

DIRECTORS' REPORT

The directors present their report and audited financial statements of the Group for the period from 1st April, 2000 to 31st December, 2000.

CHANGE OF FINANCIAL YEAR END DATE

During the period, the Company changed its financial year end date from 31st March to 31st December. The financial statements presented therefore cover the nine-month period from 1st April, 2000 to 31st December, 2000.

The majority of the Group's businesses are derived from subsidiaries and joint ventures in The People's Republic of China (the "PRC") where they are statutorily required to adopt 31st December as the fiscal year end. Accordingly, the change of the Company's financial year end to 31st December enables a uniform accounting period be adopted within the Group which the Directors believe would facilitate the preparation of financial information of the Group.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. The principal activities of its principal subsidiaries, associates and principal jointly controlled entities are set out in notes 42, 18 and 19 to the financial statements respectively.

RESULTS AND APPROPRIATIONS

The results of the Group for the period from 1st April, 2000 to 31st December, 2000 are set out in the consolidated income statement on page 26 of the annual report.

The directors do not recommend the payment of any dividend.

DIRECTORS' REPORT

MAJOR CUSTOMERS AND SUPPLIERS

During the period, both the aggregate sales attributable to the Group's five largest customers and the aggregate purchases attributable to the Group's five largest suppliers were less than 30% of the Group's sales and purchases respectively.

FINANCIAL SUMMARY

A summary of the results, assets and liabilities of the Group for the past five financial periods is set out on page 76 of the annual report.

SHARE CAPITAL AND SHARE OPTIONS

In April 2000, new shares of 139,000,000 of HK\$0.50 each in the Company were allotted to Congratulations Company Ltd., a wholly-owned subsidiary of a controlling shareholder, at HK\$1.50 per share. The proceeds was used as general working capital of the Group and for the expansion of the Group's business and future investment if opportunity arises.

During the period, the Company repurchased certain of its own shares on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") and these shares were subsequently cancelled by the Company, details of which are set out in note 25 to the financial statements. The directors considered that, as the Company's shares were trading at a discount to the net asset value per share, the repurchases would increase the net asset value per share of the Company.

Details of these and other movements in the share capital and share options of the Company are set out in notes 25 and 26 to the financial statements respectively.

RESERVES

Details of movements during the period in the reserves of the Group and the Company are set out in note 27 to the financial statements.

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INVESTMENT PROPERTIES AND HOTEL PROPERTIES

At 31st December, 2000, the investment properties and hotel properties of the Group were revalued by an independent firm of professional property valuers on an open market value basis at HK\$772,825,000 and HK\$587,977,000 respectively. The deficit of HK\$26,949,000 arising on the revaluation of investment properties has been charged to the consolidated income statement. Of the deficit of HK\$23,040,000 arising on revaluation of hotel properties, HK\$11,623,000 (net of minority interests of HK\$3,874,000) has been charged to the hotel properties revaluation reserve and the remaining balance of HK\$7,543,000, being the excess of the deficit over the balance on the hotel properties revaluation reserve, has been charged to the consolidated income statement.

Particulars of investment properties and hotel properties of the Group at 31st December, 2000 are set out in notes 13 and 14 to the financial statements respectively.

PROPERTY, PLANT AND EQUIPMENT

Details of movements during the period in property, plant and equipment of the Group are set out in note 15 to the financial statements.

PRINCIPAL SUBSIDIARIES

Details of the Company's principal subsidiaries at 31st December, 2000 are set out in note 42 to the financial statements.

ASSOCIATES AND PRINCIPAL JOINTLY CONTROLLED ENTITIES

Details of the Group's associates and principal jointly controlled entities at 31st December, 2000 are set out in notes 18 and 19 to the financial statements respectively.

