr. TAM Jin Rong is the sole director and sole shareholder.

Save as disclosed above, as at 31 December 2002, none of the directors or chief executives had any interests in the equity or debt securities of the Company or of any of its associated corporations which were required to be notified to the Company and the Stock Exchange pursuant to Section 28 of the SDI Ordinance or to the Model Code, (including interests which they are deemed or taken to have under Section 31 or Part 1 of the Schedule to that Ordinance) or which are required, pursuant to Section 29 of that Ordinance, to be entered in the register referred to therein.

17. DIRECTORS' AND CHIEF EXECUTIVES' RIGHTS TO ACQUIRE SHARES OR DEBT SECURITIES

- (i) Particulars of the Company's share option scheme adopted on 11 June 1997 are set out in note 20(b) to the financial statements.
- (ii) At no time during the year was the Company, its subsidiaries or its fellow subsidiaries a party to any arrangements to enable the Company's directors or members of its management to acquire benefits by means of the acquisition of shares in or debt securities (including debentures) of, the Company or any other body corporate.

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18. SUBSTANTIAL SHAREHOLDERS

The register of substantial shareholders maintained under Section 16(1) of the SDI Ordinance shows that as at 31 December 2002, the Company had been notified of the following substantial shareholders' interests, being 10% or more of the Company's issued share capital. These interests are in addition to those disclosed above in respect of the directors and chief executives.

Name of shareholders	Number of shares held	As a percentage of the issued share capital of the Company
Best Fortune Capital Ltd. ("Best Fortune") (Note 1)	253,769,585	13.08%
China Convergent Corporation Limited ("China Convergent") (Note 2)	241,169,585	12.43%
Gold Chief Investment Ltd. ("Gold Chief") (Note 2)	241,169,585	12.43%
Euro Concord	215,000,000	11.08%

Note 1: Best Fortune holding 49.96% interest is the controlling shareholder of China Convergent. The interests of Best Fortune in the Company are held through China Convergent and Gold Chief. In addition, Best Fortune also holds in its own name 0.65% interest of the Company.

Note 2: By virtue of the SDI Ordinance, China Convergent holding 100% interest in Gold Chief is deemed to be interested in the 241,169,585 shares held by Gold Chief.

19. MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

20. MAJOR CUSTOMERS AND SUPPLIERS

The percentages of sales and purchases for the year attributable to the Group's major customers and suppliers are as follows:

Sales

– the largest customer	38%
– five largest customers combined	87%

Purchases

– the largest supplier	32%
– five largest suppliers combined	62%

None of the directors, their associates or any shareholders (which to the knowledge of the directors owns more than 5% of the Company's share capital) had an interest in the major customers or suppliers noted above.

21. COMPLIANCE WITH THE CODE OF BEST PRACTICE OF THE LISTING RULES

Throughout the year, the Company was in compliance with the Code of Best Practice as set out in the Listing Rules save that non-executive directors have not been appointed for a specific term but are subject to retirement by rotation at the Annual General Meeting of the Company in accordance with the Bye-laws of the Company.

22. AUDIT COMMITTEE

The Company has established an audit committee comprising three independent non-executive directors, Mr. YUE Wai Keung, Ms. LEE Sau Ying, Ellie and Mr. CHOY Sai Man.

23. SUBSEQUENT EVENTS

(a) On 14 February 2003, pursuant to a Share Purchase Agreement, the Group will acquire 100% equity interest of Starwood Investment Limited ("Starwood") from an independent third party. The acquisition will be satisfied by a consideration of HK\$14 million payable in cash of HK\$1.4 million and the remaining balance of HK\$12.6 million by the issue of a redeemable promissory note to be redeemed at various date after completion of the Share Purchase Agreement with the first and latest redeemable date being nine months and eighteen months respectively after completion. As announced on 14 April 2003, pursuant to a supplemental agreement, the completion date of the Agreement has been extended to a date on or before 15 May 2003.

(b) On 13 March 2003, pursuant to a Heads of Agreement entered between the Group and Mr. TAM Jin Rong, a substantial shareholder and executive director of the Company, the Group is interested to acquire a 40% interest in Dongguan Zhonghao Mart Co. Ltd. ("Zhonghao") for an aggregate consideration of HK\$26.8 million which will be satisfied by the issue of 268 million new shares of the Company at HK\$0.10 each. Zhonghao will hold a 100% interest in four supermarkets in Dongguan, Guangdong Province, the PRC and a 50% interest in a supermarket in Shunde, Foshan, Guangdong Province, the PRC.

24. APPROVAL OF DE-MINIMIS CONCESSION AND MODIFIED CALCULATION CONCESSION

On 4 October 2002, the Stock Exchange approved the Company's application for the right to apply (A) the De-minimis Concession; and (B) the Modified Calculation Concession for purposes of, amongst others, determining the "assets test" and the "consideration test" under Rules 14.06, 14.09, 14.12 and 14.20 and the net assets under Rules 14.24(5), 14.25(1) and 14.25(2)(b)(i) of the Listing Rules (as described in the Stock Exchange's announcements dated 3 May 2001, 26 August 2001 and 9 October 2001).

The Stock Exchange's approval for use of the De-minimis Concession and the Modified Calculation Concession will remain in effect from 4 October 2002 until the publication or the due date of publication of the Company's next annual report, whichever is earlier.

25. AUDITORS

On 15 April 2002, Arthur Andersen & Co. tendered their resignation as the auditors of the Company. On the same day, RSM Nelson Wheeler were appointed as auditors of the Company by the Board to fill in the casual vacancy. A resolution to re-appoint the retiring auditors, RSM Nelson Wheeler, will be put at the forthcoming Annual General Meeting.

On behalf of the board
Ko Chung Ting, Peter
Executive Director

Hong Kong, 28 April 2003