

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

Change of name

Pursuant to a special resolution passed at a special general meeting held on 22 September 2000, the name of the Company was changed from Chaifa Holdings Limited to 139 Holdings Limited.

Principal activities

The principal activity of the Company is investment holding. The ongoing principal activities of the Group have not changed during the year and consisted of the manufacture, trading and distribution of garments, shoes, car audio equipment and other merchandise. In addition, during the year, the Group also commenced the trading of securities, and the provision of Internet and Internet-related business.

Segmental information

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 and 2000 is set out in notes 3 and 4, respectively to the financial statements.

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 26 to 66.

Summary financial information

The following is 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.

RESULTS

	31 March				
	2001 HK\$'000	2000 HK\$'000	1999 HK\$'000	1998 HK\$'000	1997 HK\$'000
Turnover	158,260	125,962	145,930	302,016	360,838
Profit/(loss) before tax	(278,370)	(196,496)	(48,843)	(57,706)	41,083
Tax	611	121	(144)	859	(4,600)
Profit/(loss) before minority interests	(277,759)	(196,375)	(48,987)	(56,847)	36,483
Minority interests	90	–	–	–	–
Net profit/(loss) from ordinary activities attributable to shareholders	(277,669)	(196,375)	(48,987)	(56,847)	36,483

ASSETS AND LIABILITIES

	31 March				
	2001 HK\$'000	2000 HK\$'000	1999 HK\$'000	1998 HK\$'000	1997 HK\$'000
Fixed assets	51,125	60,923	69,047	75,410	52,291
Construction in progress	841	764	603	468	11,544
Investment securities	20,160	160	160	160	160
Convertible note receivable	50,000	–	–	–	–
Current assets	240,409	559,326	361,404	404,648	469,640
Total assets	362,535	621,173	431,214	480,686	533,635
Current liabilities	140,868	81,321	112,908	187,371	174,763
Interest-bearing bank and other borrowings	14,634	41,430	6,175	6,100	8,777
Finance lease payables	106	116	1,410	–	135
Deferred tax	–	–	–	–	1,343
Total liabilities	155,608	122,867	120,493	193,471	185,018
Minority interests	–	–	–	–	677
Net assets	206,927	498,306	310,721	287,215	347,940

The net profit/(loss) from ordinary activities attributable to shareholders for the three years ended 31 March 1999 and the net assets as at 31 March 1997, 1998 and 1999 of the Group have been restated to take into account a prior year adjustment, as a result of a change in the accounting policy for deferred business development costs which was made in the year ended 31 March 2000.

Fixed assets and construction in progress

Details of movements in the fixed assets and construction in progress of the Group are set out in notes 11 and 12 to the financial statements, respectively.

Subsidiaries

Particulars of the Company's principal subsidiaries are set out in note 14 to the financial statements.

Borrowings

Details of the Group's borrowings at the balance sheet are set out in notes 20 to 24 to the financial statements.

Share capital and share options

Details of movements in the Company's share capital and share options during the year, together with reasons therefor, are set out in note 25 to the financial statements.

Share premium and reserves

Details of movements in the share premium account and reserves of the Company and the Group during the year are set out in note 26 to the financial statements.

Distributable reserves

As at 31 March 2001, the Company had no reserves available for distribution. In accordance with the Companies Act 1981 of Bermuda, the contributed surplus of the Company is available for distribution or the payment of dividends to shareholders provided that the Company is able to pay its debts as and when they fall due. The share premium account and capital redemption reserve, with an aggregate balance of HK\$216,422,000 as at 31 March 2001, may be distributed in the form of fully paid bonus shares.

Major customers and suppliers

Sales to the Group's five largest customers accounted for approximately 86.7% of the Group's total turnover for the year. In particular, sales to the Group's largest customer accounted for approximately 30.1% of the Group's total turnover for the year.

Purchases from the Group's five largest suppliers accounted for approximately 22.9% of the total purchases for the year. In particular, purchases from the Group's largest supplier accounted for approximately 5.7% of the Group's total purchases for the year.

As far as the directors are aware, neither the directors of the Company and their associates, nor those shareholders which to the best knowledge of the directors own more than 5% of the Company's issued share capital had any beneficial interest in the Group's five largest customers and/or five largest suppliers mentioned in the preceding paragraph.

Directors

The directors of the Company during the year were:

Wong Howard

Chan Chun Tung, John

Lau Yuen Sun, Adrian

Lo Ki Yan, Karen

Wong Yat Fai

Wu Qing

Kwong Wai Tim, William (resigned on 1 August 2000)

Li Chi Ming*

Tung Tat Chiu, Michael* (appointed on 1 September 2000)

Wilson Chung* (resigned on 1 September 2000)

* Independent non-executive directors

The independent non-executive directors are appointed initially for one year and thereafter their appointment is subject to renewal on an annual basis in accordance with their employment contracts.

In accordance with clause 98 of the bye-laws of the Company, Messrs. Howard Wong and Lau Yuen Sun, Adrian will retire and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting.

Biographies of directors and senior management

Biographical details of the directors of the Company and the senior management of the Group are set out on pages 8 to 9 of the annual report.

