

DIRECTORS' REPORT

The directors have pleasure in presenting to shareholders their annual report together with the audited financial statements of the Company and its subsidiaries (the "Group") for the year ended 31st March, 2001.

PRINCIPAL ACTIVITIES

The Company acted as an investment holding company and its subsidiaries were engaged in property investment and development, investment holding, share trading, hotel operation and manufacture of boiler products.

The Group's turnover and contribution to operating profit for the year ended 31st March, 2001, analysed by principal activity and geographical market, are set out in note 3 to the financial statements.

PRINCIPAL SUBSIDIARIES AND ASSOCIATES AND JOINTLY CONTROLLED ENTITY

Details of the Company's principal subsidiaries and associates and jointly controlled entity at 31st March, 2001 are set out in notes 51, 52 and 19 respectively to the financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31st March, 2001 are set out in the consolidated income statement on page 23.

The directors recommend a final dividend for the year ended 31st March, 2001 of 2 cents (2000: 2 cents) per share to shareholders whose names appear on the Company's Register of Members on 27th August, 2001 amounting to HK\$19,049,000 and the retention of the remaining profit for the year of HK\$28,863,000. The final dividend will take the form of a scrip dividend with shareholders being given an option to elect to receive cash in lieu of all or part of their scrip dividend entitlements ("Scrip Dividend Scheme").

The Scrip Dividend Scheme will be subject to (i) the approval of the proposed final dividend at the annual general meeting to be held on 27th August, 2001; and (ii) The Stock Exchange of Hong Kong Limited (the "Stock Exchange") granting listing of and permission to deal in the new shares to be allotted thereunder. For the purpose of determining the number of new shares to be allotted, the market value of new shares will be calculated as the average of the closing prices of the existing shares of the Company on the Stock Exchange for the five trading days prior to and including 27th August, 2001. Full details of the Scrip Dividend Scheme will be set out in a circular to shareholders together with a form of election on or before 3rd September, 2001. Dividends warrants or new shares certificates will be posted on 28th September, 2001.

RESERVES

Movements in the reserves of the Group and the Company during the year are set out in note 36 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 9.

INVESTMENT PROPERTIES

Details of movements during the year in the investment properties of the Group are set out in note 14 to the financial statements.

PROPERTY, PLANT AND EQUIPMENT

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

PROPERTIES UNDER DEVELOPMENT

Details of movements during the year in the properties under development of the Group are set out in note 16 to the financial statements.

MAJOR PROPERTIES

Details of the major properties of the Group at 31st March, 2001 are set out on pages 78 to 87 of the annual report.

SHARE CAPITAL AND WARRANTS

Details of movements during the year in the share capital and warrants of the Company are set out in notes 33 and 34 to the financial statements respectively.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES IN THE COMPANY

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

BORROWINGS AND INTEREST CAPITALISED

Obligations under finance leases and bank and other borrowings are set out in notes 28 and 29 to the financial statements respectively.

Interest capitalised by the Group during the year amounted to HK\$14,435,000.

ANALYSIS OF THE GROUP'S LIQUIDITY

The Group's total bank borrowings outstanding as at 31st March, 2001 were approximately HK\$1,011 million (2000: HK\$688 million).

The directors consider that with the continuing support of the Group's bankers in respect of the existing secured banking facilities, the Group will be able to meet in full its financial obligations as they fall due for the foreseeable future.

DIRECTORS' REPORT (continued)

DIRECTORS

The directors of the Company during the year and up to the date of this report are:

Executive Directors

Mr. Deacon Te Ken Chiu, *Chairman*

Dato' David Chiu, *Deputy Chairman and Chief Executive Officer*

Mr. Steven Ying Wai Kwan, *Managing Director* *(appointed on 23rd August, 2000)*

Mr. Michael Chi Ning O'Young *(resigned on 16th July, 2001)*

Mr. Craig Williams *(appointed on 29th September, 2000)*

Mr. Dennis Chiu

Non-executive Directors

Madam Ching Lan Ju Chiu

Mr. Dick Tat Sang Chiu

Mr. Daniel Tat Jung Chiu

Mr. Kohei Ogawa

Independent Non-executive Directors

Mr. Trevor John Bedford *(retired on 29th September, 2000)*

Datuk Kee Leong Chee

Mr. David Kwok Kwei Lo *(appointed on 29th September, 2000)*

In accordance with the provisions of the Company's Articles of Association, Dato' David Chiu, Mr. Kohei Ogawa, Mr. Craig Williams and Mr. David Kwok Kwei Lo shall retire by rotation and, being eligible, offer themselves for re-election.

