

Directors' Report

The directors present their annual report and the audited financial statements of the Company for the year ended 31st December, 2000.

PRINCIPAL ACTIVITIES

The Company acts as an investment holding company and provides corporate management services. The activities of its principal subsidiaries and associates are set out in notes 16 and 17 to the financial statements, respectively.

SUBSIDIARIES AND ASSOCIATES

During the year, the Company acquired a 100% interest in Originsoft (Zhengzhou) Co., Ltd. ("Originsoft") 思源 (鄭州) 軟件有限公司, an internet software service provider established in the People's Republic of China ("PRC").

Particulars of the Company's principal subsidiaries and associates at 31st December, 2000 are set out in notes 16 and 17 to the financial statements, respectively.

RESULTS

Details of the results of the Group for the year ended 31st December, 2000 are set out in the consolidated income statement on page 18.

RESERVES

Movements in the reserves of the Group and the Company during the year are set out in note 30 to the financial statements.

FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the past five financial periods is set out on page 56.

PROPERTY, PLANT AND EQUIPMENT

During the year, the directors considered that there had been a decline in the recoverable amount in certain of the Group's property, plant and equipment and an impairment loss of HK\$127,000,000 was recognised in the financial statements.

Details of this and other movements in the property, plant and equipment of the Group and the Company during the year are set out in note 15 to the financial statements.

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SHARE CAPITAL AND SHARE OPTIONS

- (i) On 17th January, 2000, Fulham Associates Limited (“Fulham”), a substantial shareholder of the Company which was beneficially interested in approximately 22.9% of the issued share capital of the Company, agreed to sell 170,000,000 shares in the Company to independent professional investors at HK\$0.41 per share. Fulham also agreed on the same day to subscribe for 170,000,000 new shares at HK\$0.41 per share less all costs and expenses incurred for the placing. The 170,000,000 new shares were allotted to Fulham on 31st January, 2000. The net proceeds of the placement of approximately HK\$68 million were used to expand the Group’s cable broadcasting and television network as well as for general working capital.
- (ii) On 21st March, 2000, the Company issued 140,864,147 ordinary shares of HK\$0.2 each to acquire the entire interest in Originsoft. The market price of the Company’s shares at date of issue was HK\$0.53 per share.
- (iii) At the extraordinary general meeting held on 23rd May, 2000, the shareholders of the Company approved the increase in the authorised share capital of the Company from HK\$600,000,000 comprising 3,000,000,000 shares of HK\$0.2 each to HK\$1,200,000,000 comprising 6,000,000,000 shares of HK\$0.2 each by creating an additional 3,000,000,000 shares of HK\$0.2 each.
- (iv) On 31st May, 2000, pursuant to two agreements dated 29th March, 2000 as approved by shareholders of the Company on 23rd May, 2000, the Company issued a total of 300,000,000 ordinary shares of HK\$0.2 each at a cash price of HK\$0.2 per share to Chamber Spirit Limited (“CSL”), a company beneficially owned by Messrs. Zhao Bing and Che Fung, former executive directors of the Company and to Joint Tech Properties Limited (“JTPL”), a company beneficially owned by the China Sciences Industries Limited. The net proceeds of approximately HK\$56 million was used to diversify the Group’s business into the field of telecommunication and high technology projects. Pursuant to the agreements, the Company also granted options to CSL and JTPL to subscribe for another 260,000,000 new shares and 140,000,000 new shares respectively at a cash subscription price of HK\$0.22 per share within one year from 31st May, 2000. Each of CSL and JTPL had the right to nominate one person to the board of directors of the Company so long as each of CSL and JTPL was interested in not less than 5% of the issued share capital of the Company from time to time. The options have not been exercised as at the date of this report.

Pursuant to an agreement dated 15th January, 2001, CSL agreed to dispose of its entire shareholding of 180,000,000 shares in the Company to Smart House Investments Limited (“SHIL”) at HK\$0.2 per share and JTPL agreed to dispose of its entire shareholding of 120,000,000 shares in the Company to Web Palace Limited (“WPL”) at HK\$0.2 per share.

CSL and JTPL were also holders of options to subscribe for 260,000,000 and 140,000,000 shares in the Company. Such options were personal to CSL and JTPL respectively and were not assignable by them.

The sole beneficial shareholder of CSL, Worthope Technology Group Co. Ltd., entered into an agreement with SHIL on the same day for the sale of all the issued shares of CSL to SHIL at a consideration of HK\$1. In addition, the sole beneficial shareholder of JTPL, China Sciences Industries Limited, entered into an agreement with WPL on the same day for the sale of all the issued shares of JTPL to WPL at a consideration of HK\$1.

