

REPORT OF THE DIRECTORS

The directors submit their report together with the audited accounts for the year ended 31st December 1999.

PRINCIPAL ACTIVITIES AND GEOGRAPHICAL ANALYSIS OF OPERATIONS

The principal activity of the Company is investment holding. The activities of its principal subsidiaries, associated companies and jointly controlled entities are set out in notes 11, 12 and 13 on pages 35 to 42.

An analysis of the Group's turnover and contribution to operating profit by principal activity and geographical location is as follows:—

(a) Principal activities

	Turnover <i>HK\$'000</i>	Contribution to Group's operating profit before associated companies, jointly controlled entities and taxation <i>HK\$'000</i>
Securities investment	189,575	10,725
Container transportation and storage services	46,814	7,412
Sales of child products	460,428	45,775
Corporate finance and stockbroking	4,940	1,683
Treasury income	13,102	7,058
Consultancy services	2,455	—
Others	2,140	6,029
	<u>719,454</u>	<u>78,682</u>
Less: General and administrative expenses	—	(25,408)
	<u><u>719,454</u></u>	<u><u>53,274</u></u>

(b) Geographical locations

Hong Kong	205,876	(2,351)
Chinese Mainland	511,627	54,758
Others	1,951	867
	<u>719,454</u>	<u>53,274</u>

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RESULTS

The results for the year are set out in the consolidated profit and loss account on page 17.

DIVIDEND

The Board of Directors does not recommend the payment of a final dividend (1998: Nil).

RESERVES

Movements in the reserves of the Group and the Company during the year are set out in note 18 to the accounts on pages 46 and 47.

FIXED ASSETS

Details of the movements in fixed assets of the Group are set out in note 10 to the accounts on page 34.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S SHARES

The Company has not redeemed any of its shares during the year. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's shares during the year.

SHARE CAPITAL

Details of the movements in share capital of the Company are set out in note 17 to the accounts on pages 45 and 46.

USE OF PROCEEDS

In July 1999, the Company issued 80,000,000 new shares of HK\$0.2 each to China Assets (Holdings) Limited at HK\$0.82 per share for a net cash consideration of approximately HK\$64 million. Up to the date of this report, approximately HK\$9 million had already been used to finance the investment in an information technology company in Shenzhen. The balance will be used to expand the scale of operation, transmission capacity and as general working capital of the Group.

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DIRECTORS

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

- Mr LAO Yuan Yi
Mr JIANG Guo Fang
Mr LU Wen Qing
* Prof. WOO Chia Wei
* Mr KWOK Lam Kwong, Larry
Mr XU Wei Ming
Mr XIN Shulin, Steve
Mr YEUNG Wai Kin
Mr HU Yi Ming
Ms CHEN Wei Li resigned on 1st May 1999
Mr CHOW Fu Kee, Felix resigned on 12th January 2000
(alternate director to Mr Lao Yuan Yi)

* *Independent non-executive directors*

Messrs LAO Yuan Yi, KWOK Lam Kwong, Larry and XU Wei Ming retire in accordance with the Company's articles of association, and being eligible, offer themselves for re-election.

DIRECTORS' SERVICE CONTRACTS

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.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Biographical details of the directors of the Company and senior management of the Group are set out as follows (with age in brackets):—

Mr LAO Yuan Yi (54) President & Managing Director. Joined the Company in 1993. Currently board member of Shenyin & Wanguo Securities Co., Ltd. and Chairman of China Assets (Holdings) Limited. Previously senior policy researcher at China's National Research Centre for Science & Technology and Social Development, senior staff officer with the PRC State Science & Technology Commission & the PRC Railway Ministry. Mr Lao graduated from Shanghai Fudan University and obtained his master degree from Harvard University.

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BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT *(Cont'd)*

Mr JIANG Guo Fang (43) Director. Acquired MBA Master Degree from the Asia (Macau) International Open University. Joined the Company in 1996. Currently Executive Vice President of Shenyin & Wanguo Securities Co., Ltd. and Chairman of Shenyin Wanguo (Hong Kong) Ltd. He has over 12 years working experience in the People's Bank of China, Shanghai Branch and the Industrial & Commercial Bank of China, Shanghai Branch. He took the position of Executive Vice President of Shanghai Shenyin Securities Co., Ltd. since 1992, and that of Shenyin & Wanguo Securities Co., Ltd. since 1996.

Mr LU Wen Qing (42) Director. Joined the Company in 1996. Currently Managing Director of International Business Division of Shenyin & Wanguo Securities Co., Ltd. and a Non-Executive Director of Shenyin Wanguo (Hong Kong) Ltd. He graduated from the Shanghai University of Finance and Economics. Mr Lu acquired his master degree from the Asia (Macau) International Open University. Prior to joining Shanghai Shenyin Securities Co., Ltd., he served as a senior officer in Shanghai Trust & Investment Corporation of Industrial & Commercial Bank of China and as an attache of the Chinese Embassy in Gabon.

