

The directors present their report together with the audited accounts for the year ended 31 March 2001.

Principal activities and geographical analysis of operations

The principal activity of the Company is investment holding. The activities of the subsidiaries are set out in note 12 to the accounts.

The analysis of the Group's turnover and contribution to operating loss before finance costs and share of loss of jointly controlled entities by principal activity and market is set out in note 2 to the accounts.

Results and dividends

The results for the year are set out in the consolidated profit and loss account on page 24.

Dividends on convertible cumulative non-voting preference shares ("preference shares") of HK\$1.00 and HK\$0.10 each accrued at the rate of 5% per annum or 15% per annum as appropriate for the year ended 31 March 2001, amounted to HK\$1,018,000 (2000: HK\$2,112,000) and HK\$1,270,000 (2000 : HK\$1,013,000) respectively. Such dividends will be paid subject to the approval of the Board of Directors and fulfillment of Section 54 of the Companies Act 1981 of Bermuda (as amended) (the "Act"). During the year, no dividends were paid on preference shares.

No interim dividend was declared in respect of the ordinary shares of the Company during the year. The directors do not recommend the payment of a final dividend in respect of the ordinary shares for the year ended 31 March 2001.

Reserves

Movements in the reserves of the Group and the Company during the year are set out in note 21 to the accounts.

Distributable reserves

At 31 March 2001, the Company has contributed surplus of HK\$51,111,000 (2000: HK\$51,111,000) and accumulated losses of HK\$319,799,000 (2000: HK\$18,648,000). Under the Act, a company may not declare or pay a dividend, or make a distribution out of contributed surplus, if there are reasonable grounds for believing that (i) the Company is, or would after the payment be, unable to pay its liabilities as they become due; (ii) the realisable value of the Company's assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium accounts.

Fixed assets

Details of the movements in fixed assets of the Group are set out in note 11 to the accounts.

Share capital and share options

Details of the movements in share capital and share options are set out in note 20 to the accounts.

Pre-emptive rights

There are no provisions for pre-emptive rights under the Company's Bye-laws or the laws in 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

During the year, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities.

Five year financial summary

A summary of the consolidated results and consolidated balance sheet of the Group for the five years ended 31 March 2001 is set out on page 56.

Directors

The directors during the year and up to the date of this report were:

Executive directors

Mr. Hon Tung Keung*	(appointed on 19 April 2001)
<i>Chairman and Chief Executive Officer</i>	
Mr. Xu Zhi Feng	(appointed on 19 April 2001)
Mr. Sean Liu	(appointed on 19 April 2001)
Mr. Chen Jun Wei	(appointed on 19 April 2001)
Mr. Chen Jun	(appointed on 19 April 2001)
Ms. Hao Min	(appointed on 19 April 2001)
Dr. Lo Wing Yan, William	(resigned on 19 April 2001)
Mr. Ko Chun Shun, Johnson	(resigned on 29 May 2001)
Mr. Li Bing Chi, Esmond	(resigned on 19 April 2001)
Ms. Chan Pui Chi, Belinda	(resigned on 7 March 2001)
Ms. Lee Hoi Yee, Janice	(resigned on 19 April 2001)
Mr. Lai Kwok Hang, Kelvin	(resigned on 19 April 2001)

Directors *(continued)*

Non-executive director

Ms. Song Hong Fang (appointed on 19 April 2001)

Independent non-executive directors

Mr. Fang Fang (resigned on 19 August 2000)

Mr. Ng Chi Man, Michael (appointed on 11 September 2000 and resigned on 18 January 2001)

Ms. Lau Sio Kuan, Vivian (resigned on 19 April 2001)

Mr. Ha Shu Tong, Albert (appointed on 7 March 2001)

Ms. Choy Hok Man, Constance (appointed on 15 May 2001)

* Mr. Hon Tung Keung was appointed as the Chairman and Chief Executive Officer on 21 May 2001.

In accordance with Bye-law 87(2) of the Company's Bye-laws, Mr. Hon Tung Keung by virtue of being the Chairman of the Company, is not subject to retirement at any Annual General Meeting of the Company.

In accordance with Bye-law 86(2) of the Company's Bye-laws, Mr. Xu Zhi Feng, Mr. Sean Liu, Mr. Chen Jun Wei, Mr. Chen Jun, Ms. Hao Min, Ms. Song Hong Fang, Mr. Ha Shu Tong, Albert and Ms. Choy Hok Man, Constance retire at the forthcoming Annual General Meeting and, being eligible, offer themselves for re-election.

Directors' service contracts

None of the directors who are proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable within one year without payment of compensation, other than statutory compensation.

Biographical details of directors and senior management

Brief biographical details of the directors and senior management are set out on page 8.

