

REPORT OF THE DIRECTORS

The directors submit their report together with the audited financial statements for the year ended 31st December 2000.

PRINCIPAL ACTIVITIES AND GEOGRAPHICAL ANALYSIS OF OPERATIONS

The principal activity of the Company is investment holding. The Group is engaged principally in the sale of air tickets and sea cruise tickets, hotel reservation, provision of other related travel services and property investment.

An analysis of the Group's turnover and contribution to operating loss for the year by principal activity is set out in note 3 to the financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year are set out in the consolidated income statement on page 13. The directors do not recommend the payment of a dividend.

RESERVES

Movements in the reserves of the Group and the Company during the year are set out in note 19 to the financial statements.

FIXED ASSETS

Details of the movements in the fixed assets are set out in note 11 to the financial statements.

INVESTMENT AND LEASEHOLD PROPERTIES

Details of the Group's investment and leasehold properties are set out on pages 42 to 44.

SHARE CAPITAL AND WARRANTS

Particulars and movements of the share capital and warrants of the Company are set out in note 18 to the financial statements.

The net proceeds of approximately HK\$55.9 million from the open offer of shares on 17th July 2000 have all been applied to reduce the indebtedness of the Group.

DISTRIBUTABLE RESERVE

In view of the losses sustained by the Company, the directors are of the view that the Company had no reserves available for distribution to shareholders as at 31st December 2000.

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.

REPORT OF THE DIRECTORS *(continued)*

ANALYSIS OF BANK LOANS, OVERDRAFTS AND BORROWINGS

The particulars of the Group's bank loans, overdrafts and other borrowings as at 31st December 2000 are set out in note 20 to the financial statements.

FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years/periods is set out on pages 45 and 46.

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

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

DIRECTORS

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

Executive directors:

Ng Hung Sang, Robert
Cheung Choi Ngor, Christina
Richard Howard Gorges
Hui Wai Yin (appointed on 1st February 2000)
Yuen Kam Tim, Francis
Chan Cher Boon (resigned on 30th April 2000)

Independent non-executive directors:

Cheah Kim Teck
Chiu Sin Chun, Peter

In accordance with Clauses 87(1) and 169 of the Company's Bye-Laws, Mr Richard Howard Gorges and Mr Yuen Kam Tim, Francis will retire by rotation and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

DIRECTORS' SERVICE CONTRACTS

None of the directors who are proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable within one year without payment of compensation, other than statutory compensation.

REPORT OF THE DIRECTORS *(continued)*

BIOGRAPHICAL DETAILS OF DIRECTORS

Executive directors

Ng Hung Sang, Robert, aged 51, is the chairman and chief executive of South China Information and Technology Limited ("South China IT"), the chairman of South China Holdings Limited ("South China Holdings"), South China Online Limited ("South China Online"), South China Industries Limited ("South China Industries") and Wah Shing International Holdings Limited ("Wah Shing"). He holds a Master's degree in marketing from Lancaster University, the United Kingdom and is a fellow member of the Chartered Institute of Management Accountants. He was appointed as a director of the Company on 19th March 1999 and elected as the chairman of the Company on 14th April 1999.

Cheung Choi Ngor, Christina, aged 47, is the vice-chairman of South China Online, the vice-chairman and chief executive of South China Industries, the deputy chairman and chief executive of Wah Shing and a director of South China Holdings and South China IT. She holds a Master's degree in business administration from the University of Illinois, the United States of America. She was appointed as a director of the Company on 2nd March 1999 and elected as the deputy chairman of the Company on 14th April 1999.

Richard Howard Gorges, aged 57, is the vice-chairman of South China Online and South China industries, the deputy chairman of Wah Shing and a director of South China Holdings and South China IT. He holds a Master's degree in law from Cambridge University, the United Kingdom. He was appointed as a director of the Company on 19th March 1999.

Hui Wai Yin, aged 50, B.B.A., M.Acc., University of Georgia, C.P.A. (U.S.A.), F.C.C.A., F.H.K.S.A. He has gained wide experience in the purchase and management of manufacturing business and has served as executive director of a number of listed companies in the manufacturing sector. He is also the president of Onclever Limited. He was appointed as a director of the Company on 1st February 2000.

