

# DIRECTORS' REPORT

The directors present their annual report and the audited financial statements for the year ended 31st July, 2000.

## PRINCIPAL ACTIVITIES

The Company is an investment holding company. Its subsidiaries are principally engaged in the repairs and maintenance of civil engineering establishments and buildings under construction contracts in Hong Kong, property development and the provision of medical and health services in the People's Republic of China (the "PRC"), and investment holding.

The Group's turnover and contribution to operating profit for the year ended 31st July, 2000, analysed by principal activity and geographical market are as follows:

	<b>Turnover</b> <i>HK\$'000</i>	<b>Contribution to operating profit (loss)</b> <i>HK\$'000</i>
Repairs and maintenance of civil engineering establishments and buildings under construction contracts in Hong Kong	283,830	33,111
Sales of properties in the PRC	14,682	(13)
Provision of medical and health services in the PRC	13,339	7,818
	<u>311,851</u>	<u>40,916</u>
Other income		3,380
Administrative and other operating expenses		(95,862)
Impairment loss for properties under development and completed properties for sale		(109,040)
Gain on disposal of GreaterChina Technology Group Limited ("GreaterChina")		227,854
Net gain on disposal of an associate		179,520
Share of results of associates		(14,068)
Interest expenses (net)		(4,275)
Profit before taxation		<u>228,425</u>

## **SUBSIDIARIES AND ASSOCIATES**

During the year, the Group acquired 100% interest in Tammerworth Development Limited (“Tammerworth”) and the benefits of shareholders’ loans totalling HK\$40,651,652 granted to Tammerworth at a consideration of HK\$140,000,000. The consideration was satisfied by the issue and allotment of 350,000,000 shares of the Company at HK\$0.40 per share.

Details of the Company’s subsidiaries and associates at 31st July, 2000 are set out in notes 43 and 20 respectively to the financial statements.

## **RESULTS AND DISTRIBUTIONS**

The results of the Group for the year ended 31st July, 2000 are set out in the consolidated income statement on page 23.

On 26th February, 2000, the Company distributed 75,462,452 shares of GreaterChina to the shareholders of the Company, other than those shareholders whose address as shown in the register of members of the Company were outside of Hong Kong, by way of a distribution in specie, at a ratio of 89 shares of GreaterChina for every 2,000 shares of the Company held by the Company’s shareholders.

An interim dividend of HK\$0.01 per share amounting to HK\$20,721,000 was paid to the shareholders on 28th April, 2000. The directors now recommend the payment of a final dividend of HK\$0.01 per share to the shareholders on the register of members on 5th January, 2001, amounting to HK\$20,724,000, and the retention of the remaining profit for the year.

## **RESERVES**

Movements during the year in the reserves of the Group and the Company are set out in note 30 to the financial statements.

## **FINANCIAL SUMMARY**

A summary of the results and of the assets and liabilities of the Group for the past five financial years is set out on page 69.

## **PROPERTY, PLANT AND EQUIPMENT**

During the year, the Group acquired leasehold land and buildings at a total cost of HK\$31,259,000. Details of these and other movements during the year in the property, plant and equipment of the Group are set out in note 15 to the financial statements.

## MAJOR PROPERTIES

Details of the major properties of the Group at 31st July, 2000 are set out on page 70.

## GOLF RESORT UNDER CONSTRUCTION

During the year, the Company acquired the entire issued share capital of Tammerworth which owns a golf resort under construction. Details of the golf resort under construction are set out in note 16 to the financial statements.

## SHARE CAPITAL, WARRANTS AND SHARE OPTIONS

Details of movements during the year in the share capital, Warrants and share options of the Company are set out in note 29 to the financial statements.

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

## BORROWINGS AND INTEREST CAPITALISED

Bank borrowings repayable within one year or on demand are classified as current liabilities. The repayment terms of the Group's obligations under finance leases and hire purchase contracts, and bank borrowings are set out in notes 27 and 28 to the financial statements respectively.

Net interest capitalised by the Group during the year in respect of properties under development and golf resort under construction amounted to HK\$3,492,000 and HK\$360,000 respectively.

