

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 2000.

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 before other provisions and gains and losses for the year ended 31 December 2000 is as follows:

	Turnover \$'000	Operating loss before other provisions and gains and losses \$'000
a. By activity:		
Information and technology related businesses	59,914	(6,528)
Property development	3,014	(336)
Property letting	675	(8,465)
Investment holdings and others	—	(9,281)
	<hr/> 63,603	<hr/> (24,610)
b. By geographical location:		
Hong Kong	979	(19,146)
The People's Republic of China excluding Hong Kong ("Mainland China")	62,624	(5,464)
	<hr/> 63,603	<hr/> (24,610)

RESULTS AND APPROPRIATIONS

Details of the Group's results for the year ended 31 December 2000 are set out in the consolidated income statement on page 17 of this annual report. The Directors do not recommend the payment of a dividend for the year ended 31 December 2000.

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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 26 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 17 of this annual report.

SUBSIDIARIES

Particulars of the Company's subsidiaries are set out in Note 13 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 11 and 12, 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 23 and 24, 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.

BANK LOANS AND OVERDRAFTS

Particulars of bank loans and overdrafts as at 31 December 2000 are set out in Notes 20 and 21 to the accompanying financial statements.

REPORT OF THE DIRECTORS*(Amounts expressed in Hong Kong dollars)***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				
	2000 \$'000	1999 \$'000	1998 \$'000	1997 \$'000	1996 \$'000
RESULTS					
Turnover					
Continuing operations	63,603	5,745	9,002	12,560	25,908
Discontinued operations	—	—	20,001	122,093	28,221
	63,603	5,745	29,003	134,653	54,129
Operating loss					
Continuing operations	(19,956)	(26,205)	(22,562)	(20,172)	(11,641)
Discontinued operations	—	—	(50,912)	(214,866)	(45,188)
	(19,956)	(26,205)	(73,474)	(235,038)	(56,829)
Share of losses of associates	(19,033)	(27,500)	(223)	(232)	(205)
Loss before taxation	(38,989)	(53,705)	(73,697)	(235,270)	(57,034)
Taxation	—	1,034	—	—	—
Loss after taxation	(38,989)	(52,671)	(73,697)	(235,270)	(57,034)
Interest of minority shareholders	1,048	883	271	(42)	479
Loss attributable to the shareholders	(37,941)	(51,788)	(73,426)	(235,312)	(56,555)
ASSETS AND LIABILITIES					
Total assets	522,058	472,075	414,091	492,203	369,280
Total liabilities and minority interests	(400,811)	(300,234)	(185,468)	(179,756)	(180,647)
Shareholders' equity	121,247	171,841	228,623	312,447	188,633

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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 2000.

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	(Appointed on 3 January 2000)
Cheung Wing Hung, Vincent	(Appointed on 1 February 2001)
Chow Tat Ming	(Appointed on 3 January 2000 and resigned on 1 April 2000)
Pang Woon Chang	(Appointed on 14 February 2000 and resigned on 13 December 2000)

Independent non-executive directors

Tse Wong Siu Yin, Elizabeth
Yeung Chik Kin

In accordance with Article 99 of the Company's Articles of Association, Mr. Cheung Wing Hung, Vincent retires and, being eligible, offer himself for re-election.

In accordance with Article 116 of the Company's Articles of Association, Mr. Ng Hung Sang, Robert and Ms. Cheung Choi Ngor, Christina, 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.

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BRIEF BIOGRAPHICAL DETAILS IN RESPECT OF DIRECTORS

Executive directors

Ng Hung Sang, Robert, aged 51, is the Chairman and Chief Executive of the Company, the Chairman of South China Holdings Limited ("South China Holdings"), South China Online Limited ("South China Online"), South China Industries Limited ("South China Industries"), Wah Shing International Holdings Limited ("Wah Shing") and Fourseas.com Limited ("Four Seas"). 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.

Richard Howard Gorges, aged 57, is the Vice Chairman of South China Online and South China Industries, the Deputy Chairman of Wah Shing and a director of South China Holdings and Four Seas. 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 47, is the Vice Chairman and Chief Executive of South China Industries, the Deputy Chairman and Chief Executive of Wah Shing, the Deputy Chairman of Four Seas, the Vice Chairman of South China Online 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 22, 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 54, 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 43, is the Chairman of the Hong Kong Flower Retailers Association and 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 Online and was appointed as an independent non-executive director of the Company in June 1996.

Yeung Chik Kin, aged 49, 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.

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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.

