

REPORT OF THE DIRECTORS

The directors would like to present their report together with the audited accounts for the year ended 31st December 2002.

PRINCIPAL ACTIVITIES AND GEOGRAPHICAL ANALYSIS OF OPERATIONS

The Company is an investment holding company. The principal activities of the Group comprise the operation of Transonline and the provision of fully-integrated broadband and cable television related platform and equipment for cable television and telecommunication services operators.

An analysis of the Group's performance for the year by business segments is set out in note 2 to the accounts.

RESULTS AND APPROPRIATIONS

The results of the Group for the year are set out in the consolidated profit and loss account on page 24 of the annual report.

The directors do not recommend the payment of a dividend for the year ended 31st December 2002 (2001: Nil).

RESERVES

Particulars of the movements in reserves of the Group and the Company during the year are set out in note 21 to the accounts.

FIXED ASSETS

Particulars of the movements in fixed assets of the Group and the Company during the year are set out in note 12 to the accounts.

SHARE CAPITAL

Particulars of the movements in share capital of the Company are set out in note 20 to the accounts.

SHORT-TERM AND LONG-TERM LOANS

Particulars of the short-term and long-term loans of the Group are set out in notes 19 and 22 to the accounts, respectively.

BORROWING COSTS

No interest was capitalised by the Group during the year.

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FINANCIAL SUMMARY

A summary of the results of the Group for the last five financial years and of its assets and liabilities of the Group as at the end of the last five financial years is set out on page 54 of the annual report.

DIRECTORS

The directors during the year were:

Executive directors

Mr Chan Chak Shing
Mr Chan Hon Ching
Ms Lo Mei Chun

Non-executive directors

Ms Chiu King Cheung
Mr Shi Dan Wei (resigned on 29th July 2002)
Mr Wang Yi (resigned on 29th July 2002)

Independent non-executive directors

Mr Wong Po Yan
Mr Chan Kay Cheung

In accordance with Section 87(1) of the Company's Bye-Laws, Mr Chan Hon Ching will retire at the forthcoming annual general meeting of the Company and, being eligible, offer himself for re-election.

DIRECTORS' SERVICE CONTRACTS

Each of Mr Chan Chak Shing, Mr Chan Hon Ching and Ms Chiu King Cheung has entered into a service contract with the Company in relation to their respective appointments as directors of the Company. Each service contract is for an initial term of three years commencing on 5th July 1997 and will continue thereafter unless and until terminated by either party by not less than three months' prior written notice.

Save as disclosed above, none of the directors has or is proposed to have a service contract with the Company or any of its subsidiaries which is not determinable by the employer within one year without payment of compensation (other than statutory compensation).

BIOGRAPHICAL DETAILS OF DIRECTORS

Brief biographical details of the directors of the Company are set out on page 12 of the annual report.

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DIRECTORS' INTEREST IN CONTRACTS

No contract of significance in relation to the Group's business to which the Company or any of its subsidiaries was a party, and in which any 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.

CONNECTED TRANSACTION

Details of the connected transaction entered into by the Group during the year are set out below:

The Group paid interest of HK\$1,064,000 (2001: HK\$2,781,000) to Winsan International Holdings Limited ("WIHL"), the ultimate holding company which holds 50.14% interest in the Company and is beneficially owned by Mr Chan Chak Shing, Chairman of the Company. Such interest was calculated at Hong Kong prime rate on the amount due to WIHL as at 31st December 2002.

The above connected transaction is disclosed in accordance with the requirements under the Rules Governing the Listing of Securities of the Stock Exchange of Hong Kong Limited (the "Listing Rules"). In the opinion of the independent non-executive directors of the Company, the above transaction was carried out on normal commercial terms and in the ordinary course of business of the Group.

SHARE OPTION SCHEMES

On 20th June 2002, the shareholders of the Company approved the termination of the share option scheme adopted by the Company on 5th July 1997 (the "Share Option Scheme") and the adoption of a new share option scheme ("New Scheme"). Accordingly, no options can be granted under the Share Option Scheme. Any outstanding options granted but unexercised under the Share Option Scheme shall continue to be exercisable.

