

Chairman's Statement

Dear Shareholders,

On behalf of the board of directors of the Company (the "Board"), I would like to report on the operations and other aspects of the Group for the year ended 31 December 2002 following my appointment to the Board on 23 August 2002 when China Spirit Limited acquired an equity interest in the Company, representing 28.33% of the issued share capital of the Company, from China Sci-Tech Holdings Limited.

Financial Results

Turnover of the Group for the year ended 31 December 2002 was HK\$1,292,852,000 representing a 44.7% decrease as compared to that of the year 2001. The Group recorded a net loss attributable to shareholders of HK\$602,914,000 for the year ended 31 December 2002, versus with a net loss of HK\$717,254,000 recorded for the year 2001.

Dividend

No interim dividend was paid during the year (2001: Nil). The Directors do not recommend the payment of a final dividend in respect of the year 2002 (2001: Nil).

Review of Operations

During the year under review, the operating environment of the Group remained difficult as there was no sign of recovery in the economy of Hong Kong and that both the consumers' sentiment and investors' confidence were weak and pessimistic.

As pointed out in the Interim Report for the six months ended 30 June 2002, the performance of the Group's mobile handset distribution arm in Hong Kong – Star Telecom Limited ("Star Telecom") was affected by the sluggish consumer market and keen competition despite the turnover was increased by 68.8% to approximately HK\$111 million as compared to that of year 2001. With an aim to maintain Star Telecom's competitiveness, the Group has embarked on a series of cost-cutting and restructuring exercises since the second half of 2002 so as to reduce its operating overheads and rationalize its operations.

The Group's operations in the People's Republic of China (the "PRC") namely the PRC mobile handset distribution and the PRC intelligent building system integration (collectively the "PRC Operations") recorded respective decreases in turnover by 64.8% and 22.1% as compared with last year to approximately HK\$57 million and HK\$11 million. Operating in highly competitive environment, the PRC Operations have persistently recorded losses during recent years. Now that the outlook of the PRC Operations is so gloomy and in order to avoid further loss and cash outflow to support such businesses, the Group decided to dispose of the PRC Operations which disposal was completed in March 2003.

The Group's trading and investment in financial instruments activities recorded a turnover of approximately HK\$1.1 billion representing a 46.9% drop as compared to that of last year amid the fragile economic and investment environments which were further hammered by the uncertainty surrounding the US's military action against Iraq in the second half of 2002.

The realisation of the entire long-term investment in Millennium Group Limited ("MGL") was completed on 21 August 2002 for a consideration of approximately HK\$38 million which realised a loss of approximately HK\$9 million. Of the Group's long term investment in 270,535,000 shares in Sun Hung Kai & Co. Limited ("SHK"), representing approximately 17.99% of the issued share capital of SHK, in view of the partial realisation subsequent to the year end date as mentioned herein under Section "Prospects" below, an impairment loss of approximately HK\$87 million had been made in the financial statements for the year ended 31 December 2002.

Liquidity and Financing

The Group's non-current assets comprised mainly of investment properties of approximately HK\$32.6 million, property, plant and equipment of approximately HK\$14.2 million and long term investments of approximately HK\$284.3 million. These non-current assets were principally financed by shareholders' fund. As at the year end date, the Group has net current assets of approximately HK\$465 million.

All of the Group's borrowings are arranged on short-term basis, repayable within 1 year and secured by certain marketable securities and bank deposits. As at the year end date, the Group has no borrowings.

As at 31 December 2002, the Group continued to maintain an insignificant gearing ratio, calculated on the basis of the Group's net borrowings (after deducting cash and bank balances) over shareholders' fund.

The Group has little foreign exchange exposure and the borrowings were mainly denominated in Hong Kong Dollars.

Pledge of Assets

As at 31 December 2002, the Group had pledged assets with aggregate carrying value of HK\$172,121,000 (2001: HK\$218,368,000) to secure general loan facilities.

Employees

The Group employed 96 (2001: 311) employees at the year end date. Employees' cost (excluding directors' emoluments) amounted to approximately HK\$17,933,000 (2001: HK\$26,915,000) for the year. The Group ensures that the pay levels of its employees are competitive and employees are rewarded on a performance related basis within the general framework of the Group's salary and bonus system.

Prospects

The economic outlook in Hong Kong remains gloomy due to the lack of consumer and investor confidences, increasing unemployment and continuing depression in the retail market. It is expected that the situation will deteriorate further as a result of the outbreak of the war in Iraq as well as the Severe Acute Respiratory Syndrome in Hong Kong.

In order to maintain its competitiveness, Star Telecom has strengthened its distribution network, concluded new distribution rights for trendy mobile phone products and has been constantly seeking for new potential distributorship for volume oriented trendy products with an overall objective to contribute positively to the Group.

In addition to the realisation of its non-performing long-term investment in MGL in year 2002, the Group has realised 212,782,450 shares of SHK on 7 March 2003 under the unconditional offer by SHK for repurchase up to 325,600,000 shares of SHK at HK\$1.3 per share (as to HK\$0.30 in cash and HK\$1.00 in loan note) which ultimately reduced the Group's shareholding in SHK from 17.99% to 4.62%. Such realisation has generated cash proceed of approximately HK\$63.8 million and loan note of approximately HK\$212.8 million, redeemable on or before 7 March 2008, carrying an interest of 4% per annum.

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The Group has actively searched for and negotiated with potential partners / buyers to take over the PRC Operations since second half of 2002 and has finally concluded with a third party to dispose of the PRC Operations in March 2003.

On 7 March 2003, Sun Hung Kai International Limited on behalf of Sincere Way Limited ("Sincere Way", a wholly owned subsidiary of the Company) make a voluntary conditional offer to acquire all the issued shares of Fortuna International Holdings Limited ("Fortuna", "Fortuna Share") other than those held by Sincere Way and parties acting in concert with it for HK\$0.02 per Fortuna Share (the "Offer"). The Offer values the entire issued share capital of Fortuna at approximately HK\$79.87 million. Fortuna is listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") and is principally engaged in the production and distribution of wines in China. The Group considers that the Offer represents an opportunity for the Group to widen its business scope and to participate in production and distribution of wines in China. The Offer, if succeed, will be financed by internal resources and borrowings.

Following the disposals of non-performing assets and business divisions, the Group will continue to review and rationalize its business scope and investment strategies with a view to improving its financial performance. Under such difficult market situation, the Group believes that there would be ample supply of investment opportunities in respect of companies and businesses that have been grossly undervalued and will meticulously look for such which can bring in good cash flow, earnings and capital appreciation to the Group.

Appreciation

I take this opportunity to extend our thanks to colleagues on the Board and the staff members of the Group for their hard work, loyal service and continuing support during the year 2002.

Chong Sok Un

Chairman

Hong Kong, 9 April 2003