

Report of the Directors



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

PRINCIPAL ACTIVITIES

During the year, there were no changes in the principal activities of the Group and the Company.

The principal activity of the Company is investment holding.

Details of the principal activities of the Company's principal subsidiaries are set out in note 13 to the financial statements. Details of the Group's continuing and discontinuing operations, before and after the balance sheet date, are set out in note 7 to the financial statements.

SEGMENTED INFORMATION

An analysis of the Group's turnover and contribution to profit/(loss) from operating activities by principal activity and geographical area of operations for each of the two years ended 31 March 2001 is as follows:

| | 2001 | | 2000 | |
|---|----------------|---|----------|---|
| | Turnover | Contribution to profit/(loss) from operating activities | Turnover | Contribution to profit/(loss) from operating activities |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| By activity: | | | | |
| Marketing and distribution | | | | |
| – electronic household appliances | 6,795 | (1,645) | 18,076 | (1,800) |
| Production, marketing and distribution | | | | |
| – paper and related personal products | 2,856 | (2,214) | 1,935 | (7,355) |
| – food and beverage products | 42,744 | (15,791) | 46,154 | (18,154) |
| Sourcing services and trading | | | | |
| – apparel | 149,837 | 7,592 | 179,016 | 12,216 |
| Provision of logistics and other services | 2,568 | (10,036) | 2,612 | (10,375) |
| Property investment | 7,730 | 5,738 | 7,489 | 7,325 |
| | 212,530 | (16,356) | 255,282 | (18,143) |
| Gain on disposal/dilution of interests in subsidiaries* | – | 1,154 | – | 40,361 |
| Deficits on revaluation of investment properties*** | – | (2,500) | – | – |
| Provision for diminutions in values of fixed assets*** | – | (48,520) | – | – |
| Provision for diminutions in values of interests in a jointly-controlled entity | – | (9,549) | – | – |
| Loss on dilution of interests in an associate** | – | (1,539) | – | – |
| | 212,530 | (77,310) | 255,282 | 22,218 |

SEGMENTED INFORMATION (Continued)

| | 2001 | | 2000 | |
|--|----------------------|--|----------------------|--|
| | Turnover HK\$'000 | Contribution to profit/(loss) from operating activities HK\$'000 | Turnover HK\$'000 | Contribution to profit/(loss) from operating activities HK\$'000 |
| By geographical area: | | | | |
| Hong Kong and Macau | 19,282 | (5,729) | 19,415 | (6,272) |
| Other part of the People's Republic of China (the "PRC") | 21,542 | (11,898) | 38,457 | (17,217) |
| Europe | 21,869 | (6,321) | 18,394 | (6,870) |
| United States of America | 149,837 | 7,592 | 179,016 | 12,216 |
| | 212,530 | (16,356) | 255,282 | (18,143) |
| Gain on disposal/dilution of interests in subsidiaries* | - | 1,154 | - | 40,361 |
| Deficits on revaluation of investment properties*** | - | (2,500) | - | - |
| Provision for diminutions in values of fixed assets*** | - | (48,520) | - | - |
| Provision for diminutions in values of interests in a jointly-controlled entity | - | (9,549) | - | - |
| Loss on dilution of interests in an associate** | - | (1,539) | - | - |
| | 212,530 | (77,310) | 255,282 | 22,218 |

Note:

* The subsidiaries were engaged in the production, marketing and distribution of paper and related personal products in the PRC and in the sourcing services and trading of apparel, respectively.

** The associate was engaged in the production, marketing and distribution of paper and related personal products in the PRC.