DIRECTORS' REPORT

DIRECTORS AND DIRECTORS' SERVICE CONTRACTS

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

Executive directors:

Wang Jun (*Chairman*)

He Ping (*Vice-Chairman*)

Xie Da Tong (*Managing Director*)

Ji Jun (*Deputy Managing Director*)

Li Shi Liang (*Deputy Managing Director*)

Li Tong Zhou

Kwan Ying Wai, Steven (*Vice-Chairman*) (resigned on 22nd August, 2000)

Independent non-executive directors:

Yao Kang, J.P.

Ip Chun Chung, Robert (appointed on 10th January, 2001)

Lam Tak Shing (appointed on 10th January, 2001)

Liu Lit Chi (resigned on 10th April, 2001)

In accordance with Articles 99 & 116 of the Company's Articles of Association, Messrs. Wang Jun, He Ping, Li Tong Zhou, Ip Chun Chung, Robert and Lam Tak Shing will retire and, being eligible, offer themselves for re-election.

The term of office of each of the non-executive directors lasts until his retirement by rotation as required by the Company's Articles of Association.

None of the directors being proposed for re-election at the forthcoming annual general meeting has a service contract with the Company or any of its subsidiaries which is not determinable by the Group within one year without payment of compensation, other than statutory compensation.

DIRECTORS' REPORT

DIRECTORS' INTERESTS IN SECURITIES

At 31st December, 2000, according to the register maintained by the Company under Section 29 of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance"), the following directors held options to subscribe for shares of HK\$0.50 each (the "Share(s)") in the Company (the "CMIC Options") and options to subscribe for shares of HK\$0.50 each (the "Poly Share(s)") in Poly Investments Holdings Limited ("Poly") (the "Poly Options") as follows:

Name of directors	Number of Shares subject to the CMIC Options (Note 1)			Total
	Granted	Granted	Granted	
	on 3.9.1997 (Note 2)	on 5.6.1998 (Note 3)	on 30.11.2000 (Note 4)	
Wang Jun	6,000,000	4,500,000	5,000,000	15,500,000
He Ping	6,000,000	4,500,000	5,000,000	15,500,000
Xie Da Tong	4,800,000	3,000,000	4,000,000	11,800,000
Ji Jun	3,600,000	2,000,000	3,000,000	8,600,000
Li Shi Liang	—	—	5,000,000	5,000,000
Kwan Ying Wai, Steven (Note 9)	4,800,000	1,000,000	—	5,800,000

Name of directors	Number of Poly Shares subject to the Poly Options (Note 5)			Total
	Granted	Granted	Granted	
	on 3.9.1997 (Note 6)	on 5.6.1998 (Note 7)	on 30.11.2000 (Note 8)	
Wang Jun	10,000,000	10,000,000	7,000,000	27,000,000
He Ping	10,000,000	10,000,000	7,000,000	27,000,000
Xie Da Tong	8,000,000	8,000,000	5,500,000	21,500,000
Ji Jun	5,000,000	5,000,000	3,400,000	13,400,000
Li Shi Liang	—	—	8,400,000	8,400,000
Kwan Ying Wai, Steven (Note 9)	8,000,000	3,000,000	—	11,000,000

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DIRECTORS' INTERESTS IN SECURITIES *(Continued)*

Notes:

1. All CMIC Options were granted to the directors under the Company's share option scheme at a nominal consideration of HK\$1.00 each.
2. These CMIC Options granted on 3rd September, 1997 are exercisable from 3rd September, 1998 to 2nd September, 2007 (both days inclusive) at an exercise price of HK\$5.175 per Share.
3. These CMIC Options granted on 5th June, 1998 are exercisable from 5th June, 1999 to 4th June, 2008 (both days inclusive) at an exercise price of HK\$1.37 per Share.
4. These CMIC Options granted on 30th November, 2000 are exercisable from 30th November, 2001 to 29th November, 2010 (both days inclusive) at an exercise price of HK\$0.74 per Share.
5. All Poly Options were granted to the directors under the share option scheme of Poly without consideration.
6. These Poly Options granted on 3rd September, 1997 are exercisable from 3rd September, 1997 to 2nd September, 2007 (both days inclusive) at an exercise price of HK\$1.27 per Poly Share.
7. These Poly Options granted on 5th June, 1998 are exercisable from 5th June, 1998 to 4th June, 2008 (both days inclusive) at an exercise price of HK\$0.50 per Poly Share.
8. These Poly Options granted on 30th November, 2000 are exercisable from 30th November, 2000 to 29th November, 2010 (both days inclusive) at an exercise price of HK\$0.50 per Poly Share.
9. Mr. Kwan Ying Wai, Steven resigned as a director of the Company and Poly on 22nd August, 2000.

