Innovative products that lead the marketplace...

Hanny stays targeted on the right markets, building on its long-established strengths in the computer storage media business. Through *Memorex®* and *Dysan®*, we have developed one of the largest optical media sales and marketing operations in the world. We are the number one seller of optical media in the United States and a rising leader in Europe. By developing innovative new products that anticipate the changing needs of the marketplace, our markets continue to expand.

CHAIRMAN'S STATEMENT

During 2000/2001, the Company experienced positive growth in both its trading operations and size of its investment portfolio. I present the 2000/2001 annual report of Hanny Holdings Limited to our shareholders.

RESULTS AND FINANCIAL REVIEW

Results

In the year ended March 31, 2001, the Group recorded an audited consolidated loss for the year of HK$252.8 million, which was mainly comprised of net profits from trading operations of HK$81.2 million, net gain on disposal of certain interests in subsidiaries and associates of HK$218.6 million, financing cost of HK$111.4 million, provisions for unrealized holding loss on other investments and impairment loss on investment securities of HK$388.2 million, share of net losses of associates of HK$30.1 million and taxation of HK$22.9 million.

As compared with last year, the Group's turnover illustrated a prominent increase to HK$3,595.8 million as a result of an impressive 27.5% growth of HK$775.8 million. This significant increase was an achievement of the year for the Group as *Memorex®* branded CD-R and CD-RW media generated healthy sales in the U.S. and U.K. markets, despite the general slump in worldwide economies. As a result of the increased activities, the gross profits increased by 14.6% or HK$82.0 million as compared with last year.

In view of the serious downturn of the market values of certain other investments and investment securities as compared with March 31, 2000, the Group has made provisions for the unrealized holding loss on other investments and impairment loss on investment securities as mentioned above. However, if the stock markets recover in the near future, the Group is expected to be able to capture profits from these provisions, as the Board believes that such investments possess underlying values that have not yet been recognized by the markets.

Liquidity and financial resources

Net cash balances at March 31, 2001 stood at HK$546.2 million (2000: HK$640.5 million) accounted for 27.4% (2000: 30.3%) of the net tangible asset value of the Group ("NTAV"). The quick ratio (current assets excluding inventories/current liabilities) of the Group at March 31, 2001 was 119% (2000: 231%).

As at March 31, 2001, total borrowings of the Group amounted to HK$1,405.0 million (2000: HK$1,014.2 million), of which HK$121.9 million were not repayable within one year. The borrowings included convertible note of HK$385.9 million, bank borrowings of HK$334.5 million, other loans of HK$625.8 million, overdrafts of HK$49.8 million, obligations under finance leases and hire purchase contracts of HK$6.3 million and amounts due to minority shareholders of HK$2.7 million. The increase in borrowings was to facilitate our Group to broaden our investment portfolio and to fund acquisition of certain interests in Asia V-Sat Co., Ltd. ("AVS"), China Strategic Holdings Limited (formerly China Internet Global Alliance Limited) ("CSHL") and an optical storage media manufacturing operation in Taiwan during the year.

CHAIRMAN'S STATEMENT (continued)

RESULTS AND FINANCIAL REVIEW (continued)

Gearing ratio

The borrowings net of cash at March 31, 2001, most of which bore LIBOR/HIBOR or prime based interests, accounted for 40.6% (2000: 16.6%) of the NTAV.

Contingent liabilities

The Group's total contingent liabilities at March 31, 2001 was HK$15.7 million (2000: HK$20.4 million) in relation to guarantees given to a bank and a financial institution for facilities and leasing and hire purchase obligations of the investee companies.

BUSINESS AND OPERATIONS REVIEW

Trading operations

The Group continued to excel in its core *Memorex®* and *Dysan®* businesses during the year by increasing both sales and market share in various product areas. According to the Santa Clara Consulting Group, *Memorex®* branded CD-R media has become the market leader by gaining the largest market share in the world. In the CD-RW segment, *Memorex®* has captured the second largest market share worldwide.

In the U.S., our efforts have once again proved fruitful. *Memorex®* branded optical media maintained its number one market share position in the U.S., capturing 32% of the CD-R, 30% of the CD-RW and 54% of the music CD-R media markets. In terms of unit sales, approximately 380 million units of optical media were sold, compared to approximately 85 million units in fiscal year 1999/2000. This represents a phenomenal 345% growth from the previous year. Revenues in this category reached approximately US$141 million compared to approximately US$77.3 million in fiscal year 1999/2000. This represents an 82% increase from the previous year. Proportionately, revenues did not increase at the same rate of growth as unit sales due to rapidly declining prices in the optical media market in general. However, the Group expects that growth in both revenues and unit sales will remain steady in the coming year.

