



Report of the Directors

The directors submit their report together with the audited accounts for the year ended 31 December 2000.

PRINCIPAL ACTIVITIES AND GEOGRAPHICAL ANALYSIS OF OPERATIONS

The principal activity of the Company is investment holding. The activities of its principal subsidiaries are set out in the Group Structure on pages 69 to 76.

Details of the analysis of the Group's turnover and contribution to operating profit for the year by principal activities and geographical location is set out in *note 2* to the accounts.

SHARE CAPITAL AND SHARE OPTIONS

At a special general meeting of the Company held on 18 September 2000, an ordinary resolution was duly passed under which each of the existing issued and unissued shares of HK\$0.05 each in the share capital of the Company as of that date was subdivided (the "Share Subdivision") into two shares of HK\$0.025 each (the "Share").

Details of the movements in share capital and share options of the Company are set out in *note 19* to the accounts.

RESULTS AND APPROPRIATIONS

The results for the year are set out in the consolidated profit and loss account on page 31.

The directors declared an interim dividend of HK\$0.07 per Share, as adjusted for the effect of the Share Subdivision, totalling HK\$192,318,000, which was paid on 11 September 2000.

The directors recommend the payment of a final dividend of HK\$0.18 per Share, totalling HK\$515,942,000.

RESERVES

Movements in the reserves of the Group and the Company during the year are set out in *note 20* to the accounts.

DISTRIBUTABLE RESERVES

At 31 December 2000, the distributable reserves of the Company available for distribution as dividends amounted to HK\$319,272,000, comprising retained earnings of HK\$208,262,000 and the contribution surplus arising from the exchange of shares for the acquisition of Li & Fung (B.V.I.) Limited, as set out in *note* 20(b)(i) to the accounts, amounting to HK\$111,010,000. The contributed surplus arising from the consideration shares to be issued for the acquisition of Colby Group Holdings Limited as set out in *note* 20(b)(ii) to the accounts will become distributable upon the issue of the consideration shares in March 2001.

Under the Companies Act 1981 of Bermuda (as amended), the contributed surplus shall not be distributed to the shareholders if there are reasonable grounds for believing that:

- (i) the Company is, or would after the payment be, unable to pay its liabilities as they become due; or
- (ii) the realisable value of the Company's assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium account.

DONATIONS

Charitable and other donations made by the Group during the year amounted to HK\$333,000.

FIXED ASSETS

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

FIVE YEAR FINANCIAL SUMMARY

The following table summarises the results, assets and liabilities of the Group for the five years ended 31 December 2000.

	2000	1999	1998	1997	1996
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Profit attributable to shareholders	<u>870,388</u>	<u>574,638</u>	<u>455,168</u>	<u>375,105</u>	<u>300,102</u>
Total assets	7,296,912	4,211,168	3,443,725	3,184,889	2,892,369
Total liabilities	(4,450,938)	(3,392,597)	(2,374,264)	(2,216,273)	(1,999,262)
Minority interests	<u>(19,861)</u>	<u>(4,460)</u>	<u>24,595</u>	<u>20,486</u>	<u>18,531</u>
Shareholders' funds	<u>2,826,113</u>	<u>814,111</u>	<u>1,094,056</u>	<u>989,102</u>	<u>911,638</u>

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's bye-laws though there are no restrictions against such rights under the laws of Bermuda.

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

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

SUBSIDIARIES

Details of the Company's principal subsidiaries as at 31 December 2000 are set out in the Group Structure on pages 69 to 76.

ASSOCIATED COMPANIES

Details of the Company's principal associated companies as at 31 December 2000 are set out in the Group Structure on pages 77 and 78.

MAJOR CUSTOMERS AND SUPPLIERS

During the year, the Group purchased less than 30% of its goods and services from its five largest suppliers and sold less than 30% of its goods and services to its five largest customers.

During 1999, the Group purchased less than 30% of its goods and services from its five largest suppliers. The percentage of sales attributable to the Group's largest customer and the five largest customers combined were 9.2% and 30.0% respectively. None of the directors, their associates or any shareholders (which to the knowledge of the directors own more than 5% of the Company's issued share capital) had an interest in the customers noted.