*** An analysis of the deficits on revaluation of investment properties and provision for diminution in values of fixed assets by activity and geographical location is summarised as follows:



SEGMENTED INFORMATION (Continued)

| | Deficit on revaluation of investment properties <i>HK\$'000</i> | 2001 Provision for diminution in value of fixed assets <i>HK\$'000</i> | Total <i>HK\$'000</i> |
|--|---|--|---------------------------------|
| By activity: | | | |
| Production, marketing and distribution – food and beverage products | – | (19,163) | (19,163) |
| Provision of logistics and other services | – | (29,357) | (29,357) |
| Property investment | (2,500) | – | (2,500) |
| | (2,500) | (48,520) | (51,020) |
| By geographical area: | | | |
| Hong Kong and Macau | (2,500) | (5,427) | (7,927) |
| Other part of the PRC | – | (43,093) | (43,093) |
| | (2,500) | (48,520) | (51,020) |

RESULTS AND DIVIDENDS

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 39 to 89.

On 24 March 2000, the directors proposed to distribute shares of DF China Technology Inc. ("DFCT") held by the Company on the basis of 1,000 DFCT shares for every 200,000 of the Company's shares held on 30 June 2000. The proposed distribution in specie was conditional upon shareholders' approval of the deduction of the amount of the distribution in specie from the share premium account of the Company. A resolution was passed by the shareholders during the extraordinary general meeting on 27 April 2000 approving the distribution in specie and the distribution in specie took place on 30 June 2000. The effect of this distribution in specie has been incorporated in the current year's financial statements.

Save as disclosed above, the directors do not recommend the payment of any dividend for the year.

SUMMARY FINANCIAL INFORMATION

A summary of the 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 | | | | | |
| Continuing operations | 62,693 | 76,266 | 97,968 | 201,316 | 355,598 |
| Discontinued operations | - | - | - | 22,308 | 55,745 |
| Discontinuing operations | 149,837 | 179,016 | 127,017 | 134,518 | 68,516 |
| | 212,530 | 255,282 | 224,985 | 358,142 | 479,859 |
| NET PROFIT/(LOSS) FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS | (131,521) | 2,109 | (140,984) | (16,868) | (28,328) |
| | | | | | |
| ASSETS AND LIABILITIES | As at 31 March | | | | |
| | 2001 | 2000 | 1999 | 1998 | 1997 |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Total assets | 386,017 | 678,340 | 656,947 | 808,205 | 812,218 |
| Total liabilities | (185,437) | (184,679) | (263,699) | (280,742) | (374,287) |
| Minority interests | (24,237) | (100,264) | (61,613) | (59,555) | (59,684) |
| Net assets employed | 176,343 | 393,397 | 331,635 | 467,908 | 378,247 |

FIXED ASSETS AND INVESTMENT PROPERTIES

Details of movements in the fixed assets and investment properties of the Group are set out in note 12 to the financial statements.

Report of the Directors



SUBSIDIARIES

Particulars of the Company's principal subsidiaries are set out in note 13 to the financial statements.

ASSOCIATE

Particulars of the Group's interests in its associate are set out in note 14 to the financial statements.

JOINTLY-CONTROLLED ENTITY

Particulars of the Group's interests in its jointly-controlled entity are set out in note 15 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 the 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 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.

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

Under the Companies Law (2000 Revision) of the Cayman Islands, the share premium of the Company is available for dividends or distribution in specie to shareholders subject to the provisions of the Company's memorandum and articles of association and, provided that immediately following such dividends or distributions in specie, the Company is able to pay its debts as they fall due in the ordinary course of business. Pursuant to the special resolution passed in the extraordinary general meeting on 24 December 1999, articles 138 and 140 of the articles of association of the Company, which previously only permitted the payment of dividends or the making of distributions in specie out of the profits of the Company, were amended so that the Company is now able to pay dividends or make distributions in specie out of the profits or the share premium account of the Company. As at 31 March 2001, the share premium account of HK\$273,041,000 was available for cash distribution and/or distribution in specie under certain circumstances, including the circumstance as noted above, as stipulated in the Companies Law (2000 Revision) of the Cayman Islands.

BANK LOANS, OVERDRAFTS AND OTHER BORROWINGS

Details of the bank loans, overdrafts and other borrowings of the Company and the Group are set out in note 22 to the financial statements.

No interest was capitalised by the Group during the year. In the prior year, interest amounting to HK\$4,970,000 was capitalised by the Group.

