

Dear Shareholders,

On behalf of the Board of Directors of the Company (the "Board"), I have pleasure to report on the operation and other aspects of the Group for the year ended 31 December 2003.

FINANCIAL RESULTS

Turnover of the Group for the year ended 31 December 2003 was HK\$487,708,000 representing a 62.3% decrease as compared to that of the year 2002 which mainly attributed to the reduced securities trading activities in year 2003. The Group recorded a net profit attributable to shareholders of HK\$292,078,000 for the year ended 31 December 2003 versus a net loss of HK\$602,914,000 recorded for the year 2002. Earnings per share for the year 2003 was HK\$0.79 versus a loss per share of HK\$1.62 as recorded in the year 2002. As at 31 December 2003, the Group's net asset value per share was HK\$2.97 (2002: HK\$2.15 as adjusted for the Capital Reorganization as mentioned herein below under Section "Review of Operations").

DIVIDENDS

An interim dividend of HK\$0.01 per share was paid during the year 2003 (2002: Nil). The Directors recommended the payment of a final dividend of HK\$0.04 per share (2002: Nil) amounting HK\$14,859,000 to shareholders whose names appear on the Register of Members of the Company on 3 June 2004. Dividend warrants are expected to be dispatched on 30 June 2004.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members will be closed from Monday, 31 May 2004 to Thursday, 3 June 2004, both days inclusive, during which no share transfer will be effected.

REVIEW OF OPERATIONS

The first half of year 2003 was extremely challenging for Star Telecom Limited ("Star Telecom"), the Group's mobile handset distribution arm in Hong Kong, due to the outbreak of SARS amid the weak buying sentiment in the consumer market resulting in a 11.3% drop in turnover to HK\$98.7 million for the full year as compared with that of the year 2002. With the improvement in the consumer market in the second half of year 2003 which, together with the conclusion of new distribution rights of several trendy mobile handset products including Innostream and Kejian, and a streamlined operation and cost structure, performance of Star Telecom turned out to be encouraging in the last quarter of year 2003.

The Group's trading and investment in financial instruments has recorded a turnover of HK\$387.9 million for the year ended 31 December 2003 representing a 65.2% decrease as compared with that of year 2002. As a result of the continued rally in the financial markets starting from the second quarter of year 2003, performance of the Group's investment portfolio has been satisfactory during the year under review. The Group has rationalized its investment portfolio and partially realized its long term investment in Sun Hung Kai & Co. Limited ("SHK") in the first quarter of year 2003 which generated cash proceeds of HK\$63.8 million and loan note of HK\$212.8 million (redeemable on or before 7 March 2008 and carrying an interest of 4% per annum) which reduced its shareholding in SHK from 17.9% to 4.6%.

Of the Group's mobile phone distribution and intelligent building operations in the People's Republic of China ("PRC", "China Operations") which had been operating at losses for consecutive years, disposal of the China Operations was completed in March 2003 resulting in a gain of about HK\$41.1 million.

During the year under review and in the pursue for investment opportunity, the Group has made a voluntary conditional offer to acquire all the issued shares of Fortuna International Holdings Limited ("Fortuna", "Fortuna Share") other than those already held by the Group and its concert parties at HK\$0.02 per Fortuna Share (the "Fortuna Offer") valuing the entire issued share capital of Fortuna at approximately HK\$79.87 million. The Fortuna Offer has not become unconditional as to acceptance and was lapsed on 26 May 2003.

As at 1 January 2003, the Company has 1,856,666,248 warrants outstanding, which entitled the holder to subscribe in cash at a price of HK\$0.30 per share in the Company, subject to adjustment, at any time from the date of issue up to 6 June 2003 (both days inclusive). During the year, 256,507 warrants had been exercised and the remaining 1,856,409,741 warrants expired and lapsed as of 6 June 2003 triggering the realization of the Warrant Reserve which resulted in a gain on expiry of warrants of HK\$90.4 million.

