

## REPORT OF THE DIRECTORS

(Amounts expressed in Hong Kong dollars)

The directors have the pleasure of presenting their annual report together with the audited financial statements of South China Industries Limited ("the Company") and its subsidiaries ("the Group") for the year ended 31 December 2000.

### PRINCIPAL ACTIVITIES

The Company is an investment holding company. Its subsidiaries and associates are principally engaged in the manufacturing and trading of toys, compressors, shoes, metal tooling, leather products, motors, machinery, capacitors, clothing, property development, information and technology related and provision of travel related businesses.

An analysis of the Group's turnover by principal activity and geographical location, together with their respective contributions to profit (loss) from operations for the year ended 31 December 2000 is as follows:

	Turnover \$'000	Profit (Loss) from operations before other provisions and gains \$'000
a. By activity:		
Manufacturing — sale of merchandise	1,829,509	17,273
Information and technology related businesses	59,914	(6,528)
Trading	49,125	(7,749)
Proceeds from sales of properties	3,014	(336)
Property letting	3,260	(8,038)
Investment holding	—	(8,590)
	<hr/> 1,944,822	<hr/> (13,968)
b. By geographical location:*		
United States of America	954,409	
Europe	558,684	
The People's Republic of China ("Mainland China")	186,871	
Japan	86,203	
Hong Kong	3,821	
Others	154,834	
	<hr/> 1,944,822	

\* Turnover by geographical locations is determined on the basis of the location where merchandise is delivered and service is rendered.

No analysis of profit (loss) from operations by geographical location is presented as they are generally in line with the distribution of turnover as set out above.

## **REPORT OF THE DIRECTORS**

*(Amounts expressed in Hong Kong dollars)*

### **CUSTOMERS AND SUPPLIERS**

During the year ended 31 December 2000, the five largest suppliers of the Group accounted for approximately 9% of the Group's total purchases while the five largest customers of the Group accounted for approximately 61% of the Group's total turnover. In addition, the largest customer of the Group accounted for approximately 18% of the Group's turnover. None of the directors, their associates, or any shareholders (which to the knowledge of the Directors owned more than 5% of the Company's share capital) had a beneficial interest in the Group's five largest customers or the five largest suppliers.

### **RESULTS AND APPROPRIATIONS**

Details of the Group's results for the year ended 31 December 2000 are set out in the consolidated income statement on page 17 of this annual report. An interim dividend of 0.2 cents per share, amounting to approximately \$1,061,000, was declared and paid during the year. The Directors do not recommend the payment of a final dividend in respect of the year ended 31 December 2000.

## REPORT OF THE DIRECTORS

(Amounts expressed in Hong Kong dollars)

### SUMMARY FINANCIAL INFORMATION

A summary of the results and the assets and liabilities of the Group for the last five financial years, as extracted from the audited financial statements, is set out below:

	As at and for the year ended 31 December				
	2000 \$'000	1999 \$'000	1998 \$'000	1997 \$'000	1996 \$'000
<b>RESULTS</b>					
Turnover	<b>1,944,822</b>	1,971,426	1,611,806	1,575,798	1,427,693
Profit before share of (losses) profit of associates	<b>20,707</b>	126,847	45,417	92,656	85,972
Share of (loss) profit of associates	<b>(39,514)</b>	(40,311)	(15,463)	(40,709)	2,480
(Loss) Profit before taxation	<b>(18,807)</b>	86,536	29,954	51,947	88,452
Taxation	<b>(6,005)</b>	(8,222)	(11,893)	(10,244)	(5,000)
(Loss) Profit after taxation	<b>(24,812)</b>	78,314	18,061	41,703	83,452
Interest of minority shareholders	<b>26,682</b>	(24,531)	(16,224)	(13,494)	(18,151)
Profit attributable to shareholders	<b>1,870</b>	53,783	1,837	28,209	65,301
Earnings per share (cents)					
— Basic	<b>0.35</b>	10.1	0.3	5.3	12.3
— Fully diluted	<b>N/A</b>	N/A	N/A	N/A	N/A
Dividends per share (cents)	<b>0.2</b>	2.2	0.7	2.5	8.0
<b>ASSETS AND LIABILITIES</b>					
Total assets	<b>1,778,045</b>	1,770,727	1,454,899	1,767,341	1,609,433
Total liabilities and minority interests	<b>(981,894)</b>	(945,199)	(664,242)	(947,523)	(799,199)
Shareholders' equity	<b>796,151</b>	825,528	790,657	819,818	810,234

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(Amounts expressed in Hong Kong dollars)

### SHARE CAPITAL AND SHARE OPTIONS

Details of movements in share capital and share options of the Company are set out in Notes 25 and 26, respectively, to the accompanying financial statements.

