

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 Group's principal activities have not changed during the year and consisted of the manufacture and sale of telephone cords and accessories, power cords, adaptors and electronic products, printed circuit boards, high precision components for computers and the provision of freight forwarding and delivery services.

SEGMENTED INFORMATION

An analysis of the Group's turnover and contribution to profit from operating activities by principal activity and the Group's turnover by geographical area of operations for the year ended 31 December 2000 is as follows:

	2000		1999	
	Turnover	Contribution to profit from operating activities	Turnover	Contribution to profit from operating activities
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
By principal activity:				
Manufacture and sale of telephone cords and accessories, power cords, adaptors and electronic products	413,900	17,026	483,380	17,014
Manufacture and sale of printed circuit boards	175,744	10,520	185,998	1,810
Manufacture and sale of high precision components for computers	43,688	(2,459)	22,142	(10,663)
Freight forwarding and delivery services	36,911	(1,943)	45,625	(2,524)
Utility recharges	11,073	1,010	11,846	3,079
Gross rental income	5,288	(980)	5,435	(699)
	<u>686,604</u>	<u>23,174</u>	<u>754,426</u>	<u>8,017</u>

SEGMENTED INFORMATION (Continued)

	2000	1999
	Turnover	Turnover
	HK\$'000	HK\$'000
By geographical area:		
The People's Republic of China ("PRC"):		
Hong Kong, SAR	382,926	411,694
Elsewhere ("Mainland China")	109,348	110,290
Europe	82,051	124,649
Australia	40,219	40,193
North America	17,665	43,890
Other Asian countries	49,572	18,109
United Arab Emirates	4,823	5,601
	<u>686,604</u>	<u>754,426</u>

The contribution to profit from operating activities by geographical area is substantially in line with the overall rate of contribution to turnover and, accordingly, a geographical analysis of contribution is not presented.

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 21 to 58.

To keep pace with the Group's future business development, the directors do not recommend the payment of any dividend in respect of the year.

REPORT OF THE DIRECTORS

SUMMARY OF FINANCIAL INFORMATION

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

	Year ended 31 December				
	2000 HK\$'000	1999 HK\$'000	1998 HK\$'000	1997 HK\$'000	1996 HK\$'000
RESULTS					
TURNOVER	686,604	754,426	649,513	673,892	697,675
OPERATING PROFIT	16,615	343	3,475	15,093	31,569
Provision for diminution in value of interest in a jointly controlled entity	(25,892)	-	-	-	-
Provision for impairment in value of goodwill on acquisition of interest in a jointly controlled entity	(25,599)	-	-	-	-
Share of profits less losses of associates	-	-	-	706	-
Share of profits less losses of jointly controlled entities	18,063	30,675	18,993	11,377	7,296
PROFIT/(LOSS) BEFORE TAX	(16,813)	31,018	22,468	27,176	38,865
Tax	527	(1,900)	1,911	1,087	349
PROFIT/(LOSS) BEFORE MINORITY INTERESTS	(16,286)	29,118	24,379	28,263	39,214
Minority interests	(6,499)	(2,980)	(4,334)	(920)	(4,112)
NET PROFIT/(LOSS) FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS	(22,785)	26,138	20,045	27,343	35,102
		As at 31 December			
	2000 HK\$'000	1999 HK\$'000	1998 HK\$'000	1997 HK\$'000	1996 HK\$'000
ASSETS AND LIABILITIES					
TOTAL ASSETS	756,073	780,550	765,949	852,776	743,442
TOTAL LIABILITIES	(164,946)	(197,193)	(211,973)	(293,280)	(354,180)
MINORITY INTERESTS	(39,778)	(33,279)	(31,199)	(25,118)	(24,198)
NET ASSETS	551,349	550,078	522,777	534,378	365,064

FIXED ASSETS AND INVESTMENT PROPERTIES

Details of movements in the fixed assets and investment properties of the Company and the Group are set out in note 11 to the financial statements.

SUBSIDIARIES

Particulars of the Company's principal subsidiaries are set out in note 29 to the financial statements.

JOINTLY CONTROLLED ENTITIES

Particulars of the Group's interests in its jointly controlled entities are set out in note 14 to the financial statements.

