

REPORT OF THE DIRECTORS

The directors of the Company herein present their report and the audited financial statements of the Company and the Group for the year ended 31 March 2001.

Principal activities

The principal activity of the Company is strategic investment holding. The activities of the Company's principal subsidiaries and associates are set out in notes 13 and 14 to the financial statements, respectively. During the year, the Group ceased its business of the trading and manufacturing of telecommunication products following the disposal of certain subsidiaries.

Segmented information

The Group's turnover for the year was derived predominantly from interest income and the trading and manufacturing of telecommunication products. The Group's loss before tax for the year was derived predominantly from the share of losses of associates and the loss before tax derived from the trading and manufacturing of telecommunication products, net of interest income.

Details of an analysis of the Group's turnover and contribution to loss from operating activities by principal activity and geographical area of operations for the year ended 31 March 2001 are set out in notes 3 and 5, respectively.

Results

The Group's loss for the year ended 31 March 2001 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 24 to 69.

Summary of financial information

A summary of the published results and of the assets and liabilities of the Group for the last five financial years, as extracted from the audited financial statements and reclassified as appropriate, is set out below:

RESULTS

	Year ended 31 March				
	2001	2000	1999	1998	1997
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
TURNOVER	7,603	19,124	187,798	156,029	187,947
LOSS FROM OPERATING					
ACTIVITIES	(36,771)	(61,783)	(225,887)	(42,632)	(37,304)
Finance costs	(31,952)	(13,519)	(9,720)	(5,127)	(5,210)
Share of profits less losses of associates	(496,108)	111,980	–	–	–
PROFIT/(LOSS) BEFORE TAX	(564,831)	36,678	(235,607)	(47,759)	(42,514)
Tax	761	868	(955)	22	(5)
PROFIT/(LOSS) BEFORE					
MINORITY INTERESTS	(564,070)	37,546	(236,562)	(47,737)	(42,519)
Minority interests	–	–	22,146	10,772	1,852
NET PROFIT/(LOSS) FROM					
ORDINARY ACTIVITIES					
ATTRIBUTABLE TO					
SHAREHOLDERS	(564,070)	37,546	(214,416)	(36,965)	(40,667)

ASSETS AND LIABILITIES

	31 March				
	2001	2000	1999	1998	1997
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
FIXED ASSETS	74	19,448	29,411	33,734	39,723
LAND HELD FOR					
DEVELOPMENT	80,000	91,000	–	–	–
OTHER INTANGIBLE ASSETS	–	–	–	2,577	3,349
INTERESTS IN ASSOCIATES	551,147	1,417,504	–	–	–
INVESTMENTS IN SECURITIES	–	35,999	14,222	14,222	14,222
LONG TERM DEPOSIT	26,139	–	–	–	–
GOODWILL	–	–	3,604	4,534	–
NEGATIVE GOODWILL	(2,380)	(31,741)	–	–	–
OTHER NON-CURRENT ASSETS	–	–	–	358	769
CURRENT ASSETS	48,683	127,371	48,398	136,297	94,752
TOTAL ASSETS	703,663	1,659,581	95,635	191,722	152,815
CURRENT LIABILITIES	33,396	124,871	93,628	114,146	102,593
LONG TERM OTHER LOANS	180,727	120,000	–	–	–
LONG TERM PORTION OF					
FINANCE LEASE PAYABLES	–	–	133	805	3,019
TOTAL LIABILITIES	214,123	244,871	93,761	114,951	105,612
MINORITY INTERESTS	–	–	–	22,146	–
	214,123	244,871	93,761	137,097	105,612
NET ASSETS	489,540	1,414,710	1,874	54,625	47,203

Pension costs

For the period from 1 April to 30 November 2000, the Group did not operate any pension scheme for its employees.

Commencing from 1 December 2000, the Mandatory Provident Fund Schemes Ordinance took effect and introduced certain new arrangements for the provision of employee benefits. A Mandatory Provident Fund scheme (the “MPF Scheme”) has been set up by the Group for this purpose for all of those employees who are eligible to participate in the MPF Scheme. The Group’s employer contributions vest fully with the employees when contributed into the MPF Scheme except for the Group’s voluntary contributions, which are refunded to the Group when the employees leave its employment prior to the full vesting of the employer’s voluntary contributions, in accordance with the rules of the MPF Scheme.

For the four months ended 31 March 2001, the amount of the MPF Scheme contributions dealt with in the profit and loss account of the Group was approximately HK\$68,000.

Fixed assets

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

Land held for development

Details of the Group's land held for development are set out in note 12 to the financial statements.

Subsidiaries and associates

Particulars of the Company's principal subsidiaries and the Group's principal associates are set out in notes 13 and 14 to the financial statements, respectively.

Borrowings

Details of the borrowings of the Company and the Group as at 31 March 2001 are set out in note 26 to the financial statements.

Share capital, share options, warrants and share premium

Details of movements in the Company's share capital, share options, warrants and share premium during the year, together with the reasons therefor, are set out in notes 27 and 28 to the financial statements.

Reserves/(deficits)

Details of movements in the reserves/(deficits) of the Company and the Group during the year are set out in note 28 to the financial statements.

Distributable reserves

The Company had no reserves available for cash distribution and/or distribution in specie to shareholders of the Company as at 31 March 2001, as computed in accordance with The Companies Law of the Cayman Islands. The Company's share premium account as at 31 March 2001, with a balance of HK\$738,558,000, may be distributed in the form of fully paid bonus shares. Subsequent to the balance sheet date, pursuant to a special resolution relating to capital reduction passed at an extraordinary general meeting of the Company held on 11 July 2001, the amount standing to the credit of the Company's share premium account of HK\$738,558,000 has been written off against the accumulated losses of the Company as at 31 March 2001 to the extent of HK\$738,558,000 on 11 July 2001.