## DIRECTORS AND SERVICE CONTRACTS

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

### Executive directors:

Mr. Yip Kwong, Robert

*(Chairman and Chief Executive Officer)*

Ms. Cheng Kit Yin, Kelly

*(Deputy Chairman and Chief Financial Officer)*

Mr. Kam Shing

Mr. Lo Sek Chiu, Vincent

(appointed on 30th December, 1999)

### Independent non-executive directors:

Dr. Wong King Keung, Peter

(appointed on 30th December, 1999)

Mr. Chung Shui-Ming

(appointed on 21st March, 2000)

Mr. Kwong Tak Cheong

(resigned on 27th November, 2000)

Dr. Tse Yuet Fu, Victor

(resigned on 27th November, 2000)

Mr. Kwong Tak Cheong and Dr. Tse Yuet Fu, Victor have been appointed for a term of two years commencing 23rd September, 1998. Dr. Wong King Keung, Peter and Mr. Chung Shiu-Ming have been appointed for a term of two years commencing from the date of their appointment. The appointment can be terminated by either party by notice in writing of not less than three months.

The independent non-executive directors are also subject to retirement by rotation.

In accordance with Clauses 86(2) and 87(1) of the Company's Bye-laws, Mr. Kam Shing, Mr. Lo Sek Chiu, Vincent, Dr. Wong King Keung, Peter and Mr. Chung Shui-Ming retire and, being eligible, offer themselves for re-election. All other directors continue in office.

None of the directors being proposed for re-election at the forthcoming annual general meeting 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.

## **DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SECURITIES**

### **(i) Shares**

At 31st July, 2000, the interests of the directors in the share capital of the Company as recorded in the register maintained by the Company pursuant to Section 29 of the Hong Kong Securities (Disclosure of Interests) Ordinance ("SDI Ordinance") were as follows:

<b>Name of director</b>	<b>Personal interest</b>	<b>Corporate interest</b>
	<b>Number of shares held</b>	<b>Number of shares held</b>
Mr. Yip Kwong, Robert	27,000,000	632,559,573 ( <i>Note</i> )
Ms. Cheng Kit Yin, Kelly	52,300,000	—
Dr. Tse Yuet Fu, Victor	1,000,000	—

*Note:* These shares are owned by Central Securities Holdings Limited, a wholly-owned subsidiary of Everbest Holdings Group Limited which is a company wholly owned by Mr. Yip Kwong, Robert.

### **(ii) Options**

The Company has a share option scheme under which the directors may, at their discretion, grant options to employees, including executive directors, of the Company or its subsidiaries to subscribe for shares in the Company.

The directors had personal interests in share options to subscribe for shares in the Company which were granted under the Company's share option scheme as follows:

Name of director	Date of grant	Exercise price HK\$	Number of share options			Outstanding as at 31st July, 2000
			Outstanding as at 1st August, 1999	Granted during the year	Exercised during the year	
Mr. Yip Kwong, Robert	5th March, 1997	0.43	5,000,000	–	–	5,000,000
	26th January, 2000	0.30	–	8,000,000	–	8,000,000
	22nd March, 2000	0.33	–	10,000,000	–	10,000,000
Ms. Cheng Kit Yin, Kelly	5th March, 1997	0.43	5,000,000	–	–	5,000,000
	26th January, 2000	0.30	–	4,000,000	–	4,000,000
	22nd March, 2000	0.33	–	10,000,000	–	10,000,000
Mr. Kam Shing	24th April, 1998	0.20	2,000,000	–	2,000,000	–
	26th January, 2000	0.30	–	3,000,000	–	3,000,000
Mr. Lo Sek Chiu, Vincent	12th February, 1996	0.53	3,000,000	–	–	3,000,000
	24th April, 1998	0.20	2,000,000	–	2,000,000	–
	26th January, 2000	0.30	–	10,000,000	–	10,000,000
Mr. Kwong Tak Cheong	1st September, 1995	0.72	500,000	–	–	500,000
	24th April, 1998	0.20	1,000,000	–	1,000,000	–
Dr. Tse Yuet Fu, Victor	24th April, 1998	0.20	1,000,000	–	1,000,000	–
Mr. Wong King Keung, Peter	26th January, 2000	0.30	–	5,000,000	–	5,000,000
Mr. Chung Shui-Ming	22nd March, 2000	0.33	–	10,000,000	–	10,000,000

Details of the share option scheme are set out in note 29 to the financial statements.

The Company's associate and former subsidiary, GreaterChina, has a share option scheme under which GreaterChina's full time employees and executive directors may be granted options to subscribe for shares in GreaterChina. Ms. Cheng Kit Yin, Kelly may be granted options to subscribe for shares in GreaterChina pursuant to this option scheme. Up to 31st July, 2000, no options were granted to Ms. Cheng Kit Yin, Kelly by GreaterChina.

### **(iii) Warrants**

At 31st July, 2000, the directors did not hold any warrants issued by the Company.

