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## REPORT OF THE DIRECTORS

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The directors present their report and the audited financial statements of the Company and the Group for the year ended 31 December 2001.

### 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. Other than the disposal and discontinuance of the Group's ground engineering and building construction businesses, further details of which are set out in note 6 to the financial statements, there were no significant changes in the nature of the Group's principal activities during the year.

### Segment Information

An analysis of the Group's turnover and contribution to results by principal activity and geographical area of operations for the year ended 31 December 2001 is set out in note 4 to the financial statements.

### Results and Dividends

The Group's results for the year ended 31 December 2001 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 55 to 118.

The directors do not recommend the payment of any dividend in respect of the year.

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### Summary of Financial Information

A summary of the published results and 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. The amounts for certain years in the five year summary have been adjusted for the effects of the retrospective changes in accounting policies affecting goodwill and internally generated brandname, as detailed in note 2 to the financial statements, and pre-operating and pre-opening expenses. This summary does not form part of the audited financial statements.

|   |           | Year ended 31 December |            |            |          |
|---|-----------|------------------------|------------|------------|----------|
|   | 2001      | 2000                   | 1999       | 1998       | 1997     |
|   | HK\$'000  | HK\$'000               | HK\$'000   | HK\$'000   | HK\$'000 |
|   |           | (Restated)             | (Restated) | (Restated) |          |
| <b>RESULTS</b>  |           |                        |            |            |          |
| <b>TURNOVER</b>   |           |                        |            |            |          |
| Continuing operations   | 805,340   | 689,261                | 461,197    | 331,326    | 59,965   |
| Discontinued operations   | 297,369   | 418,065                | –          | –          | –        |
|   | 1,102,709 | 1,107,326              | 461,197    | 331,326    | 59,965   |
| <b>PROFIT/(LOSS) FROM OPERATIONS</b>                                    |           |                        |            |            |          |
| Continuing operations   | (235,575) | (820,987)              | 19,485     | 12,836     | (36,144) |
| Discontinued operations   | (22,731)  | 3,080                  | –          | –          | –        |
|   | (258,306) | (817,907)              | 19,485     | 12,836     | (36,144) |
| Finance costs   | (45,058)  | (33,342)               | (4,498)    | (2,944)    | (89)     |
| Share of results of a jointly-controlled entity                         | (858)     | –                      | –          | –          | –        |
| Profit/(loss) before tax  | (304,222) | (851,249)              | 14,987     | 9,892      | (36,233) |
| Tax   | (5,141)   | (6,190)                | (3,153)    | (1,953)    | 71       |
| Profit/(loss) before minority interests                                 | (309,363) | (857,439)              | 11,834     | 7,939      | (36,162) |
| Minority interests  | 125,780   | 20,649                 | –          | –          | –        |
| Net profit/(loss) from ordinary activities attributable to shareholders | (183,583) | (836,790)              | 11,834     | 7,939      | (36,162) |

|   |          | 31 December |            |            |          |
|---|----------|-------------|------------|------------|----------|
|   | 2001     | 2000        | 1999       | 1998       | 1997     |
|   | HK\$'000 | HK\$'000    | HK\$'000   | HK\$'000   | HK\$'000 |
|   |          | (Restated)  | (Restated) | (Restated) |          |
| <b>ASSETS AND LIABILITIES</b>               |          |             |            |            |          |
| Total assets                                | 303,935  | 966,163     | 267,267    | 147,706    | 159,500  |
| Total liabilities                           | 259,550  | 983,843     | 158,057    | 136,688    | 20,827   |
| Minority interests                          | –        | 128,565     | –          | –          | –        |
| Shareholders' equity/(deficiency in assets) | 44,385   | (146,245)   | 109,210    | 11,018     | 138,673  |
| Total liabilities and shareholders' equity  | 303,935  | 966,163     | 267,267    | 147,706    | 159,500  |

### Fixed Assets

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

### Share Capital and Share Options

Details of movements in the Company's share capital and share options during the year are set out in note 30 to the financial statements.

The Company operates a share option scheme (the "Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants of the Scheme include full-time employees or executive directors of the Group. The Scheme was approved by the Company on 5 July 1993 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date. The Scheme became effective upon listing of the Company's shares on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 27 July 1993.