### RESERVES AND RETAINED PROFIT

Movements in reserves of the Group and the Company during the year are set out in Note 27 to the accompanying financial statements. Movements in retained profit of the Group during the year are set out in the consolidated income statement on page 17 of this annual report.

As at 31 December 2000, approximately \$389,408,000 (1999 — \$389,408,000) of the Company's reserves and approximately \$164,489,000 (1999 — \$149,846,000) of the Company's retained profit were available for distribution to its shareholders.

### PURCHASE, SALE OR REDEMPTION OF SHARES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed shares during the year ended 31 December 2000.

### PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's articles of association and the laws in the Cayman Islands.

### SUBSIDIARIES

Particulars of the Company's subsidiaries are set out in Note 14 to the accompanying financial statements.

### FIXED ASSETS AND INVESTMENT PROPERTIES

Detail movements in fixed assets and investment properties during the year are set out in Notes 12 and 13 to the accompanying financial statements.

### BANK LOANS AND OVERDRAFTS

Particulars of bank loans and overdrafts as at 31 December 2000 are set out in Notes 21 and 23 to the accompanying financial statements.

### DONATIONS

During the year, the Group made charitable and other donations of approximately \$83,000 (1999 — \$24,000).

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### SUBSEQUENT EVENT

Details of a significant subsequent event are set out in Note 34 to the accompanying financial statements.

### DIRECTORS AND DIRECTORS' SERVICE CONTRACTS

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

#### Executive directors

Ng Hung Sang, Robert  
Cheung Choi Ngor, Christina  
Richard Howard Gorges  
Tan Boon Seng  
Lo Kwok Choi  
Lee Lap Tak

#### Independent non-executive directors

Liang Ningguang  
Lee Wai Choi, Albert

In accordance with Article 116 of the Company's Articles of Association, Mr. Ng Hung Sang, Robert, Mr. Richard Howard Gorges and Mr. Tan Boon Seng will retire at the forthcoming annual general meeting and, being eligible, offer themselves for re-election. In addition, all non-executive directors are subject to retirement by rotation and re-election at the Annual General Meeting of the Company in accordance with the provisions of the Company's Articles of Associations.

None of the directors has an unexpired contract with the Company which is not terminable by the Company within one year without payment of compensation (other than statutory compensation).

**REPORT OF THE DIRECTORS***(Amounts expressed in Hong Kong dollars)***DIRECTORS' INTERESTS IN EQUITY SECURITIES**

As at 31 December 2000, the interests of directors in the equity securities of the Company, its ultimate holding company and fellow subsidiaries as recorded in the register maintained by the Company pursuant to Section 29 of the Securities (Disclosure of Interest) Ordinance ("SDI Ordinance") were as follows:

**a. The Company**

Directors	Number of ordinary shares		Number of outstanding share options <i>(Note a)</i>
	Personal interests	Corporate interests	
Ng Hung Sang, Robert	—	—	13,000,000
Cheung Choi Ngor, Christina	—	—	13,000,000
Richard Howard Gorges	—	—	13,000,000

**b. Subsidiary — South China Information and Technology Limited ("South China IT")**

Directors	Number of ordinary shares		Number of outstanding share options <i>(Note b)</i>
	Personal interests	Corporate interests	
Cheung Choi Ngor, Christina	—	—	17,000,000

**c. Ultimate holding company — South China Holdings Limited ("South China Holdings")**

Directors	Number of ordinary shares		Number of warrants		Number of outstanding share options <i>(Note e)</i>
	Personal interests	Corporate interests	Personal interests	Corporate interests	
	<i>(Note c)</i>	<i>(Note c)</i>	<i>(Note d)</i>	<i>(Note d)</i>	
Ng Hung Sang, Robert	18,886,800	318,132,403	3,777,360	63,626,480	4,199,000
Cheung Choi Ngor, Christina	—	121,987,440	—	24,397,488	4,198,000
Richard Howard Gorges	—	121,987,440	—	24,397,488	4,198,000

**d. Fellow subsidiaries****I. The Express News Limited ("Express News")**

Easewin Investments Limited ("Easewin") beneficially owned 30% of the issued share capital of Express News. Ng Hung Sang, Robert and his family have beneficial interests in Easewin.