Other than as disclosed above and the right of Ms. Cheng Kit Yin, Kelly to subscribe the share capital of GreaterChina as disclosed in the paragraph under the heading “Connected Transactions” below, at no time during the year was the Company, any of its holding companies, fellow subsidiaries or subsidiaries 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, and neither the directors nor the chief executives, nor any of their spouses or children under the age of 18, had any right to subscribe for the securities of the Company, or had exercised any such right during the year.

Other than as disclosed above and nominee shares in certain subsidiaries held in trust for the Group, at 31st July, 2000, none of the directors or the chief executives, nor any of their associates, had any interests in any securities of the Company or any of its associated corporations as defined by the SDI Ordinance.

### **CONNECTED TRANSACTIONS**

During the year, Ms. Cheng Kit Yin, Kelly and certain employees of the Group were granted rights to subscribe for up to 15 per cent. of the share capital of GreaterChina at par value of HK\$0.01 each. These transactions were set out in the Company’s circular dated 3rd February, 2000 and were approved by the Company’s shareholders in a special general meeting held on 26th February, 2000.

During the year, the Group acquired the entire issued share capital of Tammerworth and the benefits of shareholders’ loans totalling HK\$40,651,652 granted to Tammerworth from Ms. Yeung Pak Wa and Mr. Yip Siu Sang at a total consideration of HK\$140,000,000 which were satisfied by the issue and allotment of 350,000,000 shares of the Company. Pursuant to the agreement, Ms. Yeung Pak Wa and Mr. Yip Siu Sang are responsible for all costs and expenses to be incurred in the construction of the golf resort. Pursuant to the valuation report issued by Chesterton Petty Limited dated 14th February, 2000, the estimated costs to complete the golf resort amounted to approximately HK\$56,950,000. Mr. Yip Siu Sang is the elder brother of Mr. Yip Kwong, Robert, the chairman of the Company. These transactions were set out in the Company’s circular dated 14th February, 2000 and were approved by the shareholders in a special general meeting held on 1st March, 2000.

The independent board committee comprising the independent non-executive directors of the Company at the time of entering into the above two transactions were of the opinion that the terms of the transactions are fair and reasonable so far as the independent shareholders were concerned.

## **DIRECTOR'S INTERESTS IN CONTRACTS OF SIGNIFICANCE**

Details of the Group's transactions with GreaterChina, in which Ms. Cheng Kit Yin, Kelly is interested by virtue of her shareholding in GreaterChina and is the chairman of GreaterChina, are set out in note 41(i) to (viii) to the financial statements.

Other than as disclosed above, no contracts of significance to which the Company, any of its holding companies, fellow subsidiaries or subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

## **SUBSTANTIAL SHAREHOLDERS**

Other than the interests disclosed above in respect of certain directors, the register of substantial shareholders maintained by the Company pursuant to Section 16(1) of the SDI Ordinance discloses no person as having an interest of 10% or more of the issued share capital of the Company as at 31st July, 2000.

## **MAJOR CUSTOMERS AND SUPPLIERS**

During the year, the percentage of the Group's purchases and turnover attributable to major suppliers and customers are as follows:

Percentage of purchases attributable to the Group's largest supplier	21%
Percentage of purchases attributable to the Group's five largest suppliers	57%
Percentage of turnover attributable to the Group's largest customer	57%
Percentage of turnover attributable to the Group's five largest customers	84%

None of the directors, their associates or any shareholders (who to the knowledge of the directors owns more than 5% of the Company's share capital) has any interest in the five largest customers or suppliers.

## **PRE-EMPTIVE RIGHTS**

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

## **COMPLIANCE WITH CODE OF BEST PRACTICE**

The Company has complied throughout the year ended 31st July, 2000 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 Company's audit committee was formed on 31st July, 1999 comprising Mr. Kwong Tak Cheong and Dr. Tse Yuet Fu, Victor. Mr. Wong King Keung, Peter and Mr. Chung Shui-Ming, were also appointed as members of the audit committee upon their appointment as a director of the Company. Mr. Kwong Tak Cheong and Dr. Tse Yuet Fu, Victor ceased to be members of the audit committee on 27th November, 2000. The terms of reference for the audit committee have been established with regard to "A Guide for the Formation of an Audit Committee" issued by the Hong Kong Society of Accountants in December 1997.

## **AUDITORS**

A resolution will be submitted to the annual general meeting to re-appoint Messrs. Deloitte Touche Tohmatsu as auditors of the Company.

On behalf of the Board

**Yip Kwong, Robert**

*Chairman and Chief Executive Officer*

Hong Kong, 27th November, 2000