MAJOR SUPPLIERS AND CUSTOMERS

In the year under review, sales to the five largest customers accounted for 65% of the total sales for the year and sales to the largest customer included therein amounted to 24%.

Purchases from the five largest suppliers accounted for 49% of the total purchases for the year and purchases from the largest supplier included therein amounted to 22%.

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

PENSION COSTS

| | 2001 | 2000 |
|------------------------------|-----------------|----------|
| | HK\$'000 | HK\$'000 |
| Pension scheme contributions | 179 | 30 |

At 31 March 2001, there were no forfeited contributions (2000: HK\$105,000) available to reduce the Group's contributions to the pension scheme in future years. The Group's contributions for the year were reduced by HK\$84,000 (2000: HK\$148,000) in respect of forfeited contributions.

Report of the Directors



DIRECTORS

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

Executive directors:

Horace Yao Yee Cheong

Robert Fung Hing Piu

Alexander Tse Tack Huen (appointed on 28 September 2000)

Kenneth Mak Kar Shun (appointed on 30 November 2000)

Cheung Kam Wa (appointed on 3 August 2001)

Richard Lum Chor Wah (appointed on 31 December 2000 and resigned on 18 July 2001)

Warren Ma Kwok Hung (resigned on 30 November 2000)

Andy Pang Kwong Wah (resigned on 31 December 2000)

Non-executive director:

Sir Kenneth Fung Ping Fan

Independent non-executive directors:

Thomas John Kenan

Jennifer Yip Li Yuet Fong

Ian Faulconer Heathcoat Grant (deceased in December 2000)

Alex Wu Shu Chih (resigned on 28 September 2000)

Sir Kenneth Fung Ping Fan retired as the chairman of the board and an executive director and became a non-executive director of the Company on 28 September 2000. All of the non-executive directors were appointed for unspecified terms.

Dr. Robert Fung Hing Piu and Mr. Thomas John Kenan will retire in accordance with Article 99 of the Company's Articles of Association and being eligible, offer themselves for re-election as non-executive director at the forthcoming annual general meeting.

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 OR DEBENTURES

(i) In the Company

Pursuant to the Company's share option scheme approved by shareholders at the extraordinary general meeting on 3 April 1993, the Company granted options in favour of the following directors, details of options granted, exercised and cancelled during the year ended 31 March 2001 and options outstanding at that date are as follows:

| Name of director | Number of share options at 31 March 2000 | Number of share options granted during the year | Number of share options cancelled upon the termination of directorship | Number of share options exercised during the year | Number of share options outstanding at end of year | Exercise price per share | Exercise period |
|--------------------------|--|---|--|---|--|--------------------------|---|
| Horace Yao Yee Cheong | 20,000,000 | - | - | (20,000,000) | - | HK\$0.10 | 21 June 2000 to 2 April 2003 |
| | 12,000,000 | - | - | - | 12,000,000 | HK\$0.20 | 6 March 2001 to 5 March 2002 or HK\$0.18 |
| | - | 6,000,000 | - | - | 6,000,000 | HK\$0.10 | 6 March 2002 to 2 April 2003 1 December 2001 to 2 April 2003 |
| Robert Fung Hing Piu | 2,500,000 | - | - | (2,500,000) | - | HK\$0.10 | 21 June 2000 to 2 April 2003 |
| | 2,000,000 | - | - | - | 2,000,000 | HK\$0.20 | 6 March 2001 to 5 March 2002 or HK\$0.18 |
| | - | - | - | - | - | - | 6 March 2002 to 2 April 2003 |
| Warren Ma Kwok Hung | 5,000,000 | - | - | (5,000,000) | - | HK\$0.10 | 21 June 2000 to 2 April 2003 |
| | 5,000,000 | - | (5,000,000) | - | - | HK\$0.20 | 6 March 2001 to 5 March 2002 or HK\$0.18 |
| | - | - | - | - | - | - | 6 March 2002 to 2 April 2003 |



DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES (Continued)

