

The directors herein present their report and 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 principal activities of the Group were changed during the year to the provision of total logistics and transportation ancillary services, management of related high-tech projects and passenger transportation services. The Group is also engaged in property investment and sale activities. During the year, the Group discontinued its manufacturing and optometry businesses. Further details of the principal activities of the Company's principal subsidiaries, associates and joint ventures are set out in notes 12, 13 and 14 to the financial statements, respectively.

### **Segmental information**

An analysis of the Group's turnover and contribution to profit/(loss) from operating activities by principal activities and by geographical areas of operations is as follows:

	<b>Turnover</b>		<b>Contribution to profit/(loss) from operating activities</b>	
	<b>2000</b>	1999	<b>2000</b>	1999
	<b>HK\$'000</b>	HK\$'000	<b>HK\$'000</b>	HK\$'000
By principal activities:				
Continuing operations				
Transportation business	<b>541,687</b>	–	<b>17,301</b>	–
Logistics business	<b>2,078</b>	–	<b>(3,157)</b>	–
Property investment and sale	<b>33,917</b>	39,649	<b>3,464</b>	6,271
Investment holding	<b>15</b>	50	<b>91,624</b>	(67,719)
	<b>577,697</b>	39,699	<b>109,232</b>	(61,448)
Discontinued operations				
Manufacturing business	<b>65,265</b>	69,165	<b>(12,049)</b>	(23,509)
Optometry business	<b>11,542</b>	30,734	<b>(3,809)</b>	(9,215)
Trading business	–	16	–	(49,452)
	<b>76,807</b>	99,915	<b>(15,858)</b>	(82,176)
	<b>654,504</b>	139,614	<b>93,374</b>	(143,624)
Gain on disposal of discontinued operations			<b>52,564</b>	–
Warrant reserve realised on expiration of warrants			–	134,276
Other revenue			<b>35,967</b>	12,585
Other general and administrative expenses			<b>(22,812)</b>	(16,846)
			<b>159,093</b>	(13,609)

**Segmental Information (continued)**

	Turnover		Contribution to profit/(loss) from operating activities	
	2000 HK\$'000	1999 HK\$'000	2000 HK\$'000	1999 HK\$'000
By geographical areas:				
Continuing operations				
Hong Kong	15	88	58,656	10,974
The People's Republic of China except Hong Kong (the "PRC")	577,682	39,611	50,576	(72,422)
	<b>577,697</b>	39,699	<b>109,232</b>	(61,448)
Discontinued operations				
Hong Kong	10,883	28,224	(631)	(4,423)
PRC	65,924	71,691	(15,227)	(77,753)
	<b>76,807</b>	99,915	<b>(15,858)</b>	(82,176)
	<b>654,504</b>	139,614	<b>93,374</b>	(143,624)
Gain on disposal of discontinued operations			52,564	–
Warrant reserve realised on expiration of warrants			–	134,276
Other revenue			35,967	12,585
Other general and administrative expenses			(22,812)	(16,846)
			<b>159,093</b>	(13,609)

**Results and Dividends**

The Group's profit for the year ended 31 December 2000 and the state of affairs of the Company and of the Group at that date are set out in the financial statements on pages 45 to 115.

The directors do not recommend the payment of any dividend in respect of the year ended 31 December 2000.

## **Summary Financial Information**

A summary of the published 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 on page 8.

## **Major Customers and Suppliers**

The turnover attributable to the largest five customers of the Group accounted for less than 30% of the total Group's turnover for the current year.

The purchases attributable to the largest five suppliers of the Group accounted for less than 30% of the Group's purchases for the current year.

## **Fixed Assets**

Details of movements in the fixed assets of the Group are set out in note 10 to the financial statements.

## **Investment Properties**

Details of the investment properties of the Group are set out in note 11 to the financial statements.

## **Subsidiaries, Associates and Joint Ventures**

Particulars of the Company's principal subsidiaries, associates and joint ventures are set out in notes 12, 13 and 14 to the financial statements, respectively.

## **Intangible Assets**

Details of the intangible assets of the Group are set out in note 16 to the financial statements.

