

Management's Statement

FINANCIAL RESULTS

For the year ended 31 December 2003, the Company recorded a loss of HK\$44.1 million. The loss was mainly attributed by provisions for diminution in value of HK\$28.6 and HK\$11 million made on investments on unlisted equities and a listed security respectively.

DIVIDEND

The Board of Directors does not recommend the payment of any dividend for the year ended 31 December 2003.

INVESTMENT PORTFOLIO

As the general investment environment in Hong Kong and PRC experienced the hardest hit by the SARS in 2003, the Company has no new investment during the year.

Unlisted equities

The Company held the following unlisted securities as at 31 December 2003:

Name of investee company	Interest held	Cost as at 31/12/2003 <i>HK\$</i>	Director's valuation <i>HK\$</i>	% of net assets of the Company
Korning Investments Limited ("Korning")	13%	18,573,758	8,000,000	17.64%
Modern Vocal Limited ("Modern Vocal")	19%	18,000,000	0	0%
		36,573,758	8,000,000	17.64%

Korning indirectly held 60% of an established Pharmaceutical Joint Venture, Huayi Pharmaceutical Company Limited ("Huayi") in Beijing, PRC. Pursuant to the shareholders' agreement entered into between Yacata Limited ("Yacata"), Korning and the Company dated 1 August 2002 ("Shareholders Agreement"), the Company had made an advance to Korning of RMB1.5 million which is in proportion to its shareholding in Korning for the initial 15% of the required contribution to Huayi in August 2002. Under the investment restriction imposed on the Company, it cannot invest more than 20% of the Company's net asset value on any single investment. The Company did not make further advancement to Korning for the remaining proportionate share of capital contribution to Huayi by the deadline of fully pay up the registered capital requirement of Huayi on 26 July 2003. Yacata was therefore entitled to subscribe for further shares in Korning at the subscription price which is equal to 90% of the fair value of each Korning share pursuant to Shareholders' Agreement. Determined by an independent accountant, the subscription price was HK\$68,189 per Korning share and that an additional 115 shares in Korning should be issued by Korning to Yacata. Yacata which is not a connected person of the Company as defined under Listing Rules, had subscribed for the 115 shares in Korning at a total

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consideration of approximately Rmb8.3 million which was completed on 2 January 2004. Subsequent to the completion of the additional subscription by Yacata, the issued share capital of Korning has been increased from 100 shares to 215 shares of US\$1 each. The Company continues to hold 13 shares of Korning but its interest in Korning has been diluted from 13% to 6%. Even the pharmaceutical industry is one of the high potential businesses in PRC, the Company's effective interest of Huayi subsequent to the dilution was too minimal to manage. The Company has proposed to dispose of all its remaining 6% shares in Korning to Yacata, the negotiation is still in preliminary stage and no detailed terms have been agreed between the parties as at the date of this report. For prudent sake, the Company has made a provision of diminution in value base on the diluted effect, approximately HK\$10.6 million.

Modern Vocal held 90% interest in a sino-foreign joint venture (the "Joint Venture") in PRC to develop, manufacture and distribute the internet phone set and value-stored calling cards in major cities in the PRC. The Joint Venture has been appointed as one of Jitong's (one of the authorized telecommunication operators in PRC) agents to market and promote the sale of value-stored calling cards issued by Jitong.

Due to the rapid change of telecommunication market in PRC and the intensive competition from domestic fixed line and mobile phone markets, the original business plan of the Joint Venture was unable to launch with significant development. In order to match with current business environment, the Joint Venture is requiring further capital injection for technological advancement and new product design. With the consideration of the risk of further investment and the investment restriction of the Company, no further investment to the Joint Venture will be made by the Company. Due to the uncertainty of the development of the Joint Venture, full provision of HK\$18 million has been made on investment in Modern Vocal.

As at 31 December 2003, the total unrealized holding loss on unlisted securities was approximately HK\$28.6 million representing the provision of diminution in value of the unlisted securities and no dividend was received from unlisted securities during the year.

