

REPORT OF THE DIRECTORS

(Amounts expressed in Hong Kong dollars)

The Directors have the pleasure of presenting their annual report together with the audited financial statements of South China Information and Technology Limited ("the Company") and its subsidiaries ("the Group") for the year ended 31 December 2001.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. Its subsidiaries are principally engaged in information and technology related businesses, implementation and marketing of software applications, property development and investment.

An analysis of the Group's turnover by principal activity and geographical location, together with their respective contributions to operating loss for the year ended 31 December 2001 is as follows:

	Turnover	Operating loss
	<i>\$'000</i>	<i>\$'000</i>
a. By activity –		
Information and technology related businesses	108,950	(7,384)
Property development	1,268	(10,043)
Property letting	2,200	(2,230)
Investment holdings and others	154	(20,101)
	<hr/> 112,572	<hr/> (39,758)
b. By geographical location –		
Hong Kong	2,355	(19,611)
The People's Republic of China excluding Hong Kong ("Mainland China")	110,217	(20,147)
	<hr/> 112,572	<hr/> (39,758)

RESULTS AND APPROPRIATIONS

Details of the Group's results for the year ended 31 December 2001 are set out in the consolidated income statement on page 19 of this annual report. The Directors do not recommend the payment of a dividend for the year ended 31 December 2001.

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RESERVES AND ACCUMULATED DEFICIT

Movements in reserves of the Group and the Company during the year are set out in Note 28 to the accompanying financial statements. Movements in accumulated deficit of the Group during the year are set out in the consolidated income statement on page 19 of this annual report.

SUBSIDIARIES AND ASSOCIATES

Particulars of the Company's subsidiaries and associates are set out in Note 14 and 15, respectively, to the accompanying financial statements.

FIXED ASSETS AND INVESTMENT PROPERTIES

Details of movements in fixed assets and investment properties during the year are set out in Notes 12 and 13, respectively, to the accompanying financial statements.

SHARE CAPITAL AND SHARE OPTIONS

Details of movements in share capital and share options of the Company are set out in Notes 25 and 26 respectively, to the accompanying financial statements.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's articles of association and the laws in the Cayman Islands.

SHORT-TERM BANK BORROWINGS AND LONG-TERM BANK LOANS

Particulars of short-term bank borrowings and long-term bank loans as at 31 December 2001 are set out in Notes 22 and 23 to the accompanying financial statements.

SUBSEQUENT EVENTS

Details of subsequent events are set out in Note 36 to the accompanying financial statements.

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SUMMARY FINANCIAL INFORMATION

A summary of the results and the assets and liabilities of the Group for the last five financial years, as extracted from the audited financial statements, is set out below:

	As at and for the year ended 31 December				
	2001 \$'000	2000 \$'000 (Restated)	1999 \$'000	1998 \$'000	1997 \$'000
RESULTS					
Turnover					
Continuing operations	112,572	63,603	5,745	9,002	12,560
Discontinued operations	–	–	–	20,001	122,093
	112,572	63,603	5,745	29,003	134,653
Operating loss					
Continuing operations	(90,638)	(30,106)	(26,205)	(22,562)	(20,172)
Discontinued operations	–	–	–	(50,912)	(214,866)
	(90,638)	(30,106)	(26,205)	(73,474)	(235,038)
Share of losses of associates	(15,332)	(19,033)	(27,500)	(223)	(232)
Loss before taxation	(105,970)	(49,139)	(53,705)	(73,697)	(235,270)
Taxation	(106)	–	1,034	–	–
Loss after taxation	(106,076)	(49,139)	(52,671)	(73,697)	(235,270)
Interest of minority shareholders	3,260	1,048	883	271	(42)
Loss attributable to shareholders	(102,816)	(48,091)	(51,788)	(73,426)	(235,312)
ASSETS AND LIABILITIES					
Total assets	567,797	522,058	472,075	414,091	492,203
Total liabilities and minority interests	(541,283)	(400,811)	(300,234)	(185,468)	(179,756)
Shareholders' equity	26,514	121,247	171,841	228,623	312,447

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(Amounts expressed in Hong Kong dollars)

PURCHASE, SALE OR REDEMPTION OF SHARES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed shares during the year ended 31 December 2001.

DIRECTORS AND DIRECTORS' SERVICE CONTRACTS

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

Executive directors

Ng Hung Sang, Robert
Richard Howard Gorges
Cheung Choi Ngor, Christina
Ng Yuk Mui, Jessica
Cheung Wing Hung, Vincent (Appointed on 1 February 2001)

Independent non-executive directors

Tse Wong Siu Yin, Elizabeth
Yeung Chik Kin

In accordance with Article 116 of the Company's Articles of Association, Mrs. Tse Wong Siu Yin, Elizabeth and Mr. Yeung Chik Kin, retire by rotation and, being eligible, offer themselves for re-election.