## **Properties Under Development for Sale**

Details of the properties under development for sale of the Group are set out in note 17 to the financial statements.

## **Properties Held for Sale**

Details of the properties held for sale of the Group are set out in note 20 to the financial statements.

## **Borrowings**

Details of the borrowings of the Company and the Group are set out in notes 25, 26 and 27 to the financial statements, respectively.

## Share Capital, Share Options and Warrants

Details of movements in share capital, share options and warrants of the Company during the year, together with the reasons therefor, are set out in note 31 to the financial statements.

There are no provisions for pre-emptive rights under the Company's bye-laws or the Companies Act of Bermuda 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 are set out in note 32 to the financial statements.

## Purchase, Sale or Redemption of the Company's Listed Securities

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

## Distributable Reserves

At 31 December 2000, the Company had no reserves available for cash distribution and/or distribution in specie. However, under the Companies Act of Bermuda, the Company's share premium account may be distributed in the form of fully paid bonus shares and the Company's contributed surplus may be distributed under certain circumstances.

## Directors

The directors of the Company during the year were:

### Executive directors

Mr. Li Hei Hu	(appointed on 13 March 2000)
Mr. Chen Chao	(appointed on 13 March 2000)
Mr. Li Jing Qi	(appointed on 13 March 2000)
Mr. Qiao Gang	(appointed on 18 September 2000)
Mr. Huang Jie Ping	(resigned on 15 March 2000)
Mr. Chen Xiao Xiong	(resigned on 15 March 2000)
Mr. Chen Zhong Ling	(resigned on 15 March 2000)
Mr. Liu Zhi He	(resigned on 24 March 2000)

## **Directors (continued)**

### **Non-executive directors**

Mr. Sheng Bin	(appointed on 13 March 2000)
Mr. To Chi Keung	(appointed on 21 June 2000)
Mr. Sun Yu Lin	(appointed on 21 June 2000)
Mr. Chen Xiao Xiong	(appointed on 15 March 2000 and resigned on 4 July 2000)
Mr. Liu De Hui	(resigned on 15 March 2000)
Mr. Zeng Nan	(resigned on 15 March 2000)

### **Independent non-executive directors**

Mr. Leung Ming Yuen, Simon	(appointed on 13 March 2000)
Mr. Wang Xian Ping	(appointed on 1 June 2000)
Mr. Liu Ji Peng	(resigned on 24 March 2000)
Mr. Tong Wang Chow	(resigned on 1 June 2000)

In accordance with the Company's bye-law 189(ix), Messrs. Sun Yu Lin, To Chi Keung and Wang Xian Ping will retire by rotation at the forthcoming annual general meeting. The retiring directors are eligible for re-election and have indicated their intention to offer themselves for re-election.

In accordance with the Company's bye-law 189(v), Mr. Qiao Gang will retire at the forthcoming annual general meeting and, being eligible, will offer himself for re-election.

Under the terms of their appointment, the independent non-executive directors are not appointed for specific terms but are subject to retirement by rotation in accordance with the Company's bye-laws.

## **Directors' Remuneration**

Details of the remuneration of the directors of the Company are set out in note 6 to the financial statements.

## **Five Highest Paid Employees**

Details of the five highest paid employees of the Group are set out in note 6 to the financial statements.

## **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' Interests in Contracts

No director had a material interest in any contract of significance to the business of the Group to which the Company, its holding company or any of its fellow subsidiaries and subsidiaries was a party during the year.

## Directors' Rights to Acquire Shares

Pursuant to the Company's executive share option scheme approved by the shareholders on 16 April 1994 (the "Share Option Scheme"), the Company granted options, at a cash consideration of HK\$1 per grantee, in favour of the following directors:

Name of director	Number of options outstanding as at 31 December 1999	Number of options granted during the year	Number of options exercised during the year	Number of options outstanding as at 31 December 2000	Exercise price	Exercise period
Mr. Li Hei Hu	-	35,000,000	-	35,000,000	HK\$0.272	22 January 2001 to 15 April 2004
Mr. Chen Chao	-	30,000,000	-	30,000,000	HK\$0.272	22 January 2001 to 15 April 2004
Mr. Li Jing Qi	-	30,000,000	-	30,000,000	HK\$0.272	22 January 2001 to 15 April 2004
Mr. Qiao Gang	-	15,000,000	-	15,000,000	HK\$0.272	22 January 2001 to 15 April 2004
Mr. Sheng Bin	-	30,000,000	-	30,000,000	HK\$0.272	22 January 2001 to 15 April 2004
Mr. Sun Yu Lin	-	15,000,000	-	15,000,000	HK\$0.272	22 January 2001 to 15 April 2004
Mr. To Chi Keung	-	15,000,000	-	15,000,000	HK\$0.272	22 January 2001 to 15 April 2004
Mr. Chen Xiao Xiong (Note 2)	16,000,000	-	16,000,000	-	HK\$0.165	4 March 1998 to 3 March 2003
Mr. Huang Jie Ping (Note 3)	16,000,000	-	16,000,000	-	HK\$0.165	4 March 1998 to 3 March 2003

## Directors' Rights to Acquire Shares (continued)

Name of director	Number of options outstanding as at 31 December 1999	Number of options granted during the year	Number of options exercised during the year	Number of options outstanding as at 31 December 2000	Exercise price	Exercise period
Mr. Chen Zhong Ling (Note 3)	16,000,000	-	16,000,000	-	HK\$0.165	4 March 1998 to 3 March 2003
Mr. Zeng Nan (Note 3)	8,000,000	-	8,000,000	-	HK\$0.165	4 March 1998 to 3 March 2003
Mr. Liu De Hui (Note 3)	3,000,000	-	3,000,000	-	HK\$0.165	4 March 1998 to 3 March 2003
Mr. Liu Zhi He (Note 4)	16,000,000	-	16,000,000	-	HK\$0.165	4 March 1998 to 3 March 2003
Mr. Liu Ji Peng (Note 4)	6,000,000	-	6,000,000	-	HK\$0.165	4 March 1998 to 3 March 2003
Mr. Tong Wang Chow (Note 5)	4,000,000	-	4,000,000	-	HK\$0.165	4 March 1998 to 3 March 2003

(Note 1) In accordance with the terms of the Share Option Scheme, the share options are exercisable within a period of 5 years from the date the share options are granted, or up to the expiry of the Share Option Scheme on 15 April 2004, whichever is earlier.

(Note 2) Mr. Chen Xiao Xiong resigned as a director of the Company on 4 July 2000.

(Note 3) Messrs. Huang Jie Ping, Chen Zhong Ling, Zeng Nan and Liu De Hui resigned as directors of the Company on 15 March 2000.

(Note 4) Messrs. Liu Zhi He and Liu Ji Peng resigned as directors of the Company on 24 March 2000.

(Note 5) Mr. Tong Wang Chow resigned as a director of the Company on 1 June 2000.

Save as disclosed above, at no time during the year was the Company, its holding company or any of its fellow subsidiaries and 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.

## Directors' Interests in Shares, Warrants, Options and Debentures

At 31 December 2000, according to the register maintained by the Company pursuant to Section 29 of the Securities (Disclosure of Interests) Ordinance ("SDI Ordinance"), Chapter 396 of the Laws of Hong Kong, save for the share options granted by the Company as disclosed above, none of the directors or their associates had any personal, family, corporate or other interest in the shares, warrants, options and debentures of the Company or any of its associated corporations as defined in the SDI Ordinance.

## Substantial Shareholders

At 31 December 2000, the following parties were interested directly or indirectly and/or deemed to be interested in 10% or more of the issued share capital of the Company, as recorded in the register of interests required to be maintained by the Company pursuant to Section 16(1) of the SDI Ordinance:

<b>Name</b>	<i>Notes</i>	<b>Number of ordinary shares held</b>	<b>Percentage of total issued shares</b>
Shenzhen Investment Holding Corporation ("SIHC")	(a)	6,040,667,875	54.42%
Ultrarich International Limited ("Ultrarich")		4,836,363,636	43.57%
Shenzhen Building Materials Group Company Limited ("SBM")	(b)	1,204,304,239	10.85%

(a) *Ultrarich and SBM owned 4,836,363,636 shares and 1,204,304,239 shares of the Company, respectively. Both Ultrarich and SBM are wholly-owned subsidiaries of SIHC. Thus, SIHC is also deemed to be the owner of the Company's shares held by Ultrarich and SBM.*

(b) *The 1,204,304,239 shares of the Company deemed to be owned by SBM include shares held by Euoway Developments Limited and True Honest Development Limited, both of which are wholly-owned subsidiaries of SBM.*

Save as disclosed above, the Company is not aware of any other parties holding 10% or more of the issued share capital of the Company that was required to be recorded pursuant to Section 16(1) of the SDI Ordinance.



