

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

## **1. PRINCIPAL ACTIVITIES AND GEOGRAPHICAL ANALYSIS OF OPERATION**

The principal activity of the company is investment holding. The activities of the subsidiaries are set out in note 13(b) to the financial statements. The Group has acquired subsidiaries engaged in the provision of internet security system and computer network solutions in November 2001.

An analysis of the Group's performance for the year by business and geographical segments is set out in note 3 to the financial statements.

## **2. RESULTS AND APPROPRIATIONS**

The results of the Group for the year are set out in the consolidated income statement on page 20.

The directors do not recommend the payment of a final dividend.

## **3. RESERVES**

Movements in the reserves of the Group and the Company during the year are set out in note 22 to the financial statements.

At 31 December 2001, the Company's reserves available for cash distribution and/or distribution in specie computed in accordance with the Companies Act 1981 of Bermuda (as amended) consisted of contributed surplus amounting to approximately HK\$77,536,000 (2000: HK\$127,536,000). In addition, the Company's share premium account may be distributed in the form of fully paid bonus shares.

## **4. PROPERTY, PLANT AND EQUIPMENT**

Details of the movements in property, plant and equipment of the Group are set out in note 12 to the financial statements.

## **5. INTANGIBLE ASSETS**

Details of the movements in intangible assets of the Group are set out in note 11 to the financial statements.

## **6. SHARE CAPITAL AND SHARE OPTIONS**

Details of the movements in share capital and share options of the Company are set out in note 21 to the financial statements.

## **7. PRE-EMPTIVE RIGHTS**

There is no provision 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.



## 9. PURCHASE, SALE OR REDEMPTION OF SHARES

The Company has not redeemed any of its shares during the year. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's shares during the year.

## 10. DIRECTORS

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

### Executive directors:

Mr. Cheung Doi Shu, *Managing Director*

Mr. Yu Won Kong, Dennis

Mr. Ko Chung Ting, Peter

(appointed on 3 January 2002)

Mr. Lo Ka Wai

(appointed on 6 May 2002)

Mr. Wang Hai Sheng

(resigned on 3 January 2002)

Mr. Zhang Daxiang

(resigned on 3 January 2002)

Mr. Lee Kam Man

(resigned on 7 December 2001)

### Non-executive director:

Mr. Colin Clive Hiles

(resigned on 10 January 2002)

### Independent non-executive directors:

Mr. Yue Wai Keung

(appointed on 8 January 2002)

Mr. Tang Cheung Fai

(appointed on 3 January 2002)

Ms. Lee Sau Ying, Ellie

(appointed on 6 May 2002)

Mr. Tong Chor Yin, Augustine

(resigned on 3 January 2002)

Mr. Ho Yiu Ming

(resigned on 3 January 2002)

In accordance with Clause 99 of the Company's Bye-Laws, Mr. Yu Won Kong, Dennis retires by rotation and, being eligible, offer himself for re-election at the forthcoming Annual General Meeting.

In accordance with Clause 102 (B) of the Company's Bye-Laws, Mr. Ko Chung Ting, Peter, Mr. Lo Ka Wai, Mr. Yue Wai Keung, Mr. Tang Cheung Fai and Ms. Lee Sau Ying, Ellie, being appointed by the Board during the year and eligible, offer themselves for re-election at the forthcoming Annual General Meeting.

## 11. DIRECTORS' SERVICE CONTRACTS

None of the directors who are proposed for re-election at the forthcoming Annual General Meeting has a service contract with the Company which is not determinable within one year without payment of compensation, other than statutory compensation.

## 12. DIRECTORS' INTERESTS IN CONTRACTS

Save as disclosed in note 31 to the financial statements, no contracts of significance in relation to the Company's business to which the Company, its subsidiaries or its fellow 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 year or at any time during the year.

## 13. BIOGRAPHICAL DETAILS OF DIRECTORS

Brief biographical details of directors are set out on page 10.

## 14. CONNECTED TRANSACTIONS

Significant related party transactions entered by the Group during the year ended 31 December 2001, which do not constitute connected transactions under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules"), are disclosed in note 31 to the financial statements.

