

Report of the Directors

(Amounts expressed in Hong Kong dollars
unless otherwise stated)

The directors have pleasure in submitting their annual report together with the audited accounts of the Company and the Group for the year ended 31 December 2000.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The principal activities and other particulars of the subsidiaries are set out in notes 14 and 35 to the accounts.

The analysis of the principal activities and geographical locations of the operations of the Company and its subsidiaries during the financial year are set out in note 3 to the accounts.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2000 and the state of the affairs of the Company and the Group as at that date are set out in the consolidated profit and loss account and consolidated balance sheet on pages 41 to 45 of the annual report and in the accompanying notes to the financial statements.

The directors do not recommend the payment of a dividend in respect of the year ended 31 December 2000.

There was no transfer from accumulated profits (1999: \$140,000) to capital redemption reserve during the year.

RESERVES

Movements in reserves of the Group and the Company during the year are set out in note 21 to the accounts.

MAJOR CUSTOMERS AND SUPPLIERS

The information in respect of the Group's sales and purchases attributable to the major customers and suppliers respectively during the period from 1 January 2000 to 3 May 2000 is as follows:

	Percentage of the Group's total	
	Sales	Purchases
The largest customer	24%	
Five largest customers in aggregate	68%	
The largest supplier		4%
Five largest suppliers in aggregate		16%

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MAJOR CUSTOMERS AND SUPPLIERS (Continued)

Playmates Toys Holdings Limited ("Playmates Toys"), a shareholder holding more than 5% of the issued share capital of the Company as at 3 May 2000 had a beneficial interest in one of the five largest customers of the Group. Since 4 May 2000, the Company has not included the results of subsidiaries engaging in manufacturing and trading of toys and accessories and property development ("toys and property subsidiaries") of the Group in its consolidated results of operations.

Save as disclosed above, at no time during the year have the directors, their associates or any shareholder of the Company (which to the knowledge of the directors owns more than 5% of the Company's share capital) had any interest in these major customers and suppliers.

CHANGE OF COMPANY'S NAME

Pursuant to the Subscription Agreement dated 9 March 2000 as amended on 29 March 2000 ("Subscription Agreement"), the Company issued new shares and warrants to 1999 Internet Capital L.P., Hutchison Whampoa Limited ("Hutchison"), Li Ka Shing Foundation Limited and Asia Employment Company Limited and resolved to change its name from Harbour Ring International Holdings Limited to ICG AsiaWorks Limited. By a subsequent special resolution passed on 8 November 2000, the Company's name was changed from ICG AsiaWorks Limited to ICG Asia Limited.

SHARE CAPITAL

Details of the increase in share capital of the Company during the year are set out in note 19 to the accounts. Shares were issued during the year to broaden the capital base of the Company.

DIRECTORS

The directors during the financial year and up to the date of this report were:

Executive Directors

Mr. Kenneth A. Fox (*Chairman, appointed on 4 May 2000*)

Mr. Victor Hwang (*Deputy Chairman, appointed on 4 May 2000 and resigned on 21 February 2001*)

Mr. Sam Jadallah (*appointed on 4 May 2000*)

Mr. Henry N. Nassau (*appointed on 4 May 2000*)

Mr. Todd Hewlin (*appointed on 4 May 2000 and resigned on 22 September 2000*)

Dr. Luk Chung Lam (*resigned on 4 May 2000*)

Mr. Ko Yuet Ming (*resigned on 4 May 2000*)

Mr. Tam Yue Man (*resigned on 4 May 2000*)

Mr. Luk Tei, Lewis (*resigned on 4 May 2000*)

Mr. Joseph J. Kim (*Deputy Chairman, appointed on 21 February 2001*)

DIRECTORS (Continued)

Non-Executive Directors

Mr. Bruce W. Armstrong (*appointed on 22 September 2000*)

Mr. Fok Kin-ning, Canning

Mr. Lai Kai Ming, Dominic

Mr. Ian Francis Wade (*resigned on 4 May 2000*)

Ms. Edith Shih (*Alternate Director to Mr. Fok Kin-ning, Canning*)

Independent Non-Executive Directors

Mr. Raymond Chan (*resigned on 4 May 2000*)

Mr. Loh Dai Jur (*resigned with effective from 19 January 2001*)

