

The directors submit their report together with the audited accounts of the Company and its subsidiaries (collectively the “Group”) for the year ended 31st March, 2002.

Principal activities and geographical analysis of operations

The principal activity of the Company is investment holding. The activities of the principal subsidiaries are set out in note 35 to the accounts.

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

Results

The results of the Group for the year are set out in the consolidated profit and loss account on page 16 of this annual report.

Reserves

Movements in the reserves of the Group and the Company during the year are set out in note 23 to the accounts.

Under the Companies Act 1981 of Bermuda (as amended), the contributed surplus is distributable to shareholders. The Company has no distributable reserves at 31st March, 2001 and 2002.

Fixed assets

Details of the movements in fixed assets are set out in note 12 to the accounts.

Properties

Details of the Group’s properties are set out on page 62 of this annual report.

Share capital

Details of the movements in share capital of the Company are set out in note 22 to the accounts. No pre-emptive rights exist in Bermuda where the Company was incorporated.

Borrowings

Details of the Group’s bank loans are set out in note 24 to the accounts.

Five year financial summary

A summary of the results and of the assets and liabilities of the Group for the last five financial periods is set out on pages 60 and 61 of this annual report.

Purchase, sale and redemption of the Company's 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 listed securities during the year.

Share options

On 28th May, 1998, a share option scheme (the "Scheme") was approved at a Special General Meeting of the Company for the primary purpose of providing incentives to the directors and eligible employees. Under the Scheme, the directors may, at their discretion, grant share options to full time employees including executive directors of the Group in accordance with the terms and conditions of the Scheme. The total number of shares in respect of which options may be granted under the Scheme is not permitted to exceed 10% of the issued shares of the Company from time to time excluding the aggregate number of shares of the Company which have been duly allotted and issued pursuant to the Scheme, without prior approval from the Company's shareholders. The number of shares in respect of which options may be granted to any individual in aggregate is not permitted to exceed 25% of the maximum aggregate number of shares of the Company. As at 31st March, 2002, the total number of options available for issue under the Scheme was 206,276,600 options which represented 6.7% of the issued share capital (excluding for this purpose any shares which have been duly allotted and issued pursuant to any option granted under this Scheme).

Options granted must be taken up within 28 days of the date of grant, upon payment of HK\$1 per option. All the options granted will expire at the end of ten years from the date of grant or the life of the Scheme, whichever is earlier. The subscription price of the options shall be at a price not less than the higher of the nominal value of the shares and 80% of the average of the closing prices of the shares of the Company on The Stock Exchange of Hong Kong Limited on the five trading days immediately preceding the date of the offer to grant the option.

Share options (Continued)

No options were granted and exercised during the year ended 31st March, 2002. Details of share options outstanding as at 31st March, 2002 which have been granted under the Scheme are as follows:

	Date of grant	Number of options held at 1st April, 2001	Number of options cancelled during the year	Number of options held at 31st March, 2002	Exercise Price (HK\$)	Exercisable from	Exercisable until
Directors							
Ms. Chen Xiao Ying	13th July, 2000	21,000,000	—	21,000,000	0.9900	13th January, 2001	27th May, 2008
	13th July, 2000	21,000,000	—	21,000,000	0.9900	13th July, 2001	27th May, 2008
	13th July, 2000	28,000,000	—	28,000,000	0.9900	13th July, 2002	27th May, 2008
Mr. Chen Yung Cheng, Timothy	13th July, 2000	10,000,000	10,000,000	—	0.9900	—	—
	13th July, 2000	10,000,000	10,000,000	—	0.9900	—	—
Mr. Koo Luen Bong	20th November, 2000	12,000,000	12,000,000	—	0.7920	—	—
	20th March, 2001	10,000,000	10,000,000	—	0.3304	—	—
Sub-total		<u>102,000,000</u>	<u>32,000,000</u>	<u>70,000,000</u>			
Employees							
	13th July, 2000	11,415,000	10,350,000	1,065,000	0.9900	13th January, 2001	27th May, 2008
	13th July, 2000	11,415,000	10,350,000	1,065,000	0.9900	13th July, 2001	27th May, 2008
	13th July, 2000	15,220,000	13,800,000	1,420,000	0.9900	13th July, 2002	27th May, 2008
	20th November, 2000	3,600,000	3,600,000	—	0.7920	—	—
	20th November, 2000	11,160,000	8,760,000	2,400,000	0.7920	20th November, 2001	27th May, 2008
	20th November, 2000	12,360,000	9,960,000	2,400,000	0.7920	20th November, 2002	27th May, 2008
	20th November, 2000	10,080,000	6,880,000	3,200,000	0.7920	20th November, 2003	27th May, 2008
	9th January, 2001	3,600,000	—	3,600,000	0.5660	9th July, 2001	27th May, 2008
	9th January, 2001	3,600,000	—	3,600,000	0.5660	9th January, 2002	27th May, 2008
	9th January, 2001	4,800,000	—	4,800,000	0.5660	9th January, 2003	27th May, 2008
	20th March, 2001	2,160,000	330,000	1,830,000	0.3304	13th January, 2003	27th May, 2008
20th March, 2001	2,160,000	330,000	1,830,000	0.3304	13th July, 2003	27th May, 2008	
20th March, 2001	2,880,000	440,000	2,440,000	0.3304	13th July, 2004	27th May, 2008	
Sub-total		<u>94,450,000</u>	<u>64,800,000</u>	<u>29,650,000</u>			
Total		<u>196,450,000</u>	<u>96,800,000</u>	<u>99,650,000</u>			

Directors

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

Executive directors:

Ms. Chen Xiao Ying (Executive Chairman)

Ms. Chen Changjuan (Executive Vice Chairman)

Mr. Chen Yung Cheng, Timothy (Chief Executive Officer) (resigned on 15th September, 2001)

Mr. Koo Luen Bong (resigned on 21st November, 2001)

Non-executive director:

Mr. Cui Xun (Honorary Chairman)

Independent non-executive directors:

Mr. Tsui Yiu Wa, Alec

Mr. Zuo Wei Qi (appointed on 24th April, 2002)

Mr. Stephen Edward Clark (resigned on 7th June, 2001)

Mr. Chang Yu Pang, Herbert (resigned on 21st November, 2001)

In accordance with Clauses 99 and 102 of the Company's Bye-laws, except for Ms. Chen Xiao Ying, the Executive Chairman, all the remaining directors shall retire at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

Biographical details of directors

Brief biographical details of directors are set out on pages 6 and 7 of this annual report.

