

Report of the Directors

The directors have pleasure in presenting their annual report and the audited financial statements of the Company and its subsidiaries (hereinafter collectively referred to as the "Group") for the year ended December 31, 2000.

PRINCIPAL ACTIVITIES

The Company is an investment holding company and provides corporate management services. The principal activities of the Company's subsidiaries are set out in note 36 to the financial statements.

SEGMENTAL INFORMATION

Sales of packaging products account for more than 90% of the Group's turnover for the year ended December 31, 2000.

An analysis of the Group's turnover by geographical markets for the year ended December 31, 2000 is as follows:

| | <i>HK\$'000</i> |
|-------------------------|---------------------|
| North and South America | 92,059 |
| Hong Kong | 84,142 |
| Europe | 81,663 |
| Others | 19,112 |
| | <hr/> <hr/> 276,976 |

An analysis of contribution to profit before taxation by geographical market has not been presented as the ratio of contribution to profit before taxation to turnover for each individual geographical market is substantially in line with the overall group ratio.

MAJOR CUSTOMERS AND SUPPLIERS

The five largest customers in aggregate accounted for less than 30% of the Group's turnover for the year.

The five largest suppliers in aggregate accounted for approximately 33% of the Group's total purchases and the largest suppliers accounted for approximately 15% of the Group's total purchases for the year.

None of the directors, their associates, or any shareholder (which to the knowledge of the directors own more than 5% of the Company's share capital) had any interests in the Group's five largest customers or suppliers for the year.

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RESULTS AND APPROPRIATIONS

The results of the Group for the year are set out in the consolidated income statement on page 24.

The directors now recommend the payment of a final dividend of HK\$0.005 per share to the shareholders on the register of members on May 24, 2001, amounting to HK\$10,379,000.

FINANCIAL SUMMARY

A summary of the Group's financial position as at March 31, 1998, March 31, 1999, December 31, 1999 and December 31, 2000 and its results for the past three years ended March 31, 1999, for the nine months ended December 31, 1999 and for the year ended December 31, 2000 is set out on page 55.

INVESTMENT PROPERTY AND PROPERTY, PLANT AND EQUIPMENT

During the year, the Group incurred expenditure of approximately HK\$4 million on construction in progress for the purpose of construction of new factory buildings and staff quarters situated in the People's Republic of China (the "PRC"). The Group also acquired other property, plant and equipment at a cost of approximately HK\$3.5 million for business expansion. Details of these and other movements during the year in the investment property and the property, plant and equipment of the Group are set out in notes 13 and 14 to the financial statements, respectively.

No interest was capitalised by the Group during the year.

MAJOR PROPERTIES

Particulars of the Group's major properties at December 31, 2000 are set out on page 56.

SUBSIDIARIES

Particulars of the Company's subsidiaries are set out in note 36 to the financial statements.

SHARE CAPITAL

Details of movements during the year in the Company's share capital are set out in note 23 to the financial statements.

SHARE OPTIONS AND WARRANTS

Details of the Company's share options and warrants are set out in notes 24 and 25 to the financial statements, respectively.

*Report of the Directors***RESERVES**

Details of movements during the year in the reserves of the Group and the Company are set out in note 26 to the financial statements.

DIRECTORS

The directors of the Company for the year and up to the date of this report were:

Executive directors:

Dr. Lam How Mun Peter

Chairman and Managing Director

Mr. Cheung Chung Kiu (appointed on June 22, 2000)

Mr. Lam Hiu Lo (appointed on November 10, 2000)

Mr. Leung Chun Cheong

Ms. Poon Ho Yee Agnes

Mr. Leung Wai Fai

Mr. Lou Chin Meng (resigned on November 10, 2000)

Mr. Chung Kong Fei Stephen (resigned on February 15, 2000)

Non-executive directors:

Mr. Li Ruiwen (resigned on April 18, 2000)

Mr. Wong Chok Ming (ceased as alternate director to
Mr. Li Ruiwen on April 18, 2000)

Independent non-executive directors:

Mr. Lam Kin Fung Jeffrey

Mr. Lam Ping Cheung

In accordance with Clauses 86 and 87 of the Company's Bye-laws, Messrs. Cheung Chung Kiu and Lam Hiu Lo retire at the forthcoming annual general meeting and Ms. Poon Ho Yee Agnes retires by rotation and, being eligible, offer themselves for re-election at the forthcoming annual general meeting of the Company.

Messrs. Lam Kin Fung Jeffrey and Lam Ping Cheung being re-elected as independent non-executive directors on June 12, 2000, hold such office until the forthcoming annual general meeting and, being eligible, offer themselves for re-election at the forthcoming annual general meeting of the Company.

All other remaining directors continue in office.