Mr. Tang Sik Kui (*resigned with effective from 19 January 2001*)

Mr. Ronald Joseph Arculli (*appointed on 19 January 2001*)

Mr. Cheng Ming Fun, Paul (*appointed on 19 January 2001*)

In accordance with Clauses 95, 112(A) and (B) of the Company's Bye-Laws, Messrs. Kenneth A. Fox, Sam Jadallah, Henry N. Nassau, Bruce W. Armstrong, Ronald Joseph Arculli, Cheng Ming Fun, Paul and Joseph J. Kim retire from the board by rotation at the forthcoming annual general meeting and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

DIRECTORS' SERVICE CONTRACTS

During the year, service contracts with four of the non-executive directors were expired upon their resignation from the board. Two independent non-executive directors were appointed by the board of directors on 19 January 2001 for a term of two years commencing on 19 January 2001.

No director proposed for re-election at the forthcoming annual general meeting has an unexpired service contract which is not determinable by the Company or any of its subsidiaries within one year without payment of compensation, other than normal statutory obligations.

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DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS IN SHARES

At 31 December 2000, the interests of the directors and chief executives of the Company in the share capital of the Company or any of its associated corporations, within the meaning of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance"), as recorded in the register maintained by the Company pursuant to section 29 of the SDI Ordinance or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited ("SEHK") pursuant to the Model Code for Securities Transactions by Directors of Listed Companies in the Rules Governing the Listing of Securities on the SEHK ("Listing Rules") were as follows:

The Company

Name	Number of ordinary shares held			Number of share options held
	Personal interests	Family interests	Corporate interests	Personal interests
Mr. Kenneth A. Fox	—	—	—	—
Mr. Victor Hwang	—	—	—	—
Mr. Sam Jadallah	—	—	—	—
Mr. Henry N. Nassau	—	—	—	—
Mr. Bruce W. Armstrong	—	—	—	—
Mr. Fok Kin-ning, Canning	—	—	—	—
Mr. Lai Kai Ming, Dominic	—	—	—	—
Mr. Loh Dai Jur	—	—	—	—
Mr. Tang Sik Kui	—	68,000	—	—
Ms. Edith Shih (<i>Alternate Director to Mr. Fok Kin-ning, Canning</i>)	—	—	—	—

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS IN SHARES (Continued)

Associated Corporations

Internet Capital Group, Inc. ("ICGE")

Name	Number of ordinary shares held			Number of share options held
	Personal interests	Family interests	Corporate interests	Personal interests
Mr. Kenneth A. Fox	11,828,828	—	—	—
Mr. Victor Hwang	756,000	—	—	—
Mr. Sam Jadallah	4,010,000	—	—	—
Mr. Henry N. Nassau	1,184,050	305,000	—	—
Mr. Bruce W. Armstrong	—	—	—	—
Mr. Fok Kin-ning, Canning	—	—	—	—
Mr. Lai Kai Ming, Dominic	—	—	—	—
Mr. Loh Dai Jur	—	—	—	—
Mr. Tang Sik Kui	—	—	—	—
Ms. Edith Shih (<i>Alternate Director to Mr. Fok Kin-ning, Canning</i>)	—	—	—	—

Save as disclosed above, at 31 December 2000, none of the directors or the chief executives of the Company had any personal, family, corporate or other interests in any securities of the Company or any of its associated corporations within the meaning of the SDI Ordinance and none of the directors or the chief executives nor any of 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.

SHARE OPTION SCHEME

Particulars of the share option scheme of the Company are set out in note 22 to the accounts.

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DIRECTORS' REMUNERATION

Details of directors' remuneration are set out in note 7 to the accounts. During the year, four directors exercised share options of the Company with an aggregate gain of approximately \$21,700,000 (being the difference between the exercise price and the market price at the date of exercise). At 31 December 2000, no directors had any share options from the Company.

