

DIRECTORS' REPORT

The directors present their report and audited financial statements of the Company and its subsidiaries (the "Group") for the period from 1st April, 2000 to 31st December, 2000.

CHANGE OF FINANCIAL YEAR END DATE

During the period, the Company changed its financial year end date from 31st March to 31st December. The financial statements presented therefore cover the nine-month period from 1st April, 2000 to 31st December, 2000.

The majority of the Group's businesses are operated by a subsidiary and a jointly controlled entity in The People's Republic of China (the "PRC") where they are required by statutes to adopt 31st December as the fiscal year end. The directors believe the change of the Company's financial year end to 31st December would facilitate the preparation of the Group's consolidated financial information.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. The principal activities of its principal subsidiaries and jointly controlled entity are set out in notes 13 and 14 to the financial statements respectively.

RESULTS

The results of the Group for the period from 1st April, 2000 to 31st December, 2000 are set out in the consolidated income statement on page 20 of the annual report.

MAJOR CUSTOMERS AND SUPPLIERS

During the period, the aggregate sales attributable to the Group's five largest customers were less than 30% of the Group's total sales. The five largest suppliers of the Group accounted for approximately 38% of the Group's total purchases. The largest supplier accounted for approximately 12% of the total purchases of the Group.

None of the directors, their associates or any shareholders (which to the knowledge of the directors own more than 5% of the Company's share capital) had any interest in the five largest suppliers.

FINANCIAL SUMMARY

A summary of the results, assets and liabilities of the Group for the past five financial periods is set out on page 55 of the annual report.

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SHARE CAPITAL AND SHARE OPTIONS

There were no changes in the issued share capital of the Company during the period.

Details of the movements during the period in the share options of the Company are set out in note 23 to the financial statements.

RESERVES

Details of the movements during the period in the reserves of the Group and the Company are set out in note 24 to the financial statements.

The Company had no distributable reserve at 31st December, 2000.

INVESTMENT PROPERTIES

At 31st December, 2000, the investment properties of the Group were revalued by an independent firm of professional property valuers on an open market value basis. Of the deficit of HK\$3 million arising on the revaluation, HK\$2 million has been charged to the investment properties revaluation reserve and the remaining balance of HK\$1 million, being the excess of the deficit over the balance on the investment properties revaluation reserve, has been charged to the income statement.

Details of these and other movements during the period in investment properties of the Group are set out in note 11 to the financial statements.

PROPERTY, PLANT AND EQUIPMENT

During the period, the Group incurred costs on construction in progress of approximately HK\$4 million and acquired other fixed assets of approximately HK\$1.6 million for the purpose of expanding the Group's business. Details of these and other movements during the period in property, plant and equipment of the Group and the Company are set out in note 12 to the financial statements.

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DIRECTORS AND DIRECTORS' SERVICE CONTRACTS

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

Executive directors:

Wang Jun (*Chairman*)

He Ping (*Vice-Chairman*)

Xie Da Tong (*Managing Director*)

Ji Jun (*Deputy Managing Director*)

Li Shi Liang (*Deputy Managing Director*)

Li Tong Zhou

Kwan Ying Wai, Steven (*Vice-Chairman*) (resigned on 22nd August, 2000)

Independent non-executive directors:

Seto Gin Chung, John

Fung Wing Cheung, Tony

Zhuang Shoucang

Ip Chun Chung, Robert (appointed on 10th January, 2001)

Lam Tak Shing (appointed on 10th January, 2001)

In accordance with Articles 96 and 105 of the Company's Articles of Association, Messrs. Wang Jun, Xie Da Tong, Seto Gin Chung, John, Ip Chun Chung, Robert and Lam Tak Shing will retire and, being eligible, offer themselves for re-election.

The term of office of each of the non-executive directors lasts until his retirement by rotation in accordance with the Company's Articles of Association.

None of the directors being proposed for re-election at the forthcoming annual general meeting has a service contract with the Company or any of its subsidiaries which is not determinable by the Group within one year without payment of compensation, other than statutory compensation.

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DIRECTORS' INTERESTS IN SECURITIES

At 31st December, 2000, according to the register maintained by the Company under Section 29 of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance"), the following directors held options to subscribe for the number of shares of HK\$0.50 each (the "Share(s)") in the Company as follows:

Name of director	Number of Shares subject to the options (Note 1)			Total
	Granted on 3.9.1997 (Note 2)	Granted on 5.6.1998 (Note 3)	Granted on 30.11.2000 (Note 4)	
Wang Jun	10,000,000	10,000,000	7,000,000	27,000,000
He Ping	10,000,000	10,000,000	7,000,000	27,000,000
Xie Da Tong	8,000,000	8,000,000	5,500,000	21,500,000
Ji Jun	5,000,000	5,000,000	3,400,000	13,400,000
Li Shi Liang	—	—	8,400,000	8,400,000
Kwan Ying Wai, Steven (Note 5)	8,000,000	3,000,000	—	11,000,000

Notes:

- All options were granted to the directors under the share option scheme of the Company without consideration.
- The options granted on 3rd September, 1997 are exercisable from 3rd September, 1997 to 2nd September, 2007 (both days inclusive) at an exercise price of HK\$1.27 per Share.
- The options granted on 5th June, 1998 are exercisable from 5th June, 1998 to 4th June, 2008 (both days inclusive) at an exercise price of HK\$0.50 per Share.
- The options granted on 30th November, 2000 are exercisable from 30th November, 2000 to 29th November, 2010 (both days inclusive) at an exercise price of HK\$0.50 per Share.
- Mr. Kwan Ying Wai, Steven resigned as a director of the Company on 22nd August, 2000.