(i) In the Company (Continued)

| Name of director | Number of share options at 31 March 2000 | Number of | | Number of share options exercised during the year | Number of share options outstanding at end of year | Exercise price per share | Exercise period |
|-------------------------|--|---|--|---|--|----------------------------|--|
| | | Number of share options granted during the year | Number of share options cancelled upon the termination of directorship | | | | |
| Andy Pang Kwong Wah | 5,000,000 | - | - | (5,000,000) | - | HK\$0.10 | 21 June 2000 to 2 April 2003 |
| | 5,000,000 | - | (5,000,000) | - | - | HK\$0.20 or HK\$0.18 | 6 March 2001 to 5 March 2002 or 6 March 2002 to 2 April 2003 |
| Alexander Tse Tack Huen | 500,000 | - | - | (500,000) | - | HK\$0.10 | 21 June 2000 to 2 April 2003 |
| | 350,000 | - | - | - | 350,000 | HK\$0.20 or HK\$0.18 | 6 March 2001 to 5 March 2002 or 6 March 2002 to 2 April 2003 |
| | - | 500,000 | - | - | 500,000 | HK\$0.10 | 1 December 2001 to 2 April 2003 |
| Richard Lum Chor Wah | - | 15,000,000 | - | - | 15,000,000 | HK\$0.10 | 1 December 2001 to 2 April 2003 |
| Kenneth Mak Kar Shun | - | 5,000,000 | - | - | 5,000,000 | HK\$0.10 | 1 December 2001 to 2 April 2003 |
| | 57,350,000 | 26,500,000 | (10,000,000) | (33,000,000) | 40,850,000 | | |

The exercise price is adjustable in accordance with the provisions of the share option scheme, as detailed in note 24 to the financial statements.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES (Continued)

(ii) In an associate

Pursuant to the share option scheme of DFCT, which was approved in a directors' resolution on 20 November 1996, DFCT, an associate of the Company, granted options in favour of directors to subscribe for common stock of DFCT.

During the year, on 20 June 2000, all unexercised share options granted to directors of the Company in the period between January 2000 to May 2000, which entitle option-holders to subscribe for 425,000 DFCT's shares, were redeemed and replaced by options to subscribe for the same number of shares at an exercise price of US\$1.75 per share. On 1 December 2000, 160,000 share options at an exercise price of US\$1.5781 per share were granted to five directors of the Company. On 2 March 2001, all unexercised share options granted to directors of the Company, which entitle option-holders to subscribe for 587,500 DFCT's shares, were redeemed and replaced by options to subscribe for the same number of shares at an exercise price of US\$0.82 per share. Details of the outstanding options as at 31 March 2001 are as follows:

| Name of director | Number of share options at 31 March 2000 | Number of share options granted during the year | Number of share options cancelled upon the termination of directorship | Number of share options exercised during the year | Number of share options outstanding at end of year | Exercise price per share | Exercise period |
|-----------------------|--|---|--|---|--|--------------------------|------------------------------------|
| Horace Yao Yee Cheong | 105,000 | - | - | - | 105,000 | US\$0.82 | 31 October 1999 to 23 April 2001 |
| | 165,000 | - | - | - | 165,000 | US\$0.82 | 3 January 2001 to 2 April 2003 |
| | 75,000 | - | - | - | 75,000 | US\$0.82 | 4 March 2001 to 2 April 2003 |
| | - | 50,000 | - | - | 50,000 | US\$0.82 | 1 December 2001 to 2 December 2003 |
| Robert Fung Hing Piu | 7,500 | - | - | - | 7,500 | US\$0.82 | 31 October 1999 to 23 April 2001 |
| | 10,000 | - | - | - | 10,000 | US\$0.82 | 3 January 2001 to 2 April 2003 |
| | 10,000 | - | - | - | 10,000 | US\$0.82 | 4 March 2001 to 2 April 2003 |



DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES (Continued)

