

# Directors' Report

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The directors have pleasure in presenting to shareholders their annual report together with the audited financial statements for the year ended 31 December 2000.

## Principal activities

The principal activities of the Company are investment holding and trading. The activities of its principal subsidiaries and associates are the manufacturing and marketing of electric fans and other electrical household appliances, investment holding, property investment and trading of and investments in securities.

## Segmental information

An analysis of the Group's turnover and contribution to (loss) profit from operations by principal activities and geographical market is set out in note 3 to the financial statements.

## Subsidiaries and associates

During the year, the Group acquired a 41% interest in Modern Devices (China) Limited, a company engaged in trading of computer equipments and provision of software support, for a total consideration of approximately HK\$31,898,000.

On 31 December 1998, the Company's subsidiary, SMC Cable Limited ("SMC Cable") entered into a conditional agreement with certain parties in the People's Republic of China ("PRC") for the rationalisation of assets and liabilities of Guangdong Marco Cables Co., Ltd. ("Guangdong Marco Cables") (the "Agreement"). Following the completion of the Agreement during the year, SMC Cable increased its interest in Guangdong Marco Cables from 49% to 98%, at a consideration by reference to the net asset value of Guangdong Macro Cable at 31 December 1998, and Guangdong Marco Cables became the Company's subsidiary.

On 13 January 1999, SMC Steel Pipes Limited ("SMC Steel Pipes"), the Company's subsidiary, entered into a conditional agreement with certain PRC parties which were different from the parties contracted with SMC Cable, to acquire a 70% and a further 20.1% equity interest in Shunde Hua Feng Stainless Steel Welded Tubes Ltd. ("Shunde Hua Feng") at a consideration by reference to the net asset value of this PRC company as at 15 January 1999 and 15 March 1999 respectively (the "Steel Pipes Agreement"). Shunde Hua Feng is engaged in the manufacturing and trading of welded tubes. Following the completion of the agreement during the year, Shunde Hua Feng became a subsidiary of the Company.

The Group also incorporated a number of subsidiaries for the purposes of expanding its business.

In addition, the Group disposed of a sub-group headed by SMC Property Investment (China) Co. Limited, which was engaged in investment holding and property development, and in which the Group had a 100% interest, for a cash consideration of approximately HK\$29,600,000 during the year.

Details of the Company's principal subsidiaries and associates at 31 December 2000 are set out in notes 48 and 49 respectively to the financial statements.

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## Results and appropriations

The results of the Group for the year ended 31 December 2000 are set out in the consolidated income statement on page 20.

An interim dividend of 2 cents per share amounting to HK\$10,352,000 and a special interim dividend of 18 cents per share amounting to HK\$93,169,000 were paid to the shareholders during the year. Subject to the approval of shareholders at the forthcoming annual general meeting, the Board of Directors now recommends the payment of a final dividend of 3 cents per share to the shareholders whose names appear on the register of members of the Company at the close of business on 1 June 2001. The final dividend distribution amounting to HK\$15,376,000 will lead to reducing the Groups's retained profit for the year to HK\$16,257,000.

## Reserves

Movements during the year in the reserves of the Group and the Company are set out in note 33 to the financial statements.

## Financial summary

A summary of the results and of the assets and liabilities of the Group for the past five financial years is set out on page 64.

## Investment properties and property, plant and equipment

All of the Group's investment properties were revalued at 31 December 2000. The net surplus arising on revaluation, which has been credited directly to the investment property revaluation reserve, amounted to HK\$30,717,000. In addition, construction of the Group's high tech industrial complex in Shenzhen, PRC is nearly completed and development of the Group's next phase of its investment properties in the United States of America ("USA") has started.

During the year, the Group acquired land and building at cost of HK\$153,933,000 and the Group continued its plant replacement policy and expended HK\$3,572,000 on new plant and machinery during the year.

Details of these and other movements during the year in investment properties and property, plant and equipment of the Group and the Company are set out in notes 17 and 18 respectively to the financial statements.

## Major properties

Details of the major properties and property interests of the Group at 31 December 2000 are set out on pages 65 and 66 of the annual report.

## Share capital and share options

Movements during the year in the share capital and outstanding share options of the Company are set out in note 32 to the financial statements.

