

The directors present their annual report together with 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. The principal activities and other particulars of the subsidiaries which principally affected the results, assets or liabilities of the Group are set out in note 14 on the financial statements.

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

## **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	40%	
Five largest customers in aggregate	76%	
The largest supplier		15%
Five largest suppliers in aggregate		52%

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 interesting in these major customers and suppliers.

## **RESULTS**

The Group's results 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 24 to 73.

## **RESERVES**

Details of movements in the reserves of the Company and of the Group during the year are set out in note 25 on the financial statements.

## **FIXED ASSETS**

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

## **SUBSIDIARIES AND ASSOCIATES**

Particulars of the Company's subsidiaries and associates which principally affected the results, assets or liabilities of the Group are set out in notes 14 and 15 on the financial statements.

## **SHARE CAPITAL**

Details of movements in share capital of the Company during the year are set out in note 24 on the financial statements. Shares were issued during the year mainly for acquisition of assets.

## **SHARE OPTIONS, CONVERTIBLE NOTES AND WARRANTS**

Details of share options, convertible notes and warrants issued during the year and their subsequent conversion are set out in note 24 and 22 respectively on the financial statements.

## **DIRECTORS**

The directors during the financial year and up to the date of this report were:

### **Executive Directors**

Mr Leung Chung Shan	
Mr Chiu Wing Keung	(appointed on 5 November 2001)
Mr Tam Lup Wai, Franky	(appointed on 17 December 2001)
Mr Kong Siu Ming	(resigned on 30 September 2001)
Mr Li Shiu Tong, Andrew	(resigned on 5 November 2001)

### **Independent Non-Executive Directors**

Mr Chow Siu Ngor  
Mr Ting Leung Huel, Stephen

In accordance with clause 86(2) of the Company's Bye-laws, Mr Chiu Wing Keung and Mr Tam Lup Wai, Franky retire from the board by rotation at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

Independent Non-Executive Directors are not appointed for a specific term because all of the directors, including non-executive directors, are subject to retirement by rotation and re-election at the annual general meeting, in accordance with the Company's Bye-laws.

## **DIRECTORS' SERVICE CONTRACTS**

Mr Leung Chung Shan and Mr Chiu Wing Keung have individually entered into service contracts with the Company for a term of 3 years commencing from 1 February 2000 and 5 November 2001 respectively. The service contracts of the executive directors are subject to termination by either party giving not less than 6 month's written notice or otherwise shall continue thereafter from year to year.

Save as disclosed above, no director 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' INTERESTS IN SHARES

The directors of the Company who held office at 31 December 2001 had the following interests in the issued share capital of the Company (within the meaning of the Securities (Disclosure of Interests) Ordinance) at that date as recorded in the register of directors' share interests:

Name of director	Nature of interest	Number of shares
Leung Chung Shan	Corporate (Note)	616,000,000

Note: 616,000,000 shares are held by Tees Corporation, a Company incorporated in the British Virgin Islands and is wholly-owned by Mr Leung Chung Shan.

At 31 December 2001, the movement in the options of the Company were as follows:

Grantees	Date of grant	Exercise price per share	Options (note i)				Price per Share on exercise of options
			Number of options				
			Outstanding at 1 January 2001	Lapsed during the year	Exercised during the year	Outstanding at 31 December 2001	
<b>a) Name of Director</b>							
Kong Siu Ming	10 July 2000	HK\$0.588	8,000,000	(7,200,000)	(800,000)	-	HK\$2.020 (note ii)
Li Shiu Tong, Andrew	10 July 2000	HK\$0.588	5,000,000	(4,750,000)	(250,000)	-	HK\$1.850 (note iii)
<b>b) Other participant</b>							
Employees	10 July 2000	HK\$0.588	40,800,000	(12,700,000)	(3,800,000)	24,300,000	HK\$2.279

Notes:

- (i) The options were granted under the share option scheme adopted by the Company on 2 June 1997. The options are exercisable subject to the terms and conditions stipulated each time options are granted. All the options granted will expire at the end of ten years from the date of grant.
- (ii) Mr Kong Siu Ming resigned as director on 30 September 2001.
- (iii) Mr Li Shiu Tong, Andrew resigned as director on 5 November 2001.

Apart from the foregoing, at no time during the year was the Company, any of its holding Company, subsidiaries or fellow subsidiaries a party to any arrangement to enable the directors 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.

## SHARE OPTIONS SCHEME

Pursuant to the share options scheme ("the Scheme") adopted on 2 June 1997, the directors of the Company may invite employees and directors of the Company or of any of its subsidiaries to take up options to subscribe for shares of HK\$0.05 each in the capital of the Company.

The purpose of the Scheme is to encourage the officers and staff to participate in the ownership of the Company in order to provide additional incentives to them.

The total number of shares available for issue under the Scheme is 93,280,452 upon deducting outstanding share options of 24,300,000, which represents 7.9% of the issued share capital of the Company at the date of this report.

