

# REPORT OF THE DIRECTORS

The Directors have pleasure in submitting their report together with the audited accounts of the Company and the Group for the financial year ended 31st March, 2001.

## PRINCIPAL ACTIVITIES

The principal activity of the Company is that of a holding company. The principal activities of the Company's subsidiaries are building construction, civil engineering, piling and foundations, renovation and fitting-out, building repair and maintenance, construction management, property investment, property rental, property development, contractor finance and undertaking projects on a "Build, Operate and Transfer" basis.

Particulars of the principal subsidiaries are shown in note 31 to the accounts.

## SEGMENT INFORMATION

An analysis of turnover and operating profit after finance costs of the Group by principal activity is as follows:

	Turnover		Operating Profit After Finance Costs	
	31/3/2001 HK\$'000	31/3/2000 HK\$'000	31/3/2001 HK\$'000	31/3/2000 HK\$'000
<b>Principal Activities</b>				
Building Construction and Civil Engineering	<b>2,950,484</b>	2,683,665	<b>110,052</b>	79,881
Piling and Foundations	<b>130,727</b>	180,350	<b>(73,858)</b>	(46,899)
Property Development	<b>2,339</b>	4,805	<b>(25,293)*</b>	267
Rental Income	<b>26,041</b>	33,703	<b>(431)</b>	3,493
Financial and Securities Income	<b>—</b>	—	<b>31,711</b>	34,622
	<b>3,109,591</b>	2,902,523	<b>42,181</b>	71,364
Corporate Expenses	<b>—</b>	—	<b>(6,996)</b>	(12,819)
	<b>3,109,591</b>	2,902,523	<b>35,185</b>	58,545

\* Includes a provision for diminution in value of HK\$27 million against a property development project in Guangzhou City, the People's Republic of China.

## RESULTS AND APPROPRIATIONS

The results of the Group for the financial year ended 31st March, 2001 are set out in the Consolidated Profit and Loss Account on page 49.

The Directors now recommend the payment of a final dividend of HK2.5 cents per share, payable to the shareholders who are registered on the Register of Members on 26th July, 2001, on 28th August, 2001.

## RESERVES

Movements in the reserves of the Group and the Company during the financial year are set out in note 25 to the accounts.

## REPORT OF THE DIRECTORS *(continued)*

### **FIXED ASSETS**

The changes in the fixed assets during the financial year are detailed in note 12 to the accounts.

### **GROUP'S PROPERTIES**

A summary of the Group's major properties is included in the section of the annual report entitled "Major Properties".

### **DONATIONS**

During the financial year, donations by the Company and its subsidiaries amounted to HK\$350,050 (2000: HK\$5,203,614).

### **SHARE CAPITAL**

Movements in share capital during the financial year are set out in note 24 to the accounts.

No pre-emptive rights exist in Bermuda in which the Company is incorporated.

### **SALE AND PURCHASE OF OWN SHARES**

Pursuant to the Listing Rules of The Stock Exchange of Hong Kong Limited and according to the provisions of the Bye-Laws of the Company relating to share repurchase, the Directors intend to seek the shareholders' approval at the forthcoming Annual General Meeting for the grant of an unconditional general mandate to purchase shares of the Company to an extent not exceeding 10% of the issued share capital of the Company at the date of passing the resolution approving the mandate for share repurchase.

During the financial year, the Company repurchased a total of 25,478,256 shares of HK\$0.10 each on The Stock Exchange of Hong Kong Limited at prices ranging from HK\$0.45 to HK\$0.57 per share for an aggregate consideration of HK\$13,026,000. All of the repurchased shares were cancelled. Details of shares repurchased are shown in note 24 to the accounts. The repurchases of the Company's shares during the year were effected by the directors, pursuant to the mandate from shareholders, with a view to benefiting shareholders as a whole by enhancing the net asset value and earnings per share of the Company.

Save as disclosed above, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the financial year.

