

REPORT OF THE DIRECTORS

The Directors present their report together with the audited financial statements of the Company and its subsidiaries (the “Group”) for the year ended 31 December 2000.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding and the principal activities of its principal subsidiaries are primarily property development and investment in Mainland China. There were no changes in the nature of the Group’s principal activities during the year.

SEGMENTAL INFORMATION

An analysis of the Group’s turnover and contribution to profit before tax by operating activity is as follows:

	Turnover		Contribution to profit before tax	
	2000 HK\$’000	1999 HK\$’000	2000 HK\$’000	1999 HK\$’000
By operating activity:				
Sale and pre-sale of properties	170,327	139,869	95,279	51,518
Property investment	7,468	8,101	7,468	8,101
	<u>177,795</u>	<u>147,970</u>	<u>102,747</u>	<u>59,619</u>
Other revenue:				
Sale and pre-sale of properties			2,942	805
Property investment			5	14,511
			<u>2,947</u>	<u>15,316</u>
Expenses:				
Selling and distribution costs:				
Sale and pre-sale of properties			(22,041)	(6,086)
Administrative expenses:				
Sale and pre-sale of properties			(24,301)	(49,227)
Property investment			(1,229)	(404)
			<u>(25,530)</u>	<u>(49,631)</u>
Other operating expenses:				
Sale and pre-sale of properties			(28,043)	—
Property investment			—	(432)
Investment holding			(5,402)	(5,456)
			<u>(33,445)</u>	<u>(5,888)</u>
Finance costs:				
Sale and pre-sale of properties			(2,176)	(541)
Property investment			(861)	—
			<u>(3,037)</u>	<u>(541)</u>
Profit before tax			<u>21,641</u>	<u>12,789</u>

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SEGMENTAL INFORMATION *(continued)*

The Group's turnover and contribution to profit before tax were principally derived from operations in Mainland China and, accordingly, an analysis of such activities by geographical area of operations is not shown.

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 as at that date are set out in the financial statements on pages 29 to 61.

An interim dividend of HK0.8 cent per share was paid on 30 November 2000.

The Directors recommend the payment of a final dividend of HK1.2 cents per share in respect of the year to shareholders whose names appear on the register of members on Friday, 22 June 2001. This recommendation has been incorporated in the financial statements.

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SUMMARY OF FINANCIAL INFORMATION

RESULTS

The following is a summary of the published combined/consolidated results and of the assets and liabilities of the Group for the five years ended 31 December 2000, which have been prepared on the basis set out in notes 1 and 2 below.

	Year ended 31 December				
	2000	1999	1998	1997	1996
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Turnover	<u>177,795</u>	<u>147,970</u>	<u>171,534</u>	<u>471,293</u>	<u>160,425</u>
Profit before tax	21,641	12,789	72,619	230,374	72,312
Tax	<u>(11,513)</u>	<u>(10,571)</u>	<u>(23,680)</u>	<u>(53,350)</u>	<u>(17,015)</u>
Profit before minority interests	10,128	2,218	48,939	177,024	55,297
Minority interests	<u>—</u>	<u>(38)</u>	<u>(41)</u>	<u>(689)</u>	<u>(147)</u>
Net profit from ordinary activities					
attributable to shareholders	<u>10,128</u>	<u>2,180</u>	<u>48,898</u>	<u>176,335</u>	<u>55,150</u>
Dividends	<u>11,920</u>	<u>16,688</u>	<u>32,737</u>	<u>60,000</u>	<u>44,000</u>

ASSETS AND LIABILITIES

	Year ended 31 December				
	2000	1999	1998	1997	1996
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
TOTAL ASSETS	1,393,558	1,305,148	1,293,216	1,298,285	1,310,192
TOTAL LIABILITIES	(568,779)	(482,518)	(428,451)	(399,440)	(412,113)
MINORITY INTERESTS	<u>—</u>	<u>—</u>	<u>(1,230)</u>	<u>(1,189)</u>	<u>(500)</u>
NET ASSETS	<u>824,779</u>	<u>822,630</u>	<u>863,535</u>	<u>897,656</u>	<u>897,579</u>

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SUMMARY OF FINANCIAL INFORMATION *(continued)*

Notes:

- (1) The results of the Group for the year ended 31 December 1996 have been extracted from the Company's prospectus dated 25 September 1998. The results for the two years ended 31 December 1998 have been extracted from the audited financial statements of the Group. The results for the two years ended 31 December 2000 are extracted from the audited consolidated profit and loss account, as set out on page 29 of the financial statements.
- (2) The assets and liabilities of the Group as at 31 December 1996 have been extracted from the Company's prospectus dated 25 September 1998. The assets and liabilities as at 31 December 1997 and 31 December 1998 have been extracted from the audited financial statements of the Group. The assets and liabilities of the Group as at 31 December 1999 and 31 December 2000 are extracted from the audited consolidated balance sheet on page 31 of the financial statements.

