

REPORT OF THE DIRECTORS

The directors present their report and the audited financial statements 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 of its subsidiaries, jointly-controlled entity and principal associates are set out in notes 16, 17 and 18 to the financial statements, respectively.

During the year, the Company acquired a 34.25% interest in Prestige Properties Holdings Limited, a company principally engaged in property investment, property development and investment holding and listed on the Stock Exchange of Hong Kong. Apart from this acquisition, there were no significant changes in the nature of the Group's principal activities during the year.

Results and dividends

The Group's loss for the year ended 31 December 2000 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 26 to 72.

The directors do not recommend the payment of any dividend in respect of the year.

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Segmental information

An analysis by principal activity of the Group's turnover and contribution to profit/(loss) from operating activities, and the Group's turnover by geographical area of operations is as follows:

	Turnover		Contribution to profit/(loss) from operating activities	
	2000 HK\$'000	1999 HK\$'000	2000 HK\$'000	1999 HK\$'000
By activity:				
Trading of industrial equipment	249	276	194	142
Trading of automobile parts	493,132	497,177	26,296	28,923
Trading of metal and plastic materials	897	3,622	16	491
Manufacturing and sale of packaging products	276,798	—	56,930	—
Trading of other products	12	6,322	2	864
Rental income	739	550	597	618
	<u>771,827</u>	<u>507,947</u>	<u>84,035</u>	<u>31,038</u>
Other operating income, net			9,982	11,156
Unrealised holding gains/(losses) on other investments			(138,111)	44,372
Finance costs			(5,576)	(3,109)
Share of profits of associates			5,651	1,236
(Loss)/Profit before tax			<u>(44,019)</u>	<u>84,693</u>
By geographical area:				
Hong Kong	84,706	9,992	(97,039)	61,623
Mainland China	494,287	497,955	20,933	23,070
North and South Americas	92,059	—	15,318	—
Europe	81,663	—	13,589	—
Others	19,112	—	3,180	—
	<u>771,827</u>	<u>507,947</u>	<u>(44,019)</u>	<u>84,693</u>

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Summary of financial information

The following table summarises the published results, assets and liabilities of the Group for the five years ended 31 December 2000, as extracted from the published audited financial statements of the Company, after the prior year adjustment as further explained in note 11 to the financial statements, and reclassified as appropriate:

	2000 <i>HK\$ '000</i>	1999 <i>HK\$ '000</i>	1998 <i>HK\$ '000</i> (restated)	1997 <i>HK\$ '000</i> (restated)	1996 <i>HK\$ '000</i> (restated)
Turnover	<u>771,827</u>	<u>507,947</u>	<u>896,187</u>	<u>3,715,758</u>	<u>3,605,405</u>
Operating profit/(loss)	(49,670)	83,457	(183,240)	70,023	194,560
Share of profits of associates	5,651	1,236	461	—	—
Profit/(loss) before tax	(44,019)	84,693	(182,779)	70,023	194,560
Tax	(4,579)	(1,116)	(4,902)	(5,110)	(19,804)
Net profit/(loss) before minority interests	(48,598)	83,577	(187,681)	64,913	174,756
Minority interests	(23,581)	—	—	—	—
Net profit/(loss) attributable to shareholders	<u>(72,179)</u>	<u>83,577</u>	<u>(187,681)</u>	<u>64,913</u>	<u>174,756</u>
Fixed assets	183,212	173,921	81,270	82,263	48,707
Investment properties	237,798	7,200	6,000	15,000	17,000
Interest in a jointly-controlled entity	9,867	—	—	—	—
Interests in associates	615,525	—	2,881	2,500	—
Unlisted investments	6,940	6,320	1,170	1,170	1,170
Deposit paid for the purchase of a property	—	230,398	34,712	1,872	1,872
Convertible debenture	—	11,700	—	—	—
Other investments	24,640	129,939	62,000	100,318	111,457
Current assets	1,273,416	941,693	1,038,965	1,783,891	1,220,003
Current liabilities	(144,366)	(140,187)	(113,880)	(686,046)	(873,698)
Net current assets	1,129,050	801,506	925,085	1,097,845	346,305
Non-current liabilities	(221,190)	(1,464)	(1,023)	(1,192)	(914)
Minority interests	(143,853)	(110,738)	—	—	—
Capital and reserves	<u>1,841,989</u>	<u>1,248,782</u>	<u>1,112,095</u>	<u>1,299,776</u>	<u>525,597</u>

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Fixed assets and investment properties

Details of movements in the fixed assets and investment properties of the Group are set out in notes 14 and 15 to the financial statements, respectively.

Subsidiaries

Particulars of the Company's subsidiaries are set out in note 16 to the financial statements.

Jointly-controlled entity and associates

Particulars of the Group's interests in its jointly-controlled entity and principal associates are set out in notes 17 and 18 to the financial statements, respectively.

Convertible notes

Details of the Company's convertible notes are set out in note 29 to the financial statements.