Major customers and suppliers

Sales to the five largest customers of the Group accounted for approximately 76 % of the Group's aggregate turnover for the year, and sales to the Group's largest customer accounted for approximately 47% of the Group's aggregate turnover for the year.

Purchases from the five largest suppliers of the Group accounted for approximately 96% of the Group's aggregate purchases for the year, and purchases from the Group's largest supplier accounted for approximately 63% of the Group's aggregate purchases for the year.

To the best knowledge of the directors, neither the directors, their associates, nor any shareholders who owned more than 5% of the Company's issued share capital, had any beneficial interest in any of the Group's five largest customers or five largest suppliers during the year.

Directors

The directors of the Company during the year and up to the date of this annual report were as follows:

Executive directors:

Mr. Law Wing Kit, Stephen (*Chairman*) #

Mr. Chang Wang

Mr. Chiu Tao (resigned on 9 February 2001)*

Mr. Lau Man Hoi, Manron (resigned on 31 December 2000)

Non-executive directors:

Mr. Chiu Tao (appointed on 9 February 2001)*

Mr. Cheng Mo Chi, Moses (resigned on 12 October 2000)

Independent non-executive directors:

Mr. Wu Wing Kit

Mr. Tan Shao Hua

Mr. Lai Hin Wing, Henry (appointed on 12 October 2000)

Mr. Law Wing Kit, Stephen was appointed as Chairman of the Company on 9 February 2001.

* Mr. Chiu Tao resigned as an executive director on 9 February 2001 and was appointed as a non-executive director of the Company on the same date.

In accordance with articles 91 and 99 of the Company's articles of association, Mr. Chang Wang and Mr. Lai Hin Wing, Henry will retire and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting.

The directors of the Company, including the non-executive directors and the independent non-executive directors, are subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the provisions of the Company's articles of association.

Directors' service contracts

No director proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable by the Company within one year without payment other than statutory compensation.

Directors' rights to acquire shares

Under the terms of a share option scheme adopted by the Company on 12 January 1994 (the "Share Option Scheme"), the directors of the Company may, at their absolute discretion, grant options to eligible employees of the Group, including executive directors, to subscribe for shares of the Company. The maximum number of shares in respect of which options may be granted under the Share Option Scheme may not exceed 10% of the shares which have been duly allotted and issued. Further details of the Share Option Scheme are set out in note 27 to the financial statements.

Pursuant to the Share Option Scheme, in prior years the Company granted options on the Company's ordinary share in favour of a director which remained outstanding as at 31 March 2001, the details of which are as follows:

Name of director	Number of share options outstanding		Exercise price	Exercise period
	at 1 April 2000 and 31 March 2001			
Mr. Chiu Tao	<u>13,050,000</u>		HK\$0.10	23 April 2000 to 22 April 2003

Save as disclosed above, at no time during the year was the Company or any of its subsidiaries a party to any arrangement to enable the Company's directors, their respective spouses, or children under 18 years of age to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

Directors' interest in shares

At 31 March 2001, the interests of a director and his associates in the share capital of the Company or its associated corporations, as recorded in the register maintained by the Company pursuant to Section 29 of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance"), were as follows:

Director	Number of shares held	
	Corporate interests	Other interests
Mr. Chiu Tao (Note)	141,382,000	–

Note:

These shares are held by New Excellence Holdings Limited in which Mr. Chiu Tao maintains a beneficial interest of 65%.

Save as disclosed above, none of the directors or their associates had any personal, family, corporate or other interest in any securities of the Company or any of its associated corporations, as defined in the SDI Ordinance.

Directors' interests in contracts

Save as disclosed in note 33 to the financial statements, no director had a material interest, either direct or indirect, in any contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party during the year.

Directors' remuneration and the five highest paid employees

Further details of the remuneration of the directors and of the five highest paid employees in the Group are set out in note 7 to the financial statements.

Substantial shareholders

At 31 March 2001, the following person having an interest in 10% or more of the issued share capital of the Company was recorded in the register required to be kept by the Company pursuant to Section 16(1) of the SDI Ordinance:

Name	Number of shares held	Percentage of holding
Dr. Ho Hung Sun, Stanley	935,750,000	16%

Save as disclosed above, no person registered an interest in the share capital of the Company during the year that was required to be recorded pursuant to Section 16(1) of the SDI Ordinance.

Pre-emptive rights

There are no provisions for pre-emptive rights under the Company's articles of association or the laws of the Cayman Islands which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

Connected transactions and related party transactions

Details of the connected transactions and related party transactions of the Group are set out in notes 4 and 33 to the financial statements.

Purchase, redemption or sale of listed securities of the Company

Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year.

Post balance sheet events

Details of the significant post balance sheet events of the Group are set out in note 34 to the financial statements.

Code of Best Practice

The Company has complied with the Code of Best Practice, as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, throughout the accounting year ended 31 March 2001, save that the independent non-executive directors of the Company are not appointed for specific terms, but subject to retirement by rotation at the annual general meeting in accordance with the provisions of the Company's articles of association.

Auditors

Messrs. Ernst & Young retire and a resolution for their reappointment as auditors of the Company will be proposed at the forthcoming annual general meeting of the Company.

On behalf of the Board

Law Wing Kit, Stephen

Chairman

Hong Kong, 17 July 2001