

Report of the Directors

The directors herein present their annual report and the audited financial statements of the Company and the Group for the period from 1 January 2000 to 31 March 2001.

CHANGE OF FINANCIAL YEAR END DATE

Pursuant to the board resolution dated 12 December 2000, the Group has changed its financial period end from 31 December to 31 March, commenced on 31 March 2001, in order to bring its accounting year end in line with the year of tax assessment in Hong Kong.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Further details of the principal activities of the subsidiaries are set out in note 14 to the financial statements. There were no changes in the nature of the Group's principal activities during the period.

SEGMENTAL INFORMATION

An analysis of the Group's turnover and contribution to profit/(loss) from operating activities by principal activity for the 15 months ended 31 March 2001 is as follows:

	Turnover		Contribution to profit/(loss) from operating activities	
	15 months ended 31 March 2001 HK\$'000	Year ended 31 December 1999 HK\$'000	15 months ended 31 March 2001 HK\$'000	Year ended 31 December 1999 HK\$'000
By principal activity:				
Securities trading	(52,410)	91,024	(183,216)	83,238
Property rental	9,728	7,978	6,299	5,093
	<u>(42,682)</u>	<u>99,002</u>	<u>(176,917)</u>	<u>88,331</u>
Gain on disposal of an investment property			1,103	—
Interest income			2,631	1,739
Other revenue			1,626	1,198
General and administrative expenses			<u>(17,909)</u>	<u>(12,480)</u>
Profit/(loss) from operating activities			<u>(189,466)</u>	<u>78,788</u>

All principal activities are carried out in Hong Kong.

Report of the Directors *(continued)*

RESULTS AND DIVIDENDS

The Group's loss for the 15 months ended 31 March 2001 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 15 to 42.

The directors do not recommend the payment of any dividend in respect of the period.

FIXED ASSETS AND INVESTMENT PROPERTIES

Details of movements in the fixed assets and investment properties of the Group are set out in note 13 to the financial statements. Further particulars of the Group's investment properties are set out on pages 43 to 44.

SUBSIDIARIES

Particulars of the Company's subsidiaries are set out in note 14 to the financial statements.

BANK BORROWINGS

Details of the bank borrowings of the Group are set out in notes 19 and 20 to the financial statements.

SHARE CAPITAL

Details of movements in the Company's share capital during the period, together with the reasons therefor, are set out in note 22 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 the Cayman Islands which would oblige the Company to offer new shares on a pro rata basis to its existing shareholders.

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

During the period, the Company repurchased certain of its shares on The Stock Exchange of Hong Kong Limited and these shares were subsequently cancelled by the Company. Further details of these transactions are set out in note 22 to the financial statements. Save as disclosed above, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the period.

RESERVES

Details of movements in the reserves of the Company and the Group during the period are set out in note 23 to the financial statements.

Report of the Directors *(continued)*

DISTRIBUTABLE RESERVES

At 31 March 2001, the Company's reserves available for cash distribution or distribution in specie amounted to HK\$128,985,000.

MAJOR CUSTOMERS AND SUPPLIERS

Approximately 84% of the Group's turnover was derived from securities trading on recognised stock exchanges for which the ultimate customers could not be identified. Accordingly, turnover attributable to the five largest customers is not presented.

Other than the purchase of quoted investments on recognised stock exchanges in which the respective suppliers could not be identified, there were no other material purchases during the period. Accordingly, the purchases attributable to the five largest suppliers are not presented.

DIRECTORS

The directors of the Company during the period were:

Executive directors:

Eric Edward Hotung
Ho Shu Wah
(Alternate director to Eric Edward Hotung)

Independent non-executive directors:

Lawrence S. Yee
Prince Felix de Bar
Reynaldo A. de Dios
Wong Leung Wai

In accordance with articles 99 and 116 of the Company's articles of association, Messrs. Reynaldo A. de Dios and Wong Leung Wai will retire by rotation and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

Independent non-executive directors are not appointed for a specific term as all directors are subject to retirement by rotation and re-election at the annual general meeting in accordance with the bye-laws of the Company.

BIOGRAPHIES OF DIRECTORS

Biographical details of the directors of the Company are set out on page 7 of the annual report.