During the year, the Group kicked off its marketing campaign for CompactFlash™ memory cards at the November 2000 COMDEX show in Las Vegas, Nevada. Since then, the Group's U.S. presence in the flash memory market has continued to expand through sales in major retailers including K-Mart, Comp-USA and Staples. The Group also launched DVD recordable media in the U.S. during the fourth quarter. As DVD players and recorders become increasingly popular in the U.S., consumer demand for DVD recordable media will also grow. The Group intends to apply its effective marketing strategies for optical media to this new product line in order to achieve positive market penetration in the DVD media segment.

The commercial division was successfully created in the U.S. during the year and the Group intends to aggressively pursue this new marketing channel to generate increased revenues for the Group in the business-to-business market.

CHAIRMAN'S STATEMENT (continued)

BUSINESS AND OPERATIONS REVIEW (continued)

Trading operations (continued)

Our achievements in Europe during the last year were also impressive. The Group was able to achieve strong revenue growth in this region despite the over supply of optical media in the European market. The quality behind the *Memorex®* brand name has once again proven to be an effective marketing tool as we gained wider recognition in the major European markets. The Group is now the market leader in CD-R media in the U.K. and holds a strong number two position in the French market. Popularity in other markets continues to grow, with particular emphasis in the German and Spanish markets.

During the year, the Group launched a major pan-European marketing program by sponsoring an advertising campaign on MTV. In addition to extensive coverage on the air, the *Memorex®* brand was also featured on MTV Europe's flagship show – "MTV European Top 20" music charts. The exposure through this campaign is expected to further strengthen the *Memorex®* brand name throughout the European market. Besides building brand awareness, overall efficiency of the European operations was also improved. In addition to relocating our warehouse to reduce shipment times, the Group also implemented SAP's state-of-the-art software, which should contribute to significant cost-saving effects for the overall European operations in the future.

In the coming year, the Group's European division will further strengthen its management team to increase market awareness of the Group's products in other regions, including the Middle East and Scandinavia.

ACQUISITIONS AND DISPOSALS

Acquisition of an interest in Gentwin Investment Ltd.

Pursuant to a sale and purchase agreement dated September 18, 2000, the Group acquired 25% of the issued share capital of Gentwin Investment Ltd., which represents an indirect interest of 20% in AVS. The consideration paid by the Group for this acquisition was HK$160 million. The consideration was satisfied by the issuance of 333,333,333 new shares of the Company. Together with the previous acquisition of approximately 47.6% interests in Fortune Centre Ltd. in July 2000, the Group has an aggregate effective interest of 40% in AVS.

AVS and its subsidiaries are principally engaged in the development and provision of satellite broadband network services in the People's Republic of China (the "PRC"). A wholly-owned subsidiary of AVS was granted a 13 year satellite utilization right from a satellite operating company up to May 30, 2013. AVS is currently building satellite broadband Internet service provider ("ISP") establishments in various counties throughout the PRC and is expected to launch its ISP business in the second half of 2001. AVS is also operating data centres in Beijing and Guangzhou and is expected to launch its Shanghai data centre business in the third quarter of 2001.

CHAIRMAN'S STATEMENT (continued)

ACQUISITIONS AND DISPOSALS (continued)

Acquisition of an interest in China Strategic Holdings Limited

By various agreements dated September 26, 2000 and September 28, 2000, the Company, through its wholly-owned subsidiary, acquired approximately 17.45% interests in CSHL for a total consideration of HK$643.5 million. The consideration was settled by a combination of payment in cash of approximately HK$321.8 million and the issuance of six month interest-bearing promissory notes in an aggregate amount of approximately HK$321.8 million, which were fully repaid in April 2001.

CSHL is an investment holding company and its shares are listed on the Stock Exchange. CSHL holds various investments listed in Hong Kong, the U.S. and Australia. CSHL and its subsidiaries are principally engaged in the areas of tyre manufacturing, property development and investment, infrastructure investment and media investment.

Further details of this acquisition are contained in the Company's circular dated October 20, 2000.

Disposal of certain interests in Memtek International Inc.

On February 16, 2001, the Company, through its subsidiary, entered into an agreement with an independent third party pursuant to which it would sell a 9.9% interest in Memtek International Inc. ("MII") to such independent third party for a consideration of US$24 million. On the same date, the Company, through its subsidiary, also entered into a second agreement with another independent third party pursuant to which it would sell a 5% interest in MII to such third party for a consideration of US$12 million.

MII is the holding company of the Group's worldwide sales, marketing and distribution network for optical media products and computer related products and accessories. The 14.9% equity interests of MII have been disposed to investors who have strategic alliances with the Company's businesses and the Company believes that they will hold such shares as long-term investments. In our competitive industry, the Group believes that placing shares to strategic investors will have certain beneficial effects for the Group's trading business. By working with these strategic investors, the Group expects to be able to secure and build stronger relationships with various suppliers, develop new marketing channels and markets and increase our competitive edge in the industry.