The maximum entitlement of each participant under the Scheme would not exceed 25% of the aggregate number of shares for the time being issue and issuable under the Scheme.

Upon acceptance of the option, the grantee shall inform the Company together with HK\$1 by way of consideration for the grant within 21 days from the date of making offer of option. The options granted are exercisable within a period of ten years from the date of grant ("Options Period").

Under the options granted on 10 July 2000, the grantee shall be entitled to exercise an option to the extent as appended below:

<b>Period</b>	<b>Portion of the Option that can be exercised</b>
The 12 months period from the date of grant ("First Period"):	No options can be exercised
The six month period immediately following the First Period ("Second Period"):	Up to 50 percent. of the options granted
The six month period immediately following the Second Period ("Third Period"):	Up to 75 percent. of the options granted
The remaining of Option Period following the expiration of the Third Period:	All of the Option granted

Between 28 June 2001 and 23 August 2001, most of the holders of the options undertake with the Company that the exercise of the options granted on 10 July 2000, shall be restricted in the following manner:

<b>Period</b>	<b>Number of Shares</b>
10 Jul 2001 to 31 Dec 2001 (both dates inclusive)	Not more than 10% of the outstanding options
1 Jan 2002 to 28 Feb 2002 (both dates inclusive)	Not more than 10% of the outstanding options
1 Mar 2002 to 30 Jun 2002 (both dates inclusive)	Not more than 15% of the outstanding options
1 Jul 2002 to 30 Sept 2002 (both dates inclusive)	Not more than 15% of the outstanding options
1 Oct 2002 to 31 Dec 2002 (both dates inclusive)	Not more than 15% of the outstanding options
1 Jan 2003 to 31 Mar 2003 (both dates inclusive)	Not more than 15% of the outstanding options
1 Apr 2003 to 31 Jul 2003 (both dates inclusive)	Not more than 20% of the outstanding options

## **SHARE OPTIONS SCHEME** *(continued)*

The option price for shares under the Scheme will be equal to the higher of the nominal value of the shares of the Company and 80 percent. of the average of the closing price per share for the five trading days immediately preceding the date of grant of the option.

The Scheme will remain in force for the period of 10 years commencing on the adoption date of the Scheme, from 2 June 1997 to 1 June 2007. However, with effect from 1 September 2001, the Company cannot grant any further options under the Scheme unless the Company change the terms of the Scheme to comply with the requirements of Chapter 17 of the Listing Rules.

## **DIRECTORS' EMOLUMENTS**

Particulars of the Directors' emoluments disclosed pursuant to section 161 of the Companies Ordinance and Appendix 16 of the Listing Rules are set out in note 6 to the financial statements.

## **SUBSTANTIAL INTERESTS IN THE SHARE CAPITAL OF THE COMPANY**

The Company has been notified of the following interests in the Company's issued shares at 31 December 2001 amounting to 10% or more of the ordinary shares in issue:

	Ordinary shares held	Percentage of total issued shares
Tees Corporation <i>(Note)</i>	616,000,000	52.66%

*Note:* Tees Corporation is a Company incorporated in the British Virgin Islands and is wholly-owned by Mr Leung Chung Shan.

Save as disclosed above, the Company is not aware of any other registered shareholders who holds 10% or more of the issued share capital of the Company.

## **DIRECTORS' INTERESTS IN CONTRACT**

Apart from the transactions set out in note 28 on the financial statements, in which Mr Leung Chung Shan through its shareholdings in Tees Corporation, the ultimate holding company of the Group, is interested, no other contracts of significance to which the Company, its holding company or any of their subsidiaries was a party, 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.

## **DISTRIBUTABLE RESERVES**

At 31 December 2001, the Company had no reserves available for distribution to shareholders of the Company, as computed in accordance with the Companies Act 1981 of Bermuda. However, the Company's share premium account, with a balance of HK\$1,313,987,000 at 31 December 2001, may be distributed in the form of fully paid bonus shares.

## **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.

## **CONNECTED TRANSACTIONS**

Details of the discloseable connected transactions for the year are set out in note 28 on the financial statements. Save as disclosed therein:

The Group's provision of the network infrastructures, equipment and consultancy services to China Infohighway Communications Co., Ltd. ("IHW") under the Cooperation Agreement and the supplemental Agreements constituted ongoing connected transactions ("Transactions") under Chapter 14 of the Listing Rules by virtue of the fact that IHW is a connected person of the Company. These Transactions were approved by the shareholders on 30 March 2001 and a waiver on the cap amount of not exceeding RMB100 million (equivalent to HK\$93 million) for the financial year ended 31 December 2001 was obtained from the Stock Exchange of Hong Kong Limited. The value of the Transactions incurred amounted to HK\$30,026,000 for the year ended 31 December 2001.

