

## **Report of the Directors**

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

### **PRINCIPAL ACTIVITIES**

The principal activity of the Company is investment holding. The principal activities of the subsidiaries, jointly controlled entities and associated companies are set out in note 33 to the financial statements.

### **RESULTS AND APPROPRIATIONS**

The results of the Group for the year ended 31st December 2000 are set out on page 41 of the annual report. An interim scrip dividend equivalent to 2.5 cents (1999: 2 cents) per share with a cash option, totalling HK\$28,090,000 (1999: HK\$21,413,000) was paid during the year. The directors recommend a final scrip dividend of 4 cents (1999: 4 cents) per share with a cash option, totalling HK\$46,066,000 (1999: HK\$43,289,000). Full details of the scrip dividend will be set out in a letter to be sent to the shareholders. The retained profit of HK\$92,120,000 (1999: HK\$78,763,000) for the Group has been transferred to revenue reserves.

### **RESERVES**

Movements in the reserves of the Group and the Company during the year are set out in note 24 to the financial statements.

### **SHARE CAPITAL**

Details of shares issued as at 31st December 2000 are set out in note 22 to the financial statements.

During the year, 60,000 new shares were issued at the option price of HK\$0.5333 per share pursuant to the Share Option Scheme of the Company as a result of the exercise of share options by option holders.

On 18th January 2000, 11,313,410 new shares were issued at a price of HK\$0.6707 as the interim dividend for the six months ended 30th September 1999 to shareholders who had not made cash elections in respect of their shareholdings.

On 4th August 2000, 41,391,283 new shares were issued at a price of HK\$0.5111 as the final dividend for the nine months ended 31st December 1999 to shareholders who had not made cash elections in respect of their shareholdings.

On 24th November 2000, 28,050,516 new shares were issued at a price of HK\$0.5035 as the interim dividend for the six months ended 30th June 2000 to shareholders who had not made cash elections in respect of their shareholdings.

The Company has not redeemed any of its shares during the year ended 31st December 2000. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's shares during the year.

### **DONATIONS**

During the year, the Group made charitable donations amounted to HK\$1,626,000.

### **FIXED ASSETS**

Details of the movements in fixed assets are set out in note 12 to the financial statements.

## DIRECTORS

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

Lui Che Woo  
Francis Lui Yiu Tung  
Joseph Lai Ming  
Paddy Tang Lui Wai Yu  
Edwin Yu Kwok Kam  
Chan Nai Keong  
Charles Cheung Wai Bun  
Moses Cheng Mo Chi  
Yip Hing Chung

The biographical details of the directors and senior management are set out on pages 28 to 32 of the annual report.

In accordance with Article 106(A), Mr. Edwin Yu Kwok Kam and Mr. Yip Hing Chung will retire from office at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

None of the directors proposed for re-election has a service contract with the Company which is not determinable within one year without payment of compensation other than statutory compensation.

## DISCLOSURE OF INTERESTS

At 31st December 2000, the beneficial interest of each director in the share capital and warrants of the Company and its listed ultimate holding company, K. Wah International Holdings Limited, and the details of any right to subscribe for shares in the Company and K. Wah International Holdings Limited and of the exercise of such rights, as recorded in the register kept under section 29 of the Securities (Disclosure of Interests) Ordinance or as otherwise notified to the Company pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, were as follows:

### (A) Ordinary Shares of the Company

	Personal Interests	Family Interests	Corporate Interests	Other Interests	Total
Lui Che Woo	6,446,669	1,247,087	65,530,386 <sup>(1)</sup>	774,492,820 <sup>(2)</sup>	847,716,962
Francis Lui Yiu Tung	2,822	—	—	774,492,820 <sup>(2)</sup>	774,495,642
Joseph Lai Ming	—	—	—	—	—
Paddy Tang Lui Wai Yu	1,861,906	—	—	774,492,820 <sup>(2)</sup>	776,354,726
Edwin Yu Kwok Kam	—	—	—	—	—
Chan Nai Keong	49,769	—	—	—	49,769
Charles Cheung Wai Bun	1,810	—	—	—	1,810
Moses Cheng Mo Chi	—	—	—	—	—
Yip Hing Chung	155,405	—	—	—	155,405

**DISCLOSURE OF INTERESTS** (Cont'd)

**(B) Share Options of the Company**

	Share Options	
	Number Outstanding at 31st December 2000	Number Exercised during the year
Lui Che Woo	3,300,000	—
Francis Lui Yiu Tung	2,600,000	—
Joseph Lai Ming	850,000	—
Paddy Tang Lui Wai Yu	1,670,000	—
Edwin Yu Kwok Kam	1,700,000	—
Chan Nai Keong	836,000	—
Charles Cheung Wai Bun	—	—
Moses Cheng Mo Chi	—	—
Yip Hing Chung	—	—

