

REPORT OF THE DIRECTORS

The directors present herewith their annual report together with the audited financial statements for the year ended 31 December 2001.

PRINCIPAL ACTIVITIES

The principal activities of the Company are investment holding and securities trading. The principal activities of the subsidiaries are provision of telecommunications services, provision of data bureau services, operation of recreational clubs and investment holding.

The analysis of the principal activities and geographical locations of the operations of the Company and its subsidiaries ("the Group") during the financial year are set out in note 11 on the financial statements.

Particulars of the Company's principal subsidiaries, associates, and jointly controlled entities at 31 December 2001 are set out in the financial statements on pages 63 to 65.

MAJOR CUSTOMERS AND SUPPLIERS

The information in respect of the Group's sales and purchases attributable to the major customers and suppliers respectively during the financial year is as follows:

	Percentage of the Group's total	
	Sales	Purchases
The largest customer	34%	
Five largest customers in aggregate	84%	
The largest supplier		27%
Five largest suppliers in aggregate		47%

At no time during the year have the directors, their associates or any shareholder of the Company (which to the knowledge of the directors owns more than 5% of the Company's share capital) had any interest in these major customers and suppliers.

FINANCIAL STATEMENTS

The loss of the Group for the year ended 31 December 2001 and the state of the Company's and the Group's affairs as at that date are set out in the financial statements on pages 20 to 65.

DIVIDENDS

The directors do not recommend the payment of any dividend for the year ended 31 December 2001 (2000: HK\$Nil).

CHARITABLE DONATIONS

Donations made by the Group during the year amounted to HK\$Nil (2000: HK\$60,000).

FIXED ASSETS

Details of the movements in fixed assets are set out in note 12 on the financial statements.

DEBENTURES

Particulars of the club debentures of the Group are set out in note 22 on the financial statements.

CONVERTIBLE BONDS

Particulars of the convertible bonds of the Group and the Company are set out in note 23 on the financial statements.

SHARE CAPITAL

Details of the share capital of the Company are set out in note 26 on the financial statements.

RESERVES

Movements in reserves of the Group and the Company during the year are set out in note 27 on the financial statements.

REPORT OF THE DIRECTORS

DIRECTORS

The directors during the financial year were:

Executive directors

Joseph LEUNG Wing-kong	
James C. NG	(appointed on 31 March 2001)
Alec KEUNG Sui-leung	(appointed on 30 May 2001)
Derek LEUNG Wai-choi	
CHEE Sing-chung	(resigned on 31 March 2001)
Cecilia IP Lai-ching	(resigned on 31 December 2001)

Independent non-executive directors

CHAO Cheng-fen	
Raymond LAU Wai-pun	(appointed on 31 March 2001)
Alex WONG Po-hang JP	(resigned on 31 March 2001)

Mr Alec KEUNG Sui-leung, having been appointed to the board since the date of the last annual general meeting, retires at the forthcoming annual general meeting in accordance with article 92 of the Company's articles of association and, being eligible, offers himself for re-election.

In accordance with article 101 of the Company's articles of association, Messrs. Joseph LEUNG Wing-kong and Derek LEUNG Wai-choi retire from the board by rotation at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

ALTERNATE DIRECTORS

The alternate directors during the financial year were:

CHEE Sing-chung, alternate director to Cecilia IP Lai-ching	(resigned on 31 March 2001)
CHEE Sing-chung, alternate director to CHAO Cheng-fen	(resigned on 31 March 2001)
CHEE Sing-chung, alternate director to Alex WONG Po-hang JP	(resigned on 31 March 2001)
Cecilia IP Lai-ching, alternate director to CHAO Cheng-fen	(resigned on 31 December 2001)
Cecilia IP Lai-ching, alternate director to Alex WONG Po-hang JP	(resigned on 31 March 2001)

DIRECTORS' SERVICE CONTRACTS

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

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SHARES

The directors who held office at 31 December 2001 had the following interests in the issued share capital of the Company as recorded in the register maintained by the Company pursuant to section 29 of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance"):

	Ordinary shares of HK\$0.50 each	
	Personal interests	Corporate interests
Joseph LEUNG Wing-kong	—	200,000
Cecilia IP Lai-ching	608,000	—
CHAO Cheng-fen	1,383,920	—

Save as disclosed above, no director, chief executive or any of their associates had any beneficial or non-beneficial interests in the share capital of the Company or any of its associated corporations as defined in the SDI Ordinance.

SHARE OPTION SCHEME

Pursuant to a share option scheme (the "Scheme") approved by the shareholders of the Company on 30 December 1997, the board of directors may, at its discretion, invite executive directors or employees of the Group to take up options to subscribe for shares of the Company.

The purpose of the Scheme is to provide the executive directors and employees of the Group with an opportunity to have equity holdings in the Company, thus enabling them to participate in the Company's profits and providing them with an incentive to contribute further to the success of the Company.

The maximum number of shares in respect of which options may be granted 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 maximum number of shares in respect of which options may be granted to any one employee or director may not exceed 25% of the aggregate number of shares in respect of which options are issued and issuable under the Scheme.

SHARE OPTION SCHEME (CONTINUED)

An option may be exercised in accordance with the terms of the Scheme at any time during a period to be notified by the Board to each grantee and in any event such period of time should not exceed a period of 10 years commencing on the date on which the option is granted and expiring on the last date of such period or 29 December 2007, being the date on which the Scheme expires, whichever is the earlier. The consideration of HK\$1 is payable by the grantee of an option upon acceptance of the grant of the option.

The exercise price is the higher of the nominal value of the shares and 80% of the average of the closing prices of the shares on The Stock Exchange of Hong Kong Limited for the five business days immediately preceding the date of grant.

