

# Report of the Directors

The directors herein 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. Details of the principal activities of the principal subsidiaries are set out in note 19 to the financial statements. The Group acquired its ground engineering and building construction businesses and commenced its healthcare transaction processing and claims handling businesses during the year. Save as the foregoing, there were no significant changes in nature of the Group's principal activities during the year.

## SEGMENTAL INFORMATION

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

	2000 HK\$'000	1999 HK\$'000 (Restated)
<b>Turnover – from continuing operations:</b>		
Medical services	538,351	383,525
Nursing, physiotherapy and dental services	57,212	45,724
Elderly care services	65,761	19,128
	661,324	448,377
Healthcare transaction operations and related businesses (note 1)	27,937	12,820
	689,261	461,197
<b>Turnover – from operations to be discontinued:</b>		
Ground engineering and building construction (note 2)	418,065	–
	1,107,326	461,197
<b>Profit/(loss) from continuing operating activities:</b>		
Medical services	35,510	44,501
Nursing, physiotherapy and dental services	1,965	2,857
Elderly care services	(10,076)	(16,220)
	27,399	31,138
Pro-Health, Chinese medicine and other developing businesses	(9,461)	–
Healthcare transaction operations and related businesses (note 1)	(90,572)	(1,271)
	(72,634)	29,867
<b>Profit from operations to be discontinued:</b>		
Ground engineering and building construction (note 2)	3,080	–
	(69,554)	29,867
Corporate head office and growth oriented overheads	(16,753)	(4,775)
Amortisation of investments in Internet healthcare development and affiliate networks	(8,784)	–
	(95,091)	25,092

## SEGMENTAL INFORMATION (con't)

*Note:*

- 1 *The "Healthcare transaction operations and related businesses" as set out above include the following:*
  - (i) *The healthcare transaction processing and claims handling businesses together with the medical equipment distribution business of Quality HealthCare Technologies and Services Limited and its subsidiaries owned by the Company up to 28 June 2000 when it was sold to Kin Wing Chinney Holdings Limited, now ehealthcareasia Limited ("eha") and a subsidiary of the Company; and*
  - (ii) *The consolidated healthcare transaction processing, claims handling and medical equipment distribution businesses of eha together with certain sector related costs borne by the Company for the period from 28 June 2000 to 31 December 2000.*
- 2 *The ground engineering and building construction businesses of eha have been consolidated for the period from 28 June 2000 to 31 December 2000. As detailed in note 5 to the financial statements, on 26 March 2001, the Group entered into an agreement for the disposal of the ground engineering and building construction businesses of eha.*

During the year, more than 90% of the turnover and the results from operating activities of the Group were attributable to its operations in Hong Kong.

## RESULTS AND DIVIDENDS

The Group's results 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 59 to 112.

As detailed in note 13 to the financial statements, on 27 July 2000, the Company distributed 44,114,192 shares in eha to the shareholders of the Company, other than those shareholders whose addresses as shown in the register of members of the Company were outside Hong Kong, by way of a distribution in specie, in the ratio of one share in eha for every 20 shares of the Company then held by the shareholders.

Save as disclosed above, the directors do not recommend the payment of any final dividend, in respect of the year.

## Report of the Directors (con't)

### 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/restated as appropriate, is set out below.

		Year ended 31 December			
	2000 HK\$'000	1999 HK\$'000 (Restated)	1998 HK\$'000 (Restated)	1997 HK\$'000	1996 HK\$'000
<b>Results</b>					
Turnover	<b>1,107,326</b>	461,197	331,326	59,965	132,512
Profit/(loss) from operating activities	<b>(95,091)</b>	25,092	15,529	(36,144)	2,620
Finance costs	<b>(33,342)</b>	(4,498)	(2,944)	(89)	(10)
Share of losses of associates	–	–	–	–	(7,040)
Gain on partial disposal of subsidiaries	<b>45,143</b>	–	–	–	–
Gain on deemed disposal of a subsidiary	<b>22,588</b>	–	–	–	–
Profit/(loss) before tax	<b>(60,702)</b>	20,594	12,585	(36,233)	(4,430)
Tax	<b>(6,190)</b>	(3,153)	(1,953)	71	(55)
Profit/(loss) before minority interests	<b>(66,892)</b>	17,441	10,632	(36,162)	(4,485)
Minority interests	<b>20,649</b>	–	–	–	–
Net profit/(loss) from ordinary activities attributable to shareholders	<b>(46,243)</b>	17,441	10,632	(36,162)	(4,485)

