

## 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 2001.

### 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 2001 is as follows:

	Turnover \$'000	Profit (Loss) from operations \$'000
a. By activity–		
Trading and manufacturing – sale of merchandise	1,605,275	(69,478)
Information and technology related businesses	108,950	(7,384)
Property development and investment	5,921	(10,185)
Investment holding and others	–	(39,400)
	<b>1,720,146</b>	<b>(126,447)</b>
b. By geographical location*–		
United States of America	1,020,969	314
Europe	324,518	(13,174)
Mainland China and Hong Kong	223,891	(104,654)
Japan	29,651	(5,997)
Others	121,117	(2,936)
	<b>1,720,146</b>	<b>(126,447)</b>

\* Turnover by geographical locations is determined mainly on the basis of the destination of delivery of merchandise or where services are rendered.

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### CUSTOMERS AND SUPPLIERS

During the year ended 31 December 2001, the five largest suppliers of the Group accounted for approximately 7% 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 2001 are set out in the consolidated income statement of this annual report. No interim dividend was paid for the six months ended 30 June 2001 (2000: 0.2 cents per share). The directors do not recommend the payment of a final dividend in respect of the year ended 31 December 2001 (2000: Nil).

### 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				
	2001 \$'000	2000 \$'000	1999 \$'000	1998 \$'000	1997 \$'000
		(Restated – Note 39)	(Restated – Note 39)		
<b>RESULTS</b>					
Turnover	<b>1,720,146</b>	1,944,822	1,971,426	1,611,806	1,575,798
(Loss) Profit before share of loss of associates	<b>(181,717)</b>	(5,280)	113,531	45,417	92,656
Share of loss of associates	<b>(10,981)</b>	(39,514)	(40,311)	(15,463)	(40,709)
(Loss) Profit before taxation	<b>(192,698)</b>	(44,794)	73,220	29,954	51,947
Taxation	<b>(35,327)</b>	(6,005)	(8,222)	(11,893)	(10,244)
(Loss) Profit after taxation	<b>(228,025)</b>	(50,799)	64,998	18,061	41,703
Interest of minority shareholders	<b>91,494</b>	26,682	(24,531)	(16,224)	(13,494)
(Loss) Profit attributable to shareholders	<b>(136,531)</b>	(24,117)	40,467	1,837	28,209
(Loss) Earnings per share (cents)					
– Basic	<b>(25.7)</b>	(4.6)	7.6	0.3	5.3
– Fully diluted	<b>N/A</b>	N/A	N/A	N/A	N/A
Dividends per share (cents)	–	0.2	2.2	0.7	2.5
<b>ASSETS AND LIABILITIES</b>					
Total assets	<b>1,606,746</b>	1,778,045	1,770,727	1,454,899	1,767,341
Total liabilities and minority interests	<b>(943,781)</b>	(981,894)	(945,199)	(664,242)	(947,523)
Shareholders' equity	<b>662,965</b>	796,151	825,528	790,657	819,818

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### SHARE CAPITAL AND SHARE OPTIONS

Details of movements in share capital and share options of the Company are set out in Notes 28 and 29, 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 30 to the accompanying financial statements. Movements in retained profit of the Group during the year are set out in the consolidated income statement of this annual report.

As at 31 December 2001, approximately \$389,408,000 (2000 – \$389,408,000) of the Company's reserves and approximately \$163,707,000 (2000 – \$164,489,000) 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 2001.

### 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 18 to the accompanying financial statements.

### FIXED ASSETS AND INVESTMENT PROPERTIES

Details of movements in fixed assets and investment properties during the year are set out in Notes 14 and 15 to the accompanying financial statements.

### BANK LOANS AND OVERDRAFTS

Particulars of bank loans and overdrafts as at 31 December 2001 are set out in Notes 24 and 26 to the accompanying financial statements.

### DONATIONS

During the year, the Group made charitable and other donations of approximately \$21,000 (2000 – \$83,000).

