

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

CHANGE OF NAME

Pursuant to a special resolution passed by shareholders on 19 June 2000, the name of the Company was changed from Cheong Ming Holdings Limited to Sega.com Asia Limited. Subsequently, pursuant to a special resolution passed by shareholders on 26 March 2001, the name of the Company was changed from Sega.com Asia Limited to Cheong Ming Investments Limited.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. During the year, the Group decided to discontinue its provision for Internet on-line games activity and the discontinuance of which was completed subsequent to the balance sheet date on 7 May 2001. Save as aforesaid, there were no other changes in the nature of the Group's principal activities during the year. The principal activities of its principal subsidiaries are set out in note 14 to the financial statements.

SEGMENTAL INFORMATION

Details of the Group's turnover and profit from operating activities by principal activity and geographical area are set out in notes 4 and 5 to the financial statements, respectively.

RESULTS, DIVIDENDS AND BONUS ISSUE OF ORDINARY SHARES

The Group's profit for the year ended 31 March 2001 and the state of affairs of the Company and the Group as at that date are set out in the financial statements on pages 25 to 66.

A special dividend of HK10 cents per share was paid on 10 April 2000.

The directors recommend the payment of a final dividend of HK1 cent per share in respect of the year ended 31 March 2001 to all shareholders whose names appear on the register of members on 31 August 2001. This recommendation has been incorporated in the financial statements.

The directors also recommend a bonus issue of new ordinary shares to be distributed to the shareholders whose names appear on the register of members of the Company on 31 August 2001 on the basis of one bonus share for every four ordinary shares of HK\$0.10 each in the issued share capital of the Company held. Based on the issued share capital of the Company as at the date of this report, 83,575,000 new ordinary shares of HK\$0.10 each will be issued as bonus shares. The bonus shares will rank pari passu in all respects with the ordinary shares of the Company in issue on the date of allotment but shall not be entitled to the proposed final dividend for the year ended 31 March 2001.

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:

RESULTS

| | Year ended 31 March | | | | |
|---|---------------------|------------------|------------------|------------------|------------------|
| | 2001 HK\$'000 | 2000 HK\$'000 | 1999 HK\$'000 | 1998 HK\$'000 | 1997 HK\$'000 |
| TURNOVER | | | | | |
| Continuing operations | 296,935 | 295,313 | 268,270 | 285,001 | 259,160 |
| Discontinuing operation | 346 | – | – | – | – |
| | 297,281 | 295,313 | 268,270 | 285,001 | 259,160 |
| PROFIT FROM OPERATING ACTIVITIES | | | | | |
| Continuing operations | 19,094 | 27,344 | 43,755 | 57,540 | 57,052 |
| Discontinuing operation | (17,001) | – | – | – | – |
| | 2,093 | 27,344 | 43,755 | 57,540 | 57,052 |
| Finance costs | (1,912) | (2,127) | (1,420) | (821) | (884) |
| Share of profit of a jointly-controlled entity | 26 | 28 | – | – | – |
| PROFIT BEFORE TAX | 207 | 25,245 | 42,335 | 56,719 | 56,168 |
| Tax | 1,038 | (1,972) | (3,141) | (3,102) | (3,639) |
| PROFIT BEFORE MINORITY INTERESTS | 1,245 | 23,273 | 39,194 | 53,617 | 52,529 |
| Minority interests | 183 | – | – | – | – |
| NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS | 1,428 | 23,273 | 39,194 | 53,617 | 52,529 |