## REPORT OF THE DIRECTORS *(continued)*

### DIRECTORS

The Directors in office during the financial year and up to the date of this report are:

Meou-tsen Geoffrey YEH

V-nee YEH

Siu-lun CHEUNG

Wai-tai LAW (appointed on 9th July, 2001)

Woon-cheong Steven LAM (resigned on 1st July, 2001)

David Wylie GAIRNS\*

Ho-ming Herbert HUI\*

Ching-fai Raymond OR\* (resigned on 1st September, 2000)

Brian ROBERTSON\* (appointed on 1st September, 2000)

Hin-chak Ian TANG (resigned on 9th July, 2001)

YAO Kang\*

Mou-chong David YEH

Ling-sun YU

Kok-foo James LEE (appointed as Alternate Director to Siu-lun CHEUNG on 9th July, 2001)

Shiu-chung Jacky POON (appointed as Alternate Director to Wai-tai LAW on 9th July, 2001)

\* *Independent Non-Executive Director*

As Mr. Brian ROBERTSON was appointed Director of the Company on 1st September, 2000, he will retire at the forthcoming Annual General Meeting in accordance with Bye-Law 101 (B) of the Company's Bye-Laws and, being eligible, offer himself for re-election.

Messrs. Ho-ming Herbert HUI and Ling-sun YU shall retire by rotation at the forthcoming Annual General Meeting in accordance with Bye-Law 98 of the Company's Bye-Laws. Mr. Ho-ming Herbert HUI offer himself for re-election at the forthcoming Annual General Meeting.

Messrs. David Wylie GAIRNS, Ho-ming Herbert HUI, Brian ROBERTSON and YAO Kang, Independent Non-Executive Directors, were appointed for a term of two years subject to rotation as stipulated in the Bye-Laws.

## REPORT OF THE DIRECTORS *(continued)*

### DIRECTORS' INTERESTS

- (i) At 31st March, 2001, the Directors of the Company listed below had the following beneficial interests in the share capital of the Company and its associated corporations as recorded in the register of directors' interests required to be kept by the Company under Section 29 of the Securities (Disclosure of Interests) Ordinance ("SDI Ordinance"):

		Number of Shares Held				Grant of Right*
		Personal Interests	Family Interests	Corporate Interests	Other Interests	
<b>a. The Company</b>						
	Meou-tsen Geoffrey YEH	3,041,661	46,726	183,130,508	—	1,386,000
	V-nee YEH	14,985,074	—	—	102,679,634 (Note 1)	768,000
	Siu-lun CHEUNG	70,517	—	—	—	—
	Woon-cheong Steven LAM	1,154,827	—	—	—	1,744,000
	Hin-chak Ian TANG	1,583,161	—	—	—	—
	Mou-chong David YEH	831,959	—	—	75,075,776 (Note 2)	—
<b>b. Anber Limited</b>						
	Hin-chak Ian TANG	5 shares of HK\$1.00 each	—	—	—	—
<b>c. Hsin Chong (Foundations) Limited</b>						
	Ling-sun YU	—	—	4,500 ordinary shares of HK\$0.01 each	—	—
		—	—	45,000 non-voting deferred shares of HK\$10.00 each	—	—
<b>d. Hsin Chong (Foundations) Asia Limited</b>						
	Ling-sun YU	—	—	90,000 shares of HK\$1.00 each	—	—
<b>e. Linders View Limited</b>						
	Ling-sun YU	—	—	45 shares of US\$1.00 each	—	—

\* Options to subscribe for shares in the Company under the Company's Executive Share Option Scheme.

Note 1: The share interests are held by GHY Company Limited acting as trustee of a trust to which Mr. V-nee YEH has a beneficial interest.

Note 2: The share interests are held by Howay Investment Ltd. which is wholly owned by a trust to which Mr. Mou-chong David YEH has a beneficial interest.

## REPORT OF THE DIRECTORS *(continued)*

Dr. Meou-tsen Geoffrey YEH, Messrs. Siu-lun CHEUNG, Woon-cheong Steven LAM and V-nee YEH were participants of the Employee Share Subscription Scheme ("Scheme") of the Company for the Operating Period from 1st January, 2001 to 30th June, 2001. The unit price and the number of shares to be issued to the participants under the Scheme will only be determined at the end of the Operating Period.

- (ii) Save as disclosed above, none of the other Directors of the Company had any beneficial interests, as defined in Paragraph (i) above, in the share capital of the Company and its associated corporations as at 31st March, 2001.