Listed securities

The Company held the following listed security as at 31 December 2003:

Name of investee company	Interest held	Cost as at 31/12/2003 <i>HK\$</i>	Market value <i>HK\$</i>	Accumulated unrealised holding loss* <i>HK\$</i>	% of net assets of the Company
Yanion International Holdings Limited ("Yanion")	4.91%	18,887,023	11,240,000	7,647,023	24.79%
		<u>18,887,023</u>	<u>11,240,000</u>	<u>7,647,023</u>	<u>24.79%</u>

* The accumulated unrealized holding loss of approximately HK\$7.65 million representing unrealised holding loss of approximately HK\$10.96 million recognised for the year ended 31 December 2003 and accumulated with the unrealized holding gain of approximately HK\$3.31 million recognised in the previous year.

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The share price of Yanion continuously decline in 2003 from HK\$0.79 per share at the beginning of 2003 to HK\$0.40 per share at the end of 2003, it dropped 49%. However, Hang Seng Index had gone up more than 34% during the year even though the index did dip to the lowest level of 8409 closing around the end of April 2003 because of the negative impact of SARS. The performance of Yanion share is obviously falling behind the market, the Company considered to dispose the investment in shares of Yanion.

No dividend was received from listed securities during the year.

DEBT SECURITIES

The Company has no debt securities as at 31 December 2003.

The convertible loan to Info Quality Development Limited amounted to HK\$13.5 million, which would entitle the Company to control approximately 30% of a Beijing advertising company's equity in the event of an exercise by the Company of its right to convert the loan, has been fully repaid during the year. The Company received an interest income of approximately HK\$366,000 from the convertible loan.

The Company also redeemed the investment of approximately HK\$15.6 million in a sub-fund of Maximus Global Strategy Fund during the year, which is a short term high yield income fund administered by Commerzbank International Trust (Singapore) Ltd. The Company recorded a gain on redemption of approximately HK\$434,000.

PROSPECT

Following the supportive measures of the Chinese government such as Closer Economic Partnership Agreement and the simplified scheme of individual visit for Mainland China visitors, the investment atmosphere was significantly improved by the end of 2003. The Company is in the process of disposing hazardous investments and investing in projects with established operations and business potentials, however, the capital base of the Company would need to be further enlarged. The Company, through the investment manager, has been exploring opportunities to expand the capital base of the Company. Refer to the announcement of the Company dated 13 October 2003 and 31 October 2003, the Company has entered into a placing agreement with a placing agent but subsequently terminated the placing agreement due to failure of potential investors to commit to the placing agent to subscribe for the placing shares at the placing price. The Directors will continue to seek future opportunities to raise fund, but at the date of this report, the Company does not have a concrete fund raising proposal.

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LIQUIDITY, CAPITAL COMMITMENT AND CONTINGENT LIABILITIES

As at 31 December 2003, the Company had cash and bank balances of HK\$26.2 million, the management believes that the Company maintained sufficient working capital for its operation. The Company has an overdraft banking facility up to HK\$5 million which is secured by the Company's marketable securities. As at 31 December 2003, the Company had no material capital commitment and contingent liabilities.

FOREIGN CURRENCY FLUCTUATION

The Company believes that the foreign exchange risk is minimal as the Company mainly uses Hong Kong dollars and United States dollars to carry out its business transactions.

STAFF

As at 31 December 2003, the Company employed one employee. Total staff cost of the Company, excluding directors' remuneration, paid during the year was approximately HK\$646,000. Staff remuneration packages are in line with the prevailing market practice and are determined on the basis of the performance and experience of individual employee.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

The Company did not purchase, sell or redeem any of the Company's listed securities during the year.

COMPLIANCE WITH THE CODE OF BEST PRACTICE

In the opinion of the Directors, the Company has complied with the Code of Best Practice as set out in Appendix 14 of the Listing Rules of the Stock Exchange throughout the year.

AUDIT COMMITTEE

The audit committee, which comprises of two independent Non-executive Directors of the Company, has reviewed with management the accounting principles and practices adopted by the Company and discussed auditing, internal controls and financial reporting matters. The audit committee of the Company has reviewed the audited financial statements for the year ended 31 December 2003.

APPRECIATION

During the year, Ms. Jiao Shu Fen resigned as the honorable chairlady of the Company. The management sincerely thanks Ms. Jiao for her valuable advice to the Company.

On behalf of the Board
Ma Kam Fook, Robert
Executive Director

Hong Kong, 22 April 2004