At 31 December 2001, the total number of ordinary shares available for issue under the Scheme was 9,256,000, representing 0.56% of the issued share capital as at that date.

The Scheme remains in force until 29 December 2007.

At 31 December 2001, the directors and employees of the Company had the following interests in options to subscribe for shares of the Company granted under the Scheme. Each option gives the holder the right to subscribe for one share.

	Number of options outstanding at the beginning of the year	Number of options cancelled during the year	Number of options outstanding at the year end	Date granted	Price per share on exercise of options
Directors					
Cecilia IP Lai-ching (<i>Note</i>)	4,300,000	—	4,300,000	11 October 1999	HK\$1.528
CHEE Sing-chung	5,000,000	5,000,000	—	11 October 1999	HK\$1.528
Employees	7,464,000	2,508,000	4,956,000	11 October 1999 to 18 September 2000	HK\$0.63 to HK\$2.316

Note: Ms Cecilia IP Lai-ching resigned as a director of the Company with effect from 31 December 2001. Pursuant to the terms of the Scheme, options held by Ms IP lapsed on 31 January 2002.

Apart from the foregoing, at no time during the year was the Company or any of its subsidiaries a party to any arrangement to enable the directors or chief executive of the Company or any of their spouses or children under eighteen years of age, to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

SUBSTANTIAL INTERESTS IN THE SHARE CAPITAL OF THE COMPANY

At 31 December 2001, the following parties had registered an interest of 10% or more in the share capital of the Company under section 16(1) of the Securities (Disclosure of Interests) Ordinance.

	Ordinary shares held	Percentage of total issued shares
Solution Bridge Limited	408,757,642	24.8
Ms Nina KUNG <i>(Note)</i>	571,642,145	34.6

Note: The interests disclosed under Ms Nina KUNG represent her deemed interests in the shares of the Company by virtue of her interest in Solution Bridge Limited and another shareholder.

Save as disclosed above, there were no other parties who were known to the directors to be the registered holders or have any interest or right to subscribe for 10% or more of the issued share capital of the Company at 31 December 2001.

DIRECTORS' INTERESTS IN CONTRACTS

No contract of significance to which the Company or any of its subsidiaries was a party and in which a director of the Company had a material interest, subsisted at the end of the year or at any time during the year.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's listed securities during the year.

BANK LOANS AND OTHER BORROWINGS

Particulars of bank loans and other borrowings of the Company and the Group as at 31 December 2001 are set out in notes 20 and 24 on the financial statements.

FIVE YEAR SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on pages 66 and 67 of the annual report.

RETIREMENT SCHEME

(a) Defined contribution provident fund scheme ("PF Scheme")

The PF Scheme is administered by an independent trustee. Under the PF Scheme, both the Group and staff make monthly contributions to the PF Scheme each with an amount of 5% of the employees' basic salaries (capped at HK\$30,000). Any forfeited contributions and related accrued interest are used to reduce the employer's contributions. For the year ended 31 December 2001, the Group's net provident fund contributions charged to the consolidated income statement amounted to HK\$118,000, after utilising the aggregate amount of employer's contributions forfeited during the current year of HK\$179,000.

(b) Mandatory provident fund scheme ("MPF Scheme")

The MPF Scheme was established in December 2000 under the Mandatory Provident Fund Ordinance. As the Group has obtained exemption for its existing provident fund scheme, all staff who joined the PF Scheme were offered the choice of switching to the MPF Scheme or to stay in the PF Scheme. All new staff will join the MPF Scheme. Under the MPF Scheme, the Group and staff are required to contribute each at 5% of the employees' relevant income (capped at HK\$20,000). For the year ended 31 December 2001, the Group's mandatory provident fund contributions charged to the consolidated income statement amounted to HK\$1,128,000.

CHANGE IN USE OF NET PROCEEDS OF PLACING

By an ordinary resolution passed at an extraordinary general meeting of the Company held on 14 August 2001, it was resolved that the balance of the net proceeds from the placing of 235,000,000 new shares of the Company at the placing price of HK\$3.75 per share, as disclosed in the Company's announcement dated 4 January 2000 (the "Placing Announcement"), in addition to the purposes previously stated in the Placing Announcement, be also used for the general working capital of the Company and for investments either in the industries in which the Company operates its existing businesses or in other industries as and when the directors consider appropriate.

CONNECTED TRANSACTIONS

On 27 April 2001, the Company entered into a tenancy agreement with Hollywood Palace Company Limited, a company controlled by a substantial shareholder, in respect of the letting of Suites 1502, 1521 and 1522 on the 15th floor, Chinachem Golden Plaza, 77 Mody Road, Tsimshatsui East, Kowloon, Hong Kong with a gross floor area of approximately 11,282 square feet for a term of two years commencing from 1 May 2001 at a monthly rental of HK\$203,076. There is an option to renew the lease for a further two years at market rental to be agreed between the parties.

AUDIT COMMITTEE

The Group's Audit Committee, established in 1999, continues to exercise its authority to review and supervise the financial reporting process and internal control system of the Group.

COMPLIANCE WITH THE CODE OF BEST PRACTICE

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 throughout the year.

AUDITORS

KPMG were first appointed as auditors of the Company in 2001 upon the retirement of RSM Nelson Wheeler.

KPMG retire and, being eligible, offer themselves for reappointment. A resolution for the reappointment of KPMG as auditors of the Company is to be proposed at the forthcoming annual general meeting.

By order of the Board

Joseph LEUNG Wing-kong

Chairman

Hong Kong, 15 April 2002