### SUBSTANTIAL SHAREHOLDERS

As recorded in the register of substantial shareholders' interests required to be kept by the Company under Section 16(1) of the SDI Ordinance, the following shareholders were, directly and indirectly, interested in 10% or more of the issued share capital of the Company as at 31st March, 2001:

Shareholder's Name	Number of Shares Held	
Meou-tsen Geoffrey YEH	186,218,895	(Note 1)
Hsin Chong International Holdings Limited	183,130,508	
V-nee YEH	117,664,708	(Note 2)
GHY Company Limited	102,679,634	
Mou-chong David YEH	75,907,735	(Note 3)
Howay Investment Ltd.	75,075,776	

Note 1: These share interests include 183,130,508 shares held by Hsin Chong International Holdings Limited with respect to which Dr. Meou-tsen Geoffrey YEH has a corporate interest pursuant to the SDI Ordinance.

Note 2: These share interests include 102,679,634 shares held by GHY Company Limited acting as trustee of a trust to which Mr. V-nee YEH has a beneficial interest.

Note 3: These share interests include 75,075,776 shares held by Howay Investment Ltd. which is wholly owned by a trust to which Mr. Mou-chong David YEH has a beneficial interest.

### DIRECTORS' INTERESTS IN CONTRACTS

During or at the end of the financial year, none of the Directors had a material interest in any significant contracts with the Company or its subsidiaries, other than Dr. Meou-tsen Geoffrey YEH, who is interested in the connected transactions mentioned below by virtue of his shareholding in Hsin Chong International Holdings Limited.

### CONNECTED TRANSACTIONS

Under Chapter 14 of the Listing Rules of The Stock Exchange of Hong Kong Limited, the following transactions between the subsidiaries of the Company and subsidiaries of Hsin Chong International Holdings Limited ("HCIH") constituted connected transactions by virtue of HCIH being the substantial shareholder of the Company and Dr. Meou-tsen Geoffrey YEH having a controlling interest in HCIH:

- (a) During the financial year, certain subsidiaries of the Company paid insurance premiums on normal commercial terms in an aggregate amount of approximately HK\$14,043,000 to Summit Insurance (Asia) Limited ("Summit"), a subsidiary of HCIH.

## REPORT OF THE DIRECTORS *(continued)*

- (b) During the financial year, an agency agreement subsisted which was entered into between Cogent Spring Limited ("Cogent Spring"), a subsidiary of the Company and Hsin Chong Real Estate Agency Limited ("HCREA"), a subsidiary of HCIH whereby Cogent Spring appointed HCREA as sole agent relating to sub-letting of the leased premises at No.3 Lockhart Road, Wanchai, Hong Kong. In the opinion of the Directors, the transaction was conducted on normal commercial terms in the ordinary course of business of the Group. The transaction was reviewed by Independent Non-Executive Directors on 9th June, 1994.
- (c) During the financial year, an agreement subsisted which was entered into between Anber Limited ("Anber"), a subsidiary of the Company and Hsin Chong (Project Management) Limited ("HCPM"), a subsidiary of HCIH whereby Anber appointed HCPM as the project manager of the development of the Proposed Service Apartment at 179 Nguyen Cu Trinh Street, District 1, Ho Chi Minh City, Vietnam ("Vietnam Development") with a project management fee of 2.5% of the total construction cost of the Vietnam Development and a bonus equivalent to 15% of the profit from the sale of the Vietnam Development. In addition, another agreement subsisted which was entered into between Easeway Thaison Co. Limited ("Easeway"), a subsidiary of the Company and HCPM whereby Easeway appointed HCPM to provide logistic services for the Vietnam Development.
- (d) During the financial year, an agreement subsisted which was entered into between Hsin Chong Construction (Tianjin) Limited ("HCCT"), a subsidiary of the Company and HCPM whereby HCCT appointed HCPM as the project manager of the development of Taifeng Industrial Park (Phase I), Tianjin, the People's Republic of China ("PRC") ("Tianjin Development") with a project management fee of 3% of the total construction cost of the Tianjin Development. In addition, another agreement subsisted which was entered into between HCCT and HCPM whereby HCCT appointed HCPM to provide logistic services for the Tianjin Development.
- (e) During the financial year, an agreement subsisted which was entered into between Rife Yard Limited ("Rife Yard"), a subsidiary of the Company and HCREA whereby Rife Yard appointed HCREA as the selling agent for the commercial areas of Tuen Mun Town Lot No.395 Private Sector Participation Scheme with an agency fee of 1% of the selling price and a further incentive bonus with rates ranging from 2.5% to 10% for sales exceeding HK\$400,000,000. In addition, another agreement subsisted which was entered into between Rife Yard and Hsin Chong Real Estate Management Limited ("HCREM"), a subsidiary of HCIH whereby Rife Yard appointed HCREM as property manager in respect of management and maintenance of Lung Mun Oasis, Tuen Mun Town Lot No.395.
- (f) During the financial year, an agreement subsisted which was entered into between Guangzhou Fengyu Real Estate Co. Ltd. ("GZFRE"), a subsidiary of the Company and HCPM whereby GZFRE appointed HCPM as the project manager of the development of Guangzhou Wen Chang Square (Phase I), Guangzhou City, PRC ("Guangzhou Development") with a project management fee of 3% of the total construction cost of the Guangzhou Development. Another agreement subsisted which was entered into between Glenwell Orient Limited ("Glenwell"), a subsidiary of the Company and HCPM whereby Glenwell appointed HCPM to provide logistic services for the Guangzhou Development. In addition, another agreement subsisted which was entered into between GZFRE and HCPM whereby HCPM was appointed to provide demolition and removal management services for the Guangzhou Development.