Yuen Kam Tim, Francis, aged 47, is a director of South China Holdings. He is responsible for the finance and administration of South China Holdings and its subsidiaries. He is a fellow member of the Institute of Chartered Secretaries and Administrator and The Hong Kong Institute of Company Secretaries. He has extensive experience in corporate administration work. He was appointed as a director of the Company on 2nd March 1999 and appointed as the secretary of the Company on 10th May 1999.

Independent non-executive directors

Cheah Kim Teck, aged 49, is an independent non-executive director of Wah Shing and is the president of Daimler Chrysler Singapore Pte Ltd.. He holds a Master's degree of Arts (Marketing) from University of Lancaster and sits on the management committee of St. Patrick's School and is also a Racing Steward with the Singapore Turf Club. He was appointed as an independent non-executive director of the Company on 1st June 1999.

Chiu Sin Chun, Peter, aged 51, has more than 25 years experience in the newspaper and media industry. He was appointed as an independent non-executive director of the Company on 1st July 1999.

REPORT OF THE DIRECTORS *(continued)*

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

No contracts of significance in relation to the Group's business to which the Company or its subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

CONNECTED TRANSACTIONS

Significant related party transactions entered by the Group during the year ended 31st December 2000, which also constitute connected transactions under the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited ("Listing Rules"), are disclosed in note 25 to the financial statements.

DIRECTORS' INTERESTS IN EQUITY OR DEBT SECURITIES

As at 31st December 2000, the interests of the directors and chief executives in the shares, warrants and options of the associated corporations of the Company (within the meaning of the Securities (Disclosures of Interests) Ordinance of Hong Kong ("SDI Ordinance") as recorded in the register maintained by the Company under Section 29 of the SDI Ordinance or as otherwise notified to the Company were as follows:

(a) Associated Corporation - South China IT

Directors	Number of ordinary shares		Number of outstanding share options <i>(Note i)</i>
	Personal interests	Corporate interests	
Cheung Choi Ngor, Christina	—	—	17,000,000

(b) Associated Corporation - South China Industries

Directors	Number of ordinary shares		Number of outstanding share options <i>(Note ii)</i>
	Personal interests	Corporate interests	
Ng Hung Sang, Robert	—	—	13,000,000
Richard Howard Gorges	—	—	13,000,000
Cheung Choi Ngor, Christina	—	—	13,000,000

REPORT OF THE DIRECTORS *(continued)*

DIRECTORS' INTERESTS IN EQUITY OR DEBT SECURITIES *(continued)*

(c) Associated Corporation - South China Holdings

Directors	Number of ordinary shares		Number of warrants		Number of outstanding share options <i>(Note v)</i>
	Personal interests <i>(Note iii)</i>	Corporate interests <i>(Note iii)</i>	Personal interests <i>(Note iv)</i>	Corporate interests <i>(Note iv)</i>	
Ng Hung Sang, Robert	18,886,800	318,132,403	3,777,360	63,626,480	4,199,000
Richard Howard Gorges	—	121,987,440	—	24,397,488	4,198,000
Cheung Choi Ngor, Christina	—	121,987,440	—	24,397,488	4,198,000
Yuen Kam Tim, Francis	—	—	—	—	719,000

(d) Associated Corporation - South China Online

Directors	Number of ordinary shares		Number of outstanding share options <i>(Note vi)</i>
	Personal interests	Corporate interests	
Ng Hung Sang, Robert	3,078,000	—	100,000,000
Richard Howard Gorges	16,174,000	—	50,000,000
Cheung Choi Ngor, Christina	—	—	100,000,000
Yuen Kam Tim, Francis	7,175,000	—	—

(e) Associated Corporation - The Express News Limited ("Express News")

Directors	Number of ordinary shares	
	Personal interests	Corporate interests <i>(Note vii)</i>
Ng Hung Sang, Robert	—	30

Notes:

- (i) Under the employee share option scheme of South China IT adopted on 13th October 1997, Cheung Choi Ngor, Christina was granted a total of 17,000,000 options during the year. The options are exercisable on or before 12th October 2007 at the respective initial subscription prices of HK\$1.28 and HK\$0.51 per share (subject to adjustment).
- (ii) Under the employee share option scheme of South China Industries adopted on 10th August 1992, the options are exercisable on or before 28th July 2002 at an initial subscription price of HK\$1.18 per share (subject to adjustment).