The non-executive directors are subject to retirement by rotation in accordance with the above Articles.

None of the Directors who are proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable within one year without payment of compensation, other than statutory compensation.

BRIEF BIOGRAPHICAL DETAILS IN RESPECT OF DIRECTORS

Executive directors

Ng Hung Sang, Robert, aged 52, is the Chairman and Chief Executive of the Company, the Chairman of South China Holdings Limited ("South China Holdings"), South China Brokerage Company Limited ("South China Brokerage"), South China Industries Limited ("South China Industries"), Wah Shing International Holdings Limited ("Wah Shing") and Jessica Publications Limited ("Jessica"). He holds a Master's degree in marketing from Lancaster University, the United Kingdom and is a fellow member of the Chartered Institute of Management Accountants. He was appointed as a director and the Chairman of the Company in June 1996.

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Richard Howard Gorges, aged 58, is the Vice Chairman of South China Brokerage and South China Industries, the Deputy Chairman of Wah Shing and a director of South China Holdings. He holds a Master's degree in law from Cambridge University, the United Kingdom. He was appointed as a director of the Company in June 1996.

Cheung Choi Ngor, Christina, aged 48, is the Vice Chairman and Chief Executive of South China Industries, the Deputy Chairman and Chief Executive of Wah Shing, the Vice Chairman of South China Brokerage and a director of South China Holdings. She holds a Master's degree in business administration from the University of Illinois, the United States of America. She was appointed as a director of the Company in June 1996.

Ng Yuk Mui, Jessica, aged 23, is the Chief Executive Officer of Jessica. She holds a Bachelor's degree in law from King's College, University of London. She is responsible for the development of the information and technology and media business of the South China Group. She is the daughter of Mr. Ng Hung Sang, Robert. She was appointed as a director of the Company in January 2000.

Cheung Wing Hung, Vincent, aged 55, has over thirty years of experience in commercial and investment banking, share broking, advertising and printing business. Before joining the Company, he was an Executive Director of I-China Holdings Limited and Executive Director and the General Manager of Paramount Publishing Group Limited, now known as Next Media Limited. He had also been an alternate Chief Executive and Deputy General Manager of KBC Bank Hong Kong Branch and representative of Kredietbank S.A. Luxembourgeoise in Hong Kong. He is responsible for the finance and business management of the Company. He was appointed as a director of the Company in February 2001.

Independent non-executive directors

Tse Wong Siu Yin, Elizabeth, aged 44, is the Chairman of the Hong Kong Flower Retailers Association and of Friends of Community Chest (Southern District). She holds a Bachelor of science degree in nutrition from the University of Western Ontario, Canada. She is an independent non-executive director of South China Brokerage and was appointed as an independent non-executive director of the Company in June 1996.

Yeung Chik Kin, aged 50, has extensive experience in business administration. He is a director of Lee Hing Development Limited and was appointed as an independent non-executive director of the Company in June 1996.

DIRECTORS' INTERESTS IN CONTRACTS

No contracts of significance in relation to the Group's business to which the Company or any of its subsidiaries was a party and in which any of the Company's directors or members of its management had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

REPORT OF THE DIRECTORS*(Amounts expressed in Hong Kong dollars)***DIRECTORS' INTERESTS IN EQUITY SECURITIES**

As at 31 December 2001, the interests of directors in the equity securities of the Company, its intermediate holding company, ultimate holding company and fellow subsidiaries as recorded in the register maintained by the Company pursuant to Section 29 of the Securities (Disclosure of Interest) Ordinance ("SDI Ordinance") were as follows:

a. Ultimate holding company – South China Holdings Limited ("South China Holdings")

Directors	Number of ordinary shares	
	Personal interests (Note a)	Corporate interests (Note a)
Ng Hung Sang, Robert	71,547,200	1,272,529,612
Richard Howard Gorges	–	487,949,760
Cheung Choi Ngor, Christina	–	487,949,760

b. Fellow subsidiary – South China Brokerage Company Limited ("South China Brokerage")

Directors	Number of ordinary shares		Number of warrants	
	Personal interests	Corporate interests	Personal interests (Note b)	Corporate interests
Ng Hung Sang, Robert	2,578,000	–	615,600	–
Richard Howard Gorges	16,174,000	–	3,234,800	–

c. Fellow subsidiary – The Express News Limited ("Express News")