		31 December			
	2000 HK\$'000	1999 HK\$'000 (Restated)	1998 HK\$'000 (Restated)	1997 HK\$'000	1996 HK\$'000
<b>Assets and liabilities</b>					
Total assets	<b>974,463</b>	275,567	150,399	159,500	142,743
Total liabilities	<b>983,843</b>	158,057	136,688	20,827	34,020
Minority interests	<b>128,565</b>	–	–	–	–
Shareholders' equity/(deficiency in assets)	<b>(137,945)</b>	117,510	13,711	138,673	108,723
Total liabilities and shareholders' equity	<b>974,463</b>	275,567	150,399	159,500	142,743

## **SUMMARY OF FINANCIAL INFORMATION (con't)**

In the latter half of 1997, a change in ownership/control of the Company occurred and the new board of directors and senior management began initiatives to expand the scope of Group operations in the healthcare sector.

The results and financial position of the Group for the financial years ended 31 December 1998 and 1999 are restated as the Group changed its accounting policy with respect to the treatment of pre-operating and pre-opening expenses in order to conform with the provisions of Statement of Standard Accounting Practice 1 “Presentation of Financial Statements” as subsequently confirmed by Interpretation 9 “Accounting for Pre-operating Costs” issued by the Hong Kong Society of Accountants in April 2000, further details of which are set out in note 12 to the financial statements.

## **FIXED ASSETS**

Details of movements in the fixed assets of the Group are set out in note 15 to the financial statements.

## **SUBSIDIARIES**

Particulars of the Company’s principal subsidiaries are set out in note 19 to the financial statements.

## **INTEREST-BEARING BANK AND OTHER BORROWINGS**

Details of the interest-bearing bank and other borrowings of the Company and the Group are set out in note 24 to the financial statements.

## **SHARE CAPITAL, WARRANTS AND SHARE OPTIONS**

Details of movements in the Company’s share capital, warrants and share options during the year are set out in note 29 to the financial statements. All of the outstanding warrants were exercised before or expired on 23 October 2000.

## **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.

## **RESERVES**

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

## Report of the Directors (con't)

### DISTRIBUTABLE RESERVES

At 31 December 2000, the Company's reserves available for distribution, calculated in accordance with the Companies Act 1981 of Bermuda (as amended), amounted to HK\$464,196,000. In addition, the Company's share premium account in the amount of HK\$44,359,000 at 31 December 2000 may be distributed in the form of fully paid bonus shares.

### MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2000, the percentage of turnover attributable to the Group's five largest customers and the percentage of purchases attributable to the Group's five largest suppliers were both less than 30%.

### DIRECTORS

The directors of the Company during the year were:

#### Executive directors

Brian O'Connor

Philip Kirkwood

Wong Tai Chun, Mark (appointed on 5 April 2000)

Pang Siew Man

Frank Kennedy Innes (resigned on 15 December 2000)

#### Independent non-executive directors

Cheng Mo Chi, Moses

Ian Strachan

Ronald Carstairs

Subsequent to the balance sheet date, on 5 February 2001, Pang Siew Man resigned and Wong Chi Kit, Nelson was appointed as an executive director of the Company.

In accordance with the Company's bye-laws, Ian Strachan, Ronald Carstairs and Wong Chi Kit, Nelson will retire and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting of the Company.

All independent non-executive directors have been appointed for a specific term of two years and, in accordance with the Company's bye-laws, are subject to retirement by rotation.

## DIRECTORS' SERVICE CONTRACTS

None of the directors proposed for re-election at the forthcoming annual general meeting has an unexpired service contract with the Company which is not determinable by the Company within one year without payment other than statutory compensation.

## DIRECTORS' INTERESTS IN CONTRACTS

Saved as disclosed in note 34 to the financial statements, no director had a beneficial interest in any material contract to which the Company or any of its subsidiaries was a party during the year.