The Independent Non-executive Directors of the Company had reviewed and confirmed the Transactions made during the year and are of the opinion that the Transactions have been entered into by the Group:

- (a) in the ordinary and usual course of the business of the Group;
- (b) conducted on normal commercial terms or on terms no less favourable than terms available to other customers;
- (c) in accordance with the pricing policies as stipulated in the Cooperation Agreement and the Supplemental Agreements;
- (d) with the value of the Transactions for the year ended 31 December 2001 being less than the maximum cap as stated above; and
- (e) on terms that are fair and reasonable so far as the shareholders of the Company taken as a whole are concerned.

## **DISCLOSURE UNDER PRACTICE NOTE 19 TO THE LISTING RULES**

Details of the relevant advance to an entity discloseable under practice note 19 to the Listing Rules are set out in note 16 on the financial statements.

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

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

## **LOANS FROM BANKS AND OTHER FINANCIAL INSTITUTIONS**

Particulars of loans from banks and other financial institutions of the Company and the Group as at 31 December 2001 are set out in note 20 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 page 74 of the annual report.

## PENSION SCHEME

As from 1 December 2000, the Group operates a Mandatory Provident Fund Scheme ("MPF scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance. The MPF scheme is a defined contribution retirement scheme administered by independent trustees. Under the MPF scheme, the employer and its employees are each required to make contributions to the scheme at 5% of the employees' relevant income, subject to a statutory maximum cap of HK\$1,000 for new employees employed subsequent to the year end.

Employees of the Group in the PRC are under a local statutory retirement insurance policy provided by local government. Employer and employees are required to contribute a designated percentage of monthly salary to the retirement insurance policy. The only obligation of the Group with respect to the retirement schemes is to make the required contributions under the schemes. Such contributions are charged to the profit and loss account when incurred.

The Group's contribution to the scheme in Hong Kong are charged to the profit and loss account as they become payable and are reduced by the amount of forfeited contributions. Any unutilised forfeited balances are set aside as a reserve held with an independently administered fund, for offset against future contributions.

Details of the pension scheme contributions of the employees, net of forfeited contributions, which have been dealt with in the profit and loss account of the Group for the year ended 31 December 2001, are set out in note 4(b) on the financial statements. At 31 December 2001, forfeited contributions of approximately HK\$43,000 (2000: HK\$Nil) were available to offset future employer contributions to the scheme.

## USE OF PROCEEDS

The total net proceeds received from the fund raising exercises and share issues during the year amounted to HK\$121 million are analysed as follows:

Date of transactions	Events	Note	No. of shares issue	Net proceeds received HK\$'000
Jul – Sep 2001	Exercise of share options	1	4,850,000	2,852
31 Jul 2001	Issue of US\$10 million 3% convertible notes	2	–	70,135
26 Oct 2001	Acquisition of Tianxin	3	21,700,000	48,000
				120,987

### **USE OF PROCEEDS** *(continued)*

These proceeds were used for the following purposes:

1. During the year, certain employees of the Group exercised their rights to subscribe for 4,850,000 shares of the Company under the share option scheme adopted on 2 June 1997, and the proceeds received from the subscription were used for general working capital purposes.
2. The net proceeds received from the issue of US\$10 million 3% convertible notes and 8,150,366 warrants amounted to HK\$70 million were used to repay the Group's indebtedness and as general working capital.
3. As stated in the Company's announcement on discloseable transactions dated 3 August 2001, the consideration for the acquisition of the entire registered share capital of Zhuhai Tianxin, which is one of the leading developers of software products based in the PRC and is principally engaged in the development and sale of enterprise applications software, including CRM and ERP software and other enterprise software products, in the PRC, amounted to HK\$48 million was satisfied by the issue and allotment of consideration shares of 21,700,000 ordinary shares of HK\$2.212 each to the vendor, Mr Tsai Wen Ching.

### **AUDIT COMMITTEE**

Pursuant to the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited ("Listing Rules"), an Audit Committee, comprising two independent non-executive directors, namely Messrs Chow Siu Ngor and Ting Leung Huel, Stephen, was established on 28 December 1999. The principal activities of the Audit Committee include the review and supervision of the Group's financial reporting process and internal controls.

### **COMPLIANCE WITH THE CODE OF BEST PRACTICE**

The Company has complied with the Code of Best Practice throughout the period covered by the annual report except that independent non-executive directors are not appointed for a specific term as recommended under Appendix 14 of the Listing Rules. According to the Bye-laws of the Company, independent non-executive directors of the Company will retire by rotation, and their appointment will be reviewed when they are due for re-election. In the opinion of the Company, this meets the same objective as the Code of Best Practice.



### **AUDITORS**

Ernst & Young acted as the Company's auditors for year ended 31 December 1999.

KPMG acted as the Company's auditors since the year ended 31 December 2000 upon the special resolution for the removal of Ernst & Young passed at the special general meeting of the Company held on 30 March 2001.

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

**Leung Chung Shan**

*Chairman and Executive Director*

Hong Kong, 23 April 2002