FIXED ASSETS AND INVESTMENT PROPERTIES

Details of movements in the fixed assets of the Company and of the Group, and of the investment properties of the Group during the year are set out in notes 12 and 13, respectively, to the financial statements.

PROPERTIES UNDER DEVELOPMENT

Details of the properties under development of the Group are set out in note 14 to the financial statements.

PRINCIPAL SUBSIDIARIES

Particulars of the Company's principal subsidiaries are set out in note 15 to the financial statements.

JOINTLY-CONTROLLED ENTITY

Particulars of the Group's interest in its jointly-controlled entity are set out in note 16 to the financial statements.

CONNECTED TRANSACTIONS

Particulars of the connected transactions during the year are set out in note 30 to the financial statements.

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BANK LOANS AND BORROWINGS

Details of the bank loans and borrowings of the Group are set out in note 23 to the financial statements.

INTEREST CAPITALISED

Interest of approximately HK\$10,432,000 (1999: HK\$6,025,000) was capitalised during the year in respect of the Group's properties under development.

SHARE CAPITAL

Details of movements in the Company's issued share capital during the year, together with the reasons therefor, are set out in note 24 to the financial statements.

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.

RESERVES

Details of movements in the reserves of the Company and of the Group during the year are set out in note 25 to the financial statements.

DISTRIBUTABLE RESERVES

At the balance sheet date, the Company's reserves available for cash distribution and distribution in specie were HK\$437,943,000 (1999: HK\$476,397,000). In addition, in accordance with the laws of Bermuda, the Company's share premium account, in the amount of HK\$220,002,000, may be distributed in the form of fully paid bonus shares.

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FINANCIAL RESOURCES AND LIQUIDITY

The Group generally finances its operations with internally generated cash flow and facilities provided by banks in Mainland China. At the balance sheet date, the Group had cash and bank balances and fixed term deposits totalling HK\$8,491,000.

At the balance sheet date, the Group had aggregate bank loans of approximately HK\$187,334,000, of which, approximately HK\$151,508,000 is repayable within one year from the balance sheet date. The bank loans may revolve for another one year.

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers accounted for 31% (1999: 44%) of the total sales for the year and sales to the largest customer included therein amounted to 25% (1999: 23%). The largest and the five largest suppliers accounted for 59% (1999: 54%) and 77% (1999: 64%) respectively, of the Group's total purchases for the year.

As far as the Directors are aware, neither the Directors, their respective associates, nor any shareholders (which, to the best knowledge of the Directors, own more than 5% of the Company's issued share capital) had any beneficial interest in the Group's five largest customers or five largest suppliers.

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DIRECTORS

The Directors of the Company during the year were:

Executive Directors

Ho Tsam Hung, Chairman

Ho Pak Hung, Deputy Chairman

Ho Kam Hung, Managing Director

Lam Ling Tak

Ng Min, Benjamin *(resigned on 18 September 2000)*

Independent Non-Executive Directors

Tsao Kwang Yung, Peter

Kwok Lam Kwong, Larry

Chan Chiu Kwok, Charles

In accordance with the Company's bye-laws, Messrs. Ho Pak Hung and Tsao Kwang Yung, Peter will retire and, being eligible, offer themselves for re-election at the forthcoming Annual General Meeting.

The terms of appointment of the independent non-executive Directors will expire when they are required to retire by rotation, in accordance with the Company's bye-laws.

REPORT OF THE DIRECTORS

DIRECTORS' INTERESTS IN THE SHARES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS

At the balance sheet date, the interests of the Directors in the equity or debt securities of the Company or any of its associated corporations (within the meaning of the Securities (Disclosure of Interests) Ordinance (“SDI Ordinance”)) as recorded in the register maintained by the Company pursuant to Section 29 of the SDI Ordinance, or which are required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the “Model Code”), were as follows:

The Company

Name of director	Corporate interests
Ho Tsam Hung	54,000,000 <i>(Note 1)</i>
Ho Pak Hung	54,000,000 <i>(Note 2)</i>
Ho Kam Hung	54,000,000 <i>(Note 3)</i>
Lam Ling Tak	19,147,676 <i>(Note 4)</i>

Notes:

- (1) 54,000,000 shares were beneficially held by Ho Tsam Hung through Morgan Estate Assets Limited.
- (2) 54,000,000 shares were beneficially held by Ho Pak Hung through On Tai Profits Limited.
- (3) 54,000,000 shares were beneficially held by Ho Kam Hung through Morcambe Corporation.
- (4) 19,147,676 shares were beneficially held by Lam Ling Tak through Tasman Treasure Profits Limited.