Share capital, share options and warrants

Details of movements in the Company's share capital, share options and warrants during the year, together with the reasons thereof, are set out in note 30 to the financial statements.

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

Reserves

Details of reserves of the Company and the Group are set out in note 31 to the financial statements.

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Directors

The directors of the Company during the year were as follows:

Executive:

Cheung Chung Kiu

Yuen Wing Shing

Zhang Qing Xin

Lam Hiu Lo

Liang Kang

Chu Chow Wai (alternative director to Cheung Chung Kiu)

Lam Cheung Mo (deceased on 25 July 2000)

Independent non-executive:

Wong Wai Kwong, David

Lee Ka Sze, Carmelo

In accordance with bye-law 87 of the bye-laws of the Company, Lam Hiu Lo and Zhang Qing Xin will retire by rotation and, being eligible, will offer themselves for re-election as executive directors of the Company at the forthcoming annual general meeting.

Wong Wai Kwong, David and Lee Ka Sze, Carmelo, being re-elected as independent non-executive directors on 12 June 2000, hold such office only until the forthcoming annual general meeting and then, being eligible, will offer themselves for re-election as directors.

Emoluments of directors and the five highest paid individuals

Details of the directors' emoluments and those of the five highest paid individuals in the Group are set out in notes 7 and 8 to the financial statements, respectively.

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Directors' service contracts

On 19 October 1993, Cheung Chung Kiu entered into a service contract with the Company for an initial term of three years commencing on 1 June 1993, which has continued thereafter until terminated by either party giving to the other not less than three months' notice.

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

Directors' and chief executives' interests in the securities of the Company and its associated corporations

As at 31 December 2000, the interests of the directors and chief executives and their associates in the securities of the Company and its associated corporation, shown in the register required to be kept under Section 29 of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance") were as follows:

(i) Interests in the Company's securities

	Nature of interest	Number of ordinary shares held
Cheung Chung Kiu	Corporate (<i>note 1</i>)	3,194,434,684
	Personal	53,320,000
Yuen Wing Shing	Personal	15,000,000
Lam Hiu Lo	Personal	38,600,000
Liang Kang	Personal	15,000,000
Zhang Qing Xin	Personal	12,160,000
		<u>12,160,000</u>

(ii) Interests in Chongqing Industrial Limited

Name	Nature of interest	Number of shares held
Cheung Chung Kiu	Corporate (<i>note 2</i>)	1,857,143
	Personal	1,000,000
		<u>1,000,000</u>

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Directors' and chief executives' interests in the securities of the Company and its associated corporations *(continued)*

(iii) Interests in Qualipak International Holdings Limited, a listed subsidiary of the Company

Name	Nature of interest	Number of shares held
Lee Ka Sze, Carmelo	Family	<u>1,000,000</u>

Notes:

- (1) The voting rights of these shares are exercisable by Chongqing Industrial Limited. Cheung Chung Kiu, Peking Palace Limited, Miraculous Services Limited and Prize Winner Limited have a 35%, 30%, 5% and 30% equity interest in Chongqing Industrial Limited, respectively.

Peking Palace Limited and Miraculous Services Limited are beneficially owned by Palin Discretionary Trust, a family discretionary trust, the objects of which include Cheung Chung Kiu and his family.

Prize Winner Limited is beneficially owned by Cheung Chung Kiu and his associates.

- (2) Peking Palace Limited, Miraculous Services Limited and Prize Winner Limited own 857,143, 142,857 and 857,143 shares, respectively, in Chongqing Industrial Limited.

Other than certain nominee shares in subsidiaries held by directors in trust for the companies in the Group, no director held an interest in the share capital of the Company's other subsidiaries during the year.

The interests of the directors in the share options of the Company are separately disclosed in the section "Directors' rights to acquire shares" below.

Save as disclosed above, none of the directors or the chief executive or their associates had any interest in the share capital of the Company and its associated corporations recorded in the register required to be kept under Section 29 of the SDI Ordinance.

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Directors' rights to acquire shares

Pursuant to the Company's share option scheme, the Company has granted options on the Company's ordinary shares in favour of certain directors, the details of which are as follows:

Name	Number of share options at 31 December 1999	Number of share options granted during the year	Number of share options exercised during the year	Number of share options outstanding at end of year
Cheung Chung Kiu	12,660,000	10,000,000	(12,660,000)	10,000,000
Yuen Wing Shing	10,000,000	8,000,000	(10,000,000)	8,000,000
Lam Hiu Lo	10,000,000	10,000,000	(10,000,000)	10,000,000
Liang Kang	10,000,000	6,000,000	(10,000,000)	6,000,000

The above share options granted during the year and outstanding at the end of year entitle the holders to subscribe for shares of the Company at any time during the period from 24 September 2000 to 18 October 2003, at an exercise price of HK\$0.144.