*Report of the Directors***DIRECTORS' SERVICE CONTRACTS**

Certain executive directors have entered into service agreements with the Company. Dr. Lam How Mun Peter has agreed to act as an executive director for a period of three years, commencing on April 1, 1999. Ms. Poon Ho Yee Agnes and Mr. Leung Chun Cheong have agreed to act as executive directors for a period of two years, commencing on April 1, 1999. The service contract will continue thereafter until terminated by either party by three months' prior written notice.

Save as disclosed above, none of the directors being proposed for re-election at the forthcoming annual general meeting has a service contract with the Company or any of its subsidiaries which is not determinable by the Group within one year without payment of compensation, other than statutory compensation.

DIRECTORS' INTERESTS IN SECURITIES

As at December 31, 2000, the interests of the directors and their associates in the share capital of the Company or any of its associated corporations (as defined in the Securities (Disclosure of Interests) Ordinance ("SDI Ordinance")) which were required to be notified to the Company and the Stock Exchange pursuant to Section 28 of the SDI Ordinance or which were recorded in the register maintained by the Company pursuant to Section 29 of the SDI Ordinance were as follows:

(a) Interests in the Company

| Directors | Number of shares of HK\$0.01 each in the Company held | | | Number of warrants held | |
|-----------------------|--|---------------------|-------------------------------|----------------------------|----------------------------|
| | Personal interests | Family interests | Corporate interests | Personal interests | Corporate interests |
| Dr. Lam How Mun Peter | - | - | - | 300,000 | - |
| Mr. Cheung Chung Kiu | - | - | 1,079,592,360 (Note 1 & 4) | - | 11,030,400 (Note 2 & 4) |
| Mr. Leung Chun Cheong | 10,000,000 | - | - | 200,000 | - |
| Ms. Poon Ho Yee Agnes | 4,000,000 | - | - | 200,000 | - |

(b) Interests in Yugang International Limited, the Company's holding company

| Directors | Number of shares held | |
|----------------------|-----------------------|-------------------------------|
| | Personal interests | Corporate interests |
| Mr. Cheung Chung Kiu | 53,320,000 | 3,194,434,684 (Note 3 & 4) |
| Mr. Lam Hiu Lo | 38,600,000 | - |

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DIRECTORS' INTERESTS IN SECURITIES (continued)
Notes:

1. These shares are owned by (i) Bookman Properties Limited ("Bookman") as to 105,240,000 shares, and (ii) Regulator Holdings Limited ("Regulator") as to 974,352,360 shares.
2. These warrants are owned by (i) Bookman as to 2,104,800 warrants, and (ii) Regulator as to 8,925,600 warrants.
3. These shares are owned by Chongqing Industrial Limited ("Chongqing").
4. Chongqing is the beneficial controlling shareholders of both Bookman and Regulator. Mr. Cheung Chung Kiu, Peking Palace Limited, Miraculous Services Limited and Prize Winner Limited have a 35%, 30%, 5% and 30% equity interest in Chongqing respectively. Peking Palace Limited and Miraculous Services Limited are beneficially owned by Palin Discretionary Trust, a family discretionary trust, the objects of which include Mr. Cheung Chung Kiu and his family. Prize Winner Limited is beneficially owned by Mr. Cheung Chung Kiu and his associates.
5. The warrants ("Warrants") shown in (a) above have an exercise period from June 12, 2000 to June 11, 2002 (both dates inclusive). Each Warrant carries a right to subscribe for ten shares of HK\$0.01 each in the Company at a subscription price of HK\$0.065 per share (after adjustment for the subdivision of shares which took place on June 13, 2000).

Save as disclosed above, as at December 31, 2000, the Company had no notice of any interests to be recorded under Section 29 of the SDI Ordinance.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURE

Pursuant to the share option scheme adopted by the Company on April 9, 1999, the Company had granted share options to subscribe for shares of HK\$0.10 each in the Company to the following directors:

| Name of director | Exercise price HK\$ | Number of share options | | | Balance at 12.31.2000 |
|--|------------------------|-------------------------|--|------------------------------|--------------------------|
| | | Balance at 1.1.2000 | Exercised during the year (Note) | Cancelled during the year | |
| Directors: | | | | | |
| Dr. Lam How Mun Peter | 0.64 | 1,500,000 | (1,500,000) | — | — |
| Mr. Leung Chun Cheong | 0.64 | 1,000,000 | (1,000,000) | — | — |
| Ms. Poon Ho Yee Agnes | 0.64 | 1,000,000 | (1,000,000) | — | — |
| Former Directors: | | | | | |
| Mr. Wong Chok Ming (alternate to Li Ruiwen) | 0.64 | 500,000 | — | (500,000) | — |

Save as disclosed above, at no time during the year was the Company, any of its subsidiaries or its holding company a party to any arrangement to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate, and none of the directors, or any of their associates, had any right to subscribe for the shares of the Company, or had exercised any such right during the year.