Professor WOO Chia Wei (62) Appointed Independent Non-Executive Director in 1993. Currently President of Hong Kong University of Science & Technology. Previously President, Provost, Department Chairman and Professor of several reputable universities in the United States of America. He serves on the Commission on Strategic Development of HKSAR, and the Chinese People's Political Consultative Conference.

Mr KWOK Lam Kwong, Larry (44) Appointed Independent Non-Executive Director in 1995. Mr Kwok is a practicing solicitor in Hong Kong and also qualified to practise as a solicitor in Australia, England and Singapore. He is also qualified as an accountant in Hong Kong and Australia. He graduated from the University of Sydney, Australia with bachelor's degrees in economics and laws respectively as well as a master's degree in laws. He is currently a member of the Hospital Governing Committee of the Princess Margaret Hospital, a member of the Criminal & Law Enforcement Injuries Compensation Boards and a member of the Trade Advisory Board. He is a member of the Political Consultative Committee of Guangxi of the People's Republic of China. He also serves on the boards of several Hong Kong listed companies.

Mr XU Wei Ming (53) Appointed as Director of the Company in 1998. Currently Managing Director of Shanghai Jing Long Business Co Ltd. He graduated from English Department of Shanghai Fudan University, got the Master of Arts of California State University, Sacramento in the United States. Before that, he served as a teacher in the Economic Administration Department of China Textile University.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT *(Cont'd)*

Mr XIN Shulin, Steve (46) Appointed as Director of the Company in 1998. He joined the Company in 1994 as Executive Vice President in charge of direct investment. Previously Mr Xin worked as registered Financial Planner for Merrill Lynch and Senior Financial Analyst and Partner for Vail Securities Inc in Vail Colorado. He graduated from Lanzhou University in 1982 and obtained his MBA degree from University of Denver in 1992. Mr Xin is also director of China Assets (Holdings) Limited and RBI Holdings Limited, the Company's associated companies which are listed on The Stock Exchange of Hong Kong Limited.

Mr YEUNG Wai Kin (38) Appointed as Director of the Company in 1998. He is also Chief Financial Officer and Company Secretary of the Company. Mr Yeung joined the Company in 1993 and has over 16 years experience in auditing, finance and management positions. He is also a director of China Assets (Holdings) Limited, the Company's associated company which is listed on The Stock Exchange of Hong Kong Limited. Mr Yeung possesses professional membership of the Association of Chartered Certified Accountants, the Hong Kong Society of Accountants and the Taxation Institute of Hong Kong.

Mr HU Yi Ming (37) Appointed as Director of the Company in 1998. He joined the First Shanghai Group in 1996 as Managing Director of its Assets Management Division. Prior to joining the First Shanghai Group, Mr Hu was Vice President — Foreign Exchange of Banque Paribas, Hong Kong Branch. Mr Hu graduated with a Bachelor of Economics degree from the Shanghai University of Finance and Economics. After his graduation, he gained extensive experience in money market dealing from several reputable corporations in PRC, USA and Singapore.

Mr WANG Jun-Yan (30), who joined the Company in October 1997, is the Managing Director of First Shanghai Capital Limited, the Company's subsidiary. Mr Wang has 7 years experience in securities business. He is also director of China Assets (Holdings) Limited, the Company's associated company which is listed on The Stock Exchange of Hong Kong Limited. Mr Wang graduated from Zhongshan University in 1992 specializing in International Trade. He has studied in Ph. D. program of Finance in the City University of New York.

Mr MO Siu-Lun, Henry (37), is the head of Information Technology of the Group. Mr Mo has 17 years experience in the information technology sector. Prior to joining the Group, he had held various management positions with major public listed companies. He obtained his Postgraduate Diploma in Engineering Management from City University of Hong Kong and a Master Degree in Manufacturing Systems Engineering from Warwick University of the United Kingdom.

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BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT (Cont'd)

Mr CHOW Fu Kee, Felix (65), was the president of the Hong Kong Society of Accountants in 1992, Chief Executive of the Hong Kong Securities Clearing Company Limited in 1989 and a senior executive of Kowloon Canton Railway Corporation for 6 years since 1982. He is an independent non-executive director of Arts Optical International Holdings Limited which is listed on The Stock Exchange of Hong Kong Limited. He holds diploma from Harvard Business School for the study under its Corporate Financial Management Program and Advance Management Program, and has over 42 years' experience in management, accounting and finance in major international companies. He joined the Group in 1993 as Executive Vice President & Chief Financial Officer and is now a Consultant to the Group.

Ms CHEN Wei Li (58) Ex-chairman. Joined the Company in 1993. Currently Chairman of China International Intellectech Corporation and China Venturetechno International Co. Ltd.

DIRECTORS' INTERESTS IN CONTRACTS

No contracts of significance in relation to the Company's business to which the Company or 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.