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SHARE CAPITAL AND SHARE OPTIONS (continued)

Simultaneous completion of the above agreements was scheduled to take place on or before 28th February, 2001 and was subsequently postponed to not later than 15th May, 2001.

SHIL is owned as to approximately 70% by Mr. Chan Chi Keung, Victor and as to approximately 30% by Mr. Chung Chi Shing, both being directors of the Company. WPL is wholly own by Mr. Lee Tony Yu Tung, an independent third party.

- (v) On 12th October, 2000, the Company further issued 383,000,000 ordinary shares of HK\$0.20 each at a price of HK\$0.26 per share to independent third parties pursuant to a placement agreement dated 19th September, 2000. The net proceeds of approximately HK\$97 million from the placing of shares were being used by the Group to acquire high technology projects.

All the new shares issued rank pari passu with the then existing shares in all respects.

During the year, an aggregate of 104,500,000 share options were granted and 72,000,000 share options were exercised under the share option scheme.

Details of the Company's share capital and share options are set out in notes 28 and 29 to the financial statements, respectively.

BANK BORROWINGS

Details of the Group's bank borrowings are set out in note 27 to the financial statements. No interest was capitalised by the Group during the year.

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DIRECTORS AND DIRECTORS' SERVICE CONTRACTS

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

Chan Chi Keung, Victor	(appointed on 1st December, 2000)
Chung Chi Shing	(appointed on 1st December, 2000)
Lim Fai	(appointed on 29th December, 2000)
Yin Mingde	(appointed on 29th December, 2000)
Tang Yin	(appointed on 29th December, 2000)
Lin Hoi Kwong	(appointed on 8th February, 2001)
Zhang Fan	(appointed on 22nd March, 2001)
Cheng Sanchang	(appointed on 15th March, 2000 and resigned on 5th December, 2000)
Che Fung	(appointed on 5th June, 2000 and resigned on 29th December, 2000)
Zhou Xiao Ning	(appointed on 5th June, 2000 and resigned on 29th December, 2000)
Zhao Bing	(appointed on 28th June, 2000 and resigned on 1st December, 2000)
Li Chun Tak	(appointed on 5th December, 2000 and resigned on 22nd March, 2001)
Xie Shian	(resigned on 6th March, 2000)
Lam Kong Yin, Patrick	(resigned on 28th June, 2000)
Yiu Chiu Fai	(resigned on 7th September, 2000)

Independent non-executive directors:

Lee Yu Leung	(appointed on 1st December, 2000)
Lo Ka Lok, Steve	(appointed on 8th February, 2001)
Chan Wai Yuen	(appointed on 3rd March, 2000 and resigned on 28th June, 2000)
Yan Daniel X.D.	(appointed on 28th June, 2000 and resigned on 8th February, 2001)
Liu Tianni	(appointed on 28th July, 2000 and resigned on 29th December, 2000)
Leung Hok Lim, Henry	(resigned on 3rd March, 2000)
Li Kak Kwan	(resigned on 28th July, 2000)
Li Jiangdong	(resigned on 26th October, 2000)

In accordance with Article 98 of the Company's Articles of Association, all remaining directors retire and, being eligible, offer themselves for re-election.

None of the directors 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.

Directors' Report

DIRECTORS' INTERESTS IN SHARES

(i) Shares

At 31st December, 2000, none of their directors or their associates had any interests in the share capital of the Company and 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 as 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.

(ii) Share options

- (a) At 31st December, 2000, CSL was interested in 260,000,000 share options of the Company exercisable within one year from 31st May, 2000 at a cash subscription price of HK\$0.22 per share. CSL was beneficially owned by Messrs. Zhao Bing and Che Fung, former executive directors of the Company.
- (b) At 31st December, 2000, certain directors and former directors of the Company had personal interests in share options to subscribe for shares in the Company granted under the share option scheme of the Company as follows:

Name of director	Exercisable period	Exercise price per share HK\$	Number of share options				Outstanding at 31.12.2000
			Outstanding at 1.1.2000	Granted during the year	Exercised during the year	Cancelled during the year	
Yin Mingde	31.7.2001 to 30.7.2010	0.2784	—	5,000,000	—	—	5,000,000
Tang Yin	31.7.2001 to 30.7.2010	0.2784	—	5,000,000	—	—	5,000,000
Lam Kong Yin, Patrick (former director)	19.6.1998 to 18.6.2007	0.6160	5,000,000	—	(5,000,000)	—	—
	26.1.2001 to 25.1.2010	0.3300	—	9,000,000	—	—	9,000,000
			5,000,000	9,000,000	(5,000,000)	—	9,000,000
Yiu Chiu Fai (former director)	4.11.1999 to 3.11.2008	0.2000	5,000,000	—	(5,000,000)	—	—
	26.1.2001 to 25.1.2010	0.3300	—	9,000,000	—	—	9,000,000
			5,000,000	9,000,000	(5,000,000)	—	9,000,000
Xie Shian (former director)	11.10.1999 to 10.10.2008	0.2000	5,000,000	—	(5,000,000)	—	—
	26.1.2001 to 25.1.2010	0.3300	—	5,000,000	—	(5,000,000)	—
			5,000,000	5,000,000	(5,000,000)	(5,000,000)	—
Cheng Sanchang (former director)	20.3.2001 to 19.3.2010	0.4544	—	10,000,000	—	(10,000,000)	—
			—	10,000,000	—	(10,000,000)	—