The term of office for each of the directors is the period up to his or her retirement by rotation in accordance with the Company's Articles of Association.

DIRECTORS' INTERESTS IN SHARES

(a) Shares

At 31st March, 2001, the interests of the directors in the shares of the Company as recorded in the register maintained by the Company pursuant to Section 29 of the Securities (Disclosure of Interests) Ordinance ("SDI Ordinance") were as follows:

<u>Name of Directors</u>	<u>Number of ordinary shares held</u>		
	<u>Personal interests</u>	<u>Corporate interests</u>	<u>Total</u>
Deacon Te Ken Chiu	9,688,973	106,764,126 (<i>Note 1</i>)	116,453,099
David Chiu	310,690	269,364,371 (<i>Note 2</i>)	269,675,061
Dennis Chiu	7,362	4,843,658 (<i>Note 3</i>)	4,851,020
Ching Lan Ju Chiu	1,108,018	–	1,108,018
Dick Tat Sang Chiu	770,697	–	770,697
Daniel Tat Jung Chiu	36,250	3,877,218 (<i>Note 4</i>)	3,913,468

Note 1: These shares are held by various companies controlled by Mr. Deacon Te Ken Chiu.

Note 2: These shares are held by Sumptuous Assets Limited, a company controlled by Mr. David Chiu.

Note 3: These shares are held by Chiu Capital N.V. and First Level Holdings Limited, both companies controlled by Mr. Dennis Chiu.

Note 4: These shares are held by First Level Holdings Limited and are entirely duplicated and included in the corporate interests of Mr. Dennis Chiu.

(b) Options

(i) *The Company's option scheme*

The Company had adopted a share option scheme (the "Previous Option Scheme") on 24th May, 1990 which expired on 11th June, 2000.

A new share option scheme (the "Share Option Scheme") was adopted by the shareholders of the Company at the annual general meeting held on 28th September, 2000. Under the Share Option Scheme, the directors are entitled to grant to employees or executives of any member of the Group, including executive directors (but not non-executive directors) options to subscribe for shares representing up to 10 per cent. of the issued share capital of the Company from time to time.

As at 31st March, 2001, Michael Chi Ning O'Young, a director of the Company had personal interests in share options under the Previous Options Scheme to subscribe for 3,000,000 shares in the Company at an exercise price of HK\$1.80 per share, exercisable from 8th October, 1998 to

DIRECTORS' REPORT (continued)

DIRECTORS' INTERESTS IN SHARES (continued)

7th October, 2001. Mr. Michael Chi Ning O'Young resigned as a director of the Company on 16th July, 2001 and the share options lapsed accordingly.

Save as disclosed above, no option was granted, exercised or lapsed by the Company.

Details of the Company's share option scheme are set out in note 35 to the financial statements.

(ii) *The option scheme of the Company's subsidiary*

New China Homes, Ltd. ("NCH") has adopted a 1999 Stock Option and Restricted Stock Purchase Plan (the "Option Plan"). It is intended that options to purchase an aggregate of 600,000 common shares in NCH ("NCH Shares") will be granted under the Option Plan. The Option Plan is administered by the compensation committee of the Board of NCH. The compensation committee has complete discretion to determine which eligible individuals are to receive option grants, the number of shares subject to each such grant, the status of any granted option as either an incentive stock option or a non-statutory option, the vesting schedule to be in effect for the option grant and the maximum term of which any granted option is to remain outstanding. Each option granted under the Option Plan will have a maximum term of ten years, subject to earlier termination following the optionee's cessation of service with NCH. No options have been granted under the Option Plan since its adoption.

