

Report of the Directors

The directors herein present their report and the audited financial statements of the Company and the Group for the year ended 31 March 2002.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The Group's principal activities consisted of property investment and development, development and provision of Internet content and application services such as financial information, industry specific content and e-commerce online services in the People's Republic of China (the "PRC"), and the manufacturing and marketing of consumer electronic products.

SEGMENTED INFORMATION

Particulars of the Group's turnover and segment information are set out in notes 4 and 5 to the financial statements.

RESULTS

The Group's loss for the year ended 31 March 2002 and the state of affairs of the Company and the Group as at that date are set out in the accompanying financial statements on pages 21 to 90.

The Directors do not recommend the declaration of the payment of a final dividend for the year ended 31 March 2002 (2001: Nil).

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COMPARATIVE FINANCIAL INFORMATION

The consolidated results and the assets and liabilities of the Group for the last five financial years, as extracted from the Group's published audited financial statements, are set out below:

RESULTS

	Year ended 31 March				
	2002 HK\$'000	2001 HK\$'000	2000 HK\$'000	1999 HK\$'000	1998 HK\$'000
Net (loss)/profit attributable to shareholders	<u>(32,488)</u>	<u>15,677</u>	<u>47,987</u>	<u>(385,875)</u>	<u>(451,804)</u>

ASSETS AND LIABILITIES

	31 March				
	2002 HK\$'000	2001 HK\$'000	2000 HK\$'000	1999 HK\$'000	1998 HK\$'000
Total assets	<u>5,427,815</u>	<u>3,355,509</u>	<u>2,264,826</u>	<u>2,074,917</u>	<u>1,724,501</u>
Total liabilities and minority interests	<u>(2,745,001)</u>	<u>(1,478,774)</u>	<u>(481,033)</u>	<u>(1,349,087)</u>	<u>(1,602,184)</u>
Net assets	<u>2,682,814</u>	<u>1,876,735</u>	<u>1,783,793</u>	<u>725,830</u>	<u>122,317</u>

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Company and the Group during the year are set out in note 13 to the financial statements.

SUBSIDIARIES

Particulars of the Company's principal subsidiaries are set out in note 14 to the financial statements.

ASSOCIATES AND JOINTLY-CONTROLLED ENTITIES

Particulars of the Company's and the Group's associates and jointly-controlled entities are set out in notes 15 and 16 to the financial statements, respectively.

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BORROWINGS

Details of borrowings of the Company and the Group are set out in note 28 to the financial statements.

SHARE CAPITAL AND SHARE PREMIUM

Details of movements in the share capital and share premium of the Company during the year, together with the reasons therefor, are set out in notes 31 and 32 to the financial statements, respectively.

RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 33 to the financial statements.

DISTRIBUTABLE RESERVES

At 31 March 2002, the Company had no reserves available for distribution to shareholders of the Company as computed under the provisions of Section 79B of the Companies Ordinance. However, the Company's share premium account with a balance of HK\$472,736,000 may be distributed in the form of fully paid bonus shares.

MAJOR CUSTOMERS AND SUPPLIERS

The Group's sales to the five largest customers and purchases from the five largest suppliers for the year ended 31 March 2002 accounted for less than 30% of the Group's total turnover and purchases, respectively, for the year.

DIRECTORS' REMUNERATION

Details of Directors' emoluments are set out in note 36 to the financial statements.

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EMPLOYEE COSTS

The five highest paid individuals included two executive directors, details of whose remuneration are set out in note 36 to the financial statements. The remuneration of the remaining three non-director, highest paid individuals was analysed and fell within the band as set out below.