## DIRECTORS' INTERESTS IN SHARES

As at 31 December 2000, the interests of the directors and their associates in the share capital of the Company or its associated corporations, as recorded in the register maintained by the Company pursuant to Section 29 of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance"), were as follows:

Name of company	Name of director	Nature of interest	Number of shares
Quality HealthCare Asia Limited	Brian O'Connor	Corporate (Note 1)	196,806,375 shares
		Family (Note 2)	255,384,184 shares
	Philip Kirkwood	Personal	2,000,000 shares
	Pang Siew Man	Personal	1,250,000 shares
	Wong Tai Chun, Mark	Personal	550,400 shares
ehealthcareasia Limited ("eha")	Brian O'Connor	Personal	177,862,500 shares
		Corporate (Note 1)	1,520,303 shares
		Family (Note 2)	7,929,898 shares
	Philip Kirkwood	Personal	19,862,500 shares
	Wong Tai Chun, Mark	Personal	9,713,770 shares
	Pang Siew Man	Personal	62,500 shares

### Notes:

1. These shares are beneficially owned by Cherish Enterprises Limited ("Cherish"), a company incorporated in the British Virgin Islands, which is owned as to 50% by Montel Limited ("Montel"), also a company incorporated in the British Virgin Islands, which is in turn the trustee of a trust of which Brian O'Connor's family is a beneficiary.
2. Cherish owns 196,806,375 shares in the Company and 1,520,303 shares in eha. Cherish, in turn, is 50% owned by Montel. Apart from the aforesaid indirect interests, Montel owns 58,577,809 shares in the Company and 6,409,595 shares in eha.

## Report of the Directors (con't)

### DIRECTORS' INTERESTS IN SHARES (con't)

Save as disclosed above and in the section "Directors' rights to acquire securities" below, none of the directors or their respective associates had any personal, family, corporate or other interests in the equity or debt securities of the Company or any of its associated corporations, as defined in the SDI Ordinance which are required to be recorded in the register kept under Section 29 of the SDI Ordinance.

### DIRECTORS' RIGHTS TO ACQUIRE SECURITIES

Pursuant to the Company's share option scheme, the Company has granted options on the Company's ordinary shares in favour of certain directors, the details of which are as follows:

Name of director	Number of share options at 31 December 1999	Number of share options granted during the year	Number of share options exercised during the year	Number of share options outstanding at end of year	Exercise period of share options (both dates inclusive)	Exercise price of share options HK\$
Brian O'Connor	10,000,000	–	–	10,000,000	3-8-1998 to 2-8-2001	0.47
	375,000	–	–	375,000	19-11-1999 to 18-5-2002	0.66
	375,000	–	–	375,000	19-11-2000 to 18-5-2002	0.66
	1,500,000	–	–	1,500,000	3-5-2000 to 2-11-2002	0.87
	1,500,000	–	–	1,500,000	3-5-2001 to 2-11-2002	0.87
	4,000,000	–	–	4,000,000	15-5-2000 to 14-5-2003	1.28
Philip Kirkwood	300,000	–	–	300,000	19-11-1999 to 18-5-2002	0.66
	300,000	–	–	300,000	19-11-2000 to 18-5-2002	0.66
	500,000	–	–	500,000	27-4-2000 to 26-10-2002	0.87
	500,000	–	–	500,000	27-4-2001 to 26-10-2002	0.87
	500,000	–	–	500,000	2-5-2000 to 1-5-2003	1.19
Pang Siew Man	3,000,000	–	1,000,000	2,000,000	20-7-1999 to 19-1-2002	0.70
	250,000	–	250,000	–	23-11-1999 to 22-5-2002	0.66
	250,000	–	–	250,000	23-11-2000 to 22-5-2002	0.66
	500,000	–	–	500,000	26-4-2000 to 25-10-2002	0.87
	500,000	–	–	500,000	26-4-2001 to 25-10-2002	0.87
	500,000	–	–	500,000	2-5-2000 to 1-5-2003	1.19
Wong Tai Chun, Mark	150,000	–	–	150,000	20-11-2000 to 19-5-2001	0.66
	200,000	–	–	200,000	26-4-2000 to 25-10-2002	0.87
	200,000	–	–	200,000	26-4-2001 to 25-10-2002	0.87
	–	375,000	–	375,000	21-2-2001 to 4-7-2003	2.90
	–	375,000	–	375,000	21-2-2002 to 4-7-2003	2.90
	–	750,000	–	750,000	10-6-2001 to 4-7-2003	2.30
	–	750,000	–	750,000	10-6-2002 to 4-7-2003	2.30
	25,400,000	2,250,000	1,250,000	26,400,000		

#### **DIRECTORS' RIGHTS TO ACQUIRE SECURITIES (con't)**

Pang Siew Man resigned as an executive director of the Company on 5 February 2001. Pursuant to the Company's share option scheme, he retains his rights to exercise his options up to 4 May 2001.

Further details of the Company's share option scheme are set out in note 29 to the financial statements.