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### SUBSEQUENT EVENTS

Details of a significant subsequent event are set out in Note 38 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

#### *Non-executive directors*

Lee Wai Choi, Albert  
Chiu Sin Chun (appointed on 20 August 2001)  
Liang Ningguang (resigned on 8 August 2001)

In accordance with Article 116 of the Company's Articles of Association, Ms. Cheung Choi Ngor, Christina, Mr. Lee Lap Tak and Mr. Lee Wai Choi, Albert will retire at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

In accordance with Article 99 of the Company's Articles of Association, Mr. Chiu Sin Chun will retire at the forthcoming annual general meeting and, being eligible, offer himself 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).

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### DIRECTORS' INTERESTS IN EQUITY SECURITIES

As at 31 December 2001, the interests of each Director in the equity securities of the associated corporations of the Company (within the meaning of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance")), as recorded in the register required to be kept by the Company under Section 29 of the SDI Ordinance were set out below:-

#### (i) Ultimate holding company – South China Holdings Limited ("South China Holdings")

Directors	Number of ordinary shares	
	Personal interests (Note a)	Corporate interests (Note a)
Ng Hung Sang, Robert	71,547,200	1,272,529,612
Cheung Choi Ngor, Christina	–	487,949,760
Richard Howard Gorges	–	487,949,760

#### (ii) Fellow subsidiaries

##### (1) The Express News Limited ("Express News")

Directors	Number of ordinary shares	
	Personal interests	Corporate interests (Note b)
Ng Hung Sang, Robert	–	30

##### (2) South China Brokerage Company Limited

Directors	Number of ordinary shares		Number of warrants	
	Personal interests	Corporate interests	Personal interests (Note c)	Corporate interests
Ng Hung Sang, Robert	2,578,000	–	615,600	–
Richard Howard Gorges	16,174,000	–	3,234,800	–

Notes:

- (a) Ng Hung Sang, Robert, Cheung Choi Ngor, Christina and Richard Howard Gorges, through companies wholly-owned and controlled by them, have interests in 487,949,760 shares in South China Holdings. Ng Hung Sang, Robert personally owns 71,547,200 shares and through companies wholly-owned and controlled by him, beneficially owns 784,579,852 shares in South China Holdings.
- (b) Ng Hung Sang, Robert and his family, through a company wholly-owned and controlled by them, have interests in 30 shares in Express News.
- (c) These warrants expired on 18 April 2002.

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Apart from the above, none of the Directors had any personal, family, corporate or other interests in the equity or debt securities of the Company or its associated corporations as at 31 December 2001 recorded in the register required to be kept under Section 29 of the SDI Ordinance.

### SHARE OPTION SCHEME

#### (i) The Company

On 10 August 1992, the Company adopted a Share Option Scheme (the "Scheme") which would lapse on 9 August 2002, pursuant to which the directors may, at their discretion to grant to selective employees of the Group including the directors to subscribe for shares of the Company up to a maximum aggregate number of shares equal to 10 per cent of the total issued shares of the Company. The purpose of the Scheme is to allow grantee the opportunity to obtain equity interest in the Company. No grantee would be granted option which would exceed 25 per cent of the total option available. The consideration payable for the option is HK\$1.00. The exercisable price of the option is determined by the directors which may be the higher of the nominal value of the share or 80 per cent of the average five business days' closing price of the shares on The Stock Exchange of Hong Kong Limited immediate preceding the date of grant.

The following table discloses movements in the Company's share options during the year and options outstanding at the beginning and end of the year.

Directors	Number of share options outstanding at 1 January 2001	Lapsed during the year	Number of share options outstanding at 31 December 2001	Initial exercise price* HK\$	Exercisable period
Ng Hung Sang, Robert	13,000,000	–	13,000,000	1.18	23/12/1994-09/08/2002
Cheung Choi Ngor, Christina	13,000,000	–	13,000,000	1.18	23/12/1994-09/08/2002
Richard Howard Gorges	13,000,000	–	13,000,000	1.18	23/12/1994-09/08/2002
Employees	3,235,000 (1,050,000)		2,185,000	1.18	23/12/1994-09/08/2002
Employees	705,000 (302,500)		402,500	0.78	18/01/1996-09/08/2002
<b>Total</b>	<b>42,940,000 (1,352,500)</b>		<b>41,587,500</b>		

No share options were granted or exercised by the Directors / other employees to subscribe for a share in the Company during the year.

