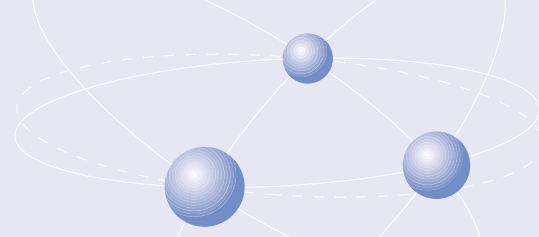


# REPORT OF THE DIRECTORS

(Amounts expressed in Hong Kong dollars, unless otherwise stated)



The directors present their annual report together with the audited financial statements of Shun Cheong Holdings Limited (the “Company”) and its subsidiaries (the “Group”) for the year ended 31st March, 2001.

## PRINCIPAL ACTIVITIES

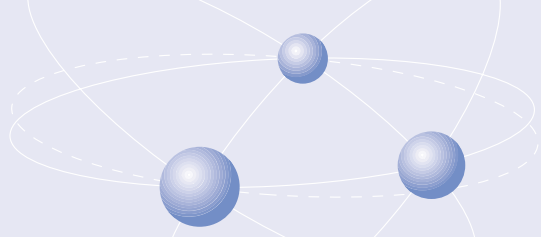
The Company is an investment holding company. Its subsidiaries are principally engaged in the provision of a multi-discipline of building services in electrical engineering, water pumping and fire services, air conditioning installation, plumbing and drainage, environmental engineering, extra low voltage system engineering and project management, the trading of electrical and mechanical engineering materials and equipment, the provision of broadband connectivity services and the provision of design, installation and maintenance services of karaoke-on-demand systems.

The turnover and contribution to the Group’s results of each of the principal activities, all of which were substantially carried out in Hong Kong, are as follows:

	Turnover		Contribution to Profit from operations	
	Year ended 31st March,			
	2001	2000	2001	2000
	\$'000	\$'000	\$'000	\$'000
Building services contracting business	763,088	666,700	99,287	83,159
Project management income	4,248	6,004	4,248	6,004
Trading of electrical and mechanical engineering materials and equipment	23,067	33,267	7,329	7,132
Provision of broadband connectivity services	11,335	—	(4,447)	—
Provision of design, installation and maintenance services of karaoke on demand systems	31,044	—	13,480	—
	<u>832,782</u>	<u>705,971</u>	119,897	96,295
Other revenues			5,845	8,912
General and administrative expenses			(93,320)	(64,093)
Provision for obsolete stocks			(2,922)	—
Provision for impairment in value of fixed assets			(7,972)	—
Operating profit			<u>21,528</u>	<u>41,114</u>

# REPORT OF THE DIRECTORS *(Continued)*

*(Amounts expressed in Hong Kong dollars, unless otherwise stated)*



## RESULTS AND APPROPRIATIONS

Details of the Group's results for the year ended 31st March, 2001 are set out in the consolidated income statement on page 26.

The directors do not propose any final dividend in respect of the year ended 31st March, 2001.

## MANAGEMENT DISCUSSION AND ANALYSIS

### **Liquidity and Financial Resources**

The Group's cash and bank balances are mostly in Hong Kong dollars and United States dollars. The cash and bank deposit balances were approximately \$78,106,000 as at 31st March, 2001, representing a decrease of approximately 42% as compared to that of previous year. The decrease was mainly due to the funding of the acquisition of subsidiaries and an associated company made during the year. The total bank borrowings were approximately \$29,221,000 as at 31st March, 2001, an increase of approximately \$28,198,000 as compared to that of last year. The total bank borrowings substantially comprised bank overdraft and bank trust receipt loans at various interest rates. As at 31st March, 2001, the ratio of the total bank borrowings to shareholders' equity was approximately 24%. As the Group's transactions are mostly settled by Hong Kong dollars, the use of financial instruments for hedging purposes is not considered necessary.

### **Placement**

On 14th June, 2001, the Company announced to place 75,000,000 new shares of the Company at a price of \$0.20 per share to more than six professional and private investors. The net proceeds from the placing, after deducting relevant expenses, would amount to approximately \$14.5 million and would be used by the Group for general working capital purposes.