	HK\$
Basic salaries, housing, other allowances and benefits in kind	3,293
Pension scheme contributions	77
	<u>3,370</u>

The remuneration paid to the three non-director, highest paid individuals fell within the band set out as below:

	2002	2001
HK\$Nil – HK\$1,000,000	1	0
HK\$1,000,001 – HK\$1,500,000	2	3

PENSION COSTS

The Group operates a MPF Scheme (the “MPF Scheme”) which was set up under the Mandatory Provident Fund Scheme Ordinance. Under the MPF Scheme, both eligible employees and the Group are required to make monthly contribution equivalent to 5% of eligible employees’ relevant income with a maximum monthly contribution of HK\$1,000 for each of the employees and the Group.

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Contributions to the MPF Scheme of the Group excluding South Sea Holdings Company Limited, a subsidiary of the Company charged to the consolidated income statement for the year amounted to HK\$414,000 (2001: HK\$752,000). Forfeited contributions is approximately HK\$183,000 (2001: HK\$255,000). As at 31 March 2002, no forfeited contributions was available to the Group to reduce its contributions in future years (2001: nil). In addition to the above, South Sea Holding Company Limited operates both defined contribution retirement scheme (the “ORSO Scheme”) and MPF Schemes. The contributions to the ORSO and the MPF Schemes charged to the consolidated income statement for the year amounted to HK\$13,000 (2001: HK\$546,000). Forfeited contributions in respect of the ORSO Scheme is approximately HK\$756,000 (2001: HK\$347,000).

DIRECTORS

The directors of the Company during the year and upto the date of this report were:

Executive Directors

Mr. YU Pun Hoi (*Chairman*)
Mr. ZHANG Hong Ren

Non-executive Directors

Mr. LI Shilin
Mr. LUO Ning
Mr. SUN Yalei
Mr. LAM Bing Kwan (*redesignated as non-executive director on 2 April 2002*)
Ms. WONG King King * (*appointed as independent non-executive director on 27 December 2001*)
Mr. WONG Wai Ming *
Mr. Francisco P. ACOSTA *

* Independent non-executive directors

In accordance with articles 87 and 94 of the Company’s articles of association, Ms. Wong King King, Mr. Yu Pun Hoi and Mr. Lam Bing Kwan retire and, being eligible, offer themselves for re-election at the forthcoming Annual General Meeting.

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DIRECTORS' INTERESTS IN EQUITY AND DEBT SECURITIES

As at 31 March 2002, the interests of the directors and their associates in the share capital of the Company and its associated corporations as required to be recorded in the Register of Directors' Interests maintained pursuant to Section 29 of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance") were as follows:

Director	Number of shares held in the Company			Total interest
	Personal interest	Corporate interest	Family interest	
Yu Pun Hoi	–	6,658,325,316	50,000,000	6,708,325,316
Zhang Hong Ren	504,000	–	–	504,000
Li Shilin	–	–	–	–
Luo Ning	–	–	–	–
Sun Yalei	–	–	–	–
Lam Bing Kwan	–	–	–	–
Wong Wai Ming	1,000,000	10,000,000	–	11,000,000
Wong King King	–	–	–	–
Francisco P. Acosta	–	–	–	–

The directors' interests in share options of the Company are disclosed in the section "Directors' Rights to Acquire Shares or Debentures" below.

Apart from the foregoing, none of the directors or their associates had any interests in the equity and debt securities of the Company or its associated corporations as defined in the SDI ordinance.

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DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Pursuant to the Company's share option scheme, the Company has granted options on the Company's ordinary shares in favour of certain directors and no option was exercised during the year, the details of which are as follows:

Name of Director	Number of share options outstanding as at 1 April 2001	Number of share options lapsed during the year	Number of share options outstanding as at 31 March 2002	Exercise period of share options	Exercise price of share options
Yu Pun Hoi	1,296,000	–	1,296,000	1-2-00 to 31-1-03	HK\$0.50
	1,296,000	–	1,296,000	1-2-01 to 31-1-03	HK\$0.50
	1,728,000	–	1,728,000	1-2-02 to 31-1-03	HK\$0.50
Zhang Hong Ren	504,000	–	504,000	1-2-01 to 31-1-03	HK\$0.50
	672,000	–	672,000	1-2-02 to 31-1-03	HK\$0.50
	5,000,000	5,000,000	–	1-11-00 to 31-10-01	HK\$0.50
Lam Bing Kwan	612,000	–	612,000	1-2-01 to 31-1-03	HK\$0.50
	816,000	–	816,000	1-2-02 to 31-1-03	HK\$0.50
	<u>11,924,000</u>		<u>6,924,000</u>		