SUMMARY FINANCIAL INFORMATION *(continued)***ASSETS AND LIABILITIES**

| | As at 31 March | | | | |
|--|------------------|------------------|------------------|------------------|------------------|
| | 2001 HK\$'000 | 2000 HK\$'000 | 1999 HK\$'000 | 1998 HK\$'000 | 1997 HK\$'000 |
| FIXED ASSETS | 202,315 | 231,826 | 234,905 | 192,232 | 146,345 |
| INVESTMENT PROPERTIES | 11,800 | – | – | – | – |
| OTHER INVESTMENTS | 142,794 | – | – | – | – |
| DEFERRED PRE-OPERATING EXPENSES | – | – | 171 | 234 | 196 |
| HELD-TO-MATURITY SECURITIES | – | – | – | 4,000 | – |
| INTEREST IN A JOINTLY- CONTROLLED ENTITY | – | 418 | – | – | – |
| LONG TERM DEPOSITS | 2,552 | – | – | – | – |
| CURRENT ASSETS | 158,908 | 174,814 | 151,994 | 125,433 | 120,680 |
| TOTAL ASSETS | 518,369 | 407,058 | 387,070 | 321,899 | 267,221 |
| CURRENT LIABILITIES | 74,096 | 97,604 | 61,111 | 47,298 | 50,513 |
| LONG TERM PORTION OF FINANCE LEASE PAYABLES | – | 660 | 113 | 744 | 2,649 |
| LONG TERM BANK LOANS | 4,940 | 15,917 | 15,570 | – | – |
| PROVISIONS FOR LONG SERVICE PAYMENTS | 1,395 | 3,257 | 3,278 | 2,789 | 2,386 |
| DEFERRED TAX | 736 | 9,940 | 10,239 | 10,018 | 7,228 |
| TOTAL LIABILITIES | 81,167 | 127,378 | 90,311 | 60,849 | 62,776 |
| MINORITY INTERESTS | 1,017 | – | – | – | – |
| NET ASSETS | 436,185 | 279,680 | 296,759 | 261,050 | 204,445 |

FIXED ASSETS AND INVESTMENT PROPERTIES

Details of movements in the fixed assets and investment properties of the Group are set out in notes 12 and 13 to the financial statements, respectively.

SUBSIDIARIES

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

OTHER INVESTMENTS

Details of the other investments of the Company and the Group are set out in note 15 to the financial statements.

JOINTLY-CONTROLLED ENTITY

Particulars of the Group's interest in a jointly-controlled entity are set out in note 16 to the financial statements.

BORROWINGS

Details of the borrowings of the Group are set out in notes 21 to 23 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 24 to the financial statements.

PRE-EMPTIVE RIGHTS

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

RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 25 to the financial statements.

DISTRIBUTABLE RESERVES

At 31 March 2001, the Company's reserves available for cash distribution and/or distribution in specie amounted to HK\$313,184,000 as computed in accordance with the Companies Act 1981 of Bermuda (as amended). In addition, the Company's share premium account, with a balance of HK\$180,709,000 as at 31 March 2001, may be distributed in the form of fully paid bonus shares.

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, the percentages of purchases and sales attributable to the Group's major customers and suppliers were as follows:

- (1) The aggregate amount of turnover attributable to the Group's five largest customers represented 48% of the Group's total turnover. The amount of sales to the Group's largest customer represented 20% of the Group's total turnover.
- (2) The aggregate amount of purchases attributable to the Group's five largest suppliers represented 49% of the Group's total purchases. The amount of purchases from the Group's largest supplier represented 22% of the Group's total purchases.

MAJOR CUSTOMERS AND SUPPLIERS *(continued)*

As far as the directors are aware, neither the directors, their associates, nor 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 or five largest suppliers.

DIRECTORS

The directors of the Company during the year were:

Executive directors

Mr. Lui Chi

Mr. Lui Shing Ming, Brian

Mr. Lui Shing Cheong

Mr. Lui Shing Chung, Victor

Mr. Lung Wai Kee

Mr. Isao Okawa (appointed on 8 April 2000 and passed
on 16 March, 2001)

Mr. Shoichiro Irimajiri (appointed on 8 April 2000)

Mr. Masahiro Aozono (appointed on 8 April 2000)

Mr. Brad Huang (appointed on 8 April 2000)

Independent non-executive directors

Mr. Lo Wing Man

Dr. Lam Chun Kong

Mr. Wang Chu Hong, James

Subsequent to the balance sheet date, on 7 May 2001, Messrs. Shoichiro Irimajiri and Masahiro Aozono, resigned as directors of the Company.