Directors' Report

DIRECTORS' INTERESTS IN SHARES (continued)

- (iii) Other than as disclosed above, none of the directors or their associates had any interests in any securities of the Company or any of its associated corporations as defined in the SDI Ordinance, and none of the directors, their spouses or children under the age of 18 had any right to subscribe for the securities of the Company, or had exercised any such right during the year.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Other than as disclosed above, at no time during the year was the Company or any of 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 debentures of, the Company or any other body corporate.

DIRECTORS' INTERESTS IN CONTRACTS AND CONNECTED TRANSACTIONS

- (i) The Group did not recognise any guaranteed profit receivable from Henan Hongkong Finance Limited (“HHF”) for the year ended 31st December, 2000. Details of this are set out in note 40 to the financial statements.
- (ii) At 31st December, 2000, bank loans of HK\$46,440,000 and HK\$9,346,000 were guaranteed without charge by HHF and 豫港（河南）藍夢家具有限公司, wholly own subsidiaries of Henan Hongkong Enterprises Limited (“HHE”), respectively.
- (iii) During the year, an advance of HK\$7,683,000 was made to HHE and its subsidiaries. The advance was unsecured, interest-free and was fully provided during the year.
- (iv) During the year, the Group received rental income of HK\$112,000 from 豫港（河南）藍夢家具有限公司.
- (v) During the year, the Group provided automobile repair and maintenance services of HK\$42,000 to HHE and its subsidiary.
- (vi) Details of balances with related companies are set out in notes 24 and 26 to the financial statements.

In the opinion of the independent non-executive directors, these transactions entered into by the Group, if applicable, were:

- (a) in the ordinary and usual course of business of the Group;
- (b) on normal commercial terms or on terms that are fair and reasonable so far as the shareholders of the Company are concerned; and
- (c) in accordance with the terms of the agreements governing such transactions or on terms no less favourable than terms available to third parties.

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DIRECTORS' INTERESTS IN CONTRACTS AND CONNECTED TRANSACTIONS (continued)

Save as disclosed above, there were (i) no other transactions which need to be disclosed as connected transactions in accordance with the requirements of the Rules Governing the Listing of Securities on the Stock Exchange ("Listing Rules"); and (ii) no other 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, subsisted at the end of the year or at any time during the year.

SUBSTANTIAL SHAREHOLDERS

The register of substantial shareholders maintained by the Company under Section 16(1) of the SDI Ordinance disclosed the following shareholders as having an interest of 10% or more in the share capital of the Company at 31st December, 2000:

Name of shareholder	Number of ordinary shares held
HHE	373,364,000
Fulham	366,150,000
HHF	<u>5,570,000</u>

Fulham and HHF are both wholly own by HHE. The interests disclosed under HHE represent the aggregate of its direct interests of 1,644,000 ordinary shares in the Company together with its deemed interests in the shares of the Company by virtue of its interests in Fulham and HHF. HHE is wholly own by the Henan Provincial Government.

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

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

SUBSEQUENT EVENTS

Details of significant events that have taken place subsequent to the balance sheet date are set out in note 38 to the financial statements.

CORPORATE GOVERNANCE

In the opinion of the directors, the Company has complied throughout the year ended 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 specific terms but are subject to retirement by rotation and re-election at annual general meeting in accordance with the Company's Articles of Association.

MAJOR SUPPLIERS AND CUSTOMERS

The Group's largest supplier contributed 11% to the total purchases for the year and the aggregate amount of purchases attributable to the Group's top five suppliers represented 44% of the Group's total purchases.

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MAJOR SUPPLIERS AND CUSTOMERS (continued)

The Group's largest customer accounted for 19% of the Group's turnover (excluding guaranteed return) and 60% of the total turnover (excluding guaranteed return) of the Group was attributable to the Group's top five customers.

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

AUDITORS

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

On behalf of the Board
Chan Chi Keung, Victor
Director

Hong Kong
26th April, 2001