## REPORT OF THE DIRECTORS *(continued)*

- (g) During the financial year, an agreement subsisted which was entered into between Deventer Limited ("Deventer"), a subsidiary of the Company and Hsin Sheng Services Limited ("HSS") (formerly known as Hsin Sheng Property Management Limited), a subsidiary of HCIH, whereby Deventer appointed HSS as property manager in respect of management and maintenance of the property at 107–109 Wai Yip Street, Kwun Tong ("Hsin Chong Center"). On 1st September, 2000, a novation agreement was entered into between Deventer, HSS and Hsin Chong Johnson Controls IFM Limited ("HCJC"), a jointly controlled entity of HCIH whereby HCJC replaced HSS as property manager in respect of management and maintenance of the Hsin Chong Center.

For transactions (c) to (g) above, the Independent Non-Executive Directors have reviewed the transactions and confirmed that they are conducted in the ordinary and usual course of business of the Group; on normal commercial terms or on terms no less favourable than terms available to (or from) independent third parties; fair and reasonable so far as the shareholders of the Company are concerned and that the said transactions entered into in the financial year are within the cap amount approved by the shareholders at the Annual General Meeting held on 21st August, 1997.

- (h) During the financial year, a tenancy agreement subsisted which was entered into between Deventer as the landlord and Hsin Chong Holdings (H.K.) Limited ("HCH"), a subsidiary of HCIH as the tenant whereby HCH rent the premises at Hsin Chong Center as headquarters for the period from 2nd April, 1999 to 31st March, 2005. The monthly rental is HK\$115,608 exclusive of rates, management fees and other outgoings for the period from 2nd April, 1999 to 31st March, 2001. Rental for the remaining 48 months shall be at the then prevailing market rates determined twice, at 1st April, 2001 and 1st April, 2003. The announcement of the transaction was made on 15th March, 1999.
- (i) On 17th April, 2000, a tenancy agreement was entered into between Cogent Spring as the landlord and CyberStreet Developments Limited ("CyberStreet"), a subsidiary of HCIH as the tenant whereby CyberStreet rented the leased premises at No. 3 Lockhart Road, Wanchai, Hong Kong ("Premises"). The monthly rental is HK\$137,690 exclusive of rates, air-conditioning fee, management fees and other outgoings for the period from 15th May, 2000 to 14th May, 2003 (both days inclusive). CyberStreet shall have an option to renew the Premises for three years from 15th May, 2003 to 14th May, 2006 at the then prevailing market rent, provided that the percentage of increase for the new rental, as the case may be, shall not in any event exceed 20% of HK\$137,690. The announcement of the transaction was made on 17th April, 2000.
- (j) On 20th May, 1999, a tenancy agreement was entered into between Firmwin Peak Limited ("Firmwin Peak"), a subsidiary of HCIH and Hsin Chong Construction Company Limited ("HCC"), a subsidiary of the Company whereby HCC rented a parcel of ground situated at Ngau Tam Mei, Yuen Long ("Land") owned by Firmwin Peak for a term of two years at a monthly rental of HK\$81,979 for the period from 1st April, 1999 to 31st March, 2000 and a monthly rental of HK\$112,580 for the period from 1st April, 2000 to 31st March, 2001. As advised, the Land will be developed to a residential building pending the approval from relevant government bodies. As such, upon completion of the said tenancy agreement on 31st March, 2001, the Land is let to HCC on month-by-month basis. The monthly rental is still under negotiation.