**(C) Ordinary Shares of K. Wah International Holdings Limited**

	Personal Interests	Family Interests	Corporate Interests	Other Interests	Total
Lui Che Woo	1,465,486	6,079,030	380,539,558 <sup>(3)</sup>	717,581,296 <sup>(2)</sup>	1,105,665,370
Francis Lui Yiu Tung	379,804	—	—	717,581,296 <sup>(2)</sup>	717,961,100
Joseph Lai Ming	—	—	—	—	—
Paddy Tang Lui Wai Yu	4,639,166	—	—	717,581,296 <sup>(2)</sup>	722,220,462
Edwin Yu Kwok Kam	—	—	—	—	—
Chan Nai Keong	157,609	—	—	—	157,609
Charles Cheung Wai Bun	7,239	—	—	—	7,239
Moses Cheng Mo Chi	—	—	—	—	—
Yip Hing Chung	—	—	—	—	—

## DISCLOSURE OF INTERESTS (Cont'd)

### (D) Share Options and Warrants of K. Wah International Holdings Limited

	Share Options	2001 Warrants
	Number	Number
	Outstanding	Exercised
	at 31st December	during
	2000	the year
		31st December 2000
Lui Che Woo	2,850,000	–
Francis Lui Yiu Tung	2,200,000	–
Joseph Lai Ming	685,000	–
Paddy Tang Lui Wai Yu	1,470,000	–
Edwin Yu Kwok Kam	–	–
Chan Nai Keong	735,000	–
Charles Cheung Wai Bun	–	–
Moses Cheng Mo Chi	–	–
Yip Hing Chung	–	–
		16,206,548
		677
		–
		505,264
		–
		13,505
		490
		–
		36,182

#### Notes:

- (1) 13,886 shares, 60,809,718 shares, 794,488 shares, 3,224,532 shares and 687,762 shares in the Company were held by Best Chance Investments Ltd., Houston Investment Limited, Lui Jip (Nominees) Limited, Mark Liaison Limited and High Status Company Limited respectively, which were all controlled by Mr. Lui Che Woo.
- (2) K. Wah International Holdings Limited was interested in 774,492,820 shares in the Company representing more than one-third of its issued share capital held by a wholly owned subsidiary of K. Wah International Holdings Limited. 717,581,296 shares in K. Wah International Holdings Limited representing more than one-third of its issued share capital were held by a discretionary trust. Mr. Lui Che Woo, Mr. Francis Lui Yiu Tung and Mrs. Paddy Tang Lui Wai Yu, as discretionary beneficiaries interested in the trust, are deemed to be interested in those shares in K. Wah International Holdings Limited held by the trust and in those shares in the Company in which K. Wah International Holdings Limited was interested as aforesaid.
- (3) 9,240,273 shares, 205,939,658 shares, 763,960 shares, 49,446,071 shares and 115,149,596 shares in K. Wah International Holdings Limited were held by Best Chance Investments Ltd., Houston Investment Limited, Lui Jip (Nominees) Limited, Mark Liaison Limited and Premium Capital Profits Limited respectively, which were all controlled by Mr. Lui Che Woo.

At 31st December 2000, the interest of every person (not being a director or chief executive of the Company) having an interest in 10% or more of the issued share capital of the Company as recorded in the register kept under section 16(1) of the Securities (Disclosure of Interests) Ordinance, were as follows:

Name	Number of Ordinary Shares
Sutimar Enterprises Limited	774,492,820
K. Wah International Holdings Limited	774,492,820 (Note)

Note: K. Wah International Holdings Limited is deemed to be interested in the 774,492,820 shares in the Company held by Sutimar Enterprises Limited since it owned all of the issued share capital of Sutimar Enterprises Limited.

## **DISCLOSURE OF INTERESTS** *(Cont'd)*

There was duplication of interest of:

- (i) 774,492,820 shares in the Company between Mr. Lui Che Woo, Mr. Francis Lui Yiu Tung, Mrs. Paddy Tang Lui Wai Yu, Sutimar Enterprises Limited and K. Wah International Holdings Limited; and
- (ii) 717,581,296 shares in K. Wah International Holdings Limited between Mr. Lui Che Woo, Mr. Francis Lui Yiu Tung and Mrs. Paddy Tang Lui Wai Yu.

So far as was known to any director or chief executive of the Company, save as disclosed herein, there was no other person who was, directly or indirectly, interested in 10% or more of the issued share capital of the Company.