## 15. DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN EQUITY OR DEBT SECURITIES

At 31 December 2001, the interests of the directors and chief executives in the equity or debt securities of the Company and its associated corporation (within the meaning of the Securities (Disclosure of Interests) Ordinance ("SDI Ordinance")), as recorded in the register maintained by the Company under section 29 of the SDI Ordinance or as notified to the Company and The Stock Exchange of Hong Kong Limited ("Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Companies ("Model Code") were as follows:

### (a) Company

Name of directors	Type of interests	Number of shares held
Mr. Yu Won Kong, Dennis	Personal	20,000,000
Mr. Zhang Daxiang	Corporate ( <i>Note</i> )	256,769,585

*Note:* The shares were held through Best Fortune Capital Ltd. ("Best Fortune") in which Mr. Zhang Daxiang is the sole director and sole shareholder.

### (b) Associated corporation

Details of the interests of the Company's directors in China Convergent Corporation Limited ("China Convergent"), the Company's substantial shareholder as at 31 December 2001 were as follows:

Name of directors	Type of interests	Number of shares held
Mr. Zhang Daxiang	Corporate ( <i>Note 1</i> )	1,858,713,540
Mr. Colin Clive Hiles	Corporate ( <i>Note 2</i> )	3,600

*Note 1:* The shares were held through Best Fortune in which Mr. Zhang Daxiang is the sole director and sole shareholder. By virtue of Mr. Zhang Daxiang's control in Best Fortune, he is deemed under the SDI Ordinance to be interested in the 1,858,713,540 shares of China Convergent.

*Note 2:* The 3,600 shares were held through Orient Pty Ltd, a trustee of Colin Hiles Superfund. Mr. Colin Clive Hiles was a beneficiary of Colin Hiles Superfund.

## 15. DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN EQUITY OR DEBT SECURITIES (Cont'd)

Save as disclosed above, as at 31 December 2001, none of the directors or chief executives had any interests in the equity or debt securities of the Company or of any of its associated corporations which were required to be notified to the Company and the Stock Exchange pursuant to Section 28 of the SDI Ordinance or to the Model Code (including interests which they are deemed or taken to have under Section 31 or Part 1 of the Schedule to that Ordinance) or which are required, pursuant to Section 29 of that Ordinance, to be entered in the register referred to therein.

## 16. DIRECTORS' AND CHIEF EXECUTIVES' RIGHTS TO ACQUIRE SHARES OR DEBT SECURITIES

- (i) Particulars of the Company's share option scheme adopted on 11 June 1997 are set out in note 21(b) to the financial statements.
- (ii) Pursuant to the Company's share option scheme adopted on 11 June 1997, the following options were granted to the directors of the Company:

Name of directors	Date of grant	Exercise price HK\$	Number of options granted during the year	Number of options exercised during the year
Mr. Cheung Doi Shu	26 April 2001	0.10	20,000,000	20,000,000
Mr. Yu Won Kong, Dennis	26 April 2001	0.10	20,000,000	20,000,000
			40,000,000	40,000,000

- (iii) Pursuant to the share option scheme of China Convergent Corporation Limited, the Company's substantial shareholder, the following share options were granted to the directors of the Company:

Name of directors	Date of grant	Exercise price (A\$)	Number of options			Period during which the share options are exercisable
			Granted during the year	Exercised during the year	Outstanding at 31 December 2001	
Mr. Zhang Daxiang	1 June 2000	0.475	1,500,000	-	1,500,000	1 June 2000 to 17 August 2004
Mr. Wang Hai Sheng	1 June 2000	0.475	200,000	-	200,000	1 June 2000 to 30 April 2002
Mr. Colin Clive Hiles	1 June 2000	0.475	500,000	-	500,000	1 June 2000 to 9 April 2002
Mr. Cheung Doi Shu	20 November 2000	0.381	2,000,000	-	2,000,000	20 November 2000 to 30 April 2002
			4,200,000		4,200,000	

## 16. DIRECTORS' AND CHIEF EXECUTIVES' RIGHTS TO ACQUIRE SHARES OR DEBT SECURITIES (Cont'd)

Save as disclosed above,

- (i) none of the directors or the chief executives or their associates had any right to subscribe for equity or debt securities of the Company, or had exercised any such right during the year; and
- (ii) at no time during the year was the Company, its subsidiaries or its fellow subsidiaries a party to any arrangements to enable the Company's directors or members of its management to acquire benefits by means of the acquisition of shares in or debt securities (including debentures) of, the Company or any other body corporates.