At 31 December 2001, the number of shares issuable under share options granted under the Scheme was 79,120,000, which represented approximately 3.65% of the Company's shares in issue as at that date. The maximum entitlement of each eligible participant is limited to 25% of the aggregate number of shares for time being issued and issuable under the Scheme. The maximum number of ordinary shares in which options can be granted (together with options exercised and options then outstanding) under the Scheme may not exceed 10% of the issued share capital of the Company excluding any shares issued on the exercise of options from time to time.

The offer of a grant of share options may be accepted within 28 days from the date of the offer, upon payment of a nominal consideration of HK\$1 in total by the grantee. The exercise period of the share options granted is determinable by the directors, and in any event such period of time may not exceed a period of three years commencing on the expiry of six months after the date of the acceptance of the share options and expiring on the last day of the three year period or 5 July 2003, whichever is earlier.

The exercise price of the share options is determinable by the directors, but may not be less than the higher of (i) 80% of the average closing prices of the ordinary shares on the Stock Exchange on the five trading days immediately preceding the date of offer of the option; or (ii) the nominal value of the ordinary share.

From 1 September 2001, the Stock Exchange has amended Chapter 17 (Share Option Schemes) of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"). In accordance with the revised rules, it is possible for the Company to grant further options from its existing scheme only if the options granted are in accordance with the requirements of the new rules of Chapter 17 and the options already granted before 1 September 2001 would not be affected by the new rules.

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## Share Capital and Share Options (cont.)

The following share options were outstanding under the Scheme during the year:

| Name or category of participant | Number of share options <sup>1</sup> |                         |                           |                        |                           | At 31 December 2001 | Date of grant of share options | Exercise period of share options (both dates inclusive) | Exercise price of share options <sup>1</sup> HK\$ | Price of Company's shares <sup>2</sup> |                                  |
|---------------------------------|--------------------------------------|-------------------------|---------------------------|------------------------|---------------------------|---------------------|--------------------------------|---|---|--|----------------------------------|
|                                 | At 1 January 2001                    | Granted during the year | Exercised during the year | Lapsed during the year | Cancelled during the year |                     |                                |   |   | At grant date of options HK\$          | At exercise date of options HK\$ |
| Directors                       |                                      |                         |                           |                        |                           |                     |                                |   |   |  |                                  |
| Brian O'Connor                  | 20,000,000                           | -                       | -                         | (20,000,000 )          | -                         | -                   | 03-02-98                       | 03-08-98 to 02-08-01                                    | 0.235   | 0.405                                  | -                                |
|                                 | 750,000                              | -                       | -                         | -                      | -                         | 750,000             | 19-11-98                       | 19-11-99 to 18-05-02                                    | 0.330   | 0.500                                  | -                                |
|                                 | 750,000                              | -                       | -                         | -                      | -                         | 750,000             | 19-11-98                       | 19-11-00 to 18-05-02                                    | 0.330   | 0.500                                  | -                                |
|                                 | 3,000,000                            | -                       | -                         | -                      | -                         | 3,000,000           | 19-04-99                       | 03-05-00 to 02-11-02                                    | 0.435   | 0.605                                  | -                                |
|                                 | 3,000,000                            | -                       | -                         | -                      | -                         | 3,000,000           | 19-04-99                       | 03-05-01 to 02-11-02                                    | 0.435   | 0.605                                  | -                                |
|                                 | 8,000,000                            | -                       | -                         | -                      | -                         | 8,000,000           | 08-11-99                       | 15-05-00 to 14-05-03                                    | 0.640   | 1.015                                  | -                                |
|                                 | 35,500,000                           | -                       | -                         | (20,000,000 )          | -                         | 15,500,000          |                                |   |   |  |                                  |
| Wong Tai Chun, Mark             | 300,000                              | -                       | -                         | -                      | -                         | 300,000             | 19-11-98                       | 20-11-00 to 19-05-02                                    | 0.330   | 0.500                                  | -                                |
|                                 | 400,000                              | -                       | -                         | -                      | -                         | 400,000             | 19-04-99                       | 26-04-00 to 25-10-02                                    | 0.435   | 0.605                                  | -                                |
|                                 | 400,000                              | -                       | -                         | -                      | -                         | 400,000             | 19-04-99                       | 26-04-01 to 25-10-02                                    | 0.435   | 0.605                                  | -                                |
|                                 | 750,000                              | -                       | -                         | -                      | -                         | 750,000             | 21-02-00                       | 24-02-01 to 04-07-03                                    | 1.450   | 1.813                                  | -                                |
|                                 | 750,000                              | -                       | -                         | -                      | -                         | 750,000             | 21-02-00                       | 24-02-02 to 04-07-03                                    | 1.450   | 1.813                                  | -                                |
|                                 | 1,500,000                            | -                       | -                         | -                      | -                         | 1,500,000           | 10-06-00                       | 14-06-01 to 04-07-03                                    | 1.150   | 1.438                                  | -                                |
|                                 | 1,500,000                            | -                       | -                         | -                      | -                         | 1,500,000           | 10-06-00                       | 14-06-02 to 04-07-03                                    | 1.150   | 1.438                                  | -                                |
|                                 | 5,600,000                            | -                       | -                         | -                      | -                         | 5,600,000           |                                |   |   |  |                                  |
| Wong Chi Kit, Nelson            | 6,000,000                            | -                       | -                         | -                      | -                         | 6,000,000           | 03-08-00                       | 07-02-01 to 04-07-03                                    | 1.025   | 0.960                                  | -                                |
| Other employees                 |                                      |                         |                           |                        |                           |                     |                                |   |   |  |                                  |
| In aggregate                    | 4,000,000                            | -                       | -                         | -                      | (4,000,000 )              | -                   | 15-07-98                       | 20-07-99 to 19-01-02                                    | 0.350   | 0.435                                  | -                                |
|                                 | 4,205,000                            | -                       | (1,005,000 )              | -                      | (630,000 )                | 2,570,000           | 19-11-98                       | 19-11-99 to 30-06-02                                    | 0.330   | 0.500                                  | 0.650                            |
|                                 | 12,850,000                           | -                       | -                         | -                      | (3,500,000 )              | 9,350,000           | 19-04-99                       | 26-04-00 to 15-11-02                                    | 0.435   | 0.605                                  | -                                |
|                                 | 4,520,000                            | -                       | -                         | -                      | (1,080,000 )              | 3,440,000           | 01-11-99                       | 02-05-00 to 10-05-03                                    | 0.595   | 0.880                                  | -                                |
|                                 | 14,000,000                           | -                       | -                         | -                      | -                         | 14,000,000          | 22-01-00                       | 15-08-00 to 04-07-03                                    | 1.175   | 1.450                                  | -                                |
|                                 | 13,338,000                           | -                       | -                         | -                      | (2,528,000 )              | 10,810,000          | 16-02-00                       | 16-02-01 to 04-07-03                                    | 1.450   | 1.775                                  | -                                |
|                                 | 1,500,000                            | -                       | -                         | -                      | (300,000 )                | 1,200,000           | 21-02-00                       | 24-02-01 to 04-07-03                                    | 1.450   | 1.813                                  | -                                |
|                                 | 600,000                              | -                       | -                         | -                      | -                         | 600,000             | 28-03-00                       | 30-03-01 to 04-07-03                                    | 1.575   | 2.025                                  | -                                |
|                                 | 800,000                              | -                       | -                         | -                      | -                         | 800,000             | 22-07-00                       | 18-02-01 to 04-07-03                                    | 0.990   | 1.175                                  | -                                |
|                                 | 1,000,000                            | -                       | -                         | -                      | -                         | 1,000,000           | 02-08-00                       | 23-08-01 to 04-07-03                                    | 0.830   | 0.945                                  | -                                |
|                                 | 6,000,000                            | -                       | -                         | -                      | -                         | 6,000,000           | 03-08-00                       | 16-02-01 to 04-07-03                                    | 0.960   | 0.960                                  | -                                |
|                                 | 2,550,000                            | -                       | -                         | -                      | (300,000 )                | 2,250,000           | 25-08-00                       | 25-08-01 to 04-07-03                                    | 1.160   | 1.488                                  | -                                |
|                                 | -                                    | 6,000,000               | -                         | -                      | (6,000,000 )              | -                   | 17-05-01                       | 08-12-01 to 04-07-03                                    | 0.305   | 0.515                                  | -                                |
|                                 | 65,363,000                           | 6,000,000               | (1,005,000 )              | -                      | (18,338,000 )             | 52,020,000          |                                |   |   |  |                                  |
|                                 | 112,463,000                          | 6,000,000               | (1,005,000 )              | (20,000,000 )          | (18,338,000 )             | 79,120,000          |                                |   |   |  |                                  |