*Report of the Directors***DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURE (continued)**

Note: The options were exercised before June 13, 2000, the date of which the subdivision of shares became effective.

Under a share option scheme of the Company's holding company, Yugang International Limited ("Yugang"), options may be granted to directors and employees of Yugang or its subsidiaries to subscribe for shares in Yugang. The following directors of the Company have personal interests in share options to subscribe for shares in Yugang as follows:

| Name of director | Number of share options as at December 31, 2000 |
|-------------------------|--|
| Mr. Cheung Chung Kiu | 10,000,000 |
| Mr. Lam Hiu Lo | 10,000,000 |
| Mr. Leung Wai Fai | 10,000,000 |

The above share options were granted on March 24, 2000 with an exercise price of HK\$0.144 per share, exercisable from September 24, 2000 to October 18, 2003.

None of the options granted to the above directors have been exercised during the period since their appointment as directors of the Company to December 31, 2000.

CONNECTED TRANSACTIONS AND DIRECTORS' INTERESTS IN CONTRACTS

On May 9, 2000, a convertible note (the "Note") subscription agreement was entered into between the Company and Faircom Limited ("Faircom") in relation to the subscription of the Note issued by the Company amounting to HK\$150,000,000 at an interest rate of 5% per annum accrued on daily basis payable every six months in arrears, and an initial conversion price of HK\$0.81 per share, subject to adjustment, for three years from the date of issue of the Note. The conversion price has been adjusted to HK\$0.081 per share after the subdivision of shares which became effective on June 13, 2000. The Note was issued on June 22, 2000. At December 31, 2000, no conversion rights attaching to the Note has been exercised.

Faircom is a wholly owned subsidiary of Yugang which is a substantial shareholder of the Company. By virtue of his interests in Yugang, Mr. Cheung Chung Kiu is deemed to be interested in the Note.

Saved as disclosed above and in note 34 to the financial statements:

- (i) there were no transactions which need to be disclosed as connected transactions in accordance with the requirements of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"); and
- (ii) no contracts of significance subsisted at the end of the year or at any time during the year 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.

*Report of the Directors***SUBSTANTIAL SHAREHOLDERS**

The register of substantial shareholders maintained by the Company pursuant to Section 16(1) of the SDI Ordinance showed that the following shareholders had interests representing 10% or more in the share capital of the Company at December 31, 2000:

| Name of substantial shareholder | Number of shares | Approximately percentage of issued share capital held | Note |
|---|-------------------------|--|-------------|
| Regulator Holdings Limited ("Regulator") | 974,352,360 | 47.05% | |
| Yugang International (BVI) Limited ("Yugang-BVI") | 1,079,592,360 | 52.13% | (1) |
| Yugang International Limited ("Yugang") | 1,079,592,360 | 52.13% | (2) |
| Chongqing Industrial Limited ("Chongqing") | 1,079,592,360 | 52.13% | (3) |
| Mr. Cheung Chung Kiu | 1,079,592,360 | 52.13% | (4) |

Notes:

- (1) Regulator is a direct wholly-owned subsidiary of Yugang-BVI. The interest also includes the interest of 105,240,000 shares representing 5.08% held by Bookman Properties Limited ("Bookman"), an indirect wholly-owned subsidiary of Yugang-BVI. Yugang-BVI had deemed interests in 1,079,592,360 shares by virtue of its interests in Regulator and Bookman shares.
- (2) These interests are duplicated with those of Yugang-BVI as disclosed herein. Yugang is taken to be interested in the said shares by virtue of its interests in Yugang-BVI shares.
- (3) These interests are duplicated with those of Yugang as disclosed herein. Chongqing is taken to be interested in the said shares by virtue of its interests in Yugang shares.
- (4) These interests are duplicated with those of Chongqing as disclosed herein. Mr. Cheung Chung Kiu is taken to be interested in the said shares by virtue of his interest in Chongqing shares.

Other than as disclosed above, the Company had not been notified of any other interests representing 10% or more of the Company's issued share capital as at December 31, 2000.

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.

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

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

SUBSEQUENT EVENT

Details of a significant event which took place subsequent to the balance sheet date are set out in note 35 to the financial statements.

CORPORATE GOVERNANCE

The Company has complied throughout the year ended December 31, 2000 with the Code of Best Practice as set out in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited.

AUDITORS

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

On behalf of the Board

Lam How Mun Peter
Chairman and Managing Director

Hong Kong, April 20, 2001