PENSION SCHEME ARRANGEMENTS

Prior to 1 December 2000, the Group operated a defined contribution provident scheme (the "Scheme") for its employees in Hong Kong. Under the Scheme, the contribution to the defined contribution provident funds was calculated at 5% of the employees' basic salaries. The Scheme was funded by the Group and covers all permanent full-time employees of the Group in Hong Kong. The Scheme is administered by an independent trustee. No employee contributions were required under the Scheme. Contributions forfeited by those employees who left the Scheme prior to completion of ten years of services were used by the Group to reduce the existing level of contributions. The Scheme was terminated and no contribution was made by the Group to the Scheme since 1 December 2000 as the Group elected to contribute to the mandatory provident fund scheme (the "MPF Scheme") as detailed below.

PENSION SCHEME ARRANGEMENTS (CONT'D)

With effect from 1 December 2000, the MPF Scheme was made compulsory as enforced by the Mandatory Provident Fund Schemes Authority of Hong Kong. The MPF Scheme is a defined contribution retirement benefit scheme administered by independent trustees. The employer and the employee have to contribute in total an amount equal to 10% of the relevant income of the employee to the MPF Scheme. Contributions from the employer are 100% vested in the employees as soon as they are paid to the relevant MPF Scheme but all benefits derived from the mandatory contributions must be preserved until the employee reaches the retirement age of 65 subject to a few exceptions.

In Taiwan, the Group operated a defined contribution provident scheme for its employees similar to the Scheme with the contribution set at 6% of the employees' basic salaries. In addition, the Group also participated in a retirement benefit plan in accordance with local statutory requirements. Under this plan, the Group recognised pension cost monthly at 2% of the employees' salaries, which is contributed monthly to an independent fund. An employee earns two units for each year of service during the first fifteen years and one unit for each year of service thereafter, up to a maximum of 45 units. Employees retiring under compulsory retirement or due to job related mental or physical impairment are entitled to receive an additional 20% on benefits accrued. Upon retirement, an employee is entitled to receive a lump sum payment based on the units earned.

In Korea, the Group and each of its employees are required to contribute 4.5% of the employee's monthly salary to a government established pension corporation pursuant to the statutory requirement. Upon retirement, an employee is entitled to receive a lump sum payment.

The provident fund schemes for staff of the Group in other regions follow the local statutory requirements.

The Group's pension scheme contributions charged to the consolidated profit and loss account for the year were as follows:

	HK\$'000
Contributions based on 5% of employees' basic salaries under the Scheme	12,829
Contributions forfeited by employees used to reduce the Group's existing level of contribution under the Scheme	(1,774)
Contributions to the MPF Scheme	1,692
Contributions to the defined contribution provident scheme and defined benefit plan in Taiwan	3,874
Contributions pursuant to the statutory requirements in Korea	4,915
Contributions pursuant to statutory requirements in other overseas regions	8,100
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	29,636

DIRECTORS

The directors during the year were:

Dr Victor FUNG Kwok King, Chairman +

Dr William FUNG Kwok Lun, Managing Director

Mr Henry CHAN

Mr Danny LAU Sai Wing

Ms Annabella LEUNG Wai Ping (appointed on 6 December 2000)

Mr Paul Edward SELWAY-SWIFT *

Mr Allan WONG Chi Yun *

Professor Franklin Warren McFARLAN *

Mr LAU Butt Farn +

Mr Leslie BOYD +

Mr Steven Murray SMALL + (alternate to Mr Leslie BOYD)

Mr Henry CHAN and Mr Danny LAU Sai Wing retire in accordance with bye-law 110 of the Company's bye-laws and, being eligible, offer themselves for re-election.

Ms Annabella LEUNG Wai Ping retires in accordance with bye-law 101 of the Company's bye-laws and, being eligible, offers herself for re-election.

Independent non-executive directors are subject to retirement by rotation in Annual General Meetings in accordance with bye-law 110 of the Company's bye-laws.

* *independent non-executive directors*

+ *non-executive directors*