Directors' interests in contracts

No contracts of significance in relation to the Company's business to which the Company or any of its subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

Directors' interests in equity and debt securities

At 31 March 2001, the interests of the directors and chief executive in the shares and options 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 under Section 29 of the SDI Ordinance or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited pursuant to the Model Code for Securities Transactions by Directors of Listed Companies were as follows:

(a) Ordinary shares

Name of director	Number of ordinary shares of HK\$0.01 each			Total
	Personal interests	Family interests	Corporate interests	
Dr. Lo Wing Yan, William	2,242,000	130,000	215,000,000 <i>(note 1)</i>	217,372,000
Mr. Ko Chun Shun, Johnson	—	—	127,289,300 <i>(note 2)</i>	127,289,300
Mr. Lai Kwok Hang, Kelvin	150,000	—	—	150,000

(b) Convertible cumulative non-voting preference shares

Name of director	Number of preference shares of HK\$0.10 each			Total
	Personal interests	Family interests	Corporate interests	
Dr. Lo Wing Yan, William	—	—	118,333,333 <i>(note 1)</i>	118,333,333

Name of director	Number of preference shares of HK\$1.00 each			Total
	Personal interests	Family interests	Corporate interests	
Mr. Ko Chun Shun, Johnson	—	—	24,137,700 <i>(note 2)</i>	24,137,700

Notes:

- 1 These interests are held by Supernova Group Limited which is beneficially and wholly-owned by Dr. Lo Wing Yan, William.
- 2 These interests are held by Super China Development Limited, a wholly-owned subsidiary of Universal Appliances Limited ("UAL") whose shares are listed on The Stock Exchange of Hong Kong Limited. At 31 March 2001, Mr. Ko Chun Shun, Johnson has in total approximately 36% direct and indirect interests in UAL through his interest in Kwan Wing Holdings Limited.

Directors' interests in equity and debt securities *(continued)*

(c) Shares options

At 31 March 2001, the outstanding share options granted to certain directors under the share option scheme adopted by the shareholders of the Company at the special general meeting held on 2 January 1992 were as follows:

Name	Note	Date of grant	Exercise price per share HK\$	Balance outstanding as at 1st April 2000	Number of options granted during the year	Number of options exercised during the year	Balance outstanding as at 31st March 2001
Dr. Lo Wing Yan, William	(2)	5 January 2000	2.65	5,000,000	—	—	5,000,000
	(3)	20 March 2000	1.32	3,000,000	—	—	3,000,000
	(3)	7 August 2000	0.55	—	2,500,000	—	2,500,000
Mr. Ko Chun Shun, Johnson	(1)	2 October 1999	0.65	2,500,000	—	—	2,500,000
Mr. Li Bing Chi, Esmond	(2)	5 January 2000	2.65	1,500,000	—	—	1,500,000
	(3)	20 March 2000	1.32	750,000	—	—	750,000
	(3)	7 August 2000	0.55	—	1,500,000	—	1,500,000
	(3)	31 October 2000	0.145	—	1,800,000	—	1,800,000
Ms. Chan Pui Chi, Belinda	(2)	5 January 2000	2.65	2,000,000	—	—	2,000,000
	(3)	20 March 2000	1.32	1,000,000	—	—	1,000,000
	(3)	7 August 2000	0.55	—	1,500,000	—	1,500,000
	(3)	31 October 2000	0.145	—	1,800,000	(1,200,000)	600,000
Ms. Lee Hoi Yee, Janice	(2)	5 January 2000	2.65	2,000,000	—	—	2,000,000
	(3)	20 March 2000	1.32	1,000,000	—	—	1,000,000
	(3)	7 August 2000	0.55	—	1,500,000	—	1,500,000
	(3)	31 October 2000	0.145	—	1,800,000	—	1,800,000
Mr. Lai Kwok Hang, Kelvin	(2)	5 January 2000	2.65	1,500,000	—	—	1,500,000
	(3)	20 March 2000	1.32	750,000	—	—	750,000
	(3)	7 August 2000	0.55	—	1,500,000	—	1,500,000
	(3)	31 October 2000	0.145	—	1,800,000	(1,200,000)	600,000

Directors' interests in equity and debt securities *(continued)*

(c) Shares options *(continued)*

Notes :

- 1 The share options are exercisable from the date of grant to 31 December 2001.
- 2 The share options are exercisable from the first anniversary of the date of grant to the business day preceding the third anniversary of the date of grant, of which a maximum of 33¹/₃% and 33¹/₃% thereof are exercisable from the first and second anniversaries of the date of grant respectively. The remaining 33¹/₃% are exercisable within three months before the third anniversary of the date of grant.
- 3 The share options are exercisable from the date of grant to the business day preceding the third anniversary of the date of grant.
- 4 In cases of resignation or termination of employment, the outstanding share options can be exercised within six months from the resignation or termination date provided that the options are exercisable in accordance with the above terms.

Save as mentioned above, none of the directors (including their spouse and children under 18 years of age) had been granted, or exercised, any rights to subscribe for ordinary shares in the Company during the year.

At no time during the year was the Company or any of its subsidiaries a party to any arrangement to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate with the exception of the share option scheme as mentioned above.