Pursuant to an agreement entered into between the Company and Mr. Yu on 21 June 1999 for the acquisition from Mr. Yu of the entire issued share capital of Powerful Resources Limited, a company incorporated in the British Virgin Islands, at a total consideration of HK\$870 million, a total of 200,000,000 new Shares were issued in 1999 at a price of HK\$0.60 each to Mr. Yu as settlement of part of the total consideration payable. The remaining portion of the consideration payable will be satisfied by the issuance of 1,250,000,000 new Shares at the same price of HK\$0.60 each to Mr. Yu upon the fulfillment of certain conditions.

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 of the Company or their associates, respective spouse or children under 18 years of age to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

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SUBSTANTIAL SHAREHOLDERS

As at 31 March 2002, the following parties with interests representing 10% or more of the Company's issued share capital were recorded in the register of substantial shareholders maintained pursuant to Section 16(1) of the SDI Ordinance:

Name of Substantial shareholders	Number of Shares
Pippen Limited	2,812,274,668 (Note 1)
Actinna Development Limited	2,812,274,668 (Note 1)
Rosewood Assets Limited	2,628,333,000 (Note 1)
Yu Pun Hoi	6,708,325,316 (Note 1)
Staverley Assets Limited	2,857,470,000 (Note 2)
Citic Guoan Group Company Limited	2,857,470,000 (Note 2)
Elstrong Limited	2,857,470,000 (Note 2)

Notes:

1. Pippen Limited is a wholly-owned subsidiary of Actinna Development Limited, which in turn is wholly-owned by Mr. Yu. Pippen Limited's interest in the Company is included as part of the interest held by Actinna Development Limited and Mr. Yu.

Rosewood Assets Limited is wholly-owned by Mr. Yu. Rosewood Assets Limited's interest in the Company is included as part of the interest held by Mr. Yu.

Macro Resources Limited and King Corporation Limited (formerly known as CIM Company Limited), companies owned as to 60% and about 59.95% respectively by Mr. Yu, are interested in 1,000,000,000 Shares and 217,717,648 Shares respectively. Such interests are included as part of the interest held by Mr. Yu.

Apart from the interests described above, 50,000,000 Shares represent Mr. Yu's family interest in the Company.

2. Macro Resources Limited is owned as to 40% by Staverley Assets Limited. Its interest in the Company is included as part of the interest held by Staverley Assets Limited. Staverley Assets Limited is wholly owned by Elstrong Limited, which is in turn wholly owned by Citic Guoan Group Company Ltd. Staverley Assets Limited's interest in the Company is included as part of the interest held by Elstrong Limited and Citic Guoan Group Company Ltd.

Apart from the foregoing, at 31 March 2002, no shareholder had registered an interest in the share capital of the Company that was required to be recorded under Section 16(1) of the SDI Ordinance.

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DIRECTORS' SERVICE CONTRACTS

None of the directors proposed for re-election at the forthcoming annual general meeting has entered into any service contract with the Company which is not determinable by the Company within one year without payment other than statutory compensation.

DIRECTORS' INTERESTS IN CONTRACTS

During the year, the Group had material transactions in the normal course of business with certain related companies. Details of these transactions are set out in note 39 to the financial statements. Mr. Yu Pun Hoi is interested in these transactions to the extent that he has direct and indirect beneficial interests in some of these companies. Mr. Li Shilin also holds directorships in some of these companies. In addition, Mr. Yu has entered into underwriting agreement with the Company for the issue of convertible notes. Details of which are in note 42 to the financial statements.

