

Directors' Report

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

PRINCIPAL ACTIVITIES

The Company and its subsidiaries are principally engaged in property and other investments. Details of the principal activities of the Company's subsidiaries and Group's associates are set out in note 44 to the financial statements.

Details of segmental information are set out in note 42 to the financial statements.

RESULTS

The results of the Group and appropriations of the Company are set out in the consolidated income statement on page 17.

FINANCIAL SUMMARY

The results of the Group for each of the five years ended 31st December, 2000 and the assets and liabilities of the Group at 31st December, 1996, 1997, 1998, 1999 and 2000 are set out on page 65.

FIXED ASSETS

The Group's leasehold properties were revalued as at 31st December, 2000. The net surplus on revaluation amounting to HK\$1.5 million, of which HK\$1.1 million has been credited to the asset revaluation reserve and the remaining amount was dealt with in the income statement. The Group also revalued its investment properties as at 31st December, 2000. The surplus arising on the revaluation amounting to HK\$5.2 million has been credited to the investment properties revaluation reserve.

Details of the above and other movements in fixed assets of the Group and of the Company during the year are set out in notes 16 and 17 to the financial statements.

PROPERTIES HELD FOR INVESTMENT PURPOSES

Details of properties held by the Group for investment purposes at 31st December, 2000 are set out on page 66.

SUBSIDIARIES AND ASSOCIATES

Details of the Company's subsidiaries and associates at 31st December, 2000 are set out in note 44 to the financial statements.

SHARE CAPITAL

Details of the movements in share capital of the Company during the year are set out in note 25 to the financial statements.

Directors' Report

SHARE OPTIONS AND WARRANTS

Details of movements during the year in the share options and warrants of the Company are set out in notes 26 and 27 to the financial statements respectively.

RESERVES

Movements during the year in the reserves of the Group and the Company are set out in note 28 to the financial statements.

DIRECTORS

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

Shi Chun Gui

Hui Xiao Bing

Gao Jian Min

Chen Yongcun (appointed on 25th October, 2000)

Yi Zhenqiu (appointed on 27th June, 2000)

Liu Tianni (appointed on 26th April, 2001)

Xu Shi Quan

Gu Jianguo

Cheung Chung Kiu

Yuen Wing Shing

Kang Dian *

Zhang Lu* (appointed on 4th May, 2000)

Tan Jian Sheng (resigned on 25th October, 2000)

Wang Beilai (resigned on 27th June, 2000)

Liu Erh-fei* (resigned on 3rd February, 2000)

* *Independent non-executive directors.*

The term of office of each director, including the independent non-executive directors, is the period up to his retirement by rotation in accordance with the Company's Articles of Association.

In accordance with the provisions of the Company's Articles of Association, Messrs. Xu Shi Quan, Cheung Chung Kiu and Kang Dian retire by rotation and Messrs. Chen Yongcun, Yi Zhenqiu and Liu Tianni retire at the forthcoming annual general meeting. Messrs. Cheung Chung Kiu, Kang Dian, Chen Yongcun, Yi Zhenqiu and Liu Tianni, being eligible, offer themselves for re-election. However, Mr. Xu Shi Quan does not offer himself for re-election.

No director being proposed for re-election at the forthcoming annual general meeting has a service contract, which is not determinable by the Group within one year without payment of compensation, other than statutory compensation.

Directors' Report

DIRECTORS' INTERESTS IN SHARES

The interests of the directors and the Company's chief executives or any of its associated corporations were recorded in the register required to be kept under section 29 of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance") as at 31st December, 2000 were as follows:-

Name of director	Number of ordinary shares	Approximate percentage of shareholding
Cheung Chung Kiu (<i>Note</i>)	35,994,000	2.8%

Note: Oriental Pearl Holdings Limited, a company controlled by Oriental Pearl Trust, of which Mr. Cheung Chung Kiu and his family are the beneficiaries, directly holds 35,994,000 shares in the Company.

Other than as disclosed in the above and in the sections below headed "Directors' rights to acquire shares or debentures" and "Substantial shareholders", none of the directors held any interest in the share capital of the Company or its associated corporations and none of the directors, or 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

Details of the share option scheme (the "Scheme") of the Company adopted at the Company's annual general meeting on 26th June, 1995 are set out in note 26 to the financial statements.

Movements during the year of share options granted to the directors under the Scheme are set out below:

Name of director	Subscription price per share HK\$	Exercisable period	Number of share options		
			Outstanding at 1.1.2000	Lapsed upon resignation during the year	Outstanding at 31.12.2000
Shi Chun Gui	0.900	27.7.1999 - 26.7.2009	4,000,000	—	4,000,000
Gao Jian Min	0.967	9.1.1997 - 8.1.2007	15,000,000	—	15,000,000
Tan Jian Sheng	0.900	27.7.1999 - 26.7.2009	2,000,000	(2,000,000)	—
Gu Jianguo	0.900	27.7.1999 - 26.7.2009	2,000,000	—	2,000,000
Wang Beilai	0.900	27.7.1999 - 26.7.2009	2,000,000	(2,000,000)	—
			<u>25,000,000</u>	<u>(4,000,000)</u>	<u>21,000,000</u>

No share option was granted to and exercised by the directors during the year.