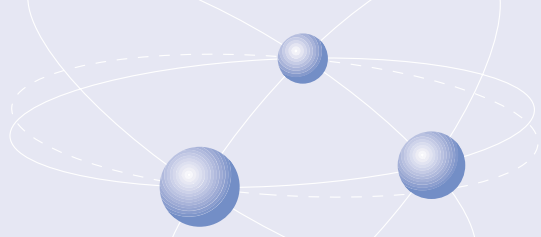
On 13th July, 2001, the Company announced that the placing of 75,000,000 new shares of the Company lapsed as the Company could not fulfill the conditions of completion of the placing by 13th July, 2001. The Group will continue to explore any other means to raise funding for general working capital purposes. The Group also considers that there is no immediate negative impact to the Group upon the lapse of the placing.

### **Treasury and Funding Policy**

The Group's overall treasury and funding policy is that of risk management and control. The assets and liabilities of the Group are mainly denominated either in Hong Kong or United States dollars. Accordingly, the Group has minimal exposure to foreign exchange fluctuation. However, the Group will closely monitor the overall currency and interest rate exposures and, when considered appropriate, the Group will hedge against currency exposure as well as interest rate exposure.

# **REPORT OF THE DIRECTORS** *(Continued)*

*(Amounts expressed in Hong Kong dollars, unless otherwise stated)*



## **MANAGEMENT DISCUSSION AND ANALYSIS** *(Continued)*

### **Employees and Remuneration Policy**

The Group employed approximately 300 employees as at 31st March, 2001.

Remuneration is determined by reference to market terms and the qualifications and the experience of the staff concerned. Salaries are reviewed annually depending on individual merits. The Group also provides other benefits including retirement benefits scheme, medical insurance and educational subsidy to all eligible staff. Additionally, the Group has a share option scheme for its executives and employees. During the year ended 31st March, 2001, no such options were granted by the Company under the share option scheme.

### **Business and Operation Review**

A detailed review of the Group's business operations and outlook is included in the Chairman's Statement.

### **SHARE CAPITAL**

Details of the authorised and issued share capital of the Company during the year are set out in Notes 23a and 23b, respectively, to the accompanying financial statements.

### **SHARE OPTIONS**

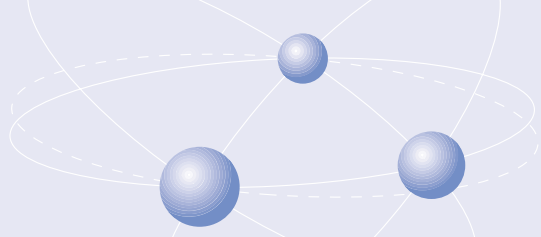
Details of the share option scheme of the Company are set out in Note 23c to the accompanying financial statements.

### **RESERVES**

Movements in reserves of the Group and the Company during the year are set out in Note 24 to the accompanying financial statements.

# REPORT OF THE DIRECTORS (Continued)

*(Amounts expressed in Hong Kong dollars, unless otherwise stated)*



## PURCHASE, SALE OR REDEMPTION OF SHARES

During the year ended 31st March, 2001 and up to the date of this report, the Company made the following repurchases of its own shares on the Stock Exchange of Hong Kong Limited ("SEHK"):

Month/Year	Number of shares repurchased	Price per share		Aggregate consideration
		Highest \$	Lowest \$	
March 2001	350,000	0.2500	0.2480	87,100
April 2001	450,000	0.2600	0.2300	108,328

These shares were cancelled upon repurchase and accordingly the issued share capital of the Company was reduced by the nominal value of these shares. The difference between the nominal value and the price paid was charged against share premium account.

Save as disclosed above, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's shares during the year ended 31st March, 2001.

## PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's Bye-Laws or the laws in Bermuda.

## FIXED ASSETS

Movements of the Group's fixed assets during the year are set out in Note 11 to the accompanying financial statements.

## SUBSIDIARIES AND ASSOCIATED COMPANIES

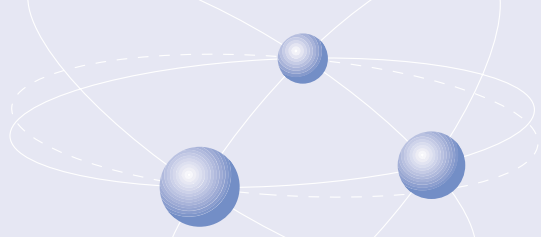
Particulars of the Company's subsidiaries and associated companies as at 31st March, 2001 are set out in Notes 12 and 13, respectively, to the accompanying financial statements.