Save as disclosed above, at 31st December, 2000, none of the directors, chief executive or their associates had any personal, family, corporate or other interests in the securities of the Company or any of its associated corporations as defined in the SDI Ordinance which is required to be recorded in the register maintained under Section 29 of the SDI Ordinance or otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Companies in the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules").

DIRECTORS' REPORT

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed in the section "Directors' interests in securities" above, at no time during the period was the Company or its subsidiaries a party to any arrangements to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debt securities (including debentures) of, the Company or any other body corporate and none of the directors, or their spouses or children under the age of 18, had any rights to subscribe for securities of the Company, or had exercised any such rights.

SUBSTANTIAL SHAREHOLDERS

At 31st December, 2000, according to the register of substantial shareholders maintained by the Company under Section 16(1) of the SDI Ordinance, the following shareholders were interested in 10% or more of the issued share capital of the Company:

Name of shareholders	Number of Shares held
Silver Spirit Enterprises Limited (<i>Note 1</i>)	243,488,000
Golden Mountain Limited (<i>Note 1</i>)	253,805,104
Silver Point Assets Limited (<i>Notes 1 and 2</i>)	497,293,745
Continental Mariner Investment Company Limited ("CMIC") (<i>Notes 2 and 3</i>)	546,389,745
Source Holdings Limited (<i>Notes 3, 4 and 5</i>)	546,389,745
Ting Shing Holdings Limited (<i>Notes 3, 4 and 5</i>)	546,389,745
Ringo Trading Limited (<i>Notes 4 and 5</i>)	546,389,745
China Poly Group Corporation ("China Poly") (<i>Note 5</i>)	546,389,745

Note:

1. Silver Spirit Enterprises Limited and Golden Mountain Limited are wholly owned subsidiaries of Silver Point Assets Limited which is deemed by the SDI Ordinance to be interested in 243,488,000 and 253,805,104 Shares of the Company beneficially owned by Silver Spirit Enterprises Limited and Golden Mountain Limited respectively.
2. Silver Point Assets Limited is the beneficial owner of 641 Shares of the Company. It is a wholly owned subsidiary of CMIC which is deemed by the SDI Ordinance to be interested in 497,293,745 Shares beneficially owned by Silver Point Assets Limited.
3. Source Holdings Limited, the controlling shareholder of CMIC, is a subsidiary of Ting Shing Holdings Limited.
4. These companies are subsidiaries of China Poly, a stated-owned enterprise established in the PRC.
5. These companies are deemed to be interested in the 546,389,745 Shares of the Company under the SDI Ordinance, by virtue of their interests in CMIC.

Save as disclosed above, the Company has not been notified of any other interests representing 10% or more of the issued share capital of the Company at 31st December, 2000.

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CONNECTED TRANSACTIONS

Details of the discloseable connected transactions during the period are set out in note 35 to the financial statements. Save as disclosed therein, there were no other transactions which need to be disclosed as connected transactions in accordance with the requirements of the Listing Rules.

The independent non-executive directors have reviewed the connected transactions set out in note 35 to the financial statements. In their opinion, these transactions were entered into by the Group:

- (i) in the ordinary and usual course of business of the Group;
- (ii) on normal commercial terms or on terms that are fair and reasonable so far as the shareholders of the Company are concerned;
- (iii) in accordance with the terms of the agreements governing such transactions or on terms no less favourable than terms available to third parties; and
- (iv) within the relevant limits approved by the Stock Exchange.

DIRECTORS' INTERESTS IN CONTRACTS

There were no contracts of significance to which the Company or any of its subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisting at the end of the period or at any time during the period.

MANAGEMENT CONTRACT

The Company had entered into a management agreement with CMIC Management Services Limited, a subsidiary of CMIC, for the provision of general corporate management and consultancy services to the Company with effect from 16th August, 1993.

Save as disclosed above, 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 period.

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

During the period, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

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CORPORATE GOVERNANCE

In the opinion of the directors, the Company has complied throughout the period from 1st April, 2000 to 31st December, 2000 with the Code of Best Practice as set out in Appendix 14 of the Listing Rules, except that the independent non-executive directors are not appointed for a specific term but are subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the Company's Articles of Association.

AUDITORS

A resolution will be proposed at the forthcoming annual general meeting of the Company to re-appoint Messrs. Deloitte Touche Tohmatsu as auditors of the Company.

On behalf of the Board

XIE Da Tong

Managing Director

23rd April, 2001