

Report of the Directors

The directors have pleasure in presenting their report together with the audited financial statements of the Company and the Group for the year ended 31 December 2000.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The activities of its principal subsidiaries are set out in note 18 to the financial statements. Apart from the commencement of the provision of e-business related services during the year, there were no changes in the nature of the Group's principal activities.

SEGMENTAL INFORMATION

An analysis of the Group's turnover and contribution to profit from operating activities by principal activity and geographical area of operations is as follows:

	Turnover		Contribution to profit from operating activities	
	2000 HK\$'000	1999 HK\$'000	2000 HK\$'000	1999 HK\$'000
By activity:				
Sale of goods:				
Computer hardware and software (including installation and systems design)	344,562	316,978	18,859	11,793
Computer hardware, software and related accessories	34,620	33,174	3,694	2,194
Provision of e-business related services	33,908	-	199	-
Maintenance services, software development services and training courses	7,558	3,328	1,440	1,787
	420,648	353,480	24,192	15,774
By geographical area:				
The People's Republic of China (the "PRC"):				
Mainland China	335,201	306,906	14,284	14,633
Hong Kong Special Administrative Region ("Hong Kong")	85,447	46,574	9,908	1,141
	420,648	353,480	24,192	15,774

RESULTS AND DIVIDENDS

The Group's profit for the year ended 31 December 2000 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 33 to 70.

The directors recommend the payment of a final dividend of 2 HK cents per share in respect of the year and a special dividend of 1 HK cent per share, to the shareholders on the register of members of the Company on 18 May 2001. This recommendation has been incorporated in the financial statements.

FINANCIAL SUMMARY

The Company was incorporated in Bermuda on 31 March 1998 and became the ultimate holding company of the companies now comprising the Group as a result of the reorganisation which became effective on 29 April 1998. Accordingly, the published balance sheets of the Group are prepared as at 31 December 1998, 1999 and 2000, respectively.

To ensure consistency of presentation and for comparison purposes, the pro forma combined results for the three years ended 31 December 1998 are presented below on the basis that the current Group structure had been in existence throughout the said period.

Report of the Directors *(continued)*

RESULTS

	Consolidated		Pro forma combined results		
	2000	1999	Year ended 31 December		
	HK\$'000	HK\$'000	1998	1997	1996
			HK\$'000	HK\$'000	HK\$'000
TURNOVER	420,648	353,480	181,405	247,689	203,635
PROFIT FROM OPERATING					
ACTIVITIES	24,192	15,774	4,046	31,408	23,813
Finance costs	(1,259)	(823)	(463)	-	-
Share of losses of:					
Jointly-controlled entity	(441)	-	-	-	-
Associate	(32)	-	-	-	-
PROFIT BEFORE TAX	22,460	14,951	3,583	31,408	23,813
Tax	(1,946)	(783)	(615)	(1,537)	(1,614)
PROFIT BEFORE MINORITY					
INTERESTS	20,514	14,168	2,968	29,871	22,199
Minority interests	(747)	(366)	(54)	(315)	(407)
NET PROFIT FROM ORDINARY					
ACTIVITIES ATTRIBUTABLE					
TO SHAREHOLDERS	19,767	13,802	2,914	29,556	21,792

ASSETS AND LIABILITIES

	Consolidated		
	Year ended 31 December		
	2000	1999	1998
	HK\$'000	HK\$'000	HK\$'000
Total assets	501,219	212,161	147,908
Total liabilities	(109,894)	(61,977)	(62,141)
Minority interests	(656)	(1,583)	(1,217)
Net assets	390,669	148,601	84,550

FIXED ASSETS

Details of movements in the Group's fixed assets during the year are set out in note 12 to the financial statements.

SUBSIDIARIES

Particulars of the Company's principal subsidiaries are set out in note 18 to the financial statements.