## BANK OVERDRAFTS AND LOANS

Particulars of the Group's bank overdrafts and loans as at 31st March, 2001 are set out in Note 25 to the accompanying financial statements.

# REPORT OF THE DIRECTORS *(Continued)*

*(Amounts expressed in Hong Kong dollars, unless otherwise stated)*



## DIRECTORS

The directors who held office during the year and up to the date of this report are:

Mr. WONG Sai Wing, James ( <i>Chairman</i> )	
Mr. KWOK Shun On	(Ceased to be a director on 16th July, 2001)
Mr. AU Shiu Wai, Frank	
Mr. CHAN Yuen Keung, Zuric	
Mr. YU Shek Kee, Stephen	(Appointed on 7th April, 2001)
Ms. KWOK Lai Sheung, Melissa	
Mr. OU Ka Chi	(Appointed on 13th June, 2001)
Mr. Barry John BUTTIFANT	(Appointed on 19th July, 2000 and resigned on 7th April, 2001)
Mr. James BLAKE ( <i>Non-executive</i> )	
Mr. Bernard POULIOT ( <i>Non-executive</i> )	

In accordance with the Company's Bye-Laws, Messrs. YU Shek Kee, Stephen, OU Ka Chi, James BLAKE and Ms. KWOK Lai Sheung, Melissa will retire at the forthcoming Annual General Meeting and, being eligible, offer themselves for re-election.

## DIRECTORS' SERVICE CONTRACT

Mr. Kwok Shun On entered into an employment contract with one of the Company's subsidiaries as senior executive. The employment contract is terminable by either party by giving 1 month prior written notice to the other.

Mr. Au Shiu Wai, Frank entered into a service contract with the Company with effect from 1st February, 1994. The service contract is terminable by either party by giving 2 months' prior written notice to the other.

Mr. Ou Ka Chi entered into an employment contract with one of the Company's subsidiaries as senior executive. The employment contract is terminable by either party by giving one month prior written notice to the other.

No director proposed for re-election at the forthcoming Annual General Meeting has a service contract with the Company or any of its subsidiaries which is not terminable by the Group within one year without payment of compensation (other than statutory compensation).

# REPORT OF THE DIRECTORS (Continued)

(Amounts expressed in Hong Kong dollars, unless otherwise stated)

## INTERESTS OF DIRECTORS AND SENIOR EXECUTIVES IN SHARES

As at 31st March, 2001, the following directors and senior executives of the Company had or were deemed to have interests under the provisions of the Securities (Disclosure of Interests) Ordinance (the “SDI Ordinance”) in the Company or any associated corporations thereof (within the meaning of the SDI Ordinance) as recorded in the register kept by the Company pursuant to Section 29 of the SDI Ordinance:

### Interest in the Company

Name	Capacity	Corporate	Total number	
			Personal	of shares
Mr. Kwok Shun On	Director	48,750,000 (Note a)	5,906,000	54,656,000
Mr. Chan Yuen Keung, Zuric	Director	—	10,000,000	10,000,000
Mr. Au Shiu Wai, Frank	Director	—	600,000	600,000
Mr. Bernard Pouliot	Independent	—	2,000,000	2,000,000
	Non-executive Director			
Mr. Ou Ka Chi	Financial Controller and Company Secretary	—	1,400,000	1,400,000

Note:

- a. New World Trading Limited, a company beneficially and wholly-owned by Mr. Kwok Shun On, director of the Company, held 48,750,000 shares of the Company. Mr. Kwok Shun On ceased to be a director of the Company on 16th July, 2001.

Save as disclosed above, the Company had no notice of any interests to be recorded under Section 29 of the SDI Ordinance as at 31st March, 2001.