REPORT OF THE DIRECTORS *(continued)*

DIRECTORS' INTERESTS IN EQUITY OR DEBT SECURITIES *(continued)*

- (iii) Ng Hung Sang, Robert, Richard Howard Gorges and Cheung Choi Ngor, Christina, through companies wholly-owned and controlled by them, have interests in 121,987,440 shares in South China Holdings. Ng Hung Sang, Robert personally owns 18,886,800 shares and through companies wholly-owned and controlled by him, beneficially owns 196,144,963 shares in South China Holdings.
- (iv) Ng Hung Sang, Robert, Richard Howard Gorges and Cheung Choi Ngor, Christina, through companies wholly-owned and controlled by them, have interests in 24,397,488 warrants in South China Holdings. Ng Hung Sang, Robert personally owns 3,777,360 warrants and through companies wholly-owned and controlled by him, beneficially owns 39,228,992 warrants in South China Holdings.
- (v) Under the employee share option scheme of South China Holdings adopted on 29th July 1992, the options are exercisable on or before 28th July 2002 at the respective initial subscription prices of HK\$1.36 and HK\$0.88 per share (subject to adjustment).
- (vi) Under the employee share option scheme of South China Online adopted on 12th July 1993, the options are exercisable on or before 11th July 2003 at an initial subscription price of HK\$1.80 per share (subject to adjustment).
- (vii) Ng Hung Sang, Robert and his family, through a company wholly-owned and controlled by them, have interests in 30 shares in Express News.

Save as aforesaid, as at 31st December 2000, none of the directors, chief executives (including their spouse and children under 18 years of age) had any interest in, or had been granted, or exercised any rights to subscribe for the equity or debt securities of the Company or its associated corporations required to be disclosed under the SDI Ordinance.

SUBSTANTIAL SHAREHOLDERS

The register of substantial shareholders maintained under Section 16(1) of the SDI Ordinance shows that as at 31st December 2000, the Company had been notified of the following substantial shareholders' interests, being 10% or more of the Company's issued share capital.

Name of shareholder	Note	Number of ordinary shares
Universal Yield Limited	a	1,693,824,960
South China Holdings	a	1,693,824,960

Note:

- (a) Universal Yield Limited is a wholly owned subsidiary of South China IT which is a subsidiary of South China Industries. South China Industries is a subsidiary of South China Holdings. The intermediary companies of the above are deemed to be interested in the same parcel of 1,693,824,960 shares.

REPORT OF THE DIRECTORS *(continued)*

MANAGEMENT CONTRACTS

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

MAJOR CUSTOMERS AND SUPPLIERS

During the year, the Group sold less than 30% of its goods and services to its five largest customers. The aggregate purchase attributable to the Group's five largest suppliers was 62%, of which 33% was made from the largest supplier.

None of the directors, their associates or any shareholders (which to the knowledge of the directors owned more than 5% of the Company's share capital) had an interest in the major suppliers noted above.

COMPLIANCE WITH THE CODE OF BEST PRACTICE OF THE LISTING RULES

In the opinion of the directors, the Company has complied with the Code of Best Practice ("the Code") as set out in Appendix 14 of the Listing Rules throughout the accounting period covered by the annual report, except that non-executive directors of the Company are not appointed for a specific terms but are subject to retirement by rotation in accordance with the Bye-Laws of the Company. In the opinion of the directors, this meets the objective of the Code.

AUDITORS

Deloitte Touche Tohmatsu resigned as auditors of the Company on 9th April 1999. PricewaterhouseCoopers were appointed to fill the causal vacancy. Apart from this, there have been no changes in auditors of the Group in any of the preceding three years.

A resolution to re-appoint the retiring auditors, PricewaterhouseCoopers, will be proposed at the Annual General Meeting.

On behalf of the Board
Ng Hung Sang, Robert
Chairman

Hong Kong Special Administrative Region of the People's Republic of China
 24th April 2001