In accordance with bye-law 87 of the Company's Bye-laws, Messrs. Lui Shing Ming, Brian and Lui Shing Chung, Victor will retire by rotation and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting. The independent non-executive directors are not appointed for specific terms but are subject to retirement by rotation in accordance with the Company's Bye-laws.

DIRECTORS' REMUNERATION

Details of the directors' remuneration of the Company are set out in note 7 to the financial statements.

FIVE HIGHEST PAID EMPLOYEES

Details of the five highest paid employees of the Group are set out in note 7 to the financial statements.

DIRECTORS' SERVICE CONTRACTS

Messrs. Lui Chi, Lui Shing Ming, Brian, Lui Shing Cheong, Lui Shing Chung, Victor and Lung Wai Kee entered into service agreements with the Company for a term of three years commencing on 1 January 2000 which is subject to termination by either party giving not less than six months' written notice.

Save as disclosed above, 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 SHARES

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

| Director | Number of ordinary shares in the Company held and nature of interest | | | |
|-----------------------------|---|--------------------|----------------------|-------|
| | Personal | Family | Corporate | Other |
| Mr. Lui Shing Ming, Brian | – | – | 104,358,000 (Note 1) | – |
| Mr. Lui Shing Cheong | 2,500,000 | – | 104,358,000 (Note 1) | – |
| Mr. Lui Shing Chung, Victor | 1,000,000 | 500,000 (Note 2) | 104,358,000 (Note 1) | – |
| Mr. Lung Wai Kee | 1,000,000 | 2,000,000 (Note 3) | – | – |

Notes:

- The 104,358,000 shares are owned by Harmony Link Corporation, a company incorporated in the British Virgin Islands. Approximately 48.4% of the issued share capital of Harmony Link Corporation is held by The Lui Family Company Limited as trustee of The Lui Unit Trust. All units (except one unit which is owned by Mr. Lui Shing Ming, Brian) of The Lui Unit Trust are held by a discretionary trust, the discretionary objects of which include Messrs. Lui Shing Ming, Brian, Lui Shing Chung, Victor, Lui Shing Cheong and other family members of Mr. Lui Chi. Each of Messrs. Lui Shing Ming, Brian, Lui Shing Chung, Victor and Lui Shing Cheong further owns approximately 24.13%, 14.59% and 12.88% of the issued share capital of Harmony Link Corporation, respectively.

DIRECTORS' INTERESTS IN SHARES *(continued)**Notes: (continued)*

2. The 500,000 shares are owned by the spouse of Mr. Lui Shing Chung, Victor.
3. The 2,000,000 shares are owned by the spouse of Mr. Lung Wai Kee.

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

DIRECTORS' RIGHTS TO ACQUIRE SHARES

Pursuant to the share option scheme (the "Option Scheme") of the Company adopted on 27 December 1996, the directors may, at their discretion, grant directors and employees of the Company or any of its subsidiaries options to subscribe for ordinary shares in the Company in accordance with the terms and conditions of the Option Scheme. Details of the share options granted under the Option Scheme to the directors of the Company are as follows:

| Director | Number of share options at 1 April 2000 | Number of share options granted during the year | Number of share options exercised during the year | Number of share options outstanding at end of the year | Exercise price of share options HK\$ |
|-----------------------------|---|---|---|--|---|
| Mr. Lui Chi | 1,000,000 | – | – | 1,000,000 | 0.4384 |
| | 1,500,000 | – | – | 1,500,000 | 0.2800 |
| Mr. Lui Shing Ming, Brian | 1,000,000 | – | – | 1,000,000 | 0.4384 |
| | 2,500,000 | – | – | 2,500,000 | 0.2800 |
| Mr. Lui Shing Cheong | 1,000,000 | – | (1,000,000) | – | 0.4384 |
| | 1,500,000 | – | (1,500,000) | – | 0.2800 |
| Mr. Lui Shing Chung, Victor | 1,000,000 | – | (1,000,000) | – | 0.4384 |
| | 1,500,000 | – | – | 1,500,000 | 0.2800 |
| Mr. Lung Wai Kee | 1,500,000 | – | (1,500,000) | – | 0.4384 |
| | 1,500,000 | – | (1,500,000) | – | 0.2800 |
| Mr. Brad Huang | 6,000,000 | – | – | 6,000,000 | 3.4680 |
| | – | 6,300,000 | – | 6,300,000 | 1.3700 |
| | 20,000,000 | 6,300,000 | (6,500,000) | 19,800,000 | |