OPTION SCHEMES FOR SUBSIDIARIES

On 1 July 2000, share option schemes for certain subsidiaries (the "Subsidiaries") were approved and adopted, which will expire on 30 June 2010. Under the schemes, the directors may, at their discretion, grant the options to any executive and/or employee of the Subsidiaries to subscribe for shares in the Subsidiaries. The maximum number of shares to be granted under each scheme may not exceed 10% of the issued share capital of the relevant Subsidiary at the time of granting the options. The subscription prices of the option granted under the schemes are to be determined by the directors at their discretion, but being in no event less than (i) the nominal values of shares of the relevant Subsidiary or (ii) 80% of the net tangible assets per share of the relevant Subsidiary according to their latest audited accounts.

JOINTLY-CONTROLLED ENTITY AND ASSOCIATE

Details of the Group's interests in its jointly-controlled entity and associate are set out in notes 14 and 15 to the financial statements, respectively.

INTEREST-BEARING BANK AND OTHER BORROWINGS

Details of the interest-bearing bank and other borrowings of the Company and the Group are set out in note 23 to the financial statements.

As at 31 December 2000, the Group has committed short-term bank loans of RMB9.0 million (1999: Nil) as working capital for operations in Mainland China. The borrowings are on fixed interest rates and secured by bank deposits of HK\$12.0 million in Hong Kong. The Group has adopted the formula: "total non-current borrowings over shareholders' equity" as the basis for calculating the gearing ratio. Accordingly, the Group's gearing ratio at year end is zero (1999: zero).

SHARE CAPITAL AND SHARE OPTIONS

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

SHARE PREMIUM ACCOUNT 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

At 31 December 2000, the Company's reserves available for distribution, calculated in accordance with the Companies Act 1981 of Bermuda (as amended) amounted to HK\$47,411,000.

In addition, the Company's share premium may be distributed in the form of fully paid bonus shares.

PLEDGE OF ASSETS AND CONTINGENT LIABILITIES

Details of the Group's pledge of assets and contingent liabilities are set out in notes 23 and 29 to the financial statements, respectively.

DIRECTORS

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

Executive directors:

Ng Cheung Shing
Leung King San, Sunny
Ma Mok Hoi

Non-executive directors:

Lai Kai Ming, Dominic	(appointed on 26 February 2000)
Ha Shu Tong*	
Lee Kwok On, Matthew, Ph.D.*	
Chui Tak Keung, Duncan	(resigned on 1 June 2000)

* *independent non-executive director*

In accordance with bye-laws 86(2) and 87 of the Company's bye-laws, Mr. Ha Shu Tong will retire at the forthcoming annual general meeting and, being eligible, offer himself for re-election.

The independent non-executive directors have not been appointed for a specific term, but are subject to retirement by rotation pursuant to the Company's bye-laws.

DIRECTORS' REMUNERATION AND SENIOR EXECUTIVES' EMOLUMENTS

Directors' remuneration and senior executives' emoluments disclosed pursuant to Section 161 of the Companies Ordinance and the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") are set out in notes 5 and 6 to the financial statements, respectively.

DIRECTORS' SERVICE CONTRACTS

Each of the executive directors entered into a service contract with the Company since 1 April 1998. These service contracts will continue until terminated by either party by serving to the other party a written notice of not less than three months prior to the effective date of termination. As of the date of report, no termination notice by either party had been received.

Save as disclosed above, none of the directors 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 of compensation other than statutory compensation.

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

Save as detailed in note 30 to the financial statements, no director had a significant beneficial interest in any significant contract, whether directly or indirectly, to which the Company or any of its subsidiaries was a party during the year.

DIRECTORS' INTERESTS IN SECURITIES

As at 31 December 2000, the interests of the directors in the share capital of the Company and its associated corporations, as defined in the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance") and as recorded in the register maintained by the Company pursuant to Section 29 of the SDI Ordinance, were as follows:

Report of the Directors *(continued)*

DIRECTORS' INTERESTS IN SECURITIES *(continued)*

(A) Interests in shares

(i) *The Company*

Name of director	Nature of interest and number of shares	
	Personal interests	Corporate interests
Ng Cheung Shing	1,218,500	110,000,000 <i>(Note 1)</i>
Leung King San, Sunny	612,000	–