Apart from the foregoing, no director had a beneficial interest, either direct or indirect, in any significant contract to which the Company or any of its subsidiaries was a party at the balance sheet date or at any time during the year.

BIOGRAPHICAL DETAILS OF DIRECTORS

Executive Directors

Mr. Yu Pun Hoi, aged 44, is the Chairman of the Company. Mr. Yu has extensive experience in Media and Internet investment and operation, development and management of residential and commercial properties. He is also very experienced in cable television operation. He founded the first 24 hours global Chinese satellite television news network in 1994. He was a director of the Company from October 1991 to October 1994 and joined the Board again in January 1997.

Mr. Zhang Hong Ren, aged 50, joined the Board in 1999. Mr. Zhang has been involved in the media and computer technology industries since 1991. He joined the Company in 1999 as project director and has been appointed as the Chief Executive Officer of the Company in 2000.

Non-executive Directors

Mr. Li Shilin, aged 52, is a Director of China International Trust and Investment Corporation, Chairman and General Manager of CITIC Guoan Company Limited and Chairman of CITIC Guoan Information Industry Co., Ltd. He has been a non-executive director of the Company since November 1998. Mr. Li is also a director of CITIC Pacific Limited.

Mr. Luo Ning, aged 42, joined the Board in 1999. He is the Vice President of CITIC Guoan Group, Director and General Manager of CITIC Network Management Company Limited and the Director of CITIC Guoan Information Industry Co., Ltd.

Mr. Sun Yalei, aged 33, joined the Board in 1999. He is the Director and the General Manager of CITIC Guoan Information Industry Co., Ltd.

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Mr. Lam Bing Kwan, aged 52, joined the Board in 1991 and has been redesignated as non-executive director in April 2002. He has been in management positions in the banking and financial industry for more than 10 years.

Independent Non-executive Directors

Mr. Wong Wai Ming, aged 59, was educated in Mainland China and started his own business in Hong Kong in 1978. He is now the President of Sealight Trading Co., Ltd. and the Vice-President of Beijing Scitech Group Co., Ltd. He was appointed as a non-executive director of the Company in October 1997 and redesignated as an independent non-executive director of the Company in October 1999.

Mr. Francisco P. Acosta, aged 55, is a partner of Acosta & Corvera Law Offices in the Philippines, and has pursued his legal profession in the Philippines for nineteen years. He has been an independent non-executive director of the Company since February 1995.

Ms. Wong King King, aged 33, joined the Board in December 2001. She is the General Manager of Hong Kong Jade Bird Science & Technology Limited of Peking University Jade Bird Group.

RELATED PARTY TRANSACTIONS AND CONNECTED TRANSACTIONS

Details of related party transactions and connected transactions of the Company and the Group are set out in note 39 to the financial statements.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES

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

COMPLIANCE WITH THE 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 throughout the year covered by the annual report except that non-executive directors are not appointed for a specific terms as recommended in paragraph 7 of Appendix 14. All Directors of the Company are subjected to retirement and rotation requirements in accordance with the Company's articles of association.

AUDIT COMMITTEE

The Company has established an audit committee (the "Committee") in accordance with paragraph 14 of the Code of Best Practice throughout the year. The Committee comprises two independent non-executive directors of the Company.

The Committee has adopted specific terms of reference which clearly state its authorities and duties. The principal duties of the Committee include the review of the Group's financial reports and internal controls.

POST BALANCE SHEET EVENT

Details of the significant post balance sheet event of the Company and the Group are set out in note 42 to the financial statements.

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AUDITORS

The financial statements for the financial years ended 31 March 1999 and 2000 were audited by Messrs. Ernst & Young. The financial statements for the financial years ended 31 March 2001 and 2002 were audited by Grant Thornton.

A resolution will be proposed at the forthcoming annual general meeting for the reappointment of auditors of the Company.

ON BEHALF OF THE BOARD

Zhang Hong Ren

Director

Hong Kong

26 July 2002