DIRECTORS' RIGHTS TO ACQUIRE SHARES *(continued)*

In addition, share options to subscribe for 500,000 ordinary shares at HK\$0.28 per share in the Company that were granted to the spouse of Mr. Lui Shing Chung, Victor under the Option Scheme remained outstanding as at 31 March 2001.

The share options are exercisable up to 26 December 2006 and were granted at nil cash consideration.

The 6,300,000 share options with exercise price of HK\$1.37 granted to Mr. Brad Huang under the Option Scheme were cancelled on 10 July 2001, subsequent to the balance sheet date.

Save as disclosed above, at no time during the year was the Company, its holding company or any of its subsidiaries a party to any arrangement to enable the Company's directors, their respective spouse 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' INTERESTS IN CONTRACTS

No director had a beneficial interest in any contract of significance to the business of the Company to which the Company, its holding company or any of its subsidiaries was a party during the year.

SUBSTANTIAL SHAREHOLDERS

At 31 March 2001, the following interests of 10% or more of the issued share capital of the Company were recorded in the register of interests that is required to be kept by the Company, pursuant to Section 16(1) of the SDI Ordinance:

| Name | Number of ordinary shares | Percentage of holding |
|--------------------------|------------------------------|--------------------------|
| Harmony Link Corporation | 104,358,000 | 20.45% |
| Sega.com, Inc. | 176,000,000 | 34.49% |

Save as disclosed above, no person, other than the directors of the Company whose interests are set out above, had registered an interest in the issued share capital of the Company that was required to be recorded under Section 16(1) of the SDI Ordinance.

Subsequent to the balance sheet date, as part of the terms of a conditional agreement entered into between Sega.com, Inc. ("Sega US") and the Company on 6 February 2001 (the "Disposal and Share Repurchase Agreement"), 176,000,000 ordinary shares of the Company were transferred to the Company from Sega US and all of which were cancelled. As a result, the percentage of holding of interests in the issued share capital of the Company by Harmony Link Corporation was increased to 31.22%.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES

Subsequent to the balance sheet date, as part of the terms of the Disposal and Share Repurchase Agreement, 176,000,000 ordinary shares of the Company were transferred to the Company at a consideration of approximately HK\$0.79 per share from Sega US. Further details of the transaction are set out in note 3 to the financial statements and also in the circular to the shareholders of the Company dated 3 March 2001.

Except as disclosed above, neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year.

AUDIT COMMITTEE

In compliance with the revised Code of Best Practice, as set out in Appendix 14 of the Listing Rules of The Stock Exchange of Hong Kong Limited ("Listing Rules"), an audit committee of the Company was established on 5 July 1999 with reference to "A Guide for the Formation of an Audit Committee" issued by the Hong Kong Society of Accountants in December 1997. The Committee comprises two independent non-executive directors, namely Dr. Lam Chun Kong and Mr. Wang Chu Hong, James. The principal duties of the audit committee include the review and supervision of the Group's financial reporting process and internal controls.

COMPLIANCE WITH THE CODE OF BEST PRACTICE

In the opinion of the directors, the Company 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, except that the independent non-executive directors were not appointed for specific terms.

CONNECTED TRANSACTIONS

Details of the significant related party transactions of the Group, which also constitute connected transactions under the Listing Rules, are set out in note 3 to the financial statements.

POST BALANCE SHEET EVENTS

Details of significant post balance sheet events of the Group are set out in note 30 to the financial statements.

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

Lui Chi
Chairman

Hong Kong
26 July 2001