DIRECTORS' INTERESTS IN SHARE EQUITY OR DEBT SECURITIES

At 31st December 1999, the interests of the directors in the shares, warrants and options of the Company or any of its associated corporations within the meaning of the Securities (Disclosure of Interests) Ordinance ("SDI Ordinance"), as recorded in the register maintained by the Company under Section 29 of the SDI Ordinance or as notified to the Company were as follows:—

Name of Directors	Number of ordinary shares in the Company		
	Family interests	Personal interests	Corporate interests
Mr Lao Yuan Yi	—	74,508,000	—
Mr Xin Shulin, Steve	—	2,496,000	—
Prof. Woo Chia Wei	72,000	—	—

Arrangement on share options granted to the directors are set out in note 8(a) to the accounts on page 31. Saved as disclosed above, none of the directors had any interests in the shares, warrants and option of the Company or any of its associated corporations as defined in the SDI Ordinance as at 31st December 1999.

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DIRECTORS' INTERESTS IN SHARE EQUITY OR DEBT SECURITIES (Cont'd)

Apart from the share option scheme as mentioned in note 8(a) on page 31, at no time during the year was the Company or any of its subsidiaries a party to any arrangement to enable the directors (including their spouse and children under 18 years of age) of the Company, to acquire benefits by means of the acquisition of shares in, debentures of, the Company or any other body corporate.

SUBSTANTIAL SHAREHOLDERS

The register of substantial shareholders maintained under section 16(1) of the SDI Ordinance shows that as at 31st December 1999, the Company had been notified of the following substantial shareholders' interests, being 10% or more of the Company's issued share capital. These interests are in addition to those disclosed above in respect of the directors.

<u>Name of shareholder</u>	<u>Number of ordinary shares in the company</u>
China Assets (Holdings) Limited	206,296,000

China Assets (Holdings) Limited is a Hong Kong listed company which is also an associated company of the Group. Apart from the above, so far as the directors are aware, there are no parties which were, directly or indirectly, interested in 10% or more of the nominal value of the issued share capital of the Company as at 31st December 1999.

MANAGEMENT CONTRACTS

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

MAJOR CUSTOMERS AND SUPPLIERS

The aggregate percentages of sales and purchases attributable to the Group's five largest customers and suppliers respectively are both less than 30% for 1999 and 1998.

EMPLOYEES

As at 31st December 1999, the Group employed 393 staff, out of which 358 are located in the Chinese Mainland. Employee remuneration is performance based and is reviewed annually. In addition to basic salary payments, other staff benefits include medical schemes, defined contribution provident fund schemes and employee share option scheme. Training courses are provided to staff where necessary.

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FIVE YEAR FINANCIAL SUMMARY

The summary of assets, liabilities and results of the Group for the last five financial years is as follows:—

	1999 HK\$	1998 HK\$	1997 HK\$	1996 HK\$	1995 HK\$
Total assets	1,043,037,015	1,261,502,323	1,400,985,047	566,051,627	404,834,782
Total liabilities (Including minority interests)	107,814,429	422,823,274	451,887,777	185,518,461	94,485,982
Total net assets	935,222,586	838,679,049	949,097,270	380,533,166	310,348,800
Turnover	719,454,505	914,008,502	636,126,098	147,300,465	73,353,657
Profit/(loss) attributable to shareholders	54,321,425	(143,029,322)	16,893,743	(13,876,273)	(17,371,047)
Earnings/(loss) per share	5.10 cents	(13.92 cents)	2.03 cents	(3.09 cents)	(4.52 cents)
Diluted earnings per share	5.08 cents	N/A	N/A	N/A	N/A

YEAR 2000 COMPLIANCE

The Group has successfully made a smooth transition to the Year 2000. All business information systems and related computing equipment are Year 2000 compliant. However, we will continue to stay alert and be prepared for the other critical time in respect of this issue. The total costs incurred in the Group's projects of rectification were not material, and therefore had no significant impact on the Group's financial position, operating results or cash flow.

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COMPLIANCE WITH THE CODE OF BEST PRACTICE OF THE LISTING RULES

In the opinion of the directors, the Company was in compliance with the Code of Best Practice as set out in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange ("Listing Rules") throughout the year.

AUDIT COMMITTEE

The Audit Committee of the Board of Directors was established on 27th December 1998. To comply with the revised Code of Best Practice as set out in Appendix 14 of the Listing Rules, the Company has appointed the two independent non-executive directors of the Company, Prof. Woo Chia Wei and Mr Kwok Lam Kwong, Larry as members of the Audit Committee. The Audit Committee acts in an advisory capacity and makes recommendations to the Board. The Audit Committee met in the middle of April 2000 to review the Group's 1999 final results announcement and the Annual Report before they were tabled to the Board for approval.

AUDITORS

The accounts have been audited by PricewaterhouseCoopers, who retire and being eligible, offer themselves for re-appointment.

On behalf of the Board

LAO Yuan Yi

Chairman and Managing Director

Hong Kong, 25th April 2000