BANK LOANS, OVERDRAFTS AND OTHER BORROWINGS

Details of bank loans, overdrafts and other borrowings of the Company and the Group are set out in notes 22 and 23 to the financial statements.

SHARE CAPITAL AND SHARE OPTIONS

Details of movements in the Company's share capital and share options during the year, together with reasons therefor, are set out in note 26 to the financial statements.

RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 27 to the financial statements.

REPORT OF THE DIRECTORS

DIRECTOR

The directors of the Company during the year were:

Su Genqiang	(appointed on 10 March 2000)
Yu Jian	(appointed on 22 March 2000)
Xu Xianghua	(appointed on 10 March 2000)
Tse Chun Sing	
Chang Tai Tek	
Leung Shun Sang, Tony	
Chan Wah Tip, Michael *	
Liu Wei*	
Choy Hok Man, Constance *	(appointed on 25 April 2000)
Ye Ruiling	(resigned on 10 March 2000)
Liu Hua	(resigned on 10 March 2000)
Gu Liyun	(resigned on 22 March 2000)

** Independent non-executive directors*

In accordance with clause 103(A) of the Company's articles of association, Messrs. Leung Shun Sang, Tony, Chang Tai Tek and Liu Wei will retire at the forthcoming annual general meeting and, being eligible, Messrs. Leung Shun Sang, Tony and Liu Wei will offer themselves for re-election at the forthcoming annual general meeting. However, Mr. Chang Tai Tek will not offer himself for re-election and it is not intended to fill up Mr. Chang's vacated office at the forthcoming annual general meeting.

DIRECTORS' SERVICE CONTRACTS

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 other than statutory compensation.

DIRECTORS' RIGHTS TO ACQUIRE SHARES

Pursuant to the Company's share option scheme as further detailed in note 26 to the financial statements, at the balance sheet date, the outstanding share options granted in favour of the directors during the year, which were also recorded in the register required to be kept under Section 29 of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance"), were as follows:

Name of director	Date of granting the options	Number of share options granted
Gu Liyun	3 January 2000	3,800,000
Tse Chun Sing	5 January 2000	3,800,000

All of the share options are exercisable at an exercise price of HK\$0.418 per share during the period from the date of granting the options to 31 December 2001. Each of the directors paid HK\$1 to the Company as consideration for the options granted to him. No share options were exercised by any directors during the year.

Save as disclosed, at no time during the year was the Company or any of its subsidiaries a party to any arrangements to enable the Company's directors or their respective spouses 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.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS IN THE SHARE CAPITAL OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS

Save as disclosed under the heading "Directors' rights to acquire shares", none of the directors, chief executive or their associates had any personal, family, corporate or other interests in the equity or debt securities of the Company or its associated corporations, as defined under the SDI Ordinance.

DIRECTORS' INTERESTS IN CONTRACTS

No director had a material beneficial interest in any contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party during the year.

DIRECTORS' REMUNERATION AND THE FIVE HIGHEST PAID EMPLOYEES

Details of the directors' remuneration and of the five highest paid employees of the Group are set out in notes 6 and 7 to the financial statements, respectively.

SUBSTANTIAL SHAREHOLDERS

At the balance sheet date, according to the register kept by the Company under Section 16(1) of the SDI Ordinance, the following persons were, directly or indirectly, beneficially interested in 10% or more of the issued share capital of the Company:

Name of shareholder	Number of ordinary shares held
Shougang Holding (Hong Kong) Limited ("Shougang HK") (Note 1)	371,649,069
Shougang Concord International Enterprises Company Limited ("Shougang International") (Note 1)	371,649,069
Shougang Concord Grand (Group) Limited ("Shougang Grand") (Note 1)	371,649,069
SCGI Investment (B.V.I.) Limited ("SCGI") (Note 2)	371,649,069
Grand Phoenix Limited ("Grand Phoenix") (Note 3)	371,649,069
Upper Nice Assets Ltd. ("Upper Nice") (Note 3)	240,342,569
Jeckman Holdings Limited ("Jeckman") (Note 3)	131,306,500

Notes:

1. Shougang HK is the controlling shareholder of Shougang International. The interests held by Shougang International are included in the interests held by Shougang HK. Shougang Grand is a subsidiary of Shougang International. The interests held by Shougang Grand are included in the interests held by Shougang International. Shougang Grand was deemed to be interested in the shares held by SCGI by virtue of its 100% shareholding in SCGI.
2. SCGI is a wholly-owned subsidiary of Shougang Grand and its interests are included in the interests held by Shougang Grand. SCGI was deemed to be interested in the shares held by Grand Phoenix by virtue of its 100% shareholding in Grand Phoenix.
3. Grand Phoenix is a wholly-owned subsidiary of SCGI and its interests are included in the interests held by SCGI. Grand Phoenix was deemed to be interested in the shares held by Upper Nice and Jeckman by virtue of its 100% shareholdings in Upper Nice and Jeckman.

Save as disclosed above, the directors of the Company are not aware of any other persons who, as at the balance sheet date were, directly or indirectly, beneficially interested in 10% or more of the issued share capital of the Company.

PURCHASE, REDEMPTION OR SALE OF THE COMPANY'S 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 the balance sheet date, the Company's reserves available for distribution, calculated in accordance with the provisions of Section 79B of the Companies Ordinance, amounted to HK\$12,177,000.

The Company's capital reserve represents a non-distributable reserve.

MAJOR CUSTOMERS AND SUPPLIERS

Sales to the five largest customers accounted for less than 30% of the total sales for the year. Purchases from the five largest suppliers accounted for less than 30% of the total purchases for the year.

CONNECTED TRANSACTION

During the year, the Group entered into the following connected transaction.

As set out in the press announcement dated 29 December 2000, a tenancy agreement was renewed on the same date whereby Good News Investment Limited leased to Santai Corporate Services Limited, a wholly-owned subsidiary of the Company, for a term of one year commenced from 1 January 2001 at a monthly rental of HK\$85,000 for the workshops 4, 5, 8, 9 and 15-18 on the 10th Floor of Honour Industrial Centre, 6 Sun Yip Street, Chai Wan, Hong Kong with an aggregate gross floor area of approximately 15,335 square feet. Good News Investment Limited is an indirectly wholly-owned subsidiary of Shougang International, the holding company of Shougang Grand which in turn is a controlling shareholder of the Company. The terms were negotiated on an arm's length basis in the normal course of business.

The premises are occupied by the Group as its office.

Further details of the above connected transactions are also set out in note 32(iii) to the financial statements under the heading of "Related party transactions".

EMPLOYEES

As at 31 December 2000, the total number of employees in the Group was 5,500.

The remuneration policies of the Group are to ensure the fairness and competitiveness of total remuneration to motivate and retain existing employees and at the same time to attract potential employees. Remuneration packages are structured in such a way that takes into account local practices in various geographical locations in which the Group and its associates operate and these remuneration packages include basic salary, allowances, retirement schemes, service bonus, fixed bonus, performance related payments and share options where appropriate.

LIQUIDITY AND FINANCIAL RESOURCES

At the balance sheet date, the Group's gearing ratio (total debt divided by equity) and current ratio (current assets divided by current liabilities) are 0.12 (1999: 0.13) and 2.35 (1999: 1.97), respectively, which have been improved as compared to last year.

Bank loans had decreased by approximately HK\$4 million to HK\$64 million as at 31 December 2000. The Group's borrowings were mostly denominated in Hong Kong dollars.

After taking into account the existing cash resources and unutilised bank facilities, the directors are of the opinion that the Group will maintain an adequate liquidity position throughout 2001.

DONATIONS

No charitable donations were made during the year.

AUDIT COMMITTEE

An Audit Committee of the Company was established in 1998 with reference to "A Guide for the Formation of an Audit Committee" issued by the Hong Kong Society of Accountants in December 1997. The Audit Committee comprises three independent non-executive directors and its principal duties include the review of the Company's financial reporting process, internal controls and the results of the Group. A meeting of the Audit Committee was held on 2 April 2001 for, amongst other things, reviewing the unaudited final results of the Company for the financial year ended 31 December 2000.

COMPLIANCE WITH THE CODE OF BEST PRACTICE

In the opinion of the directors, the Company has complied 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 throughout the accounting period covered by the annual report, except in relation to paragraph 7, as 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 meetings of the Company in accordance with the provisions of the Company's articles of association.

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

Su Genqiang
Chairman

Hong Kong, 19 April 2001