## DIRECTORS' AND SENIOR EXECUTIVES' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

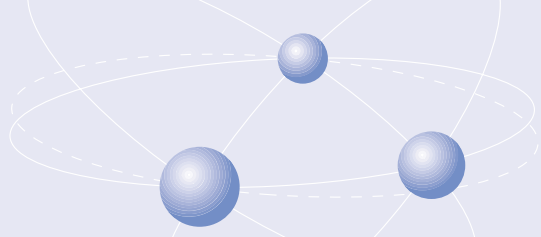
The Company has a share option scheme under which the Company may grant options to directors and employees of the Group to subscribe for shares in the Company. Details of the scheme are set out in Note 23c to the accompanying financial statements.

During the year ended 31st March, 2001, no options were granted by the Company under the share option scheme to the directors and senior executives 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 arrangements to enable any of the Company's directors or members of its management to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

# REPORT OF THE DIRECTORS *(Continued)*

*(Amounts expressed in Hong Kong dollars, unless otherwise stated)*



## DIRECTORS' INTERESTS IN CONTRACTS

Save as disclosed in Note 3 to the accompanying financial statements and in the section "Connected Transactions" below, no contracts of significance in relation to the Group's business to which the Company or any of its subsidiaries was a party and in which any of the Company's directors or members of its management had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

## CONNECTED TRANSACTIONS

### **Rights Shares Subscription – Chii Hang International Co., Ltd.**

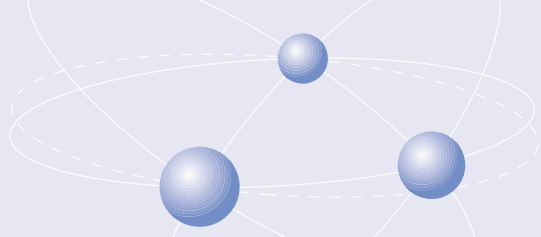
On 10th October, 2000 the Company announced that Well Admire Limited ("Well Admire"), a wholly-owned subsidiary of the Company, increased its shareholding in Chii Hang International Co., Ltd. ("Chii Hang") through the subscription for its pro rata entitlement in full of 190,799 new shares of Chii Hang (the "Rights Shares") and additional 1,021,400 Rights Shares under excess application, all at the issue price of New Taiwan Dollar 30 (approximately \$7.5) per Rights Share pursuant to a rights issue of Chii Hang (the "Rights Issue"). The total consideration (the "Consideration") for the subscription of a total of 1,212,199 Rights Shares (the "Subscription") was New Taiwan Dollar 36,365,970 (approximately \$9,091,493).

The Consideration had been paid by Well Admire to Chii Hang upon completion of the Rights Issue which took place on 10th October, 2000. Immediately upon completion of the Rights Issue, the shareholding interest of Well Admire in Chii Hang increased from approximately 5.3% to approximately 7.7%.

As Chii Hang, at the time of Rights Issue, was a substantial shareholder of Investrade International Limited which was a 55% indirectly owned subsidiary of the Company, Chii Hang was considered to be a connected person of the Company under the Rules Governing the Listing of Securities (the "Listing Rules") on SEHK. The Subscription constituted a connected transaction for the Company under the Listing Rules. However, as the Consideration was less than \$10,000,000, the Subscription was not subject to the approval by the independent shareholders of the Company.

# REPORT OF THE DIRECTORS (Continued)

*(Amounts expressed in Hong Kong dollars, unless otherwise stated)*



## CONNECTED TRANSACTIONS (Continued)

### **Subscription of Rights Shares and Preference Shares in Dyxnet Holdings Limited**

*Terms used in this section shall, unless the context otherwise requires, have the same meaning in the circular despatched to all shareholders of the Company on 26th February, 2001*

On 7th February, 2001 the Company announced that on 22nd January, 2001, Premier.com Limited ("Premier"), a wholly-owned subsidiary of the Company, proposed to increase its equity interest in Dyxnet Holdings Limited ("Dyxnet") by way of the following:

- (a) the Rights Shares Subscription, whereby Premier should subscribe for the entire 5,200,000 Rights Shares under its pro rata assured entitlement and for 22,840,550 additional Rights Shares under excess application pursuant to the Rights Issue in the proportion of one Rights Share for every ordinary share of US\$0.001 each in the capital of Dyxnet held on 19th December, 2000 being the date with reference to which entitlement to the Rights Issue were determined, at the issue price of \$0.5610 each; and
- (b) the Preference Shares Subscription, whereby Premier should subscribe for 4,789,927 Preference Shares at the issue price of US\$0.09368 (or approximately \$0.7307) each.

