

Report of the Directors

CONNECTED TRANSACTIONS (continued)

- (ii) On 23rd March, 2001, the Company entered into two share exchange agreements with vLink, an independent third party listed in Hong Kong. Pursuant to the share exchange agreements, the Company agreed (i) to issue 3,421,220,000 new ordinary shares of the Company (the “First Company Shares”) at a price of HK\$0.01 each in exchange for 42,765,250 new ordinary shares of vLink (the “First vLink Shares”) at a price of HK\$0.80 each (the “First Share Exchange”) and (ii) to issue 5,131,830,000 new ordinary shares of the Company (the “Second Company Shares”) at a price of HK\$0.01 each in exchange for 171,061,000 new ordinary shares of vLink (the “Second vLink Shares”) at a price of HK\$0.30 each (the “Second Share Exchange”). On the same date, a wholly-owned subsidiary of vLink (the “Financial Creditor”) granted a loan facility to the extent of HK\$29.5 million to the Group. As at the date of this report, vLink, through its subsidiary, has a 33.3% equity interest in the Company.

The First Share Exchange was completed on 28th March, 2001 and vLink became one of the Company’s substantial shareholders. The Second Share Exchange was completed on 10th May, 2001.

Pursuant to two share exchange agreements, vLink, subject to certain conditions, has the right to reverse the First Share Exchange and the Second Share Exchange by way of share repurchases in kind at any time on or before 25th April, 2002. Under the share repurchases, vLink has the options (the “Options”) to require the Company to repurchase all, but not partly only, the First Company Shares and the Second Company Shares in consideration of the First vLink Shares and the Second vLink Shares, respectively, without any compensation. In the opinion of the Directors, the possibility of vLink to exercise the Options is remote and vLink has no intention to exercise the Options. Further details of the share exchanges and the Options are set out in the shareholders’ circular of the Company dated 2nd May, 2001. The second share agreement was approved by the independent shareholders of the Company at a special general meeting of the Company held on 9th May, 2001.

- (iii) During the year, Mr. Wong, a Director of the Company, granted a short-term loan of HK\$10,000,000 to the Group. The loan was unsecured, bore interest at Hong Kong dollar prime rate plus 2.5% per annum and was repaid during the year. The related interest expense amounted to HK\$121,000 for the current year.
- (iv) During the year, 4,319,986,000 new ordinary shares of HK\$0.01 each were allotted and issued to two vendors at HK\$0.0175 per share for the acquisition of a 22% equity interest in PiLink (note 26(d)). Two vendors are beneficially owned as to 100% and 49% by Mr. Wong. The purchase consideration was determined with reference to a valuation report prepared by an independent professional valuer. Immediately after the completion of the above transaction, Mr. Wong continued to maintain an effective interest of approximately 25.49% in PiLink. Further details of the transaction are set out in the shareholders’ circular of the Company dated 19th October, 2000. The above transaction was approved by the independent shareholders of the Company at a special general meeting of the Company held on 3rd November, 2000.
- (v) In prior years, certain of the then wholly-owned subsidiaries of the Company advanced loans (the “Loans”) to Justfull Investments Limited (“Justfull”), a then 70% owned subsidiary of the Group, to finance the advance made to Beijing News and Culture Centre Limited (“BJ News Centre”), a then 50% associate of Justfull. The Loans were originally unsecured, bore interest at Hong Kong dollar prime rate plus 3% per annum and had no fixed terms of repayment. In September 1998, the BJ News Centre was disposed of by Justfull and thereafter, the Loans became interest-free.

At 31st March, 2000, the outstanding amount of the Loans amounted to approximately HK\$133,222,000 was unsecured, interest-free and was disposed of as part of the Disposal during the year.

EMPLOYEES AND REMUNERATION POLICY

The total remuneration paid to the employees (excluding Directors whose remuneration has been separately disclosed in note 8 to the financial statements) during the financial year was approximately HK\$8.5 million. The Group selects and promotes staff based on their qualification, experience and suitability for the position offered. The Group's remuneration policy aims to retain and motivate staff. Performance of staff is appraised annually to provide a base for the review of the remuneration package. Staff are also entitled to a discretionary incentive bonus according to their performance during the financial year.

RETIREMENT BENEFITS SCHEME

Details of the retirement benefits scheme of the Group and the employer's retirement benefits costs charged to the profit and loss account for the year are set out in notes 3 and 6 to the financial statements, respectively.

COMPLIANCE WITH 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 (the "Listing Rules") throughout the financial year, except that the Independent Non-executive Directors are not appointed for a specific term as they are subject to retirement by rotation and re-election at the annual general meetings of the Company in accordance with the Company's bye-laws.

DISCLOSURE REQUIREMENTS OF PRACTICE NOTE 19

In accordance with the requirements under paragraph 3.3 of Practice Note 19 (the "PN19") of the Listing Rules, the Directors of the Company reported below financial assistance given to an affiliated company (as defined by the PN19) as at 31st March, 2001.

The financial assistance given to an associate, Speed World Investment Limited, in which the Group holds 30% equity interest, represented 167% of the consolidated net tangible assets of the Group as at 31st March, 2001.

The balance sheet of and the Company's attributable interest in the associate as at 31st December, 2000 (being the latest practicable date for this report) disclosed in accordance with paragraph 3.10 of PN19 is as follows:

	Balance at 31st December, 2000	The Company's attributable interest
	HK\$'000	HK\$'000
NON-CURRENT ASSETS		
Fixed assets	279	84
Properties under development	1,008,232	302,470
	<u>1,008,511</u>	<u>302,554</u>
CURRENT ASSETS		
Other receivables	18,303	5,491
Amount due from a fellow subsidiary	1	—
Cash and bank balances	2,054	616
	<u>20,358</u>	<u>6,107</u>

Report of the Directors

DISCLOSURE REQUIREMENTS OF PRACTICE NOTE 19 (continued)

	Balance at 31st December, 2000 HK\$'000	The Company's attributable interest HK\$'000
CURRENT LIABILITIES		
Trade payables, other payables and accrued liabilities	37,889	11,367
Amount due to immediate holding company	687,685	206,305
Amount due to ultimate holding company	45	14
Amounts due to other shareholders	338,537	101,561
	<u>1,064,156</u>	<u>319,247</u>
NET CURRENT LIABILITIES	<u>(1,043,798)</u>	<u>(313,140)</u>
	<u>(35,287)</u>	<u>(10,586)</u>

Save as disclosed above and in note 23 to the financial statements, no other disclosure is required to be made by the Company pursuant to PN19.

POST BALANCE SHEET EVENTS

Details of the significant post balance sheet events of the Group are set out in note 33 to the financial statements.

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

Wong Chun Hung, Vincent
Chairman

Hong Kong, 23rd July, 2001