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

Directors' Report

DIRECTORS' INTERESTS IN CONTRACTS

Other than as disclosed in the section headed "Connected Transactions" below, no contracts of significance 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

- (1) A service agreement dated 26th June, 1997 was entered into between Mr. Gao Jian Min ("Mr. Gao") and the Company. Pursuant to the terms and conditions set out therein, the Company agreed to employ Mr. Gao and Mr. Gao agreed to serve the Company as a managing director by providing the Company with the services as described in the service agreement for a term of two years from 1st April, 1997 which term shall continue thereafter until determined by either party giving to the other not less than 6-month prior written notice.
- (2) According to the sale and purchase agreement entered into between the Group and Beijing Huajian Real Estate Co., Limited ("Huajian") dated 27th November, 1997, the Group is entitled to a guaranteed return in respect of a property at East Gate Plaza purchased from Huajian which is equal to an annual yield of 15% on the purchase consideration for the period from 1st July, 1998 to the end of the three year period from the date the Group fully settled the purchase consideration. Mr. Hui Xiao Bing and Mr. Gao are chairman and vice chairman of Huajian respectively. Mr. Hui Xiao Bing, Mr. Gao and Mr. Xu Shi Quan have interest in Huajian as explained in (3) below.

For the year ended 31st December, 2000, income attributable to the Group receivable under the guaranteed return clause in the agreement amounted to approximately HK\$43,410,000, representing the shortfall of rental income from the property and the guaranteed return for the year then ended.

The independent non-executive directors are of the opinion that Huajian is able to honour its obligation to the Group under the sale and purchase agreement in respect of the guaranteed return.

- (3) On 23rd December, 2000, the Group entered into a conditional agreement ("Capital Agreement") with two existing shareholders of Huajian, namely, Silver Grant International Beijing Investment Limited ("SGIBI") and 中國北京市東城區華興房地產開發建設經營公司 (the "Existing PRC Party"), and 北京市第五建築工程公司 (the "New PRC Party") whereby the Group agreed to inject US\$58,743,500, either in form of cash or in form of asset being the Group's investment property located in the 4th to 31st floors of South Tower of East Gate Plaza, Beijing, the People's Republic of China, as registered capital of Huajian. In pursuance of the Capital Agreement, SGIBI also agreed to transfer its interest in US\$16,668,000 of the registered capital in Huajian to the New PRC Party at a consideration of US\$16,668,000. The above transactions were approved at the extraordinary general meeting of the Company held on 6th February, 2001 and completed on the same date. Upon completion of the Capital Agreement, the Group injected its property at East Gate Plaza as consideration for its contribution to the registered capital of Huajian and the Group, SGIBI and the Existing PRC Party and the New PRC Party collectively share approximately 58.5%, 16.6% and 24.9% of the profits and losses of Huajian respectively.



Directors' Report

Mr. Hui Xiao Bing, Mr. Gao Jian Min and Mr. Xu Shi Quan who are the directors of the Company are interested in 35%, 30% and 30% in the issued share capital of SGIBI respectively. SGIBI is entitled to share 80% of the profits and losses of Huajian prior to the signing of the Capital Agreement mentioned above.

SUBSTANTIAL SHAREHOLDERS

As at 31st December, 2000, the register of substantial shareholders maintained by the Company pursuant to Section 16(1) of the SDI Ordinance shows that the following shareholders had interests of 10% or more in the share capital of the Company:

Name of shareholder	Number of ordinary shares
Silver Grant International Holdings Limited (<i>Note 1</i>)	179,966,400
Catic Limited (<i>Note 2</i>)	178,468,000

Notes:

1. Messrs. Gao Jian Min, Hui Xiao Bing and Xu Shi Quan, all of whom are directors of the Company, each has a 30% interest in Silver Grant International Holdings Limited as at 31st December, 2000.
2. Catic Limited is an indirect wholly owned subsidiary of China Cinda Asset Management Corporation.

Save as disclosed above, the register of substantial shareholders maintained by the Company pursuant to Section 16(1) of the SDI Ordinance showed that the Company had not been notified of any interests representing 10% or more of the issued share capital of the Company as at 31st December, 2000.