No contracts of significance to which the Company, its subsidiaries, its fellow subsidiaries or its holding companies 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.

Except for the Share Option Scheme, details of which are set out in note 23 to the financial statements, at no time during the year was the Company, its subsidiary companies, its fellow subsidiary companies or its holding companies 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.

## **CONNECTED TRANSACTIONS**

1. On 17th July 2000, Combat Technology Limited ("Combat"), a wholly owned subsidiary of the Company, entered into two supplemental shareholders' agreements with Cyberlabs Holdings Limited ("CHL") and CreateLabs Inc. ("CreateLabs") whereby CHL and CreateLabs subscribed for further shares in Cyberlabs Solutions Limited ("CSL") and ZhongGuanCun.com Limited ("ZGC") respectively.

CSL is specialized in providing Chinese e-commerce solutions to businesses in Hong Kong and Mainland China. ZGC is specialized in providing information exchange platform for internet investments.

Mr. Lui Che Woo, Chairman of the Company, is the ultimate beneficial controlling shareholder of CreateLabs. Combat is interested in 5% of the issued share capital of CHL.

CSL was originally owned as to 40% by Combat and 60% by CHL. After the issue of new shares by CSL, CSL is owned as to 30% by Combat, 60% by CHL and 10% by CreateLabs.

ZGC was originally owned as to 30% by Combat and 70% by CHL. After the issue of new shares by ZGC, ZGC is owned as to 25% by Combat, 70% by CHL and 5% by CreateLabs.

The transactions were connected transactions for the Company under the Listing Rules. Details of the transactions were included in the press announcement made by the Company on 17th July 2000.

## **CONNECTED TRANSACTIONS** *(Cont'd)*

- On 3rd August 2000, Rainbow States Limited, a wholly owned subsidiary of the Company, executed a share transfer agreement and an assignment of loan with 上海信財混凝土構件廠 for the acquisition of 29% equity interest in Shanghai Xin Cai Concrete Co., Ltd. ("Xin Cai") together with the shareholder loan due from Xin Cai at an aggregate consideration of RMB4,609,949.72 (approximately HK\$4,337,962).

Xin Cai is principally engaged in the manufacture and sale of ready-mixed concrete.

The Company originally owned 70% equity interest in Xin Cai beneficially. After the above acquisition, Xin Cai became a 99% owned subsidiary of the Company.

The acquisition was a connected transaction for the Company under the Listing Rules. Details of the acquisition were included in the press announcement made by the Company on 3rd August 2000.

## **FINANCIAL SUMMARY**

A five year financial summary of the results and of the assets and liabilities of the Group is shown on pages 26 and 27 of the annual report.

## **MAJOR CUSTOMERS AND SUPPLIERS**

For the year ended 31st December 2000, the aggregate amount of turnover attributable to the Group's five largest customers represented less than 30% of the Group's total turnover; and the aggregate amount of purchases (not including the purchases of items which are of a capital nature) attributable to the Group's five largest suppliers represents less than 30% of the Group's total purchases.

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) had any interest in the five largest customers.

## **MANAGEMENT CONTRACTS**

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

## **CORPORATE GOVERNANCE**

The Group is committed to high standards of corporate governance. The Board of Directors meets formally and has formal procedures on matters for consideration and decision. The executive directors are delegated the responsibility for the day-to-day management of the Group's operations.

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, the Directors have approved the establishment of an audit committee and have formulated its written terms of reference setting out its authority and duties, including the review of matters concerning the Group's financial reporting process. The audit committee comprises Dr. Charles Cheung Wai Bun, JP and Mr. Moses Cheng Mo Chi.

In addition to the two audit committee meetings for the review of annual results and interim results, the Audit Committee had held a meeting in Shanghai to review and to ensure effective internal control system is in place to support future growth.

For the year ended 31st December 2000, the Company has complied with the Code of Best Practice issued by The Stock Exchange of Hong Kong Limited save and except that, prior to the 2000 Annual General Meeting of the Company ("2000 AGM"), non-executive directors are being appointed subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the Company's Articles of Associations. Commencing from the 2000 AGM, non-executive directors are being appointed for a term of three years, who may under special circumstances be re-appointed for another 3-year term.

## **AUDITORS**

The financial statements have been audited by PricewaterhouseCoopers, who retire and, being eligible offer themselves for re-appointment. PricewaterhouseCoopers replaced Price Waterhouse in 1999 following their merger with Coopers & Lybrand.

On behalf of the Board

**Francis Lui Yiu Tung**

*Deputy Chairman and Managing Director*

Hong Kong, 17th April 2001