SUBSTANTIAL INTERESTS IN THE SHARE CAPITAL OF THE COMPANY

At 31 December 2000, the register of substantial shareholders maintained by the Company pursuant to section 16(1) of the SDI Ordinance shows that the following shareholders had an interest of 10% or more of the issued share capital of the Company:

Name of shareholder	Number of ordinary shares held	Percentage of issued share capital %
1999 Internet Capital L.P. (Note 1)	2,752,750,000	49.59
Hutchison Whampoa Limited (Note 2)	1,021,950,000	18.41
Promising Land International Inc. (Note 2)	750,750,000	13.53
Asia Employment Company Limited (Note 1)	338,100,000	6.09

Notes:

1. ICGE indirectly owns all of the general partnership interests in 1999 Internet Capital L.P., and is thus taken to be interested in the ordinary shares owned by 1999 Internet Capital L.P. ICGE also indirectly owns 78.6% of a holding company which owns the entire issued share capital of Asia Employment Company Limited ("Asia Employment"), and therefore is taken to be interested in the ordinary shares owned by Asia Employment. The remaining 21.4% of the issued share capital of the holding company for Asia Employment is owned by Promising Land International Inc. ("Promising Land").
2. Promising Land is a wholly-owned subsidiary of Hutchison International Limited, which in turn is a wholly-owned subsidiary of Hutchison.

As at 31 December 2000, in addition to its indirect interests in 750,750,000 ordinary shares held by Promising Land, Hutchison was deemed to be interested in 271,200,000 ordinary shares which were under a charge over shares dated 9 March 2000 (as amended by a supplemental deed dated 29 March 2000) executed by Reading Investments Limited ("Reading") in favour of Hutchison.

SUBSTANTIAL INTERESTS IN THE SHARE CAPITAL OF THE COMPANY (Continued)

Li Ka-Shing Unity Holdings Limited (in which Mr. Li Ka-shing owns its entire issued share capital) owns the entire issued share capital of Li Ka-Shing Unity Trustee Company Limited (“TUTI”). TUTI as trustee of The Li Ka-Shing Unity Trust, together with certain companies which TUTI as trustee of The Li Ka-Shing Unity Trust is entitled to exercise or control the exercise of more than one-third of the voting power at their general meetings (the “Related Companies”), hold more than one-third of the issued share capital of Cheung Kong (Holdings) Limited (“CKH”). Certain subsidiaries of CKH together hold more than one-third of the issued share capital of Hutchison.

In addition, Li Ka-Shing Unity Holdings Limited also owns the entire issued share capital of Li Ka-Shing Unity Trustee Corporation Limited (“TDTI”). TDTI as trustee of The Li Ka-Shing Unity Discretionary Trust holds a majority of units in The Li Ka-Shing Unity Trust.

By virtue of the interest in TDTI and TUTI through Li Ka-Shing Unity Holdings Limited, the interest in the shares of CKH held by TUTI as trustee of The Li Ka-Shing Unity Trust and its Related Companies, the interest of the subsidiaries of CKH in Hutchison, and the indirect interest of Hutchison in the ordinary shares as described above, Mr. Li Ka-shing is taken to have an interest in the ordinary shares held by Promising Land and Hutchison under the SDI Ordinance.

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 31 December 2000.

DIRECTORS’ INTERESTS IN CONTRACTS

No contract of significance to which the Company, its holding company or any of its subsidiaries or its fellow subsidiaries was a party, in which a director of the Company had a material interest, subsisted at the end of the year or at any time during the year.

CONNECTED TRANSACTIONS

During the year, the Group had the following connected transactions:

- (a) Under the put option deed dated 9 March 2000 (as amended by supplemental deed dated 29 March 2000) (the "Put Option Deed") entered into between the Company and Shamrock Green Limited ("Shamrock"), the Company is entitled to sell the toys and property subsidiaries for \$225,413,000 to Shamrock at any time before 3 May 2002. One of the Company's substantial shareholders, Hutchison, has a 50% indirect interest in Shamrock. The other 50% interest in Shamrock is owned by two companies which are controlled by Dr. Luk Chung Lam, the Company's former chairman prior to 4 May 2000. The obligations of Shamrock under the Put Option Deed are guaranteed by Hutchison.
- (b) Under the Management Services Agreement dated 28 April 2000 (the "MSA") entered into between the Company and Dr. Luk Chung Lam, Messrs. Ko Yuet Ming, Tam Yue Man and Luk Tei, Lewis (the "former substantial shareholders"), Harbour Ring Group Limited ("HRG"), a company controlled by the former substantial shareholders of the Company, agreed to provide management services to the toys and property subsidiaries and the Company gave HRG the exclusive right to manage and operate the toys and property subsidiaries, including without limitation to control the dividend policies after 3 May 2000. The MSA will be terminated by the Company on the exercise or the lapse of the Put Option Deed and may be terminated if HRG and the former substantial shareholders of the Company failed, amongst other things, to use their best endeavours to act in the interest of the toys and property subsidiaries to maintain, improve and extend the toys and property subsidiaries.
- (c) On 24 August 2000, the Company entered into the Stock Purchase Agreement pursuant to which it agreed to subscribe for 2,066,420 Series B Preferred Stock in FreeBorders.com, Inc. ("FreeBorders") for an aggregate consideration of US\$5,600,000 (equivalent to approximately HK\$43.7 million).

