

## DIRECTORS' REPORT

The directors present their annual report and the audited financial statements for the period from 1st April, 2001 to 30th June, 2002.

### CHANGE OF FINANCIAL YEAR END DATE

During the period, the Group and the Company changed its year end date from 31st March to 30th June in order to bring its financial year end date in line with its principal subsidiaries, One.Tel Limited and OneTel.Net Limited. Both subsidiaries were incorporated in Hong Kong and newly acquired by the Group on 28th September, 2001.

The financial statements presented therefore cover the fifteen months from 1st April, 2001 to 30th June, 2002.

### PRINCIPAL ACTIVITIES

The Company is an investment holding company. The activities of its principal subsidiaries, associates and jointly controlled entities are set out in notes 39, 15 and 16 to the financial statements respectively.

### MAJOR CUSTOMERS AND SUPPLIERS

The five largest suppliers of the Group together accounted for approximately 59% of the Group's total purchases for the period, with the largest supplier accounted for approximately 26% of the Group's total purchases. During the period, the aggregate turnover attributable to the Group's five largest customers represented less than 30% of the Group's total turnover.

At no time during the period, did a director or a shareholder of the Company which to the knowledge of the directors own more than 5% of the Company's share capital has an interest in any of the Group's five largest suppliers.

### RESULTS

The results of the Group for the period from 1st April, 2001 to 30th June, 2002 are set out in the consolidated income statements on page 14.

### FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the past five financial periods is set out on page 60.

### PROPERTY, PLANT AND EQUIPMENT

Details of movements during the period in the property, plant and equipment of the Group and the Company are set out in note 11 to the financial statements.

## DIRECTORS' REPORT

### SHARE CAPITAL AND SHARE OPTIONS

Details of movements during the period in the share capital and share options of the Company are set out in note 27 to the financial statements.

### SHARE PREMIUM AND RESERVES

Details of movements during the period in the share premium and reserves of the Group and the Company are set out in note 28 to the financial statements.

### DIRECTORS AND SERVICE CONTRACTS

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

#### Executive directors:

Savio Kwong Chi Shing	
Bruce Cheung Kang Tong	(appointed on 18th October, 2001)
Fung See Man	
Lincoln Chee Wang Jin	(resigned on 26th August, 2002)

#### Non-executive directors:

Liu Cho Chit  
Ngai Wah Sang

#### Independent non-executive directors:

Gerald Godfrey  
Michael Kan Yuet Yun

In accordance with Article 86(B) of the Company's articles of association, Mr. Bruce Cheung Kang Tong will retire at the forthcoming annual general meeting, and, being eligible, will offer himself for re-appointment as director of the Company.

In accordance with Articles 87 and 88 of the Company's articles of association, Dr. Liu Cho Chit and Mr. Fung See Man will retire by rotation and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting.

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

The term of office of independent non-executive directors are subject to re-appointment or retirement by rotation in accordance with Articles 86(B), 87 and 88 of the Company's articles of association.

Mr. Michael Kan Yuet Yun, the independent non-executive director, has entered into a consultancy agreement with the Company, for a term of three years commencing from the date of appointment on 10th May, 2000.

**DIRECTORS' INTERESTS IN SHARES AND OPTIONS**

(i) **Shares**

As at 30th June, 2002, the interests of the directors and their associates interest in the shares of the Company or any of its associated corporations within the meaning of the Securities (Disclosure of Interests) Ordinance of Hong Kong (the "SDI Ordinance"), as recorded in the register maintained by the Company pursuant to Section 29 of the SDI Ordinance, were as follows:

Name of director	Type of interest	Number of ordinary shares held
Savio Kwong Chi Shing	Personal	10,768,000
Liu Cho Chit	Corporate ( <i>Note</i> )	5,507,000
Michael Kan Yuet Yun	Personal	750,000
Michael Kan Yuet Yun	Family	100,000

*Note:* These shares are owned by Lorong Chuan Development Pte. Limited, a company owned as to 61% by Dr. Liu Cho Chit.

Save as disclosed above, as at 30th June, 2002, none of the directors or any of their associates had any interests in any securities of the Company or any of its associated corporations as defined in the SDI Ordinance.

(ii) **Share options**

The Company's share option scheme (the "Scheme"), was adopted pursuant to a resolution passed on 5th January, 1993 for the purpose of providing incentives to directors and eligible employees and, unless otherwise cancelled or amended, will expire on 4th January, 2003. Under the Scheme, the Board of Directors of the Company may grant options to eligible employees (including executive directors) of the Company and any of its subsidiaries, to subscribe for shares in the Company.

As at 30th June, 2002, the number of shares in respect of which options were outstanding under the Scheme was 63,250,000, representing 4.6% of the shares of the Company in issue at that date. The total number of shares in respect of which options may be granted under the Scheme is not permitted to exceed 10% of the shares of the Company in issue from time to time. The maximum number of shares in respect of which options may be granted to any individual is not permitted to exceed 25% of the maximum number of shares in respect of which options may be granted under the Scheme.

Options granted must be taken up within a period of 28 days from the date of grant, upon payment of HK\$1 per option. All of the options, if not otherwise exercised or expired, will lapse on 4th January, 2003.