Pursuant to a trust deed, the details of which are set out in a circular dated 20 December 1999 to the shareholders of the Company, approved by the independent shareholders in a special general meeting held on 11 January 2000, the independent trustee granted Brian O'Connor, Philip Kirkwood and Wong Tai Chun, Mark, directors of the Company, the rights to subscribe for certain shares in ehealthcareasia (BVI) Limited ("eha BVI") at an issue price of HK\$1.50 each.

Pursuant to a deed in respect of the acquisition of eha BVI, the details of which are set out in a circular dated 5 June 2000 and in the section of this report on connected transactions, the directors exercised their rights to subscribe for shares in eha BVI and disposed of these shares to the Company in consideration for shares in Kin Wing Chinney Holdings Limited ("KWC"), subsequently renamed as eha, on 28 June 2000 as set out below.

<b>Name of director</b>	<b>No. of shares in eha BVI converted and disposed</b>	<b>No. of shares in eha subscribed</b>
Brian O'Connor	9,000,000	177,862,500
Philip Kirkwood	1,000,000	19,762,500
Wong Tai Chun, Mark	500,000	9,881,250

Save as disclosed above, at no time during the year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any director or their respective spouses or children under 18 years of age, or were any such rights exercised by them; or was the Company, its holding company, or any of its subsidiaries and fellow subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.



## Report of the Directors (con't)

### SUBSTANTIAL SHAREHOLDERS

As at 31 December 2000, the following interests of 10% or more in the share capital of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 16(1) of the SDI Ordinance:

Name	Number of shares
Montel Limited	255,384,184
Cherish Enterprises Limited (included in Montel Limited's interests above)	196,806,375

Information on Montel Limited and Cherish Enterprises Limited are disclosed in the section "Directors' interests in shares".

Save as disclosed above, as far as the directors are aware, there are no other persons who were, directly or indirectly, beneficially interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company.

### CONNECTED TRANSACTIONS

In addition to those items set out in notes 34 and 35 to the financial statements, the Group had connected transactions during the year and up to the date of this report as set out below.

#### I. eha BVI Acquisition Deed

On 29 April 2000, the Company entered into a deed (the "eha BVI Acquisition Deed"), pursuant to which certain employees and Ontario Investments Limited ("Ontario") agreed to transfer their respective shareholdings in eha BVI to Quality HealthCare Technologies and Services Limited ("QHTS"), a wholly owned subsidiary of the Company. The eha BVI Acquisition Deed constituted connected transactions for the Company under the Listing Rules as certain employees and the controlling shareholder of Ontario, at the time of undertaking the transaction, were directors of the Company and/or its subsidiaries. The consideration for transferring 28,000,000 shares in eha BVI by the employees and Ontario was a total of 553,350,000 new shares in eha. Further details of the terms of the eha BVI Acquisition Deed were set out in a circular dated 5 June 2000 to the shareholders of the Company. The eha BVI Acquisition Deed was approved by the independent shareholders of the Company at a special general meeting of the Company held on 28 June 2000.

## CONNECTED TRANSACTIONS (con't)

### II. Ongoing connected transactions

On 5 June 2000, the Company issued a circular (the “Circular”) which included reference to various on-going transactions with eha, a listed non-wholly owned subsidiary of the Company, all conducted within the ordinary and normal course of their businesses (the “Ongoing Connected Transactions”).

The Ongoing Connected Transactions were deemed to constitute connected transactions under the Listing Rules. The Stock Exchange of Hong Kong Limited (the “Stock Exchange”), on application by the Company, issued a letter to the Company granting a waiver (the “Waiver”) of strict compliance by the Company with announcement requirements under the Listing Rules in respect of the Ongoing Connected Transactions. At a special general meeting held on 28 June 2000, the required approvals were given by the independent shareholders in respect of the Ongoing Connected Transactions.

Pursuant to the Waiver, the independent non-executive directors shall review each of the sale arrangements, the service agreement and the advertising agreement, summary details of which are stated below, annually and confirm in the Company’s annual report and accounts the relevant Ongoing Connected Transactions which have been entered into as being:

- (i) in the ordinary and usual course of business;
- (ii) on normal commercial terms; and
- (iii) in accordance with the relevant agreement governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company.

### CONNECTED TRANSACTIONS (con't)

#### II. Ongoing connected transactions (con't)

##### 1. Sales Arrangements

Ultronics Enterprise Limited (“Ultronics”) currently sells medical equipment to members of the Group but excluding eha (the “QHA Group”) for their use, as well as providing maintenance services contracts for such sales (the “Sales Arrangements”).