(ii) In an associate (Continued)

| Name of director | Number of share options at 31 March 2000 | Number of share options granted during the year | Number of share options cancelled upon the termination of directorship | Number of share options exercised during the year | Number of share options outstanding at end of year | Exercise price per share | Exercise period |
|-------------------------|--|---|--|---|--|--------------------------|------------------------------------|
| Warren Ma Kwok Hung | 11,300 | - | (11,300) | - | - | US\$0.82 | 31 October 1999 to 23 April 2001 |
| | 60,000 | - | (60,000) | - | - | US\$0.82 | 3 January 2001 to 2 April 2003 |
| | 15,000 | - | (15,000) | - | - | US\$0.82 | 4 March 2001 to 2 April 2003 |
| Andy Pang Kwong Wah | 60,000 | - | (60,000) | - | - | US\$0.82 | 3 January 2001 to 2 April 2003 |
| | 15,000 | - | (15,000) | - | - | US\$0.82 | 4 March 2001 to 2 April 2003 |
| Alexander Tse Tack Huen | 15,000 | - | - | - | 15,000 | US\$0.82 | 31 October 1999 to 23 April 2001 |
| | - | 10,000 | - | - | 10,000 | US\$0.82 | 1 December 2001 to 2 December 2003 |
| Thomas Kenan | 25,000 | - | - | - | 25,000 | US\$0.82 | 31 October 1999 to 23 April 2001 |
| | 10,000 | - | - | - | 10,000 | US\$0.82 | 3 January 2001 to 2 April 2003 |
| | 5,000 | - | - | - | 5,000 | US\$0.82 | 4 March 2001 to 2 April 2003 |
| | - | 10,000 | - | - | 10,000 | US\$0.82 | 1 December 2001 to 2 December 2003 |
| Richard Lum Chor Wah | - | 40,000 | - | - | 40,000 | US\$0.82 | 1 December 2001 to 2 April 2003 |
| Kenneth Mak Kar Shun | - | 50,000 | - | - | 50,000 | US\$0.82 | 1 December 2001 to 2 April 2003 |
| | 588,800 | 160,000 | (161,300) | - | 587,500 | | |

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES (Continued)

(ii) In an associate (Continued)

Upon the resignation as directors of DFCT, 86,300 and 75,000 share options previously granted to Warren Ma Kwok Hung and Andy Pang Kwong Wah, respectively, were cancelled during the year.

Apart from the aforementioned, at no time during the year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any director or their respective spouse or children under 18 years of age, or were any such rights exercised by them; or was the Company, its holding company, any of its subsidiaries or fellow subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

Further details of the Company's share option scheme are set out in note 24 to the financial statements.

DIRECTORS' INTERESTS IN SHARES

As at 31 March 2001, the interests of the directors or their associates in the share capital of the Company and DFCT, as recorded in the register maintained by the Company pursuant to Section 29 of the Securities (Disclosure of Interests) Ordinance ("SDI Ordinance"), were as follows:

(i) In the Company

| Name of Director | Nature of Interest | Number of shares |
|------------------------------|--------------------|------------------|
| Horace Yao Yee Cheong (Note) | Other | 596,714,838 |
| | Personal | 20,545,031 |
| Alexander Tse Tack Huen | Personal | 500,000 |

Note: Certain family members of Mr. Horace Yao Yee Cheong are the objects of a discretionary trust, the trustees of which own the entire issued share capital of Makdavy Holdings Limited, which owns the entire issued share capital of Grandom Inc.. Grandom Inc. is deemed to be interested in more than one-third of the voting shares of Dranfield Holdings (International) Limited and Grandom Overseas Limited. Grandom Inc. directly held 95,403,661 shares and via Dransfield Holdings (International) Limited and Grandom Overseas Limited indirectly held 439,539,920 and 61,771,257 shares, respectively, in the issued share capital of the Company.