### Share Capital and Share Options (cont.)

#### Notes

1. The Company completed a rights issue by issuing 912,926,091 rights shares at a price of HK\$0.25 per rights share on the basis of one (1) rights share for every existing share on 9 October 2001. Accordingly, the number and exercise price of the outstanding share options have been adjusted as a result of the rights issue during the year.
2. The price of the Company's shares disclosed as at the date of the grant of the share options is the Stock Exchange closing price on the trading day immediately prior to the date of the grant of the options. The price of the Company's shares disclosed as at the date of the exercise of the share options is the weighted average of the Stock Exchange closing price on the trading day immediately prior to the date on which the options were exercised. The share prices have been adjusted as a result of the aforesaid rights issue of the Company during the year.
3. The vesting period of the share options is from the date of the acceptance until the commencement of the exercise period.

Further details of the Company's share option scheme are also set out in note 30 to the financial statements.

The financial impact of share options granted is not recorded in the Company's or the Group's balance sheet until such time as the options are exercised, and no charge is recorded in the profit and loss account or balance sheet for their cost. Upon the exercise of the share options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company in the share premium account. Options which are cancelled prior to their exercise date are deleted from the register of outstanding options.

The directors do not consider it appropriate to disclose a theoretical value of the share options granted during the year to the directors, employees and others, because in the absence of a readily market value of the share options on the ordinary shares of the Company, the directors are unable to arrive at an assessment of the value of these options.

### 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 31 to the financial statements.

### Distributable Reserves

At 31 December 2001, the Company's reserves available for distribution, calculated in accordance with the Companies Act 1981 of Bermuda (as amended), amounted to HK\$126,182,000. In addition, the Company's share premium account, in the amount of HK\$293,748,000, may be distributed in the form of fully paid bonus shares.

### Major Customers and Suppliers

For the year ended 31 December 2001, 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 as follows:

#### **Executive directors:**

|                      |                                |
|----------------------|--------------------------------|
| Brian O'Connor       |                                |
| Wong Tai Chun, Mark  |                                |
| Wong Chi Kit, Nelson | (appointed on 5 February 2001) |
| Philip Kirkwood      | (resigned on 14 December 2001) |
| Pang Siew Man        | (resigned on 5 February 2001)  |

#### **Non-executive director:**

|                |                                 |
|----------------|---------------------------------|
| Lindsay Cooper | (appointed on 14 December 2001) |
|----------------|---------------------------------|

#### **Independent non-executive directors:**

Cheng Mo Chi, Moses  
Ian Strachan  
Ronald Carstairs

In accordance with the Company's bye-laws, Wong Tai Chun, Mark, Cheng Mo Chi, Moses and Lindsay Cooper will retire by rotation 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 of compensation, other than statutory compensation.

### Directors' Interests in Contracts

Saved as disclosed in note 36 to the financial statements, no director had a material beneficial interest in any contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party during the year.

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### Directors' Interests in Shares

As at 31 December 2001, 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) | 200,040,328      |
|                                 |                      | Family (Note 2)    | 317,195,946      |
|                                 |                      | Personal           | 300,000,000      |
|                                 | Wong Tai Chun, Mark  | Personal           | 500,400          |
|                                 | Wong Chi Kit, Nelson | Personal           | 23,890,029       |
| ehealthcareasia Limited ("EHA") | Lindsay Cooper       | Corporate          | 184,836,000      |
|                                 | Brian O'Connor       | Personal           | 17,786,250       |
|                                 |                      | Corporate (Note 1) | 152,030          |
|                                 |                      | Family (Note 2)    | 792,989          |
|                                 | Wong Tai Chun, Mark  | Personal           | 747,777          |
|                                 | Wong Chi Kit, Nelson | Personal           | 4,064,150        |
|                                 | Lindsay Cooper       | Corporate          | 1,792,450        |

Notes:

1. These shares are beneficially owned by Cherish Enterprises Limited ("Cherish"), a company incorporated in the British Virgin Islands, which is wholly owned by Montel Limited ("Montel"). Montel, a company incorporated in the British Virgin Islands, is the trustee of a trust of which Mr. Brian O'Connor's family is the beneficiary.
2. Montel owns 117,155,618 shares in the Company and 640,959 shares in EHA. In addition, Montel wholly owns Cherish which in turn owns 200,040,328 shares in the Company and 152,030 shares in EHA. Montel is the trustee of a trust of which the family of Mr. Brian O'Connor, a director, is the beneficiary.