Subscribers of the Rights Shares and the Preference Shares would respectively receive one bonus Ordinary Warrant for every Rights Share allotted under the Rights Issue and 15 or 5 bonus Preference Warrants (as the case may be) for every 100 Preference Shares subscribed for. In addition, subject to the approval by Independent Shareholders of the Company at the Special General Meeting, Premier would further undertake to Dyxnet that it will underwrite up to 3,199,294 additional Rights Shares not taken up by other Qualifying Dyxnet Shareholders. The considerations for the Rights Shares Subscription (excluding the proposed underwriting commitment of Premier under the Rights Issue), the proposed underwriting commitment of Premier under the Rights Issue and the Preference Shares Subscription would be \$15,730,749, \$1,794,804 and \$3,500,000 respectively, totalling \$21,025,553.

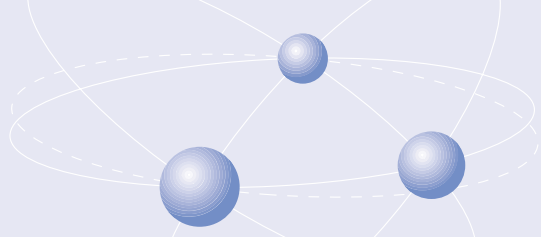
Assuming Premier would be allotted all the 28,040,550 Rights Shares to be applied for (without taking into account any Rights Shares which might have to be taken up by Premier as a result of its proposed underwriting commitment under the Rights Issue), immediately upon completion of the Rights Shares Subscription, the interest of Premier in the issued ordinary share capital of Dyxnet would be increased from approximately 7.48% to approximately 23.91%.

Diyixian.com Limited ("Diyixian") was a wholly-owned subsidiary of Dyxnet. As Diyixian held approximately 14.67% of the issued share capital of Speedlink Limited which is an approximate 72% indirectly owned subsidiary of the Company, Dyxnet was considered to be a connected person of the Company under the Listing Rules. Accordingly, the Rights Shares Subscription and the Preference Shares Subscription constituted connected transactions for the Company under the Listing Rules. A detailed circular concerning these connected transactions was despatched to all shareholders of the Company on 26th February, 2001. These connected transactions were approved by the Independent Shareholders of the Company in the Special General Meeting held on 16th March, 2001, and were completed on 29th March, 2001. Upon the completion of these connected transactions, Dyxnet became an associated company of the Group.



# REPORT OF THE DIRECTORS *(Continued)*

*(Amounts expressed in Hong Kong dollars, unless otherwise stated)*



## CONNECTED TRANSACTIONS *(Continued)*

### **Acquisition of a further 25% equity interest in Investrade International Limited**

On 27th March, 2001 the Company announced that, on 27th March, 2001, Wonderland.com Limited ("Wonderland"), an indirectly wholly-owned subsidiary of the Company, entered into a sale and purchase agreement (the "Agreement") with Chii Hang International Co., Ltd. ("Chii Hang"), whereby Wonderland agreed to acquire (the "Acquisition") from Chii Hang a 25% equity interest in, and a shareholder's loan of \$7,500,000 to, Investrade International Limited ("Investrade"). The total consideration (the "Consideration") for the Acquisition is \$7,500,000.

The Consideration was paid to Chii Hang upon completion of the Agreement on 29th March, 2001. Immediately upon completion of the Agreement, the shareholding interest of Wonderland in Investrade will be increased from 55% to 80%.

Chii Hang originally held a 25% equity interest in Investrade. As Chii Hang is a substantial shareholder of Investrade which was in turn a 55% indirectly owned subsidiary of the Company before completion of the Agreement, Chii Hang was considered to be a connected person of the Company under the Listing Rules. Accordingly, the Acquisition constituted a connected transaction for the Company under the Listing Rules. However, as the Consideration was less than \$10,000,000, the Acquisition was not subject to the approval of the independent shareholders of the Company.