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DIRECTORS' INTERESTS IN THE SHARES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS *(continued)*

Associated corporations

At the balance sheet date, the following Directors had interests in the number of non-voting deferred shares in the Company's subsidiaries:

(a) Interests in the number of non-voting deferred shares of Powerex Investment Limited

Name	Personal interests	Corporate interests	Total
Ho Tsam Hung	91	9,997*	10,088
Ho Pak Hung	91	9,997*	10,088
Ho Kam Hung	91	9,997*	10,088
Lam Ling Tak	27	9,997*	10,024

* *These non-voting deferred shares were held by Smart Hero Investment Limited, whose entire issued share capital of 10,000,000 shares were held by Shun Fat (Holdings) Limited ("Shun Fat") as to 9,986,667 shares, Ho Tsam Hung as to 3,334 shares and Ho Pak Hung, Ho Kam Hung and Lam Ling Tak as to 3,333 shares each. Shun Fat was held equally by Ho Tsam Hung, Ho Pak Hung, Ho Kam Hung and Lam Ling Tak.*

(b) Interests in the number of non-voting deferred shares of Dongxum Real Estate Development Company Limited

Name	Personal interests	Total
Ho Tsam Hung	91	91
Ho Pak Hung	91	91
Ho Kam Hung	91	91
Lam Ling Tak	27	27

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DIRECTORS' INTERESTS IN THE SHARES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS *(continued)*

Associated corporations *(continued)*

(c) Interests in the number of non-voting deferred shares of Smart Hero (Holdings) Limited

Name	Personal interests	Total
Ho Tsam Hung	91	91
Ho Pak Hung	91	91
Ho Kam Hung	91	91
Lam Ling Tak	27	27

(d) Interests in the number of non-voting deferred shares of China Land Realty Investment Limited

Name	Personal interests	Total
Ho Tsam Hung	91	91
Ho Pak Hung	91	91
Ho Kam Hung	91	91
Lam Ling Tak	27	27

The rights and restrictions attached to the aforementioned non-voting deferred shares are set out in note 15 to the financial statements.

Save as disclosed above, as at the balance sheet date, none of the Directors or their respective associates had, or were deemed to have, any interest in the securities of the Company or any of its associated corporations (within the meaning of the SDI Ordinance) which required notification, pursuant to Section 28 of the SDI Ordinance (including interests which any such Director is deemed or taken to have under Section 31 of or Part I of the Schedule to the SDI Ordinance) or which are required, pursuant to Section 29 of the SDI Ordinance, to be entered in the register maintained by the Company, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

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DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

Save as disclosed in notes 30 and 31 to the financial statements, no contracts of significance in relation to the business of the Group to which the Company or any of its subsidiaries was a party and in which a Director had a material interest, whether directly or indirectly, subsisted as at the balance sheet date or at any time during the year and subsequent thereto.

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 existed during the year.

DIRECTORS' SERVICE CONTRACTS

Each of Messrs. Ho Tsam Hung, Ho Pak Hung, Ho Kam Hung, Lam Ling Tak and Ng Min, Benjamin, entered into a service contract with the Company in 1997 for an initial term of three years, which, not earlier than six months prior to the date of expiry of the initial fixed term of service, may be terminated by either party to the contract by giving at least six months' notice in writing. All of their service contracts have been expired on 18 September 2000.

Save as disclosed above, no Director had 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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RELATED PARTY TRANSACTIONS

During the year, pursuant to two tenancy agreements dated 27 May 1999 and 30 May 2000, the Group received rentals from a company beneficially owned by certain Directors, details of which are set out in notes 31(a) and (b) to the financial statements. The independent non-executive Directors have reviewed the terms of the tenancy agreements and the rentals paid and confirmed to the Board of Directors that, in their opinion:

- (i) the terms of the tenancy agreements are:
 - (a) in the ordinary course of business of the Group; and
 - (b) on normal commercial terms and on terms that are fair and reasonable so far as the shareholders of the Company are concerned; and
- (ii) the rentals have been settled in accordance with the terms of the tenancy agreements.

Details of other related party transactions are set out in notes 30 and 31 to the financial statements.

COMPETING BUSINESS

Pursuant to Rule 8.10(2) of the Listing Rules, details of the interests held by certain Directors in a business, which competes or is likely to compete with the Group, are disclosed as follows:

Certain Directors, through a private company, hold interest in a development site located at Jie Fang Nan Road, Yuexiu District, Guangzhou with an intention to develop into residential and commercial properties. The site presently is erected with a temporary distribution centre for shoes and related products. The distribution centre is currently managed by a separate management team which is independent from the management of the Group. Given the different location and market segment of the distribution centre, which is situated at Yuexiu District, and of the Group's shopping arcade, which is situated at Haizhu District, the Directors consider that competition between the two properties is remote and unlikely.