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### d. Fellow subsidiaries (Continued)

#### 2. South China Online Limited ("South China Online")

Directors	Number of ordinary shares		Number of outstanding share options <i>(Note f)</i>
	Personal interests	Corporate interests	
Ng Hung Sang, Robert	3,078,000	—	100,000,000
Cheung Choi Ngor, Christina	—	—	100,000,000
Richard Howard Gorges	16,174,000	—	50,000,000

#### Notes:

- a. Under the employee share option scheme of the Company adopted on 10 August 1992, the options are exercisable on or before 28 July 2002 at an initial subscription price of \$1.18 per share (subject to adjustment).
- b. Under the employee share option scheme of South China IT adopted on 13 October 1997, Cheung Choi Ngor, Christina was granted a total of 17,000,000 options during the year. The options are exercisable on or before 12 October 2007 at the respective initial subscription prices of \$1.28 and \$0.51 per share (subject to adjustment).
- c. Ng Hung Sang, Robert, Cheung Choi Ngor, Christina and Richard Howard Gorges through companies wholly-owned and controlled by them, have interests in 121,987,440 shares in South China Holdings. Ng Hung Sang, Robert personally owns 18,886,800 shares and through companies wholly-owned and controlled by him, beneficially owns 196,144,963 shares in South China Holdings.
- d. Ng Hung Sang, Robert, Cheung Choi Ngor, Christina and Richard Howard Gorges through companies wholly-owned and controlled by them, have interests in 24,397,488 warrants in South China Holdings. Ng Hung Sang, Robert personally owns 3,777,360 warrants and through companies wholly-owned and controlled by him, beneficially owns 39,228,992 warrants in South China Holdings.
- e. Under the employee share option scheme of South China Holdings adopted on 29 July 1992, the options are exercisable on or before 28 July 2002 at the respective initial subscription prices of \$1.36 and \$0.88 per share (subject to adjustment).
- f. Under the employee share option scheme of South China Online adopted on 12 July 1993, the options are exercisable on or before 11 July 2003 at an initial subscription price of \$1.80 per share (subject to adjustment).

Save as disclosed above, at no time during the year was the Company or any of its subsidiaries a party to any arrangement to enable any of the Company's directors or members of its management to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

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### DIRECTORS' INTERESTS IN CONTRACTS

No contracts of significance in relation to the Group's business to which the Company or any of its subsidiaries was a party and in which any of the Company's directors or members of its management had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

### BRIEF BIOGRAPHICAL DETAILS IN RESPECT OF DIRECTORS

**Ng Hung Sang, Robert**, aged 51, is the chairman of the Company, South China Holdings, South China Online, South China IT and Wah Shing International Holdings Limited ("Wah Shing") and Fourseas.com Limited ("Four Seas"). He holds a Master's degree in marketing from Lancaster University, the United Kingdom and is a fellow member of the Chartered Institute of Management Accountants. He was appointed as a director of the Company in June 1992.

**Cheung Choi Ngor, Christina**, aged 47, is the vice-chairman and chief executive of the Company, a deputy chairman and chief executive of Wah Shing, the deputy chairman of Four Seas, the vice-chairman of South China Online, a director of South China Holdings and South China IT. She holds a Master's degree in business administration from the University of Illinois, the United States of America. She was appointed as a director of the Company in June 1992.

**Richard Howard Gorges**, aged 57, is the vice-chairman of the Company and South China Online, a deputy chairman of Wah Shing, a director of South China Holdings, South China IT and Four Seas. He holds a Master's degree in law from Cambridge University, the United Kingdom. He was appointed as a director of the Company in June 1992.

**Tan Boon Seng**, aged 45, is the chairman of Lee Hing Development Limited and a joint managing director of IGB Corporation Berhad, a listed company in Malaysia, and also a director of South China Holdings and South China Online. He holds a Master's degree in arts from Cambridge University, the United Kingdom. He has extensive experience in property development, corporate finance and trading business. He was appointed as a director of the Company in June 1992.