## REPORT OF THE DIRECTORS *(continued)*

The following connected transactions are relating to granting of financial assistance by the Group to its non wholly owned subsidiaries:

- (k) On 17th January, 2000, Hsin Chong Construction (BVI) Ltd. ("HCCBVI"), the Company's wholly owned subsidiary provided a credit facility of up to HK\$20,000,000 to Hsin Chong (Foundations) Limited ("HCF"), in which the Company has 92.79% interest. As security for the credit facility, HCF provided a debenture pledging its assets in favour of HCCBVI as the lender. As at 31st March, 2001, HCF had borrowed HK\$20,000,000 from HCCBVI, at an interest rate of 1.25% over Hong Kong Interbank Offer Rate per annum. In addition, the Company and HCC had advanced HK\$6,429,000 and HK\$11,991,000 respectively to HCF as at 31st March, 2001 to finance its daily operations. These advances are unsecured, non interest bearing and have no fixed terms of repayment.

As at 31st March, 2001, HCC had advanced HK\$3,984,000 and HK\$1,152,000 to Hsin Chong (Foundations) Asia Limited and Linders View Limited respectively, both of which the Company has 92.79% interest, to finance their daily operations. These advances are unsecured, non interest bearing and have no fixed terms of repayment.

- (l) On 15th June, 2000, the Company had provided a counter indemnity to Summit to indemnify Summit against any loss in relation to a bond in the amount of HK\$2,866,500 issued by Summit in favour of a third party contractor in respect of sub-letting the foundation works for Development Scheme K2 at Argyle Street/Shanghai Street, Mongkok, Kowloon to HCF.
- (m) On 21st June, 2000, the Company had provided a parent company guarantee in favour of an employer in respect of HCF's due performance of the foundation works for the Senior Citizen Residence at Tseung Kwan O ("Works") awarded to HCF with a contract sum of HK\$15,300,000. On 4th October, 2000, the Company had provided an indemnity to a surety which issued a bond in the amount of HK\$3,825,000 in favour of an employer in respect of the Works.
- (n) On 21st September, 1995, a joint venture agreement was entered into between Glenwell, Guangzhou Free Trade Zone Dongjing Property Co. Ltd. ("Dongjing"), both in which the Group presently has 70% equity interest (after taking into account the changes in shareholding of Glenwell and Dongjing after 21st September, 1995), and Guangzhou Development District Real Estate Corporation ("PRC Party") for setting up a joint venture known as GZFRE for the purpose of development of Guangzhou Wen Chang Square located at Guangzhou City, PRC. GZFRE is owned as to 60% by Glenwell and 40% by the PRC Party. Pursuant to the terms of the said joint venture agreement, Glenwell has agreed to make financial arrangements for any additional working capital for the Phase I development of Guangzhou Wen Chang Square in excess of the initial registered capital of GZFRE of HK\$80,000,000. However, such additional working capital will not exceed HK\$120,000,000 (of which Dongjing will provide a maximum of HK\$48,000,000) and will be arranged either by way of shareholders' loan or external borrowings. The details have been disclosed in the announcement dated 21st September, 1995. Accordingly, the Group entered into the following transactions:
  - (i) As at 31st March, 2001, Glenwell advanced a total of HK\$22,980,000 to GZFRE which carries interest at 3% over the Hong Kong prime rate per annum.