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PROFILES OF DIRECTORS AND SENIOR MANAGEMENT

Directors

Name	Age	Position	Number of years of service with the Group	Business experience
Ho Tsam Hung	48	Chairman	10	Over 10 years' experience in property development and investment in Mainland China
Ho Pak Hung	50	Deputy Chairman	10	Over 10 years' experience in property development and investment in Mainland China
Ho Kam Hung	46	Managing Director	10	Over 10 years' experience in property development and investment in Mainland China
Lam Ling Tak	50	Executive Director	10	Over 9 years' experience in property development and investment in Mainland China
Ng Min, Benjamin (resigned on 18 September 2000)	38	Executive Director	4	Over 8 years' experience in project management and is a registered architect in Hong Kong

REPORT OF THE DIRECTORS

PROFILES OF DIRECTORS AND SENIOR MANAGEMENT *(continued)*

Directors *(continued)*

Name	Age	Position	Number of years of service with the Group	Business experience
Tsao Kwang Yung, Peter	65	Independent Non-Executive Director	3 ¹ / ₂	Over 31 years' experience in the civil service of the Hong Kong Government
Kwok Lam Kwong, Larry	45	Independent Non-Executive Director	3 ¹ / ₂	Practising solicitor for over 16 years
Chan Chiu Kwok, Charles	40	Independent Non-Executive Director	3 ¹ / ₂	Over 16 years' experience in the property field and is a registered professional surveyor

Senior management

Ho, Carrie Bernadette	42	Chief Financial Officer and Company Secretary	1	Over 18 years' experience in accounting and corporate finance
Yu Chau Ling, Tracy	33	Group Financial Controller	3 ¹ / ₂	Over 10 years' experience in accounting and company secretarial affairs
Chun Wai Yin, Alex	35	Accounting Manager	9	Over 13 years' experience in accounting and treasury management

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EMPLOYEES AND REMUNERATION POLICY

The Group employed approximately 92 full time staff in Hong Kong and Mainland China as at 31 December 2000. Employees are remunerated according to the nature of their job and market trend, with built-in merit components incorporated in the annual increment to reward and motivate individual performance. In Mainland China, the Group provides staff welfare and bonuses to its employees in accordance with the prevailing labour law. In Hong Kong, other staff benefits include medical schemes, mandatory provident fund schemes and employee share option scheme.

RETIREMENT BENEFITS SCHEME

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the “Scheme”) under the Mandatory Provident Fund Schemes Ordinance, for 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 accounts 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 into the Scheme.

Prior to the Scheme being effective, the Group operated a defined contributions retirement benefits scheme for those employees who were eligible to participate in the scheme. This scheme operated in a similar way to the Scheme, except that when an employee left the scheme prior to his/her interest in the Group’s employer contributions vesting fully, the ongoing contributions payable by the Group were reduced by the relevant amount of forfeited contributions. This scheme was terminated with effect from 1 December 2000.

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SUBSTANTIAL SHAREHOLDERS

At the balance sheet date, as far as the Directors were aware, the register of substantial shareholders maintained by the Company, pursuant to Section 16(1) of the SDI Ordinance, showed that the following shareholders other than the Directors whose interests are disclosed above had an interest of 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company or any of its subsidiaries.

Name	Number of Shares Held
High Rank Enterprises Limited	228,000,000

Save as disclosed above, the Company had not been notified of any other interest representing 10% or more in the issued share capital of the Company at the balance sheet date.

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

The Company has a share option scheme approved by the shareholders at a special general meeting on 19 September 1997 under which the Directors may, at their discretion, invite any employee or executive director of the Group to take up options to subscribe for shares in the Company. The particulars of the share option scheme are set out in note 24 to the financial statements. No share options were granted during the financial year ended 31 December 2000.

Save as disclosed above, at no time during the year was the Company or any of its subsidiaries a party to any arrangement to enable the Directors or their respective associates to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

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

REPORT OF THE DIRECTORS

POST BALANCE SHEET EVENTS

Details of the significant post balance sheet events of the Group are set out in note 32 to the financial statements.

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 during the year.

The Company appointed three non-executive directors of the Company as members of the Audit Committee. It was established on 11 May 1999 to assist the Board of Directors in fulfilling its duties by reviewing and supervising the Company's financial reporting process and internal controls.

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

Ho Kam Hung

Managing Director

Hong Kong, 24 April 2001