



REPORT OF THE DIRECTORS

The directors have pleasure in presenting their report together with the audited financial statements of CIL Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") for the year ended 30 June 2000.

PRINCIPAL ACTIVITIES AND GEOGRAPHICAL ANALYSIS OF OPERATIONS

The principal activity of the Company is investment holding. The activities of its subsidiaries are set out in note 32 to the financial statements.

An analysis of the Group's turnover and operating loss by principal activities and geographical locations for the year ended 30 June 2000 is as follows:

	Turnover <i>HK\$'000</i>	Operating loss <i>HK\$'000</i>
By principal activities:		
Interior decoration and renovation, building construction, electrical and mechanical engineering	170,134	(243,904)
Trading of building and interior decoration materials	26,359	(10,745)
	<u>196,493</u>	<u>(254,649)</u>
By geographical locations:		
The Hong Kong Special Administrative Region ("Hong Kong")	176,198	(239,047)
Other parts in the People's Republic of China (the "PRC")	18,708	(13,270)
Overseas	1,587	(2,332)
	<u>196,493</u>	<u>(254,649)</u>

RESULTS AND APPROPRIATIONS

The Group's results for the year are set out in the consolidated income statement on page 22 of this annual report.

The directors do not recommend the payment of a dividend for the year ended 30 June 2000.



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RESERVES AND ACCUMULATED LOSSES

Movements in the reserves and accumulated losses of the Group and of the Company during the year are set out in note 26 to the financial statements.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in property, plant and equipment of the Group during the year are set out in note 11 to the financial statements.

BORROWINGS

Particulars of bank and other borrowings of the Group as at 30 June 2000 are set out in notes 18 and 19 to the financial statements.

SHARE CAPITAL AND SHARE OPTIONS

Details of share capital and share options of the Company are set out in notes 24 and 25 respectively, to the financial statements.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the bye-laws of the Company and the laws in Bermuda.

PURCHASE, SALE OR REDEMPTION OF SHARES

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

FIVE YEAR FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is shown on page 78 of this annual report.



REPORT OF THE DIRECTORS

DIRECTORS

The directors who held office during the year and up to the date of this report were:

Executive directors:

Mr. Joseph Szeto	
Mr. Ho Pui Tsun, Peter	
Mr. Ng Tak Kwan	<i>(resigned on 21 December 1999)</i>
Mr. Lau Kwong Ching, James	<i>(resigned on 1 June 2000)</i>
Mr. Li Qinyi	<i>(became non-executive director on 3 November 2000)</i>
Mr. Mark Robert, Taylor	<i>(resigned on 26 February 2001)</i>
Mr. Ke Jun Xiang	<i>(appointed on 4 August 1999)</i>
Mr. Ren Guohua	<i>(appointed on 4 August 1999 and resigned on 1 April 2000)</i>
Mr. Chang Kin Man	<i>(appointed on 20 January 2001)</i>
Mr. Shao Wei Hong	<i>(appointed on 20 January 2001)</i>
Mr. Lam Wing Tai	<i>(appointed on 19 February 2001 and resigned on 2 May 2001)</i>
Mr. Hu Yeshan	<i>(appointed on 19 February 2001)</i>
Mr. Lee Kwong Tong	<i>(appointed on 19 February 2001)</i>
Mr. Leung Yiu Wing	<i>(appointed on 19 February 2001)</i>
Mr. Lam Tang	<i>(appointed on 19 February 2001)</i>

Non-executive directors:

Mr. Yu Ying Choi, Alan Abel	<i>(resigned on 1 April 2000)</i>
Mr. Tam Kong, Lawrence	<i>(resigned on 1 April 2000)</i>
Mr. Li Qinyi	<i>(appointed on 3 November 2000)</i>

Independent non-executive directors:

Mr. Chan Chi Kwong	<i>(appointed on 28 March 2000 and resigned on 11 June 2001)</i>
Mr. Lui King Wai, Ray	<i>(appointed on 28 March 2000)</i>
Mr. Chu Kin Wah	<i>(appointed on 20 June 2001)</i>

In accordance with the Company's Bye-law 99, all directors will retire and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.



REPORT OF THE DIRECTORS

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

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Brief biographical details of directors and senior management are set out on pages 8 to 10 of this annual report.

DIRECTORS' RIGHTS TO ACQUIRE SHARES

Details of the share option scheme (the "CIL Scheme") of the Company are set out in note 25 to the financial statements.