Emoluments of the directors and the five highest paid employees

Details of the emoluments of the directors and the five highest paid employees in the Group are set out in notes 6 and 7 to the financial statements, respectively.

Directors' service contracts

Mr. Chan Chun Tung, John has a service contract with the Company for a fixed term of three years commencing from 1 April 1998, which remains effective thereafter unless terminated by either party.

Messrs. Lau Yuen Sun, Adrian and Kwong Wai Tim, William have service contracts with the Company for a fixed term of three years commencing from 1 April 1999, which are subject to termination by either party giving not less than six months' written notice. On 1 August 2000, Mr. Kwong Wai Tim, William resigned as an executive director of the Company.

Mr. Wong Howard and Ms. Lo Ki Yan, Karen have service contracts with the Company for a fixed term of three years commencing from 1 February 2000, which are subject to termination by either party giving not less than six months' written notice.

On 1 April 2000, the Company entered into service agreements with Messrs. Wong Yat Fai and Wu Qing for a fixed term of three years commencing from 1 April 2000. The service agreements are subject to termination by either party giving not less than six months' written notice.

All of the independent non-executive directors have entered into service contracts with the Company for terms of one year and are subject to retirement by rotation and re-election at the annual general meeting, in accordance with bye-laws of the Company.

Apart from the foregoing, 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' interests in contracts

Save as disclosed in note 31 to the financial statements, no director had a significant interest, either directly or indirectly, 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' interests in shares

At 31 March 2001, the interests of the directors and their associates in the share capital of the Company and its associated corporations, as recorded in the register ("Register") maintained by the Company pursuant to Section 29 of the Securities (Disclosure of Interests) Ordinance ("SDI Ordinance") or notified to the Company, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, were as follows:

Ordinary shares of the Company

Name of director	Number of shares held	Nature of interest
Chan Chun Tung, John	13,000,000	Personal

The interests of the directors in the share options of the Company are separately disclosed in the section "Directors' rights to acquire shares".

In addition to the above, Messrs. Wong Howard, Wong Yat Fai and Chan Chun Tung, John hold shares in certain subsidiaries of the Company in a non-beneficial capacity, solely for the purpose of complying with the minimum company membership requirements.

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

Directors' rights to acquire shares

Under the terms of a share option scheme adopted on 22 February 1994, the directors of the Company may, on or before 21 February 2004, grant options to employees and directors of the Company, or any of its subsidiaries, to subscribe for shares in the Company. Details of the share option scheme are set out in note 25 to the financial statements. The maximum number of shares which may be granted under the scheme may not exceed 10% of the issued share capital of the Company from time to time.

Pursuant to the Company's share option scheme noted above, the Company has granted options on the Company's ordinary shares in favour of certain directors, the summary details of which during the year are as follows:

Name of director	Number of share options				Exercise price HK\$
	At 1 April 2000	Exercised during the year	Lapsed during the year	At 31 March 2001	
Chan Chun Tung, John	2,400,000	–	–	2,400,000	0.1888
Kwong Wai Tim, William	25,000,000	(20,000,000)	(5,000,000)	–	0.1000
Lau Yuen Sun, Adrian	19,000,000	–	–	19,000,000	0.1000
	<u>46,400,000</u>	<u>(20,000,000)</u>	<u>(5,000,000)</u>	<u>21,400,000</u>	

HK\$1 is payable by each of the grantees upon acceptance of the grant of the options.

All of the above share options are exercisable at any time up to 21 February 2004.

5,000,000 share options lapsed during the year upon the resignation of Mr. Kwong Wai Tim, William, a director of the Company.

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 or their respective spouse or children under 18 years of age to acquire benefits by means of the acquisition or shares in or debentures of the Company or any other body corporate.

Substantial shareholders

The Company has not been notified of any interest in the Company's issued share capital as at 31 March 2001 amounting to 10% or more of the ordinary shares in issue, which is required to be recorded in the register required to be kept under section 16(1) of the SDI Ordinance.

Post balance sheet event

Details of the significant post balance sheet event is set out in note 30 to the financial statements.

Retirement benefit scheme

Details of the retirement benefit scheme of the Group and the Group's contributions charged to the profit and loss account for the current year are set out in note 2 and 4 to the financial statements, respectively.

Directors' interests in competing businesses

During the year and up to the date of this report, no directors are considered to have an interest in a business which competes or is likely to compete, either directly or indirectly, with the businesses of the Group, pursuant to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), other than those businesses of which the directors of the Company were appointed as directors to represent the interests of the Company and/or the Group.

Pre-emptive rights

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

Purchase, sale or redemption 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.

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 throughout the accounting period covered by the annual report.

Audit committee

The Company established an audit committee in 1999 in accordance with Appendix 14 of the Listing Rules. Messrs. Li Chi Ming and Wilson Chung were appointed as members of the audit committee. Upon the resignation of Mr. Wilson Chung as an independent non-executive director and a member of the audit committee on 1 September 2000, Mr. Tung Tat Chiu, Michael was appointed as an independent non-executive director and a member of the audit committee on the same date. The present members of the audit committee are Messrs. Li Chi Ming and Tung Tat Chiu, Michael.

Auditors

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

ON BEHALF OF THE BOARD

Chan Chun Tung, John

Chairman

Hong Kong
23 July 2001