(ii) *Associated corporations*

Name of director	Name of associated corporation	Nature of interest and number of shares		
		Personal interests	Corporate interests	Class of shares
Ng Cheung Shing	Computer And Technologies International Limited	1,750,000	3,250,000 <i>(Note 2)</i>	Non-voting deferred
Ma Mok Hoi	Maxfair Technology Limited	625,000	–	Ordinary

Note 1: 110,000,000 shares were held by Chao Lien Technologies Limited ("Chao Lien"). Ng Cheung Shing was entitled to exercise or control the exercise of one-third or more of the voting power at general meetings of C.S. (BVI) Limited which, in turn, was entitled to exercise or control the exercise of one-third or more of the voting power at general meetings of Chao Lien. Accordingly, Ng Cheung Shing was deemed, under the SDI Ordinance, to be interested in all shares held by Chao Lien.

Note 2: 3,250,000 non-voting deferred shares were held by Chao Lien.

DIRECTORS' INTERESTS IN SECURITIES (continued)

(B) Interests in share options

As at 31 December 2000, the following directors had interests recorded in the register kept under Section 29 of the SDI Ordinance, being options granted by the Company to subscribe for shares of the Company, as follows:

Name of director	Number of options held on 1.1.2000	Period during which option is exercisable (Note)	Price per share to be paid on exercise of option HK\$	Number of options exercised during the year	Number of options held on 31.12.2000
Ng Cheung Shing	13,500	10.12.1999 to 29.11.2001	1.75	-	13,500
	800,000	3.12.2000 to 2.11.2004	1.80	-	800,000
Leung King San, Sunny	10,000	10.12.1999 to 29.11.2001	1.75	-	10,000
	188,000	3.12.2000 to 2.11.2004	1.80	-	188,000
Ma Mok Hoi	200,000	26.10.1999 to 25.10.2003	0.281	-	200,000
	9,000	10.12.1999 to 29.11.2001	1.75	-	9,000

Note: If the last day of any option period is not a business day in Hong Kong, the option period will end on the business day preceding that day.

Each of the grantees paid HK\$10 to the Company as consideration for options granted to them.

Except the options granted by the Company as shown above, there is no option granted to the directors by its subsidiaries under their respective share option schemes.

DIRECTORS' INTERESTS IN SECURITIES *(continued)*

(B) Interests in share options *(continued)*

Save as disclosed above, as at 31 December 2000, none of the directors or their associates had any interest (including personal, family, corporate or other interests) in the equity or debt securities of the Company or any of its associated corporations, as defined in the SDI Ordinance.

SHARE OPTIONS AND DIRECTORS' RIGHTS TO ACQUIRE SHARES

Details of share options of the Company held by the directors of the Company are set out in the section headed "Directors' interests in securities" above.

Other than the share option schemes adopted by the Company and by certain subsidiaries, 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, 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.

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2000, the following interests of 10% or more of the issued 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 of shareholder of the Company	Number of shares	Percentage of issued share capital
Chao Lien Technologies Limited <i>(Note 1)</i>	110,000,000	41.8%
C.S. (BVI) Limited <i>(Note 1)</i>	110,000,000	41.8%
Puttney Investments Limited <i>(Note 2)</i>	29,148,938	11.1%
Hutchison International Limited <i>(Note 2)</i>	29,148,938	11.1%

Note 1: The interest was also disclosed as an interest of Mr. Ng Cheung Shing in the section "Directors' interests in securities" of this report.

SUBSTANTIAL SHAREHOLDERS *(continued)*

Note 2: The two references to 29,148,938 shares related to the same block of shares in the Company. Hutchison International Limited, as a wholly owned subsidiary of Hutchison Whampoa Limited ("HWL"), holds the entire issued share capital of Puttney Investments Limited. Subsidiaries of Cheung Kong (Holdings) Limited ("CKH") are entitled to exercise or control the exercise of more than one-third of the voting power at the general meeting of HWL.

Li Ka-Shing Unity Holdings Limited (in which Mr. Li Ka-Shing owns its entire issued share capital) owns the entire issued share capital of Li Ka-Shing Unity Trustee Company Limited ("TUT1"). TUT1 as trustee of The Li Ka-Shing Unity Trust, together with certain companies which TUT1 as trustee of The Li Ka-Shing Unity Trust is entitled to exercise or control the exercise of more than one-third of the voting power at their general meetings (the "related companies"), holds more than one-third of the issued share capital of CKH.