CHAIRMAN'S STATEMENT (continued)

OTHER MATTERS

Bonus issue of warrants

At a special general meeting of the Company held on September 26, 2000, the shareholders approved, inter alias, a bonus issue of warrants (the "Bonus Warrant Issue"). Pursuant to the terms of the Bonus Warrant Issue, warrants were issued on the basis of one warrant (the "Warrant") for every five existing shares of the Company held by shareholders of the Company whose names appeared on the register of members in Hong Kong on September 26, 2000 (other than those shareholders whose addresses shown in the register of members on September 2000 were outside of Hong Kong). Each Warrant was issued in units of HK$0.42 of subscription rights, to subscribe in cash for new shares of the Company at an initial subscription price of HK$0.42 per share subject to adjustment, at any time from the date of issue up to and including April 3, 2002. Upon the completion of the rights issue in February 2001 (discussed below), the subscription price of the Warrants was adjusted to HK$0.36 per share.

Details of the Bonus Warrant Issue and the adjustment to the subscription price were disclosed in the Company's circular dated September 9, 2000 and in the announcement dated February 9, 2001.

Rights Issue

On January 16, 2001, the Company announced the issue, by way of a rights issue (the "Rights Issue"), of not less than 2,143,725,363 rights shares ("Rights Shares") at a price of HK$0.16 per Rights Share, in the proportion of one Rights Share for every two shares held by the qualifying shareholders on February 9, 2001, payable in full on acceptance. The Rights Shares represented 50% of the then existing share capital and approximately 33% of the Company's issued share capital as enlarged by the issue of the Rights Shares. Holders of fully-paid Rights Shares would be entitled to receive all future dividends and distributions which are declared, made or paid after the date of allotment of the Rights Shares. The Rights Shares, when allotted and fully paid, rank pari passu with the then existing shares in all respects. The net proceeds was approximately HK$334 million, about HK$220 million of which was used to reduce the borrowings of the Group, including short-term borrowings and bank loans, and the remaining HK$114 million was used for general working capital. The Rights Issue closed on February 26, 2001. An aggregate of 299 valid acceptances of Rights Shares provisionally allotted under the Rights Issue were received for a total of 1,764,664,077 Rights Shares and 97 valid applications for excess Rights Shares were received for a total of 431,708,997 Rights Shares. Accordingly, the Rights Issue was subscribed by approximately 1.02 times. On February 26, 2001, a total of 2,143,726,763 Rights Shares have been allotted.

Details of the Rights Issue were disclosed in the Company's announcements dated January 16, 2001, February 9, 2001 and February 26, 2001 and the Company's circular dated February 9, 2001.

NEW CORPORATE LOGO

We are pleased to announce a new corporate logo, designed to more accurately reflect our business goals. The logo combines a circle, representing our focus on the global marketplace, with an eye looking upward, symbolizing our outlook on new opportunities and improved shareholder value. The statement – Visions Ahead – captures this approach of looking ahead for new business opportunities.

CHAIRMAN'S STATEMENT (continued)

OUTLOOK

Fiscal year 2000/2001 was another year of stable growth for the Group. In our trading operations, the Group experienced healthy gains in both revenue and market share. By continuing our ongoing efforts to secure firm footholds in new product and geographical markets, we expect to make greater strides in our goal for further market expansion worldwide.

During the year, financial markets worldwide continued to undergo rises and falls. Rapid declines in share prices of Internet companies signified waning investor confidence in these companies. This global phenomenon, although discouraging, was not unpredicted. Although we are uncertain as to how long this shakeout process may continue, we can be certain, however, that this market force will result in a situation where only the strong will survive.

Like other investors, Hanny was also affected by this market correction. During the year, the Group incurred some losses in share investments for which certain provisions were made. Despite these losses, Hanny continues to stand behind the majority of its investments in the high-technology sector. The Group has always maintained the belief that communication will continue to be a key factor to the success of businesses in our global economy. Recognizing this, our core investments in the high-technology arena have spanned from broadband infrastructure, fibre optics and satellite communications. We believe that these technologies provide the essential backbone for the Internet and effective global communication and should therefore, withstand market fluctuations in the future.

Over the years, our management philosophy of portfolio diversification has continued to prevail. Although we have made investments in the new economy, we have balanced our investment portfolio to include traditional businesses as well. During the year, we made a significant investment in CSHL, a holding company with subsidiaries operating in a diverse range of established businesses worldwide. CSHL has also successfully secured a strong presence in the PRC over the years. Although not untapped, the PRC economy is expected to explode as China moves closer to its entry into the World Trade Organization. We believe that the Company's investment in CSHL has tremendous potential to provide benefits to the Group in the long term. Going forward, the Group will explore and pursue other investment opportunities that will create added value to our investment portfolio.

As we look ahead to the next year, the Company will continue to demonstrate its commitment to building value for the Group and its shareholders. To our shareholders, we offer our sincerest appreciation for your unending support and faith in the Company and its management. In closing, I would like to thank my fellow board members and the management team for their relentless pursuit of building a stronger Hanny. Together, we are well-prepared to face the challenges and opportunities that await us in the future.

Dr. Chan Kwok Keung, Charles
Chairman

Hong Kong, July 20, 2001