Save as disclosed above, at 31st December, 2000, none of the directors, chief executive or their associates had any personal, family, corporate or other interests in the securities of the Company or any of its associated corporations as defined in the SDI Ordinance which is required to be recorded in the register maintained under Section 29 of the SDI Ordinance or otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies in the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules").

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed in the section "Directors' Interests in Securities" above, at no time during the period was the Company or any of its holding companies or its fellow subsidiaries 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 debt securities (including debentures) of, the Company or any other body corporate and none of the directors, or their spouses or children under the age of 18, had any rights to subscribe for securities of the Company, or had exercised any such rights.

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SUBSTANTIAL SHAREHOLDERS

At 31st December, 2000, according to the register of substantial shareholders maintained by the Company pursuant to Section 16(1) of the SDI Ordinance, the following persons were interested in 10% or more of the issued share capital of the Company:

Name of shareholders	Number of Shares held
Congratulations Company Ltd.	169,645,000
Source Holdings Limited (<i>Note 1</i>)	328,485,560
Ting Shing Holdings Limited (<i>Note 2</i>)	498,130,560
Ringo Trading Limited (<i>Note 3</i>)	537,678,036
China Poly Group Corporation (<i>Note 4</i>)	537,678,036

Note:

1. Source Holdings Limited is deemed by the SDI Ordinance to be interested in 328,485,560 Shares as a result of its direct holding of the Shares and indirect holdings of the Shares through its wholly-owned subsidiaries.
2. Ting Shing Holdings Limited is deemed by the SDI Ordinance to be interested in 498,130,560 Shares as a result of its indirect holding of the Shares through its subsidiaries, representing Source Holdings Limited and Congratulations Company Ltd.
3. Ringo Trading Limited is deemed by the SDI Ordinance to be interested in 537,678,036 Shares as a result of its direct holding of the Shares and indirect holding of the Shares through its wholly-owned subsidiary, Ting Shing Holdings Limited.
4. China Poly Group Corporation owns 100% of Ringo Trading Limited and is accordingly deemed by the SDI Ordinance to be interested in the Shares directly and indirectly owned by Ringo Trading Limited.

Save as disclosed above, the Company has not been notified of any other interests representing 10% or more of the issued share capital of the Company at 31st December, 2000.

CONNECTED TRANSACTIONS

Details of the discloseable connected transactions for the period are set out in note 41 to the financial statements. In the opinion of the directors who do not have any interest in the transactions, the transactions were carried out on normal commercial terms and in the ordinary and usual course of business of the Group.

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DIRECTORS' INTERESTS IN CONTRACTS

There were no contracts of significance to which the Company or any of its holding companies, fellow subsidiaries or subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisting at the end of the period or at any time during the period.

CORPORATE GOVERNANCE

In the opinion of the directors, the Company has complied throughout the period from 1st April, 2000 to 31st December, 2000 with the Code of Best Practice as set out in Appendix 14 of the Listing Rules, except that the independent non-executive directors are not appointed for a specific term but are subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the Company's Articles of Association.

AUDITORS

A resolution will be proposed at the forthcoming annual general meeting of the Company to re-appoint Messrs. Deloitte Touche Tohmatsu as auditors of the Company.

On behalf of the Board

XIE Da Tong

Managing Director

23rd April, 2001