DIRECTORS' INTERESTS IN EQUITY SECURITIES

As at 31 December 2000, 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. The Company

Directors	Number of ordinary shares		Number of outstanding share options <i>(Note a)</i>
	Personal interests	Corporate interests	
Cheung Choi Ngor, Christina	—	—	17,000,000
Ng Yuk Mui, Jessica	—	—	16,750,000

b. Intermediate holding company — South China Industries Limited ("South China Industries")

Directors	Number of ordinary shares		Number of outstanding share options <i>(Note b)</i>
	Personal interests	Corporate interests	
Ng Hung Sang, Robert	—	—	13,000,000
Richard Howard Gorges	—	—	13,000,000
Cheung Choi Ngor, Christina	—	—	13,000,000

REPORT OF THE DIRECTORS*(Amounts expressed in Hong Kong dollars)***DIRECTORS' INTERESTS IN EQUITY SECURITIES (Continued)****c. Ultimate holding company — South China Holdings Limited (“South China Holdings”)**

Directors	Number of ordinary shares		Number of warrants		Number of outstanding share options (Note e)
	Personal interests (Note c)	Corporate interests (Note c)	Personal interests (Note d)	Corporate interests (Note d)	
Ng Hung Sang, Robert	18,886,800	318,132,403	3,777,360	63,626,480	4,199,000
Richard Howard Gorges	—	121,987,440	—	24,397,488	4,198,000
Cheung Choi Ngor, Christina	—	121,987,440	—	24,397,488	4,198,000

d. Fellow subsidiary — South China Online Limited (“South China Online”)

Directors	Number of ordinary shares		Number of outstanding share options (Note f)
	Personal interests	Corporate interests	
Ng Hung Sang, Robert	3,078,000	—	100,000,000
Richard Howard Gorges	16,174,000	—	50,000,000
Cheung Choi Ngor, Christina	—	—	100,000,000

e. Fellow subsidiary — The Express News Limited (“Express News”)

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

Notes:

- Under the employee share option scheme of the Company adopted on 13 October 1997, Cheung Choi Ngor, Christina and Ng Yuk Mui, Jessica were granted a total of 17,000,000 and 16,750,000 options, respectively during the year. These options are exercisable on or before 12 October 2007 at the respective initial subscription prices of \$1.28 and \$0.51 per share (subject to adjustments).
- 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 \$1.18 per share (subject to adjustments).

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(Amounts expressed in Hong Kong dollars)

DIRECTORS' INTERESTS IN EQUITY SECURITIES (Continued)

- c. Ng Hung Sang, Robert, Richard Howard Gorges and Cheung Choi Ngor, Christina through companies wholly-owned and controlled by them, have interests in 121,987,440 shares in South China Holdings. Ng Hung Sang, Robert personally owns 18,886,800 shares and through companies wholly-owned and controlled by him, beneficially owns 196,144,963 shares in South China Holdings.
- d. Ng Hung Sang, Robert, Richard Howard Gorges and Cheung Choi Ngor, Christina through companies wholly-owned and controlled by them, have interests in 24,397,488 warrants in South China Holdings. Ng Hung Sang, Robert personally owns 3,777,360 warrants and through companies wholly-owned and controlled by him, beneficially owns 39,228,992 warrants in South China Holdings.
- e. 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 \$1.36 and \$0.88 to per share (subject to adjustments).
- f. Under the employee share option scheme of South China Online adopted on 12 July 1993, the options are exercisable on or before 11 July 2003 at an initial subscription price of \$1.80 per share (subject to adjustments).
- g. Ng Hung Sang, Robert and his family, through a company wholly-owned and controlled by them, have interests in 30 shares in Express News.

Save as aforesaid, as at 31 December 2000, none of the Directors, chief executives or their associates had any beneficial or non-beneficial interests in the equity or debt securities of the Company or its associated corporations required to be disclosed under the SDI Ordinance.

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2000, 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	430,726,550 (Note)	63.29%
South China Holdings Limited	430,726,550 (Note)	63.29%

Note: 430,726,550 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 430,726,550 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 2000.

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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 2000, the five largest suppliers of the Group accounted for approximately 27% of the Group's total purchases while the five largest customers of the Group accounted for approximately 29% of the Group's total turnover. In addition, the largest customer of the Group accounted for approximately 10% of the Group's turnover. 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.

AUDITORS

The Company's former auditors resigned during the year and the Directors have appointed Messrs. Arthur Andersen & Co to fill the casual vacancy. Apart from this, there has been no change in auditors of the Group in any of the preceding three years.

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 2001