Directors	Number of ordinary shares	
	Personal interests	Corporate interests (Note c)
Ng Hung Sang, Robert	–	30

Notes:

- (a) Ng Hung Sang, Robert, Richard Howard Gorges and Cheung Choi Ngor, Christina, through companies wholly-owned and controlled by them, have interests in 487,949,760 shares in South China Holdings. Ng Hung Sang, Robert personally owns 71,547,200 shares and through companies wholly-owned and controlled by him, beneficially owns 784,579,852 shares in South China Holdings.
- (b) These warrants expired subsequent to the balance sheet date on 18 April 2002.
- (c) Ng Hung Sang, Robert and his family, through a company wholly-owned and controlled by them, have interests in 30 shares in Express News.

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Apart from the above, none of the Directors had any personal, family, corporate or other interests in the equity or debt securities of the Company or its associated corporations as at 31 December 2001 recorded in the register required to be kept under Section 29 of the SDI Ordinance.

SHARE OPTION SCHEME

a. The Company

On 13 October 1997, the Company adopted a Share Option Scheme (the "Scheme") which would lapse on 12 October 2007, pursuant to which the directors may, at their discretion to grant to selective employees of the Group including the directors to subscribe for shares of the Company up to a maximum aggregate number of shares equal to 10 per cent of the total issued shares of the Company. The purpose of the Scheme is to allow grantee the opportunity to obtain equity interest in the Company. No grantee would be granted option which would exceed 25 per cent of the total option available. The grant is subject to acceptance within 21 days of the offer. The consideration payable for the option is HK\$1.00. The exercisable price of the option is determined by the directors which may be the higher of the nominal value of the share or 80 per cent of the average five business days' closing price of the shares on The Stock Exchange of Hong Kong Limited immediate preceding the date of the grant.

The following table discloses movements in the Company's share options during the year and options outstanding at the beginning and end of the year.

Directors	Number of share options outstanding at 1 January 2001	Cancelled during the year	Granted during the year	Number of share options outstanding at 31 December 2001	Initial exercise price* HK\$	Exercisable period
Cheung Choi Ngor, Christina	1,000,000	-	-	1,000,000	1.28	23/02/2001 - 12/10/2007
	16,000,000	-	-	16,000,000	0.51	22/08/2001 - 12/10/2007
Ng Yuk Mui, Jessica	750,000	-	-	750,000	1.28	23/02/2001 - 12/10/2007
	16,000,000	-	-	16,000,000	0.51	22/08/2001 - 12/10/2007
Cheung Wing Hung, Vincent	-	-	10,000,000	10,000,000	0.80	22/05/2002 - 12/10/2007
Employee	500,000	-	-	500,000	1.28	14/04/2001 - 12/10/2007

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Directors	Number of share options outstanding at 1 January 2001	Cancelled during the year	Granted during the year	Number of share options outstanding at 31 December 2001	Initial exercise price* HK\$	Exercisable period
Employees	700,000	-	-	700,000	0.80	18/09/2001- 12/10/2007
Employee	-	-	300,000	300,000	0.80	15/02/2002- 12/10/2007
Employee	-	-	200,000	200,000	0.80	19/02/2002- 12/10/2007
Employees	-	-	240,000	240,000	0.80	26/02/2002- 12/10/2007
Employees	-	-	280,000	280,000	0.80	01/06/2002- 12/10/2007
Employees	-	-	210,000	210,000	0.80	07/06/2002- 12/10/2007
Employees	2,270,000	270,000	130,000	2,130,000#		
Total	37,220,000	270,000	11,360,000	48,310,000		

No share options was exercised by the Directors / other employees to subscribe for a share in the Company during the year.

* The exercise price was subject to adjustment.

Such share options were cancelled after the year end date.

The directors are of the view that the value of the theoretical value of the share options granted during the year depends on a number of variables which are either difficult to ascertain or can only be ascertained on a number of theoretical basis and speculative assumptions. Accordingly, the directors believed that any calculation of the value of options will not be meaningful and may be misleading to shareholders in the circumstances.