## **Connected Transactions**

Details of significant related party transactions of the Group, which also constitute connected transactions under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”), are set out in note 2 to the financial statements.

With respect to the ongoing connected transactions entered into by the Group as set out in note 2(K) to the financial statements, The Stock Exchange of Hong Kong Limited (the “Exchange”), on application by the Company, granted to the Company a waiver from strict compliance with the connected transaction requirements as set out in the Listing Rules. In the opinion of the independent non-executive directors, the ongoing connected transactions were:

- (i) conducted in the ordinary and usual course of the Group’s business;
- (ii) on normal commercial terms or on terms no less favourable than terms available to or from independent third parties;
- (iii) in accordance with the relevant agreements on terms that are fair and reasonable so far as the shareholders of the Company are concerned and in the interest of the Company as a whole; and
- (iv) within the relevant annual cap amounts as agreed by the Exchange.

## **Post Balance Sheet Events**

Details of significant post balance sheet events of the Group are set out in note 36 to the financial statements.

## **Pension Scheme**

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the “Scheme”) under the Mandatory Provident Fund Schemes Ordinance, for all those employees who are eligible to participate in the Scheme. The Scheme became effective from 1 December 2000. Contributions are made based on a percentage of the employees’ basic salaries and are charged to the profit and loss account as they become payable in accordance with the rules of the Scheme. The assets of the Scheme are held separately from those of the Group in an independently-administered fund. The Group’s employer contributions vest fully with the employees when contributed to the Scheme except for the Group’s employer voluntary contributions, which are refunded to the Group when the employee leaves employment prior to the contributions vesting fully, in accordance with the rules of the Scheme.

## **Pension Scheme (continued)**

Prior to the Scheme became effective, the Group operated a defined contribution retirement benefits scheme for those employees who were eligible to participate in the scheme. This scheme operated in a similar way as the Scheme, except that when an employee left the scheme prior to his/her interest in the Group's employee contributions vesting fully, the ongoing contributions payable by the Group were reduced by the relevant amount of forfeited contributions. With effect from 1 December 2000, this scheme was terminated. The pension scheme contributions and forfeited contributions for the year were insignificant. At the balance sheet date, the amount of forfeited contributions available to the Group to reduce its contributions to the pension scheme in future years were insignificant.

The Company's subsidiaries in the PRC are members of the state-managed retirement benefits scheme operated by the PRC government. The retirement scheme contributions, which are based on a certain percentage of the salaries of the PRC subsidiaries' employees, are charged to the profit and loss account in the period to which they relate and represent the amount of contributions payable by these subsidiaries to this scheme. The contributions amounted to approximately HK\$11,848,000 for the year.

## **Audit Committee**

The Company established the audit committee in 1995. In establishing the terms of reference for this committee, the directors have had regard to the "Guide for the Formation of an Audit Committee" issued by the Hong Kong Society of Accountants. The committee comprises two independent non-executive directors, namely Mr. Leung Ming Yuen, Simon and Mr. Wang Xian Ping. The primary duties of the committee are to review and supervise the financial reporting and internal control procedures of the Group.

## **Compliance with the Code of Best Practice**

In the opinion of the directors, the Company complied with the Code of Best Practice throughout the accounting period covered by the annual report, as set out in Appendix 14 of the Listing Rules, except that the non-executive directors were not appointed for specific terms but are subject to retirement by rotation and re-election at the Company's annual general meeting in accordance with the bye-laws of the Company.

## **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

**Li Hei Hu**

Chairman

Hong Kong

9 April 2001