Summary of each of the New Scheme and the Share Option Scheme are as follows:

Term	New Scheme	Share Option Scheme
Purpose	To provide the participants with the opportunity to acquire proprietary interests in the Company and to encourage participants to work towards enhancing the value of the Company	Not applicable
Participants	All executive and non-executive directors of the Company, full time employees and part-time employees of the Group, advisors, consultants, distributors, suppliers, agents, customers, partners, joint venture partners, promoters, service providers to the Group	Any employees (including executive directors) of the Company or any of its subsidiaries

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Term	New Scheme	Share Option Scheme
Total number of ordinary shares available for issue and the percentage of the issued share capital that it represents as at the date of the annual report	111,320,000 ordinary shares and approximately 7% of the issued share capital as at the date of the annual report	Not applicable
Maximum entitlement of each participant	1% of the shares in issue in any 12-month period	Not exceeding 25% of the total maximum number of shares available for subscription
Period within which the securities must be taken up under an option	10 years from the business day on which the board of directors resolves to make an offer of option to the grantees	10 years from the offer of the grant of option
Minimum period for which an option must be held before it can be exercised	The Company must specify the minimum period at the time of grant of options	The Company must specify the minimum period at the time of grant of options
Amount payable on acceptance of the option	HK\$1.00	HK\$1.00 or its equivalent in RMB at the prevailing exchange rate at the time of offer
Period within which payments/calls/loans must be made/repaid	Not applicable	Not applicable
Basis of determining the exercise price	The higher of (i) the closing price of the shares as stated in the Stock Exchange's daily quotations sheets on the date of grant; (ii) the average closing price of the shares as stated in the Stock Exchange's daily quotations sheets for the 5 business days immediately preceding the date of grant; and (iii) the nominal value of a share on the date of grant	The higher of (i) the average closing price of the shares as stated in the Stock Exchange's daily quotation sheets for the 5 trading days immediately preceding the date of grant or (ii) the nominal value of a share
Remaining life of the scheme	The scheme remains in force until 19th June 2012	The outstanding options shall remain exercisable up to 29th October 2010

During the year, no options have been cancelled and 8,500,000 options lapsed under the Share Option Scheme.

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As at 31st December 2002, there were a total of 80,480,000 outstanding options under the Share Option Scheme. No options have been granted under the New Scheme. Details of the share options outstanding under the Share Option Scheme are as follows:

Name	Date of grant	Exercise price	Number of options as at 1st January 2002	Options lapsed during the year	Options exercised during the year	Number of outstanding options as at 31st December 2002
<i>Directors</i>						
Mr Chan Chak Shing	1st September 1997	HK\$1.53	16,000,000	–	–	16,000,000
	31st March 1998	HK\$0.36	11,500,000	–	–	11,500,000
	16th February 2000	HK\$0.24	2,300,000	–	–	2,300,000
Mr Chan Hon Ching	1st September 1997	HK\$1.53	1,000,000	–	–	1,000,000
	31st March 1998	HK\$0.36	22,000,000	–	–	22,000,000
	16th February 2000	HK\$0.24	2,000,000	–	–	2,000,000
Ms Chiu King Cheung	1st September 1997	HK\$1.53	1,000,000	–	–	1,000,000
	31st March 1998	HK\$0.36	22,000,000	–	–	22,000,000
	16th February 2000	HK\$0.24	1,000,000	–	–	1,000,000
Ms Lo Mei Chun	1st September 1997	HK\$1.53	600,000	–	–	600,000
	30th October 2000	HK\$0.173	1,000,000	–	–	1,000,000
Employees	1st September 1997	HK\$1.53	2,500,000	2,500,000	–	–
	31st March 1998	HK\$0.36	3,400,000	3,400,000	–	–
	16th February 2000	HK\$0.24	600,000	600,000	–	–
	30th October 2000	HK\$0.173	2,080,000	2,000,000	–	80,000
			<u>88,980,000</u>	<u>8,500,000</u>	<u>–</u>	<u>80,480,000</u>

All the above options are exercisable within the period of 10 years from the date of grant.

The average exercise price of the share options granted is above the market value of the Company's shares as at 31st December 2002 and accordingly, the directors are of the view that the disclosure of the value of the share options granted is not meaningful.

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DIRECTORS' INTERESTS IN EQUITY AND DEBT SECURITIES

As at 31st December 2002, the interests of the directors in the shares and options of the Company as recorded in the register required to be kept under section 29 of the Securities (Disclosure of Interests) Ordinance ("the SDI Ordinance") are as follows:

(a) Interest in shares of the Company of HK\$0.01 each

Name of director	Nature of interest	Number of ordinary shares
Mr Chan Chak Shing	Corporate	781,372,870
	Family	33,000,000
Mr Chan Hon Ching	Personal	11,250,000
Ms Chiu King Cheung	Personal	3,812,500
Ms Lo Mei Chun	Personal	2,600,000

The corporate interest of Mr Chan Chak Shing represents the shares held by WIHL, which is beneficially owned and controlled by Mr Chan Chak Shing.