The Waiver was granted by the Stock Exchange on the following conditions:

- 1) sales should not exceed HK\$2 million for the year ended 31 December 2000;
- 2) details of the agreement should be disclosed in the annual report;
- 3) the independent non-executive directors of the Company should review the agreement annually and confirm in the annual report that the transactions have been entered into (i) in the ordinary and usual course of business; (ii) on normal commercial terms; and (iii) in accordance with the agreement governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company; and
- 4) annually the auditors of the Company should provide a letter to the board of the Company (with a copy to the Stock Exchange) confirming that the agreement (i) has received the approval of the respective boards, (ii) has been entered into in accordance with the terms of the agreement governing such transactions and (iii) that the cap amount has not been exceeded.

During the year ended 31 December 2000, sales made by Ultronics to the QHA Group amounted to HK\$1,161,000 which was within the cap stated in the Waiver.

## CONNECTED TRANSACTIONS (con't)

### II. Ongoing connected transactions (con't)

#### 2. Advertising Agreement

As stated in the Circular, it was anticipated that QHTS and its subsidiaries (the “QHTS Group”) and the QHA Group would place advertisements on various Internet sites, including sites which are operated by members of the QHA Group or the QHTS Group. Pursuant to an advertising agreement (the “Advertising Agreement”) dated 29 April 2000 between the Company and QHTS, the QHTS Group and the QHA Group will provide such advertising services to members of the QHA Group, whereas the QHA Group will provide such advertising service to members of the QHTS Group.

The provision of services by each party to the other under the Advertising Agreement will be on equivalent terms and conditions as would be required by the service-providing party when providing the same service to an independent third party. The price (“Advertising Price”) charged for any service rendered by the service-providing party under the Advertising Agreement will be equivalent to the price charged by the service-providing party to an independent third party when dealing at arm’s length, having regard to any other special circumstances such as arm’s length negotiated volume discounts. The other party shall not be bound to subscribe for any service of the service-providing party if:

- (a) it is able to carry out the service with its internal resources at a lower cost than the Advertising Price;  
or
- (b) a third party is able to provide such service at a price lower than the Advertising Price.

The service-providing party shall not be required to provide any service at a price which it does not consider either to be cost effective, or in its best interests.

The Waiver was granted by the Stock Exchange on the following conditions:

- (i) the amount charged by the QHTS Group to the QHA Group should not exceed HK\$3.6 million and the amount charged by the QHA Group to the QHTS Group should not exceed HK\$1.2 million for the year ended 31 December 2000; and
- (ii) the same conditions applying as set out in points 2, 3 and 4 of the aforementioned Sales Arrangements.

During the year ended 31 December 2000, no advertising were placed on the web sites by the specified companies and so no fees were charged.

### CONNECTED TRANSACTIONS (con't)

#### II. Ongoing connected transactions (con't)

##### 3. *Service Agreement*

By a service agreement (“Service Agreement”) dated 29 April 2000 between the Company and QHTS, the QHTS Group agreed to provide to members of the QHA Group certain services including, without limitation, services for web-based applications and practice management systems, transaction facilitation services, third party administration services, data mining services and consultation services as well as information and customer services to support WAP (wireless application protocol) agreements entered into by the QHA Group.

Under the Service Agreement, the Company agreed to provide, and to procure other members of the QHA Group to provide, to the QHTS Group, services including, without limitation, consultation services and health related information for eha’s website.

The provision of services by each party to the other under the Service Agreement are to be on equivalent terms and conditions as would be required by the service-providing party when providing the same service to an independent third party. The price (“Service Price”) charged for any service rendered by the service-providing party under the agreement are to be equivalent to the price charged by the service-providing party to an independent third party when dealing at arm’s length, having regard to any other special circumstances such as arm’s length negotiated volume discounts. The other party shall not be bound to subscribe for any service of the service-providing party if:

- (a) it is able to carry out the service with its internal resources at a lower cost than the Service Price; or
- (b) a third party is able to provide such service at a price lower than the Service Price.

The service-providing party is not required to provide any service at a price which it does not consider either to be cost effective, or in its best interests.

## CONNECTED TRANSACTIONS (con't)

### II. Ongoing connected transactions (con't)

#### 3. *Service Agreement (con't)*

The Waiver was granted by the Stock Exchange on the following conditions:

- (i) the total amount under this heading is expected not to exceed HK\$35.7 million annually; and
- (ii) the same conditions applying as set out in points 2, 3 and 4 of the aforementioned Sales Arrangements.