On 10 November 2000, the Company entered into the Agreement and Plan of Merger and Reorganization pursuant to which it agreed to lend to FreeBorders two sums of US\$1,250,000 (equivalent to approximately HK\$9.75 million) within two specified periods, which sum may be convertible into preferred stock of FreeBorders at the option of the Company. The first sum was advanced to FreeBorders on 12 April 2001.

CONNECTED TRANSACTIONS (Continued)

- (d) The toys and property subsidiaries made sales of approximately \$37,886,000 to Playmates Toys and its affiliates for the period from 1 January 2000 to 3 May 2000. Playmates Toys was a substantial shareholder of the Company during the same period. In the directors' opinion, the transactions were effected on an arm's length basis.
- (e) The toys and property subsidiaries made sales of approximately \$13,746,000 to IDT International Limited, a company in which Mr. Raymond Chan was a major shareholder and chairman, and its affiliates for the period from 1 January 2000 to 3 May 2000. Mr. Raymond Chan was a director of the Company during the same period. In the directors' opinion, the transactions were effected on an arm's length basis.
- (f) The toys and property subsidiaries had the following transactions with their minority shareholders and their associates during the period from 1 January 2000 to 3 May 2000:

	\$'000
Interest income	2,609
Management fee paid	3,618
Rental expenses	6,390

POST BALANCE SHEET EVENTS

Details of significant post balance sheet events are set out in note 33 to the accounts.

FIXED ASSETS

During the year, the Group acquired fixed assets of approximately \$32.4 million which consists mainly of leasehold improvement and office equipment for the Group's B2B e-commerce operations. Details of these acquisitions and other movements in fixed assets are set out in note 18 to the accounts.

PROPERTIES

Details of the major properties of the Group were set out on pages 101 to 108 in the annual report. All properties of the Group are held by the toys and property subsidiaries engaging in trading of toys and property subsidiaries.

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BORROWINGS

Details of bank loans and overdraft of the Group at 31 December 1999 are set out in note 26 to the accounts. There were no bank borrowings outstanding at 31 December 2000.

No interest was capitalized by the Group during the year.

CHARITABLE DONATIONS

Donations made by the Group during the year amounted to \$383,500 (1999: \$99,000).

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

There were no purchases, sales or redemptions of the Company's listed securities by the Company or any of its subsidiaries during the year.

PRE-EMPTIVE RIGHTS

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

FIVE YEAR SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 100 of the annual report.

RETIREMENT BENEFITS SCHEMES

Information on the retirement benefits schemes of the Group is set out in note 31 to the financial statements.

CORPORATE GOVERNANCE

The Company has complied throughout the year with the Code of Best Practice as set out by the SEHK in Appendix 14 to the Listing Rules.

The Company established an Audit Committee in 1999 and members to the Committee comprised two independent non-executive directors. The terms of reference for this committee have been established with regard to "A Guide for the Formation of an Audit Committee" issued by the Hong Kong Society of Accountants in December 1997.

AUDITORS

KPMG were first appointed as auditors of the Company in 2000 upon the retirement of Messrs. Deloitte Touche Tohmatsu.

KPMG retire and, being eligible, offer themselves for reappointment. A resolution for the reappointment of KPMG as auditors of the Company is to be proposed at the forthcoming annual general meeting.

By Order of the Board

Joseph J. Kim

Deputy Chairman

Hong Kong, 18 April 2001