

The directors submit their report together with the audited financial statements for the year ended 31st December, 2000.

## PRINCIPAL ACTIVITIES

The Company is an investment holding company and the principal activities of the subsidiaries are set out on pages 59 to 62.

## SUMMARIES OF RESULTS, ASSETS AND LIABILITIES OF THE GROUP

The summaries of results, assets and liabilities of the Group for the last five financial years are as follows:

	<b>2000</b>	1999	1998	1997	1996
	<b>HK\$'000</b>	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>Results</b>					
Turnover	<b><u>1,565,755</u></b>	<u>1,640,817</u>	<u>2,098,682</u>	<u>2,235,600</u>	<u>1,739,474</u>
Operating profit before exceptional items, interest, taxation and depreciation	<b><u>98,657</u></b>	<u>144,296</u>	<u>155,291</u>	<u>103,978</u>	<u>25,845</u>
(Loss)/profit attributable to shareholders	<b><u>(69,737)</u></b>	<u>(26,834)</u>	<u>19,640</u>	<u>(127,320)</u>	<u>(167,779)</u>
<b>Assets and liabilities</b>					
Non-current assets	<b>1,455,249</b>	1,530,967	1,611,123	1,665,840	1,827,543
Net current assets/ (liabilities)	<b>88,893</b>	218,346	(5,757)	139,728	(662,501)
Minority interests	<b>(63,350)</b>	(73,624)	(72,191)	(82,599)	(106,206)
Non-current liabilities	<b><u>(253,358)</u></b>	<u>(376,714)</u>	<u>(205,310)</u>	<u>(432,460)</u>	<u>(604,267)</u>
Shareholders' funds	<b><u>1,227,434</u></b>	<u>1,298,975</u>	<u>1,327,865</u>	<u>1,290,509</u>	<u>454,569</u>

## SUMMARIES OF BANK LOANS, OVERDRAFTS AND OTHER BORROWINGS OF THE GROUP

The summaries of bank loans, overdrafts and other borrowings of the Group for the last five financial years are as follows:

	<u>2000</u>	<u>1999</u>	<u>1998</u>	<u>1997</u>	<u>1996</u>
	<b>HK\$'000</b>	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Short-term bank loans, overdrafts and other borrowings	<b>489,992</b>	377,833	613,231	403,301	1,353,001
Long-term bank loans and other borrowings	<b>251,057</b>	374,145	202,417	430,137	603,363
Less: Deposits with financial institutions and cash and bank balances	<b><u>(390,969)</u></b>	<u>(275,993)</u>	<u>(206,732)</u>	<u>(160,186)</u>	<u>(144,380)</u>
Net bank loans, overdrafts and other borrowings	<b><u>350,080</u></b>	<u>475,985</u>	<u>608,916</u>	<u>673,252</u>	<u>1,811,984</u>

## SUBSIDIARIES

Details of the Company's subsidiaries are set out on pages 59 to 62.

## FINANCIAL STATEMENTS

The loss of the Group for the year ended 31st December, 2000, the state of affairs of the Company and of the Group at that date and the Group's cash flows and statement of recognised gains and losses for the year then ended are set out in the financial statements on pages 28 to 62.

## DIVIDENDS

The directors do not recommend the payment of a dividend for the year.

## RESERVES

Movements in reserves during the year are set out in Note 23 to the financial statements.

## FIXED ASSETS

Movements in fixed assets during the year are set out in Note 12 to the financial statements.

## DIRECTORS

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

Whang Tar Choung, *Chairman*\*

Ng Ping Kin, Peter, *Vice Chairman*\*

Tsao Chen, James, *Group Managing Director*

Whang Sun Tze\*

Whang Shang Ying\*

— resigned on 20th December, 2000

Lo Kwong Chi, Clement\*

Tsang Cho Tai\*

Hiroshi Hirano\*

Hiroshi Ito\*

Ho King Cheung

\* Non-executive director

In accordance with section 87(2) of the Company's Bye-Laws, all the directors shall retire and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

## DIRECTORS' SERVICE CONTRACTS

Mr. Tsao Chen, James entered into a service contract with the Company with effect from 12th August 1997. The service contract provides for, inter alia, not less than six months' notice to be given by Mr. Tsao to terminate the contract for the initial term of three years and thereafter until termination by either party by giving not less than three months' notice.