During the year ended 31 December 2000, the QHTS Group charged the QHA Group chit processing fees of HK\$15.8 million for the nine months ended 31 December 2000 whilst the QHA Group charged HK\$18 million to the QHTS Group for consultation services, together with the provision of health related information for eha's website. The aggregate amount of these service fees was within the cap stated in the Waiver.

The independent non-executive directors confirmed that the Sales Arrangements, the Advertising Agreement and the Service Agreement have been entered into (i) in the ordinary and usual course of business; (ii) on normal commercial terms; and (iii) in accordance with the agreement governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company.

#### 4. *Corporate guarantee*

On 1 December 1997, the Company issued a corporate guarantee amounting to HK\$20 million in respect of banking facilities of Ultronics with the Bank of Communications. The guarantee was expected to be released on or before 28 September 2000 and a waiver was granted by the Stock Exchange for a period up to that date. The facility was subsequently cancelled and the guarantee was released in due course.

#### 5. *Inter-company loans*

As at 29 February 2000, members of the QHTS Group were indebted to the QHA Group in the amount of approximately HK\$42.2 million, which was interest-free and payable on demand. This amount was expected to be repaid on or before 28 September 2000 and a waiver was granted by the Exchange for a period up to that date. The loan was wholly repaid on 28 September 2000.

## Report of the Directors (con't)

### CONNECTED TRANSACTIONS (con't)

#### III. Inter-company loan agreement

On 5 October 2000, the Company entered into an inter-company loan agreement for the grant by the Company to eha, a listed non-wholly owned subsidiary of the Company, of a revolving term loan up to HK\$75,000,000. Details of the terms of the agreement are set out in a circular to the shareholders of the Company dated 23 October 2000. On 8 November 2000, the agreement was approved by the independent shareholders of the Company at a special general meeting. As at the balance sheet date and the date of this report, the balances of the loan amounted to HK\$49,000,000 and HK\$37,500,000, respectively.

### POST BALANCE SHEET EVENTS

Details of significant post balance sheet events of the Group are set out in note 35 to the financial statements.

### AUDIT COMMITTEE AND REMUNERATION COMMITTEE

The board has established an Audit Committee which comprises all of the independent non-executive directors as members. The role of the Audit Committee is to monitor the Group's accounting and financial reporting practices and internal control systems. In addition, the board has also established a Remuneration Committee, which also consists of all of the independent non-executive directors, to advise the board on the annual remuneration packages of the directors of the Company.

### DEBT AND GEARING

As at 31 December 2000, the Group's bank and other borrowings amounted to approximately

- HK\$135 million attributable to, Kin Wing Chinney (BVI) Limited, the ground engineering and building construction businesses, the disposal of which was announced on 26 March 2001 "operations to be discontinued"
- HK\$464 million for the rest of the Group

The total of HK\$599 million was principally denominated in Hong Kong dollars. The portion of total borrowings repayable within 12 months was approximately HK\$197 million of which HK\$114 million attributable to the ground engineering and building construction businesses. As at 31 December 2000, total cash and bank balances of the Group amounted to approximately HK\$115 million. The amount denominated in foreign currencies were not material.

The Group has deficiency in assets of approximately HK\$138 million as at 31 December 2000 principally as a result of the net amount eliminated against the goodwill reserve during the year as set out in note 3 to the financial statements.

## **EMPLOYEES**

At 31 December 2000, the Group had approximately 1,100 employees. In addition to salaries, the Group provides certain benefits including a medical scheme for its employees. The Group has also adopted a discretionary bonus programme and a share option scheme for its employees, with awards determined based on the performance of the Group and individual employees.

## **PROFIT WARRANTY ON ACQUISITION**

On 14 July 1999, the Company entered into an agreement to acquire the entire share capital of Berkshire Group Limited (“BGL”). As further detailed in a circular to the shareholders of the Company dated 6 August 1999, the Company was given warranties in respect of the profit after tax of BGL for the 18 months ended 31 December 2000. The directors (including the independent non-executive directors) of the Company noted that the guaranteed profit conditions for the 18 month period ended 31 December 2000 had been met.

## **PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES**

There have been no purchases, sales or redemptions of the Company’s listed securities by the Company or any of its subsidiaries during the year.

## **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 which specifies the best practice to be followed by directors and non-executive directors, throughout the year ended 31 December 2000.

## **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

**Brian O’CONNOR**

*Chairman*

Hong Kong, 18 April 2001