

Report of the Directors

The Directors submit herewith their annual report together with the audited financial statements for the year ended 31 December 2000.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holdings. The principal activities of the subsidiaries include property development, investment, trading and management in Hong Kong. Other particulars of the subsidiaries are set out in note 41(a) to the financial statements.

The analysis of the principal activities and the operating results of the Company and its subsidiaries during the financial year are set out follows:

	Group turnover		Contribution to operating results (before operating and interest expenses)	
	2000 HK\$'000	1999 HK\$'000	2000 HK\$'000	1999 HK\$'000
Sale of properties	139,710	182,395	(10,436)	(58,258)
Rental income	67,489	86,184	64,768	76,546
Building management service income	3,641	4,455	3,641	4,455
Interest income	5,971	3,428	5,971	3,428
	<u>216,811</u>	<u>276,462</u>	<u>63,944</u>	<u>26,171</u>
Other revenue and other net income			16,119	36,752
Administrative expenses			(54,503)	(47,435)
Other operating expenses			(168,780)	(550,876)
Finance costs			(146,520)	(159,303)
Loss from ordinary activities			<u>(289,740)</u>	<u>(694,691)</u>

RESULTS AND DIVIDENDS

The results of the Group for the year ended 31 December 2000 and the state of the Company's and the Group's affairs as at that date are set out in the financial statements on pages 23 to 65.

The directors do not recommend the payment of a dividend for this year.

LEASEHOLD LAND AND BUILDINGS, PLANT AND EQUIPMENT

Movements in leasehold land and buildings, plant and equipment during the year are set out in note 12 to the financial statements.

SUBSIDIARIES AND ASSOCIATES

Particulars of the Group's principal subsidiaries and associates are set out on in note 41 to the financial statements.

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BORROWINGS AND INTEREST CAPITALISED

Particulars of the borrowings of the Group at the balance sheet date are set out in note 24 to the financial statements.

During the year, the Group capitalised interest of HK\$50,578,000 (1999: HK\$83,200,000) in respect of its properties under development.

SHARE CAPITAL

Details of the movements in share capital of the Company during the year are set out in note 26 to the financial statements.

RESERVES

Movements in reserves of the Group and the Company during the year are set out in note 29 to the financial statements.

WARRANTS

Particulars of warrants are set out in note 28 to the financial statements.

SHARE OPTIONS

Particulars of the share options granted are set out in note 27 to the financial statements.

FIVE-YEAR FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 67.

PROPERTIES

Particulars of the major properties held by the Group are set out on page 66.

DIRECTORS

The Directors of the Company are listed on page 2. The Directors' biographical information is set out on pages 10 to 11.

In accordance with the Company's bye-laws, Mr. Leung Yeuk Kuk, Joseph, shall retire from office in the forthcoming annual general meeting and, being eligible, offer himself for re-election.

DIRECTORS' SERVICE CONTRACTS

Two independent non-executive directors have been appointed for a term of one year, which will be renewed upon termination.

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 of compensation (other than statutory compensation).

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DIRECTORS' INTERESTS AND CHIEF EXECUTIVE'S INTERESTS IN SHARES

As at 31 December 2000 the interests of the Directors and chief executive in the shares of the Company or any associated corporation as recorded in the register to be kept under Section 29 of the Securities (Disclosure of Interests) Ordinance ("SDI Ordinance") were as follows:

Director	Number of shares held under corporate interest
Foo Kam Chu, Grace	1,739,586,000

- (a) Madam Foo Kam Chu, Grace's corporate interest (within the meaning of Practice Note No. 5 to the Listing Rules (the "Practice Note")), arising by virtue of her shareholding in Ko Bee Limited referred to in paragraph (b) below.
- (b) Madam Foo Kam Chu, Grace has a personal interest (within the meaning of the Practice Note) in respect of one share of US\$1, representing the entire issued share capital of Ko Bee Limited, a company incorporated in the British Virgin Islands, which holds and is beneficially interested in 1,739,586,000 shares.

Save as disclosed herein, none of the Directors nor any chief executive of the company has any interest in the equity or debt securities of the Company or any of its associated corporations as defined in the SDI Ordinance.

DIRECTORS' RIGHT TO ACQUIRE SHARES

At the balance sheet date, there were 9,500,000 outstanding options granted to several Directors of the Company. Details of the said outstanding options are as follows:

Name of director	Date of grant	Number granted	Exercise price	Period within which options can be exercised
Foo Kam Chu, Grace	7 February 1998	3,000,000	HK\$0.66	1 January 1999 to 31 December 2002
	8 February 2000	3,500,000	HK\$0.164	8 August 2000 to 31 December 2004
Leung Yeuk Kuk, Joseph	7 February 1998	1,000,000	HK\$0.66	1 January 1999 to 31 December 2002
	8 February 2000	2,000,000	HK\$0.164	8 August 2000 to 31 December 2004

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DIRECTORS' RIGHT TO ACQUIRE SHARES (continued)

Subsequent to the balance sheet date, the following options were granted to the directors:

Name of director	Date of grant	Number of outstanding options	Exercise Price	Period within which options can be exercised
Foo Kam Chu, Grace	2 January 2001	3,800,000	HK\$0.10	2 July 2001 to 24 February 2007
Leung Yeuk Kuk, Joseph	2 January 2001	2,500,000	HK\$0.10	2 July 2001 to 24 February 2007
Liu Guoyuan	2 January 2001	3,800,000	HK\$0.10	2 July 2001 to 24 February 2007
Kwong Che Keung, Gordon	2 January 2001	2,000,000	HK\$0.10	2 July 2001 to 24 February 2007
Chan Wai Ling	2 January 2001	3,000,000	HK\$0.10	2 July 2001 to 24 February 2007

Save as disclosed above, as at 31 December 2000, there is no right to subscribe for equity or debt securities of the Company granted to any director or chief executive of the Company or to the spouse or children under 18 years of age of any such director or chief executive as recorded in the register required to be kept under Section 29 of the SDI Ordinance.