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 or its subsidiaries which is not determinable by the Group within one year without payment of compensation, other than statutory compensation.

Directors' interests in contracts

No contracts of significance in relation to the Company's business to which the Company, any of its subsidiaries or its holding companies were 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.

Directors' interests in equity securities

- (a) At 31st March, 2002, the interests of the directors in the share capital of the Company and its associated corporations (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 were as follows:

Name of director	Number of shares held in personal interests
Ms. Chen Xiao Ying	1,235,027,200

- (b) No director had any interests in the securities of any subsidiaries of the Company or any of its associated corporations as defined in the SDI Ordinance as at 31st March, 2002 except for certain nominee shares in subsidiaries held in trust for the Group.

- (c) Details of personal interests of the directors in the share options to subscribe for shares in the Company are disclosed under "Share options" above.

Save as disclosed above, none of the directors and chief executives, or their associates, had any interests in the securities of the Company or any of its associated corporations as defined in the SDI Ordinance.

Save as aforesaid, at no time during the year was the Company or any of its subsidiaries or its holding companies a party to any arrangements to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

Substantial shareholders

At 31st March, 2002, the register of substantial shareholders maintained under Section 16(1) of the SDI Ordinance shows that the Company had been notified of the following substantial shareholders' interests, being 10% or more of the Company's issued share capital.

Name of shareholder	Number of ordinary shares
Uni-Tech International Group Limited (note)	1,235,027,200
21CN Corporation (note)	1,235,027,200
Pollon Internet Corporation (note)	1,235,027,200
Ms. Chen Xiao Ying (note)	1,235,027,200
Road Shine Development Limited	600,000,000
Touch Profits Limited	405,965,700

Note: Uni-Tech International Group Limited is a wholly owned subsidiary of 21CN Corporation, a subsidiary of Pollon Internet Corporation which is the ultimate holding company of the Company. Ms Chen Xiao Ying has beneficial interests in these companies.

Connected transactions

- (a) During the year, the Group entered into certain connected transactions, as defined in Chapter 14 of the Listing Rules of the Stock Exchange (the "Listing Rules") which are also related party transactions, details of which are set out in note 29 to the accounts.
- (b) On 3rd April, 2002, the Group entered into an acquisition agreement (the "Acquisition Agreement") with Mr Chen Wen Xin (the "Vendor"), a brother of Ms. Chen Xiao Ying, the director and the ultimate controlling shareholder of the Company. It constitutes connected transactions under the Listing Rules, and is required to be disclosed in accordance with Chapter 14 of the Listing Rules. Pursuant to the Acquisition Agreement, the Company acquires the entire issued share capital of Joy Heaven Inc. ("Joy Heaven") as well as the rights to a shareholder's loan made by the Vendor to Joy Heaven. The total consideration is HK\$17 million, including cash payment of HK\$2 million and the issue of 50,000,000 shares in the Company at issue price of HK\$0.3 per share. Details of the Acquisition Agreement is set out in a circular despatched to the shareholders by the Company on 29th April, 2002 and the relevant announcement was published in the newspapers by the Company on 8th April, 2002. The acquisition was duly approved by the shareholders present in a Special General Meeting held on 22nd May, 2002 and the acquisition was completed on that date.

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.

Major customers and suppliers

During the year, the Group purchased less than 30% of its goods and services from its five largest suppliers and sold less than 30% of its goods and services to its five largest customers.

Retirement scheme

Details of the Group's retirement scheme are set out in note 10 to the accounts.

Audit Committee

The written terms of reference which describe the authority and duties of the Audit Committee were prepared and adopted with reference to "A Guide for The Formation of An Audit Committee" published by the Hong Kong Society of Accountants.

The Audit Committee provides an important link between the Board and the Company's auditors in matters coming within the scope of the group audit. It also reviews the effectiveness of the external audit and of internal controls and risk evaluation. The Committee now comprises two independent non-executive directors, namely Mr. Tsui Yiu Wa, Alec and Mr. Zuo Wei Qi. Mr. Stephen Edward Clark and Mr. Chang Yu Pang, Herbert resigned from the Audit Committee on 7th June, 2001 and 21st November, 2001 respectively. Two meetings were held during the current financial year.

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 Appendix 14 of the Listing Rules except that the Independent Non-executive Directors of the Company are not appointed for specific terms but are subject to retirement by rotation in accordance with the Company's Bye-laws.

Directors' interests in competing business

None of the directors have any beneficial interest in other businesses which constitute a competing business to the Group.

Auditors

On 10th April, 2000, Deloitte Touche Tohmatsu resigned as auditors of the Company. PricewaterhouseCoopers were appointed as auditors of the Company on 11th April, 2000 and have remained as the Company's auditors from that date.

The accounts have been audited by PricewaterhouseCoopers, who retire and, being eligible offer themselves for re-appointment.

On behalf of the Board

Chen Xiao Ying

Executive Chairman

Hong Kong, 17th July, 2002