In addition, Li Ka-Shing Unity Holdings Limited also owns the entire issued share capital of Li Ka-Shing Unity Trustee Corporation Limited ("TDT1"). TDT1 as trustee of the Li Ka-Shing Unity Discretionary Trust, holds a majority of units in The Li Ka-Shing Unity Trust.

By virtue of the interest in TDT1 and TUT1 through Li Ka-Shing Unity Holdings Limited, the interest in the shares of CKH held by TUT1 as trustee of the Li Ka-Shing Unity Trust and its related companies, the interest of CKH in HWL and the interest of Hutchison International Limited in the shares of the Company as described above, Mr. Li Ka-Shing is taken to have an interest in the shares of the Company held by Puttney Investments Limited under the SDI Ordinance.

Save as disclosed above, as at 31 December 2000, 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.

CONNECTED TRANSACTION

Details of the connected transaction for the year are set out in note 30 to the financial statements. The independent non-executive directors of the Company have reviewed the connected transaction set out in note 30, for which the Stock Exchange has granted a waiver from the relevant requirements of the Listing Rules, and confirmed that:

- (a) the transaction was entered into by the Group in the ordinary and usual course of its business;
- (b) the transaction was entered into on an arm's length basis, on normal commercial terms, and on terms that are fair and reasonable so far as the shareholders of the Company are concerned; and
- (c) the transaction was carried out in accordance with the terms of the agreement governing such transaction.

PURCHASE, SALE AND REDEMPTION OF LISTED SECURITIES

Neither the Company, nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's bye-laws and there are no restrictions against such rights under the laws of Bermuda, being the jurisdiction in which the Company was incorporated.

MAJOR CUSTOMERS AND SUPPLIERS

**Year ended
31 December
2000**

Customers

Percentage of turnover attributable to the Group's
five largest customers 41%

Percentage of turnover attributable to the Group's
largest customer 15%

Suppliers

Percentage of purchases attributable to the Group's
five largest suppliers 67%

Percentage of purchases attributable to the Group's
largest supplier 55%

None of the directors, their respective associates or any shareholders of the Company, which to the knowledge of the directors own more than 5% of the Company's issued share capital, had any interest in the customers and suppliers mentioned above.

EMPLOYEE

As at 31 December 2000, the Group has hired approximately 295 employees (1999: 255) in Hong Kong and Mainland China and the geographic proportion is approximately 47% and 53% (1999: 36% and 64%), respectively. The total employees costs (excluding remuneration for directors) was approximately HK\$60.4 million (1999: HK\$35.3 million). The increase was primarily due to the increase in employees in the Hong Kong region.

Employee's remuneration is in accordance with individual's responsibility and performance and maintains competitive with the market. Other fringe benefits such as medical insurance, pension funds, education/training subsidies are offered to most employees.

Share options are granted at the directors' discretion and under the terms and conditions of employees share option schemes of the Company and certain subsidiaries that were approved and adopted on 29 April 1998 and 1 July 2000, respectively. As at 31 December 2000, only the Company's share options were granted. Details of the schemes are set out in note 25 to the financial statements and in the section headed "Option Schemes for Subsidiaries" above.

PENSION SCHEME

Details of the pension scheme of the Group and the employer's pension costs charged to the profit and loss account for the year are set out in notes 2 and 4 to the financial statements, respectively.

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, throughout the accounting period covered by the annual report, except that the non-executive directors of the Company are not appointed for specific terms as they are subject to retirement by rotation in accordance with the Company's bye-laws.

The Company established an audit committee in accordance with paragraph 14 of the Code of Best Practice. The audit committee meets regularly to consider the nature and scope of audit reviews, the effectiveness of the internal control systems and compliance with the relevant rules and regulations.



Report of the Directors *(continued)*

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

Ng Cheung Shing

Chairman

Hong Kong

3 April 2001