Report of the Directors *(continued)*

PERSONNEL

It is the policy of the Company to contract out to external experts certain of the technical aspects of property management, thus obviating the need for a large workforce of permanent employees. Accordingly, the staff of the Company are mostly employed at the principal office and there was a total of 10 employees as at 31 March 2001, excluding external consultants.

Staff salaries are reviewed annually. Bonuses are awarded based upon individual performance.

EMOLUMENTS OF DIRECTORS AND THE FIVE HIGHEST PAID INDIVIDUALS

Details of the emoluments of the directors and of the five highest paid individuals in the Group are set out in notes 7 and 8 to the financial statements, respectively.

DIRECTORS' SERVICE CONTRACTS

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

DIRECTORS' INTERESTS IN CONTRACTS

Save as disclosed in note 27 to the financial statements, no director had a material interest in any contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party during the period.

DIRECTORS' INTERESTS IN SHARES

At 31 March 2001, the interests of the directors and their associates in the share capital of the Company or its associated corporations as recorded in the register maintained by the Company pursuant to Section 29 of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance") were as follows:

	Ordinary shares of the Company
	Number of shares held and nature of interest
Name of director	Personal interest
Eric Edward Hotung	29,952,608

Save as disclosed above, none of the directors or their associates had any personal, family, corporate or other interest in the equity or debt securities of the Company or any of its associated corporations as defined in the SDI Ordinance.

Report of the Directors *(continued)*

DIRECTORS' INTERESTS IN COMPETING BUSINESS

Mr. Eric Edward Hotung, Chairman of the Company, is also a director of Consumers' Credit Collections Services Limited ("CCCL") and Hotung Investment (China) Limited ("HICL"), and Mr. Ho Shu Wah, an alternate director to Mr. Eric Edward Hotung of the Company, is also a director of CCCL.

The nature of business of CCCL is property investment and management and of HICL is investment holdings and securities trading. Despite the similarities in nature of business with that of the Company, the volume of business of CCCL and HICL is insignificant compared with that of the Company. CCCL and HICL share offices with the Company. However, separate accounts are maintained for the Company, CCCL and HICL.

The Board of Directors is of the view that the Company is capable of carrying on its business independently of and at arm's length from the business of CCCL and HICL.

DIRECTORS' RIGHTS TO ACQUIRE SHARES

At no time during the period were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any director or their respective spouse or children under 18 years of age, or were any such rights exercised by them; or was the Company or any of its subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

SUBSTANTIAL SHAREHOLDERS

At 31 March 2001, the following interests of 10% or more of the share capital of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 16(1) of the SDI Ordinance:

Name	Number of shares held	%
Hotung Investment (China) Limited	16,171,000	15
Genesee Company Limited	15,161,000	14

Save as disclosed above, no person or corporation, other than Mr. Eric Edward Hotung whose interests are set out in the section "Directors' interests in shares" above, had registered an interest in the share capital of the Company that was required to be recorded under Section 16(1) of the SDI Ordinance.

PENSION SCHEME

The Group operates a defined contribution Mandatory Provident Fund Exempted ORSO 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's assets are held under a provident fund managed by an independent trustee. The Group and its employees are each required to make contributions to the Scheme calculated at 5% of the employees' basic salaries on a monthly basis. The employees are entitled to 100% of the employer's contributions and the accrued interest after 10 years of completed service or at a reduced scale of between 30% to 90% after completion of 3 to 9 years' service. The forfeited contributions and related accrued interest may be used to reduce the employer's contributions.

Report of the Directors *(continued)*

PENSION SCHEME *(continued)*

For the 15 months ended 31 March 2001, the employer's contributions which have been dealt with in the profit and loss account of the Group amounted to HK\$79,000, after netting off an amount of HK\$74,000 in respect of forfeited contributions. At 31 March 2001, there were no forfeited contributions available to the Group to reduce its contributions to the Scheme in future years.

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 of The Stock Exchange of Hong Kong Limited, throughout the accounting period covered by the annual report, except that the non-executive directors of the Company are not appointed for specific terms but are subject to retirement by rotation in accordance with the Company's articles of association. The Company has established an audit committee in accordance with paragraph 14 of the Code of Best Practice throughout the accounting period covered by the annual report.

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

Eric Edward Hotung
Chairman

Hong Kong, 20 July 2001