

Report of the Directors

The Directors have pleasure in presenting their annual report and the audited financial statements of the Group for the year ended 31 March 2001.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. The principal activities of its subsidiaries are the trading of cigarette-related products, and the provision of management and consultancy services.

RESULTS

The results of the Group for the year ended 31 March 2001 are set out in the consolidated income statement on page 20.

No interim dividend was paid during the year and the Directors do not recommend the payment of a final dividend for the year ended 31 March 2001.

MAJOR CUSTOMERS AND SUPPLIERS

The Group had only two customers, the larger of which is a substantial shareholder of the Company's ultimate holding company. That customer accounted for 98% of the Group's turnover other than dividend income for the year ended 31 March 2001.

The Group had only one supplier for the year ended 31 March 2001.

None of the Directors, their associates or any shareholders of the Company (which to the knowledge of the Directors owns more than 5% of the Company's share capital) had any interest in the supplier or customers mentioned in the preceding paragraphs.

INVESTMENT PROPERTY

Details of movements in the investment property of the Group during the year are set out in note 10 to the financial statements.

PLANT AND EQUIPMENT

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

SHARE CAPITAL AND WARRANTS

Details of movements in the share capital and outstanding warrants of the Company during the year are set out in notes 19 and 21 to the financial statements, respectively.

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

During the year, the Company repurchased certain of its shares through The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), details of which are set out in note 19 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 repurchase would increase the net asset value per share of the Company.

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 year.

RESERVES

Details of movements in the reserves of the Group and the Company during the year are set out in note 22 to the financial statements.

FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the past five financial years is set out on page 46.

MAJOR PROPERTY

Details of the major property of the Group at 31 March 2001 are set out on page 47.

DIRECTORS

The Directors of the Company during the year and up to the date of this report were:

Executive Directors:

Zi Guorui (Chairman)	
Ma Pizhi (Managing Director)	
Cheng Hau Yan	
Chen Toliu	
Dong Jianhua	
Li Hong	(appointed on 10 July 2000)
Song Wenbin	(resigned on 10 July 2000)
Tie Zhenguo (former Vice Chairman)	(deceased on 26 June 2000)

Independent non-executive Directors:

Ho Wing Fun
Lee Ka Sze, Carmelo

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DIRECTORS *(Continued)*

In accordance with the Company's Articles of Association, Mr. Cheng Hau Yan and Mr. Lee Ka Sze, Carmelo shall retire at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

The term of office for each independent non-executive Director is the period up to his retirement by rotation in accordance with the Company's Articles of Association.

No Director proposed for re-election at the forthcoming annual general meeting has a service contract which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

DIRECTORS' INTERESTS IN SHARES AND WARRANTS

At 31 March 2001, none of the Directors nor their associates had any interests in any securities of the Company or any of its associated corporations as defined in Section 29 of the Securities (Disclosure of Interest) Ordinance ("SDI Ordinance"), and none of the Directors, nor their spouses or children under the age of 18 had any right to subscribe for the securities of the Company, or had exercised any such right during the year.

DIRECTORS' INTERESTS IN CONTRACTS AND CONNECTED TRANSACTIONS

During the year, the Group received consultancy income of HK\$2,476,415 from a substantial shareholder of the Company's ultimate holding company. The transactions were carried out at cost plus a percentage profit mark-up.

During the year, the Group received agency fee income from a substantial shareholder of the Company's ultimate holding company amounting to HK\$3,490,791 arising from the import of goods with a value of HK\$113,101,613. The transactions were carried out at cost plus a percentage profit mark-up.

The independent non-executive Directors have confirmed the transactions in relation to the agency fee income were entered into in accordance with the terms of the agreements of the underlying transactions, or arose in the ordinary and usual course of the Group's business and on terms no less favourable than terms available to or from independent third parties and were fair and reasonable so far as the shareholders of the Company are concerned. The independent non-executive Directors have also confirmed that the aggregate amount of such transactions did not exceed the cap as approved by the independent shareholders at the Company's extraordinary general meeting held on 30 June 1998.

Save as disclosed above, no contract of significance to which the Company, its holding company or any of 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.

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SUBSTANTIAL SHAREHOLDERS

At 31 March 2001, the register of substantial shareholders maintained under Section 16(1) of the SDI Ordinance showed that the following shareholders had an interest of 10% or more in the issued share capital of the Company:

Name of shareholder	Number of shares held
South Hong Investment Limited	262,442,928
China National Tobacco Corporation Yunnan Branch	262,442,928 (Note)
Yuxi Hongta Tobacco (Group) Limited	262,442,928 (Note)
Yunnan International Trust and Investment Corporation	262,442,928 (Note)

Note: These shares refer to the 262,442,928 shares held by South Hong Investment Limited in which China National Tobacco Corporation Yunnan Branch, Yuxi Hongta Tobacco (Group) Limited and Yunnan International Trust and Investment Corporation, all being substantial shareholders of South Hong Investment Limited, are deemed to be interested.

Save as disclosed above, the Company has not been notified of any other parties with interests representing 10% or more of the issued share capital of the Company as at 31 March 2001.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Apart from the share option scheme of the Company as detailed in note 20 to the financial statements, at no time during the year was the Company, its holding company or any of its subsidiaries a party to any arrangements to enable the Directors of the Company to acquire benefits by means of the acquisition of shares, or debentures of, in the Company or any other body corporate.

RETIREMENT BENEFIT SCHEME

Information on the Group's retirement benefit scheme is set out in note 26 to the financial statements.

POST BALANCE SHEET EVENTS

Details of significant post balance sheet events are set out in note 30 to the financial statements.

CORPORATE GOVERNANCE

The Company has complied throughout the year ended 31 March 2001 with the Code of Best Practice as set out in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Articles of Association or the laws of the Cayman Islands, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

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AUDITORS

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

On behalf of the Board

Zi Guorui

Chairman

Hong Kong, 18 July 2001