## REPORT OF THE DIRECTORS *(continued)*

- (ii) In May 2000 and December 2000, Glenwell arranged two three-year loan facilities with PRC financial institutions of up to a total of RMB30,000,000 and RMB8,000,000 respectively on the condition that each drawdown is to be secured by a collateral deposit of Glenwell. At 31st March, 2001, the drawdown of the said facilities amounted to RMB12,000,000 and RMB8,000,000 respectively.
- (iii) In June 2000, Dongjing arranged a three-year loan facility with another PRC financial institution of up to a total of RMB15,000,000 on the condition that each drawdown is to be secured by a collateral deposit of Dongjing. As at 31st March, 2001, the drawdown of the said facility amounted to RMB10,800,000.

Save as aforementioned, there were no other connected transactions, which were required to be disclosed under the Listing Rules, entered into between the Company or any of its subsidiaries and a connected person in respect of and subsequent to the financial year.

### CONTRACTS OF SIGNIFICANCE

No contracts of significance to which the Company or its 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 financial year or at any time during the financial year.

### DIRECTORS' SERVICE CONTRACT

None of the Directors who are proposed for re-election at the forthcoming Annual General Meeting have entered into any service contract with the Company, which is not determinable by the employer within one year without payment of compensation other than statutory compensation.

### EXECUTIVE SHARE OPTION AND EMPLOYEE SHARE SUBSCRIPTION SCHEMES

During the financial year, three option holders under the Executive Share Option Scheme left the Company and accordingly, all their options to subscribe for an aggregate number of 808,000 shares in the Company lapsed and determined. No option holders exercised their options to subscribe for shares in the Company during the financial year.

During the financial year, 1,999,787 shares in the Company were issued and allotted to the Company's Qualifying Employees pursuant to the Employee Share Subscription Scheme. Among these shares, 1,057,989 shares were issued and allotted to the following Directors. Details are set out below:

Name	Number of shares allotted for the Operating Period	
	from 1st January, 2000 to 30th June, 2000	from 1st July, 2000 to 31st December, 2000
	(Shares Issued on 3rd July, 2000)	(Shares Issued on 3rd January, 2001)
Siu-lun CHEUNG	—	70,517
Woon-cheong Steven LAM	65,887	70,517
V-nee YEH	220,064	239,250
Meou-tsen Geoffrey YEH	189,229	202,525

## REPORT OF THE DIRECTORS *(continued)*

Save as mentioned in the preceding paragraphs, at no time during the year was the Company or its subsidiaries, a party to any other arrangements to enable the Directors or chief executive or any of their spouse or children under 18 years of age to acquire benefits by means of the acquisition of shares in or debentures of the Company, its subsidiaries or any other body corporate.

### **MANAGEMENT CONTRACT**

No contract concerning the management and administration of the whole or any substantial part of the business of the Company was entered into or existed during the financial year.

### **BANK LOANS, OVERDRAFTS AND OTHER BORROWINGS**

The particulars of bank loans, overdrafts and other borrowings of the Company and its subsidiaries at 31st March, 2001 are set out in note 22 to the accounts.

### **FIVE YEAR FINANCIAL INFORMATION**

The published results and the assets and liabilities of the Group for the last five years are included in the section of the annual report entitled "Five Year Financial Summary".

### **PROFORMA COMBINED BALANCE SHEET OF AFFILIATED COMPANIES**

A proforma combined balance sheet of certain affiliated companies with major financial assistance and the Group's attributable interest in these affiliated companies are shown on page 88 pursuant to Practice Note 19 of the Listing Rules of The Stock Exchange of Hong Kong Limited.

### **MAJOR CUSTOMERS AND SUPPLIERS**

During the financial year, the Group's five largest customers accounted for 94% of the Group's total turnover. None of the Directors, their associates, or any shareholder which, to the knowledge of the Directors, owns more than 5% of the Company's share capital has owned any interest in any of the Group's five largest customers. The Group's largest customer accounted for 49% of the Group's total turnover for the year.

During the financial year, the Group's five largest suppliers accounted for less than 30% of the Group's total purchases. The Group's largest supplier accounted for 4% of the Group's total purchases for the year.

### **AUDITORS**

The accounts have been audited by PricewaterhouseCoopers who shall retire at the forthcoming annual general meeting and, being eligible, offer themselves for re-appointment at a fee to be determined by the Board.

On behalf of the Board  
**Meou-tsen Geoffrey YEH**  
*Chairman*

Hong Kong SAR, 9th July, 2001