REPORT OF THE DIRECTORS*(Amounts expressed in Hong Kong dollars)***b. Intermediate holding company – South China Industries Limited (“South China Industries”)**

Under the employee share option scheme of South China Industries adopted on 10 August 1992, the options are exercisable on or before 28 July 2002 at an initial subscription price of HK\$1.18 per share (subject to adjustment). The number of outstanding share options as at 31 December 2001 is as follows:

Directors	Number of share options		
	At 1 January 2001	Granted during the year	At 31 December 2001
Ng Hung Sang, Robert	13,000,000	–	13,000,000
Richard Howard Gorges	13,000,000	–	13,000,000
Cheung Choi Ngor, Christina	13,000,000	–	13,000,000

No share option was exercised by the directors to subscribe for a share in South China Industries during the year.

c. Ultimate holding company – South China Holdings Limited (“South China Holdings”)

Under the employee share option scheme of South China Holdings adopted on 29 July 1992, the options are exercisable on or before 28 July 2002 at the respective initial subscription prices of HK\$1.36 and HK\$0.88 per share (subject to adjustment). The number of outstanding share options as at 31 December 2001 is as follows:

Directors	Number of share options		
	At 1 January 2001	Granted during the year	At 31 December 2001
Ng Hung Sang, Robert	16,796,000*	–	16,796,000*
Richard Howard Gorges	16,792,000*	–	16,792,000*
Cheung Choi Ngor, Christina	16,792,000*	–	16,792,000*

No share option was exercised by the directors to subscribe for a share in South China Holdings during the year.

* adjusted after subdivision of shares on 16 August 2001

REPORT OF THE DIRECTORS*(Amounts expressed in Hong Kong dollars)***d. Fellow subsidiary – South China Brokerage Company Limited (“South China Brokerage”)**

Under the employee share option scheme of South China Brokerage adopted on 12 July 1993, the options are exercisable on or before 11 July 2003 at an initial subscription price of HK\$1.80 (subject to adjustment). The number of outstanding share options as at 31 December 2001 is as follows:

Directors	Number of share options		
	At 1 January 2001	Granted during the year	At 31 December 2001
Ng Hung Sang, Robert	100,000,000	–	100,000,000
Richard Howard Gorges	50,000,000	–	50,000,000
Cheung Choi Ngor, Christina	100,000,000	–	100,000,000

No share option was exercised by the directors to subscribe for a share in South China Brokerage during the year.

Other than the share option schemes of the Company, its ultimate holding company and its fellow subsidiaries to subscribe for their own ordinary shares, at no time during the year ended 31 December 2001 was the Company, its ultimate holding company, its fellow subsidiaries or any of its subsidiaries a party to any arrangement to enable the Company's directors or their respective spouse or children under 18 years of age to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2001, the following entities had registered an interest in 10% or more of the issued share capital of the Company:

Name	Number of issued shares	Percentage holding
Onswin Limited	431,206,550 (Note)	63.36%
South China Holdings Limited	431,206,550 (Note)	63.36%

Note: 431,206,550 shares are held by Onswin Limited, a wholly owned subsidiary of South China Industries Limited, which is a subsidiary of South China Holdings Limited. The intermediary companies of the above are deemed to be interested in the same parcel of 431,206,550 shares.

Save as disclosed above, the Company had no notice of any interests to be recorded under Section 16(1) of the SDI Ordinance as at 31 December 2001.

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(Amounts expressed in Hong Kong dollars)

MANAGEMENT CONTRACTS

No substantial contracts concerning the management and administration of the Company were entered into or existed during the year.

CUSTOMERS AND SUPPLIERS

During the year ended 31 December 2001, the five largest customers of the Group accounted for approximately 11% of the Group's total turnover while the five largest suppliers of the Group accounted for approximately 25% of the Group's total purchases. In addition, the largest customer of the Group accounted for approximately 3% of the Group's turnover while the largest supplier accounted for 12% of the Group's total purchases. None of the Directors, their associates, or any shareholders (which to the knowledge of the Directors owned more than 5% of the Company's share capital) had a beneficial interest in the Group's five largest customers or the five largest suppliers.

COMPLIANCE WITH THE CODE OF BEST PRACTICE OF THE LISTING RULES

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 independent 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. In the opinion of the Directors, this meets the same objective of the Code of Best Practice.

AUDIT COMMITTEE

The Company has an audit committee which was established in accordance with the requirements of the Code, for the purposes of reviewing and providing supervision over the Group's financial reporting process and internal controls. The audit committee comprises the two independent non-executive directors of the Company.

AUDITORS

The accompanying financial statements were audited by Messrs. Arthur Andersen & Co. A resolution for the re-appointment of Messrs. Arthur Andersen & Co as the Company's auditors for the ensuing year is to be proposed at the forthcoming annual general meeting.

On behalf of the Board of Directors,
NG HUNG SANG, ROBERT
Chairman

Hong Kong Special Administrative
Region of the People's Republic of China
24 April 2002.