Mr. Ho King Cheung entered into a service contract with Lam Soon Food Industries (BVI) Limited, a subsidiary of the Company, with effect from 1st January, 1997. The service contract was terminated on 30th June, 2000.

Save as disclosed above, none of the directors has a service contract with the Company or any of its subsidiaries which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

## MANAGEMENT CONTRACTS

During the year, there existed an arrangement for an unspecified period whereby the ultimate holding company, Lam Soon (Hong Kong) Limited ("LSHK"), provided management services to certain subsidiaries of the Group in return for management fees. Certain directors were interested in this transaction to the extent of their beneficial interests in the shares of LSHK as described under the heading of "Directors' and Chief Executives' Interests in Shares".

## DIRECTORS' INTERESTS IN CONTRACTS

Certain directors of the Company, namely Messrs. Whang Tar Choung, Ng Ping Kin, Peter, Tsao Chen, James, Whang Sun Tze, Lo Kwong Chi, Clement and Ho King Cheung are also shareholders and directors of LSHK and are interested in the giving of guarantees from LSHK as set out in Note 30 to the financial statements.

Apart from the foregoing and those mentioned under the headings of "Management Contracts" and "Connected Transactions", no other contract of significance to which the Company or its holding company or any of its subsidiaries and fellow subsidiaries was a party and in which a director had a material interest subsisted at the end of the year or at any time during the year.

## CONNECTED TRANSACTIONS

- (1) During the year, one of the Company's subsidiaries, Hong Kong Flour Mills Limited, ("HKFM") sold flour to Hong Kong Flourtech Limited ("HKFT") amounting to approximately HK\$2.9 million. During the year, HKFM also leased certain bakery machinery to HKFT for a rental of approximately HK\$2.9 million. The transactions were carried out on normal commercial terms and in the ordinary course of business.

As HKFT is a wholly-owned subsidiary of Lam Soon (Hong Kong) Limited ("LSHK") and LSHK is the ultimate holding company of the Company, the transactions constitute connected transactions for the Company and its subsidiaries ("the Group"). Certain directors were interested in the transactions to the extent of their indirect interests in HKFT by virtue of their beneficial interests in the shares of LSHK as disclosed under the heading of "Directors' and Chief Executives' Interests in Shares".

- (2) During the year, the Group paid rental and building management fees to Lam Soon Realty Limited ("LSR") and Koon Bow Limited ("KBL") amounting in aggregate to approximately HK\$4.2 million for offices and warehouses leased to the Group. The transactions were carried out on normal commercial terms and in the ordinary course of business.

As LSR and KBL are wholly-owned subsidiaries of LSHK and LSHK is the ultimate holding company of the Company, the transactions constitute connected transactions for the Group. Certain directors have interests in the transactions to the extent of their indirect interests in LSR and KBL by virtue of their beneficial interests in the shares of LSHK as disclosed under the heading of "Directors' and Chief Executives' Interests in Shares".

**DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SHARES**

As at 31st December, 2000, the directors, the chief executives and their associates had the following interests in the shares of the Company and its associated corporations as recorded in the Register of Directors' Interests kept by the Company under Section 29 of the Securities (Disclosure of Interests) Ordinance:

	Number of shares held				Number of share options outstanding
	Personal interests	Family interests	Corporate interests	Other interests	
<b>(1) The Company</b>					
Whang Tar Choung	—	90,000	—	—	—
Tsao Chen, James	142,000	—	—	—	—
Whang Sun Tze	3,670,090	—	21,500 (Note a)	—	—
Lo Kwong Chi, Clement	40,000	—	—	—	—
Ho King Cheung	19	—	—	—	—
<b>(2) The ultimate holding company</b>					
<b>Lam Soon (Hong Kong) Limited</b>					
Whang Tar Choung	7,337,637	6,222,534	—	131,461,065 (Notes b & c)	—
Ng Ping Kin, Peter	1,325,000	—	—	—	—
Tsao Chen, James	50,000	—	—	—	3,155,296 (Note f)
Whang Sun Tze	37,823,743	—	619,326 (Note d)	106,596,624 (Notes b & e)	—
Lo Kwong Chi, Clement	323,754	—	—	—	—
Eng, Jr. James	149,000	—	—	—	—
Ho King Cheung	30,690	—	—	—	—
<b>(3) The fellow subsidiaries</b>					
<b>Flourtech International Holdings Limited</b>					
Ho King Cheung	—	—	—	—	180,000 (Note g)
<b>M.C. Packaging Offshore Limited</b>					
Ng Ping Kin, Peter	3,000	—	—	—	—

**DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SHARES** (continued)

Notes:

- (a) The interest disclosed represents the corporate interests of Dr. Whang Sun Tze in 21,500 ordinary shares in the Company held by T.C. Whang & Company (Private) Limited.
- (b) The interest disclosed herein included the interest in the ultimate holding company which the respective parties held by virtue of the provisions of Sections 8, 9 and 10 of the Securities (Disclosure of Interests) Ordinance and the shareholders' agreement and the supplemental agreement both dated 27th May, 1997 made, inter alia, between Mr. Whang Tar Choung, Mdm. Teo Joo Yee, Dr. Whang Sun Tze (alias Whang Siong Tiat), Raven Investment Company Limited, T.C. Whang & Company (Private) Limited and Guoinvest International Limited.
- (c) The interest disclosed represents the interest of Mr. Whang Tar Choung in 131,461,065 ordinary shares in the ultimate holding company referred to in Note (a) above.
- (d) The interest disclosed represents the corporate interests of Dr. Whang Sun Tze in 619,326 ordinary shares in the ultimate holding company held by T.C. Whang & Company (Private) Limited and SGR Investment Company Limited.
- (e) The interest disclosed represents the interest of Dr. Whang Sun Tze in 106,596,624 ordinary shares in the ultimate holding company referred to in Note (a) above.
- (f) The details of the share options granted are as follows:

<u>Name of director</u>	<u>Date granted</u>	<u>Exercisable period</u>	<u>Exercise price per share</u>	<u>Number of share options outstanding</u>
Tsao Chen, James	20th August, 1998	12th August, 1998 to 11th August, 2001	HK\$2.0815	3,155,296

The director did not exercise his options during the year.

- (g) The details of the share options granted to subscribe for shares at their nominal value are as follows:

<u>Name of director</u>	<u>Date granted</u>	<u>Exercisable period</u>	<u>Exercise price per share</u>	<u>Number of share options outstanding</u>
Ho King Cheung	1st February, 1993	1st February, 1993, to 31st January, 2003	HK\$1.00	180,000

The director did not exercise his options during the year.

Save as disclosed herein, none of the directors, the chief executives and their associates had any other beneficial interests in the share capital of the Company and its associated corporations as at 31st December, 2000.

**DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SHARES** (continued)

Apart from the foregoing, there was no arrangement to which the Company or its holding company or any of its subsidiaries and fellow subsidiaries was a party to enable the directors and their spouse to acquire benefits by means of acquisition of shares in or debentures of the Company or any other body corporate.

**SUBSTANTIAL SHAREHOLDERS**

As at 31st December, 2000, according to the register kept pursuant to Section 16(1) of the Securities (Disclosure of Interests) Ordinance, the following persons (not being a director or chief executive of the Company) were interested in shares representing 10% or more of the issued share capital of the Company:

	<b>Number of ordinary shares held</b>	<b>Number of convertible preference shares held</b>	<b>Note</b>
Lam Soon (Hong Kong) Limited ("LSHK")	81,420,315	500,000,000	
Guoinvest International Limited ("Guoinvest")	81,420,315	500,000,000	A
Providence Investments N.V. ("Providence")	81,420,315	500,000,000	B
Guoline Capital Assets Limited ("Guoline")	81,420,315	500,000,000	C
Hong Leong Company (Malaysia) Berhad ("Hong Leong")	81,420,315	500,000,000	D
Quek Leng Chan ("Mr. Quek")	81,420,315	500,000,000	E
HL Holdings Sdn Bhd ("HLH")	81,420,315	500,000,000	E
Hong Leong Investment Holdings Pte Limited ("HL Investment")	81,420,315	500,000,000	E
Kwek Holdings Pte Limited ("Kwek Holdings")	81,420,315	500,000,000	E

Notes:

- (A) The interests disclosed represent the aggregate corporate interests which Guoinvest held in the Company through LSHK.
- (B) The interests disclosed represent the aggregate corporate interests which Providence held in the Company through Guoinvest and LSHK.
- (C) The interests disclosed represent the aggregate corporate interests which Guoline held in the Company through Providence, Guoinvest and LSHK.
- (D) The interests disclosed represent the aggregate corporate interests which Hong Leong held in the Company through Guoline, Providence, Guoinvest and LSHK.
- (E) The interests disclosed represent the aggregate corporate interests which Mr. Quek, HLH, HL Investment and Kwek Holdings held in the Company through Hong Leong, Guoline, Providence, Guoinvest and LSHK.



## PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SHARES

There was no purchase, sale or redemption of the Company's listed shares by the Company or any of its subsidiaries during the year.

## PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's Bye-Laws and the law in Bermuda.

## MAJOR CUSTOMERS

The sales amount attributable to the Group's 5 largest customers combined accounted for less than 30% of the Group's total turnover for the year.

## MAJOR SUPPLIERS

The purchases amount attributable to the Group's 5 largest suppliers combined accounted for less than 30% of the Group's total purchases for the year.

## DIRECTORS' REMUNERATION

The aggregate remuneration of the directors of the Company calculated in accordance with Section 161 of the Hong Kong Companies Ordinance is as follows:

	<b>2000</b>	1999
	<b>HK\$'000</b>	HK\$'000
Directors' fees		
— Executive	<b>50</b>	50
— Non-executive	<b>530</b>	530
Salaries, housing, other allowances and benefits in kind	<b>2,245</b>	2,046
Pension scheme contributions	<b>94</b>	116
	<b><u>2,919</u></b>	<u>2,742</u>

The independent non-executive directors received HK\$230,000 as directors' fees for the year.

The remuneration of certain directors represents remuneration received in respect of services rendered to the Company and its Hong Kong and overseas subsidiaries.



**DIRECTORS' REMUNERATION** (continued)

The numbers of directors whose remuneration fell within the following bands were:

<b>HK\$</b>	<b>2000</b>	1999
Nil – 1,000,000	<b>9</b>	9
1,500,001 – 2,000,000	<b>1</b>	1
	<b>10</b>	10

There was no arrangement under which a director had waived or agreed to waive any remuneration.

**EMPLOYEE COSTS**

The five highest paid individuals included a director details of whose remuneration are set out above. The remaining four employees' remuneration are analysed as follows:

	<b>2000</b>	1999
	<b>HK\$'000</b>	HK\$'000
Salaries, housing, other allowances and benefits in kind	<b>6,361</b>	6,543
Pension scheme contributions	<b>245</b>	205
	<b>6,606</b>	6,748

The numbers of employees whose remuneration fell within the following bands were:

<b>HK\$</b>	<b>2000</b>	1999
1,000,001 – 1,500,000	<b>2</b>	2
1,500,001 – 2,000,000	<b>1</b>	1
2,000,001 – 2,500,000	<b>1</b>	—
2,500,001 – 3,000,000	<b>—</b>	1
	<b>4</b>	4

The remuneration of certain individuals represents remuneration received in respect of services rendered to the Company and its Hong Kong and overseas subsidiaries.

## CODE OF BEST PRACTICE

None of the Directors is aware of any information that would reasonably indicate that the Company is not, or was not for any part of the report period, in compliance 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, except that the non-executive directors were not appointed for a specific term as they are subject to retirement and re-election at the Company's Annual General Meeting in accordance with section 87(2) of the Company's Bye-Laws.

## SPECIFIC PERFORMANCE OBLIGATION FOR SYNDICATED BANKING FACILITY

On 16th August, 1999, a US\$42 million syndicated Term Loan Facility at market interest rates for advances in combination of HK Dollars and US Dollars ("the Facility") was entered into by the Company, containing a specific performance obligation by the Company to financial institutions. Following compliance with certain conditions precedent, the Facility will provide the Company a three year term loan repayable in 7 quarterly tranches, the first of which is payable 18 months after the date of the Facility. The Company has granted security for the Facility by pledging certain of the shares of its subsidiaries and assets of its PRC operation held by a subsidiary. Under the specific performance obligation imposed, LSHK, the parent of the Company, is required to maintain a shareholding (directly or indirectly) of not less than 51% in the Company. A breach of this obligation will cause a default under the Facility and the total amount outstanding under the Facility will become repayable immediately.

## AUDITORS

A resolution to re-appoint the retiring auditors, Messrs. PKF, is to be proposed at the forthcoming annual general meeting. PKF is formerly known as H. L. Leung & Co., which has changed its name on 9th May, 2000.

On behalf of the Board  
**Wang Tar Choung**  
Chairman

Hong Kong, 30th January, 2001