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

Information on directors' share option is disclosed in the section "Share Capital and Share Options" above.

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, or any of its subsidiaries or fellow subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

### Substantial Shareholders

As at 31 December 2001, 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 of substantial shareholders | Number of shares held | Percentage of the Company's share capital |
|----------------------------------|-----------------------|---|
| Montel Limited (Note 1)          | 317,195,946           | 14.6                                      |
| Brian O'Connor (Note 2)          | 617,195,946           | 28.5                                      |
| CLSA Capital Limited             | 342,666,666           | 15.8                                      |

Notes:

1. Information on Montel Limited is disclosed in the section "Directors' Interests in Shares" above.
2. As disclosed above, Mr. Brian O'Connor is deemed to hold 317,195,946 shares through Montel Limited and Cherish Enterprises Limited, apart from his direct holding of 300,000,000 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 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 note 36 to the financial statements, the Group had connected transactions during the year and subsequent to the balance sheet date as set out below.

#### I. 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 business (the "Ongoing Connected Transactions").

The Ongoing Connected Transactions were deemed to constitute connected transactions under the Listing Rules. 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 are required to review each of the sale arrangements, the advertising agreement and the service agreement, the summary details of which are stated below, annually and to 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.

#### 1. Sales Arrangements

Ultronics Enterprise Limited ("Ultronics") currently sells medical equipment to members of the Group excluding EHA (the "QHA Group") for their use, as well as providing maintenance service contracts for such sales (the "Sales Arrangements").

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

- 1) Sales not exceeding HK\$2.4 million for the year ended 31 December 2001;
- 2) Details of the agreement to be disclosed in the annual report;

### Connected Transactions (cont.)

#### I. Ongoing connected transactions (cont.)

##### 1. Sales Arrangements (cont.)

- 3) 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 2001, sales made by Ultronics to the QHA Group amounted to approximately HK\$611,000 which was within the cap stated in the waiver.

##### 2. Advertising Agreement

As stated in the Circular, it was anticipated that Quality HealthCare Technologies and Services Limited ("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 services 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 prices charged for any service rendered by the service-providing party under the Advertising Agreement (the "Advertising Price") 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.

### Connected Transactions (cont.)

#### I. Ongoing connected transactions (cont.)

##### 2. Advertising Agreement (cont.)

The service-providing party shall not be required to provide any service at a price which it does not consider 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\$4.4 million and the amount charged by the QHA Group to the QHTS Group should not exceed HK\$1.4 million for the year ended 31 December 2001; and
- (ii) the same conditions as set out in the points 2, 3 and 4 of the aforementioned Sales Arrangements.

During the year ended 31 December 2001, there was no advertisement placed on the web sites and so no fees were charged.

##### 3. Service Agreement

By a service agreement (the "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 prices charged for any service rendered by the service-providing party under the agreement (the "Service Price") 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:

### Connected Transactions (cont.)

#### I. Ongoing connected transactions (cont.)

##### 3. Service Agreement (cont.)

(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 to be cost effective or in its best interests.

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 apply as set out in the points 2, 3 and 4 of the aforementioned Sales Arrangements.

During the year ended 31 December 2001, the total amount of the service fees was within the aggregate cap of HK\$35.7 million. The QHTS Group has charged the QHA Group chit processing fees of approximately HK\$23.3 million for the year ended 31 December 2001. This is within the cap.

The independent non-executive directors of the Company confirm 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.

On 4 February 2002, following the acquisition of exclusive and perpetual software licence from EHA, the Service Agreement was terminated by means of deed of termination. Further details are set out in a circular of the Company dated 18 January 2002.

#### II. Disposal of 50% interest in Kin Wing Chinney (BVI) Limited (“KWC BVI”)

On 26 March 2001, EHA entered into an agreement with an associate of a director of certain subsidiaries of the Company (the “Purchaser”) pursuant to which EHA agreed to dispose of its 50% equity interest in KWC BVI to the Purchaser for a cash consideration of approximately HK\$88 million (the “Disposal”). The Disposal constituted a major and connected transaction for the Company under Chapter 14 of the Listing Rules and was approved by independent shareholders at a special general meeting held on 3 May 2001. Further details of the Disposal are set out in a circular of the Company dated 17 April 2001.