Directors' Report

DISCLOSURE UNDER PRACTICE NOTE 19 OF THE LISTING RULES

As at 31st December, 2000, the amount of the advances made by the Group to its affiliated companies and the amount utilised by its affiliated companies on banking facilities guaranteed by the Group were as follows:

Affiliated company	Group's equity interest in the affiliated company	Advances in form of shareholders' loans HK\$'000	Amounts utilised	Total HK\$'000
			on banking facilities in respect of which guarantees are given by the Group to banks HK\$'000	
International Copper Industry (China) Investment Limited ("ICC")	50%	144,601	330,000	474,601
CII Limited (formerly known as China Infra-Structure Investment Limited)	50%	632,603	138,237*	770,840
		<u>777,204</u>	<u>468,237</u>	<u>1,245,441</u>
Percentage of total amount of financial assistance over the net asset value of the Group as at 31st December, 2000				<u>63%</u>

* Comprises a bank loan of HK\$58,050,000 of which the Group has given a joint and several guarantee and 52% of another loan of HK\$154,206,000 of which the Group has guaranteed up to 52% of the loan balance.

The amounts of advances are unsecured, non-interest bearing and have no fixed repayment terms except for an amount of HK\$63,442,000 included in the advances to ICC which is interest bearing at Hong Kong prime interest rate.

As at 31st December, 2000, the Group has executed a second mortgage over certain investment properties and leasehold properties pledged to a bank with carrying value at the balance sheet date of HK\$83,700,000 and HK\$14,700,000 respectively to secure the bank loan facilities granted to ICC.

As at 31st December, 2000, Silver Grant International Holdings Limited, a substantial shareholder of the Company, has pledged 60,000,000 shares of the Company held by it to a bank to secure the bank loan facilities granted to ICC.

The pro-forma balance sheets of the affiliated companies as at 31st December, 2000 are set out in note 20 to the financial statements.

Other than the above, the Company, or any of its subsidiaries, did not commit any advances, capital injection and guarantees given to any affiliated companies as at 31st December, 2000.

Directors' Report

MAJOR CUSTOMERS AND SUPPLIERS

The Group's turnover comprises of rental income from leasing of properties, dividend income from investments in securities and the gross proceeds received and receivable from trading of securities.

60% of the Group's turnover is attributable to guaranteed rental income from a connected person, details of which are set out under the section "Connected Transactions". The rental income from the Group's top five tenants does not exceed 30% of the Group's turnover.

Due to the nature of the Group's business of property and other investments, the Group has no major suppliers requiring disclosure.

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

During the year, the Group repurchased certain of its convertible bonds amounting to US\$5,225,000 at an aggregate consideration of US\$4,598,000. The relevant bonds were cancelled upon repurchase.

Other than disclosed above, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year.

CORPORATE GOVERNANCE & AUDIT COMMITTEE

The Company has only one independent non-executive director until 25th May, 1999. An audit committee comprised of the Company's two independent non-executive directors was set up on 1st September, 1999 with written terms of reference with regard to "A Guide for the Formation of an Audit Committee" issued by the Hong Kong Society of Accountant. However, Mr. Liu Erh-fei resigned as a director and a member of the audit committee on 3rd February, 2000.

Other than the above, the Company has complied throughout the year ended 31st December, 1999 with the Code of Best Practice as set out in Appendix 14 of the Rules Governing the Listing of Securities on the SEHK.

CLOSURE OF REGISTERS OF MEMBERS AND WARRANTHOLDERS

The registers of members and warrant holders of the Company will be closed from Thursday, 17th May, 2001 to Wednesday, 23rd May, 2001, both days inclusive, during which period no transfers of shares will be effected and no exercise of warrants will be made.

In order to qualify for proposed final dividend, all transfers of shares accompanied by the relevant share certificates must be lodged with the share registrars of the Company, Secretaries Limited, at 5th Floor, Wing On Centre, 111 Connaught Road Central, Hong Kong not later than 4:00 p.m. on Wednesday, 16th May, 2001.

Holders of transferees of the Company's warrants who wish to subscribe for shares in the Company which will qualify for the proposed final dividend must lodge to relevant warrant certificates together with completed subscription forms and the requisite subscription monies with the share registrars of the Company, Secretaries Limited, at 5th Floor, Wing On Centre, 111 Connaught Road Central, Hong Kong not later than 4:00 p.m. on Wednesday, 16th May, 2001.

Directors' Report

LITIGATION

In 1999, a company (the "Plaintiff") issued a writ of summons against the Company in respect of a claim of RMB160 million for breach of two alleged contracts entered into between the holding company of the Plaintiff on behalf of the Plaintiff and the Company in respect of a joint venture operation of an expressway in the PRC. On 18th April, 2001, the Plaintiff and the Company had reached a compromise agreement, and the Plaintiff had withdrawn the writ on the same day, to cease all legal claims. There was also no need to pay any compensation, except each party shall bear its own legal expenses.

Save as disclosed herein, neither the Company nor any of its subsidiaries is engaged in any litigation or arbitration of material importance and there is no litigation or claim of material importance known to the Directors to be pending or threatened by or against any member of the Group.

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

Gao Jian Min

Managing Director

26th April, 2001