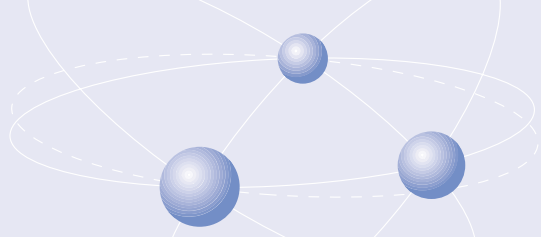
### **Ongoing Connected Transactions**

*Terms used in this section shall, unless the context otherwise requires, have the same meaning in the circular despatched to all shareholders of the Company on 26th February, 2001*

On 7th February, 2001 the Company announced that certain subsidiaries of the Company, namely Shun Cheong Electrical Engineering Company Limited ("SCEE"), Westco Airconditioning Limited, Speedlink Limited ("Speedlink") and KOD Hong Kong Limited would from time to time enter or continue to enter into transactions with Diyixian.com Limited ("Diyixian"). These transactions constituted connected transactions for the Company under the Listing Rules which would normally require disclosure by way of press announcement and prior approval of independent shareholders of the Company each time when such transactions occur. As these transactions were/would be ongoing in nature, the Company applied to the SEHK for ongoing waivers from the disclosure and/or shareholders' approval requirements in respect of these transactions on each occasion they arose. A detailed circular concerning the application for ongoing connected transaction waivers was despatched to shareholders of the Company on 26th February, 2001. The conditions of these ongoing connections waivers were approved by the Independent Shareholders of the Company in the Special General Meeting held on 16th March, 2001 and were granted by the SEHK to the Company on 3rd May, 2001.

# REPORT OF THE DIRECTORS *(Continued)*

*(Amounts expressed in Hong Kong dollars, unless otherwise stated)*



## CONNECTED TRANSACTIONS *(Continued)*

### Ongoing Connected Transactions *(Continued)*

Details of the ongoing connected transactions entered by the Group for the year ended 31st March, 2001 are as follows:

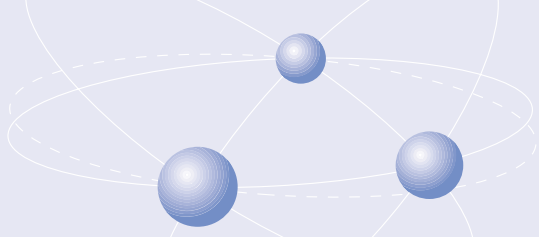
Name of Subsidiaries	Nature of Transaction	Amount \$'000
SCEE	Provision of services to Diyixian in respect of installation and maintenance of electrical, mechanical, ventilation and air-conditioning systems in Diyixian's data centre	5,140
Speedlink	Payment to Diyixian of rental for server co-location at Diyixian's data centres and for access to the Internet together with related setup charges	1,576

The independent non-executive directors of the Company confirmed that the aforesaid ongoing connected transactions conducted by the Group during the year ended 31st March, 2001 were:

1. in the ordinary and usual course of the Group's business;
2. on normal commercial terms or on terms no less favourable than terms available to or from independent third parties;
3. fair and reasonable so far as the shareholders of the Company are concerned; and
4. within the relevant amounts as stipulated under the relevant waivers.

# REPORT OF THE DIRECTORS *(Continued)*

*(Amounts expressed in Hong Kong dollars, unless otherwise stated)*



## SUBSTANTIAL SHAREHOLDERS

As at 31st March, 2001, the following persons (other than directors or senior executives of the Company) had or were deemed to have interests in the Company under the provision of the SDI Ordinance as recorded in the register kept by the Company under Section 16(1) of the SDI Ordinance:

<b>Name</b>	<b>Number of shares</b>	<b>Percentage of shareholdings</b>
Chinney Alliance Group Limited	97,054,000	25.08%
New World Trading Limited ( <i>Note a</i> )	48,750,000	12.60%

*Note:*

- a. New World Trading Limited is a company beneficially and wholly-owned by Mr. Kwok Shun On, director of the Company. Mr. Kwok Shun On ceased to be a director of the company on 16th July, 2001.

Save as disclosed above, the Company had no notice of any interests to be recorded under Section 16(1) of the SDI Ordinance as at 31st March, 2001.