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## Purchase, sale or redemption of listed securities of the Company

During the year, the Company repurchased certain of its own shares. Details of which are set out in note 32 to the financial statements. The directors considered that, as the Company's shares were traded at a discount to the net asset value per share, the repurchases would increase the net asset value per share of the Company.

## Borrowings and interest capitalised

Details of bank loans, overdrafts and other borrowings of the Group and the Company are set out in note 31 to the financial statements.

Interest capitalised by the Group during the year in respect of toll road and properties under development for sale amounted to approximately HK\$12,086,000 and HK\$4,404,000 respectively.

## Directors

The directors of the Company during the year and up to the date of this report are:

### Executive directors

Dr. Yung Yau (*Chairman*)  
Mr. Billy Yung Kwok Kee (*Group Managing Director*)  
Madam Yung Ho Wun Ching  
Mr. Nicholas Yang Wei Hsiung  
Mr. Leung Chun Wah  
Mr. Plato Poon Chak Sang

### Non-executive director

Mr. Simon Yung Kwok Choi

### Independent non-executive directors

Cav Gr Cr, Dr. Leo Tung-Hai Lee, GBS, OBE,  
Chev Leg d'Hon, Comm Leopold II, LLD, JP  
Mr. Shiu-Kit Ngai, OBE, JP

In accordance with Article 103 of the Company's Articles of Association, Dr. Yung Yau, Mr. Simon Yung Kwok Choi and Mr. Leung Chun Wah shall retire by rotation at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

No director proposed for re-election at the forthcoming annual general meeting has a service contract which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

Each non-executive director is subject to retirement by rotation in accordance with the Company's Articles of Association.

# Directors' Report

## Directors' interests in share capital and share options

### (a) Shares

As at 31 December 2000, the interests of the directors and their associates in the share capital of the Company as recorded in the register maintained by the Company pursuant to Section 29 of the Securities (Disclosure of Interests) Ordinance ("SDI Ordinance") of the Company were as follows:

Name of director	Number of ordinary shares beneficially owned			
	Personal interests	Family interests	Corporate interests	Other interests
Dr. Yung Yau	93,285,000	3,200,000	–	156,000,000 (Note 1)
Mr. Billy Yung Kwok Kee	39,609,000	–	2,200,000	156,000,000 (Note 1) 10,412,000 (Note 3)
Dr. Leo Tung-Hai Lee	300,000	–	–	–
Mr. Shiu-Kit Ngai	–	–	–	–
Mr. Simon Yung Kwok Choi	18,666,000	–	–	–
Madam Yung Ho Wun Ching	3,200,000 (Note 2)	93,285,000 (Note 2)	–	156,000,000 (Note 1)
Mr. Nicholas Yang Wei Hsiung	350,000	–	–	–
Mr. Leung Chun Wah	1,799,400	–	–	–
Mr. Plato Poon Chak Sang	739,200	–	–	–

*Notes:*

1. These shares are held by a trust for the benefit of Dr. Yung Yau, Mr. Billy Yung Kwok Kee and Madam Yung Ho Wun Ching.
2. The shares held by Madam Yung Ho Wun Ching under her family interests and personal interests are in fact the same shares included under the personal interests and family interests respectively of Dr. Yung Yau.
3. These shares are held by a trust for the benefit of Mr. Billy Yung Kwok Kee.

## Directors' Report

### (b) Options

The directors had personal interests in share options to subscribe for shares in the Company as follows:

Name of director	Period during which option rights are exercisable	Subscription price per share HK\$	Number of share options				
			As at 1.1.2000	Granted during the year	Exercised during the year	Lapsed during the year	As at 31.12.2000
Dr. Yung Yau	05.06.1997 – 04.06.2000	3.25	2,100,000	-	-	(2,100,000)	-
	28.07.2000 – 27.07.2003	1.38	-	1,072,000	(1,072,000)	-	-
	28.01.2001 – 27.07.2003	1.38	-	1,072,000	-	-	1,072,000
	28.07.2001 – 27.07.2003	1.38	-	1,072,000	-	-	1,072,000
	28.01.2002 – 27.07.2003	1.38	-	1,072,000	-	-	1,072,000
	28.07.2002 – 27.07.2003	1.38	-	1,072,000	-	-	1,072,000
	28.01.2003 – 27.07.2003	1.38	-	1,340,000	-	-	1,340,000
Mr. Billy Yung Kwok Kee	05.06.1997 – 04.06.2000	3.25	2,100,000	-	-	(2,100,000)	-
	28.07.2000 – 27.07.2003	1.38	-	1,072,000	-	-	1,072,000
	28.01.2001 – 27.07.2003	1.38	-	1,072,000	-	-	1,072,000
	28.07.2001 – 27.07.2003	1.38	-	1,072,000	-	-	1,072,000
	28.01.2002 – 27.07.2003	1.38	-	1,072,000	-	-	1,072,000
	28.07.2002 – 27.07.2003	1.38	-	1,072,000	-	-	1,072,000
	28.01.2003 – 27.07.2003	1.38	-	1,340,000	-	-	1,340,000
Dr. Leo Tung-Hai Lee	28.07.2000 – 27.07.2003	1.38	-	96,000	-	-	96,000
	28.01.2001 – 27.07.2003	1.38	-	96,000	-	-	96,000
	28.07.2001 – 27.07.2003	1.38	-	96,000	-	-	96,000
	28.01.2002 – 27.07.2003	1.38	-	96,000	-	-	96,000
	28.07.2002 – 27.07.2003	1.38	-	96,000	-	-	96,000
	28.01.2003 – 27.07.2003	1.38	-	120,000	-	-	120,000
Mr. Shiu-Kit Ngai	28.07.2000 – 27.07.2003	1.38	-	80,000	-	-	80,000
	28.01.2001 – 27.07.2003	1.38	-	80,000	-	-	80,000
	28.07.2001 – 27.07.2003	1.38	-	80,000	-	-	80,000
	28.01.2002 – 27.07.2003	1.38	-	80,000	-	-	80,000
	28.07.2002 – 27.07.2003	1.38	-	80,000	-	-	80,000
	28.01.2003 – 27.07.2003	1.38	-	100,000	-	-	100,000
Madam Yung Ho Wun Ching	28.07.2000 – 27.07.2003	1.38	-	800,000	(800,000)	-	-
	28.01.2001 – 27.07.2003	1.38	-	800,000	-	-	800,000
	28.07.2001 – 27.07.2003	1.38	-	800,000	-	-	800,000
	28.01.2002 – 27.07.2003	1.38	-	800,000	-	-	800,000
	28.07.2002 – 27.07.2003	1.38	-	800,000	-	-	800,000
	28.01.2003 – 27.07.2003	1.38	-	1,000,000	-	-	1,000,000

## Directors' Report

Name of director	Period during which option rights are exercisable	Subscription price per share HK\$	Number of share options				As at 31.12.2000
			As at 1.1.2000	Granted during the year	Exercised during the year	Lapsed during the year	
Mr. Nicholas Yang Wei Hsiung	28.07.2000 – 27.07.2003	1.38	-	80,000	-	-	80,000
	28.01.2001 – 27.07.2003	1.38	-	80,000	-	-	80,000
	28.07.2001 – 27.07.2003	1.38	-	80,000	-	-	80,000
	28.01.2002 – 27.07.2003	1.38	-	80,000	-	-	80,000
	28.07.2002 – 27.07.2003	1.38	-	80,000	-	-	80,000
	28.01.2003 – 27.07.2003	1.38	-	100,000	-	-	100,000
Mr. Leung Chun Wah	28.07.2000 – 27.07.2003	1.38	-	120,000	-	-	120,000
	28.01.2001 – 27.07.2003	1.38	-	120,000	-	-	120,000
	28.07.2001 – 27.07.2003	1.38	-	120,000	-	-	120,000
	28.01.2002 – 27.07.2003	1.38	-	120,000	-	-	120,000
	28.07.2002 – 27.07.2003	1.38	-	120,000	-	-	120,000
	28.01.2003 – 27.07.2003	1.38	-	150,000	-	-	150,000
Mr. Plato Poon Chak Sang	28.07.2000 – 27.07.2003	1.38	-	120,000	-	-	120,000
	28.01.2001 – 27.07.2003	1.38	-	120,000	-	-	120,000
	28.07.2001 – 27.07.2003	1.38	-	120,000	-	-	120,000
	28.01.2002 – 27.07.2003	1.38	-	120,000	-	-	120,000
	28.07.2002 – 27.07.2003	1.38	-	120,000	-	-	120,000
	28.01.2003 – 27.07.2003	1.38	-	150,000	-	-	150,000

Details of the Company's share option scheme are set out in note 32(c) to the financial statements.