(b) Share options

As at 31st December 2002, certain directors of the Company had share options outstanding under the Share Option Scheme, details of which are set out in the section headed "Share Option Schemes" above.

Save as disclosed above, at no time during the year was the Company or any of its subsidiaries a party to any arrangements to enable the directors of the Company or their respective associates (as defined under the Listing Rules) to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

OPEN OFFER

The Company announced on 24th April 2002 a proposal for the Open Offer of not less than 445,280,000 Offer Shares at a subscription price of HK\$0.115 per Offer Share on the basis of an assured allotment of two Offer Shares for every five existing Shares held by the Qualifying Shareholders. An Underwriting Agreement dated 19th April 2002 was entered into between the Company and WIHL, the Controlling Shareholder of the Company, under which WIHL agreed to underwrite the Offer Shares in full ("Underwriting Agreement").

In view of WIHL and its associates will be interested in between approximately 35.53% to 53.95% of the enlarged issued share capital of the Company upon completion of the Open Offer, WIHL would be required under Rule 26 of the Hong Kong Code on Takeovers and Mergers (the "Code") to make a general offer if WIHL and its associates acquire more than 2% voting rights under the Underwriting Agreement. The Securities and Futures Commission of Hong Kong ("SFC") has granted the waiver from the obligation of WIHL to make a general offer under Rule 26 of the Code ("Waiver").

The purpose of the Open Offer is to provide funds for current business requirements of the Company and to strengthen its balance sheet by replacing debt with equity and reducing the net liabilities.

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A circular and a prospectus containing, among other things, details of the Open Offer was despatched to the shareholders on 28th May 2002 and 24th June 2002 respectively. An extraordinary general meeting was held on 20th June 2002, the shareholders have approved the increase of the authorised share capital of the Company to HK\$300,000,000 and the independent shareholders have approved the Open Offer and the Waiver.

As at the close of the Open Offer on 8th July 2002, the Company had received 52 applications from Qualifying Shareholders applying for a total of 26,469,630 Offer Shares. Pursuant to the Underwriting Agreement, WIHL was required to underwrite 418,810,370 Offer Shares. As a result, WIHL and its associates were interested in a total of 814,372,870 shares in the Company, representing approximately 52.25% of the enlarged issued share capital (being 1,558,480,000 ordinary shares of HK\$0.10 each) of the Company. WIHL has fulfilled its underwriting obligations pursuant to the Underwriting Agreement in full and the Listing Committee of the Stock Exchange has agreed to grant listing of, and permission to deal in the Offer Shares. Subsequent to the Open Offer, the Company increased its share capital and share premium to an aggregate of HK\$51,207,200.

DE-MINIMIS CONCESSION

Based on the Company's published final results for the year ended 31st December 2001, the Company had an audited consolidated net tangible deficit of HK\$47,752,000. As a result of the negative net tangible asset value, the Company would be required to disclose and obtain shareholders' approval in respect of all acquisitions and realisations of assets, which could be extremely onerous to the Company. As such, the Company applied to the Stock Exchange for the De-minimis Concession which would allow the Company flexibility to carry out its business activities.

On 13th June 2002, the Company obtained approval from The Stock Exchange of Hong Kong Limited (the "Stock Exchange") to adopt the De-minimis Concession for the purpose of determining the "assets test" and the "consideration test" under Chapter 14 of the Listing Rules for classifying notifiable transactions (other than connected transactions) of the Company.

Each transaction (other than connected transaction) will be considered as de-minimis if (i) the transaction is carried out in the ordinary course of business of the Group; (ii) the transaction is entered into on normal commercial terms; and (iii) the consideration or the value of the transaction does not exceed HK\$1,000,000. In such circumstances, the "assets test" and the "consideration test" will not apply and such transactions will not be subject to any disclosure or shareholders' approval requirements.

The Stock Exchange's approval for the use of the De-minimis Concession will remain valid from 14th June 2002 until publication or the due date of publication of this annual report of the Company, whichever is earlier.

In view of the net tangible deficit of the Company as at 31st December 2002, the Company will make application to the Stock Exchange to continue to adopt the De-minimis Concession accordingly.