## 17. SUBSTANTIAL SHAREHOLDERS

The register of substantial shareholders maintained under section 16(1) of the SDI Ordinance shows that as at 31 December 2001, the company had been notified of the following substantial shareholders' interests, being 10% or more of the Company's issued share capital. These interests are in addition to those disclosed above in respect of the directors and chief executives.

Name of shareholders	Number of shares held	As a percentage of the issued share capital of the Company
Best Fortune Capital Ltd. ("Best Fortune") (Note 1)	256,769,585	17.13%
China Convergent Corporation Limited ("China Convergent") (Note 2)	244,169,585	16.29%
Gold Chief Investment Ltd. ("Gold Chief") (Note 2)	244,169,585	16.29%

Note:

1. Best Fortune holding 49.95% interest is the controlling shareholder of China Convergent. The interests of Best Fortune in the Company are held through China Convergent and Gold Chief. In addition, Best Fortune also holds in its own name 0.84% interest of the Company.
2. By virtue of the SDI Ordinance, China Convergent holding 100% interest in Gold Chief is deemed to be interested in the 244,169,585 shares held by Gold Chief.

## 18. MANAGEMENT CONTRACTS

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

## 19. MAJOR CUSTOMERS AND SUPPLIERS

The percentages of purchases and sales for the year attributable to the Group's major customers and suppliers are as follows:

### Sales

– the largest customer	41%
– five largest customers combined	72.53%

### Purchases

– the largest supplier	26%
– five largest suppliers combined	56.42%

None of the directors, their associates or any shareholders (which to the knowledge of the directors owns more than 5% of the Company's share capital) had an interest in the major suppliers or customers noted above.

## 20. COMPLIANCE WITH THE CODE OF BEST PRACTICE OF THE LISTING RULES

Throughout the year, the Company was in compliance with the Code of Best Practice as set out in the Listing Rules save that non-executive directors have not been appointed for a specific term but are subject to retirement by rotation at the Annual General Meeting of the Company in accordance with the Bye-laws of the Company.

## 21. AUDIT COMMITTEE

The Company has established an audit committee comprising three independent non-executive directors, Mr. Yue Wai Keung, Mr. Tang Cheung Fai and Ms. Lee Sau Ying, Ellie.

## 22. SUBSEQUENT EVENTS

- (a) On 4 February 2002, the Group acquired 50% equity interest of Great Win International Limited ("Great Win"). Great Win held 100% interest in Intwell Technology (S) Private Limited, a company incorporated in Singapore. The acquisition was satisfied by a consideration of HK\$36 million payable in cash of HK\$1 million and the remaining balance of HK\$35 million by the issue of convertible notes at 3% interest per annum. On 15 April 2002, the convertible notes of HK\$18,000,000 were converted into 141,955,830 shares of the Company at the conversion price of HK\$0.1268 per share.
- (b) On 23 May 2002, new shares of 290,000,000 were placed at HK\$0.103 per share with a placing agent with net placing proceeds of approximately HK\$29 million.

## 23. AUDITORS

On 15 April 2002, Arthur Andersen & Co. tendered their resignation as the auditors of the Company. On the same day, RSM Nelson Wheeler were appointed as auditors of the Company by the Board. Accordingly, a resolution to re-appoint the retiring auditors, RSM Nelson Wheeler, will be put at the forthcoming Annual General Meeting.

On behalf of the board

**Cheung Doi Shu**

*Managing Director*

Hong Kong, 24 May 2002