\* The exercise price was subject to adjustment.

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### (ii) Ultimate holding company – South China Holdings Limited (“South China Holdings”)

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 HK\$1.36 and HK\$0.88 per share (subject to adjustment). The number of outstanding share options as at 31 December 2001 is as follows:

Directors	Number of share options		
	As at 1 January 2001	Granted during the year	As at 31 December 2001
Ng Hung Sang, Robert	16,796,000	–	16,796,000
Cheung Choi Ngor, Christina	16,792,000	–	16,792,000
Richard Howard Gorges	16,792,000	–	16,792,000

No share option was exercised by the Directors to subscribe for a share in South China Holdings during the year.

### (iii) Subsidiary – South China Information and Technology Limited (“South China IT”)

Under the employee share option scheme of South China IT adopted on 13 October 1997, the options are exercisable on or before 12 October 2007 at the respective initial subscription prices of HK\$1.28 and HK\$0.51 per share (subject to adjustment). The number of outstanding share options as at 31 December 2001 is as follows:

Directors	Number of share options		
	As at 1 January 2001	Granted during the year	As at 31 December 2001
Cheung Choi Ngor, Christina	17,000,000	–	17,000,000

No share option was exercised by the Directors to subscribe for a share in South China IT during the year.



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### (iv) Fellow subsidiary – South China Brokerage Company Limited (“South China Brokerage”)

Under the employee share option scheme of South China Brokerage adopted on 12 July 1993, the options are exercisable on or before 11 July 2003 at the respective initial subscription prices of HK\$1.80, HK\$0.138 and HK\$0.238 per share (subject to adjustment). The number of outstanding share options as at 31 December 2001 is as follows:

Directors	Number of share options		
	As at 1 January 2001	Granted during the year	As at 31 December 2001
Ng Hung Sang, Robert	100,000,000	–	100,000,000
Cheung Choi Ngor, Christina	100,000,000	–	100,000,000
Richard Howard Gorges	50,000,000	–	50,000,000

No share option was exercised by the Directors to subscribe for a share in South China Brokerage during the year.

Save as disclosed above, at no time during the year ended 31 December 2001 was the Company, its ultimate holding company, its fellow subsidiaries or any of its subsidiaries a party to any arrangement to enable the Directors of the Company or 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.

### 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 52, is the chairman of the Company, South China Holdings, South China Brokerage, South China IT, Wah Shing International Holdings Limited (“Wah Shing”) and Jessica Publications Limited. 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.



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**Cheung Choi Ngor, Christina**, aged 48, is the vice-chairman and chief executive of the Company, a deputy chairman and chief executive of Wah Shing, the vice-chairman of South China Brokerage, 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 58, is the vice-chairman of the Company and South China Brokerage, a deputy chairman of Wah Shing, a director of South China Holdings and South China IT. 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 46, is the chairman of Lee Hing Development Limited, an executive director of IGB Corporation Berhad, a listed company in Malaysia, and an independent non-executive director of Wo Kee Hong (Holdings) Limited and Star Cruise Limited. He is a director of ASAT Holdings Limited, a listed company in the United States. He is also a non-executive director of South China Holdings and South China Brokerage. 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 52, 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 53, is a director of Wah Shing. He has over 26 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.

**Lee Wai Choi, Albert**, aged 36, 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.

**Chiu Sin Chun**, aged 54, has more than 26 years' experience in the newspaper and media industry. He was appointed as an independent non-executive director of the Company in August 2001.

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### SUBSTANTIAL SHAREHOLDERS

As at 31 December 2001, the following entities had 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 Greenearn 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 Greenearn 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 2001.

### MANAGEMENT CONTRACTS

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

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### 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 year ended 31 December 2001, except that the independent non-executive directors of the Company are not appointed for specific terms and are subject to retirement by rotation at the Annual General Meeting of the Company in accordance with the Company's Articles of Association.

### 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 2002