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CHANGE OF DOMICILE AND CAPITAL REORGANISATION

The Company announced on 24th September 2002 a proposal for the change of domicile by way of de-registration in the Cayman Islands and continuation as an exempted company under the laws of Bermuda (the "Change of Domicile") and the reorganisation of its share capital (the "Capital Reorganisation") by:

- (a) setting off the entire amount standing to the credit of the share premium account of the Company (at the time of proposal about HK\$940,891,570) against its accumulated loss as at 30th June 2002 (being HK\$1,049,364,000) (the "Initial Set-off"); and
- (b) reducing the nominal value of each existing share of HK\$0.10 ("Existing Share") to HK\$0.01 by cancelling HK\$0.09 of the nominal value of each Existing Share and transferring such HK\$0.09 of the cancelled nominal value under the classification of authorised share capital and sub-dividing each of the authorised but unissued share into 10 new shares of HK\$0.01 each ("New Share"). The credit in the sum of about HK\$140,263,200 arising from such reduction is credited to a distributable reserve of the Company.

The purpose of the Change of Domicile and the Capital Reorganisation is to enable the Company to apply part of the amount standing to the credit of its share premium account to eliminate the accumulated losses of the Company as at 30th June 2002 (being HK\$1,049,364,000), putting the Company in a position to declare dividends to its shareholders at an earlier opportunity. In addition, it can provide the Company with more flexibility in fixing the price for issuing new shares as the Existing Shares are traded below their nominal value but new shares cannot be issued below their nominal value. The Change of Domicile can shorten the time required to effect the Capital Reorganisation.

Part of the amount standing to the credit of the contributed surplus account of the Company immediately after the completion of the Capital Reorganisation is applied to eliminate the accumulated loss of the Company remaining after the Initial Set-off of about HK\$108,472,430.

The directors believe that Capital Reorganisation will not have any material adverse effect on the financial position of the Group. The total expenses involved in the implementation of the Change of Domicile and the Capital Reorganisation are approximately HK\$500,000.

The continuation of the Company in Bermuda does not create a new legal entity or prejudice or affect the continuity of the Company. Implementation of the Change of Domicile does not affect the listing status of the shares of the Company on the Stock Exchange.

A circular setting out the details of the Change of Domicile and the Capital Reorganisation and the arrangement for free exchange of share certificates was sent to the shareholders on 7th October 2002. The shareholders have approved the Change of Domicile and the Capital Reorganisation of the Company at an extraordinary general meeting held on 7th November 2002. The Listing Committee of the Stock Exchange has granted listing of, and permission to deal in the New Shares. All necessary arrangements have been made for the New Shares to be admitted into the Central Clearing and Settlement System established and operated by the Hong Kong Securities Clearing Company Limited.

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On 4th December 2002, the Company changed its domicile from the Cayman Islands to Bermuda. On the same day, the registered office of the Company was changed to Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda. In order to comply with Bermuda Company Law, a new memorandum and bye-laws was adopted to replace the previous memorandum and articles of association of the Company.

The Capital Reorganisation was effective on 20th December 2002. After the Capital Reorganisation, the Company has an authorised share capital of HK\$300 million divided into 30 billion new shares of HK\$0.01 each. The issued and unissued shares of the Company are 1,558,480,000 and 28,441,520,000 respectively. There was no change to the board lot for trading in the shares of the Company on the Stock Exchange.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

The directors of the Company declared that there is no competing business carried out during the year.

SUBSTANTIAL SHAREHOLDERS

The register of substantial shareholders maintained under section 16(1) of the SDI Ordinance shows that as at 31st December 2002 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
WIHL	781,372,870

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's Bye-Laws or the laws in Bermuda.

PURCHASE, SALE OR 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 shares during the year.

MAJOR CUSTOMERS AND SUPPLIERS

During the year, less than 30% of the Group's turnover and purchases were attributable to its five largest customers and suppliers.

RETIREMENT SCHEME

Particulars of the Group's retirement scheme are set out in notes 1(k)(ii) and 9 to the accounts.

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COMPLIANCE WITH THE CODE OF BEST PRACTICE OF THE LISTING RULES

The directors are pleased to confirm that throughout the year ended 31st December 2002, the Company has complied 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 a specific terms as they are subject to retirement by rotation in accordance with the Company's Bye-Laws.

AUDIT COMMITTEE

The Audit Committee examined the accounting principles and practices adopted by the Group and discussed with management its internal controls and financial statements. During the year, the Audit Committee has reviewed the unaudited interim financial statements for the six months ended 30th June 2002 and the audited financial statements for the year ended 31st December 2002.

AUDITORS

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

On behalf of the Board

Chan Chak Shing

Chairman

Hong Kong, 24th April 2003