### (c) Shares in a subsidiary

As at 31 December 2000, the Group Managing Director, Mr. Billy Yung Kwok Kee, through a company controlled by him, held 5,000 shares of Quickjay Management Limited, a 90% owned subsidiary of the Company, representing a 10% interest in Quickjay Management Limited.

In addition to the above, certain directors held shares in subsidiaries as trustees for the Company.

### (d) Disclosure of other interest

- (i) As at 31 December 2000, Dr. Yung Yau, the Chairman of the Group, and Mr. Billy Yung Kwok Kee, the Managing Director of the Group, through companies controlled by them held 625,000 and 2,750,892 preferred stock at par value of US\$0.01 each respectively in Neutility Corp. (formerly known as ASPEngines.com, Inc.). Neutility Corp. is a company in which the Group held, as at 31 December 2000, 13,503,576 preferred stock at par value of US\$0.01 each.

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- (ii) During the year, the Group's 100% owned subsidiary, Extra-Fund Investment Limited, entered into securities trading transactions with Tung Tai Securities Co., Ltd. of which the Group's independent non-executive director, Dr. Leo Tung-Hai Lee was both a director and a substantial shareholder. The transactions were conducted on arm's length basis and gave rise to a broker's commission for approximately HK\$205,000 for year 2000.

Other than as disclosed above, none of the directors or their associates had any interests in any securities of the Company or any of its associated corporations as defined in the SDI Ordinance, and none of the directors nor 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.

### Substantial shareholders

As at 31 December 2000, the register of substantial shareholders maintained under Section 16(1) of the SDI Ordinance showed that the following shareholders had an interest of 10% or more in the share capital of the Company:

Name of shareholder	No. of ordinary shares
Herald Rich Company Limited ( <i>Note a</i> )	156,000,000
Dr. Yung Yau ( <i>Note b</i> )	93,285,000
Mr. Billy Yung Kwok Kee ( <i>Note c</i> )	52,221,000

Notes:

- (a) The 156,000,000 shares held by Herald Rich Company Limited were disclosed in the Directors' interests in share capital and share options above as being held under a trust for the benefit of Dr. Yung Yau, Mr. Billy Yung Kwok Kee and Madam Yung Ho Wun Ching.
- (b) The 93,285,000 shares held by Dr. Yung Yau were disclosed in the Directors' interests in share capital and share options above.
- (c) The 52,221,000 shares held by Mr. Billy Yung Kwok Kee were disclosed in the Directors' interests in share capital and share options above.

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

### Arrangement to purchase shares or debentures

Except for the Share Option Scheme granted by the Company to the directors as disclosed above, at no time during the year was the Company or any of its subsidiaries a party to any arrangements 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.

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## Directors' interests in contracts of significance

No contracts of significance 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, subsisted at the end of the year or at any time during the year.

## Connected transaction

In the opinion of the Directors, including the independent non-executive directors, purchases during the year totalling HK\$64,775,000 in respect of raw materials made by Shell & Shinsho Company Limited ("Shell & Shinsho"), a 70% owned subsidiary of the Company, from Shinsho Corporation of Japan which owns the remaining 30% of Shell & Shinsho, were:

- (i) conducted on normal commercial terms;
- (ii) in the ordinary and usual course of business of the Group;
- (iii) fair and reasonable so far as the shareholders of the Company as a whole were concerned; and
- (iv) within the limit in that the aggregate value of these purchases was less than 3% of the consolidated net tangible assets as shown in the Group's audited accounts as at 31 December 1999.

## Corporate governance

The Company has complied throughout the year ended 31 December 2000 with the Code of Best Practice as set out in Appendix 14 of the Listing Rules.

## Major suppliers and customers

For the financial year ended 31 December 2000, the five largest suppliers of the Group accounted for approximately 60% of the total purchases of the Group, of which 24% was attributable to the largest supplier and the five largest customers accounted for less than 45% of the total sales of the Group's turnover, of which 36% was attributable to the largest customer.

None of the Directors, their associates or any shareholder (which to the knowledge of the Directors owns more than 5% of the Company's issued share capital) has an interest in the share capital of any of the five largest suppliers.

## Donations

During the year, the Group made charitable and other donations totalling HK\$21,018,000.

## Auditors

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

On behalf of the board

**YUNG YAU**

*Chairman of the Board*

Hong Kong, 18 April 2001