### Connected Transactions (cont.)

#### **III. Supplemental deed**

Pursuant to an agreement dated 23 March 2000 between the Company and the warrantors who were then directors and/or associate of certain subsidiaries of EHA (the "Warrantors") relating to the acquisition by the Company of a controlling interest in EHA, the Warrantors gave representations and warranties for the benefit of the Company, including representations and warranties regarding KWC BVI. To provide comfort to the Company against possible claims under these representations and warranties, the Warrantors deposited 89,999,999 shares in EHA ("EHA Shares") owned by them into a custodian account for a period of one year expiring on 28 June 2001. On 28 June 2000, the Company, the Warrantors and a custodian entered into a custodian agreement which established the custodian account and contained provisions for regulating the handling of that custodian account.

On 4 July 2000, the Company made a cash general offer for all the issued EHA Shares other than those already owned or agreed to be acquired by the Company. The Warrantors accepted the general offer in respect of the 89,999,999 EHA Shares held in the custodian account and the cash proceeds received amounting to HK\$89,999,999 were placed in the said custodian account in place of the EHA Shares tendered to the general offer.

In view of the disposal of 50% interests in KWC BVI, the Company, the Warrantors, EHA, and other parties entered into a supplemental deed on 26 March 2001 (the "Supplemental Deed") pursuant to which the Company has agreed that all moneys in the custodian account amounting to HK\$89,999,999 (plus accrued interest) be released to the Warrantors. Further details of the Supplemental Deed are set out in a circular of the Company dated 17 April 2001.

#### **IV. 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 of a revolving term loan up to HK\$75 million, and repayable by 31 December 2001, the latest. On 22 November 2001, the Company and EHA entered into another agreement pursuant to which the Company agreed to extend the loan facility to EHA with a maximum principal amount of HK\$60 million initially and subsequently to be reduced to HK\$45 million (the "Renewed Loan Agreement"). The Renewed Loan Agreement constituted a connected transaction for the Company under Rule 14.26(6)(a) of the Listing Rules and was approved by independent shareholders at a special general meeting held on 27 December 2001. Further details of the Renewed Loan Agreement are set out in a circular of the Company dated 10 December 2001.

### Connected Transactions (cont.)

#### **V. Acquisition of exclusive and perpetual software licence from EHA**

On 24 December 2001, the Company entered into an agreement with EHA and its subsidiaries (the "EHA Group"), a non-wholly owned subsidiary of the Company, pursuant to which the EHA Group granted the Company an exclusive and perpetual software licence to use and develop the LEON/REACH software for the Group's use and for use by any affiliates and franchisees under the management of the Group within the Greater China Region for the consideration of HK\$10 million. In addition, the Company entered into an agreement with the EHA Group, pursuant to which the Company agreed to purchase from the EHA Group the tools and equipment presently utilised for the software for the consideration of HK\$1 million. The agreements constituted a very substantial acquisition and connected transaction for the Company under Chapter 14 of the Listing Rules and were approved by independent shareholders at a special general meeting held on 4 February 2002. Further details are set out in a circular of the Company dated 18 January 2002.

### Post Balance Sheet Events

Details of significant post balance sheet events of the Group are set out in note 37 to the financial statements.

### Audit Committee

The board has established an Audit Committee which comprises the non-executive directors, namely Messrs. Ronald Carstairs, Cheng Mo Chi, Moses and Lindsay Cooper. Mr. Ian Strachan resigned as an Audit Committee member on 22 March 2002. The role of the Audit Committee is to monitor the Group's accounting and financial reporting practices and internal control systems.

### Remuneration Committee

The board has established a Remuneration Committee which consists of all of the non-executive directors, namely, Messrs. Cheng Mo Chi, Moses, Ronald Carstairs, Ian Strachan and Lindsay Cooper to advise the board on the annual remuneration packages of the directors of the Company.

### Employees

At 31 December 2001, 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.

### 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.

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## REPORT OF THE DIRECTORS

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### 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 Listing Rules which specifies the best practice to be followed by directors and non-executive directors, throughout the year ended 31 December 2001, except that a non-executive director of the Company has no fixed terms of office but will retire from office on a rotation basis in accordance with the Company's bye-laws.

### 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 2002