The above share options at 31 December 1999, which were all exercised during the year, entitled the holders to subscribe for shares of the Company at any time during the period from 29 December 1999 to 18 October 2003, at an exercise price of HK\$0.1821.

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 the Company's directors, their respective spouse, or children under 18 years of age to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

Further details of the Company's share option scheme are set out in note 30 to the financial statements.

Directors' interests in contracts

Apart from the transactions set out in note 37 to the financial statements, no director had a significant beneficial interest in any contract of significance to the business of the Company and its subsidiaries to which the Company or any of its subsidiaries was a party during the year.

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Substantial shareholder

At the balance sheet date, the following shareholder had notified the Company of a direct or indirect interest in 10% or more of the issued share capital of the Company:

Name	Number of shares
Chongqing Industrial Limited	3,194,434,684

Save as disclosed above, no person, other than the directors or chief executives of the Company, whose interests are set out in the section "Directors' and chief executives' interests in the securities of the Company and its associated corporations" above, had registered an interest in the share capital of the Company that was required to be recorded under Section 16(1) of the SDI Ordinance.

Purchase, sale and redemption of listed securities

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

Distributable reserves

At 31 December 2000, the Company's reserves available for cash distribution and/or distribution in specie amounted to HK\$79,018,000. In addition, the Company's share premium account, in the amount of HK\$840,629,000, may be distributed in the form of fully paid bonus shares.

Major customers and suppliers

In the year under review, sales to the five largest customers accounted for 71.91% of the total sales for the year and sales to the largest customer included therein amounted to 63.40%.

Purchases from the five largest suppliers accounted for 83.86% of the total purchases for the year and purchases from the largest supplier included therein amounted to 77.66%.

As far as the directors are aware, neither the directors, their associates, nor those shareholders which, to the knowledge of the directors, own more than 5% of the Company's share capital had any interest in the five largest customers and suppliers.

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Liquidity and capital resources

At the balance sheet date, the Group's net current assets amounted to approximately HK\$1,129 million with a current ratio of 8.8. The cash and cash equivalents of the Group decreased from approximately HK\$716 million to HK\$649 million during the year.

The Group had short term banking facilities of approximately HK\$515 million as at 31 December 2000. The Group did not have any outstanding bank loans at the balance sheet date.

Connected transactions

On 9 May 2000, Faircom Limited ("Faircom"), a wholly-owned subsidiary of the Company, entered into a convertible note subscription agreement with Qualipak International Holdings Limited ("Qualipak"), a subsidiary of the Company listed on the Stock Exchange of Hong Kong, in relation to the subscription by Faircom for a convertible note of Qualipak amounting to HK\$150,000,000. The Company had an interest of 51.03% in Qualipak at the date of the above subscription agreement. The convertible note is repayable on 9 May 2003 (the "Maturity Date") and bears interest at 5% per annum. Pursuant to the agreement, Faircom is entitled, but is not under any obligation, to convert the outstanding principal amount of the convertible note or part thereof (in amounts of not less than HK\$1,000,000) into shares at any time prior to the Maturity Date at HK\$0.081 per share in the first year, HK\$0.088 per share in the second year and HK\$0.096 per share in the third year. The reason for the above subscription is to provide funds for the general working capital and further investments by Qualipak.

On 12 July 2000, Yugang Enterprises Limited ("YEL"), a wholly-owned subsidiary of the Company, entered into a sub-tenancy agreement of premise situated at Rooms 3301-3304 China Resources Building, Hong Kong with Chongqing Industrial Limited ("CQ"), a substantial shareholder of the Company. The monthly rental for the sub-tenancy is HK\$129,012, and a security deposit of HK\$258,023 was paid by YEL to CQ. The total rent to be paid by YEL over the period of the sub-tenancy, which commenced on 1 July 2000 and will expire on 30 June 2002, is approximately HK\$3,096,000. The monthly rental amounted to about 37.93% discount over the previous sub-tenancy agreement entered into between the same parties on 1 July 1996.

Subsequent events

Details of the significant subsequent events of the Group are set out in note 38 to the financial statements.

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Pension scheme

Details of the pension scheme of the Group are set out in note 2 to the financial statements.

Code of Best Practice

The audit committee of the board of directors (“Audit Committee”) was established on 1 July 2000. To comply with the revised Code of Best Practice as set out in Appendix 14 of the Listing Rules, the Company appointed the two independent non-executive directors of the Company as members of the Audit Committee. The Audit Committee acts in an advisory capacity and makes recommendations to the board of directors.

Save as disclosed above, none of the directors is aware of any information that would reasonably indicate the Company is not or was not in compliance with the Code of Best Practice as set out in Appendix 14 of the Listing Rules of The Stock Exchange of Hong Kong for any part of the year covered by the annual report.

Auditors

Ernst & Young retire and a resolution for their reappointment as auditors of the Company will be proposed at the forthcoming annual general meeting.

ON BEHALF OF THE BOARD

Cheung Chung Kiu

Chairman

Hong Kong
20 April 2001