## CODE OF BEST PRACTICE

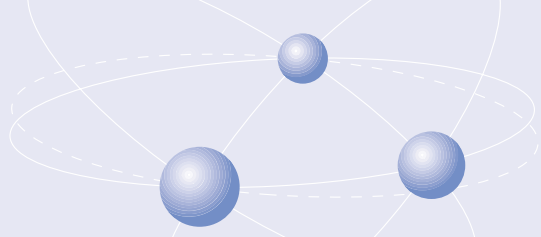
In the opinion of the directors, the Company has complied with the Code of Best Practice as set out in Appendix 14 of the Listing Rules throughout the accounting year covered by this report except that two independent non-executive directors are not appointed for a specific term as they are subject to retirement by rotation and re-election at Annual General Meetings in accordance with the Company's Bye-law 99(A).

## AUDIT COMMITTEE

In compliance with the Code of Best Practice as set out in Appendix 14 of the Listing Rules, the Company established an Audit Committee comprising two independent non-executive directors and one executive director and adopted the terms of reference governing the authority and duties of the Audit Committee in December 1999. The present members of the Audit Committee are Messrs. James Blake and Bernard Pouliot, the independent non-executive directors and Mr. Yu Shek Kee, Stephen, the executive director. Mr. Yu was appointed as an executive director of the Company on 7th April, 2001 and as a member of Audit Committee on 16th July, 2001.

# **REPORT OF THE DIRECTORS** *(Continued)*

*(Amounts expressed in Hong Kong dollars, unless otherwise stated)*



## **MAJOR CUSTOMERS**

The largest customer represented 13% of the Group's turnover and the combined turnover of the five largest customers accounted for 48% of the Group's turnover for the year ended 31st March, 2001.

None of the directors, their associates or shareholders, which to the best knowledge of the directors, owned more than 5% of the Company's issued share capital had a beneficial interest in the Group's top five customers.

## **MAJOR SUPPLIERS**

The five largest suppliers of the Group accounted for less than 30% of the total purchases of the Group for the year ended 31st March, 2001.

## **MANAGEMENT CONTRACTS**

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

## **DISCLOSEABLE TRANSACTIONS**

On 25th April, 2000, the Group announced a series of discloseable transactions in which the Group together with other independent third parties acquired a 57.20% interest in Binary KOD Limited. Binary KOD Limited together with its subsidiaries engages in designing, supplying, installing and maintaining Karaoke hardware and control systems in Hong Kong, Macau and the Mainland China. A detailed circular concerning the discloseable transactions was despatched to all shareholders on 12th May, 2000.

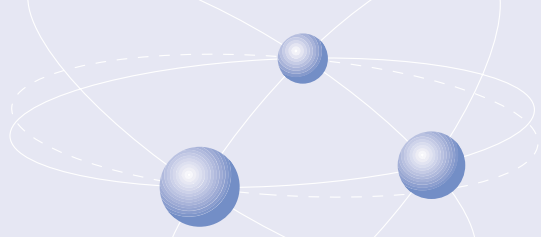
## **OFFER TO ACQUIRE THE ENTIRE ISSUED SHARE CAPITAL OF THE COMPANY**

On 14th July, 2001, Yu Ming Investment Management Limited, on behalf of vLink Global Limited (the "Offeror"), made an unsolicited voluntary conditional cash offer (the "Offer") to acquire all of the ordinary shares of \$0.10 each in the share capital of the Company (the "Shares") in issue at \$0.01 per Share. Details of the Offer were announced by the Offeror on 17th July, 2001 and were set forth in the offer document despatched by the Offeror to the holders of Shares (the "Shareholders") on 7th August, 2001.

A document containing amongst other things, the advice of the independent financial adviser to the Board, DBS Asia Capital Limited, in respect of the Offer by Yu Ming Investment Management Limited on behalf of the Offeror to acquire all of the Share in issue was despatched by the Company to Shareholders on 21st August, 2001.

# **REPORT OF THE DIRECTORS** *(Continued)*

*(Amounts expressed in Hong Kong dollars, unless otherwise stated)*



## **AUDITORS**

The accompanying financial statements have been audited by Arthur Andersen & Co, who will retire at the forthcoming Annual General Meeting and, being eligible, offer themselves for reappointment.

On behalf of the Board of Directors

**Wong Sai Wing, James**  
*Chairman*

Hong Kong SAR, 24th August, 2001