In order to rationalize its capital structure, the Group has proposed i) a reduction in the nominal value of the then existing issued and unissued share capital of the Company ("Capital Reduction"), ii) a reduction of the share premium account of the Company and the application of such credit together with the credit arising from the Capital Reduction to set off against the accumulated losses of the Company as at 31 December 2002, iii) the consolidation of every 25 reduced shares into one new share of HK\$0.01 each ("Share Consolidation") and iv) the increase in the authorized share capital of the Company from HK\$12 million to HK\$300 million by the creation of 28,800,000,000 new shares following the completion of the Capital Reduction and the Share Consolidation (collectively "Capital Reorganization"). The Capital Reorganization was approved by shareholders at the Extraordinary General Meeting on 15 July 2003 and the whole exercise was completed on 25 August 2003.

LIQUIDITY AND FINANCING

The Group's non-current assets comprised mainly of investment properties of approximately HK\$31.6 million, property, plant and equipment of approximately HK\$12.3 million and long term investments of approximately HK\$388.1 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\$671 million.

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

As at 31 December 2003, 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 2003, the Group has pledged assets with aggregate carrying value of HK\$92,921,000 (2002: HK\$172,121,000) to secure general loan facilities.

EMPLOYEES

The Group employed 43 (2002: 96) employees at the year-end date. Employees' cost (excluding directors' emoluments) amounted to approximately HK\$10,457,000 (2002: HK\$17,933,000) 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

Performance of Star Telecom during the first quarter of year 2004 continued to be satisfactory. Currently, Star Telecom is carrying four different mobile handset brand distributorships, namely Innostream, NEC, Alcatel and Kejian for different product positions and target market segments. In particular, Star Telecom is the sole distributor of Innostream's mobile handset products in Hong Kong and Macau. Following our successful introduction and promotion to the market, Innostream, a new Korean mobile handset brand, is now one of the top ten best selling brands in the Hong Kong market. To stay competitive, Star Telecom will continue to seek for distribution rights for trendy mobile phone products and other related products, carefully devise and implement its sale, marketing and product strategies and to control its overall cost structure. Star Telecom is also in the course of identifying appropriate business partner to jointly develop and explore other potential markets for its mobile handset products, DECT phone and other related products. In view of the newly launched 3G service in the market, Star Telecom will closely monitor its development and has actively approached those 3G handset suppliers for co-operation.

To take advantage of the prevailing buoyant stock market, the Group has abled to realize its 728,000,000 shares of Tian An China Investments Company Limited ("TA") from its trading portfolio on 19 February 2004 through private placement over the market, generated a gross cash proceed of HK\$218.4 million which reduced the Group's shareholding in TA from 10.9% (as at 31 December 2003) to 2.9%.

With the constant review on its cost control, business scope, investment strategies and investment portfolio, the Group believes that it is in the right track to sustain its financial performance. Equipped with strong financial position and liquidity, the Group will continue its prudent and strategic approach in identifying investment opportunities in grossly undervalued companies and businesses in Hong Kong, PRC and around the Asia Pacific region that would bring in good cash flow, earnings and/or capital appreciation to the Group.

PROPOSALS FOR CHANGE OF NAME AND AMENDMENT OF BYE-LAWS OF THE COMPANY

The Directors propose to change the name of the Company to "ASIA PACIFIC CAPITAL GROUP LIMITED" (the "Change of Name") and to adopt a Chinese name of "亞洲太平洋資本集團有限公司" (the "Adoption of Chinese Name") for identification purposes upon the Change of Name becoming effective. The Company is an investment holding company and through its subsidiaries engaged in the sale and distribution of telecommunication and information technology products and equipment, securities trading and investments and strategic investment. The Directors consider that the proposed new name will better reflect the diversified nature of the principal activities of the Group.

Special resolutions will be proposed at the forthcoming Annual General Meeting (the "AGM") regarding the Change of Name and the Adoption of Chinese Name which, if passed, will only be effective subject to the respective approvals by the companies registries in Bermuda and Hong Kong having been obtained.

The Directors also propose to amend the bye-laws of the Company (the "Amendment of Bye-Laws") in order to conform to the constitutional requirements with respect to listed issuers under the revised Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited effective as of 31 March 2004. Special resolutions regarding the Amendment of Bye-Laws will be proposed at the AGM.

APPRECIATION

On behalf of the Board, I would like to take this opportunity to express our gratitude to our management team and staff for their hard works and dedications to the Group during this challenging year.

Chong Sok Un

Chairman

Hong Kong, 16 April 2004