Substantial shareholders

At 31 March 2001, the following interests in shares in the Company were recorded in the register maintained by the Company under Section 16 of the SDI Ordinance:

Name of shareholders	Number of ordinary shares of HK\$0.01 each held	
Supernova Group Limited	215,000,000	(Notes 1 and 3)
Super China Development Limited	127,289,300	(Notes 2 and 5)
Universal Appliances Limited	127,289,300	(Notes 2 and 5)
Kwan Wing Holdings Limited	127,289,300	(Notes 2 and 5)

Substantial shareholders *(continued)*

Name of shareholders	Number of preference shares of HK\$0.10 each	
Supernova Group Limited	118,333,333	(Notes 1 and 4)

Name of shareholders	Number of preference shares of HK\$1.00 each	
Super China Development Limited	24,137,700	(Notes 2 and 6)
Universal Appliances Limited	24,137,700	(Notes 2 and 6)
Kwan Wing Holdings Limited	24,137,700	(Notes 2 and 6)

Notes:

- 1 These interests are held by Supernova Group Limited which is beneficially and wholly-owned by Dr. Lo Wing Yan, William.
- 2 These interests are held by Super China Development Limited, a wholly-owned subsidiary of Universal Appliances Limited ("UAL") whose shares are listed on The Stock Exchange of Hong Kong Limited. At 31 March 2001, Mr. Ko Chun Shun, Johnson has in total approximately 36% direct and indirect interests in UAL through his interest in Kwan Wing Holdings Limited.
- 3 These 215,000,000 ordinary shares of HK\$0.01 each are the same parcel of ordinary shares referred to in "corporate interests in ordinary shares" of Dr. Lo Wing Yan, William under the heading of "Directors' interests in equity and debt securities" above.
- 4 These 118,333,333 preference shares of HK\$0.10 each are the same parcel of preference shares referred to in "corporate interests in convertible cumulative non-voting preference shares" of Dr. Lo Wing Yan, William under the heading of "Directors' interests in equity and debt securities" above.
- 5 These 127,289,300 ordinary shares of HK\$0.01 each are the same parcel of ordinary shares referred to in "corporate interests in ordinary shares" of Mr. Ko Chun Shun, Johnson under the heading of "Directors' interests in equity and debt securities" above.
- 6 These 24,137,700 preference shares of HK\$1.00 each are the same parcel of preference shares referred to in "corporate interests in convertible cumulative non-voting preference shares" of Mr. Ko Chun Shun, Johnson under the heading of "Directors' interests in equity and debt securities" above.

Save for the aforesaid shareholders and the directors as disclosed in "Directors' interests in equity and debt securities" above, as at 31 March 2001, no other person was recorded in the register kept pursuant to Section 16 of the SDI Ordinance as having an interest in 10% or more of the issued share capital of the Company.

Connected transactions

Significant related party transactions entered into by the Group during the year ended 31 March 2001, which do not constitute connected transactions under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), are disclosed in note 24 to the accounts.

Management contracts

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

Major customers and suppliers

During the year, the Group purchased less than 30% of its goods from its five largest suppliers. The percentages of sales for the year attributable to the Group's major customers are as follows:

Sales	
— the largest customer	21%
— five largest customers combined	64%

None of the directors, their associates or any shareholder (which to the knowledge of the directors owns more than 5% of the company's share capital) had an interest in the major suppliers or customers noted above.

Retirement scheme

Details of the retirement scheme of the Group are set out in note 9 to the accounts.

Audit Committee

To comply with the Code of Best Practice as set out in Appendix 14 of the Listing Rules, the Company has established an Audit Committee.

The members of the Audit Committee during the year and at the date of this report were:

Independent non-executive directors

Mr. Ha Shu Tong, Albert	(appointed on 7 March 2001)
Ms. Choy Hok Man, Constance	(appointed on 15 May 2001)
Mr. Ng Chi Man, Michael	(appointed on 11 September 2000 and resigned on 18 January 2001)
Mr. Fang Fang	(resigned on 19 August 2000)
Ms. Lau Sio Kuan, Vivian	(resigned on 19 April 2001)

The principal activities 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 has complied with the Code of Best Practice as set out in Appendix 14 of the Listing Rules save that non-executive directors have not been appointed for a specific term but are subject to retirement by rotation at Annual General Meeting in accordance with the Bye-laws of the Company.

Auditors

The accounts have been audited by PricewaterhouseCoopers who retire and do not seek for re-appointment. PricewaterhouseCoopers has been appointed as auditors of the Company on 20 April 2000, to fill the vacancy as a result of the resignation of Ernst & Young.

The accounts of the Company and the Group for the two years ended 31 March 2001 were audited by PricewaterhouseCoopers while the accounts for the year ended 31 March 1999 were audited by Ernst & Young.

On behalf of the Board

Hon Tung Keung

Chairman

Hong Kong, 26 July 2001