DIRECTORS' INTERESTS IN SHARES (Continued)

(ii) In DFCT

| Name of Director | Nature of interest | Number of shares |
|----------------------|--------------------|------------------|
| Thomas John Kenan | Family | 3,303 |
| Robert Fung Hing Piu | Personal | 22,500 |

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

DIRECTORS' INTERESTS IN CONTRACTS

Except as detailed in note 29 to the financial statements, no director had a significant beneficial interest in any contract of significance to the business of the Company to which the 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 share capital of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 16(1) of the SDI Ordinance:

| Name | Notes | Number of shares | % |
|---|-------|------------------|-------|
| Dransfield Holdings (International) Limited | | 439,539,920 | 24.08 |
| Grandom Asia Trading Limited | 1 | 678,399,865 | 37.17 |
| Grandom Inc. | 2 | 534,943,581 | 29.31 |
| Makdavy Holdings Limited | 3 | 534,943,581 | 29.31 |

Notes:

- Grandom Asia Trading Limited is interested in more than one-third of the voting shares of Dransfield Holdings (International) Limited and Grandom Overseas Limited. Accordingly, the interest of Grandom Asia Trading Limited stated above includes the interests of Dransfield Holdings (International) Limited and Grandom Overseas Limited. Grandom Asia Trading Limited directly held 238,859,945 shares and via Dransfield Holdings (International) Limited indirectly held 439,539,920 shares respectively in the issued share capital of the Company.

SUBSTANTIAL SHAREHOLDERS (Continued)

2. Grandom Inc. is interested in more than one-third of the voting shares of Dranfield Holdings (International) Limited and Grandom Overseas Limited. Accordingly, the interest of Grandom Inc. stated above includes the interests of Dransfield Holdings (International) Limited and Grandom Overseas Limited. Grandom Inc., directly held 95,403,661 shares and via Dransfield Holdings (International) Limited indirectly held 439,539,920 shares respectively in the issued share capital of the Company.
3. Makdavy Holdings Limited owns the entire issued share capital of Grandom Inc.. Accordingly, the interest of Makdavy Holdings Limited stated above includes the interests of Grandom Inc., Dransfield Holdings (International) Limited and Grandom Overseas Limited.

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 share capital of the Company that was required to be recorded under Section 16(1) of the SDI Ordinance.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES

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 are set out in note 30 to the financial statements.

EMPLOYEES

As at 31 March 2001, the Group employed 27 staff in Hong Kong, 22 in Europe and approximately 380 staff in other areas of the People's Republic of China. Remuneration is reviewed on an annual basis. In addition to basic salary payments, other benefits for the Hong Kong staff include a medical scheme and a provident fund scheme.

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 Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), throughout the accounting period covered by the annual report, except that the independent non-executive directors of the Company are not appointed for specific terms. 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 Company's articles of association.



PRACTICE NOTE 19 OF THE LISTING RULES

In accordance with the requirements under paragraph 3.9 of the Practice Note 19 of the Listing Rules, the directors of the Company reported that up to the date of this report, the Group failed to meet with the repayment schedules of certain loans granted by two banks amounting to approximately HK\$118 million in aggregate. As the repayment schedules as stipulated in these banking facility letters have not been complied with, these loans are due for immediate repayment in full on demand. Accordingly, HK\$118 million has been classified under current liabilities in the consolidated balance sheet as at 31 March 2001.

In August 2001, certain of the Group's mortgaged properties located in Hong Kong with an aggregate revalued amount of HK\$5.2 million as at 31 March 2001 were foreclosed by one of the two banks referred to in the preceding paragraph. The total amount owed by the Group to this bank amounted to HK\$6.4 million as at 31 March 2001. Accordingly, the shortfall of HK\$1.2 million has been recorded as a liability of the Company, in the capacity of the guarantor of the mortgage facility, at the balance sheet date.

The directors are negotiating with these two banks to restructure the bank loans.

AUDIT COMMITTEE

The Company has established an audit committee (the "Audit Committee") in compliance with the requirement of the Code of Best Practice, as set out in Appendix 14 of the Listing Rules. The present members of the Audit Committee are Jennifer Yip Li Yuet Fong and Thomas John Kenan.

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

Horace Yao Yee Cheong

Chairman

Hong Kong

5 September 2001