The directors had personal interests in share options granted by the Company during the year to subscribe for shares in the Company as follows:

Name of director	Date of grant	Exercise price HK\$	Number of options outstanding At 1/7/1999	Number of options exercised during the year	Number of options deducted during the year	Number of options outstanding at 30/6/2000
Joseph Szeto	31/12/1997	0.626	9,000,000	—	—	9,000,000
Ho Pui Tsun, Peter	25/11/1996	0.320	6,300,000	—	—	6,300,000
Ho Pui Tsun, Peter	31/12/1997	0.626	8,200,000	—	—	8,200,000
Ng Tak Kwan	04/04/1997	0.597	3,000,000	—	(3,000,000) *	—
Ng Tak Kwan	31/12/1997	0.626	4,000,000	—	(4,000,000) *	—
Lau Kwong Ching, James	31/12/1997	0.626	4,000,000	—	(4,000,000) *	—
Mark Robert, Taylor	26/06/1997	0.511	700,000	—	—	700,000
Mark Robert, Taylor	23/09/1997	0.751	1,000,000	—	—	1,000,000
Mark Robert, Taylor	25/08/1998	0.237	1,000,000	—	—	1,000,000
			<u>37,200,000</u>	<u>—</u>	<u>(11,000,000)</u>	<u>26,200,000</u>

* Pursuant to the CIL Scheme, the share options of Mr. Ng Tak Kwan and Mr. Lau Kwong Ching, James lapsed as a result of their resignation during the year.



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DIRECTORS' RIGHTS TO ACQUIRE SHARES (continued)

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 of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate, and neither the directors nor chief executives, nor any of their spouses or children under the age of 18 had any right to subscribe for the securities of the Company, or exercised any such right.

DIRECTORS' INTERESTS IN EQUITY

At 30 June 2000, the interests of the directors, the chief executives and their associates in the shares and share options of the Company and its associated corporations (within the meaning of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance")) as recorded in the register maintained by the Company pursuant to Section 29 of the SDI Ordinance or as notified to the Company were as follows:

Name of directors	Nature of Interest	Number of shares
Mark Robert Taylor	Personal	1,300,000

Save as disclosed above, none of the directors or their respective associates had any personal, family, corporate or other interests in the shares and share options of the Company or any of its associated corporations as defined in the SDI Ordinance.

The directors' interests in the share options of the Company are disclosed above in the section "Directors' rights to acquire shares".

SUBSTANTIAL SHAREHOLDERS

At 30 June 2000, no person 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.

COMPETING INTEREST

None of the directors of the Company has interests in a business which competes or may compete with the business of the Group.



REPORT OF THE DIRECTORS

DIRECTORS' INTERESTS IN CONTRACTS

Save as disclosed in note 29 to the financial statements, no contracts of significance in relation to the Company's business 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.

RELATED PARTY TRANSACTIONS

Details of the related party transactions of the Company and the Group during the year are set out in note 29 to the financial statements

MANAGEMENT CONTRACTS

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 year.

MAJOR CUSTOMERS AND SUPPLIERS

The percentages of purchases and sales for the year attributable to the Group's major suppliers and customers are as follows:

Purchases

— the largest supplier	15%
— five largest suppliers combined	43%

Sales

— the largest customer	27%
— five largest customers combined	74%

None of the directors, their associates or any shareholders (which to the knowledge of the directors owns more than 5% of the Company's share capital) had an interest in the major suppliers or customers noted above.

AUDIT COMMITTEE

Pursuant to the Rules Governing the Listing of Securities on the Hong Kong Exchanges and Clearing Limited (the "Listing Rules"), an audit committee, comprising two independent non-executive directors, namely Mr. Lui King Wai, Ray and Mr. Chan Chi Kwong, was established on 28 March 2000.



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AUDIT COMMITTEE (continued)

By reference to "A Guide for The Formation of An Audit Committee" published by the Hong Kong Society of Accountants, written terms of reference which describe the authority and duties of the audit committee were prepared and adopted by the board of directors of the Company on the same date. The principal duties of the audit committee include the review and supervision of the Group's financial reporting process and internal controls.

COMPLIANCE WITH THE CODE OF BEST PRACTICE OF THE LISTING RULES

The Company had complied with the Code of Best Practice as set out in Appendix 14 of the Listing Rules throughout the year covered by this annual report, except that the independent non-executive directors are not appointed for a specific term and that Mr. Chan Chi Kwong resigned on 11 June 2001 and there is insufficient members to form an audit committee to review these financial statements for the year ended 30 June 2000. These directors are subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the Company's bye-laws. In the opinion of the directors, this meets the same objective of the Code of Best Practice.

SUBSEQUENT EVENTS

Details of the subsequent events of the Group are set out in note 31 to the financial statements.

AUDITORS

During the year, Charles Chan, Ip & Fung CPA Ltd. were appointed as the Company's auditors in place of the retiring auditors, Messrs. David T.K. Ng CPA Limited, while the financial statements of the Company for the year ended 30 June 1999 were audited by Messrs. Ernst & Young. Apart from the aforementioned, there have been no other changes of the Company's auditors in the past three years.

A resolution for the re-appointment of Charles Chan, Ip & Fung CPA Ltd. as the auditors of the Company for the ensuing year is to be proposed at the forthcoming annual general meeting.

ON BEHALF OF THE BOARD

Joseph Szeto

Chairman

Hong Kong, 20 July 2001