(c) **Shares in associated corporations**

As at 31st March, 2001, the interests of the directors in the share capital of the Company's associated corporations were as follows:

<u>Name of Directors</u>	<u>Name of associated corporation</u>	<u>Number of ordinary shares held</u>
Deacon Te Ken Chiu	Far East Technology International Limited	110,926,800 (Note 1)
Ching Lan Ju Chiu	Far East Technology International Limited	6,110,000
David Chiu	Oi Tak Enterprises Limited	250,000
David Chiu	Libran Star (M) Sdn. Bhd.	125,000
Dennis Chiu	Far East Technology International Limited	47,010,200 (Note 2)
Daniel Tat Jung Chiu	Far East Technology International Limited	41,400,000 (Note 2)

Note 1: Include 6,110,000 shares held by Madam Ching Lan Ju Chiu, the spouse of Mr. Deacon Te Ken Chiu.

Note 2: Include 30,400,000 shares held by Cape York Investments Limited, a company beneficially owned by Mr. Dennis Chiu and Mr. Daniel Tat Jung Chiu.

Other than disclosed above, 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 the 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 OF SIGNIFICANCE

No contract of significance, to which the 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.

MANAGEMENT AND SERVICE CONTRACTS OF DIRECTORS

None of the Directors of the Company has a contract of service with the Company or any of its subsidiaries not terminable by the employing company within one year without payment of compensation (other than statutory compensation).

CONNECTED TRANSACTIONS

On 6th December, 2000, the Company through its wholly owned subsidiary E-Cash Ventures Limited ("E-Cash") entered into an agreement (as supplemented by a supplemental agreement date 12th December, 2000 and an extension letter dated 19th January, 2001, collectively the "Agreement") with Yoshiya International Corporation, Limited ("Yoshiya") whereby E-Cash agreed to acquire from Yoshiya approximately 15.33% equity interest in Mutual Luck Investment Limited ("Mutual Luck") for a total cash consideration of HK\$120 million. Mutual Luck is the legal and beneficial owner of Fung Lok Wai in Yuen Long, Hong Kong with a site area of approximately 8.6 million sq.ft..

On 27th March, 2001, a second supplemental agreement was entered into between E-Cash and Yoshiya.

The Agreement together with the second supplemental agreement constitutes a connected transaction of the Company under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"). The Company has an approximately 8.63% equity interest in Yoshiya and Mr. David Chiu, a substantial shareholder, the Deputy Chairman and Chief Executive Officer of the Company, together with his associates including Rocket High Investments Limited and Tokai Kanko Co., Ltd. have an indirect shareholding of approximately 22.34% in Yoshiya.

The ordinary resolution approving and confirming the Agreement together with the second supplemental agreement was duly passed by the shareholders of the Company at the extraordinary general meeting held on 26th April, 2001.

SUBSTANTIAL SHAREHOLDERS

Other than the interests disclosed above in respect of certain directors, the register of substantial shareholders maintained by the Company pursuant to Section 16(1) of the SDI Ordinance discloses no person as having an interest of 10% or more in the issued share capital of the Company as at 31st March, 2001.

DONATIONS

During the year, the Group made charitable donations amounting to HK\$295,000.

POST BALANCE SHEET EVENT

Details of a significant post balance sheet event are set out in note 48 to the financial statements.

DIRECTORS' REPORT (continued)

MAJOR CUSTOMERS AND SUPPLIERS

The aggregate purchases attributable to the Group's five largest suppliers were less than 30% of total purchases.

The aggregate turnover attributable to the Group's five largest customers was less than 30% of total turnover.

EMPLOYEES AND REMUNERATION POLICIES

The total number of employees of the Group as at 31st March, 2001 was approximately 1,500.

The remuneration packages of the employees are reviewed annually or by special increment. Other staff benefits include medical and hospitalisation subsidies. The Group has not adopted any training scheme for the employees during the year.

Details of retirement benefits scheme are set out in note 50 to the financial statements.

CORPORATE GOVERNANCE

The Company has complied throughout the year ended 31st March, 2001 with the Code of Best Practice as set out in Appendix 14 of the Listing Rules.

AUDITORS

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

PRE-EMPTIVE RIGHTS

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

On behalf of the Board

David Chiu

Deputy Chairman and Chief Executive Officer

Hong Kong, 18th July, 2001