**Lo Kwok Choi**, aged 51, is the managing director of Wah Shing. He has extensive engineering, operational and business experience in toy manufacturing and procurement. He holds a Master's degree in science in industrial engineering and administration from Cranfield Institute of Technology, the United Kingdom. He was appointed as a director of the Company in January 1996.

**Lee Lap Tak**, aged 52, is a director of Wah Shing. He has over 25 years' experience in material related fields. He holds a Master's degree in business administration from American World University, the U.S.A. He is a fellow member of the Institute of Management (U.K.), a fellow member of the Institute of Operations Management (U.K.), a member of the Institute of Administrative Management (U.K.), and the Professional Manager of Canadian Institute of Management. He was appointed as a director of the Company in January 1996.



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**Liang Ningguang**, aged 47, graduated from the Central TV University in the People's Republic of China majoring in finance and obtained a master's degree in business administration from the Murdoch University in Australia. He is a member of the Chinese Institute of Certified Public Accountants and a senior accountant. He is also a dealing director and an investment adviser registered under the Securities Ordinance of Hong Kong. He was the deputy director of Guangzhou Municipal Taxation Bureau and has over 30 years of experience in finance, securities and management. Mr. Liang is a director and deputy general manager of Yue Xiu Enterprises (Holdings) Limited, an executive director and deputy general manager of Guangzhou Investment Company Limited and also an executive director of GZI Transport Limited. The latter two being companies listed on The Stock Exchange of Hong Kong Limited. He was appointed as an independent non-executive director of the Company in June 1992.

**Lee Wai Choi, Albert**, aged 35, holds a Bachelor of Arts Degree from York University, Canada and is currently a director of Solid Group and current adviser of Yan Chai Hospital. He has extensive experience in stock and direct investment. He was appointed as an independent non-executive director of the Company in October 1995.

### SUBSTANTIAL SHAREHOLDERS

As at 31 December 2000, the following entities registered an interest in 10% or more of the issued share capital of the Company:

Name	Number of issued shares	Percentage holding
Super Giant Limited	273,370,337	51.55%
Worldunity Investments Limited	98,143,020	18.51%
Tek Lee Finance And Investment Corporation Limited	396,389,357 (Note a)	74.74%
South China (BVI) Limited	396,389,357 (Note b)	74.74%
South China Holdings Limited	396,389,357 (Note b)	74.74%

Notes:

- (a) Tek Lee Finance And Investment Corporation Limited is the holding company of Super Giant Limited, Worldunity Investments Limited and Greearm Investments Limited which hold shares in the Company. The 396,389,357 shares referred above include the 273,370,337 shares held by Super Giant Limited, 98,143,020 shares held by Worldunity Investments Limited and 24,876,000 shares held by Greearm Investments Limited.
- (b) South China Holdings Limited is the holding company of South China (BVI) Limited which in turn is the holding company of Tek Lee Finance And Investment Corporation Limited. The 396,389,357 shares referred above relate to the same parcel of shares.

Save as disclosed above, the Company had no notice of any interests to be recorded under Section 16(1) of the SDI Ordinance as at 31 December 2000.

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### MANAGEMENT CONTRACTS

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

### COMPLIANCE WITH THE CODE OF BEST PRACTICE OF THE LISTING RULES

In the opinion of the directors, the Company has complied with the Code of Best Practice as set out in Appendix 14 of the Listing Rules of The Stock Exchange of Hong Kong Limited throughout the accounting period covered by the annual report, except that the independent non-executive directors of the Company are not appointed for specific terms. Independent non-executive directors are subject to retirement by rotation and re-election at the Annual General Meeting of the Company in accordance with the provisions of the Company's Articles of Association. In the opinion of the directors, this meets the same objective as the Code of Best Practice.

### AUDITORS

The accompanying financial statements were audited by Messrs. Arthur Andersen & Co. A resolution for the re-appointment of Messrs. Arthur Andersen & Co as the Company's auditors for the ensuing year is to be proposed at the forthcoming annual general meeting.

On behalf of the Board of Directors

**Ng Hung Sang, Robert**

*Chairman*

Hong Kong Special Administrative Region of the People's Republic of China

24 April 2001