The directors noted that an announcement was issued by The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 23rd August, 2001 to introduce certain amendments to Chapter 17 (Equity Securities – Share Schemes) of The Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") and that such amendments became effective on 1st September, 2001.

## DIRECTORS' REPORT

### DIRECTORS' INTERESTS IN SHARES AND OPTIONS (Cont'd)

#### (ii) Share options (Cont'd)

Prior to 1st September, 2001, the exercise price is determined by the directors of the Company at a price not less than 80% of the average of the closing prices of the shares on the Stock Exchange on the five trading days immediately preceding the date of offer of the options or the nominal value of the shares, whichever is the higher. With effect from 1st September, 2001, the exercise price is determined by the directors of the Company, and will not be less than the higher of the closing price of the Company's shares on the date of grant, and the average closing prices of the shares for the five business days immediately preceding the date of grant.

As the existing Scheme no longer complies with the amended rules in the Listing Rules governing share schemes, no further option can be granted under the existing Scheme from 1st September, 2001 unless the grant complies with the amended Chapter 17 of the Listing Rules. Nevertheless, options previously granted under the existing Scheme will continue to be exercisable in accordance with the existing Scheme.

As at 30th June, 2002, certain directors of the Company had personal interests in share options granted under the Company's share option scheme as follows:

Name of director	Number of option shares	Date granted	Exercisable period	Exercise price per share <i>HK\$</i>	Consideration paid for the option granted <i>HK\$</i>
Savio Kwong Chi Shing	8,750,000	16/06/1997	08/08/1997 to 07/08/2002	5.650	1.00
Savio Kwong Chi Shing	9,000,000	24/02/2000	24/03/2000 to 04/01/2003	0.422	1.00
Savio Kwong Chi Shing	8,000,000	04/09/2000	04/10/2000 to 04/01/2003	0.189	1.00
Bruce Cheung Kang Tong	8,000,000	04/09/2000	07/10/2000 to 04/01/2003	0.189	1.00
Fung See Man	12,500,000	24/02/2000	24/08/2000 to 04/01/2003	0.422	1.00
Fung See Man	2,000,000	04/09/2000	04/10/2000 to 03/10/2002	0.189	1.00
Lincoln Chee Wang Jin	13,000,000	04/09/2000	04/10/2000 to 04/01/2003	0.189	1.00

No share option was granted to or exercised by the directors during the period.

## DIRECTORS' REPORT

### ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

Save as disclosed above, at no time during the period was the Company or any of its subsidiaries a party to any arrangements to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debenture of the Company or any other body corporate and none of the directors, or their spouses or children under the age of 18, had any right to subscribe for the securities of the Company, or had exercised any such right during the period.

### SUBSTANTIAL SHAREHOLDERS

As at 30th June, 2002, the register of substantial shareholders maintained by the Company pursuant to Section 16(1) of the SDI Ordinance shows that the following shareholders as having an interest of 10% or more of the issued share capital of the Company:

Name	Number of shares	Notes	Approximate percentage of issued share held
Edmund Cheung	150,000,000	(a)	10.85
Lalebell Limited	150,000,000	(a)	10.85
Natural Flair Limited ("Natural Flair")	304,638,000	(b)	22.03
Besford International Limited ("Besford")	304,638,000	(b)	22.03
China Online (Bermuda) Limited ("China Online")	304,638,000	(b)	22.03
China Sci-Tech Holdings Limited ("China Sci-Tech")	304,638,000	(b)	22.03
Vigor Online Offshore Limited ("Vigor")	304,638,000	(b)	22.03

#### Notes:

- (a) Edmund Cheung is interested by virtue of his beneficial interest in Lalebell Limited.
- (b) Natural Flair is a wholly-owned subsidiary of Besford. Besford is a wholly-owned subsidiary of China Online. China Sci-Tech, through its wholly-owned subsidiaries, Vigor and Harbour Fair Overseas Limited held 34.3% interest in China Online.

Save as disclosed above, the Company has not been notified of any other interests representing 10% or more of the Company's issued share capital as at 30th June, 2002.

### CONNECTED TRANSACTIONS AND DIRECTORS' INTERESTS IN CONTRACTS

No contracts of significance subsisted at any time during the period to which the Company or any of its 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 period or at any time during the period.

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

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

## DIRECTORS' REPORT

### CORPORATE GOVERNANCE

The Company has complied throughout the fifteen months from 1st April, 2001 to 30th June, 2002 with the Code of Best Practice as set out in Appendix 14 of the Listing Rules.

### POST BALANCE SHEET EVENTS

Details of the significant post balance sheet events are set out in note 37 to the financial statements.

### AUDITORS

During the period, Messrs. Ernst & Young, who acted as auditors of the Company for the past two years, resigned and Messrs. Deloitte Touche Tohmatsu were appointed as auditors of the Company.

A resolution will be submitted to the forthcoming annual general meeting of the Company to re-appoint Messrs. Deloitte Touche Tohmatsu as auditors of the Company.

### ON BEHALF OF THE BOARD

**Fung See Man**  
*Chief Operations Officer*

Hong Kong, 24th September, 2002