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2000, the following persons are interested in 10% or more of the issued share capital of the Company as recorded in the register required to be kept under Section 16(1) of the SDI Ordinance:

Shareholder	Number of shares
Foo Kam Chu, Grace (<i>note (i)</i>)	1,739,586,000
China Ocean Shipping (Group) Company (<i>note (ii)</i>)	330,736,000

Notes:

- (i) 1,739,586,000 shares of the Company were held by Ko Bee Limited the shares of which was beneficially wholly owned by Madam Foo Kam Chu, Grace.
- (ii) 185,296,000 shares and 145,440,000 shares of the Company were held by COSCO Investments Limited and Graceful Nice Limited respectively, both of which were indirect subsidiaries of China Ocean Shipping (Group) Company.

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USE OF PROCEEDS FROM SHARE ISSUE

In February 2000, net cash proceeds of approximately HK\$27,324,000 was raised and used as general working capital, and approximately HK\$28,224,000 of the principal amount of an unsecured interest bearing loan was reduced by a new issue of an aggregate of 336,000,000 shares of the Company.

In April 2000, net cash proceeds of approximately HK\$82,114,000 was raised and used by the Group to subscribe for 200,000 shares being 20% of the enlarged issued share capital of Vision Telecommunications Holdings Limited (“Vision”) by a new issue of 135,000,000 shares of the Company.

In September 2000, net cash proceeds of approximately HK\$14,220,000 was raised and used as general working capital by a new issue of 115,000,000 shares of the Company.

MAJOR CUSTOMERS AND SUPPLIERS

During the year, 8% of the Group’s purchases were attributable to the Group’s largest supplier and 25% of the Group’s purchases were attributable to the Group’s five largest suppliers.

During the year, 58% of the Group’s turnover were attributable to the Group’s largest customer and 70% of the Group’s turnover were attributable to the Group’s five largest customers.

None of the Directors, their associates or any shareholder (which to the knowledge of the Directors owns more than 5% of the Company’s issued share capital) has any interest in the Group’s five largest suppliers or customers.

CONNECTED TRANSACTIONS

On 18 April 2000, the Group subscribed for 200,000 shares being 20% of the enlarged issued share capital of Vision which before the said subscription was 100% owned by Madam Foo Kam Chu, Grace (“Mrs. Chan”).

On 7 June 2000, the Group acquired an additional 700,000 shares being 70% of the issued share capital of Vision from Mrs. Chan at the price of approximately HK\$287,398,000 which was satisfied by the issue of 456,188,000 new shares of the Company to Ko Bee Limited (“KBL”), a corporation wholly owned by Mrs. Chan.

On 21 November 2000, KBL advanced to the Company an unsecured term loan of approximately HK\$214,756,000 at the interest rate of 1.75% over the prime lending rate for loans in Hong Kong dollars quoted by The Hongkong and Shanghai Banking Corporation Limited from time to time per annum to enable the Company to substitute the outstanding principal and interests accrued thereon to Mrs. Chan pursuant to the Convertible Bonds dated 25 March 1998 issued by the Company in favour of Mrs. Chan. This unsecured interest bearing loan shall be repaid by the Company not later than 31 January 2002.

Except for the foregoing, no other contracts of significance to which the Company or its holding company or any of its subsidiaries was a party and in which a Director had a material interest subsisted at the balance sheet date or at any time during the year.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY’S LISTED SECURITIES

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

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PRE-EMPTIVE RIGHTS

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

CODE OF BEST PRACTICE

In the opinion of directors, the Company was in compliance with the Code of Best Practice as set out by The Stock Exchange of Hong Kong Limited in Appendix 14 to the Listing Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited ("the Listing Rules") during the year ended 31 December 2000.

DISCLOSURE PURSUANT TO PRACTICE NOTE 19 OF THE LISTING RULES

Pursuant to paragraph 3.7.1 of the Practice Note 19 of the Listing Rules, the conditions imposing specific performance obligations on any controlling shareholder in relation to bank facilities granted to the Group are set out below.

Pursuant to the Debt Restructure Agreement dated 8 May 2000, completion of which is subject to, inter alia, the execution of a subordination agreement in which the other loan in the sum of approximately HK\$217,470,000 as at 31 December 2000 payable to Mrs. Chan will be subordinated to bank borrowings and Mrs. Chan should maintain her shareholding in the Company not less than 45% of the issued share capital of the Company during the standstill period ending on 31 January 2002.

Pursuant to a Loan Agreement dated 20 October 2000, it is a condition, inter alia, to the availability of banking facility granted to a wholly owned subsidiary ("the Subsidiary") of the Company that Mrs. Chan, inter alia, shall enter into a subordination agreement in which all sums for which the Subsidiary was then indebted (if any) and may thereafter become indebted to Mrs. Chan will be subordinated to bank borrowings.

AUDITORS

Messrs. Moores Rowland were appointed auditors of the Company in 1999 for the financial year ended 31 December 1998.

Messrs. Moores Rowland retire and, being eligible, offer themselves for re-appointment. A resolution for the re-appointment of Messrs. Moores Rowland as auditors of the Company is to be proposed at the forthcoming Annual General Meeting.

By order of the Board

FOO Kam Chu, Grace

Chairman

Hong Kong, 9 April 2001